An Introduction to Bank Debenture Trading Programs

Commonly Asked Questions

WHAT IS A BANK DEBENTURE TRADING PROGRAM?

Also referred to as a secured asset management program, this is an investment vehicle commonly used by the very wealthy where the principal investment is fully secured by a Bank Endorsed Guarantee. The principal is managed and invested to give a guaranteed high return to the investor on a periodic basis. There is no risk of losing the investor's principal investment.

This investment opportunity involves the purchase and sale of Bank Debentures within the International Market in controlled trading program, the program allows for the investor to place his funds through an established Program Management firm working-directly with a major Trading Bank.

The investment funds are secured by a Bank-Endorsed Guarantee by the Banking institution at the time the funds are deposited. The Investor is designated a Beneficiary of the Guarantee unless otherwise instructed by the Investor. The guarantee is issued to secure the Investor's principal for the contract period. This guarantee will be Bank Endorsed with the Bank Seal, two authorized senior Officers' signatures, and will guarantee that the funds will be on deposit in the Bank during the contract period and will be returned fully to the Investor at the end of the contract term.

The Investor is also guaranteed by the program Directors, by contract that they will receive what is in effect a percentage of each trade made by the Trade Bank. This can be in the form of a guaranteed profit/yield paid on a periodic basis upon terms as set forth in the contract

The Instrument to be transacted under the Buy/Sell Program is fully negotiable Bank Instrument. Delivered unencumbered, free and clear of any and all liens, claims or restrictions. The Instrument is debt obligation of the Top One Hundred (100) World Banks in the form of Medium Term Bank Debentures of 10 years in length. Usually offering 7 1/2% interests, or "Standby Letters of Credit" of one year in length with no interest but at a discount from face value. These Bank Instrument conform in all respects with the Uniform Customs and Practice for Documentary Credits as set forth by the International Chamber of Commerce, Paris, France (ICC) in the latest edition of the ICC Publication Number 400 (1983 Revision) and the newest implemented ICC Publication 500 (1995 Revision).

WHAT IS THE INVESTORS RISK IN THIS PROGRAM?

As stated, the Investment funds principal is fully secured by a BANK ENDORSED GUARANTEE (or, safekeeping receipt) which is issued by the Trading Bank at the time the funds are deposited. The Investor is designated as the Beneficiary of the Guarantee which is issued to secure the principal for the contract period and all elements of risk have been addressed. It must be stressed that, before an instrument is purchased, a contract is already in place for the resale of the Bank Debenture Instrument. Consequently, the Investors funds are never put at risk. The trust account will always contain either funds or Bank Instrument of equal or greater value. After each transaction period, the profits are distributed according to the agreement and the process repeats for the duration of the contract.

HOW OFTEN DOES THE PROGRAM DO TRANSACTIONS?

Operations will take place approximately forty (40) International Banking Weeks per year. With specific transactions taking place approximately one or more times per week depending on circumstances" Although there are 52 weeks in a year, there are only 40 international banking weeks during which transactions take place. An International Banking week is a full week which does not include an officially recognized holiday. However, this does not preclude that transactions may occur on short weeks that have a holiday.

WHY ARE THESE "HIGH RETURNS WITH SAFETY" PROGRAMS NOT GENERALLY PUBLICIZED?

The answer is that these programs have been available, though not widely known for years, however, because of the extremely high minimum requirements to enter them, only a few could qualify. The minimums have been 10 to 100 million dollars previously. Only recently have the smaller minimums been available so that more can qualify and yet have the opportunity to earn exceptionally high and safe profit yields. Also, The Investor must be "invited in" to participate in these very limited enrollment programs.

Individual programs can quickly become filled and are then closed to further Investor participation.

LEVERAGED TRADING PROGRAMS

By leasing assets, usually in the form of United Sates government Treasury Bills, for a fraction of their face value, the ability to purchase and subsequently resell bank instrument in large quantities is possible. This is the principal on which leveraged treading-programs revolve. The leased assets provide the collateral against which the instrument are purchased and resold, with the entire process taking only one or two days to accomplish.

The large profits produced by trading programs are created by the difference between the purchase cost and resale price of the instrument. Even with a net profit of four per cent per transaction, the process of buying and selling can be performed several times each week, providing for profits which make the return on other investments pale by comparison. A four per cent profit produced just once weekly for forty weeks would total 160%.

By leasing assets, the profit is generated on a much larger amount of instrument, greatly increasing the total dollar profit. For example, if a four percent profit were generated on $100 million, the net profit would be $4 million. Leasing assets typically requires the payment of three percent of the face amount per month, in advance: to lease $100 million in assets would require the payment of $3 million. However, by using the leased assets, profits can be generated on $100 million worth of instruments ($4 million), not just $3 million ($120,000). Even if just one transaction occurred during the month, the profit created would exceed the cost of leasing the assets.

History and Development of Bank Instruments

Picture the world at war in 1944. All of Europe, except for Switzerland, is pounding its infrastructure, manufacturing base and population into rubble and death. Asia is locked into a monumental straggle which is destroying Japan, China, and the Pacific Rim countries. North Africa, the Baltic's, and the Mediterranean countries are clutched in a life and death struggle in the fight to throw off the yoke of occupation. A world gone mad! Economic destruction, mad, human misery and dislocation exist on a scale never before experienced in human history. What went wrong? How could the world rebuild and recover from such devastation? How could another war be avoided?

KEYNES, HARRY WHITE AND BRETTON WOODS

This was the world as it existed in July 1944 when a relatively small group of 130 of the western worlds most accomplished economic, social and political minds met in upstate New Hampshire at a small vacation town called Bretton Woods. John Maynard Keynes, the man who had predicted the current catastrophe in his book, The Economic Consequences of the Peace, written in 1920, was about to become the principal architect of the post-World War II reconstruction Keynes presented a rather radical plan to rebuild the world's economy, and hopefully avoid a third world war. This time the world listened, for Keynes and his supporters were the only ones who had a plan that in any way seemed grand enough in foresight and scope to have a chance at being successful. Yet Keynes had to fight hard to convince those rooted in conventional economic theories and partisan political doctrines to adopt his proposals. In the end, Keynes was able to sell about two-thirds of his proposals through sheer force of will and the support of the United States Secretary of the Treasury, Harry Dexter White.

At the hart of Keynes proposals were two basic principals: first the Allies must rebuild the Axis Countries, not exploit them as had been done after WW 1; second, a new international monetary system must be established, headed by a strong international banking system and a common world currency not tied to a gold standard.

Keynes went on to reason that Europe and Asia were in complete economic devastation with their means of production seriously crippled, their trade economies destroyed and their treasuries in deep dept. If the world economy was to emerge from its current state, it obviously needed to expand. This expansion would be limited if paper currency were still anchored to gold.

The United States, Canada, Switzerland and Australia were the only industrialized western countries to have their economies, banking systems and treasuries intact and fully operational. The enormous issue at the Bretton Woods Convention in 1944 was how to completely rebuild the European and Asian economies on a sufficiently solid basis to foster the establishment of stable, prosperous pro-democratic governments.

At the time, the majority of the world's gold supply, hence its wealth was concentrated in the hands of the United States, Switzerland and Canada. A system had to be established to democratize trade and wealth; and redistribute, or recycle, currency from strong trade surplus countries back into countries with weak or negative trade surpluses. Otherwise, the majority of the world's wealth would remain concentrated in the hands of a few nations while the rest of the world would remain in poverty.

Keynes and White proposed that the United States supported by Canada and Switzerland would become the banker to the world, and the U.S. Dollar would replace the pound sterling as the medium of international trade. He also suggested that the dollar's value be tied to the good faith and credit of the U.S. Government not to gold or silver, as had traditionally been the support for a nation's currency.

Keynes concept of how to accomplish all of this was radical for its time, but was based upon the centuries old framework of import/export finance. This form of finance was used to support certain sectors of international commerce which did not use gold as collateral, but rather their own good faith and credit, backed by letters of credit, avals, or guarantees.

Keynes reasoned that even if his plans to rebuild the world's economy were adopted at the Bretton Woods Convention, remaining on a Gold standard would seriously restrict the flexibility of governments to increase the money supply. The rate of increase of currency would not be sufficient to insure the continued successful expansion of international commerce over the long term. This condition could lead to a severe economic crisis, which, in turn, could even lead to another world war. However, the economic ministers and politicians present at the convention feared loss of control over their own national economies, as well as, run-away inflation, unless a "hard-currency" standard were adopted.

The Convention accepted Keynes' basic economic plan, but opted for a gold-backed currency as a standard of exchange. The "official" price of gold was set at its pre-WW II level of $ 35.00 per ounce One U.S. Dollar would purchase 1/35 an ounce of gold. The U.S. dollar would become the standard world currency, and the value of all other currencies in the western. Non-communist world would be tied to the U.S. dollar as the medium of exchange.

MARSHALL PLAN.

IMF. WORLD BANK AND BANK OF INTERNATIONAL SETTLEMENTS:

The Bretton Woods Convention produced the Marshall Plan, the Bank for Reconstruction and development known as the World Bank. The International Monetary Fund (IMF) and the Bank of International Settlements (BIS). These four would re-establish and revitalize the economies of the western nations. The World Bank would borrow from rich nations and lend to poorer nations. The IMF working closely with the World Bank, with a pool of funds, controlled by a board of governors. would initiate currency adjustments and maintain the exchange rates among national currencies within defined limits. The Bank of International Settlements would then function as a "central bank" to the world.

The International Monetary Fund was to be a lender to the central bank of countries which were experiencing a deficit in the balance of payments. By lending money to that country's central bank, the IMF provided currency, allowing the underdeveloped country to continue in business. Building up is export base until it achieved a positive balance of payments. Then, that nation's central bank could repay the money borrowed from the lMF, with a small amount of interest and continue on its own as an economically viable nation. If the country experienced an economic contraction, the IMF would be standing ready to make another loan to carry it through.

BANK OF INTERNATIONAL SETTLEMENTS:

The Bank of International Settlements (BIS) was created as a new central bank" to the central banks of each nation. It was organized along the lines of the U.S. Federal Reserve System and it's principally responsible for the orderly settlement of transactions among the central banks of individual countries. In addition, it sets standards for capital adequacy among the central banks and coordinates the orderly distribution of a sufficient supply of currency in circulation necessary to support international trade and commerce.

The Bank of International Settlements is controlled by the Basel Committee which, in rum, is comprised of ministers sent from each of the G-10 nations central banks. It has been traditional for the individual ministers appointed to the Basel Committee to be the equivalent of the New York "Fed's" chairperson controlling the open market desk.

WORLD BANK

The World Bank, organized along more traditional commercial banking lines was formed to be lender to the world" initially to rebuild the infrastructure, manufacturing and service sectors of the European and Asian Economies, and ultimately to support the development of Third World nations and their economies.

The depositors to the World Bank are nations rather than individuals. However, the Bank's economic "ripple system" uses the same general banking principles that have proven effective over centuries.

THE TIE THAT BINDS: THE BANK OF INTERNATIONAL SETTLEMENTS AND THE WORLD BANK

The directors of both banks are controlled by the ministers from each of the G-10 countries: Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and Luxembourg.

BRETTON WOODS UNDER PRESSURE:

By 1961, the plans adopted at the Bretton Woods convention of 1947 were succeeding beyond anyone's expectation. Proving that Keynes was right. Unfortunately, Keynes was also right in his prediction of a world monetary crisis. It was brought on by a lack of sufficient currency (U.S. dollars) in world circulation to support rapidly expanding international commerce. The solution to this crisis lay in the hands of the Kennedy Administration, the U.S. Federal Reserve Bank and the Bank of International Settlements. The world needed more U.S. Dollars to facilitate trade. The U.S. was faced with a dwindling gold supply to back such additional dollars. Printing more dollars would violate the gold standard established by the Bretton Woods agreements. To break the treaty would potentially destroy the stable core at the center of the world's economy, leading to international discord, trade wars, lack of trust and possibly to outright war. The crises was further aggravated by the belief that the majority of the dollars then in circulation was not concentrated in the coffers of sovereign governments, but rather in the vaults or treasuries of private banks, multinational corporations, private businesses and individual personal bank accounts. A mere agreement or directive issued by governments among themselves would not prevent the looming crisis. Some mechanism was needed to encourage the private sector to willingly exchange their U.S. Dollar currency holdings for some other form of money.

The problem was solved by using the framework of a **forfeit** finance; a method used to underwrite certain import/export transactions which relies upon the guarantee or aval (a form of guarantee under Napoleonic law) issued by a major bank in the form of either documentary or standby letters of credit or bills of exchange which are then used to assure an exporter of future payment for the goods or services provided to an importer. The system was well established and understood by private banks, government and the business community worldwide. The documents used in such financing were standardized and controlled by international accord, administered by the members of the International Chamber of Commerce (ICC) headquartered in Paris. There would be no need to create another world agency to monitor the system if already approved and readily available documentation, laws and procedure provided by the ICC were adopted. The International Chamber of Commerce is a private, non-governmental, worldwide organization, that has evolved over time into a well recognized organized, respected and, most of all, trusted association. Its members include the worlds major banks, importers, exporters, merchants, and retailers who subscribe to well-defined conventions, bylaws, and codes of conduct over time, the ICC has hammered out pre-approved documentation and procedures to promote and settle international commercial transactions.

In the ICC and forfeit systems lay the seeds of a resolution to the looming crisis. Recycling the current number of dollars back into world commerce would solve the problem by avoiding the printing of more U.S. dollars and would solve the problem by avoiding the printing of more U.S. dollars and would leave the Bretton Woods Agreement intact. If currency, dollars, could be drawn back into circulation through the private international banking system and redistributed through the well known "bank ripple effect", no new dollars would need to be printed, and the world would have an adequate currency supply. The private international banking system required an investment vehicle which could be used to access dollar accounts, thereby recycling substantial dollar deposits. This vehicle would have to be viewed by the private market to be so secure and safe that it would be comparable with U.S. Treasuries which had a reputation for instant liquidity and safety. Given the "newness" of whatever instrument might be created, the private sector would prefer to exchange their dollars for a "proven" instrument (United States Treasuries) but selling new Treasury issues to the would not solve the problem. In fact, it would exacerbate the looming crisis by taking more dollars out of circulation.**The World needed more dollars in circulation**.

The answer was to encourage the most respected and creditworthy of the world's private banks to issue a financial instrument guaranteed by the full faith and credit of the issuing bank, with the support from the central banks, IMF and Bank of International Settlements. The worlds private investment and business sector would view new investments issued in this manner as "safe". To encourage their purchase over Treasuries, the investor yield on the new issues would have to be superior to the yield on Treasuries. If the instruments could be viewed as both safe and providing superior yields over Treasuries, the private sector would purchase these instruments without hesitation.

The crisis was prevented by encouraging the international private banking sector to issue letters of credit and bank guarantees, in large denominations, at yields superior to U.S. Treasuries. To offset the increased "cows" to the issuing banks, due to the higher yields accompanying these bank instruments, banking regulations within the countries involved were modified in such a way as to encourage and or allow the following:

1. Reduced reserve requirements via off-shore transactions.
2. Support of the program by the central banks. World Bank, IMF and Bank of International Settlements.
3. Off-balance sheet accounting by the banks involved.
4. Instruments to be legally ranked "para passu" (on the same level) with depositor’s funds.

5. The banks obtaining these depositor funds would be allowed to leverage these funds with-the applicable central bank of the country of domicile in such a way as to obtain the equivalent of federal funds at a much lower cost. When these "leveraged funds'" are blended with all other accessed funds, the overall blended rate cost of funds to the issuing bank is substantially diminished, thus offsetting the high yield given to attract the investor with substantial funds to deposit.

The bank instruments offered to investors were sold in large denominations often $100 million through a well established and very efficient market mechanism, substantially reducing the cost of accessing the funds, The reduced costs offset the higher yields paid by the issuing banks.

MULTI-USE INSTRUMENT:

Major commercial banks soon came to realize that these instruments could serve as more than a "funds recycling and redistribution tool", as originally envisioned. For the issuing bank, they could provide a the means of resolving two of the bankers major problems: interest rate risks over the term of the loan, and disinterthediation of depositor funds. Bankers, now for the first time, had available a reliable method of accessing large amounts of money in a very cost efficient manner. These funds could be held as deposits at a predetermined cost over a specific period of time. This new system to promote currency redistribution had also given private banks a way to pass on to third parties the interest rate and disinterthediation risks formerly borne by the bank.

The use of these instruments providing instant liquidity and safety has worked amazingly well since 1961. It is one of the principal factors which has served to prevent another financial crisis in the world economies.

In recent years, smaller banks not ranked among the top 100 have been issuing their own instruments. Considering the dollars volume and the number of instruments issued daily, the system has worked extremely well. There have been few instances where a major bank has had financial problem. In all cases, the central bank of the G-10 country concerned and the Bank of International Settlements have moved quickly to financially stabilize the bank, insuring its ability to honor its commitments. Funds invested in these instruments rank para passu with depositors accounts, and as such, their integrity and protection is considered by all the institutions involved as fundamental to a sound international banking system.

The bank instruments program designed under the Kennedy Administration is still used very effectively to assist in recycling and redistributing currency to meet the worlds demand for commerce.

INSUFFICIENT GOLD SUPPLY:

Another significant change of the Bretton Woods Agreement came in 1971, when the volume of world trade using U.S. dollars as the medium of exchange,. finally exceeded the ability of the United States to support its currency with gold. The restraints of the gold standard at $35 per ounce established under the Bretton Woods Agreements placed the United States in a very precarious position. As Keynes had predicted, there was not enough gold in the U.S. Treasury to back the actual number of U.S. dollars then in circulation. In fact, the treasury was not really sure how many paper dollars actually were in circulation. What they did how, however, was that there was not enough gold in Fort Knox to back them. The problem was that the U.S. Treasury was not the only institution aware of this fact. All G-10 countries were aware of this. If demand were placed upon the U.S. Treasury at any one time to exchange all the Eurodollars for gold, the U S. Treasury would have had to default, thereby effectively bankrupting the United States government

France, the United Kingdom, Germany and Japan were concerned about their substantial holdings in U.S. dollars. If just one of these countries demanded gold for dollars. Then a meeting between ambassadors to the U.S took place with Connelly, who was then Secretary of the U.S. Treasury, and Undersecretary of the Treasury, Paul Volker. Connelly listened to the ambassador and said, " I will answer you tomorrow".

Nixon, Connolly and Volker, in an ultra-secret weekend meeting with the brightest of the nation's bankers and economists gathered to ponder "tomorrow's" answer. Honoring the demand meant certain death to the U.S. as an economic super power. Not meeting the demand would have catastrophic results. Was there a way out? What if the U.S. unilaterally abandoned the gold standard and let its currency float in the market? Nixon and his advisors viewed the dilemma in terms of two mutually-exclusive alternatives: increasing the value of U.S. gold reserves and maintaining a gold-backed economy, or considering the repercussions to the world’s economies if the U.S. dollar were no longer backed by gold.

To resolve the crisis, the U.S. needed to unilaterally abandon efforts to maintain the official price of gold at an artificial level of $35 per ounce the same price that existed in 1933. Gold in 1971 had a market value of approximately $350 to $400 per ounce in the commercial world market, or about 10 times the official price. By letting gold seek its market price, the U.S. Treasury's gold would automatically become worth approximately 10 times its value at the official price. Under these circumstances, any government bank or private investor would have to exchange $350 to $400 U.S. dollars for an ounce of gold at the market price rather than one U.S. dollar to acquire 1/35th of an ounce of gold at the old official price. An ounce of gold would raise in exchange value by a factor of ten, and the U.S. Treasury's gold supply would increase correspondingly.

In addition, once the gold standard established at Bretton Woods at $35 per ounce was abandoned, why reestablish it at $350 an ounce? The same problem would eventually arise again, and Keynes would be right again. Why not adopt Keynes' original idea of a currency, being backed by the good faith and credit of its government, its people, the national resources and its production capacity? The United States needed to let its currency "float" in value against all other world currencies and not tie it to gold. Market forces would set the dollar's value through its exchange rate with other foreign currencies. Nixon and his advisors also realized that business world-wide had long ceased conducting international trade through gold and silver exchanges. Therefore, taking the dollar off the gold standard and allowing its value to float in relation to other world currencies would create currency risks for international trade transactions, but it would not preclude or stall international commerce. The world of international business had, in practice, already abandoned the gold standard years before, considering it cumbersome and unworkable. Moreover, the other Western nations had neither the economic nor military power to force the U.S. to honor its commitment to the gold standard and, therefore, could not prevent it from abandoning the standard.

Based upon a clear understanding of these two interrelated realities. Nixon and his advisors determined to abandon the gold standard and allow the U.S. dollar to "float" in relation to other nations' currency. The exchange rate would no longer be determined by an artificially-maintained gold standard, but rather by the value placed on each currency in the foreign exchange market.

NIXON AND KENNEDY:

The system for controlling currency supply, established by the Kennedy Administration, became an indispensable tool to the Nixon administration. The IMF and the Bank of International Settlements insured that the U.S. dollar would hold its value in the international market and was recycled from countries with a positive balance of payments back into the world economy. The illusion of U.S. dollar backed by gold was gone.

The preceding information explains the use of bank instruments as an alternative investment vehicle to United States government notes, and how and why the process of issuing bank instruments used in trading programs began and continues today.