

FOIA Marker

This is not a textual record. This FOIA Marker indicates that material has been removed during FOIA processing by George W. Bush Presidential Library staff.

Council of Economic Advisers

Swagel, Phillip - Subject Files

Stack:	Row:	Sect.:	Shelf:	Pos.:	FRC ID:	Location or Hollinger ID:	NARA Number:	OA Number:
W	30	16	1	2	5861	18796	4372	4539

Folder Title:

Foreign Earnings Repatriation Proposal

INVEST IN THE USA PROPOSAL (S. 596)
INCLUDED IN THE SENATE TAX RELIEF RECONCILIATION BILL (S. 1056)

Current Law

Under international tax principles, primary jurisdiction to tax income is the country where the business operates rather than the country where the business is based. Many countries (but not the U.S.) exclude foreign dividends from domestic taxation, which encourages the reinvestment of surplus foreign earnings back home into these countries.

In the U.S., by contrast, companies are required to pay tax on foreign subsidiary earnings when the earnings are brought back to the U.S., to the extent of any shortfall in the income tax paid abroad and the 35-percent U.S. tax rate. As a result, foreign earnings of U.S.-based companies have accumulated abroad because, if they are reinvested in U.S. operations, the U.S. will collect up to a 35% tax.

This aspect of U.S. tax law is a significant incentive to leave foreign earnings offshore. As a result, less desirable foreign investments are frequently more profitable for U.S. companies despite better investment opportunities in the United States.

Pool of Accumulated foreign earnings abroad

Based on an examination of the financial statements of the S&P 500, JP Morgan estimates that the pool of foreign earnings that has accumulated over the years and is eligible to be brought to the United States is about \$500 billion, an estimate that is consistent with an examination of IRS tax data. Much of this accumulated foreign investment is designated for financial reporting purposes as permanently invested overseas and thus there is no expectation of any U.S. tax being paid in the future.

Invest in the U.S.A. proposal included in S. 1056

The Senate-passed Jobs and Economic Growth tax bill includes a provision originally introduced as S. 596 by Senators Ensign, Boxer, Smith, Bayh, Allen and Enzi. It was adopted by voice vote after a 75-25 vote adopting a procedural motion on the floor by Senator Ensign to consider it. All the Republicans and half the Democrats voted in favor. Similar bipartisan proposals have been introduced in the House.

Proposed Change

For a one-year period, the 35% tax rate on transfers to the U.S. of foreign corporate earnings would be replaced with a 5.25% toll charge on transfers in excess of the company's historical average. No foreign tax credit would be allowed for 85% of the foreign taxes associated with dividends and other transfers qualifying for the 5.25% toll charge. The 5.25% toll charge could not be reduced by net operating losses.

To encourage immediate economic stimulus, the reduced rate of tax would be effective for the first taxable year ending 120 days or more after the date of enactment. Thus, for example, if the bill is enacted on May 25, 2003 and the electing taxpayer is on a calendar year, the bill will apply to the taxpayer's taxable year ending December 31, 2003. The effective date is structured so as not to encourage taxpayers to suppress current dividends before it becomes effective.

Estimated additional U.S. investment from accumulated foreign earnings

The Joint Committee on Taxation estimates that the change would bring into the United States an additional \$140 billion of accumulated foreign earnings.

JP Morgan performed an independent study of S&P 500 financial data for its investors and estimated the amount to be about \$300 billion. JP Morgan advises that the proposal will result in a 2-3% cumulative increase in domestic investment during 2003-04, a one percentage point cumulative increase in GDP growth over 2003-04 and a 3% reduction in nonfinancial corporate debt that strengthens corporate balance sheets and lowers corporate bond rates.

A PwC survey of just 14 companies showed that the additional U.S. reinvestment would increase domestic investment in plant, equipment, R&D, and pension plans depleted by decline in the stock market; reduce domestic debt loads; increase dividends that could be productively redeployed; and raise equity market valuations by increasing funds available for share repurchases.

Uses of Additional Dollars Brought to the U.S. as a Result of S. 596	
PricewaterhouseCoopers Survey of 14 Companies (4/11/03)	
Percent of foreign subsidiaries' accumulated untaxed earnings at end of 2002 that would be distributed to the U.S. as a result of S. 596	54%
Additional distributions to U.S. in the survey (note that this is just the amount in excess of the base amount of normal distributions)	\$47,045,799,109
Use of additional distributions shown above –	
1. Additional investment in U.S. plant, equipment, inventory, land or working capital	32%
2. Additional U.S. debt reduction ¹	32%
3. Additional repurchase of company stock	12%
4. Additional portfolio investment in the U.S.	9%
5. Additional/accelerated contributions to U.S. pension plans	4%
6. Additional dividends to shareholders	1%
7. Additional compensation to corporate officers	0%
8. Additional compensation to other than corporate officers	0%
9. Other investments in the U.S. (identified by respondents as additional expenditures on R&D, business start-ups, and business & technology acquisitions)	10%
Total	100%

¹ The additional debt reduction is reported by some as a first step prior to a determination as to how best to use resources that were previously invested abroad. For others, the U.S. debt reduction is the intended improvement in the U.S. operations (to stabilize or improve debt ratings).

Revenue estimate.

The Joint Committee on Taxation estimates that S. 596 will increase tax receipts by about \$3.8 billion in the first year, and reduce net revenue by \$3.8 over the 10-year budget period.

PricewaterhouseCoopers, JP Morgan and a statement by House Ways and Means Committee Chairman Thomas at a hearing disagree with the JCT estimate. PwC and JP Morgan both estimate that the proposal increases federal receipts over the 10-year period.

Special report

Introducing the Homeland Investment Act

- A tax change is proposed that temporarily reduces obstacles to repatriating accumulated foreign earnings of US corporations
- Legislation to produce results; repatriation estimated at \$300 billion
- Survey suggests that firms would use funds for varied purposes; shoring up corporate finances is the top priority
- Estimated increase in business spending to lift GDP growth 0.5%
- Budget impact is negligible

Introduction

Amid the current flurry of activity on US tax policy, it is easy to neglect the Homeland Investment Act. This tax proposal, which has bipartisan support, would remove many of the tax obstacles that inhibit repatriation of foreign earnings by US corporations. The intention of this legislation is to make it less costly to repatriate earnings that might be used for investment spending and hiring in the United States.

However, there is little analysis available that bears on the likely impact of this legislation. To fill this gap, this special report draws on existing company information and provides new survey material to give rough guidance as to the potential effects of the Homeland Investment Act. The analysis suggests that there is a large pool of reinvested foreign earnings that would be repatriated if this legislation were passed. JPMorgan estimates that the gross flow that would result from the passage of the pending legislation is roughly \$300 billion. This number is more than twice the estimate of the Joint Committee on Taxation made in 2001.

A survey of firms suggests that this money would be put to varied use. Shoring up balance sheets would be a central priority. JPMorgan estimates suggest that the legislation would lead to a roughly 3% reduction in nonfinancial corporate debt. An important part of the funds would be used to increase business activity. Estimates suggest a 2-3% increase in capital spending over two years, during which the GDP level would likely be boosted by roughly one-half of a percentage point. The impact of the legislation on the Federal Budget is likely to be negligible.

Introducing the Homeland Investment Act

Legislation was recently introduced in both the House (H.R. 767) and Senate (S.596) to temporarily change the tax treatment of US subsidiaries foreign earn-

Anne Swope
(1-212) 834-7566
anne.swope@jpmorgan.com
JPMorgan Chase Bank

Bruce Kasman
(1-212) 834-5515
bruce.c.kasman@jpmorgan.com
JPMorgan Chase Bank

Robert Mellman
(1-212) 834-5517
robert.e.mellman@jpmorgan.com
JPMorgan Chase Bank

May 1, 2003

JPMorgan Chase Bank, New York
Anne Swope (1-212) 834-7566
anne.swope@jpmorgan.com

ings. These bills, the Homeland Investment Act of 2003 and Invest in the USA Act of 2003, would temporarily reduce the US tax rate on foreign subsidiary earnings that are distributed to the United States parent company. Although the legislation has been proposed separately from the Bush administration's "jobs and growth" stimulus package, it is now being discussed as a possible element of this plan.

The current form of the proposed legislation reduces the tax rate to 5.25% on distributions in excess of a corporation's "normal" annual distribution, and would be effective for distributions made in either 2003 or 2004, depending on when the legislation becomes law.

The Senate Bill differs from the House version in requiring US corporations to provide a domestic reinvestment plan. This plan requires firms to describe how repatriated income will be reinvested in the United States. The Senate bill anticipates that an electing corporation's reinvestment plan would provide for use of the distributed cash as a source for funding worker hiring and training, infrastructure, research and development, capital investments and/or providing financial stability (of the corporation) for purposes of job retention or creation.

If the Homeland Investment Act becomes law on or before September 2, 2003, the temporary reduced tax rate will only apply to qualifying distributions made on or prior to December 31, 2003 for all calendar year taxpayers. This implies that any resulting capital flows would occur in a very short period of time. If the Act becomes law after September 2, 2003, the reduced tax rate would apply to distributions made during 2004 for calendar year taxpayers.

Motivation for changing the law

Unlike most other industrial countries, current US tax law provides multinational firms with strong incentives to keep earnings from foreign operations outside the United States, even when efficiency considerations would argue that the funds be used within the United States.

Under international tax principles, primary jurisdiction to tax income is given to the country where the foreign subsidiaries operate. The accumulated earnings of a US corporation's foreign subsidiaries are generally not subject to US corporate income taxation until the earnings are actually distributed to the corporate parent as a dividend. As a general principle, US tax on repatriated income is imposed to bring the total corporate tax rate to 35%. In countries in which tax rates are below 35%, an additional US tax gener-



A stylized example of tax law proposal

In this example, Acme International earns \$100 abroad and pays \$10 in foreign taxes. No US taxes are paid because the earnings are not repatriated.

Under current law, if the profits were repatriated, the firm would also owe \$35 in US taxes and \$4.50 in additional foreign taxes for distributed earnings less a \$14.50 tax credit to offset the foreign corporate income tax and withholding tax paid. The total additional tax cost of repatriating the \$90 is \$25.

Under the proposed law, the US corporate tax would be lowered by 85% from \$35 to \$5.25; the foreign tax credit would also be reduced by 85% to \$2.18, and Acme would still have to pay the \$4.50 foreign withholding tax on distributions. The tax cost to the firm of repatriating the \$90 in earnings to the United States is lowered by more than two-thirds, from \$25 to \$7.57.

Example

Foreign Taxable Income	\$100
10% Foreign Corporate Tax	\$10
Foreign Net Earnings	\$90

Tax cost of repatriating foreign earnings

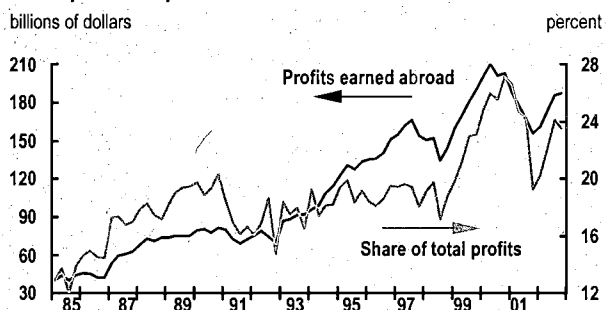
Under Current Law

US Corporate Tax at 35%	\$35
Foreign Tax Credit	-\$14.50
Foreign Withholding Tax	\$4.50
Additional Tax Burden	\$25.00

Under Proposed Law

US Corporate Tax* at 5.25%	\$5.25
Foreign Tax Credit	-\$2.18
Foreign Withholding Tax	\$4.50
Additional Tax Burden	\$7.57

US corporations: profits earned abroad



May 1, 2003

JPMorgan Chase Bank, New York
Bruce Kasman (1-212) 834-5515
bruce.c.kasman@jpmorgan.com

ally is paid when earnings are repatriated. Thus, foreign investments financed with foreign earnings of US multinationals typically have been more attractive than returns on domestic investments financed with foreign earnings (after additional taxes are paid to repatriate the earnings). To be sure, US tax rules are far more complex than this short description suggests. Often they operate to create disincentives to repatriate foreign earnings even when tax rates abroad are high.

In lowering the tax rate to 5.25%, the cost of repatriating earnings is significantly reduced. Firms can repatriate funds at a lower tax rate and may receive a partial tax credit for taxes paid abroad. A stylized example presented in the accompanying box (previous page) makes this point clear. In the example, costs of repatriating earnings are cut by more than two-thirds.

Many firms have large pools of accumulated earnings from foreign operations but lack promising investment opportunities for use of the funds abroad. In particular, tax laws make it difficult to structure direct investments from one subsidiary to another. And while the US parent can generally borrow as an alternative to repatriating funds, the current environment is one in which firms have strong incentives to deleverage. Risk considerations should also promote repatriation. Absent a US tax bite, the risk of political change or shifting foreign tax regimes create disincentives for holding assets in many parts of the world.

The primary motivation of the change in the law is to allow firms to repatriate these foreign earnings to promote long-term growth. The hope is that some of these funds would be used in ways that boost US investment and hiring. That a reduction in the tax rate on repatriating earnings might have little if any net cost to the US Treasury is also appealing. There would be a net loss in revenues from firms that planned to repatriate earnings in the future and would now bring these funds home at a lower tax rate. However, firms that keep virtually all their foreign earnings abroad to avoid additional taxes under current law would have incentive to repatriate earnings currently under the proposal.

Foreign subsidiary earnings: A large pool exists

Although the motivation of the legislation is clear, there is little information available to assess the likely size of inflows that will be generated under the new law and its macroeconomic effects.

Foreign undistributed earnings by credit rating

	share of undistributed earnings
AAA	22.9
AA	9.9
AA-	11.5
A+	13.6
A	10.3
A-	9.4
BBB+	3.3
BBB	10.3
Lower	8.8

Foreign undistributed earnings by sector

	share of undistributed earnings
Manufacturing	39.7
High tech and telecom	17.7
Pharmaceuticals and health care	27.0
Consumer	12.2
Energy	9.6
Finance and insurance	6.5
Other	5.0

Note: Both tables based on the sample of 237 S&P 500 corporations that report reinvested foreign earnings.

The Joint Committee on Taxation analyzed a proposal similar to the current one in 2001. It estimated that repatriated earnings would rise by \$135 billion in the first year after legislation is effective. The estimated revenue impact was modest. A small positive \$4.1 billion gain in the first year was estimated to be temporary. Over ten years the legislation was estimated to reduce revenues by a net \$3.9 billion. The Joint Committee has provided little detail in how it arrived at these estimates.

JPMorgan's assessment of the Homeland Investment Act begins with an estimate of the size of the accumulated foreign subsidiary earnings that would be available for repatriation to the United States. In the audited financial statements of many S&P 500 corporations, the cumulative amounts of foreign subsidiary earnings that are permanently or indefinitely reinvested outside the US (hereafter, reinvested foreign earnings) are disclosed.

These figures generally appear in the tax footnote to audited financial statements. They are available because, under

GAAP, all corporations that consider all or some of their foreign subsidiary earnings as permanently or indefinitely reinvested outside the US—and therefore do not accrue a deferred tax liability—are required to disclose the amount ~~in their audited financial statements~~. Financial statements indicate that the reinvested foreign earnings of the S&P 500 corporations that could potentially be repatriated following passage of the Homeland Investment Act is \$406 billion.

Most of these earnings are held by companies with high credit ratings (see tables, page 3). Based on S&P ratings, more than three fourths of the earnings are held by companies that are rated A or higher. Sectorally, manufacturing and pharmaceutical companies account for the largest concentration of accumulated foreign earnings, more than one-half of earnings held abroad.

There are good reasons to think that this \$406 billion figure underestimates the total pool of earnings that would be eligible for repatriation (see box, page 4). Indeed, this view is confirmed by an alternative estimate based on IRS data for a larger sample of firms. Taken together, the total pool of reinvested foreign earnings eligible for repatriation is estimated at about \$500 billion.

Survey points to large-scale repatriation

The existence of a large pool of reinvested foreign earnings provides little insight as to the likely size of repatriated funds under the tax plan. In order to estimate the likely effect of the legislation, an informal survey of large firms was conducted. The survey sampled tax and treasury departments of 28 firms. Their reinvested foreign earnings represent about one-quarter of the aggregate \$406 billion measured in the S&P 500 sample. The results of the survey highlight the following:

- A strong incentive to repatriate. Respondents representing slightly over half of the sample—both as a share of the number of respondents and as a share of reinvested foreign earnings—indicate that substantially all of their earnings would be repatriated. Most other companies indicated that some of their earnings would be repatriated. Only two respondents, accounting for about 8.7% of reinvested foreign earnings of the sample, did not plan to repatriate foreign earnings to the United States.

- Cash flow and repatriation. Adequate liquidity appears to be an important consideration for firm's willingness to repatriate. Firms with large cash balances globally appear more committed to repatriating all their reinvested foreign earn-

1. Corporations may change their reinvestment strategies, however, at which time deferred taxes may be required to be accrued.

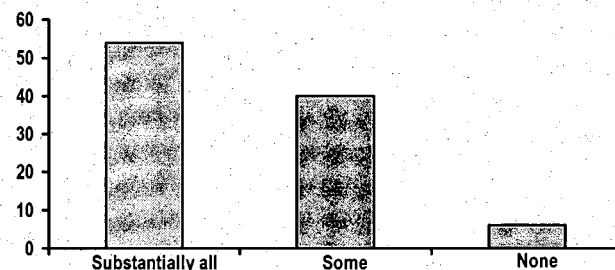
\$500 billion in estimated retained foreign earnings

Financial statements show \$406 billion in accumulated foreign subsidiary earnings for the S&P 500. This figures likely underestimates the size of the total pool of foreign earnings that could potentially be repatriated.

- The S&P 500 is a subset of the entire corporate sector. S&P 500 operating earnings has recently averaged about 60% of overall after-tax earnings. Its share of foreign earnings is likely larger, although no official breakdown is available.
- The aggregate reinvested foreign earnings of corporations in the S&P 500 includes reinvested foreign earnings of only 237 corporations. The remaining 263 corporations did not overtly disclose reinvested foreign earnings. In some cases, the tax effects but not the total amount of foreign subsidiary earnings are disclosed. For our calculation, these companies are treated as if they have no reinvested foreign earnings.
- There are foreign subsidiary earnings that have not been repatriated but also not been treated as permanently reinvested. These earnings could also be repatriated if the bill becomes law.

An alternative exercise employs IRS data for the 7500 largest controlled foreign corporations for 1998 and points to accumulated foreign subsidiary earnings in 2002 of close to \$500 billion. This level appears consistent with a scaled up estimate from the smaller S&P sample.

Survey results, repatriation of reinvested foreign earnings
 percent of reinvested foreign earnings



Estimate of repatriated earnings

billions of dollars

	From Firms Repatriating Substantially All	From Firms Repatriating Some	Dollars Repatriated
Share of sample	50.3%	41.2%	
Percent repatriated:			
Higher estimate	100%	60%	\$375
Lower estimate	80%	30%	\$265

Note: Estimates are based on a JPMorgan survey of 28 firms accounting for roughly 25% of all accumulated earnings by the S&P 500 sample of very large firms.

May 1, 2003

JPMorgan Chase Bank, New York
Bruce Kasman (1-212) 834-5515
bruce.c.kasman@jpmorgan.com

Economic & Policy Research
Introducing the Homeland Investment Act
Page 5



ings. Corporations that do not have sufficient cash would have to borrow the cash at the foreign subsidiary level, liquidate operating assets, or distribute property, all of which have collateral consequences and make the decision significantly more complex. Liquidity is also significant as there would be cash taxes due on the distributed earnings. In addition to US taxes, most countries impose a withholding tax when earnings are distributed.

The results of the survey point to a substantial flow of repatriated foreign earnings (see table, page 4). The estimates range from \$265- \$375 billion.

The possibility that the survey sample is biased towards companies with high levels of liquidity—and therefore a greater proclivity to repatriate earnings—was also examined (see top table, page 5). In the aggregate, companies in the survey sample do not appear to have a larger cash position relative to those in the broader S&P 500 sample. This finding holds when the data are aggregated such that repatriated flows are no larger than a corporation's available cash position.

In all, \$300 billion looks to be a reasonably conservative estimate of the magnitude of foreign earnings that could be repatriated under the proposed legislation. This estimate is more than twice as large as that produced by the Joint Committee on Taxation.

A modest boost to growth and deleveraging

The ultimate intent of the Homeland Investment Act is to provide a boost to US macroeconomic performance. In considering the possible benefits of repatriating \$300 billion in foreign earnings, once again the survey provides guidance (bottom table, page 5). Most corporations point to shoring up corporate finances—buying back debt, increasing levels of liquid assets, rebuilding pension funds or even retiring equity—as a key priority for the use of these funds. However, a substantial number of corporations also indicate that a portion of the funds will be used to finance activity: capital spending, research and development, and the like.

There are no hard numbers on how the money would be allocated among these varied purposes. As a rough translation of the survey results, assume that 50% of the \$300 billion is used for debt repayment and 35% is used for spending – on research and development or capital expenditure – spread out over a two-year period. The remaining 15% remains in

S&P sample and survey group

Group	Reinvested Foreign Earnings	Global	Lesser of Reinvested
		Cash & Cash Equivalents	Foreign Earnings or Global Cash and Equiv.
S&P 500 sample	407	374	193
Survey Group	102	76	59

Note: The S&P sample represents the 237 corporations in the S&P 500 that disclose reinvested foreign earnings. The survey group represents the 28 corporations sampled by JPMorgan. The amount of global cash and cash equivalents for each company is the amount reflected on each company's audited financial statements. The aggregation of corporations using the lesser of their reported reinvested foreign earnings or global cash is reported in the last column.

Survey results: uses of repatriated funds

survey of 28 firms; respondents could mention more than one use

	Number	Percent of respondents
Pay down outstanding debt	13	46
Finance capital spending	11	39
Fund R&D, venture capital, or acquisitions	11	39
Buy back stock	5	18
Use cash for working capital	3	11
Might pay dividend (if double taxation ends)	3	11
Fund underfunded pension fund	1	4

cash or is used for stock buy-backs and shoring up pension funds.

Under these assumptions, \$150 billion of corporate debt would be paid down, equivalent to about 3% of total nonfinancial corporate debt. For many firms repatriating funds, the percentage reduction in debt would be much greater.

The share allocated to new expenditures amounts to about \$50 billion per year in new spending. At this magnitude, GDP would likely be boosted by about one half a percentage point. The biggest benefits would likely come in spending on equipment and software and new plant. The boost to the total national level of capital spending would be 2-3% in each of the two years.

May 1, 2003

JPMorgan Chase Bank, New York
Anne Swope (1-212) 834-7566
anne.swope@jpmorgan.com

Economic & Policy Research
Introducing the Homeland Investment Act
Page 6



Budget impact is expected to be small

The effects of the proposed change in the tax law on the federal budget are likely to be relatively modest: positive in the short run and slightly positive in the longer run as well. Based on the estimate of the repatriated earnings, cash tax payments of roughly \$10 billion to \$15 billion as a direct result of the legislation would accrue to the Treasury in the first year. This assumes an effective tax rate of 3.5-5%, after adjusting for foreign tax credits.

To the extent that some of the reinvested foreign earnings would have been distributed in the foreseeable future and taxed at the statutory rate of 35% absent the proposed legislation, the present value of the foregone taxes on these earnings (difference between 35% and 5.25%) would be a par-

tial offset to the \$10 billion to \$15 billion gain. Most likely, the past trend of earnings accumulating abroad would continue to prevail, and this partial offset would be minimal.

Close to \$100 billion shift to dollar assets

Regarding the currency impact of the tax change, the key issue is the extent of the shift from nondollar to dollar assets that takes place. Anecdotal evidence gained from talking to US corporations suggest that a large portion of foreign earnings held abroad are held in US dollars. Although no hard information is available, a reasonable estimate places the dollar share of reinvested foreign earnings at between one-half and three-quarters. As a result, the repatriation of \$300 billion in foreign earnings is likely to produce a one-time currency shift of around \$100 billion.

Copyright 2003 J.P. Morgan Chase & Co. All rights reserved. JPMorgan is the marketing name for J.P. Morgan Chase & Co., and its subsidiaries and affiliates worldwide. J.P. Morgan Securities Inc. is a member of NYSE and SIPC. JPMorgan Chase Bank is authorized by the FSA and a member of FDIC. J.P. Morgan Futures Inc. is a member of the NFA. J.P. Morgan Securities Ltd. and J.P. Morgan plc are authorized by the FSA and members of the LSE. J.P. Morgan Europe Limited is authorized by the FSA. J.P. Morgan Equities Limited is a member of the Johannesburg Securities Exchange and is regulated by the FSB. J.P. Morgan Securities (Asia Pacific) Limited is registered as an investment adviser with the Securities & Futures Commission in Hong Kong and its CE number is AAJ321. J.P. Morgan Securities Singapore Private Limited is a member of Singapore Exchange Securities Trading Limited and is regulated by the Monetary Authority of Singapore ("MAS"). J.P. Morgan Securities Asia Private Limited is regulated by the MAS and the Financial Services Agency in Japan. J.P. Morgan Australia Limited (ABN 52 002 888 011) is a licensed securities dealer. Additional information is available upon request. Information herein is believed to be reliable but JPMorgan does not warrant its completeness or accuracy. Opinions and estimates constitute our judgment and are subject to change without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors; if you have any doubts you should consult your investment advisor. The investments discussed may fluctuate in price or value. Changes in rates of exchange may have an adverse effect on the value of investments. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. JPMorgan and/or its affiliates and employees may hold a position, may undertake or have already undertaken an own account transaction or act as market maker in the financial instruments of any issuer discussed herein or any related financial instruments, or act as underwriter, placement agent, advisor or lender to such issuer. Clients should contact analysts at and execute transactions through a JPMorgan entity in their home jurisdiction unless governing law permits otherwise. This report should not be distributed to others or replicated in any form without prior consent of JP Morgan. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other European Economic Area countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction.