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Department of the Treasury

PRESS RELEASES

The following number was not used:
991

Numbers 892-894 and 897-899 are listed
on the Dec.,2001 list and 972 is listed on the Feb.,2002 list

DEPARTMENT OF THE TREASURY

TREASURY NEWS

1789

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
January 2, 2002

CONTACT: BETSY HOLAHAN
(202) 622-2960

Treasury Department Announces Availability of $8 Million for "First Accounts" to Reduce Number of Unbanked Americans

WASHINGTON, DC – The Treasury Department has issued a Notice of Funds Availability (NOFA) for the "First Accounts" program, which seeks to increase the number of Americans who receive basic account services from insured financial institutions.

"Up to 40 million Americans do not use mainstream banking services" said Treasury Assistant Secretary for Financial Institutions Sheila C. Bair. "We hope this program will encourage the creation of innovative new products and services to significantly decrease the number of unbanked Americans."

The NOFA, published in the *Federal Register* on December 27, 2001, requests applications from a wide variety of entities to compete for $8 million in grant funds.

Eligible applicants for the funds include employers, community development financial institutions, depository institution holding companies, financial services electronic networks, Indian Tribal governments, insured credit unions, insured depository institutions, labor organizations, local governments, non-profit organizations and States.

The proposals for the grant funds will provide, either directly or through one or more insured depository institutions or insured credit unions, low-cost electronic, checking or other types of accounts to low- and moderate-income individuals who currently do not have an account with an insured institution.

PO-891

*U.S. Government Printing Office: 1998 - 619-559

The Treasury Department's NOFA puts particular emphasis on trying to reach unbanked employees through their employers, as well as encouraging arrangements whereby employees can obtain basic account services-building from services already provided by their employers' financial institutions. While the NOFA encourages such employer arrangements, it also will consider funding other types of applications that hold a reasonable likelihood of success. To foster innovation, the NOFA provides wide flexibility to applicants in crafting their applications, while giving priority to proposals that can be self-sustaining and replicable in other communities.

The deadline for applications is March 20, 2002. The application and additional information is available on the First Accounts web site, www.treas.gov/firstaccounts.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 2:30 P.M.
January 2, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 10-YEAR INFLATION-INDEXED NOTES

The Treasury will auction $6,000 million of 10-year inflation-indexed notes to raise cash.

Amounts bid by Federal Reserve Banks for their own accounts will be added to the offering.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of the auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

The auction will be conducted in the single-price auction format. All competitive and noncompetitive awards will be at the highest yield of accepted competitive tenders. The allocation percentage applied to bids awarded at the highest yield will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

The notes being offered today are eligible for the STRIPS program.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about the security are given in the attached offering highlights.

oOo

Attachment

PO-895

For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF
10-YEAR INFLATION-INDEXED NOTES TO BE ISSUED JANUARY 15, 2002

January 2, 2002

Offering Amount .... $6,000 million
Public Offering .... $6,000 million

Description of Offering:
Term and type of security .... 10-year inflation-indexed notes
Series A-2012
CUSIP number 912827 7J 5
Auction date .... January 9, 2002
Issue date .... January 15, 2002
Dated date .... January 15, 2002
Maturity date .... January 15, 2012
Interest rate .... Determined based on the highest accepted competitive bid
Real yield .... Determined at auction
Interest payment dates .... July 15 and January 15
Minimum bid amount and multiples $1,000
Accrued interest .... None
Premium or discount .... Determined at auction

STRIPS Information:
Minimum amount required $1,000
Corpus CUSIP number .... 912820 GT 8
Due date(s) and CUSIP number(s)
for additional TIIN(s) .... July 15, 2011 - - 912833 YN 4
January 15, 2012 - - 912833 YP 9

Submission of Bids:
Noncompetitive bids: Accepted in full up to $5 million at the highest accepted yield.
Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.
Competitive bids:
(1) Must be expressed as a real yield with three decimals, e.g., 3.123%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time fo receipt of competitive tenders.

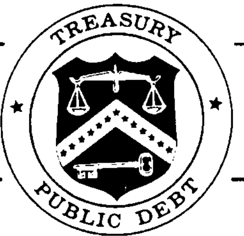
Maximum Recognized Bid at a Single Yield .... 35% of public offering
Maximum Award .... 35% of public offering

Receipt of Tenders:
Noncompetitive tenders: Prior to 12:00 noon eastern standard time on auction day.
Competitive tenders: Prior to 1:00 p.m. eastern standard time on auction day.

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

Indexing Information: CPI Base Reference Period..... 1982-1984
Ref CPI 01/15/2002 .... 177.56452
Index Ratio 01/15/2002 .... 1.00000

PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
January 02, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term: 28-Day Bill
Issue Date: January 03, 2002
Maturity Date: January 31, 2002
CUSIP Number: 912795JE2

High Rate: 1.700% Investment Rate 1/: 1.723% Price: 99.868

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 41.40%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 23,687,011	$ 6,986,281
Noncompetitive	13,930	13,930
FIMA (noncompetitive)	0	0
SUBTOTAL	23,700,941	7,000,211
Federal Reserve	1,574,261	1,574,261
TOTAL	$ 25,275,202	$ 8,574,472

Median rate 1.670%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.650%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 23,700,941 / 7,000,211 = 3.39

1/ Equivalent coupon-issue yield.

http://www.publicdebt.treas.gov

PO-896

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 2:30 P.M.
January 3, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling $26,000 million to refund an estimated $23,723 million of publicly held 13-week and 26-week Treasury bills maturing January 10, 2002, and to raise new cash of approximately $2,277 million. Also maturing is an estimated $15,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced January 7, 2002.

The Federal Reserve System holds $10,240 million of the Treasury bills maturing on January 10, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders either in these auctions or the 4-week Treasury bill auction to be held January 8, 2002. Amounts awarded to SOMA will be in addition to the offering amount.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of each auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

TreasuryDirect customers have requested that we reinvest their maturing holdings of approximately $1,101 million into the 13-week bill and $731 million into the 26-week bill.

The allocation percentage applied to bids awarded at the highest discount rate will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

PO-900

For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS TO BE ISSUED JANUARY 10, 2002

January 3, 2002

Offering Amount	$12,000 million	$14,000 million
Public Offering	$12,000 million	$14,000 million
NLP Exclusion Amount	$ 3,800 million	None
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 JP 7	912795 KR 1
Auction date	January 7, 2002	January 7, 2002
Issue date	January 10, 2002	January 10, 2002
Maturity date	April 11, 2002	July 11, 2002
Original issue date	October 11, 2001	January 10, 2002
Currently outstanding	$15,282 million	---
Minimum bid amount and multiples	$1,000	$1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.

Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.

Competitive bids:

(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 7.100%, 7.105%.

(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.

(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Rate........ 35% of public offering

Maximum Award.............................. 35% of public offering

Receipt of Tenders:

Noncompetitive tenders ..... Prior to 12:00 noon eastern standard time on auction day

Competitive tenders .... Prior to 1:00 p.m. eastern standard time on auction day

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
January 4, 2002

Contact: Tara Bradshaw
(202) 622-2960

TREASURY SECRETARY PAUL O'NEILL STATEMENT ON CREATING JOBS AND GROWTH

Today's unemployment figures show that millions of dislocated workers are suffering from our slow economy. We must take steps to speed our recovery and put Americans back to work. I'm glad the Senate Majority Leader said today he agreed with the President that we should work together to create jobs. I look forward to working with the Senate leader to secure passage of legislation to help dislocated workers and to cut taxes so employers can create more jobs. Creating jobs and getting the economy growing again is the surest path back to Washington budget surpluses.

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PO-901

For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

*U.S. Government Printing Office 1998 - 619-559

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 11:30 A.M.
January 7, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $6,000 million to refund an estimated $15,000 million of publicly held 4-week Treasury bills maturing January 10, 2002, and to pay down approximately $9,000 million.

Tenders for 4-week Treasury bills to be held on the book-entry records of *TreasuryDirect* will not be accepted.

The Federal Reserve System holds $10,240 million of the Treasury bills maturing on January 10, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders in this auction up to the balance of the amount not awarded in today's 13-week and 26-week Treasury bill auctions. Amounts awarded to SOMA will be in addition to the offering amount.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of the auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

The allocation percentage applied to bids awarded at the highest discount rate will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about the new security are given in the attached offering highlights.

oOo

Attachment

PO-902

For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED JANUARY 10, 2002

January 7, 2002

Offering Amount ....$6,000 million
Public Offering ....$6,000 million
NLP Exclusion Amount ....$10,500 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 JF 9
Auction date ....January 8, 2002
Issue date ....January 10, 2002
Maturity date ....February 7, 2002
Original issue date ....August 9, 2001
Currently outstanding ....$40,659 million
Minimum bid amount and multiples $1,000

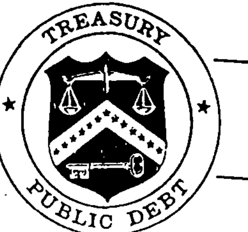
Submission of Bids:
Noncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.
Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.
Competitive bids:
(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 4.215%.
(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Rate...35% of public offering
Maximum Award...........................35% of public offering

Receipt of Tenders:
Noncompetitive tenders:
Prior to 12:00 noon eastern standard time on auction day
Competitive tenders:
Prior to 1:00 p.m. eastern standard time on auction day

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date.

PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR RELEASE AT 3:00 PM
January 7, 2002

Contact: Peter Hollenbach
(202) 691-3502

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR DECEMBER 2001

The Bureau of the Public Debt announced activity for the month of December 2001, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$2,057,606,461
Held in Unstripped Form	$1,890,647,498
Held in Stripped Form	$166,958,964
Reconstituted in December	$15,227,800

The accompanying table gives a breakdown of STRIPS activity by individual loan description. The balances in this table are subject to audit and subsequent revision. These monthly figures are included in Table V of the Monthly Statement of The Public Debt, entitled "Holdings of Treasury Securities in Stripped Form."

The Strips Table along with the new Monthly Statement of The Public Debt is available on Public Debt's Internet site at: **www.publicdebt.treas.gov**. A wide range of information about the public debt and Treasury securities is also available at the site.

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PO-903

TABLE V - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, DECEMBER 31, 2001

Loan Description			Corpus STRIP CUSIP	Maturity Date	Amount Outstanding in Thousands			Reconstituted This Month
					Total Outstanding	Portion Held In Unstripped Form	Portion Held in Stripped Form	
Treasury Bonds:								
CUSIP:		Interest Rate:						
912810 DM7		11-5/8	912803 AB9	11/15/04	8,301,806	4,826,606	3,475,200	97,600
DQ8		12	AD5	05/15/05	4,260,758	1,834,758	2,426,000	60,950
DR6		10-3/4	AG8	08/15/05	9,269,713	5,666,613	3,603,100	674,800
DU9		9-3/8	AJ2	02/15/06	4,755,916	4,486,500	269,416	8,608
DN5		11-3/4	912800 AA7	11/15/14	5,015,284	1,860,400	3,154,884	330,616
DP0		11-1/4	912803 AA1	02/15/15	10,783,299	7,483,830	3,299,469	318,200
DS4		10-5/8	AC7	08/15/15	4,023,916	3,304,890	719,026	78,547
DT2		9-7/8	AE3	11/15/15	5,584,859	3,167,089	2,417,770	231,600
DV7		9-1/4	AF0	02/15/16	5,501,754	5,247,041	254,713	210,400
DW5		7-1/4	AH6	05/15/16	18,823,551	18,517,756	305,795	129,938
DX3		7-1/2	AK9	11/15/16	18,824,448	17,407,708	1,416,740	135,638
DY1		8-3/4	AL7	05/15/17	15,619,169	8,487,664	7,131,505	909,360
DZ8		8-7/8	AM5	08/15/17	11,208,358	7,899,065	3,309,293	290,000
EA2		9-1/8	AN3	05/15/18	6,797,439	2,919,839	3,877,600	27,200
EB0		9	AP8	11/15/18	7,174,470	3,572,347	3,602,123	399,800
EC8		8-7/8	AQ6	02/15/19	13,320,498	7,882,816	5,437,682	658,500
ED6		8-1/8	AR4	08/15/19	18,940,932	18,164,105	776,827	465,120
EE4		8-1/2	AS2	02/15/20	9,656,268	7,761,420	1,894,848	212,400
EF1		8-3/4	AT0	05/15/20	7,707,183	2,946,743	4,760,440	60,000
EG9		8-3/4	AU7	08/15/20	17,259,306	7,374,906	9,884,400	352,540
EH7		7-7/8	AV5	02/15/21	10,195,573	9,088,373	1,107,200	225,600
EJ3		8-1/8	AW3	05/15/21	10,191,788	5,260,725	4,931,063	293,642
EK0		8-1/8	AX1	08/15/21	9,926,382	7,151,090	2,775,292	75,200
EL8		8	AY9	11/15/21	30,632,194	15,665,625	14,966,569	3,190,725
EM6		7-1/4	AZ6	08/15/22	10,227,790	9,091,491	1,136,299	134,400
EN4		7-5/8	BA0	11/15/22	7,423,626	3,465,431	3,958,195	166,400
EP9		7-1/8	BB8	02/15/23	16,152,061	9,959,661	6,192,400	504,000
EQ7		6-1/4	BC6	08/15/23	22,659,044	19,385,468	3,273,576	258,560
ES3		7-1/2	BD4	11/15/24	9,704,162	3,638,442	6,065,720	142,960
ET1		7-5/8	BE2	02/15/25	10,019,170	3,805,969	6,213,201	489,600
EV6		6-7/8	BF9	08/15/25	11,267,207	7,286,325	3,980,882	261,360
EW4		6	BG7	02/15/26	12,837,916	11,763,116	1,074,800	520,400
EX2		6-3/4	BH5	08/15/26	9,000,418	6,709,600	2,290,818	864,982
EY0		6-1/2	BJ1	11/15/26	10,870,177	5,216,527	5,653,650	372,250
EZ7		6-5/8	BK8	02/15/27	9,601,971	6,430,766	3,171,205	289,600
FA1		6-3/8	BL6	08/15/27	9,356,756	7,130,756	2,226,000	307,400
FB9		6-1/8	BM4	11/15/27	22,021,339	11,626,639	10,394,700	370,100
FE3		5-1/2	BP7	08/15/28	11,776,201	11,072,701	703,500	299,000
FF0		5-1/4	BV4	11/15/28	10,947,052	10,362,052	585,000	194,400
FG8		5-1/4	BW2	02/15/29	11,350,341	11,010,445	339,896	30,904
FJ2		6-1/8	CG6	08/15/29	11,178,580	10,485,980	692,600	0
FM5		6-1/4	CH4	05/15/30	17,043,162	16,677,050	366,112	100,000
FP8		5-3/8	CK7	02/15/31	16,427,648	16,299,648	128,000	0
Total Treasury Bonds......................................					503,639,485	359,395,976	144,243,509	14,743,300
Treasury Inflation-Indexed Notes:								
CUSIP:	Series:	Interest Rate:						
912827 3A8	J	3-5/8	912820 BZ9	07/15/02	18,661,715	18,661,715	0	0
2M3	A	3-3/8	BV8	01/15/07	17,675,874	[illegible]	0	0
3T7	A	3-5/8	[illegible]	01/15/08	18,493,71[illegible]	[illegible]	110,006	0
4Y5	A	3-7/8	DN4	01/15/09	17,232,633	17,232,633	0	0
5W8	A	4-1/4	EK9	01/15/10	11,958,446	11,958,446	0	0
6R8	A	3-1/2	GA9	01/15/11	11,233,268	11,233,268	0	0
Total Inflation-Indexed Notes............................					95,255,650	95,145,644	110,006	0
Treasury Inflation-Indexed Bonds:								
CUSIP:		Interest Rate:						
912810 FD5		3-5/8	912803 BN2	04/15/28	18,469,156	18,469,156	0	0
FH6		3-7/8	CF8	04/15/29	21,320,778	21,185,645	135,133	0
FQ6		3-3/8	CL5	04/15/32	5,018,450	5,018,450	0	0
Total Inflation-Indexed Bonds...........................					44,808,384	44,673,251	135,133	0

TABLE V - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, DECEMBER 31, 2001, Continued

Loan Description			Corpus STRIP CUSIP	Maturity Date	Amount Outstanding in Thousands			Reconstituted This Month
					Total Outstanding	Portion Held in Unstripped Form	Portion Held in Stripped Form	
Treasury Notes:								
CUSIP:	Series:	Interest Rate:						
912827 2G6	C	6-1/4	912820 FK8	01/31/02	13,453,346	13,398,338	55,008	0
5X6	R	6-3/8	EL7	01/31/02	19,381,251	19,376,451	4,800	0
2L5	D	6-1/4	FL6	02/28/02	13,799,902	13,799,902	0	0
6A5	S	6-1/2	EN3	02/28/02	16,563,375	16,521,775	41,600	0
2P6	E	6-5/8	FM4	03/31/02	14,301,310	14,278,910	22,400	0
6B3	T	6-1/2	EP8	03/31/02	17,237,943	17,197,143	40,800	0
2S0	F	6-5/8	FN2	04/30/02	14,474,673	14,474,673	0	0
6C1	U	6-3/8	EQ6	04/30/02	17,390,900	17,384,500	6,400	0
F49	A	7-1/2	BD8	05/15/02	11,714,397	7,091,997	4,622,400	17,600
2W1	G	6-1/2	FP7	05/31/02	13,503,890	13,503,890	0	0
6E7	V	6-5/8	ES2	05/31/02	14,871,823	14,849,423	22,400	0
2Y7	H	6-1/4	FQ5	06/30/02	13,058,694	13,058,694	0	0
6F4	W	6-3/8	ET0	06/30/02	14,320,609	14,312,209	8,400	0
3C4	K	6	FR3	07/31/02	12,231,057	12,231,057	0	0
6H0	X	6-1/4	EU7	07/31/02	15,057,900	15,056,300	1,600	0
G55	B	6-3/8	BE6	08/15/02	23,859,015	19,285,226	4,573,789	193,600
3G5	L	6-1/4	FS1	08/31/02	12,731,742	12,731,742	0	0
6K3	Y	6-1/8	FU6	08/31/02	15,072,214	15,072,214	0	0
3J9	M	5-7/8	CC9	09/30/02	12,806,814	12,734,814	72,000	0
6L1	Z	6	FV4	09/30/02	15,144,335	15,144,335	0	0
3L4	N	5-3/4	CE5	10/31/02	26,593,892	26,505,092	88,800	0
3Q3	P	5-3/4	CH8	11/30/02	12,120,580	11,760,580	360,000	0
6P2	AC	5-5/8	FY8	11/30/02	15,058,528	14,990,688	67,840	0
3S9	Q	5-5/8	CK1	12/31/02	12,052,433	11,650,193	402,240	0
6Q0	AD	5-1/8	FZ5	12/31/02	14,822,027	14,822,027	0	0
3V2	C	5-1/2	CN5	01/31/03	13,100,640	13,100,640	0	0
6S6	L	4-3/4	GB7	01/31/03	15,452,604	15,427,004	25,600	0
J78	A	6-1/4	BF3	02/15/03	23,562,691	22,341,599	1,221,092	18,184
3Z3	D	5-1/2	CS4	02/28/03	13,670,354	13,626,354	44,000	0
6U1	M	4-5/8	GD3	02/28/03	14,685,095	14,685,095	0	0
4B5	E	5-1/2	CU9	03/31/03	14,172,892	14,172,092	800	0
6V9	N	4-1/4	GE1	03/31/03	14,674,853	14,674,853	0	0
4D1	F	5-3/4	CW5	04/30/03	12,573,248	12,558,848	14,400	0
6W7	P	4	GF8	04/30/03	13,338,528	13,338,528	0	0
4H2	G	5-1/2	DA2	05/31/03	13,132,243	13,103,843	28,400	0
6Y3	Q	4-1/4	GH4	05/31/03	13,331,937	13,331,937	0	0
4K5	H	5-3/8	DC8	06/30/03	13,126,779	13,099,579	27,200	0
6Z0	R	3-7/8	GJ0	06/30/03	14,671,070	14,671,070	0	0
7A4	S	3-7/8	GK7	07/31/03	16,003,270	16,003,270	0	0
L83	B	5-3/4	BG1	08/15/03	28,011,028	25,730,788	2,280,240	3,200
4N9	J	5-1/4	DE4	08/15/03	19,852,263	19,680,863	171,400	600
7C0	T	3-5/8	GM3	08/31/03	18,665,038	18,665,038	0	0
7D8	U	2-3/4	GN1	09/30/03	22,675,482	22,675,482	0	0
7E6	V	2-3/4	GP6	10/31/03	25,147,970	25,147,970	0	0
4U3	K	4-1/4	DJ3	11/15/03	18,625,785	17,376,085	1,249,700	6,000
7G1	W	3	GR2	11/30/03	26,170,536	26,170,536	0	0
7H9	X	3-1/4	GS0	12/31/03	29,667,709	29,667,709	0	0
N81	A	5-7/8	BH9	02/15/04	12,955,077	12,284,077	671,000	800
5A6	E	4-3/4	DQ7	02/15/04	17,823,228	17,803,228	20,000	3,200
P89	B	7-1/4	BJ5	05/15/04	14,440,372	13,628,972	811,400	8,600
5F5	F	5-1/4	DU8	05/15/04	18,925,383	18,925,383	0	0
[illegible]	[illegible]	[illegible]	BK2	08/15/04	13,346,467	11,492,167	1,854,300	[illegible]
5M0	G	6	DZ7	08/15/04	18,089,806	18,089,806	0	0
R87	D	7-7/8	BL0	11/15/04	14,373,760	14,368,960	4,800	800
5S7	H	5-7/8	EE3	11/15/04	32,658,145	32,658,145	0	0
S86	A	7-1/2	BM8	02/15/05	13,834,754	13,252,674	582,080	0
T85	B	6-1/2	BN6	05/15/05	14,739,504	14,739,104	400	0
6D9	E	6-3/4	ER4	05/15/05	28,562,370	28,562,370	0	0
U83	C	6-1/2	BP1	08/15/05	15,002,580	15,002,180	400	0
V82	D	5-7/8	BQ9	11/15/05	15,209,920	14,762,320	447,600	0
6N7	F	5-3/4	FX0	11/15/05	28,062,797	27,984,397	78,400	800
W81	A	5-5/8	BR7	02/15/06	15,513,587	15,508,107	5,480	0
X80	B	6-7/8	BS5	05/15/06	16,015,475	15,276,915	738,560	46,720
6X5	E	4-5/8	GG6	05/15/06	27,797,852	27,797,852	0	0
Y55	C	7	BT3	07/15/06	22,740,446	22,700,446	40,000	0
Z62	D	6-1/2	BU0	10/15/06	22,459,675	22,399,675	60,000	0
7F3	F	3-1/2	GQ4	11/15/06	18,801,283	18,687,883	113,400	0
2J0	B	6-1/4	BW6	02/15/07	13,103,678	12,797,006	306,672	45,296
2U5	C	6-5/8	BX4	05/15/07	13,958,186	13,684,271	273,915	0
3E0	D	6-1/8	CA3	08/15/07	25,636,803	25,136,003	500,800	0
3X8	B	5-1/2	CQ8	02/15/08	13,583,412	13,571,212	12,200	51,000
4F6	C	5-5/8	CY1	05/15/08	27,190,961	27,124,321	66,640	0
4V1	D	4-3/4	DK0	11/15/08	25,083,125	25,002,125	81,000	24,800
5G3	B	5-1/2	DV6	05/15/09	14,794,790	14,723,090	71,700	3,800
5N8	C	6	EA1	08/15/09	27,399,894	27,286,394	113,500	54,300
5Z1	B	6-1/2	EM5	02/15/10	23,355,709	23,301,709	54,000	700
6J6	C	5-3/4	FT9	08/15/10	22,437,594	22,334,594	103,000	0
6T4	B	5	GC5	02/15/11	23,436,329	23,430,569	5,760	0
7B2	C	5	GL5	08/15/11	26,635,316	26,635,316	0	0
Total Treasury Notes					1,413,902,943	1,391,432,627	22,470,316	484,500
Grand Total					2,057,606,461	1,890,647,498	166,958,964	15,227,800

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
January 07, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term: 182-Day Bill
Issue Date: January 10, 2002
Maturity Date: July 11, 2002
CUSIP Number: 912795KR1

High Rate: 1.750% Investment Rate 1/: 1.791% Price: 99.115

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 88.45%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 26,145,360	$ 12,920,173
Noncompetitive	955,161	955,161
FIMA (noncompetitive)	125,000	125,000
SUBTOTAL	27,225,521	14,000,334 2/
Federal Reserve	4,887,350	4,887,350
TOTAL	$ 32,112,871	$ 18,887,684

Median rate 1.740%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.700%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 27,225,521 / 14,000,334 = 1.94

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $780,483,000

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PO-904

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
January 07, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	January 10, 2002
Maturity Date:	April 11, 2002
CUSIP Number:	912795JP7

High Rate: 1.655% Investment Rate 1/: 1.684% Price: 99.582

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 14.60%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 29,566,175	$ 10,244,635
Noncompetitive	1,477,436	1,477,436
FIMA (noncompetitive)	278,000	278,000
SUBTOTAL	31,321,611	12,000,071 2/
Federal Reserve	3,550,158	3,550,158
TOTAL	$ 34,871,769	$ 15,550,229

Median rate 1.640%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.600%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 31,321,611 / 12,000,071 = 2.61

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,220,586,000

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PO-905

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

REMARKS BY PETER R. FISHER UNDER SECRETARY OF THE TREASURY FOR DOMESTIC FINANCE BEFORE THE BOND MARKET ASSOCIATION LEGAL AND COMPLIANCE CONFERENCE

It is a pleasure to be here with you and to be back in New York. Thank you for inviting me.

There are just two things I want to talk to you about today: number one: the primary market for U.S. government securities and, number two, the secondary market for U.S. government securities.

I want to describe our efforts to improve the efficiency of the primary market by reducing the time it takes us to release auction results. The Treasury, the Bureau of Public Debt and our colleagues at the Federal Reserve Bank of New York are now on a mission to complete auction processing and release results consistently within two minutes. Achieving this will take some time and some changes for all of us. But our objective is clear and you can be judge of how we are doing.

I also want to touch on the importance of the efforts of your firms and your clients to ensure the continued efficiency of the secondary market by your vigilant oversight of the competitive dynamics of the financing market. The depth, liquidity and resilience of the secondary market for U.S. government securities are critical to our debt management strategy. But they are much more a function of the things that you do than they are of the things that we do.

Treasury auctions must be consistently brief: two minutes

The overarching objective for the management of the Treasury's marketable debt is to achieve the lowest borrowing cost, over time, for the federal government's financing needs. Although I have been at the Treasury for less than a year, I have been intimately involved in financing the government's marketable debt for almost a decade. While there are many things we have done to try to achieve the lowest borrowing cost for the taxpayer, for too long we have overlooked one of the simplest things we can do: namely, to reduce the period of time it takes us to announce auction results.

Processing bids and disseminating results more quickly will be a win-win situation for both investors and the Treasury. Shorter release times will reduce the period of time bidders are exposed to uncertainty as to whether and at what price they purchased Treasury securities.

PO-906

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Reducing uncertainty will reduce risk for both investors and dealers. By reducing this risk, the Treasury will no longer need to compensate bidders for the implicit option premium associated with the extended period of uncertainty. This will lower the government's borrowing costs.

Considerable progress has been made in recent years. The Bureau of Public Debt, the New York Fed and the dealers and other submitters have worked together to make these improvements possible. In 1995 the average release time was 45 minutes. By 2000 average release times had been reduced to 27 minutes. And, as many of you may know, over recent months we released several auction results in less than 5 minutes by streamlining our treatment of questionable bids and by reducing the time the press has to turn the auction results into headlines. But we can do better.

To achieve the lowest borrowing costs, we must make the period of time between the auction close and the public release of results *consistently brief.* We will not squeeze out the implicit option premium we are now paying if we process most auctions in less than five minutes but still occasionally take 20 or 30 minutes to get results out. So our objective is a two-minute release and the variance we will tolerate is 30 seconds on either side of that objective. In the immediate future, our objective is to release auction results within six minutes, plus or minus 60 seconds.

We can meet the two-minute objective using existing technology, but to meet the two-minute mark consistently, we are all going to have to change our behavior to ensure that the process is driven by the rules rather than the exceptions to the rules. There will be changes in the submission of bids, the processing of bids and in how we get the results out.

Changes: your bid is your bid

For the bidding process, the most significant change – and the one that will require the most attention by dealers and investors – is also the simplest to understand: your bid is your bid.

For many years, we have been very forgiving of the mistakes and errors of submitters and bidders. We have been reviewing bids – eyeballing them for reasonableness – and giving submitters the chance to correct glaring errors that we found. The historical origin of our bid review lies before the dawn of computer systems when all auctions were manually processed. But to continue this review process in an automated world has come at the expense of getting our results out more quickly.

Beginning with our next refunding auctions, we will take bids as submitted and reject bids that fail to comply with our auction procedures. The onus will be entirely on submitters to ensure that their bids are accurate for themselves and their customers. This includes names, bidder ID's, par amounts, yields and net long positions.

Lest there be any confusion, let me state plainly: starting with the February refunding auctions, staff at Public Debt and the New York Fed will no longer proactively contact submitters to question bids or information submitted on tenders. Bids will be taken at face value and those that do not comply with our procedures and system edits will not be included in the auction.

From a systems' perspective, there will no longer be bids with incorrect par amounts or yields. All bids that satisfy the edits in the system will be accepted. Add an extra zero or mess up the big

figure, and if it hits – it's yours. We will not delay the auction processing or release times to ensure that bids are "correct" and we will not accept any changes to bids that the system already accepted.

In addition, starting with the February refunding auctions, customer bids with an erroneous bidder ID number will not be included in the auction. It will be the responsibility of the bid submitter to work with the customer to ensure that this information is submitted properly.

You, in the compliance community, will need to continue to do your excellent work educating traders and customers about the auction process. But we are now going to make your jobs a little easier because there are going to be real consequences for bidding errors which should provide greater incentives to submit accurate bids.

That said, the consequences of submitting an erroneous bid that is accepted are manageable. Uniform price auctions ensure that all submitters will receive awards at a single, market price. The depth of the secondary market provides an adequate means of redress for those who may have erred in the par amount of their bid or had their bid rejected because of an unauthorized bidder ID or other problem.

Changes: reducing reliance on back-up telephone bids

Because bids are submitted through the communications links between your systems and ours, we also need to clarify how we will respond to emergency requests to submit bids via the telephone because of system malfunctions or failures.

In the past, extended auction release times have been a consequence of a submitter discovering, at the last minute, that their systems are not communicating with ours. Efforts have then been made to fix system problems and, occasionally, when fixes are impossible, to allow bids to be submitted over the telephone where adequate voice recognition exists. To shorten release times and, particularly, to reduce the variance, we must eliminate the possibility that these problems delay our auction results.

Eventually, our systems will be reliable enough that we will be able to eliminate backup telephone bids entirely. The next version of Treasury's automated auction system, TAAPSLink 2.0, scheduled for release later this year, will help us move in this direction

In the interim, beginning in February, should submitters experience legitimate systems problems, you will have to notify us at least ten minutes before an auction close and you will have to begin submitting bids at least five minutes before the auction close. We will enter all the telephone bids we can but only up to the close.

These are the immediate steps that we are taking to reduce release times. Three other areas where we will be working will take a little more time.

Further steps we will take to speed up our release time

First, we will continue to improve our technology, both hardware and software. We want to make submitting tenders more "user friendly" and we want to improve the speed and reliability of our processing.

Second, we are going to go back to the drawing board to rethink the application of the Net Long Position reporting requirement to see if we can find a way for compliance with this rule not to interfere with faster auction processing.

We appreciate your efforts to ensure compliance with our Net Long Position regulation. But the NLP rule, as currently applied, generates many tenders that are thrown into the questionable category by our system, requiring time-consuming manual review. Most NLP reporting errors tend to be procedural rather than substantive and almost all submitting firms would not be in violation of the 35 percent rule even if they received 100 percent of what they bid for. We do not now have a specific proposal, but we will be developing alternative approaches to enforcing the 35 percent rule that will not cost the taxpayers money by slowing down auction release times. I hope that we will be putting something out for public comment in the next few months.

The final area where we need to make changes to speed up our auction release times is in the public dissemination of our results. A surprising amount of the total time between an auction close and the release of results is currently taken up just with the process of getting the results out. We are going to reengineer this process completely – working with Public Debt's website, our communications links with submitters and the financial news services – to see what we can do to release results in as few seconds as possible.

These are the things we are going to be doing to improve the efficiency of the primary market. Some of these measures may seem "strict" in what I am asking of you and in what I am asking of Treasury, but they are vital to our achieving the objective of a two-minute auction.

In any one auction, accepting late bids, correcting bidder errors, or permitting backup telephone bids might lower our cost of borrowing on that day. But this comes at a long-term cost – of extreme variance in the duration of our release times – that we will no longer tolerate. We must look out for the taxpayer's long run interests.

The secondary market: you make it work

The efficiency of the secondary market for Treasury securities is something that we have less ability to influence by our direct actions. You and your firms – dealers and investors, risk managers and compliance officers – are the ones that can directly affect the depth and liquidity of the secondary market. We can write rules, we can implore and exhort you but, ultimately, your firms and your clients make this extraordinary marketplace function so well.

There is a tendency for us all to slip into the simplified habit of presuming that the liquidity of our secondary market is principally a function of how much debt we issue. There is, of course, an important and enduring truth to the idea that supply matters. But if that were all that mattered, there would be a great secondary market for grains of sand.

The liquidity and – as I like to focus on – the resilience of our secondary market is principally a function of the mechanisms that calibrate supply and demand. Most importantly, the smooth functioning of the financing market in general, and the market for specific issues in particular, play a vital role in the functioning of our secondary market.

As you will recall, last October we took the unprecedented step of holding an off-cycle reopening of the 10-year note. We took this action only after we concluded that normal market mechanisms were on the verge of failing.

Never is a long time, so it would be imprudent of me to say that the Treasury will never again hold such an auction. But you should not count on it, you should not expect it and you certainly should not hope that we need to do it again.

We want to rely on you to reconcile the forces of supply and demand.

And for this reason, I ask you to redouble your efforts to self-regulate the efficient functioning of the repo market to ensure that there is a healthy competitive dynamic between the risks of holding long and the risks of holding short positions, between the risks of withholding collateral and the risks of failing to deliver.

Six years ago, when I was at the New York Fed, I sat down with Jerry Hawke, who was then the Under Secretary for Domestic Finance, to discuss the market surveillance of the repo market conducted by the New York Fed on behalf of the Treasury and the other regulators. Those discussions resulted in two speeches that I gave in October 1996 and in January 1997 in order to clarify the expectations the official sector had for behavior in the repo market following the 1991 Salomon Brothers' episode. (See www.ny.frb.org/pihome/news/speeches/pf961008.html; and also see www.ny.frb.org/pihome/news/speeches/pf970116.html)

Today, Jerry is the Comptroller of the Currency and I am the Under Secretary and I feel just as strongly now as I did then about the importance of dealer firms self-policing the potential for extreme trading practices and squeezes of individual issues.

I am not going to repeat now everything that I said in those speeches – you have already been patient enough listening to me today.

I will suggest that anyone responsible for a government securities trading operation, whether as a manager, or in compliance, or in legal work, or in risk management, should take the time to read those two speeches. You should also read the remarks just given this past December by Dino Kos, my former colleague and successor at the New York Fed, at the Bond Market Association's recent Repo and Securities Lending Conference, which covers much of the same ground. (www.ny.frb.org/pihome/news/speeches/2001/kos011206.html)

The reason I suggest the importance of reviewing this material is that I want this market to be self-policing to the greatest extent possible. I am still an optimist because I still believe that our interest in preserving the efficiency of the financing market is entirely consistent with good business practice on your part.

In conclusion, let me thank you for listening to me this afternoon and thank you for all that you do to make the U.S. government securities market the most efficient financial market in the world.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
January 8, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY STATEMENT ON U.S.-PANAMA DISCUSSIONS OF A TAX INFORMATION EXCHANGE AGREEMENT

The Treasury Department is pleased to confirm that representatives of the government of the United States and the government of Panama have begun discussion of a tax information exchange agreement. It is more important than ever to ensure that financial institutions are not used to facilitate illegal activity of any kind.

Last summer, Treasury Secretary Paul O'Neill made a commitment to expand our tax information exchange agreement network to help us to enforce U.S. tax laws. The United States has tax information exchange relationships with over 70 countries through an extensive network of agreements and tax treaties. The recently signed tax information exchange agreements with the Cayman Islands and Antigua and Barbuda are valuable additions to that network. Our information exchange relationships are important to the full and fair enforcement of the U.S. tax laws by allowing for critical information to be obtained upon specific request in cases where there is reason to believe that a taxpayer has not paid taxes that are due and owing.

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PO-907

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FOR IMMEDIATE RELEASE
January 9, 2002

Contact: Public Affairs
(202) 622-2960

Treasury Secretary Paul O'Neill to Discuss Progress on the War Against Terrorist Financing

What: Secretary Paul O'Neill will update the press on the war against terrorist financing and answer questions regarding all recent updates.

Where: The Treasury Department
The Diplomatic Room, 3rd Floor
Please enter at the 15th Street Entrance

When: Wednesday, January 9, 2002
1:30 PM

Contact: The room will be available for pre-set up at 12:00 p.m. News media without Treasury or White House press credentials planning to attend should contact Public Affairs at (202) 622-2960 by 11:30 a.m. with the following information: name, social security number and date of birth. This information may also be faxed to (202) 622-1999.

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For Immediate Release January 9, 2002

FACT SHEET

The Continuing War on Terrorist Assets

"Today we are blocking the assets of two organizations and two individuals who have been stealing from widows and orphans to fund al Qaeda terrorism. These bad actors will now be pariahs in the civilized world."

Treasury Secretary Paul O'Neill
January 9, 2002

Today's Action

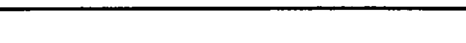
- Today, the Treasury Department designated and blocked the assets of the Afghan Support Committee (ASC), the Afghanistan and Pakistan offices of the Revival of Islamic Heritage Society (RIHS) and two individuals associated with those groups as financiers of terrorism, under the authority of Executive Order 13224. Abu Bakr Al-Jaziri is the ASC finance chief. Abd al-Muhsin Al-Libi is the Peshawar, Pakistan office director of the RIHS and the ASC manager in Peshawar.

- While portraying themselves as legitimate charitable enterprises, the ASC and RIHS have financed and facilitated terrorism. ASC and RIHS personnel, including Al-Jaziri and Al-Libi, defrauded well-meaning contributors by diverting money donated for widows and orphans to al-Qaida terrorists.

Afghan Support Committee (ASC)

- The ASC is a non-governmental organization (NGO) established by Usama bin Laden. Abu Bakr Al-Jaziri, the finance chief of ASC also served as the head of organized fundraising for Usama bin Laden. Al-Jaziri collected funds for al-Qaida in Jalalabad through the ASC. He also collected money for al-Qaida from local Arab NGOs by claiming the funds were for orphans and widows. Al-Jaziri then turned the funds over to al-Qaida operatives. In 2000, he moved from Jalalabad to Pakistan where he continued to raise and transfer funds for al-Qaida.

PO-909



Revival of Islamic Heritage Society (RIHS)

- The RIHS is a Kuwaiti-based non-governmental organization. In Pakistan and Afghanistan it is affiliated with ASC. The Peshawar, Pakistan office director for RIHS is Abd al-Muhsin Al-Libi, who also serves as the ASC manager in Peshawar. Al-Libi has provided Usama bin Laden and his associates with facilities in Peshawar, and has carried money and messages on behalf of Usama bin Laden.

- The Pakistan office defrauded RIHS donors to fund terrorism. In order to obtain additional funds from the Kuwait RIHS headquarters, the RIHS office in Pakistan padded the number of orphans it claimed to care for by providing names of orphans that did not exist or who had died. Funds then sent for the purpose of caring for the non-existent or dead orphans were instead diverted to al-Qaida terrorists. There is no evidence at this point that this financing was done with the knowledge of RIHS in Kuwait.

Summary

- The President signed Executive Order 13224 on September 23, 2001. To date, the US Government has named 168 organizations and individuals as financiers of terrorism, and has blocked $34.2 million. Our coalition partners have blocked another $33.9 million. 196 nations have expressed support to disrupt terrorist financing and 144 nations have blocking orders in force.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
January 9, 2002

Contact: Tasia Scolinos
(202)-622-2960

SECRETARY PAUL O'NEILL STATEMENT
REMARKS ON NEXT TERRORIST ASSET LIST

Good afternoon. Today we are blocking the assets of two organizations and two individuals who have been stealing from widows and orphans to fund al Qaeda terrorism. The Afghan Support Committee, branches of the Revival of Islamic Heritage Society and two of their employees defrauded well-intentioned donors and turned funds meant for good into funds for evil. These bad actors will now be pariahs in the civilized world.

Let me take a moment to update you on our progress in shutting down these terrorist financiers' access to not only the US financial system, but the world financial system they rely on to transfer monies to finance the terrorists' evil acts.

As you all know, those who peddle weapons to the evildoers in the world don't accept the currency Afghanis . Materials of destruction are sold on the world market in hard currencies such as dollars, yen, euros or pounds.

And large quantities of hard currency can only be obtained in the money centers of the world. Places like New York, London, Dubai, and Hong Kong. The world financial system is a hub and spoke system, and money centers are the hubs through which anyone in a remote part of the world must work to make purchases anywhere else in the world.

Shutting down terrorists' access to money center nations is the key to preventing them from purchasing the tools of their evil. These are the choke points in the system, and they are the focus of our attention.

First, here at home we've begun implementing the PATRIOT act, prohibiting US financial institutions from providing correspondent accounts to foreign shell banks, and requiring that US financial institutions take reasonable steps to ensure that foreign banks not use correspondent accounts to indirectly provide banking services to foreign shell banks. In addition, we issued a proposed rule requiring securities brokers and dealers to file suspicious activity reports. These steps make it harder for terrorists to access the US financial system.

PO-910

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*U.S. Government Printing Office 1998 - 619-559

Second, we've worked with nations around the world to block terrorists' access to the hard currencies they need to purchase the tools of terrorism. We have sent teams from the US government to meet with their counterparts in the Middle East and Europe to further cooperation.

We have sent technical assistance teams to help nations enhance their systems for identifying and blocking accounts that finance terrorism. We also work systematically through global institutions like the United Nations to engage the entire world in our effort.

Money center nations have taken enormous steps so far in this effort. Canada and Luxembourg have blocked all the names we have blocked and the UK has blocked all but a small handful. The same would be true for the Hong Kong Monetary Authority. . Switzerland has blocked 30 terrorist-related accounts containing 15 million dollars (24.9 million Swiss francs) since September 11. The UAE's action to block the al Barakaat network effectively shut down the operation worldwide. And the list goes on. Hard currency countries have been leading the charge in the international effort to destroy the financial infrastructure of terrorism.

Because our allies in the money centers around the world are working with us, terrorists who may have resources hidden somewhere remote can no longer change that money into hard currency with ease. When the terrorists have no access to hard currency, they have no means of purchasing the technology and equipment of terrorism. With each new step in this effort, the civilized nations of the world add another brick to the wall that cuts terrorists off from the financing they need to carry out their evil schemes.

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PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
January 08, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	January 10, 2002
Maturity Date:	February 07, 2002
CUSIP Number:	912795JF9

High Rate: 1.660% Investment Rate 1/: 1.684% Price: 99.871

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 0.26%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 25,464,597	$ 5,973,046
Noncompetitive	27,035	27,035
FIMA (noncompetitive)	0	0
SUBTOTAL	25,491,632	6,000,081
Federal Reserve	1,802,690	1,802,690
TOTAL	$ 27,294,322	$ 7,802,771

Median rate 1.640%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.600%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 25,491,632 / 6,000,081 = 4.25

1/ Equivalent coupon-issue yield.

http://www.publicdebt.treas.gov

PO-911

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
January 09, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 10-YEAR INFLATION-INDEXED NOTES

Interest Rate: 3 3/8%
Series: A-2012
CUSIP No: 9128277J5
TIIN Conversion Factor per $1,000 = 9.503587766 1/

Issue Date: January 15, 2002
Dated Date: January 15, 2002
Maturity Date: January 15, 2012

High Yield: 3.480% Price: 99.120

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 91.98%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 14,125,730	$ 5,808,337
Noncompetitive	191,667	191,667
FIMA (noncompetitive)	0	0
SUBTOTAL	14,317,397	6,000,004 2/
Federal Reserve	0	0
TOTAL	$ 14,317,397	$ 6,000,004

Median yield 3.449%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 3.358%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 14,317,397 / 6,000,004 = 2.39

1/ This factor is used to calculate the Adjusted Values for any TIIN face amount and will be maintained to 2-decimals on Book-entry systems.
2/ Awards to TREASURY DIRECT = $61,324,000

http://www.publicdebt.treas.gov

PO-912

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
January 10, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

MEDIA ADVISORY

U.S. Treasurer Rosario Marin, Tennessee Governor Don Sundquist and U.S. Mint Director Henrietta Holsman Fore To Unveil Tennessee Quarter

U.S. Treasurer Rosario Marin and U.S. Mint Director Henrietta Holsman Fore will join Tennessee Governor Don Sundquist on Monday, January 14, 2002 to unveil the new official Tennessee State Quarter.

The new coin features a trumpet, a fiddle, a guitar, and several musical notes, symbolizing the state's many contributions to American music, with the inscription "Musical Heritage." Similarly, Tennessee's state flag has three stars representing each region of the state.

The Tennessee quarter is the 16th quarter released under the U.S. Mint 50 State Quarters(tm) Program, and the first quarter released in 2002. Launched in 1999, the 50 State Quarters Program is a 10-year initiative honoring each of the nation's states in the order they ratified the Constitution or joined the Union.

The unveiling will take place on January 14, 2002 at the Country Music Hall of Fame's Ford Motor Company Theatre in Nashville, TN. The event will be held at 10:30 a.m. Central Time.

Media Contacts:
U.S. Mint – Michael White, 202-354-7222
Tennessee Governor's Office – Alexia Levison, 615-741-3763

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
January 10, 2002

Contact Tony Fratto
at 202-622-2960.

Treasury Secretary Paul O'Neill Will Make Return Visit to Japan

Rebuilding Afghanistan, discussions with Japanese political and economic leaders are on Tokyo agenda.

U.S. Treasury Secretary Paul O'Neill will travel to Tokyo January 20-24 to meet with senior Japanese leaders and to represent the United States with Secretary of State Colin Powell at an international conference on the economic future of Afghanistan. The visit will give Secretary O'Neill the opportunity to complete a visit that was halted due to the September 11, 2001 terrorist attacks.

The aim of the International Conference on Reconstruction Assistance to Afghanistan, to be held on January 21-22, is to refine assessments of Afghanistan's funding needs for reconstruction and development, and to reinforce the political and financial support of the international community. Secretary O'Neill and other U.S. officials will pursue President Bush's commitment to assist in the reconstruction of Afghanistan's economy.

The conference is organized by a Steering Group of donor countries co-chaired by the United States, Japan, the European Union and Saudi Arabia. The Treasury Department and the State Department represent the United States on the Steering Group. The Tokyo conference follows meetings held in Washington and Brussels in recent months.

Secretary O'Neill will remain in Tokyo for a series of meetings with senior Japanese government officials. Secretary O'Neill will exchange views on international financial issues of mutual interest and on the respective economic outlook and policies in the United States and Japan.

Secretary O'Neill will also deliver a lunchtime address at the National Press Center in Tokyo on Wednesday, January 23, 2002. He will return to Washington on Thursday, January 24.

John Taylor, Treasury Under Secretary for International Affairs, will accompany Secretary O'Neill in Tokyo.

PO-914

For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

*U.S. Government Printing Office 1998 - 619-559

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
January 10, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling $26,000 million to refund an estimated $25,821 million of publicly held 13-week and 26-week Treasury bills maturing January 17, 2002, and to raise new cash of approximately $179 million. Also maturing is an estimated $12,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced January 14, 2002.

The Federal Reserve System holds $10,996 million of the Treasury bills maturing on January 17, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders either in these auctions or the 4-week Treasury bill auction to be held January 15, 2002. Amounts awarded to SOMA will be in addition to the offering amount.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of each auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

TreasuryDirect customers have requested that we reinvest their maturing holdings of approximately $988 million into the 13-week bill and $947 million into the 26-week bill.

The allocation percentage applied to bids awarded at the highest discount rate will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

PO-915

For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED JANUARY 17, 2002

January 10, 2002

Offering Amount	$13,000 million	$13,000 million
Public Offering	$13,000 million	$13,000 million
NLP Exclusion Amount	$ 4,100 million	None
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 JQ 5	912795 KS 9
Auction date	January 14, 2002	January 14, 2002
Issue date	January 17, 2002	January 17, 2002
Maturity date	April 18, 2002	July 18, 2002
Original issue date	October 18, 2001	January 17, 2002
Currently outstanding	$16,562 million	---
Minimum bid amount and multiples	$1,000	$1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.

Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.

Competitive bids:

(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 7.100%, 7.105%.
(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Rate .... 35% of public offering

Maximum Award .... 35% of public offering

Receipt of Tenders:

Noncompetitive tenders ..... Prior to 12:00 noon eastern standard time on auction day

Competitive tenders .... Prior to 1:00 p.m. eastern standard time on auction day

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

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U.S. International Reserve Position 1/11/02

The Treasury Department today released U.S. reserve assets data for the week ending January 4, 2002. As indicated in this table, U.S. reserve assets totaled $68,978 million as of January 4, 2002, compared to $68,621 million as of December 28, 2001.

(in US millions)

I. Official U.S. Reserve Assets	December 28, 2001			January 4, 2002		
TOTAL			68,621			68,978
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	5,426	10,609	16,035	5,506	10,631	16,137
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	9,143	3,775	12,919	9,278	3,784	13,062
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
2. IMF Reserve Position [2]			17,849			*17,919*
3. Special Drawing Rights (SDRs) [2]			10,774			*10,816*
4. Gold Stock [3]			11,045			11,045
5. Other Reserve Assets			0			0

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries in the table above for latest week (shown in italics) reflect any necessary adjustments, including revaluation, by the U.S. Treasury to the prior week's IMF data. The IMF data for the prior week are final.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of November 30, 2001. The October 31, 2001 value was $11,045 million.

PO-916

U.S. International Reserve Position (cont'd)

II. Predetermined Short-Term Drains on Foreign Currency Assets	December 28, 2001	January 4, 2002
1. Foreign currency loans and securities	0	0
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the U.S. dollar:		
2.a. Short positions	0	0
2.b. Long positions	0	0
3. Other	0	0

III. Contingent Short-Term Net Drains on Foreign Currency Assets	December 28, 2001	January 4, 2002
1. Contingent liabilities in foreign currency	0	0
1.a. Collateral guarantees on debt due within 1 year		
1.b. Other contingent liabilities		
2. Foreign currency securities with embedded options	0	0
3. Undrawn, unconditional credit lines	0	0
3.a. With other central banks		
3.b. With banks and other financial institutions headquartered in the U.S.		
3.c. With banks and other financial institutions headquartered outside the U.S.		
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the U.S. dollar	0	0
4.a. Short positions		
4.a.1. Bought puts		
4.a.2. Written calls		
4.b. Long positions		
4.b.1. Bought calls		
4.b.2. Written puts		

DEPARTMENT OF THE TREASURY

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For Immediate Release
January 11, 2002

Contact: Tara Bradshaw
(202) 622-2014

TASK FORCE STATEMENT ON REVIEW OF RETIREMENT BENEFIT RULES AND PROTECTION

Today, Treasury Secretary Paul O'Neill, Labor Secretary Elaine Chao, and Commerce Secretary Don Evans met to respond to the President's directive that they explore the rules, regulations and laws that govern pension plans and investment programs, such as 401(k)s, and determine whether changes should be made to further protect employees' retirement savings. They directed staff to immediately begin analyzing the effectiveness of retirement security protections

"We will take the necessary steps to ensure appropriate protection for the retirement nest eggs of millions of Americans," stated Treasury Secretary Paul O'Neill.

"We need to fully protect workers who depend on pensions and 401(k) plans for their retirement," stated Labor Secretary Elaine Chao.

"Our number one priority is the security of the retirement savings of America's workers," stated Commerce Secretary Don Evans.

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PO-917

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FOR IMMEDIATE RELEASE
JANUARY 11, 2002

CONTACT: BETSY HOLAHAN
(202) 622-2960

JOINT PRESS STATEMENT OF THE US DEPARTMENT OF THE TREASURY, OFFICE OF MANAGEMENT AND BUDGET, AND THE US GENERAL ACCOUNTING OFFICE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

On January 11, 2002, the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General of the United States announced a restructuring of the Federal Accounting Standards Advisory Board (FASAB) to increase the number of public members on the Board from three to six, decrease the number of federal government members from six to three, and provide for terms of up to ten years. The FASAB promulgates generally accepted accounting principles (GAAP) for federal reporting entities.

Regarding the changes, Comptroller General David M. Walker, who currently chairs the Joint Financial Management Improvement Program (JFMIP), stated:

Since its creation in 1990, the Board has made tremendous progress. We believe, now more than ever, we must continue this progress in establishing sound financial accounting and reporting. The changes are designed to enhance the independence of the Board and increase public involvement in setting standards for federal financial accounting and reporting. These changes will be effective June 30, 2002.

The Board's current public members David Mosso, formerly vice-chairman of the Financial Accounting Standards Board; John Farrell, retired partner from KPMG LLP; and James Patton, professor with University of Pittsburgh's Katz School of Business will continue and will be joined by three new members.

Secretary of the Treasury Paul H. O'Neill indicated that:

We believe that the restructuring further evidences our commitment to high quality standards developed with robust public participation. We anticipate recruiting additional experienced knowledgeable members to join our present high caliber public members and to continue the thoughtful deliberations of the Board.

Mitchell E. Daniels, Jr., the Director of the Office of Management and Budget, in commenting on the reduction of federal membership said:

PO-918

This Administration is determined to improve the management of the federal government. We want to move departments and agencies to the higher levels of effectiveness and efficiency commonly seen in the private sector. It is only logical that the standard setters themselves in an area like accounting bring a private sector perspective and expertise to their work.

ABOUT FASAB

The mission of the FASAB is to promulgate federal accounting standards after considering the financial and budgetary information needs of citizens, congressional oversight groups, executive agencies, and the needs of other users of federal financial information.

Accounting and financial reporting standards are essential for public accountability and for an efficient and effective functioning of our democratic system of government. Thus, federal accounting standards and financial reporting play a major role in fulfilling the government's duty to be publicly accountable and can be used to assess (1) the government's accountability and its efficiency and effectiveness, and (2) the economic, political, and social consequences of the allocation and various uses of federal resources.

For more information on FASAB, please visit our website: www.fasab.gov

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 11:30 A.M.
January 14, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $6,000 million to refund an estimated $12,000 million of publicly held 4-week Treasury bills maturing January 17, 2002, and to pay down approximately $6,000 million.

Tenders for 4-week Treasury bills to be held on the book-entry records of *TreasuryDirect* will not be accepted.

The Federal Reserve System holds $10,996 million of the Treasury bills maturing on January 17, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders in this auction up to the balance of the amount not awarded in today's 13-week and 26-week Treasury bill auctions. Amounts awarded to SOMA will be in addition to the offering amount.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of the auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

The allocation percentage applied to bids awarded at the highest discount rate will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about the new security are given in the attached offering highlights.

oOo

Attachment

PO-919

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HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED JANUARY 17, 2002

January 14, 2002

Offering Amount ....$6,000 million
Public Offering ....$6,000 million
NLP Exclusion Amount ....$10,400 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 JG 7
Auction date ....January 15, 2002
Issue date ....January 17, 2002
Maturity date ....February 14, 2002
Original issue date ....August 16, 2001
Currently outstanding ....$40,054 million
Minimum bid amount and multiples $1,000

Submission of Bids:
Noncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.
Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.
Competitive bids:
(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 4.215%.
(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Rate...35% of public offering
Maximum Award.............................35% of public offering

Receipt of Tenders:
Noncompetitive tenders:
Prior to 12:00 noon eastern standard time on auction day
Competitive tenders:
Prior to 1:00 p.m. eastern standard time on auction day

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date.

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
January 14, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	January 17, 2002
Maturity Date:	April 18, 2002
CUSIP Number:	912795JQ5

High Rate: 1.530% Investment Rate 1/: 1.558% Price: 99.613

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 99.16%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 27,996,511	$ 11,413,527
Noncompetitive	1,371,675	1,371,675
FIMA (noncompetitive)	215,000	215,000
SUBTOTAL	29,583,186	13,000,202 2/
Federal Reserve	3,830,052	3,830,052
TOTAL	$ 33,413,238	$ 16,830,254

Median rate 1.520%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.500%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 29,583,186 / 13,000,202 = 2.28

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,096,380,000

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
January 14, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	January 17, 2002
Maturity Date:	July 18, 2002
CUSIP Number:	912795KS9

High Rate: 1.580% Investment Rate 1/: 1.615% Price: 99.201

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 81.32%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 25,707,693	$ 11,750,403
Noncompetitive	1,199,772	1,199,772
FIMA (noncompetitive)	50,000	50,000
SUBTOTAL	26,957,465	13,000,175 2/
Federal Reserve	4,639,252	4,639,252
TOTAL	$ 31,596,717	$ 17,639,427

Median rate 1.555%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.520%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 26,957,465 / 13,000,175 = 2.07

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $998,799,000

http://www.publicdebt.treas.gov

PO-921

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 9:30 A.M.
January 16, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

REMARKS OF UNDERSECRETARY OF THE TREASURY FOR DOMESTIC FINANCE PETER R. FISHER TO THE AMERICAN COUNCIL OF LIFE INSURERS BOCA RATON, FLORIDA

Over the last eight years, I have spent a fair amount of time working to promote improvements in financial disclosure practices so that shareholders and creditors receive more meaningful information about the extent and nature of the risks they incur. For all the time I spent in central bank working groups on accounting and disclosure, we somehow never managed to get much media attention for our recommendations. Accounting and disclosure rules just don't seem to rise to the level of sufficient public or journalistic interest. That's unfortunate. It is unfortunate because the thread which connects the events that do seem to get me in the news is the failure of our financial accounting and disclosure practices to keep pace with the rapid evolution of our capital markets and corporate finance.

Today, I am going to ask you to help improve the entire process by which we establish norms of behavior for financial accounting and disclosure. If you in the life insurance industry – with the trillions of dollars of assets that you invest and the long investment horizon that is a function of your liabilities – if you join this effort then we might finally make some real progress. If you don't, and if we don't make real progress soon, then I fear that the financial catastrophes of recent years will continue to haunt our financial markets and questions will continue to be raised about our system of investor-based capitalism on which our economy depends.

Last week, President Bush asked Secretary O'Neill to lead two efforts. First, the President asked the Secretary to work with Labor Secretary Elaine Chao and Commerce Secretary Don Evans to review all of the rules and laws that govern pension plans and retirement investment programs to determine whether changes need to be made to protect employees' retirement savings; they, in turn, have directed the staffs of the Treasury, Labor and Commerce departments to work together to analyze the effectiveness of all retirement security protections.

PO-922

Now as Secretary Evans made clear: "Our number one priority is the security of the retirement savings of America's workers." And that's why the first effort President Bush directed is focused on pension arrangements and 401(k) plans.

President Bush also asked Secretary O'Neill to lead a working group, comprised of the Treasury, the Federal Reserve, the S.E.C. and the C.F.T.C., to look at corporate disclosure rules and regulations as they affect all investors and the workings of our capital markets. It is this second effort that I want to talk about this morning, focusing on why you should help.

As a society, we face a tremendous challenge. Some how we are going to have to pay for our collective retirements. If we don't start saving more – a lot more – we will end up paying for our retirements in the form of lower standards of living than we otherwise could achieve. For you this is an opportunity.

I am an optimist. I think we are going to find a way to transform ourselves from a nation of consumers to a nation of savers. I think we are going to find a way to put aside the trillions of dollars that we still need to save to pay for my generation's extended life expectancy. This is your opportunity – and your responsibility.

The American people are relying on you to manage our savings and our economy. In our system of investor-based capitalism, you – your asset managers – are managing our economy through the capital markets. Now, I'm a capital markets kind of guy. So I want to be clear that I think it's great that you, and other financial intermediaries, are making most of the investment decisions that drive our economy. I would not have it any other way.

But there is still a standard to which you need to be held and a responsibility that you have to make sure that the system you manage – the system of institutional money management – works on behalf of the shareholders, pensioners, retirees, employees and policyholders whose savings are at risk.

For capitalism to work, the people who control capital have got to behave like capitalists. This means that they need to compete vigorously with one another and they need to care intensely about where and how the capital they control is invested. I want to focus on the second part of this – about caring intensely where and how capital is invested – but let me first touch on the issue of competition.

The objective that we, as a capitalist society, have for our financial services industry is that you continuously improve the efficiency with which our savings are converted into productive investment. The means through which we hope this happens is for each of you to strive to increase your revenues and your profits. However, the end that we are expecting you to achieve, through vigorous competition, is a continuous decline in your collective profits as a share of our savings. It is fine if financial intermediaries' total profits grow in nominal terms but – as a rough approximation for improving the productivity of the intermediation between savings and investment – your profits should grow a little less rapidly than our national savings. This will be the simplest indication that we are improving the productivity of capital itself.

I am sure that you can do even better at competing with your colleagues around the room and with other financial institutions. But I am reasonably confident that you, the leadership of your industry, have sufficient incentive to do so.

My greater concern is whether you are doing enough to make it possible for your individual portfolio managers to behave like real capitalists – to care and care intensely about where and how the capital they control is being invested – by improving the quality of the information they rely upon.

Within your organizations, whose job is it to get up everyone morning and work to improve the accounting and disclosure practices of all the companies in which you invest? Your portfolio managers may think it is their job to scrutinize the disclosures of individual companies. But I doubt they feel much responsibility for the state of accounting and disclosure practices, in general. They are too busy trying to beat the benchmarks that you have set for their performance. I suspect the same holds true for their managers and your risk managers as well.

Your accountants and auditors see their jobs as applying the existing rules, not questioning them. Your chief investment officer may spend some time thinking about the implications of accounting rules for performance and, perhaps, sitting on some industry committee that is pondering accounting principles, and pondering and pondering. Your chief financial officer may spend some time on accounting and disclosure practices. But I fear that the prospect of applying new rules to your own balance sheets and income statements may dampen your CFO's enthusiasm for any radical improvements in transparency to your shareholders.

In the division of labor within the institutionalization of asset management, too many actors have the assignment of accepting the status quo accounting and disclosure regime; too few see it as their job to work systematically to improve the quality of the information you have about where and how the capital you control is invested. So while developments in our capital markets, corporate finance and risk management are racing along at 100 r.p.m., the evolution of our accounting and disclosure regime crawls along at 10 r.p.m. and the gap between them is forever widening.

If I sound a little frustrated, I am.

In 1994, I chaired a working group of G-10 central bankers who recommended that all financial intermediaries – regulated and unregulated – move to disclosing more meaningful information about the risks they incur and their risk management practices. We did this work in the spring and summer of 1994, following the sell off in G-10 bond markets and the decline of the dollar after the Fed's tightening of monetary policy – but before Orange County and long before Long-Term Capital Management. While our work was directed at financial intermediaries, I hope you will agree that, today, these words might apply equally to almost any major corporation. So in light of recent events, humor me while I read you several paragraphs from our 1994 report:

"For shareholders, creditors and counterparties in financial markets to allocate capital efficiently, they need to be able to assess the risks to which firms are exposed and which, in their view, should be reflected in share prices, funding costs and credit decisions.

"The use of derivative instruments has added diversity and complexity to firms' financial assets, liabilities and off-balance sheet commitments. This has rendered the assessment of their risk exposures more difficult. At the same time, derivative instruments have provided firms with new opportunities to assess, price and manage increasingly refined elements of financial risk. The development of methodologies for assessing the riskiness of portfolios or trading positions has increased firms' ability to assess and understand their overall risk exposures.

"However, the evolution of trading and financial risk management practices in recent years has moved well ahead of public disclosures of financial information made by most financial firms. As a result, a gap exists between the precision with which a firm's management can assess and adjust the firm's own risk exposures, and the information available to outsiders to help them assess the riskiness of that firm's activities. Indeed, market participants are increasingly aware of the contrast between their increased ability to assess and manage their own financial risks and their relative inability to assess the riskiness of other market participants on the same terms.

"The lack of transparency of financial intermediaries' trading and risk management activities can cause a mis-allocation of capital among firms and can also amplify market disturbances. When the riskiness of firms' activities are not apparent to outsiders, the market allocation of capital to such firms is unlikely to reflect their actual risk-return prospects. During episodes of market stress, a lack of information about a firm's market and credit risk exposures can create an environment in which rumors alone can cause a firm's creditors and counterparties to reduce their dealings with the firm solely to avoid uncertainty. This may impair the firm's market access and funding at the very time that these may be critical to the firm's survival."[1]

I could keep going, but I won't.

More recently, beginning in June 1999 I chaired another working group, this time composed of representatives of the Basel Committee on Banking Supervision, the G-10 central banks' Committee on the Global Financial System, the International Organisation of Securities Commissions and the International Association of Insurance Supervisors. Our report, published last April, contained specific recommendations for improvement in disclosure practices based on a pilot study in which forty-four private financial firms, including insurance companies, from nine countries voluntarily provided confidential data from the second quarter of 2000 on broad range of financial risks.[2]

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[1] "A Discussion Paper on Public Disclosure of Market and Credit Risk by Financial Intermediaries," published by the Bank for International Settlements, September 1994, http://newrisk.ifci.ch/ooo11448.htm.

[2] "Final Report of the Multidisciplinary Working Group on Enhanced Disclosure," published by the Bank for International Settlements, April 2001, http://bis.org/publ/joint01.htm .

Don't worry; I'm not going to read you anything from this report. I will note that it has not been a best seller. Nor has the world rushed to adopt the recommendations of the report known as "Fisher II". You may also understand why I am not very interested in spending the rest of my career producing reports with statistical appendixes on accounting and disclosure – Fisher III, Fisher IV, etc. – and yet still periodically explaining to my children (and, I fear, my grandchildren) why my name keeps appearing in the newspaper in stories about bankruptcy and derivatives.

We've known for a long time, it's not about derivatives themselves. It is about disclosure – more meaningful disclosure of risk to investors and creditors who are supposed to provide the self-regulating mechanism of market discipline. What I have learned in the last few years is that reports prepared by public servants are not going to make enough of a difference by themselves. If we are going to improve accounting and disclosure practices, the private sector is going to have to do some heavy lifting.

You need to engage in the effort to reinvigorate private-sector standard setting for accounting that responds promptly and clearly to changes in business practices. You need to take responsibility for the efforts to improve disclosure practices so that more useful and meaningful information is provided to all investors so that they, and your portfolio managers, can make investment decisions based on accurate risk-return profiles.

What specifically do I think you should do? For a start, put improving corporate disclosure rules on your company's agenda and think of it as the best investment in risk management for the long run. Meet with your CIO and your money managers and ask them what are the five key pieces of information they would like to have to make more accurate judgments about the equity and debt instruments they purchase. Perhaps the ACLI could come up with your own set of recommendations for improving accounting and disclosure practices.

You also need to support Harvey Pitt, at the S.E.C., in his efforts to improve our accounting and disclosure standard setting process. Harvey spelled out a terrific series of ideas in a piece published by the Wall Street Journal on December 11th. You should read it and then do something about it.[3]

I am particularly impressed with Harvey's idea that public companies and their auditors could be required to identify and disclose the several, critical accounting principles on which their financial results depend and which involve the most complex or subjective assessments. Under such a rule, investors would be told, concisely and clearly, how the three, four or five key principles are applied and given information about the possible impact of differing applications of these principles to a company's financial results. This is a powerful idea. I can already hear the ankle-biters and apologists for the status quo explaining why we could never do anything this radical or that involved such subjective judgments.

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[3] Chairman Harvey L. Pitt, "How to Prevent Future Enrons," *The Wall Street Journal*, December 11, 2001, http://sec.gov/news/spch530.htm.

I hope that the working group that Secretary O'Neill is leading will consider as many of Harvey's ideas as possible, as well as others, and lay out a way forward so that we move beyond investor protection to investor empowerment, in the sense that knowledge is power.

As Secretary O'Neill has explained, there are a number of investigations going on into the events surrounding the bankruptcy of Enron, and if rules were broken, rule breakers should be punished; if rules were bent, we should improve the means of enforcing those rules; and if loopholes were used, new rules should be written.

My own experience over the last decade has taught me that if we are going to do anything to reduce the risks of financial catastrophes and make real improvements in our financial system, we are going to have to concentrate our efforts on the rules that govern accounting and disclosure practices of all the companies in which the savings and wealth of the American people are invested. If we are going to have any chance for success, the institutional asset managers like yourselves, who control trillions of dollars of investment, are going to have to care and care intensely – and you are going to have to act.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
January 15, 2002

CONTACT: PETE HOLLENBACH
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MEDIA ADVISORY

TREASURY SECRETARY PAUL O'NEILL TO ADDRESS MEETING OF U.S. SAVINGS BONDS VOLUNTEER COMMITTEE

Treasury Secretary Paul H. O'Neill will address the U.S. Savings Bonds Volunteer Committee and launch the 2002 savings bond campaign at noon on Thursday, January 17, 2002 at the St. Regis Hotel, 923 K Street N.W., Washington, DC. Joining Secretary O'Neill will be Dr. Vance Coffman, Chairman and CEO, Lockheed Martin Corporation, who will chair the committee in 2002, and Mr. Richard Carrion, President and CEO of Banco Popular, who headed up the 2001 effort.

Dr. Coffman and Mr. Carrion will be available to the media at 1:45 p.m. after the conclusion of the meeting.

The committee, comprised of 52 leaders from the public and private sectors, including elected officials, senior executives from major corporations, and educators, coordinates the efforts of volunteers nationwide to encourage savings and to educate Americans about both Series EE and Series I U.S. Savings Bonds.

The meeting room will be available for set-up beginning at 11:00 a.m. Television cameras should be in place by 11:45 a.m. Media should check in on the Lower Lobby Level near the Chesapeake Room.

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PO-923

For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

*U.S. Government Printing Office 1998 - 619-559

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 4:00 P.M.
January 15, 2002

CONTACT: MICHELE DAVIS
(202)-622-2920

**REMARKS OF TREASURY SECRETARY PAUL O'NEILL
TO THE NATIONAL RETAIL FEDERATION**

Good afternoon. It's wonderful to be with you today. I want to take a few moments to make some remarks about what we're up to in Washington, and then I'd like to hear from all of you. As retailers, you are the first to sense changes in consumer behavior, and therefore sense the direction our economy is taking. Hearing from you about what you are seeing in your stores is crucial in helping me do my job.

I saw the forecast you made and also the data released this morning on retail sales from December. They fit into my overall view of where we are today – we see signs that the economy is improving, but the signs don't give a clear indication that our rate of improvement will be as strong as we'd like it to be. When I talk to executives in different industries, I hear different outlooks. In some cases, I hear that inventories are at record low levels – a good sign for an imminent recovery. Others tell me, however, they see no prospects for new orders. The signs are mixed, and growth forecasts reflect that – suggesting that we'll have positive growth, but less than the 3-plus percent rate that we'd like to return to quickly. That's not good enough. It's especially not good enough for the people who've lost their jobs since this recession started last March.

We need to take action to strengthen our recovery and speed the process of putting Americans back to work. Last month, we were very close to getting an economic security package through the Congress, but we didn't get it done. The President has told the Congress and the nation that we will continue to push for tax changes that will increase business investment and job creation and put money in the hands of consumers.

Getting the economy growing again is good for working American families, good for retailers like all of you, and also good for the federal government's budget. As you know, the economic slowdown has virtually eliminated federal budget surpluses for the next two years. The tax cut enacted last summer accounts for about 15% of the reduction in this year's surplus, new spending in the wake of the September 11 attacks accounts for about 20%, and the rest – two-thirds of the reduction – is the result of the slower economy. For example, the CBO reports that when first quarter revenue is adjusted for the one time shift in timing that was legislated last year, corporate tax receipts would have been down 40% quarter over quarter. The President's tax relief package did not reduce corporate taxes at all in 2001 – the decline is entirely due to the slowdown in the economy.

PO-924

*U.S. Government Printing Office 1998 - 619-559

The sooner we get the economy growing again, the sooner we will return to the era of budget surpluses. Of course we should run a budget surplus when our economy is running well, but we should not raise taxes to achieve an accountant's surplus when our economy is limping or in the early stages of recovery.

Because it is so topical, I want to say a few words about the assignments the President gave me last week to convene two groups to see what action should be taken, if any, to modify laws, rules or regulations to better protect employees and investors from the circumstances of Enron employees and investors.

We who believe in free markets know that government plays a crucial role in establishing the rules of the game. Market economies work when the rules of the game provide investors with the information they need to make sound decisions and also provide them with certainty that the rules will be followed. The United States has the lowest cost of capital in the world because we have the best rules. Individuals – whether they are asset managers at large investment houses or simply managing their own personal savings -- are confident that they have the information they need to make sound decisions and the ability to act on that information as they see fit.

In the Enron case, something clearly went awry.

The Justice Department is pursuing a criminal investigation. If anyone at Enron broke the rules, they will be punished.

At the same time, the President has asked us to look at the rules that apply to 401(k)s, pensions and other types of retirement plans to make certain the rules are adequate to ensure that individuals do not lose control over the life savings they own. We also need to review whether accurate information is available so that individuals can make wise saving and investment decisions.

I met Friday with Labor Secretary Elaine Chao and Commerce Secretary Don Evans to begin an examination of the rules that apply to 401(k) plans and private pensions. Working Americans save through their 401(k)s to buy a home, to pay for their children's education, and to retire in comfort. These savings belong to individual workers, and no one should take control away from the individuals who own those nest eggs. We will look at a broad range of issues, including the rules governing diversification, temporary lock out, and the availability of information to employees. We must ensure that the rules enhance opportunities for individuals to invest in our economy and ensure that their ownership of their life savings is protected. For individuals to make the best possible decisions, they must know that the rules prevent anyone from taking those decisions away from them.

Finally, the President has asked me to lead a group looking into disclosure rules, so that all investors have the information they need to make sound decisions. I will be working with Chairman Greenspan, with Harvey Pitt at the SEC and Jim Newsome at the CFTC to ensure that rules for disclosure keep pace with the increasing complexity of financial instruments used in our

economy. Our economy flourishes when each individual is able to make individual decisions based on complete and accurate information. Individual investors making the most informed decisions possible will allocate resources in our economy where they will have the greatest return. It is the foundation of a successful market economy and a necessity for the peace of mind of millions of employees whose life savings are the foundation for their dreams and aspirations.

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PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
January 16, 2002

Contact: Office of Financing
202-691-3550

TREASURY'S INFLATION-INDEXED SECURITIES FEBRUARY REFERENCE CPI NUMBERS AND DAILY INDEX RATIOS

Public Debt announced today the reference Consumer Price Index (CPI) numbers and daily index ratios for the month of February for the following Treasury inflation-indexed securities:

(1) 3-3/8% 10-year notes due January 15, 2007
(2) 3-5/8% 5-year notes due July 15, 2002
(3) 3-5/8% 10-year notes due January 15, 2008
(4) 3-5/8% 30-year bonds due April 15, 2028
(5) 3-7/8% 10-year notes due January 15, 2009
(6) 3-7/8% 30-year bonds due April 15, 2029
(7) 4-1/4% 10-year notes due January 15, 2010
(8) 3-1/2% 10-year notes due January 15, 2011
(9) 3-3/8% 30-1/2-year bonds due April 15, 2032
(10) 3-3/8% 10-year notes due January 15, 2012

This information is based on the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers (CPI-U) published by the Bureau of Labor Statistics of the U.S. Department of Labor.

In addition to the publication of the reference CPI's (Ref CPI) and index ratios, this release provides the non-seasonally adjusted CPI-U for the prior three-month period.

This information is available through the Treasury's Office of Public Affairs automated fax system by calling 202-622-2040 and requesting document number 925. The information is also available on the Internet at Public Debt's website (http://www.publicdebt.treas.gov).

The information for March is expected to be released on February 20, 2002.

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Attachment

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
February 2002

Security:	3-3/8% 10-Year Notes	3-5/8% 5-Year Notes	3-5/8% 10-Year Notes	3-5/8% 30-Year Bonds
Description:	Series A-2007	Series J-2002	Series A-2008	Bonds of April 2028
CUSIP Number:	9128272M3	9128273A8	9128273T7	912810FD5
Dated Date:	January 15, 1997	July 15, 1997	January 15, 1998	April 15, 1998
Original Issue Date:	February 6, 1997	July 15, 1997	January 15, 1998	April 15, 1998
Additional Issue Date(s):	April 15, 1997	October 15, 1997	October 15, 1998	July 15, 1998
Maturity Date:	January 15, 2007	July 15, 2002	January 15, 2008	April 15, 2028
Ref CPI on Dated Date:	158.43548	160.15484	161.55484	161.74000

Date	Ref CPI	Index Ratio	Index Ratio	Index Ratio	Index Ratio
Feb. 1 2002	177.40000	1.11970	1.10768	1.09808	1.09682
Feb. 2 2002	177.37500	1.11954	1.10752	1.09792	1.09667
Feb. 3 2002	177.35000	1.11938	1.10737	1.09777	1.09651
Feb. 4 2002	177.32500	1.11923	1.10721	1.09761	1.09636
Feb. 5 2002	177.30000	1.11907	1.10705	1.09746	1.09620
Feb. 6 2002	177.27500	1.11891	1.10690	1.09731	1.09605
Feb. 7 2002	177.25000	1.11875	1.10674	1.09715	1.09589
Feb. 8 2002	177.22500	1.11859	1.10659	1.09700	1.09574
Feb. 9 2002	177.20000	1.11844	1.10643	1.09684	1.09559
Feb. 10 2002	177.17500	1.11828	1.10627	1.09669	1.09543
Feb. 11 2002	177.15000	1.11812	1.10612	1.09653	1.09528
Feb. 12 2002	177.12500	1.11796	1.10596	1.09638	1.09512
Feb. 13 2002	177.10000	1.11781	1.10580	1.09622	1.09497
Feb. 14 2002	177.07500	1.11765	1.10565	1.09607	1.09481
Feb. 15 2002	177.05000	1.11749	1.10549	1.09591	1.09466
Feb. 16 2002	177.02500	1.11733	1.10534	1.09576	1.09450
Feb. 17 2002	177.00000	1.11717	1.10518	1.09560	1.09435
Feb. 18 2002	176.97500	1.11702	1.10502	1.09545	1.09419
Feb. 19 2002	176.95000	1.11686	1.10487	1.09529	1.09404
Feb. 20 2002	176.92500	1.11670	1.10471	1.09514	1.09389
Feb. 21 2002	176.90000	1.11654	1.10456	1.09498	1.09373
Feb. 22 2002	176.87500	1.11639	1.10440	1.09483	1.09358
Feb. 23 2002	176.85000	1.11623	1.10424	1.09467	1.09342
Feb. 24 2002	176.82500	1.11607	1.10409	1.09452	1.09327
Feb. 25 2002	176.80000	1.11591	1.10393	1.09437	1.09311
Feb. 26 2002	176.77500	1.11575	1.10378	1.09421	1.09296
Feb. 27 2002	176.75000	1.11560	1.10362	1.09406	1.09280
Feb. 28 2002	176.72500	1.11544	1.10346	1.09390	1.09265

CPI-U (NSA) for : October 2001 177.7 November 2001 177.4 December 2001 176.7

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
February 2002

Security:		3-7/8% 10-Year Notes	3-7/8% 30-Year Bonds	4-1/4% 10-Year Notes	3-1/2% 10-Year Notes
Description:		Series A-2009	Bonds of April 2029	Series A-2010	Series A-2011
CUSIP Number:		9128274Y5	912810FH6	9128275W8	9128276R8
Dated Date:		January 15, 1999	April 15, 1999	January 15, 2000	January 15, 2001
Original Issue Date:		January 15, 1999	April 15, 1999	January 18, 2000	January 16, 2001
Additional Issue Date(s):		July 15, 1999	October 15, 1999 October 15, 2000	July 15, 2000	July 16, 2001
Maturity Date:		January 15, 2009	April 15, 2029	January 15, 2010	January 15, 2011
Ref CPI on Dated Date:		164.00000	164.39333	168.24516	174.04516
Date	**Ref CPI**	**Index Ratio**	**Index Ratio**	**Index Ratio**	**Index Ratio**
Feb. 1 2002	177.40000	1.08171	1.07912	1.05441	1.01928
Feb. 2 2002	177.37500	1.08155	1.07897	1.05427	1.01913
Feb. 3 2002	177.35000	1.08140	1.07882	1.05412	1.01899
Feb. 4 2002	177.32500	1.08125	1.07866	1.05397	1.01884
Feb. 5 2002	177.30000	1.08110	1.07851	1.05382	1.01870
Feb. 6 2002	177.27500	1.08095	1.07836	1.05367	1.01856
Feb. 7 2002	177.25000	1.08079	1.07821	1.05352	1.01841
Feb. 8 2002	177.22500	1.08064	1.07805	1.05337	1.01827
Feb. 9 2002	177.20000	1.08049	1.07790	1.05322	1.01813
Feb. 10 2002	177.17500	1.08034	1.07775	1.05308	1.01798
Feb. 11 2002	177.15000	1.08018	1.07760	1.05293	1.01784
Feb. 12 2002	177.12500	1.08003	1.07745	1.05278	1.01770
Feb. 13 2002	177.10000	1.07988	1.07729	1.05263	1.01755
Feb. 14 2002	177.07500	1.07973	1.07714	1.05248	1.01741
Feb. 15 2002	177.05000	1.07957	1.07699	1.05233	1.01726
Feb. 16 2002	177.02500	1.07942	1.07684	1.05218	1.01712
Feb. 17 2002	177.00000	1.07927	1.07669	1.05204	1.01698
Feb. 18 2002	176.97500	1.07912	1.07653	1.05189	1.01683
Feb. 19 2002	176.95000	1.07896	1.07638	1.05174	1.01669
Feb. 20 2002	176.92500	1.07881	1.07623	1.05159	1.01655
Feb. 21 2002	176.90000	1.07866	1.07608	1.05144	1.01640
Feb. 22 2002	176.87500	1.07851	1.07593	1.05129	1.01626
Feb. 23 2002	176.85000	1.07835	1.07577	1.05114	1.01612
Feb. 24 2002	176.82500	1.07820	1.07562	1.05100	1.01597
Feb. 25 2002	176.80000	1.07805	1.07547	1.05085	1.01583
Feb. 26 2002	176.77500	1.07790	1.07532	1.05070	1.01568
Feb. 27 2002	176.75000	1.07774	1.07517	1.05055	1.01554
Feb. 28 2002	176.72500	1.07759	1.07501	1.05040	1.01540

CPI-U (NSA) for: October 2001 177.7 November 2001 177.4 December 2001 176.7

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
February 2002

Security:	3-3/8% 30-1/2-Year Bonds	3-3/8% 10-Year Notes
Description:	Bonds of April 2032	Series A-2012
CUSIP Number:	912810FQ6	9128277J5
Dated Date:	October 15, 2001	January 15, 2002
Original Issue Date:	October 15, 2001	January 15, 2002
Additional Issue Date(s):		
Maturity Date:	April 15, 2032	January 15, 2012
Ref CPI on Dated Date:	177.50000	177.56452

Date	Ref CPI	Index Ratio	Index Ratio
Feb. 1 2002	177.40000	0.99944	0.99907
Feb. 2 2002	177.37500	0.99930	0.99893
Feb. 3 2002	177.35000	0.99915	0.99879
Feb. 4 2002	177.32500	0.99901	0.99865
Feb. 5 2002	177.30000	0.99887	0.99851
Feb. 6 2002	177.27500	0.99873	0.99837
Feb. 7 2002	177.25000	0.99859	0.99823
Feb. 8 2002	177.22500	0.99845	0.99809
Feb. 9 2002	177.20000	0.99831	0.99795
Feb. 10 2002	177.17500	0.99817	0.99781
Feb. 11 2002	177.15000	0.99803	0.99767
Feb. 12 2002	177.12500	0.99789	0.99752
Feb. 13 2002	177.10000	0.99775	0.99738
Feb. 14 2002	177.07500	0.99761	0.99724
Feb. 15 2002	177.05000	0.99746	0.99710
Feb. 16 2002	177.02500	0.99732	0.99696
Feb. 17 2002	177.00000	0.99718	0.99682
Feb. 18 2002	176.97500	0.99704	0.99668
Feb. 19 2002	176.95000	0.99690	0.99654
Feb. 20 2002	176.92500	0.99676	0.99640
Feb. 21 2002	176.90000	0.99662	0.99626
Feb. 22 2002	176.87500	0.99648	0.99612
Feb. 23 2002	176.85000	0.99634	0.99598
Feb. 24 2002	176.82500	0.99620	0.99584
Feb. 25 2002	176.80000	0.99606	0.99569
Feb. 26 2002	176.77500	0.99592	0.99555
Feb. 27 2002	176.75000	0.99577	0.99541
Feb. 28 2002	176.72500	0.99563	0.99527

CPI-U (NSA) for : October 2001 177.7 November 2001 177.4 December 2001 176.7

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FOR IMMEDIATE RELEASE
January 16, 2002

Contact: Tasia Scolinos
(202) 622-2960

TREASURY UNDER SECRETARY FOR ENFORCEMENT JIMMY GURULE "OPERATION WIRECUTTER" REMARKS

For the past four months the United States's war on terrorism has dominated the national media and the hearts and minds of both Americans and our friends abroad. Although we remain dedicated and focused on our goal of wiping out al Qaida and their associates, we cannot forget that there are other enemies who pose a very real threat to our country's security and well being. These enemies are plotting ways to infiltrate our financial system with criminal proceeds while enabling those who smuggle drugs into this country to benefit financially from their illegal actions.

Today we send a clear message to both the criminals who perpetrate illegal acts and the white collar professionals that craft various schemes to hide the tainted money – if you think the United States will look the other way, you are wrong. I testified during my confirmation hearing that money laundering would be one of my top priorities while at the Treasury Department. I meant that last May and I mean it today. I applaud Commissioner Bonner and the Custom Service's commitment to this goal as well. Operation Wirecutter is an example of how close international partnership, tight interagency coordination, and a mutual commitment to shutting down the financial infrastructure that makes these criminal acts profitable, can result in a successful law enforcement action.

I also want to take the opportunity on behalf of Secretary O'Neill to thank our friends in the Colombian government for their assistance and cooperation. This type of joint international effort is truly remarkable. I believe that partnering with our law enforcement counterparts abroad is a key tool in cracking down on those who seek to use the international banking system for corrupt purposes. It is my hope that other joint international law enforcement ventures will follow today's model. Thank you for the dedication and diligence that you and your government brought to Operation Wirecutter.

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EMBARGOED UNTIL 12:00 P.M.
January 16, 2002

Contact: Betsy Holahan
(202) 622-2960

REMARKS BY THE HONORABLE SHEILA C. BAIR
ASSISTANT SECRETARY FOR FINANCIAL INSTITUTIONS
U.S. DEPARTMENT OF THE TREASURY

BEFORE THE WOMEN HIGH TECH COALITION
RAYBURN OFFICE BUILDING

Introduction

I am delighted to have this opportunity to speak to you today about some of the policy developments and challenges that face those of us working in and with the high tech industry. The Women in High Tech Coalition, I can safely predict, will thrive because the challenges are infinite and the need for collaboration among leaders limitless. I particularly want to thank Jessica Wasserman for inviting me to share some of my recent experiences with you.

Background

As background, let me say that I have spent many years working in the financial sector, at the New York Stock Exchange and as Commissioner for the Commodity Futures Trading Commission, for example. In these positions I witnessed technological innovations in the office, the trading room, back office operations, information management, and in other aspects of communication and financial transactions. I also saw financial tumult in U.S. and foreign markets during my career, and like the rest of you, lived through economic cycles of growth and contraction.

All of this was useful experience for the new challenge I undertook last July when I became Treasury Assistant Secretary for Financial Institutions. I also had the good fortune to join an experienced Treasury team dedicated to the financial and economic prosperity of the country, led by a Secretary, who by his own admission, is results oriented.

With the horrors of September 11 came a sudden reordering of priorities within the Administration, and at Treasury. I would like to focus my remarks on one aspect of the work in which I am involved that has taken on new urgency in recent months, namely, the protection of the critical financial infrastructure of the nation.

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During the past few months I have spent a great deal of time thinking about and working on ways to secure the technology and systems that comprise our national financial infrastructure. This is not a job that industry can do alone, nor is it a purely governmental function. It requires collaboration, coordination, focus and planning.

Critical Infrastructure Protection

In 1997 a presidential commission studied the vulnerabilities of critical sectors of the economy to non-traditional threats, principally cyber and terrorist threats. Based in part on the commission's findings, a 1998 Presidential Decision Directive (PDD 63) directed Treasury to coordinate with the financial sector to mitigate the vulnerabilities facing the financial sector and to develop plans for ensuring the continuity of operations and rapid recovery of critical financial assets in the event of attack.

By 2001 the Treasury/industry partnership had established a Banking and Finance Sector Coordinating Committee, created the Financial Services Information Sharing and Analysis Center (FS/ISAC), opened a Financial Services Security Laboratory to provide ex ante security standards for new technologies, and prepared a national plan for critical infrastructure protection in the sector.

The challenge grew exponentially following the unimaginable events of September 11. Instantly, we learned that the focus on cyber security was insufficient, and that government needed to play a more active role.

On balance, the financial sector responded well, due in no small measure to the preparatory work done for Y2K. For the most part, major financial institutions activated their business continuity plans, and banking and payment systems remained open for business. Debt and equity markets reopened the following week, thanks to the collaborative efforts of financial regulators and market players.

Clearly, however, we needed greater coordination between industry and all levels of government. There was no central, authoritative source of information on the system as a whole, and no list of key contacts, for example. We also needed to bring front-line and local authorities into closer coordination with key federal and industry officials. In addition, it appeared that small- and medium-sized institutions and state regulators were less well prepared than major financial institutions and federal authorities.

On October 16, President Bush issued Executive Order 13231, Critical Infrastructure Protection in the Information Age. That order established the Critical Infrastructure Protection Board to coordinate federal efforts and programs that relate to protection of information. It also established 10 standing committees. I chair the Financial and Banking Information Infrastructure Committee, the FBIIC. All of the federal financial regulators serve on that committee, that is, the federal bank, thrift, and credit union regulators, together with the Securities and Exchange Commission and the Commodity Futures Trading Commission. In the coming months we will develop a system for rapidly communicating and disseminating

information among Treasury and the federal financial regulators at times when minutes are crucial.

We will also undertake regular, periodic, and comprehensive assessments of critical infrastructure vulnerabilities in the financial services sector. Remember, the last major vulnerability study for the sector was completed in 1997. A great deal of technological innovation has occurred since then, for example, through global accessibility to the ubiquitous Internet and the exponential improvements in computer capabilities at ever decreasing costs.

Technology advances have also made financial firms more vulnerable in some important ways. Transactional web sites are a doorway for hackers, as we know too well, and computer and data centers have grown more concentrated and potentially more vulnerable as a result. We have also experienced skill shortages in some areas, and must face the daunting fact that redundant systems may require duplicative workforces to maintain and operate them.

Looking further ahead, we need to develop a comprehensive crisis management capability. In addition to vulnerability assessment, we must consider scenario analysis, contingency planning, gap analysis, and response and recovery procedures. Regulators, like the institutions they regulate, need to review their continuity of operations plans in light of the evolutionary developments of recent years and the specific lessons learned from the September 11 attack.

We will need to reach out to our counterparts in foreign governments who are facing the same challenges. Through bilateral and multilateral exchanges of information and working relationships we will strengthen our global financial infrastructure and promote quick and certain recovery of lost capabilities should the unthinkable happen.

Information Sharing

Technology, I find, is both a means to achieving security objectives and an end in itself, for it is the sophisticated financial networks, systems, and components that we need to secure. Security, we know, relies upon the timely and effective sharing of information.

Information sharing about vulnerabilities, threats, intrusions and anomalies is crucial to a successful government-industry partnership for critical infrastructure protection. There are legislative proposals from Senators Bennett and Kyl, for example, as well as a similar House bill, aimed at mitigating industry's concerns about any potential adverse consequences of sharing information with other companies and with the government. Businesses feel they could be vulnerable to litigation for anti-trust or other anti-competitive practices, that sensitive corporate information could be released publicly through the Freedom of Information Act, or that they may face other liabilities. Treasury has some questions about the practical implications of such legislation, but we have indicated our willingness to Congress, the Department of Justice, and other interested parties in government and industry on trying to encourage effective information sharing.

Retirement Security

The ultimate objective of all of these efforts is to preserve and protect the physical and technological security of our nation's critical assets. In the wake of the Enron debacle, another type of security – Americans' retirement security – has assumed center stage among our nation's leadership. The President has expressed his strong, personal concern that Enron employees lost their life savings through no fault of their own. These events have wide-ranging repercussions causing concern among the millions of Americans whose life savings are in their 401(k) and pension plans.

As you know, the Justice Department is pursuing a criminal investigation. The Department of Labor and the Securities and Exchange Commission are also conducting separate investigations for potential violations of their regulations.

If anyone at Enron broke the rules, they will be punished.

At the same time, we need to look at the policy issues presented by the Enron case. We need to determine whether the rules that apply to 401(k)s, pensions, and other types of retirement plans are adequate to ensure that individuals do not lose control over the life savings they own. We also need to review whether accurate information is available so that individuals can make wise saving and investment decisions. Women, given their longer life spans and the fact that they are more likely to take time off from the paid workforce to tend to family responsibilities, have a particular interest in assuring that retirement rules are adequate.

Last Thursday the President directed the Secretaries of Treasury, Commerce, and Labor to convene a working group to analyze pension rules and to develop recommendations to strengthen retirement security. That working group has already begun its work. We will look at a broad range of issues, including the rules governing diversification, temporary lock out, and the availability of information to employees.

We must ensure that the rules enhance opportunities for individuals to invest in our economy and ensure that their ownership of their life savings is protected. For individuals to make the best possible decisions, they must know that the rules prevent anyone from taking those decisions away from them.

Conclusion

Whether in government or the private sector, we operate in a dynamic business world. It is a global environment, influenced by events, often beyond our control, an information tidal wave that challenges and expands our intellectual capacity, and a domestic economic and political setting that is in a constant state of adaptation.

Whatever role you play in this high tech arena, whatever your background, you will find it is people working together who will have the greatest success. You have demonstrated your understanding of this in establishing the Women in High Tech Coalition. I wish you well and thank you for this opportunity to meet with you.

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For Immediate Release
January 16, 2002

Contact: Tara Bradshaw
(202) 622-2014

PRESERVING TAX RELIEF PROTECTS AMERICAN FAMILIES AND WORKERS

Congress approved, and the law now provides for significant future tax relief for individuals and small businesses. Any repeal of a scheduled reduction in taxes is, by definition, a tax increase. The following is a breakdown of who loses from the repeal of any scheduled tax relief.

REPEALING THE PRESIDENT'S TAX CUTS WOULD HURT TWO-INCOME FAMILIES WITH CHILDREN BY:

♦ Reinstating the marriage penalty
- Raises taxes on married couples and families by $50 billion

♦ Reducing the child credit
- Today, the credit is $600, it is scheduled to rise to $1000 per child
- Freezing at today's level, as opposed to the fully phased in tax relief, would cost a family with 2 children $800 in tax relief each year

♦ Raising income tax rates on millions of working families
- 36 million taxpayers will pay higher taxes if the scheduled rate reduction to 25% is repealed
- Two-thirds of those taxpayers have incomes under $100,000

♦ Reducing the value of the personal exemptions and itemized deductions

REPEALING THE PRESIDENT'S TAX CUTS WOULD HURT SMALL BUSINESSES -- THE ENGINES OF JOB CREATION IN OUR ECONOMY:

♦ 10 million small business owners would pay higher taxes if the scheduled rate reduction to 25% is repealed

♦ 80% of the benefit of reducing the top two income tax rates goes to business owners who file individual returns

PO-928

♦Reinstating the death tax threatens the survival of small businesses and the jobs they provide when the businesses pass from one generation to the next

REPEALING THE PRESIDENT'S TAX CUTS WOULD UNDERMINE FINANCIAL SECURITY:

♦Eliminating the scheduled increases in the annual contribution limit for IRAs and 401(k)s makes it harder to save for retirement

- Today the limit for IRAs is $3,000, it is scheduled to rise to $5,000
- Today the limit for 401(k)s is $11,000, it is scheduled to rise to $15,000

♦Repealing the scheduled reduction in the death tax would limit parents ability to pass their life's earnings on to their children

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For immediate release:
January 16, 2002

Contact: Michele Davis
(202) 622-2920

Statement of Secretary Paul O'Neill on Senator Kennedy's Proposed Tax Increases:

"Virtually the entire Congress agrees with President Bush's economic security proposal to create jobs by reducing taxes on business investment. This proposal goes in the opposite direction. It would cost our economy jobs. The burden of the proposed tax increases falls squarely on small businesses – the job creators in our economy. Eighty percent of the higher income taxes he proposed would be paid by business owners who file individual returns. And reinstating the death tax would make it harder to keep family businesses – and their employees – intact from one generation to the next.

"Raising taxes on job creators is always a bad idea, and its an especially bad idea during an economic slowdown. We should be nourishing our nascent recovery, not smothering it with new taxes on job creators.

"Senator Kennedy championed bipartisan cooperation to improve our children's education. I wish we could foster that same bipartisan cooperation to create jobs."

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January 16, 2002

Contact: Tara Bradshaw
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O'NEILL STATEMENT ON THE NATIONAL RESEARCH PROGRAM

Today the Internal Revenue Service announced they are developing a new program, the National Research Program, which will help ensure that taxpayers are paying their fair share of taxes, while providing the IRS with the necessary tools to measure compliance.

"The US tax system is predicated on fairness -- that individuals are taxed fairly and that everyone pays their fair share. This sense of fairness is the foundation for confidence in our tax system -- while no one likes paying taxes, they want to know that tax dollars are fairly collected. The result has been traditionally high voluntary compliance with the law in the U.S. If we can't make sure that everyone pays their fair share, then honest taxpayers get stuck making up the difference. So, tracking taxpayer compliance is a cornerstone of a fair tax system," stated Treasury Secretary Paul O'Neill.

"The problem is that currently, there are no up-to-date data on who is and is not paying their fair share, and why. While we have a general sense of the tax gap, and we know that compliance is uneven, we don't have the necessary information to know how big the problem is or how to fix it.

"As a result, right now, when the IRS chooses which taxpayers to audit, too many law-abiding taxpayers are subjected to audits for the wrong reasons, when they've done absolutely nothing wrong. The IRS is simply auditing too many of the law-abiders and not enough of the people who avoid paying taxes because they lack the basic information to make informed audit decisions. That only hurts the honest taxpayers and helps the cheats, and that's backwards. The NRP will help put us back on the right track," O'Neill stated.

For the last 15 years the IRS has not been collecting taxpayer compliance information because there were major problems with the original data collection program (TCMP) and methods, especially audits, being overly burdensome and intrusive on taxpayers.

PO-930

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The problems with the old TCMP program have been addressed, and IRS has now come up with a vastly improved way to get the necessary information on tax fairness, called the National Research Project. This new approach will allow the IRS to gather the necessary tax fairness data without excessively burdening taxpayers.

"The NRP may eliminate up to 15,000 unnecessary audits of honest taxpayers every year, and instead focus tax enforcement on those who are not paying their fair share. The NRP project will occur within the existing level of audit activity and will not itself involve additional audits or examinations of taxpayers," O'Neill concluded.

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FOR IMMEDIATE RELEASE
January 17, 2002

Contact: Betsy Holahan
(202) 622-2960

TREASURY SECRETARY PAUL O'NEILL REMARKS TO THE U.S. SAVINGS BONDS VOLUNTEER COMMITTEE

Thank you Richard, and thank you for hosting this year's luncheon and meeting of the U.S. Savings Bonds Volunteer Committee. Before I make the formal presentations we have for you, I'd like to thank you, your 2001 committee and Banco Popular for helping make last year a tremendous year for the savings bond program.

Richard, as private sector CEOs you and I always looked at the bottom line to let the numbers tell the story. So, let's take a quick look at the numbers you and your committee posted. Bond sales in fiscal year 2001, totaled $6.6 billion -- up an impressive 30 percent from a year earlier. Your efforts to encourage Americans to take a look at the value of our newest savings bond, the inflation-indexed I Bond also made their mark. For the first time, I Bonds accounted for more than half of all bond sales.

I know that this success was the result of your personal commitment, not only as chair, but also as a member of the committee over several years to encourage Americans to plan for and save for their future. Your efforts to reach out to the Hispanic community with this important message are particularly gratifying. This dovetails with your efforts to reach out to the under-served and un-banked to bring them into the financial mainstream.

So, it is with great pleasure that I present you with Treasury's Gold Medal of Merit as a token of our appreciation. I'd also like to present this special Citation that commemorates our thanks for your service.

As I ask Vance Coffman to join me at the podium, I'd like to remind you that his and Lockheed-Martin's support over the years are hard to beat. Vance is no stranger to the committee having headed up the savings bond effort among his colleagues in the Aerospace industry. And in doing so he demonstrated his and his company's leadership by consistently earning the program's highest honors for participation. So as I present you with this certificate appointing you Chair of the 2002 U.S. Savings Bonds Volunteer Committee, I want to thank you in advance for the energy and leadership you and your team will bring to our effort this year.

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What you, the Savings Bond Volunteers, do is a crucial part of educating Americans of every age and background on the importance of retirement savings. In the broader context of saving, I'd like to make a few comments on the security of the nation's retirement system. The pension system has evolved in recent years into one that increasingly emphasizes two of the country's quintessential values, personal responsibility and freedom of choice. This evolution provides workers much greater opportunity than ever before to build wealth and save for their own retirement but also imposes a greater degree of individual responsibility in doing so.

Defined contribution plans, commonly known as 401(k) plans, give individual workers their own account in which they can build wealth and save for retirement. Participants are allowed, within limits set in the tax code, to choose the level of their plan contributions. The tax relief plan signed into law last summer increased the amount individuals can put into IRAs and 401(k)s, because the President is very committed to expanding every American's ownership and control of their retirement nest eggs.

Your 401(k) is a nest egg you own, and you decide how to invest your contributions, choosing among a set of investment options offered by their employer. In many plans, participants are also free to invest their employer's matching contributions as they see fit. This freedom to choose among investments allows employees to choose the tradeoff between risk and return with which they are most comfortable.

Working Americans value that sense of ownership and control – especially the knowledge that no one can take your nest egg away from you. That peace of mind depends on public confidence that retirement plans operate fairly and openly. The rapid collapse of the Enron Corporation and the effect of the decline in its stock price on its employees' retirement funds may have diminished that confidence. When the company's stock became virtually worthless, employee's life savings dissolved.

The experience of Enron employees is unsettling to the millions of Americans whose life savings are in their 401(k) plans. Working Americans save to buy a home, to pay for their children's education, and to retire in comfort. The President is very concerned that people lost much of their retirement savings through no fault of their own.

The Justice Department is pursuing a criminal investigation. The Department of Labor and the Securities and Exchange Commission are also conducting separate investigations for potential violations of their regulations.

If anyone at Enron broke the rules, they will be punished. At the same time, we need to look at the policy issues presented by the Enron case. We need to determine whether the rules that apply to 401(k) plans, pensions, and other types of retirement plans are adequate to ensure that individuals do not lose control over the life savings they own. We also need to review whether accurate information is available so that individuals can make wise saving and investment decisions.

Last week the President directed me, Secretary Chao of the Labor Department and Secretary Evans of the Commerce Department to convene a working group to analyze pension rules and to develop recommendations to strengthen retirement security. This review will focus on the issues of fair play in the market and the balance between consumer choice and firms' interests in offering defined contribution plans.

A working group of senior staff has already met twice and Secretaries Chao and Evans and I will hold our second meeting later today. The working group is looking at a broad range of issues, including the rules governing diversification, temporary lock out, and the availability of information to employees. We must ensure that the rules enhance opportunities for individuals to invest in our economy and ensure that their ownership of their life savings is protected. We want to enhance, not limit, choices individuals can make in planning for their retirement security. At the same time, we want to preserve and enhance employers' incentives to offer retirement options that will help their employees build an economically successful future. For individuals to make the best possible decisions, they must know that the rules prevent anyone from taking those decisions away from them. We are committed to delivering to the President recommendations that promote the retirement security of working Americans.

We are also pursuing new methods of making the full range of Treasury securities more widely available, because Treasury securities are a valuable tool for every American seeking financial security. We offer the safest, most liquid, securities in the world to fill investor needs across the whole spectrum of portfolios, from the individual investor who has $50 to invest, to the largest asset managers and other firms who invest billions of dollars in managing their portfolios.

The Internet now gives us the technological wherewithal to create the broadest possible primary market for Treasury securities that imagination and effort will allow.

The Bureau of Public Debt already has some of this in place. Their website offers investors the opportunity to get information on and buy both savings bonds and marketable bills and notes directly from the Treasury. Creating and continually enhancing this direct link to Treasury products will let our customers move seamlessly along the whole continuum of the securities we offer as their investment needs evolve.

Enhancing and protecting retirement security for all Americans is one of President Bush's priorities, and one of my top agenda items for this year. I'm eager to expand the availability of savings tools to all Americans, and to ensure that working American's ownership of their retirement nest eggs is protected.

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FOR IMMEDIATE RELEASE
January 17, 2001

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(202) 622-2960

**MEDIA ADVISORY:
MEETING OF THE WORKING GROUP ON
RETIREMENT SECURITY PROTECTION**

Treasury Secretary Paul H. O'Neill, Labor Secretary Elaine Chao and Commerce Secretary Don Evans will make brief remarks at their meeting of the Working Group on Retirement Security Protection at 3:30 p.m. EST on Thursday, January 17, 2002 in the Treasury Department's Large Conference Room (Room 3327), 1500 Pennsylvania Avenue, NW.

Media without Treasury or White House press credentials planning to attend should contact Treasury's Office of Public Affairs at (202) 622-2960 with the following information: name, social security number and date of birth. This information may also be faxes to (202) 622-1999.

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Contact: Tara Bradshaw
(202) 622-2014

TREASURY, IRS ISSUE GUIDANCE ON CAPITALIZATION

Today the Treasury Department and the Internal Revenue Service sent an advance notice of proposed rulemaking (ANPRM) regarding capitalization to the Federal Register for publication. The ANPRM describes rules and standards the Treasury Department and the IRS expect to propose in 2002 to provide a framework for addressing capitalization issues with respect to expenditures incurred in acquiring, creating, or enhancing intangible assets.

"Currently, the IRS spends a substantial and disproportionate amount of its examination resources resolving capitalization issues. Recently, much of the uncertainty and controversy in the capitalization area has related to expenditures that create or enhance intangible assets. We believe the rules and principles described in this advance notice with respect to intangible assets are a first step to providing clear and administrable rules that will significantly reduce uncertainty and controversy in this area thereby freeing up both IRS and taxpayer resources," said Mark Weinberger, Treasury Assistant Secretary (Tax Policy). "We also hope to issue additional guidance addressing other areas of capitalization, such as costs to repair or improve tangible assets."

The ANPRM indicates that forthcoming proposed regulations will describe the specific categories of expenditures incurred in acquiring, creating, or enhancing intangible assets or benefits that taxpayers are required to capitalize. In addition, the forthcoming proposed regulations will recognize that many expenditures that create or enhance intangible assets or benefits do not create the type of future benefits for which capitalization under section 263(a) is appropriate, particularly when the administrative and record keeping costs associated with capitalization are weighed against the potential distortion of income.

In addition, the ANPRM indicates that forthcoming proposed regulations are expected to provide safe harbors and simplifying assumptions to reduce the administrative and compliance costs associated with section 263(a). Specifically, the forthcoming proposed regulations are expected to include a "one-year rule," under which costs relating to intangible assets with relatively short useful lives will not be capitalized, and "de minimis rules," under which certain types of costs less than a specified dollar amount will not be capitalized.

PO-933

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*U.S. Government Printing Office: 1998 - 619-559

The ANPRM also indicates that the Treasury Department and the IRS are considering whether additional administrative relief should be provided. Finally, the ANPRM invites comments from the public regarding these standards.

The text of the ANPRM

-30-

[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG-125638-01]

RIN 1545-BA00

Guidance Regarding Deduction and Capitalization of Expenditures

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Advance notice of proposed rulemaking.

SUMMARY: This document describes and explains rules and standards that the IRS and Treasury Department expect to propose in 2002 in a notice of proposed rulemaking that will clarify the application of section 263(a) of the Internal Revenue Code to expenditures incurred in acquiring, creating, or enhancing certain intangible assets or benefits. This document also invites comments from the public regarding these standards. All materials submitted will be available for public inspection and copying.

DATES: Written and electronic comments must be submitted by **[INSERT DATE THAT IS 60 DAYS AFTER DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER].**

ADDRESSES: Send submissions to: CC:ITA:RU (REG-125638-01), room 5226, Internal Revenue Service, POB 7604, Ben Franklin Station, Washington, DC 20044. Submissions may be hand delivered Monday through Friday between the hours of 8 a.m. and 5 p.m. to: CC:ITA:RU (REG-125638-01), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue N.W., Washington, DC. Alternatively, taxpayers may send submissions electronically via the Internet by selecting the "Tax Regs" option on the IRS Home Page, or directly to the IRS Internet site at http://www.irs.ustreas.gov/tax_regs/regslist.html.

FOR FURTHER INFORMATION CONTACT: Concerning submissions, Guy Traynor (202) 622-7180; concerning the proposals, Andrew J. Keyso (202) 927-9397 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

The IRS and Treasury Department are reviewing the application of section 263(a) of the Internal Revenue Code to expenditures that result in taxpayers acquiring, creating, or enhancing intangible assets or benefits. This document describes and explains rules and standards that the IRS and Treasury Department expect to propose in 2002 in a notice of proposed rulemaking.

A fundamental purpose of section 263(a) is to prevent the distortion of taxable income through current deduction of expenditures relating to the production of income in future taxable years. See Commissioner v. Idaho Power Co., 418 U.S. 1, 16 (1974). Thus, the Supreme Court has held that expenditures that create or enhance separate and distinct assets or produce certain other future benefits of a significant nature must be capitalized under section 263(a). See INDOPCO, Inc. v. Commissioner, 503 U.S. 79 (1992); Commissioner v. Lincoln Savings & Loan Ass'n, 403 U.S. 345 (1971).

The difficulty of translating general capitalization principles into clear, consistent, and administrable standards has been recognized for decades. See Welch v. Helvering, 290 U.S. 111, 114-15 (1933). Because courts focus on particular facts before them, the results reached by the courts are often difficult to reconcile and, particularly in recent years, have contributed to substantial uncertainty and controversy. The IRS and Treasury Department are concerned that the current level of uncertainty and controversy is neither fair to taxpayers nor consistent with sound and efficient tax administration.

Recently, much of the uncertainty and controversy in the capitalization area has related to expenditures that create or enhance intangible assets or benefits. To clarify the application of section 263(a), the forthcoming notice of proposed rulemaking will describe the specific categories of expenditures incurred in acquiring, creating, or enhancing intangible assets or benefits that taxpayers are required to capitalize. In addition, the forthcoming notice of proposed rulemaking will recognize that many expenditures that create or enhance intangible assets or

benefits do not create the type of future benefits for which capitalization under section 263(a) is appropriate, particularly when the administrative and record keeping costs associated with capitalization are weighed against the potential distortion of income.

To reduce the administrative and compliance costs associated with section 263(a), the forthcoming notice of proposed rulemaking is expected to provide safe harbors and simplifying assumptions including a "one-year rule," under which expenditures relating to intangible assets or benefits whose lives are of a relatively short duration are not required to be capitalized, and "de minimis rules," under which certain types of expenditures less than a specified dollar amount are not required to be capitalized. The IRS and Treasury Department are also considering additional administrative relief, for example, by providing a "regular and recurring rule," under which transaction costs incurred in transactions that occur on a regular and recurring basis in the routine operation of a taxpayer's trade or business are not required to be capitalized.

The proposed standards and rules described in this document will not alter the manner in which provisions of the law other than section 263(a) (e.g., sections 195, 263(g), 263(h), or 263A) apply to determine the correct tax treatment of an item. Moreover, these standards and rules will not address the treatment of costs other than those to acquire, create, or enhance intangible assets or benefits, such as costs to repair or improve tangible property. The IRS and Treasury Department are considering separate guidance to address these other costs.

The following discussion describes the specific expenditures to acquire, create, or enhance intangible assets or benefits for which the IRS and Treasury Department expect to require capitalization in the forthcoming notice of proposed rulemaking. The IRS and Treasury Department anticipate that other expenditures to acquire, create, or enhance intangible assets or benefits generally will not be subject to capitalization under section 263(a).

A. Amounts Paid to Acquire Intangible Property

1. Amounts paid to acquire financial interests.

Under the expected regulations, capitalization will be required for an amount paid to purchase, originate, or otherwise acquire a security, option, any other financial interest described

in section 197(e)(1), or any evidence of indebtedness. For a discussion of related transaction costs see section C of this document.

For example, a financial institution that acquires portfolios of loans from another person or originates loans to borrowers would be required to capitalize the amounts paid for the portfolios or the amounts loaned to borrowers.

2. Amounts paid to acquire intangible property from another person.

Under the expected regulations, capitalization will be required for an amount paid to another person to purchase or otherwise acquire intangible property from that person. For a discussion of related transaction costs see section C of this document.

For example, an amount paid to another person to acquire an amortizable section 197 intangible from that person would be capitalized. Thus, a taxpayer that acquires a customer base from another person would be required to capitalize the amount paid to that person in exchange for the customer base. On the other hand, a taxpayer that incurs costs to create its own customer base through advertising or other expenditures that create customer goodwill would not be required to capitalize such costs under this rule.

B. Amounts Paid to Create or Enhance Certain Intangible Rights or Benefits

1. 12-month rule.

The IRS and Treasury Department expect to propose a 12-month rule applicable to expenditures paid to create or enhance certain intangible rights or benefits. Under the rule, capitalization under section 263(a) would not be required for an expenditure described in the following paragraphs 2 through 8 unless that expenditure created or enhanced intangible rights or benefits for the taxpayer that extend beyond the earlier of (i) 12 months after the first date on which the taxpayer realizes the rights or benefits attributable to the expenditure, or (ii) the end of the taxable year following the taxable year in which the expenditure is incurred.

The IRS and Treasury Department request comments on how the 12-month rule might apply to expenditures paid to create or enhance rights of indefinite duration and contracts subject to termination provisions. For example, comments are requested on whether costs to create

contract rights that are terminable at will without substantial penalties would not be subject to capitalization as a result of the 12-month rule.

2. Prepaid items.

Subject to the 12-month rule, the IRS and Treasury Department expect to propose a rule that requires capitalization of an amount prepaid for goods, services, or other benefits (such as insurance) to be received in the future.

For example, a taxpayer that prepays the premium for a 3-year insurance policy would be required to capitalize such amount under the rule.

Similarly, a calendar year taxpayer that pays its insurance premium on December 1, 2002, for a 12-month policy beginning the following February would be required to capitalize the amount of the expenditure. The 12-month rule would not apply because the benefit attributable to the expenditure would extend beyond the end of the taxable year following the taxable year in which the expenditure was incurred. On the other hand, if the insurance contract had a term beginning on December 15, 2002, the taxpayer could deduct the premium expenditure under the 12-month rule because the benefit neither extends more than 12 months beyond December 15, 2002 (the first date the benefit is realized by the taxpayer) nor beyond the taxable year following the year the expenditure was incurred.

3. Certain market entry payments.

Subject to the 12-month rule, the IRS and Treasury Department expect to propose a rule that requires capitalization of an amount paid to an organization to obtain or renew a membership or privilege from that organization.

For example, subject to the 12-month rule, the rule would require capitalization of costs to obtain a stock trading privilege, admission to practice medicine at a hospital, and access to the multiple listing service. The rule does not contemplate requiring capitalization for costs to obtain ISO 9000 certification or similar costs.

4. Amounts paid to obtain certain rights from a governmental agency.

Subject to the 12-month rule, the IRS and Treasury Department expect to propose a rule that requires capitalization of an amount paid to a governmental agency for a trade name, trademark, copyright, license, permit, or other right granted by that governmental agency.

For example, under the rule, a restaurant would be required to capitalize the amount paid to a state to obtain a license to serve alcoholic beverages that is valid indefinitely.

5. Amounts paid to obtain or modify contract rights.

Subject to the 12-month rule, the IRS and Treasury Department expect to propose a rule that requires capitalization of amounts in excess of a specified dollar amount (e.g., $5,000) paid to another person to induce that person to enter into, renew, or renegotiate an agreement that produces contract rights enforceable by the taxpayer, including payments for leases, covenants not to compete, licenses to use intangible property, customer contracts and supplier contracts. The IRS and Treasury Department request comments on whether there are standards other than the standard described above that would be more appropriate for determining whether expenditures related to the creation or enhancement of contractual rights should be capitalized.

Subject to the 12-month rule, this rule would require a lessee to capitalize an amount paid to a lessor in exchange for the lessor's agreement to enter into a lease. This rule also would require a lessee to capitalize an amount paid to a lessor in exchange for the lessor's agreement to terminate a lease and enter into a new lease. See, e.g., U.S. Bancorp v. Commissioner, 111 T.C. 231 (1998). However, this rule would not require a lessee to capitalize an amount paid to a lessor to terminate a lease where the parties do not enter into a new or renegotiated agreement. This rule also would not require a taxpayer to capitalize a payment that does not create enforceable contract rights but, for example, merely creates an expectation that a customer or supplier will maintain its business relationship with the taxpayer. See, e.g., Van Iderstine Co. v. Commissioner, 261 F.2d 211 (2nd Cir. 1958).

6. Amounts paid to terminate certain contracts.

Subject to the 12-month rule, the IRS and Treasury Department expect to propose a rule that requires capitalization of an amount paid by a lessor to a lessee to induce the lessee to

terminate a lease of real or tangible personal property or by a taxpayer to terminate a contract that grants another person the exclusive right to conduct business in a defined geographic area.

For example, under the rule, a lessor that pays a lessee to terminate a lease of real property with a remaining term of 24 months would be required to capitalize such payment. See, e.g., Peerless Weighing and Vending Machine Corp. v. Commissioner, 52 T.C. 850 (1969). On the other hand, if the lease had a remaining term of 6 months, the 12-month rule would apply, and the taxpayer would not be required to capitalize the termination payment under the rule.

As a further example, where a taxpayer grants another person the exclusive right to develop the taxpayer's motel chain in four states, and the taxpayer later pays that other person to terminate such right at a time when the remaining useful life of the right is 5 years, the taxpayer would be required to capitalize the termination payment under the rule. See Rodeway Inns of America v. Commissioner, 63 T.C. 414 (1974).

7. Amounts paid in connection with tangible property owned by another.

Subject to the 12-month rule, the IRS and Treasury Department expect to propose a rule that requires capitalization of amounts in excess of a specified dollar amount paid to facilitate the acquisition, production, or installation of tangible property that is owned by a person other than the taxpayer where the acquisition, production, or installation of the tangible property results in the type of intangible future benefit to the taxpayer for which capitalization is appropriate. This rule would apply even though there is no contractual relationship between the taxpayer and the other person. This rule is intended to require capitalization of expenditures that produce intangible future benefits similar to those that were in issue in Kauai Terminal Ltd. v. Commissioner, 36 B.T.A. 893 (1937) (expenditure incurred to construct a publicly owned breakwater for the purpose of increasing taxpayer's freight lighterage operation). The IRS and Treasury Department request comments on standards that can be established to ensure that the expenditures described in this rule result in the type of future benefits that are similar to those in Kauai Terminal and therefore should be capitalized. The IRS and Treasury Department also

request comments on whether safe harbors or dollar thresholds should be used to determine whether capitalization of such expenditures is appropriate under section 263(a).

8. Defense or perfection of title to intangible property.

Subject to the 12-month rule, the IRS and Treasury Department expect to propose a rule that requires capitalization of amounts paid to defend or perfect title to intangible property.

For example, under the rule, if a taxpayer and another person both claim title to a particular trademark, the taxpayer must capitalize any amount paid to the other person for relinquishment of such claim. See, e.g., J.J. Case Company v. United States, 32 F.Supp. 754 (Ct. Cl. 1940).

C. Transaction Costs

The IRS and Treasury Department expect to propose a rule that requires a taxpayer to capitalize certain transaction costs that facilitate the taxpayer's acquisition, creation, or enhancement of intangible assets or benefits described above (regardless of whether a payment described in sections A or B of this document is made). In addition, this rule would require a taxpayer to capitalize transaction costs that facilitate the taxpayer's acquisition, creation, restructuring, or reorganization of a business entity, an applicable asset acquisition within the meaning of section 1060(c), or a transaction involving the acquisition of capital, including a stock issuance, borrowing, or recapitalization. However, this rule would not require capitalization of employee compensation (except for bonuses and commissions that are paid with respect to the transaction), fixed overhead (e.g., rent, utilities and depreciation), or costs that do not exceed a specified dollar amount, such as $5,000. The IRS and Treasury Department request comments on how expenditures should be aggregated for purposes of applying the de minimis exception, whether the de minimis exception should allow a deduction for the threshold amount where the aggregate transaction costs exceed the threshold amount, and whether there are certain expenditures for which the de minimis exception should not apply (e.g., commissions).

The IRS and Treasury Department are considering alternative approaches to minimize uncertainty and to ease the administrative burden of accounting for transaction costs. For

example, the rules could allow a deduction for all employee compensation (including bonuses and commissions that are paid with respect to the transaction), be based on whether the transaction is regular or recurring, or follow the financial or regulatory accounting treatment of the transaction. The IRS and Treasury Department request comments on whether the recurring or nonrecurring nature of a transaction is an appropriate consideration in determining whether an expenditure to facilitate the transaction must be capitalized under section 263(a) and, if so, what criteria should be applied in distinguishing between recurring and nonrecurring transactions. In addition, the IRS and Treasury Department request comments on whether a taxpayer's treatment of transaction costs for financial or regulatory accounting purposes should be taken into account when developing simplifying assumptions.

For example, under the rule described above, a taxpayer would be required to capitalize legal fees in excess of the threshold dollar amount paid to its outside attorneys for services rendered in drafting a 3-year covenant not to compete because such costs would not have been incurred but for the creation of the covenant not to compete. Similarly, the rule would require a taxpayer to capitalize legal fees in excess of the threshold dollar amount paid to its outside attorneys for services rendered in defending a trademark owned by the taxpayer.

Conversely, a taxpayer that originates a loan to a borrower in the course of its lending business would not be required to capitalize amounts paid to secure a credit history and property appraisal to facilitate the loan where the total amount paid with respect to that loan does not exceed the threshold dollar amount. The taxpayer also would not be required to capitalize the amount of salaries paid to employees or overhead costs of the taxpayer's loan origination department.

In addition, the rule would require a corporate taxpayer to capitalize legal fees in excess of the threshold dollar amount paid to its outside counsel to facilitate an acquisition of all of the taxpayer's outstanding stock by an acquirer. See, e.g., INDOPCO, Inc. v. Commissioner, 503 U.S. 79 (1992). However, the rule would not require capitalization of the portion of officers'

salaries that is allocable to time spent by the officers negotiating the acquisition. Cf. Wells Fargo & Co. v. Commissioner, 224 F.3d 874 (8th Cir. 2000).

The rule also would not require capitalization of post-acquisition integration costs or severance payments made to employees as a result of an acquisition transaction because such costs do not facilitate the acquisition.

D. Other Items on Which Public Comment is Requested

1. Other costs of creating, acquiring or enhancing intangible assets or benefits that require capitalization.

The IRS and Treasury Department are considering what general principles of capitalization should be used to identify the costs of acquiring, creating, or enhancing intangible assets or benefits that should be capitalized under section 263(a) but are not described above. The IRS and Treasury Department anticipate that these general principles will apply in rare and unusual circumstances to require capitalization of costs that are similar to those described above. Comments are requested on capitalization principles (for example, a separate and distinct asset test or a significant future benefit test) that can be used to identify other costs that should be capitalized under section 263(a) and the administrability of such principles. The IRS and Treasury Department also request comments on other categories of costs associated with intangible assets or benefits that should be capitalized under section 263(a), but are not described above.

2. Book-Tax conformity.

The IRS and Treasury Department request comments on whether there are types of expenditures other than those discussed above for which the taxpayer's treatment for financial or regulatory accounting purposes should be taken into account in determining the treatment for federal income tax purposes or to simplify tax reporting.

3. Amortization periods.

Certain intangibles have readily ascertainable useful lives that can be determined with reasonable accuracy, while others do not. The IRS and Treasury Department expect to provide

safe harbor recovery periods and methods for certain capitalized expenditures that do not have readily ascertainable useful lives. Comments are requested regarding whether guidance should provide one uniform period or multiple recovery periods and what the recovery periods and methods should be.

4. De minimis rules.

The IRS and Treasury Department request comments on whether there are types of expenditures other than those discussed above for which it would be appropriate to prescribe de minimis rules that would not require capitalization under section 263(a). If there are such categories or thresholds, comments are requested on how expenditures would be aggregated in applying these de minimis rules.

5. Costs of Software.

The IRS and Treasury Department request comments on what rules and principles should be used to distinguish acquired software from developed software and the administrability of those rules and principles. See Rev. Proc. 2000-50, 2000-2 C.B. 601.

Heather C. Maloy

Associate Chief Counsel (Income Tax & Accounting)

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
January 17, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling $27,000 million to refund an estimated $27,791 million of publicly held 13-week and 26-week Treasury bills maturing January 24, 2002, and to pay down approximately $791 million. Also maturing is an estimated $10,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced January 22, 2002.

The Federal Reserve System holds $12,031 million of the Treasury bills maturing on January 24, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders either in these auctions or the 4-week Treasury bill auction to be held January 23, 2002. Amounts awarded to SOMA will be in addition to the offering amount.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of each auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

TreasuryDirect customers have requested that we reinvest their maturing holdings of approximately $1,058 million into the 13-week bill and $690 million into the 26-week bill.

The allocation percentage applied to bids awarded at the highest discount rate will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

-934

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HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED JANUARY 24, 2002

January 17, 2002

Offering Amount	$14,000 million	$13,000 million
Public Offering	$14,000 million	$13,000 million
NLP Exclusion Amount	$ 4,500 million	None

Description of Offering:

Term and type of security	91-day bill	182-day bill
CUSIP number	912795 JR 3	912795 KT 7
Auction date	January 22, 2002	January 22, 2002
Issue date	January 24, 2002	January 24, 2002
Maturity date	April 25, 2002	July 25, 2002
Original issue date	October 25, 2001	January 24, 2002
Currently outstanding	$17,754 million	---
Minimum bid amount and multiples	$1,000	$1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.

Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.

Competitive bids:

(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 7.100%, 7.105%.

(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.

(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Rate ....35% of public offering

Maximum Award ....35% of public offering

Receipt of Tenders:

Noncompetitive tenders..... Prior to 12:00 noon eastern standard time on auction day

Competitive tenders........ Prior to 1:00 p.m. eastern standard time on auction day

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
January 16, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 2-YEAR NOTES

The Treasury will auction $25,000 million of 2-year notes to refund $27,068 million of publicly held notes maturing January 31, 2002, and to pay down about $2,068 million.

In addition to the public holdings, Federal Reserve Banks hold $5,766 million of the maturing notes for their own accounts, which may be refunded by issuing an additional amount of the new security.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of the auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately $621 million into the 2-year note.

The auction will be conducted in the single-price auction format. All competitive and noncompetitive awards will be at the highest yield of accepted competitive tenders. The allocation percentage applied to bids awarded at the highest yield will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

The notes being offered today are eligible for the STRIPS program.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about the new security are given in the attached offering highlights.

oOo

Attachment

PO-935

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF 2-YEAR NOTES TO BE ISSUED JANUARY 31, 2002

January 16, 2002

Offering Amount .... $25,000 million
Public Offering .... $25,000 million

Description of Offering:
Term and type of security .... 2-year notes
Series J-2004
CUSIP number 912827 7K 2
Auction date .... January 23, 2002
Issue date .... January 31, 2002
Dated date .... January 31, 2002
Maturity date .... January 31, 2004
Interest rate .... Determined based on the highest accepted competitive bid
Yield .... Determined at auction
Interest payment dates .... July 31 and January 31
Minimum bid amount and multiples $1,000
Accrued interest payable by investor .... None
Premium or discount .... Determined at auction

STRIPS Information:
Minimum amount required $1,000
Corpus CUSIP number .... 912820 GU 5
Due date(s) and CUSIP number(s)
for additional TINT(s) .... January 31, 2004 - - 912833 YQ 7

Submission of Bids:
Noncompetitive bids:
Accepted in full up to $5 million at the highest accepted yield.
Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.
Competitive bids:
(1) Must be expressed as a yield with three decimals, e.g., 7.123%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield .... 35% of public offering
Maximum Award .... 35% of public offering

Receipt of Tenders:
Noncompetitive tenders:
Prior to 12:00 noon eastern standard time on auction day.
Competitive tenders:
Prior to 1:00 p.m. eastern standard time on auction day.

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

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U.S. International Reserve Position 01/18/02

The Treasury Department today released U.S. reserve assets data for the week ending January 11, 2002. As indicated in this table, U.S. reserve assets totaled $68,677 million as of January 4, 2002, compared to $68,866 million as of December 28, 2001.

(in US millions)

I. Official U.S. Reserve Assets		January 4, 2002			January 11, 2002		
	TOTAL		68,936			68,731	
		Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Foreign Currency Reserves [1]							
a. Securities		5,506	10,631	16,137	5,490	9,707	15,197
Of which, issuer headquartered in the U.S.				0			0
b. Total deposits with:							
b.i. Other central banks and BIS		9,278	3,784	13,062	9,241	4,583	13,824
b.ii. Banks headquartered in the U.S.				0			0
b.ii. Of which, banks located abroad				0			0
b.iii. Banks headquartered outside the U.S.				0			0
b.iii. Of which, banks located in the U.S.				0			0
IMF Reserve Position [2]				17,919			*17,871*
Special Drawing Rights (SDRs) [2]				10,774			*10,794*
Gold Stock [3]				11,045			11,045
Other Reserve Assets				0			0

/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account 3OMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and eposits reflect carrying values.

' The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in ɔllar terms at the official SDR/dollar exchange rate for the reporting date. The entries in the table above for latest week (shown in italics) flect any necessary adjustments, including revaluation, by the U.S. Treasury to the prior week's IMF data. The IMF data for the prior week e final.

Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of November 30, 2001. The October 31, 2001 value ıs $11,045 million.

-936

U.S. International Reserve Position (cont'd)

II. Predetermined Short-Term Drains on Foreign Currency Assets

	January 4, 2002	January 11, 2002
1. Foreign currency loans and securities	0	0
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the U.S. dollar:		
2.a. Short positions	0	0
2.b. Long positions	0	0
3. Other	0	0

III. Contingent Short-Term Net Drains on Foreign Currency Assets

	January 4, 2002	January 11, 2002
1. Contingent liabilities in foreign currency	0	0
1.a. Collateral guarantees on debt due within 1 year		
1.b. Other contingent liabilities		
2. Foreign currency securities with embedded options	0	0
3. Undrawn, unconditional credit lines	0	0
3.a. With other central banks		
3.b. With banks and other financial institutions headquartered in the U.S.		
3.c. With banks and other financial institutions headquartered outside the U.S.		
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the U.S. dollar	0	0
4.a. Short positions		
4.a.1. Bought puts		
4.a.2. Written calls		
4.b. Long positions		
4.b.1. Bought calls		
4.b.2. Written puts		

Offical Reserve Assets Worksheet
(actual US dollar amounts)

	Last Week	This Week		
Enter Dates Here	04-Jan-02	11-Jan-02	Change	
Foreign Currency	04-Jan-02	11-Jan-02		Source: NY Fed (fax)
Euro Securities	$5,505,546,083.99	$5,489,993,088.28	-15,552,996	copy and paste data into last week
Yen Securities	$10,631,457,800.34	$9,706,771,665.28	-924,686,135	and put new data from fax
Sec. Total	*$16,137,003,884.33*	*$15,196,764,753.56*	-940,239,131	into right column
Euro Deposits	$9,278,011,534.29	$9,241,467,956.93	-36,543,577	
Yen Deposits	$3,783,556,253.00	$4,582,915,301.49	799,359,048	
Deposit Total	*$13,061,567,787.29*	*$13,824,383,258.42*	762,815,471	
Total	$29,198,571,671.61	$29,021,148,011.98	-177,423,660	
Euro Rate	*$0.8946*	*$0.8905*		
Yen Rate	*Y 131.02*	*Y 132.17*		

IMF	04-Jan-02	11-Jan-02		Source: IMF (email)
		(prelim, with adjust.)		put actual figures in for last week
Reserve Tranche	17,848,807,778.42	17,871,251,067.71	22,443,289.29	
GAB	0.00	0.00	0.00	
NAB	0.00	0.00	0.00	
Total	17,918,735,076.00	17,871,251,067.71	-47,484,008.29	
SDR	10,773,777,496.52	10,794,025,977.29	20,248,480.77	
			0.00	
as of 10/31/01	04-Jan-02	11-Jan-02		Source : FMS website
Gold	11,044,773,461.54	11,044,773,461.54	0.00	http://www.fms.treas.gov/gold
			0	
	04-Jan-02	11-Jan-02		
Other Res.Assets	0	0		
TOTAL	**68,935,857,705.67**	**68,731,198,518.52**	-204,659,187.15	

Adjustments to IMF and SDR data, translated at current exchange rates

Prelim. IMF Data Calculation Section	**IN SDRs 04-Jan-02**	**Adjustments**		**SDR rate for 11-Jan-02**	**In USD**
Reserve Tranche	14,206,304,255		14,206,304,255	0.794925	$17,871,251,067.71
GAB	0		0		$0.00
NAB	0		0		$0.00
			14,206,304,255	Total =	$17,871,251,067.71
SDRs	8,580,441,100		8,580,441,100	SDRs =	$10,794,025,977.29

Source:
http://www.imf.org/external/map.htm, then go to "Exchange Rates in Terms of SDRs Daily"

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 11:30 A.M.
January 22, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $6,000 million to refund an estimated $10,000 million of publicly held 4-week Treasury bills maturing January 24, 2002, and to pay down approximately $4,000 million.

Tenders for 4-week Treasury bills to be held on the book-entry records of *TreasuryDirect* will not be accepted.

The Federal Reserve System holds $12,031 million of the Treasury bills maturing on January 24, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders in this auction up to the balance of the amount not awarded in today's 13-week and 26-week Treasury bill auctions. Amounts awarded to SOMA will be in addition to the offering amount.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of the auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

Note: The closing times for receipt of noncompetitive and competitive tenders will be at 11:00 a.m. and 11:30 a.m. eastern standard time, respectively.

The allocation percentage applied to bids awarded at the highest discount rate will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about the new security are given in the attached offering highlights.

oOo

Attachment

PO-937

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HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED JANUARY 24, 2002

January 22, 2002

Offering Amount ....$6,000 million
Public Offering ....$6,000 million
NLP Exclusion Amount ....$10,400 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 JH 5
Auction date ....January 23, 2002
Issue date ....January 24, 2002
Maturity date ....February 21, 2002
Original issue date ....August 23, 2001
Currently outstanding ....$40,087 million
Minimum bid amount and multiples $1,000

Submission of Bids:
Noncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.
Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.
Competitive bids:
(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 4.215%.
(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Rate...35% of public offering
Maximum Award...........................35% of public offering

Receipt of Tenders:
Noncompetitive tenders:
Prior to 11:00 a.m. eastern standard time on auction day
Competitive tenders:
Prior to 11:30 a.m. eastern standard time on auction day

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date.

PUBLIC DEBT NEWS

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TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
January 22, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	January 24, 2002
Maturity Date:	April 25, 2002
CUSIP Number:	912795JR3

High Rate: 1.670% Investment Rate 1/: 1.700% Price: 99.578

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 20.84%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 25,703,655	$ 12,310,035
Noncompetitive	1,421,102	1,421,102
FIMA (noncompetitive)	269,000	269,000
SUBTOTAL	27,393,757	14,000,137 2/
Federal Reserve	4,820,165	4,820,165
TOTAL	$ 32,213,922	$ 18,820,302

Median rate 1.645%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.620%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

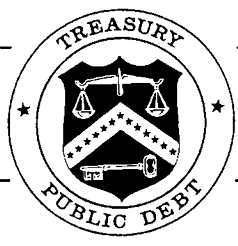
Bid-to-Cover Ratio = 27,393,757 / 14,000,137 = 1.96

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,161,972,000

http://www.publicdebt.treas.gov

PO-938

PUBLIC DEBT NEWS



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TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

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CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	January 24, 2002
Maturity Date:	July 25, 2002
CUSIP Number:	912795KT7

High Rate: 1.735% Investment Rate 1/: 1.774% Price: 99.123

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 25.08%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 21,358,695	$ 12,071,635
Noncompetitive	928,381	928,381
FIMA (noncompetitive)	0	0
SUBTOTAL	22,287,076	13,000,016 2/
Federal Reserve	4,673,096	4,673,096
TOTAL	$ 26,960,172	$ 17,673,112

Median rate 1.700%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.660%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 22,287,076 / 13,000,016 = 1.71

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $738,991,000

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
January 23, 2002

Contact: Public Affairs
(202) 622-2960

UNLOCKING THE JAPANESE REAL ECONOMY
U.S. SECRETARY OF THE TREASURY PAUL O'NEILL

NATIONAL PRESS CENTER
TOKYO JAPAN

It is a pleasure to be here today. As many of you may know, I was in Japan when the tragic events of September 11th occurred and forced me to postpone my meetings with Japanese government officials and members of the private sector. I am gratified that I now have the opportunity to pick up on that agenda and to renew some of the relationships I established with Japanese officials and private individuals when I was a corporate executive. From my private sector experience, I have developed the highest respect for the ability of Japanese industry to rise to the challenge of world competition, and to challenge all of us to rise to our best.

On this occasion, I came to Japan to attend the Conference on Afghan Reconstruction. The conference demonstrated that Japanese and U.S. cooperation could be a tremendous force for global progress – in this case, giving Afghanistan a real opportunity to rebuild its economy and foster democratic institutions. What is true in political and strategic affairs holds with even greater force in economics. As the two largest economies in the world, along with Europe, we have a shared responsibility for global economic outcomes. The pace of our economies is of great importance to the prospects and potential of the economies of the rest of the world.

Since mid-year 2000, the U.S. economy has slowed, with negative effects on the world at large. We in the United States know that the world needs a vibrant U.S. economy. We also know that the world needs vibrant economies in Japan and Europe. We are working hard to improve U.S. competitiveness and we are using our macro policy tools to restore strong U.S. growth. The Federal reserve has cut interest rates to the lowest levels since the early 1960s. The President's tax cuts, and fiscal measures enacted immediately after the attacks will support U.S. recovery, and I am confident that the U.S. economy will deliver accelerating growth as we move through the year.

PO-940

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*U.S. Government Printing Office: 1998 - 619-559

Japan has performed far below its potential over the past decade. The resulting cost has been high – for the Japanese people and for the world economy. When the world's second-largest economy struggles, we all are affected. Some commentators have given up hope that Japan can again be an engine for world growth and prosperity. In fact, I am struck by the change in tone and prescription from the outside commentators. They have gone from offering a bewildering – and often contradictory – spectrum of policy advice to counseling other nations to protect themselves from a continuation of Japan's economic malaise, or worse.

But I believe that the critics who are now ready to write the Japanese economy off are wrong. Japan has tremendous resources in the diligence of its workforce and the competitiveness of the best of its firms. Imagine what Japan would look like if its whole economy performed like Toyota or Sony, or any number of other Japanese companies. The path-breaking manufacturing techniques and systems ideas developed by top-flight Japanese companies have also benefited U.S. consumers through cheaper, higher-quality products, and made U.S. industry more productive and efficient. Japan's economic leadership inspired people around the world to rise to new challenges, innovate and improve.

Every country, no matter how competitive, goes through periods where decisive economic adjustments and changes in policy are required.

- In the United States, I remember the painful period at the end of the 1970s and early in the 1980s, when many critics were willing to write us off. Our public and private institutions responded to the challenges and created an historic economic boom.
- In the United Kingdom, Margaret Thatcher led a fundamental reshaping of the British economy during her tenure as Prime Minister. Her labor market reforms, deregulation, privatization, and overhaul of the tax system improved incentives and injected a healthy dose of fresh competition into the U.K. economy.

Decisive policy actions reinvigorated these nations and made them examples to people around the world who were shrugging off the yoke of communism. By invoking a vision, leaders change expectations about the future and create public confidence to see their nations through the pain of the initial adjustments.

Japan has its own historical examples of decisive action. In the 1970s when the world was confronted with a series of energy shocks, Japan acted quickly to adjust. In the industry I know the best – aluminum – Japan took concerted action to stop producing primary aluminum as it recognized its competitive disadvantage in this energy-intensive business. To be sure, this action caused dislocations for the Japanese employees and companies, but it demonstrated that when Japan decides to act it can do so quickly and effectively.

Such quick and effective action is needed now.

This is why President Bush has expressed strong support for Prime Minister Koizumi and his reform program. Prime Minister Koizumi has a vision of Japan – prosperous people providing leadership for a vibrant Asian economy that sets a model for the world.

The Prime Minister has embraced a strong reform agenda that can return Japan to its place of global prominence and recognition. Let me say that nowhere have I seen any indication from the Prime Minister's remarks that he believes that tampering with foreign exchange rates is a realistic element of a reform agenda. I agree with him. During this trip, and on many other occasions over the past year, I have been asked about the U.S.-Japanese exchange rate. Implicit in the questions is the suggestion that exchange rate manipulation can return Japan to sustained economic growth. The straight fact is this: exchange rates cannot improve productivity or fix non-performing loans. The weight of historical evidence shows that those who have tried to fix underlying economic problems with protectionist measures – artificially depreciating the currency is one of those – actually weaken their own economy.

From the rest of the world's point of view, the objective and the measure of success is a Japan growing its gross domestic product again. It is clear that the policy prescriptions of the past – export led growth and endless public works projects – cannot work. But I am convinced, if the Japanese people resolve that they will grow again, they will devise the means to do it. If you establish a goal you will achieve it.

In order to accomplish the goal it will be necessary to formulate specific policies and to assign to each policy its expected contribution to the goal – along with the expected timetable to fully achieve the policy. It is clear in both public and private activities that goals without policies and timetables are destined to be not goals but unfulfilled yearnings.

Let me turn briefly to three areas that I believe may help to unlock the full potential of Japan's economy. The first is the banking sector. I applaud the central role the Prime Minister Koizumi's reforms have given to addressing the banking sector problems. The President in two U.S.-Japan summits – as well as my G7 finance ministry and central bank colleagues – have welcomed Japan's particular emphasis on this issue, and for good reason. A financial sector that is healthy and efficiently allocates capital to its most productive uses is critical for an economy to reach its full potential. A healthy banking system is also willing to take on risk, but does so consciously, and continually appraises its loan portfolio at its true market value.

We in the U.S. know from our own experience that a banking system that is struggling to rid itself of bad and risky loans can expect a tremendous drag on the real economy. If one can learn as much from mistakes as from successes, there are many lessons to be drawn from our own savings and loan crisis – which grew significantly over time before it was effectively addressed.

There were two things that I think were critical in turning the corner. The first was a decision to deal with the problem in its full extent, rather than through a series of partial measures designed in each case to minimize the immediate cost of dealing with the problem. The second was the decision to speed the return of distressed assets to private hands through sales of loan claims and their underlying collateral in the market.

What we learned, in the S&L crisis and in the banking problems we had in the 1990s, was the importance of addressing the problems of the borrowers. In some cases liquidation and sale of assets was the only available option.

But in many cases there was a core business that was viable within a company that was heavily indebted. Extracting that viable business was not simply a matter of reducing debt; restructuring of operations and management was almost always necessary. But if a company could be successfully restructured, its value was much higher than in liquidation, the loss of employment considerably lessened, and the chances of creating a secure future much higher.

A supportive macroeconomic environment is especially important in the context of banking reform, as firms and their employees adjust to changes in the financial system. The first element of such an environment is price stability. We have all learned the corrosive effect that inflation has on economies, but deflation is at least as bad. Deflation multiplies the burdens faced by debtors, as well as discouraging both consumption and business investment. Like inflation, persistent deflation is a monetary phenomenon, and will respond to monetary policy. But as long as deflation persists other reforms remain much more difficult to achieve.

The other leg of macroeconomic policy is fiscal policy. As the Koizumi Administration has emphasized, nonproductive public investment does not produce sustained growth.

I would also like to discuss the introduction of true price competition throughout Japanese industry. While Japan's best firms face price competition on a daily basis – both at home and abroad – in significant parts of the Japanese economy there are firms that owe their survival less to the creation of real economic value than to barriers and regulation. Increased price competition through deregulation and structural reform can lead to adjustments and some dislocation. However, it also creates economic opportunities and activity that will lead to a new entry by both domestic and foreign firms, increased employment, renewed growth, and a secure future.

Actions by individual companies indicate what is possible for the Japanese economy as a whole. Nissan is a company that appeared on the verge of closing two years ago. New investors and a determined effort at restructuring, in which both management and workers participated, returned this company to profitability well before most thought possible. Nissan rewarded its workers by meeting the union's last wage and bonus demands in full

The telecommunications industry is a clear example of the benefits that opening up new markets to competition can bring. Freeing up entry and price competition in mobile telephone services led to a rush of investment in base station and antenna facilities, and to a skyrocketing number of cellular telephone subscribers. And, as a result of the opportunities created and the new competition introduced, NTT DoCoMo is now a world leader in mobile communications innovation.

Big Bang financial services deregulation has led to a burst of new competition on products and pricing, just as it did in the United States and the United Kingdom. Japanese companies that once had to go to New York or London to obtain the financial service products they needed can now find many of them domestically. After deregulation in the United States, the financial services industry grew at a far faster rate than the economy as a whole, and I expect the same to occur in Japan.

The introduction of price competition throughout the Japanese economy entails thousands of smaller, detailed yet highly important decisions in trade, regulatory, and fiscal policies. It is not my place or the place of the U.S. government to lecture the Japanese government on how to proceed – these are decisions for the Japanese people. I do want to offer my support to Prime Minister Koizumi as he has clearly stated that structural reform "with no sacred cows" is necessary for economic recovery and strong, sustained growth. The Prime Minister has already outlined steps to cut back inefficient public works expenditures and to abolish or privatize Japan's public corporations. I wish him full success as he takes these initiatives forward.

Much is riding on these efforts – for Japan and for the world. In the U.S.-Japan Partnership for Economic Growth our two countries have recognized the decisive influence that our two economies have on global economic growth and wellbeing. We have a shared responsibility to do all that we can do to assure that we reach our full economic potential.

I am a strong optimist on the United States. I am also a strong optimist on Japan, and view this period as a time of great opportunity for policy to bring about a change for the better. Decisive actions are necessary to solve difficult problems, and the United States supports Prime Minister Koizumi's commitment to take decisive actions. Markets are clearly waiting for implementation of such actions and will respond strongly and positively to policies that will help Japan to achieve its full potential. Building confidence will reduce the short-term pain of the adjustments and speed the return of Japan to a path of strong growth. But I firmly believe that the Japanese miracle is not finished, is not in the past. Returning Japan to robust and durable growth is of the utmost importance to Japan, to the United States, and to the world.

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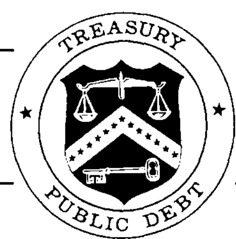
PUBLIC DEBT NEWS



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TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
January 23, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	January 24, 2002
Maturity Date:	February 21, 2002
CUSIP Number:	912795JH5

High Rate: 1.655% Investment Rate 1/: 1.684% Price: 99.871

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 23.81%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 24,314,800	$ 5,983,850
Noncompetitive	16,176	16,176
FIMA (noncompetitive)	0	0
SUBTOTAL	24,330,976	6,000,026
Federal Reserve	2,537,803	2,537,803
TOTAL	$ 26,868,779	$ 8,537,829

Median rate 1.630%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.600%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 24,330,976 / 6,000,026 = 4.06

1/ Equivalent coupon-issue yield.

http://www.publicdebt.treas.gov

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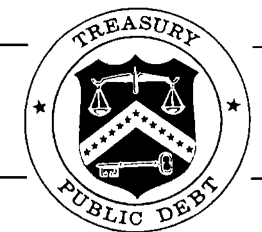

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BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

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January 23, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate:	3%	Issue Date:	January 31, 2002
Series:	J-2004	Dated Date:	January 31, 2002
CUSIP No:	9128277K2	Maturity Date:	January 31, 2004

High Yield: 3.039% Price: 99.925

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 58.90%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 37,307,340	$ 23,828,265
Noncompetitive	1,071,788	1,071,788
FIMA (noncompetitive)	100,000	100,000
SUBTOTAL	38,479,128	25,000,053 1/
Federal Reserve	5,766,370	5,766,370
TOTAL	$ 44,245,498	$ 30,766,423

Median yield 2.980%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 2.920%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 38,479,128 / 25,000,053 = 1.54

1/ Awards to TREASURY DIRECT = $853,360,000

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FOR IMMEDIATE RELEASE
January 24, 2002

Contact: Tasia Scolinos
(202) 622-2960

TREASURY SIGNS LICENSE UNBLOCKING FROZEN AFGHAN ASSETS

Late yesterday the Treasury Department signed a license authorizing the Federal Reserve to unblock Afghan government assets frozen in 1999 under Executive Order 13129. The license, signed by Richard Newcomb, Director of Treasury's Office of Foreign Assets Control, gives control of the assets to the new Afghan Interim Authority (AIA). The license will unblock approximately $193 million in gold and $24 million in other assets of the Afghan Central Bank held at the Federal Reserve Bank of New York.

The assets had been blocked under the 1999 Executive Order that froze all assets associated with the Taliban regime. The Taliban, who seized control of Kabul in 1996, were not recognized as the legitimate government of Afghanistan by the United States or the United Nations. The Secretary of State has certified that the AIA is the recognized legitimate authority to operate the account. This follows action by the Afghan Sanctions Committee of the United Nations Security Council, which on January 18th removed the Afghan Central bank from its list of sanctioned parties.

"This is how the blocking system was designed to work," said Treasury Secretary Paul O'Neill. "The blocked assets are held until a recognized regime is in place and the funds can be directed back to the legitimate holders. These funds will now be available to help stabilize the Afghan economy, strengthen the operations of the central bank, and shape a better future for the people of Afghanistan."

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PO-943

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
January 24, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Statement of Treasury Under Secretary Peter R. Fisher on Sallie Mae's Privatization Announcement

WASHINGTON, DC -- In response to the Student Loan Marketing Association's (Sallie Mae) announcement today that it planned to accelerate its wind-down as a government-sponsored enterprise, Treasury Under Secretary for Domestic Finance Peter R. Fisher made the following statement:

"I am pleased that Sallie Mae has approved a wind-down plan that will result in its complete privatization by September 30, 2006 -- two years earlier than required by Congress. The plan is a prudent one and should provide the basis for a constructive dialogue between Treasury and Sallie Mae over the coming four years."

Sallie Mae was created by Congress to facilitate a nationwide secondary market in guaranteed student loans. In 1996, Congress passed the Student Loan Marketing Association Reorganization Act (Privatization Act), which requires the full dissolution and privatization of Sallie Mae by September 30, 2008. The Treasury Department exercises oversight responsibilities over Sallie Mae, including monitoring its wind-down process, through Treasury's Office of Sallie Mae Oversight.

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FOR IMMEDIATE RELEASE
January 24, 2002

Contact: Public Affairs
(202) 622-2960

MEDIA ADVISORY:
UNITED STATES AND BAHAMAS WILL SIGN TAX INFORMATION EXCHANGE AGREEMENT ON FRIDAY

Treasury Secretary Paul H. O'Neill will hold the United States-Bahamas tax information exchange agreement signing ceremony at 11:00 a.m. EST on Friday, January 25, 2002 in the Treasury Department's Diplomatic Reception Room (Room 3311), 1500 Pennsylvania Avenue, NW. Treasury Secretary O'Neill and Bahamian Finance Minister William Allen will be signing the tax information exchange agreement.

The Room will be available for pre-set at 10:00 a.m.

Media without Treasury or White House press credentials planning to attend should contact Treasury's Office of Public Affairs at (202-622-2960) with the following information: name, social security number and date of birth. This information may also be faxes to (202) 622-1999.

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FOR IMMEDIATE RELEASE
January 24, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

MEDIA ADVISORY:
NEW PROCEDURES FOR TREASURY'S QUARTERLY REFUNDING ANNOUNCEMENT

The Treasury Department will announce the government's quarterly refunding needs on Wednesday, January 30, 2002. The procedure for releasing this information has been modified to improve the timeliness and transparency of the announcement.

At 9:00 a.m. EST, the Treasury Office of Public Affairs will post the relevant documents on the Treasury web site (www.treasury.gov) The information will be delivered to credentialed members of the media in the Treasury Pressroom at 8:45 a.m. with lock-down embargo rules enforced until 9:00 a.m. A member of Treasury's Office of Public Affairs will instruct media in attendance of the embargo rules and procedures upon delivery of the documents to the Treasury Pressroom. The traditional practice of making the quarterly refunding announcement at a news conference has been discontinued.

The relevant documents are:
1. The Treasury Department's policy statement
2. The Treasury Borrowing Advisory Committee's (BAC) Report to the Secretary
3. Minutes of the BAC's January 29, 2002 meeting
4. The Bureau of Public Debt's auction announcements covering securities to be issued February 15, 2002

Following the posting of the relevant documents on the Treasury web site, a senior Treasury official will be available to take questions from credentialed media at 9:30 a.m. in Room 3327 at the Treasury Department, 1500 Pennsylvania Ave., N.W., Washington, D.C. No broadcast equipment will be permitted at the briefing.

On Tuesday, January 29, 2002, the economic briefing and presentation on Treasury's financing needs will occur as usual at 9:00 a.m. The briefing will be held in Room 3327 at the Treasury Department.

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Members of the media without Treasury or White House press credentials should contact Frances Anderson in Treasury's Office of Public Affairs at 202-622-2960 by 8:30 a.m. EST on Tuesday, January 29, 2002 with the following information: full name, media organization, contact phone number, social security number and date of birth. This information may also be faxed to 202-622-1999. On Wednesday, January 30, 2002, media credentials must be shown to gain entry to the briefing room.

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For immediate release
January 24, 2002

Contact: Public Affairs
(202) 622-2960

STATEMENT BY SECRETARY PAUL O'NEILL ON BONUS DEPRECIATION AMENDMENT BEFORE THE SENATE

The economic stimulus bill under consideration in the Senate includes a 30% bonus depreciation provision which expires in one year. Senator Gordon Smith has introduced an amendment for consideration on the Senate floor that would make the same bonus depreciation available for 3 years. Treasury Secretary Paul O'Neill made the following comment:

The short period of eligibility for new investment under the base proposal would result in no stimulus to the kind of job creating major projects that are fundamental to our growing economy. Under the base proposal, a project begun tomorrow must be completed by December 31 of this year to get any benefit. Senator Gordon Smith is right to propose an amendment extending the 30% bonus depreciation provisions to 3 years, so that more investment takes place and more jobs are created. Senator Smith's amendment greatly enhances the job creation that will be generated by the bonus depreciation provisions under consideration in the Senate.

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PO-947

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EMBARGOED UNTIL 9:00 PM EASTERN
January 24, 2002

Contact: Rob Nichols
202-622-2910

"Thoughts on the Global Economy"

Remarks by Kenneth W. Dam
Deputy U.S. Treasury Secretary

Delivered to
The World Affairs Council of Washington, D.C.

January 24, 2002

A. Introduction & Thanks

B. Argentina & Emerging Market Policies -- The Struggle for a New Paradigm

This administration came to office having advocated a new approach to international financial crises. We sought to reduce the likelihood of crises arising in the first place. We sought to increase investment flows from the developed to the developing world at more affordable interest rates. And we sought to promote a more prudent approach to the use of IMF resources. I would like to focus my comments on this last effort.

Beginning with Mexico in the mid-90s, and especially with the Asian financial crisis later in the 90s, the size of major IMF programs grew enormously in a number of crisis countries. And worries arose that large financing packages might be leading some creditors to act on the assumption that their investments might be protected whenever an emerging market country got into financial trouble.

To want to change a policy is one thing, but in this instance changing it was something else again. Three problems stood in the way. First, large borrowers from the IMF increasingly began to fall behind in carrying through on IMF programs. Second, the threat of contagion to other emerging market countries had to be faced. And third, sovereign debt workouts -- the practical alternative to the policy of extending large scale access to IMF resources when borrowers failed to take the necessary steps to return to payments balance -- might prove hard to achieve.

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The first step was the decision to be sure that the IMF itself was taken seriously. The fact is that markets had increasingly begun to look through the IMF to the U.S. Treasury as the decisive decision maker, despite the fact that the U.S. had only one seat on the IMF Executive Board. We believe that the Fund's success is essential to stability in the international economy, and we wanted to make sure that we did not undermine its credibility. That's harder than it sounds when the media repeatedly seeks a U.S. view on each new financial event and when a judicious silence is interpreted as a lack of engagement. So although we talked at one level or another with Fund officials nearly every day, we wanted the Fund to be outfront and successful.

We took the second step when Turkey, having received a large augmentation of its IMF program in December 2000, faced another crisis last Spring. The problem was that Turkey needed to take decisive action on a number of fronts, which was politically difficult for the governing coalition. The solution we found, jointly with the Fund and its other shareholders, was to require Turkey to adopt a number of difficult measures, including nine key prior actions to be precise, before the IMF would agree to a new program, rather than, as too often in the past, merely requiring the borrower to promise to take action in the future under the principle of conditionality. This principle of prior action was not entirely new -- nothing is in international affairs -- but the emphasis was new.

Argentina provided a new challenge to the emerging policy. We decided, again jointly with the Fund and its other shareholders, to go the last mile with Argentina last August. We went along with a new program, but with the twist that some of the Fund money could be used to support a voluntary, market-based debt operation.

But here again a ruling coalition found it difficult to take the necessary measures and within a few months Argentina was in deep trouble. The decision was taken within the Fund process that Argentina's economic situation had become unsustainable. This recognition that the international community should not entertain ever larger scale financing for a country that cannot resolve problems rooted in its policies and structures came to be accepted by markets as well as by governments.

Still, as the President has said, "the United States is prepared to help Argentina weather this storm. Once Argentina has committed to a sound and sustainable economic plan, [we] will support assistance for Argentina through international financial institutions."

The Argentine case shows that with sufficient preparation the international community does not have to be faced with contagion whenever a large borrower runs into trouble. Steps were taken by the Fund, through

its existing program with Brazil, to give confidence that Argentina's closest neighbor would not fall victim to contagion. And the markets came to see that a workout was inevitable. The result is that today there is little evidence of contagion in the Argentine crisis, particularly not worldwide contagion.

We are thus well along the way to a new paradigm. The international community recognizes that the Fund cannot succeed if borrowers are unable or unwilling to take the domestic steps necessary to live within their means. The world is thus beginning to move back toward the original concept of the Fund as a lender to help countries withstand temporary payments imbalances. Contagion seems far less a necessary consequence than in the recent past. And in the case of Turkey, while it cannot be said to have overcome all of its economic challenges, recent economic indicators suggest that the markets at least have regained considerable confidence and Turkey appears to be making progress on some of the difficult measures that it needed to implement to restore its economy to health.

Of course, the new paradigm is not yet fully in place. Until the world economy recovers, emerging market economies face a difficult head-wind. Fortunately, the world economy, like the US economy, appears to be doing better than a few months ago.

And a second challenge lies in creating the structure for successful sovereign workouts. The world has no system such as found where national bankruptcy systems provide a stable environment for a debtor and its creditors to negotiate free from the fear that opportunistic minority creditors may, especially through litigation, make agreement difficult. Under our corporate reorganization law, Chapter 11, the bargaining occurs in the shadow of the court, thereby assuring that the interests of creditors as a group are safeguarded and that a sensible restructuring can be arrived at.

No such international bankruptcy system exists. Anne Krueger, the second-ranking official at the IMF, has made some tentative suggestions. The U.S. Treasury has similarly expressed interest. Various possibilities, some IMF-centered and others based more on contract, are under wide discussion in and out of official circles. We believe that if those discussions can reach a sensible, market-friendly conclusion, both creditors and debtors will be better off. And another step away from the bail-out paradigm will have been taken.

C. Financial War on Terrorism

1. The world economy is bottoming -- but terrorism is a "wild card."

We are now seeing many signs that the world economy is bottoming and perhaps reviving. Here in the U.S., consumer confidence has improved.

Leading indicators are up – for the third week in a row. And, most importantly, there are signs that the economy can sustain the high rates of productivity growth that it achieved during the last half of the 1990s.

But, as Chairman Greenspan has observed, we saw some of these encouraging signs in August and early September. The attacks on the World Trade Center certainly dealt our economy a short-term blow and ended an earlier recovery.

Terrorism remains an economic wild-card. No one can predict whether or when another attack may take place, or how bad the next attack might be. The recent incident of the shoe bomber demonstrates that the threat is not yet behind us. Our job, as stewards of our citizens and our economy, is to try to make sure that another attack does not occur or at least does not succeed.

2. <u>Treasury's role in the overall war effort.</u>

As you know, U.S. foreign policy is coordinated by the National Security Council. At the beginning of his Presidency, President Bush made Treasury a full member in the NSC – on all issues, not just so-called economic issues.
Today problems do not come labeled "security only" or "economic only."

In addition, President Bush tapped Treasury as the lead agency on the financial front of the war on terrorism. We draw upon our experience in money laundering and other financial crimes, our relations with finance ministries around the world, and our contacts with the financial services industry. We use the expertise of financial investigators in our Treasury bureaus, particularly the IRS and the Customs Service. We use the credit card and identity theft expertise of the Secret Service. We rely on the Office of Foreign Assets Control (or "OFAC") to help unveil terrorist financing networks and implement asset blocking orders against them.

But we can't go it alone. We work closely with other agencies – especially the Department of Justice and the FBI, the State Department, and the intelligence agencies. There has been an unprecedented level of cooperation as these agencies have worked together and mostly set aside their historical rivalries.

In this vein, I was pleased to announce yesterday that the President will ask Congress to increase the budget for the Financial Crimes Enforcement Network or "FinCEN" – one of Treasury's bureaus that provides law enforcement agencies across government with a common platform from which to conduct financial crimes investigations.

3. Importance of international cooperation.

International cooperation is crucial to winning the financial war. After all, we can't bomb foreign bank accounts. We need the help of the foreign government to freeze them.

So far, we have received much international cooperation. We froze some $34 million of terrorist assets in the U.S. since September 11 – foreign governments froze at least another $46 million -- $10 million of which I announced on Tuesday. 147 countries and jurisdictions have blocking orders in place. Luxembourg and Canada have blocked all of the names we have blocked, and the UK has blocked all but a handful. Switzerland, the country that used to advertise its protection of "bank secrecy," has blocked 30 terrorist-related accounts. Even the United Arab Emirates has issued blocking orders on the assets of several terrorists on the U.S. list and published an additional list of 30 companies with suspected terrorist links.

The UN and our able Ambassador John Negroponte have played an important role as well. UN Resolution 1373 calls on member countries to criminalize terrorist financing and to develop the legal infrastructure to designate and sanction terrorists and those who support them. Believe it or not, many countries – including Canada – did not have laws on their books making it a crime to wittingly provide money to terrorist organizations. Increasingly, they now do. Also, the UN has maintained and expanded a list of designated terrorist individuals and organizations. The G-7, G-20, and the 31-member Financial Action Task Force have also made important contributions.

We are particularly pleased with the EU's recent decision not only to cooperate, but to play a leadership role. At the end of December, the EU designated several terrorist entities and organizations, including some Irish and Spanish extremist organizations that the U.S. had not previously designated. We were pleased to follow the EU's lead and designate those entities, too.

Needless to say, some of the international cooperation – particularly from countries in the Gulf region – is behind the scenes. But regional governments are quietly providing leads, taking the initiative to shut down front charities, and cooperating with the coalition's overall investigations.

4. New tools in the war on financing.

Also important, we have some new tools to fight on the financial front. For example, the USA Patriot Act requires banks to know the true owner of correspondent bank accounts and to terminate suspect correspondent

accounts. We will be extending suspicious activity reporting requirements to brokers and security dealers. As of January 1, we have required money service businesses – including hawalas – to register with FinCEN, report suspicious activity, and collect and retain customer identification information – over 8,500 have already done so. And we recently concluded agreements with Interpol and Europol that deepen our ability to exchange information with foreign law enforcement agencies.

D. Other International Issues -- Creating a Clean Environment

Another important component of the financial front of the war on terrorism is our effort to create a cleaner international financial system more generally. We continue to support the highly-successful "name and shame" approach of the Financial Action Task Force. And this approach is being extended to terrorism. Increasingly, foreign jurisdictions previously known for their "no questions asked" approach to financial services are finding it worthwhile to start asking a few questions. In addition, we have concluded landmark Tax Information Exchange Agreements based on an OECD model, with the Cayman Islands and Antigua & Barbuda. We are about to announce a third, major agreement. Around the world, financial centers are cleaning up their act. This has a further, if less direct, deterrent effect on terrorist finances.

E. Are We Making a Difference? Short Answer Is Yes.

Without question, there is a lot of activity on the financial front. But are we making a difference? Earlier, I cited some quantitative measures of our success -- $80 million in frozen assets; 147 countries with blocking orders, etc. But do all of the statistics mean that we are helping to prevent terrorist attacks? That is the ultimate question, the ultimate measure of success. We may ultimately never know the answer – it is hard to prove a negative, hard to measure prevention and deterrence. But, I think, the short answer is yes.

Our intelligence channels indicate Al Qaeda was "feeling the pinch" in Afghanistan. We believe that terror~~ists~~ groups are finding it harder to move money around the globe. Wealthy donors who are accustomed to paying protection money are becoming more cautious about whom they support. Shutting down the global al-Barakaat hawala was a particular blow because Osama bin Laden and Somali extremist groups derived large sums of money from its operations. As a result of these pressures, we have crippled bin Laden's global reach. His loose collection of allied extremist groups was premised on his providing them with financial means. Bin Laden's operations must now find additional sources to support themselves.

Another place where we see some signs of success is in the special area of Islamic charities. While they are important sources of support for hospitals, orphanages and the like, the managers of some charities sometimes also run a clandestine business supporting terrorist groups. Their directors and donors are waking up and cleaning up some of the charities' operations. And governments in which these charities are found are rethinking their "blind eye" approach.

As I mentioned earlier, regional cooperation is picking up.

F. Next Challenges

So the short answer is "yes, we are making a difference" but we need to do more. Let me mention four tasks.

First, we must encourage independent identification of terrorist groups by other countries. The EU designation at the end of December is a step in the right direction, but we need more countries to initiate more designations.

Second, we have to ensure that more countries issue blocking orders for more of the entities identified, by the United States, other countries, and the international community, as being part of terrorist financial networks. We must also do a better job of following up with the countries to make sure that their orders, once issued, are fully implemented and obeyed.

Third, we must do a better job of exploiting the "industrial quantity" of documents captured in Afghanistan and increasingly elsewhere. Hard drives and e-mails must be exploited as well. This is a massive challenge. To meet it, we must bring documents together from all over the world, translate them, cross-reference them, and thereby build a complete picture. No one document can tell us that much.

Fourth, we must redouble efforts by U.S. and allied intelligence services against such financial intermediaries as hawalas and other informal systems.

Some may be tempted to say that the financial war on terrorism is an impossible task. After all, money is fungible and illegal money tends to flow to the most hospitable country. But that the task is difficult does not mean that it is impossible. This is an unconventional war where there are no boundaries, where civilians are the targets, where people (or so-called "martyrs") are the weapons, and where electronic money transfers and messaging are the fuel and the logistics train. Identifying the flow of money helps us find the footprint of sleeper cells, disable them, and perhaps prevent the next attack.

Thank you.

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For Immediate Release
January 25, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY SECRETARY O'NEILL'S SIGNING CEREMONY STATEMENT

UNITED STATES AND THE BAHAMAS SIGN AGREEMENT TO EXCHANGE TAX INFORMATION

Today Treasury Secretary Paul O'Neill signed a new agreement with the Commonwealth of The Bahamas that will allow for exchange of information on tax matters between the United States and The Bahamas. The agreement was signed by Treasury Secretary Paul O'Neill and Bahamian Finance Minister William Allen.

At the signing ceremony, Treasury Secretary Paul O'Neill delivered the following remarks:

"I would like to thank you all for being here today and welcome our friends from The Bahamas, especially Finance Minister William Allen and the other members of his delegation who participated in the negotiation of this important agreement.

"The United States has long had a close relationship with The Bahamas, which is one of our nearest neighbors and a recognized leader in the Caribbean. I am happy to say that our relationship has grown significantly closer recently. In particular, I would like to extend my sincere gratitude to The Bahamas for the extraordinary cooperation it has provided in our efforts to disrupt the financing of terrorist organizations. After the September 11th attacks in New York and Washington, The Bahamas moved quickly to identify and freeze suspect accounts and has closely cooperated with U.S. law enforcement authorities investigating the financing of terrorist organizations.

"The tax information exchange agreement we are signing today marks another important step forward in our relationship. By signing this agreement, The Bahamas leaves no doubt that it should be counted among the financial centers of the world that are committed to upholding international standards and simply will not tolerate the abuse of their financial institutions for illicit purposes.

"I have spoken many times about our obligation to enforce our tax laws, because failing to do so undermines the confidence of honest taxpayers in the fairness of our tax system. I have pledged that we would do our utmost to ensure adequate enforcement of our laws, and I made a commitment to quicken the pace for obtaining new tax information exchange agreements.

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Today's signing is a significant step forward in our continuing journey, and I hope that the cooperative spirit of The Bahamas will serve as an example for other countries in the Caribbean and around the world."

The text of the Agreement follows:

AGREEMENT BETWEEN
THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND
THE GOVERNMENT OF THE COMMONWEALTH OF THE BAHAMAS
FOR THE PROVISION OF INFORMATION WITH RESPECT TO
TAXES AND FOR OTHER MATTERS

WHEREAS The Bahamas has taken significant steps in the international fight against money laundering and other financial crimes, and the United States recognizes The Bahamas as a cooperating country with respect to all relevant international efforts to counter money laundering activities;

WHEREAS the United States has recognized the efforts on the part of The Bahamas to ensure that the same financial standards apply in The Bahamas as apply in other recognized international financial centers;

WHEREAS, the Government of The Bahamas and the Government of the United States (the "Contracting Parties"), wish to enter into an agreement (the "Agreement") to establish the terms and conditions governing the provision of information by the Government of The Bahamas to the Government of the United States with respect to certain taxes; and

WHEREAS the Contracting Parties wish to enter into a form of agreement that allows United States taxpayers to deduct expenses allocable to a convention, seminar or similar meeting held in The Bahamas in the same manner and to the same degree that such a deduction would be permitted if such meeting were held in the United States,

NOW, THEREFORE, the Contracting Parties agree as follows:

ARTICLE 1 – DEFINITIONS

1. In this Agreement, unless otherwise defined:

   a) "civil matter" means an examination, investigation or proceeding relating to United States federal tax administration and enforcement with respect to conduct that does not constitute a criminal tax offense under the laws of the United States;

   b) "Competent Authority" means:

      (i) in the case of the United States, the Secretary of the Treasury or his delegate; and

      (ii) in the case of The Bahamas, the Minister of Finance or his delegate;

c) "criminal matter" means an examination, investigation or proceeding concerning conduct that constitutes a criminal tax offense under the laws of the United States;

d) "information" means any fact or statement, in any form, that is foreseeably relevant or material to United States federal tax administration and enforcement, including, but not limited to,

(i) testimony of an individual, and
(ii) documents or records;

e) "pending matter" means an examination, investigation or proceeding under the federal tax laws of the United States that is pending at the time the request under Article 2 is made, and

(i) in the case of a criminal matter, relates to a taxable period commencing on or after January 1, 2004; or
(ii) in the case of a civil matter, relates to a taxable period commencing on or after January 1, 2006;

f) "person" includes an individual and a partnership, corporation, trust, estate, association or other legal entity;

g) "privileged communication" means a communication that

(i) is a confidential communication, whether oral or written, passing between-
(a) a counsel and attorney in his or her professional capacity and another counsel and attorney in such capacity; or
(b) a counsel and attorney in his or her professional capacity and his or her client, whether made directly or indirectly through an agent of either;
(ii) is communicated or given to a counsel and attorney by, or by a representative of, a client of his or hers in connection with the giving by the counsel and attorney of legal advice to the client;
(iii) is made or brought into existence for the purpose of obtaining or giving legal advice or assistance; ~~and~~
(iv) is not made or brought into existence for the purpose of committing or furthering the commission of some illegal or wrongful act.

h) "resident" means:

(i) a citizen of the United States or any person, other than a company, resident in the United States for the purpose of United States tax; but in the case of a partnership, estate or trust, only to the extent that the income derived by such partnership, estate or trust is subject to United States tax as the income of a resident, either in its hands or in the hands of its partners or beneficiaries; and:

(ii) a company created under the laws of the United States, any state or the District of Columbia.

i) "tax" means all federal taxes in the United States;

j) for purposes of determining the geographical area within which jurisdiction to compel production of information may be exercised,

(i) "United States" means the United States of America, including Puerto Rico, the Virgin Islands, Guam and any other United States possession or territory;
(ii) "The Bahamas" means The Commonwealth of The Bahamas.

ARTICLE 2 – PROVISION OF INFORMATION WITH RESPECT TO UNITED STATES TAXES

1. The Competent Authority of the United States shall only make a request for information pursuant to this Article when the Competent Authority of the United States is unable to obtain the requested information by other means, having made all reasonable efforts to do so.

2. Upon receipt of a request made in conformity with the provisions of this Article, the Competent Authority of The Bahamas shall, subject to the provisions of paragraph 7 of this Article, make all reasonable efforts to provide to the Competent Authority of the United States information with respect to United States federal taxes.

3. Any request for information made by the Competent Authority of the United States pursuant to this Article shall be made in connection with a pending matter of a United States taxpayer and shall be framed with the greatest degree of specificity possible. In all cases, such request shall specify in writing the following:

a) the legal name of the person about whom the request is made;

b) the type of information requested;

c) the period of time with respect to which the information is requested;

d) the likely location of the information;

e) the matter under United States federal tax law with respect to which the information is sought and whether that matter is criminal or civil in nature; and

f) the reasons for believing that the information requested is foreseeably relevant or material to United States federal tax administration and enforcement with respect to the person identified in subparagraph a) of this paragraph.

4. This Article shall not apply to the extent that the requested information:

a) relates to a matter under United States federal tax law that is barred by the applicable statute of limitations; or

b) constitutes or would reveal a privileged communication.

5. Where the Competent Authority of the United States requests information with respect to a matter which (i) relates to a person not resident in the United States or (ii) does not constitute a criminal matter, a senior official designated by the Secretary of the Treasury of the United States shall certify that such request is foreseeably relevant or material to the determination of the federal tax liability of a taxpayer of the United States or the criminal liability of a person under the federal tax laws of the United States. If information is requested relating to persons not resident in the United States, it shall also be established to the satisfaction of the Competent Authority of The Bahamas that such information is foreseeably relevant or material to the administration and enforcement of the federal tax laws of the United States.

6. If specifically requested by the Competent Authority of the United States, the Competent Authority of The Bahamas shall provide information pursuant to this Article in specified forms to be admissible in judicial or administrative proceedings in the United States to the same extent that such specified forms can be obtained under the laws and administrative practices of The Bahamas. The specified forms shall include depositions of witnesses and authenticated copies of original documents, including books, papers, statements, records, accounts, and writings.

7. Nothing in this Agreement shall be construed so as to impose on the Government of The Bahamas the obligation to:

a) carry out administrative measures at variance with the laws and administrative practices of The Bahamas;

b) supply particular items of information which are not obtainable under the laws or in the normal course of the administration of The Bahamas;

c) supply information which would disclose any trade, business, industrial, commercial or professional secret or trade process; or

d) supply information the disclosure of which would, in the judgment of the Government of The Bahamas, be contrary to national security or public policy in The Bahamas.

8. Notwithstanding paragraph 7, the Competent Authority of The Bahamas shall have the authority to obtain and provide information held by financial institutions, nominees or persons acting in an agency or a fiduciary capacity or information respecting ownership interests in a person.

9. In connection with a request for information under this Article:

a) a claim of privilege under the laws of the United States shall be determined exclusively by the courts of the United States; and

b) a claim of privilege under the laws of The Bahamas shall be determined exclusively by the courts of The Bahamas.

ARTICLE 3 – PROTECTION OF INFORMATION WITH RESPECT TO UNITED STATES FEDERAL TAXES

1. Information provided to the Competent Authority of the United States pursuant to this Agreement shall be disclosed only to departments, agencies and judicial and administrative bodies of the Government of the United States, and to employees and agents thereof, involved in the

a) determination, assessment, and collection of; and

b) administration of, the recovery and collection of claims derived from, the enforcement or prosecution in respect of, or the determination of appeals in respect of;

those United States federal taxes with respect to which the relevant request was made pursuant to this Agreement, or the oversight of the above. Such departments, agencies and judicial and administrative bodies, and the employees and agents thereof, shall use such information only for the purposes listed in this paragraph. Such departments, agencies and judicial and administrative bodies, and the employees and agents thereof, may disclose such information in connection with court proceedings related to those federal taxes with respect to which the relevant request was made pursuant to this Agreement.

2. The Competent Authority of The Bahamas shall treat any request for information received from the United States pursuant to this Agreement as confidential and shall only disclose such information as necessary to carry out its obligations under this Agreement. Such requests may be disclosed in connection with court proceedings related to the performance of the obligations of The Bahamas under this Agreement.

3. Nothing in this Agreement shall be construed to permit the Government of the United States to share information received pursuant to this Agreement with an agency or employee of any other government.

4. Information that is provided to the Government of the United States pursuant to this Agreement before January 1, 2006 concerning a criminal matter shall not be used in connection with any other matter without prior written consent of the Competent Authority of The Bahamas. With respect to information that is provided to the Government of the United States pursuant to this Agreement on or after January 1, 2006, the Competent Authority of the United States shall provide prior written notice to the Competent Authority of The Bahamas before using such information for a type of United States federal tax matter other than the one for which it was requested.

ARTICLE 4 – QUALIFIED INTERMEDIARIES

For the purposes of considering an application by a person in The Bahamas to enter into a Qualified Intermediary Withholding Agreement (within the meaning of Revenue Procedure

2000-12) with the Internal Revenue Service of the United States, The Government of the United States shall certify that The Commonwealth of The Bahamas has taken significant steps towards achieving effective rules and/or procedures for providing tax information to the United States of America for both civil tax administration and criminal tax enforcement purposes, and the Internal Revenue Service of the United States of America has determined The Bahamas' "know your customer" rules to be acceptable within the meaning of Section 3 of Revenue Procedure 2000-12.

ARTICLE 5 – CONVENTION TAX TREATMENT

A United States taxpayer may deduct from income costs incurred with respect to attendance at a conference or convention held in The Bahamas in the same manner and to the same extent that such taxpayer is permitted to deduct such costs with respect to attendance at a conference or convention held in the United States.

ARTICLE 6 – ADMINISTRATIVE PROVISIONS

1. The Competent Authorities of the Contracting Parties shall enter into an agreement (the "Competent Authority Agreement") regarding implementation of this Agreement.

2. The Competent Authorities of the Contracting Parties shall endeavor to resolve by mutual agreement any disputes arising as to the interpretation or application of this Agreement.

3. The Competent Authorities of the Contracting Parties may communicate directly for the purposes of reaching an agreement under this Article.

4. The Government of the United States shall reimburse the Government of The Bahamas for all direct costs incurred in providing information pursuant to this Agreement as provided in the Competent Authority Agreement. The Competent Authorities of the Contracting Parties shall consult from time to time with a view to minimizing such costs.

ARTICLE 7 – ENTRY INTO FORCE, EFFECTIVE DATE, MODIFICATION AND TERMINATION

1. This Agreement shall enter into force upon an exchange of notes by the duly authorized representatives of the Contracting Parties, confirming their agreement that both sides have met the constitutional and statutory requirements necessary to effectuate this Agreement.

2. The provisions of Articles 2 and 3 shall take effect

   a) on January 1, 2004 with respect to requests for information made in connection with a criminal matter; and

   b) on January 1, 2006 with respect to requests for information made in connection with a civil matter.

3. The provisions of Article 5 shall take effect on January 1, 2006.

4. The provisions of this Agreement, with the exception of those identified in paragraphs 2 and 3 of this Article, shall take effect upon the entry into force of this Agreement.

5. The effective date provisions set forth in paragraph 2 of this Article are established in the expectation that the United States will enter into arrangements with certain other off-shore financial centers for the provision of information with respect to taxes. If the United States has not entered into such arrangements by January 1, 2004, or if the United States, at any time, enters into such arrangements that differ in material respect from the provisions of this Agreement, the Government of The Bahamas and the Government of the United States shall hold consultations concerning appropriate modifications to this Agreement.

6. If, at any time after the entry into force of this Agreement, the Organization for Economic Cooperation and Development or other international organization develops a model agreement on tax information exchange, a Contracting Party may propose modifications to this Agreement for the purpose of bringing this Agreement into conformity with the model agreement. Upon receipt of such a proposal, the other Contracting Party shall enter into good faith negotiations concerning the proposal.

7. This Agreement shall remain in force until terminated by one of the Contracting Parties. Either Contracting Party may terminate this Agreement at any time upon three months prior written notice transmitted through diplomatic channels.

IN WITNESS WHEREOF, the undersigned, being duly authorized by their respective governments, have signed this Agreement.

DONE at Washington, in duplicate, this twenty-fifth day of January, 2002.

FOR THE GOVERNMENT
OF THE UNITED STATES
OF AMERICA:

FOR THE GOVERNMENT
OF THE COMMONWEALTH
OF THE BAHAMAS:

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 2:30 P.M.
January 24, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling $29,000 million to refund an estimated $28,846 million of publicly held 13-week and 26-week Treasury bills maturing January 31, 2002, and to raise new cash of approximately $154 million. Also maturing is an estimated $7,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced January 28, 2002.

The Federal Reserve System holds $11,809 million of the Treasury bills maturing on January 31, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders either in these auctions or the 4-week Treasury bill auction to be held January 29, 2002. Amounts awarded to SOMA will be in addition to the offering amount.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of each auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

TreasuryDirect customers have requested that we reinvest their maturing holdings of approximately $1,211 million into the 13-week bill and $1,044 million into the 26-week bill.

The allocation percentage applied to bids awarded at the highest discount rate will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

'0-950

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED JANUARY 31, 2002

January 24, 2002

Offering Amount	$15,000 million	$14,000 million
Public Offering	$15,000 million	$14,000 million
NLP Exclusion Amount	$ 4,700 million	None
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 JS 1	912795 KU 4
Auction date	January 28, 2002	January 28, 2002
Issue date	January 31, 2002	January 31, 2002
Maturity date	May 2, 2002	August 1, 2002
Original issue date	November 1, 2001	January 31, 2002
Currently outstanding	$18,897 million	---
Minimum bid amount and multiples	$1,000	$1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.

Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.

Competitive bids:

(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 7.100%, 7.105%.
(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Rate ....35% of public offering

Maximum Award ....35% of public offering

Receipt of Tenders:

Noncompetitive tenders..... Prior to 12:00 noon eastern standard time on auction day

Competitive tenders........ Prior to 1:00 p.m. eastern standard time on auction day

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press 202-622-2960
FFB 202-622-2450

FEDERAL FINANCING BANK December 31, 2001

Kerry Lanham, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of November 2001.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $40.5 billion on November 30, 2001, posting a decrease of $89.3 million from the level on October 31, 2001. This net change was the result of decreases in holdings of agency debt of $60.1 million and in holdings of agency assets of $75.0 million, and an increase in holdings of government-guaranteed loans of $45.8 million. The FFB made 92 disbursements, received 7 prepayments, and processed 5 refinancings during the month of November.

Attached to this release are tables presenting FFB November loan activity and FFB holdings as of November 30, 2001.

PO-951

FEDERAL FINANCING BANK
NOVEMBER 2001 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
GENCY DEBT				
U.S. POSTAL SERVICE				
U.S. Postal Service	11/01	$850,000,000.00	11/02/01	2.173% S/A
U.S. Postal Service	11/01	$331,100,000.00	11/02/01	2.183% S/A
U.S. Postal Service	11/02	$1,375,000,000.00	11/05/01	2.173% S/A
U.S. Postal Service	11/02	$441,200,000.00	11/05/01	2.132% S/A
U.S. Postal Service	11/05	$550,000,000.00	11/06/01	2.183% S/A
U.S. Postal Service	11/05	$283,500,000.00	11/06/01	2.132% S/A
U.S. Postal Service	11/06	$250,000,000.00	11/07/01	2.132% S/A
U.S. Postal Service	11/06	$183,000,000.00	11/07/01	1.979% S/A
U.S. Postal Service	11/07	$210,000,000.00	11/08/01	1.928% S/A
U.S. Postal Service	11/08	$39,200,000.00	11/09/01	1.968% S/A
U.S. Postal Service	11/09	$800,000,000.00	11/13/01	1.928% S/A
U.S. Postal Service	11/09	$245,700,000.00	11/13/01	1.958% S/A
U.S. Postal Service	11/13	$1,050,000,000.00	11/14/01	1.968% S/A
U.S. Postal Service	11/13	$293,000,000.00	11/14/01	1.969% S/A
U.S. Postal Service	11/14	$700,000,000.00	11/15/01	1.958% S/A
U.S. Postal Service	11/14	$342,800,000.00	11/15/01	1.999% S/A
U.S. Postal Service	11/15	$435,000,000.00	11/16/01	1.969% S/A
U.S. Postal Service	11/15	$518,900,000.00	11/16/01	2.040% S/A
U.S. Postal Service	11/16	$460,000,000.00	11/19/01	1.999% S/A
U.S. Postal Service	11/16	$306,900,000.00	11/19/01	2.071% S/A
U.S. Postal Service	11/19	$325,000,000.00	11/20/01	2.040% S/A
U.S. Postal Service	11/19	$233,400,000.00	11/20/01	2.061% S/A
U.S. Postal Service	11/20	$238,900,000.00	11/21/01	2.071% S/A
U.S. Postal Service	11/21	$126,000,000.00	11/23/01	2.081% S/A
U.S. Postal Service	11/23	$675,000,000.00	11/26/01	2.071% S/A
U.S. Postal Service	11/23	$389,600,000.00	11/26/01	2.071% S/A
U.S. Postal Service	11/26	$1,125,000,000.00	11/27/01	2.081% S/A
U.S. Postal Service	11/26	$275,900,000.00	11/27/01	2.102% S/A
U.S. Postal Service	11/27	$980,000,000.00	11/28/01	2.071% S/A
U.S. Postal Service	11/27	$95,000,000.00	11/28/01	2.040% S/A
U.S. Postal Service	11/28	$800,000,000.00	11/29/01	2.102% S/A
U.S. Postal Service	11/28	$123,800,000.00	11/29/01	1.999% S/A
U.S. Postal Service	11/29	$500,000,000.00	11/30/01	2.040% S/A
U.S. Postal Service	11/29	$220,900,000.00	11/30/01	1.928% S/A
U.S. Postal Service	11/30	$1,140,000,000.00	12/03/01	1.999% S/A
U.S. Postal Service	11/30	$271,400,000.00	12/03/01	1.907% S/A
GOVERNMENT-GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Atlanta CDC Lab	11/01	$27,528.94	1/30/02	2.173% S/A
San Francisco OB	11/05	$56,866.64	8/01/05	3.434% S/A
San Francisco OB	11/05	$379,615.30	8/01/05	3.434% S/A
Atlanta CDC Lab	11/07	$14,671.04	1/30/02	1.979% S/A

FEDERAL FINANCING BANK
NOVEMBER 2001 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
AGENCY DEBT				
U.S. POSTAL SERVICE				
U.S. Postal Service	11/01	$850,000,000.00	11/02/01	2.173% S/A
U.S. Postal Service	11/01	$331,100,000.00	11/02/01	2.183% S/A
U.S. Postal Service	11/02	$1,375,000,000.00	11/05/01	2.173% S/A
U.S. Postal Service	11/02	$441,200,000.00	11/05/01	2.132% S/A
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GOVERNMENT-GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Atlanta CDC Lab	11/01	$27,528.94	1/30/02	2.173% S/A
San Francisco OB	11/05	$56,866.64	8/01/05	3.434% S/A
San Francisco OB	11/05	$379,615.30	8/01/05	3.434% S/A
Atlanta CDC Lab	11/07	$14,671.04	1/30/02	1.979% S/A

FEDERAL FINANCING BANK
NOVEMBER 2001 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
Grady Electric #746	11/27	$3,250,000.00	12/31/02	2.507% Qtr.
Cam Wal Elec. #514	11/29	$411,000.00	1/02/29	5.352% Qtr.
Logan County Coop. #749	11/29	$275,000.00	12/31/35	5.346% Qtr.
Grayson Rural Elec. #619	11/30	$1,300,000.00	4/01/02	1.798% Qtr.
Lorain-Medina Electric #760	11/30	$900,000.00	12/31/35	5.204% Qtr.
Oglethorpe Power #445	11/30	$21,902,169.41	12/31/20	5.166% Qtr.
Oglethorpe Power #445	11/30	$6,224,046.58	12/31/20	5.166% Qtr.
Oglethorpe Power #445	11/30	$27,197,208.87	12/31/20	5.166% Qtr.
Pineland Telephone #403	11/30	$899,000.00	1/02/24	5.232% Qtr.
Pineland Telephone #747	11/30	$213,000.00	12/31/19	4.903% Qtr.
Rural Elec. Conven. #613	11/30	$200,000.00	1/03/34	5.200% Qtr.
Southeastern Indiana #496	11/30	$3,500,000.00	1/03/33	5.230% Qtr.
Traverse Electric #768	11/30	$401,000.00	12/31/35	5.204% Qtr.

S/A is a Semiannual rate.
Qtr. is a Quarterly rate.
306C refinancing

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	November 30, 2001	October 31, 2001	Monthly Net Change 11/1/01-11/30/01	Fiscal Year Net Change 10/1/01-11/30/01
Agency Debt:				
U.S. Postal Service	$8,961.4	$9,021.5	-$60.1	-$2,351.6
Subtotal*	$8,961.4	$9,021.5	-$60.1	-$2,351.6
Agency Assets:				
FmHA-RDIF	$2,310.0	$2,385.0	-$75.0	-$125.0
FmHA-RHIF	$4,375.0	$4,375.0	$0.0	$0.0
Rural Utilities Service-CBO	$4,270.2	$4,270.2	$0.0	$0.0
Subtotal*	$10,955.2	$11,030.2	-$75.0	-$125.0
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	$2,141.0	$2,154.0	-$12.9	-$15.6
DoEd-HBCU+	$41.9	$31.9	$10.0	$10.5
DHUD-Community Dev. Block Grant	$7.1	$7.1	$0.0	-$0.7
DHUD-Public Housing Notes	$1,207.3	$1,278.7	-$71.4	-$71.4
General Services Administration+	$2,264.6	$2,266.3	-$1.7	-$3.4
DOI-Virgin Islands	$13.1	$13.1	$0.0	$0.0
DON-Ship Lease Financing	$941.1	$941.1	$0.0	$0.0
Rural Utilities Service	$13,822.2	$13,698.2	$124.1	$223.0
SBA-State/Local Development Cos.	$126.3	$128.6	-$2.3	-$5.7
DOT-Section 511	$3.4	$3.4	$0.0	$0.0
Subtotal*	$20,568.2	$20,522.4	$45.8	$136.8
Grand total*	$40,484.8	$40,574.1	-$89.3	-$2,339.8

* figures may not total due to rounding
\+ does not include capitalized interest

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press 202-622-2960
FFB 202-622-2450

FEDERAL FINANCING BANK November 30, 2001

Kerry Lanham, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of October 2001.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $40.6 billion on October 31, 2001, posting a decrease of $2,250.5 million from the level on September 30, 2001. This net change was the result of decreases in holdings of agency debt of $2,291.5 million and in holdings of agency assets of $50.0 million, and an increase in holdings of government-guaranteed loans of $91.0 million. The FFB made 98 disbursements and received 21 prepayments during the month of October. In addition, the FFB extended the maturities of 107 loans guaranteed by the Rural Utilities Service.

Attached to this release are tables presenting FFB October loan activity and FFB holdings as of October 31, 2001.

PO-952

FEDERAL FINANCING BANK
OCTOBER 2001 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
AGENCY DEBT				
U.S. POSTAL SERVICE				
U.S. Postal Service	10/01	$2,300,000,000.00	10/02/01	3.629% S/A
U.S. Postal Service	10/01	$225,400,000.00	10/02/01	2.491% S/A
U.S. Postal Service	10/02	$2,200,000,000.00	10/03/01	2.521% S/A
U.S. Postal Service	10/02	$98,100,000.00	10/03/01	2.389% S/A
U.S. Postal Service	10/03	$1,975,000,000.00	10/04/01	2.491% S/A
U.S. Postal Service	10/03	$26,400,000.00	10/04/01	2.358% S/A
U.S. Postal Service	10/04	$1,530,000,000.00	10/05/01	2.389% S/A
U.S. Postal Service	10/04	$213,000,000.00	10/05/01	2.337% S/A
U.S. Postal Service	10/05	$2,000,000,000.00	10/09/01	2.358% S/A
U.S. Postal Service	10/05	$381,900,000.00	10/09/01	2.316% S/A
U.S. Postal Service	10/09	$1,040,000,000.00	10/10/01	2.337% S/A
U.S. Postal Service	10/09	$348,400,000.00	10/10/01	2.348% S/A
U.S. Postal Service	10/10	$885,000,000.00	10/11/01	2.316% S/A
U.S. Postal Service	10/10	$181,300,000.00	10/11/01	2.348% S/A
U.S. Postal Service	10/11	$650,000,000.00	10/12/01	2.348% S/A
U.S. Postal Service	10/11	$272,500,000.00	10/12/01	2.399% S/A
U.S. Postal Service	10/12	$1,525,000,000.00	10/15/01	2.348% S/A
U.S. Postal Service	10/12	$327,400,000.00	10/15/01	2.378% S/A
U.S. Postal Service	10/15	$1,925,000,000.00	10/16/01	2.399% S/A
U.S. Postal Service	10/15	$282,800,000.00	10/16/01	2.378% S/A
U.S. Postal Service	10/16	$1,665,000,000.00	10/17/01	2.378% S/A
U.S. Postal Service	10/16	$299,200,000.00	10/17/01	2.348% S/A
U.S. Postal Service	10/17	$1,500,000,000.00	10/18/01	2.378% S/A
U.S. Postal Service	10/17	$325,200,000.00	10/18/01	2.348% S/A
U.S. Postal Service	10/18	$1,350,000,000.00	10/19/01	2.348% S/A
U.S. Postal Service	10/18	$285,100,000.00	10/19/01	2.317% S/A
U.S. Postal Service	10/19	$1,200,000,000.00	10/22/01	2.348% S/A
U.S. Postal Service	10/19	$282,600,000.00	10/22/01	2.316% S/A
U.S. Postal Service	10/22	$1,000,000,000.00	10/23/01	2.317% S/A
U.S. Postal Service	10/22	$308,800,000.00	10/23/01	2.348% S/A
U.S. Postal Service	10/23	$700,000,000.00	10/24/01	2.316% S/A
U.S. Postal Service	10/23	$361,700,000.00	10/24/01	2.327% S/A
U.S. Postal Service	10/24	$570,000,000.00	10/25/01	2.348% S/A
U.S. Postal Service	10/24	$286,400,000.00	10/25/01	2.296% S/A
U.S. Postal Service	10/25	$500,000,000.00	10/26/01	2.327% S/A
U.S. Postal Service	10/25	$158,300,000.00	10/26/01	2.265% S/A
U.S. Postal Service	10/26	$1,400,000,000.00	10/29/01	2.296% S/A
U.S. Postal Service	10/26	$184,700,000.00	10/29/01	2.265% S/A
U.S. Postal Service	10/29	$1,650,000,000.00	10/30/01	2.265% S/A
U.S. Postal Service	10/29	$229,200,000.00	10/30/01	2.214% S/A
U.S. Postal Service	10/30	$1,500,000,000.00	10/31/01	2.265% S/A
U.S. Postal Service	10/30	$145,000,000.00	10/31/01	2.173% S/A
U.S. Postal Service	10/31	$1,200,000,000.00	11/01/01	2.214% S/A
U.S. Postal Service	10/31	$271,500,000.00	11/01/01	2.173% S/A

FEDERAL FINANCING BANK
OCTOBER 2001 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
VERNMENT-GUARANTEED LOANS				
ENERAL SERVICES ADMINISTRATION				
an Francisco OB	10/05	$311,566.62	8/01/05	3.606% S/A
tlanta CDC Lab	10/16	$88,226.96	1/30/02	2.370% S/A
an Francisco OB	10/16	$575,429.64	8/01/05	3.662% S/A
EPARTMENT OF EDUCATION				
ennett College	10/09	$992,280.24	7/01/31	5.151% S/A
arber-Scotia College	10/12	$116,083.08	3/01/30	5.274% S/A
arber-Scotia College	10/12	$84,415.20	3/01/30	5.274% S/A
ougaloo College	10/25	$175,925.25	9/04/29	5.134% S/A
ougaloo College	10/25	$370,154.49	9/04/29	5.134% S/A
arber-Scotia College	10/30	$69,480.70	3/01/30	5.091% S/A
arber-Scotia College	10/30	$84,447.38	3/01/30	5.091% S/A
URAL UTILITIES SERVICE				
ig Sand Elec. #540	10/01	$1,000,000.00	12/31/01	2.395% Qtr.
lue Grass Energy #674	10/01	$4,000,000.00	12/31/01	2.395% Qtr.
lue Grass Energy #674	10/01	$2,000,000.00	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$3,169,545.41	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$1,407,778.38	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$351,208.98	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$810,084.91	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$1,057,719.89	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$704,374.90	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$404,977.69	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$757,138.66	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$914,322.63	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$294,840.53	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$213,983.65	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$367,402.91	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$215,328.94	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$154,277.17	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$134,405.97	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$73,637.32	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$111,272.80	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$35,814.28	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$1,184,496.27	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$236,515.07	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$894,105.60	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$2,678,214.20	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$1,603,909.88	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$961,222.59	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$580,362.81	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$901,201.80	12/31/01	2.395% Qtr.

FEDERAL FINANCING BANK
OCTOBER 2001 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
razos Electric #917	10/01	$489,606.03	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$1,412,724.44	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$1,702,152.10	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$1,997,680.78	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$817,259.23	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$625,234.69	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$411,761.59	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$1,104,760.99	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$1,435,446.90	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$2,359,947.46	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$2,526,065.03	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$495,310.82	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$16,026.70	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$845,014.55	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$2,768,383.44	12/31/01	2.395% Qtr.
razos Electric #917	10/01	$2,170,144.69	12/31/01	2.520% Qtr.
razos Electric #437	10/01	$4,080,348.61	12/31/01	2.520% Qtr.
razos Electric #437	10/01	$1,378,886.84	12/31/01	2.520% Qtr.
razos Electric #437	10/01	$312,770.41	12/31/01	2.520% Qtr.
razos Electric #437	10/01	$2,996,027.77	12/31/01	2.520% Qtr.
razos Electric #437	10/01	$1,157,054.49	12/31/01	2.520% Qtr.
razos Electric #437	10/01	$486,009.52	12/31/01	2.520% Qtr.
razos Electric #561	10/01	$10,887,599.61	12/31/01	2.395% Qtr.
razos Electric #561	10/01	$5,479,980.99	12/31/01	2.395% Qtr.
razos Electric #561	10/01	$10,692,952.64	12/31/01	2.395% Qtr.
razos Electric #561	10/01	$8,414,474.21	12/31/01	2.395% Qtr.
rown County Elec. #687	10/01	$250,000.00	12/31/01	2.395% Qtr.
lark Energy Coop. #611	10/01	$3,000,000.00	12/31/01	2.395% Qtr.
umberland Valley #668	10/01	$4,200,000.00	12/31/01	2.395% Qtr.
oop. Power Assoc. #130	10/01	$7,847,627.68	9/30/11	4.274% Qtr.
oop. Power Assoc. #130	10/01	$2,468,583.84	9/30/11	4.274% Qtr.
oop. Power Assoc. #240	10/01	$4,512,336.23	9/30/11	4.274% Qtr.
arien Telephone Co. #719	10/01	$1,927,403.00	12/31/01	2.395% Qtr.
ouglas Electric #725	10/01	$175,000.00	12/31/35	5.268% Qtr.
ouglas Electric #725	10/01	$150,000.00	12/31/35	5.268% Qtr.
leming-Mason Energy #644	10/01	$2,600,000.00	12/31/01	2.395% Qtr.
leming-Mason Energy #644	10/01	$1,400,000.00	12/31/01	2.395% Qtr.
leming-Mason Energy #644	10/01	$1,500,000.00	12/31/01	2.395% Qtr.
leming-Mason Energy #644	10/01	$2,200,000.00	12/31/01	2.395% Qtr.
leming-Mason Energy #644	10/01	$1,400,000.00	12/31/01	2.395% Qtr.
armers Telephone #399	10/01	$2,301,162.00	9/30/05	3.659% Qtr.
rayson Rural Elec. #619	10/01	$1,200,000.00	12/31/01	2.395% Qtr.
rayson Rural Elec. #619	10/01	$600,000.00	12/31/01	2.395% Qtr.
rayson Rural Elec. #619	10/01	$1,000,000.00	12/31/01	2.395% Qtr.
arrison County #532	10/01	$995,933.31	12/31/01	2.395% Qtr.
arrison County #532	10/01	$896,339.98	12/31/01	2.395% Qtr.
nter-County Energy #592	10/01	$1,493,899.96	12/31/01	2.395% Qtr.
nter-County Energy #592	10/01	$1,991,866.62	12/31/01	2.395% Qtr.
nter-County Energy #592	10/01	$2,596,398.13	12/31/01	2.395% Qtr.
nter-County Energy #592	10/01	$221,000.00	12/31/01	2.395% Qtr.

FEDERAL FINANCING BANK
OCTOBER 2001 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
.icking Valley Elec. #522	10/01	$2,737,820.66	12/31/01	2.395% Qtr.
lagnolia Electric #560	10/01	$4,981,675.83	12/31/01	2.520% Qtr.
leade County Elec. #662	10/01	$1,300,000.00	12/31/01	2.395% Qtr.
leade County Elec. #662	10/01	$2,000,000.00	12/31/01	2.395% Qtr.
lorthern Neck Elec. #556	10/01	$748,102.95	1/03/34	5.245% Qtr.
lewberry Electric #704	10/01	$4,164,000.00	12/31/01	2.395% Qtr.
lolin Rural Elec. #528	10/01	$1,885,301.75	12/31/01	2.395% Qtr.
lolin Rural Elec. #577	10/01	$2,572,495.73	12/31/01	2.395% Qtr.
lolin Rural Elec. #577	10/01	$2,572,495.73	12/31/01	2.395% Qtr.
lorthwest Iowa Power #907	10/01	$5,783,750.74	12/31/12	4.258% Qtr.
) & A Electric Coop. #379	10/01	$842,670.44	9/30/02	2.611% Qtr.
glethorpe Power #445	10/01	$14,833,506.52	4/01/02	2.478% Qtr.
glethorpe Power #445	10/01	$15,346,013.31	4/01/02	2.478% Qtr.
glethorpe Power #445	10/01	$14,563,767.21	12/31/19	4.779% Qtr.
wen Electric #525	10/01	$1,990,178.44	9/30/02	2.487% Qtr.
'anhandle Tele. #400	10/01	$961,536.20	12/31/13	4.405% Qtr.
emiscot-Dunklin Elec. #727	10/01	$2,061,000.00	12/31/30	5.205% Qtr.
an Miguel Electric #919	10/01	$8,280,550.23	12/31/01	2.395% Qtr.
an Miguel Electric #919	10/01	$8,694,674.64	12/31/01	2.395% Qtr.
urry-Yadkin Elec. #534	10/01	$990,497.38	12/31/01	2.395% Qtr.
urry-Yadkin Elec. #534	10/01	$990,497.38	12/31/01	2.395% Qtr.
urry-Yadkin Elec. #534	10/01	$495,248.68	12/31/01	2.395% Qtr.
urry-Yadkin Elec. #534	10/01	$990,497.38	12/31/01	2.395% Qtr.
urry-Yadkin Elec. #534	10/01	$990,497.38	12/31/01	2.395% Qtr.
nited Power Assoc. #432	10/01	$1,925,950.60	9/30/11	4.451% Qtr.
nited Power Assoc. #432	10/01	$8,416,765.44	9/30/11	4.451% Qtr.
nited Power Assoc. #433	10/01	$1,131,234.56	9/30/11	4.274% Qtr.
nited Power Assoc. #433	10/01	$385,950.60	9/30/11	4.274% Qtr.
psala Coop. Tele. #429	10/01	$12,158.67	12/31/01	2.520% Qtr.
psala Coop. Tele. #429	10/01	$320,331.96	12/31/01	2.520% Qtr.
an Horne Coop. Tele. #409	10/01	$394,285.71	12/31/12	5.988% Qtr.
an Horne Coop. Tele. #409	10/01	$162,916.66	12/31/12	5.879% Qtr.
ataula Electric #585	10/02	$400,000.00	1/03/12	4.503% Qtr.
ast Kentucky Power #491	10/03	$11,000,000.00	12/31/24	5.104% Qtr.
reat River Energy #738	10/03	$4,644,000.00	12/31/03	2.845% Qtr.
reat River Energy #738	10/03	$4,652,000.00	1/03/06	3.575% Qtr.
reat River Energy #738	10/03	$4,652,000.00	12/31/07	4.110% Qtr.
reat River Energy #738	10/03	$4,652,000.00	12/31/09	4.303% Qtr.
reat River Energy #738	10/03	$4,652,000.00	1/03/12	4.431% Qtr.
reat River Energy #738	10/03	$4,652,000.00	12/31/13	4.578% Qtr.
reat River Energy #738	10/03	$319,000.00	12/31/15	4.723% Qtr.
efferson Energy #692	10/04	$3,547,000.00	1/02/35	5.157% Qtr.
olk County #637	10/05	$244,000.00	1/02/35	5.141% Qtr.
eeker Cooperative #699	10/09	$990,000.00	1/02/35	5.147% Qtr.
ıtional Power #788	10/09	$1,509,000.00	12/31/30	4.972% Qtr.
ıtional Power #788	10/09	$48,187,000.00	12/31/30	4.972% Qtr.
.tional Power #789	10/09	$19,800,000.00	12/31/30	4.972% Qtr.
.tional Power #789	10/09	$36,700,000.00	12/31/30	4.972% Qtr.
K.M. Electric #770	10/09	$500,000.00	12/31/35	5.160% Qtr.
.rry-Yadkin Elec. #534	10/09	$1,000,000.00	12/31/02	2.407% Qtr.

FEDERAL FINANCING BANK
OCTOBER 2001 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
Blue Grass Energy #674	10/10	$5,000,000.00	3/31/04	2.921% Qtr.
Harrison County #532	10/10	$1,625,000.00	7/01/02	2.239% Qtr.
Scenic Rivers Energy #677	10/10	$710,000.00	3/31/11	4.506% Qtr.
Rutherford Electric #779	10/12	$12,500,000.00	12/31/35	5.275% Qtr.
W. Farmers Elec. #701	10/12	$2,803,000.00	12/31/25	5.118% Qtr.
Cornbelt Power #565	10/15	$6,353,000.00	12/31/14	4.859% Qtr.
Ellerby Telephone #635	10/15	$170,000.00	1/03/12	4.520% Qtr.
Tri-County Elec. TN #647	10/16	$1,278,000.00	1/03/33	5.202% Qtr.
Scenic Rivers Energy #677	10/17	$710,000.00	1/02/35	5.192% Qtr.
Seminole Electric #678	10/17	$8,205,000.00	12/31/19	4.738% Qtr.
Coop. Power Assoc. #720	10/18	$7,498,000.00	12/31/35	5.064% Qtr.
James Valley Elec. #516	10/18	$2,548,000.00	1/03/33	5.275% Qtr.
Laurens Elec. #553	10/18	$4,650,000.00	1/03/34	5.161% Qtr.
Aiken Elec. #549	10/19	$6,000,000.00	1/03/34	5.156% Qtr.
Escambia River Elec. #498	10/19	$1,137,000.00	1/03/33	5.270% Qtr.
North Georgia Elec. #781	10/19	$2,011,000.00	12/31/35	5.178% Qtr.
Citizens Tel (VA) #680	10/23	$113,000.00	12/31/15	4.510% Qtr.
Decatur County #575	10/23	$1,233,000.00	1/03/34	5.195% Qtr.
Coast Elec. Power #787	10/24	$6,000,000.00	12/31/02	2.449% Qtr.
San Patricio Elec. #676	10/25	$782,000.00	1/02/35	5.169% Qtr.
Shelby Energy Coop. #758	10/29	$1,000,000.00	4/01/02	2.103% Qtr.
Kootenai Elec. #752	10/30	$800,000.00	12/31/31	5.057% Qtr.

S/A is a Semiannual rate.
Qtr. is a Quarterly rate.
maturity extension or interest rate reset

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	October 31, 2001	September 30, 2001	Monthly Net Change 10/1/01-10/31/01	Fiscal Year Net Change 10/1/01-10/31/01
Agency Debt:				
U.S. Postal Service	$9,021.5	$11,313.0	-$2,291.5	-$2,291.5
Subtotal*	$9,021.5	$11,313.0	-$2,291.5	-$2,291.5
Agency Assets:				
FmHA-RDIF	$2,385.0	$2,435.0	-$50.0	-$50.0
FmHA-RHIF	$4,375.0	$4,375.0	$0.0	$0.0
Rural Utilities Service-CBO	$4,270.2	$4,270.2	$0.0	$0.0
Subtotal*	$11,030.2	$11,080.2	-$50.0	-$50.0
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	$2,154.0	$2,156.7	-$2.7	-$2.7
DoEd-HBCU+	$31.9	$31.3	$0.6	$0.6
DHUD-Community Dev. Block Grant	$7.1	$7.8	-$0.7	-$0.7
DHUD-Public Housing Notes	$1,278.7	$1,278.7	$0.0	$0.0
General Services Administration+	$2,266.3	$2,268.0	-$1.7	-$1.7
DOI-Virgin Islands	$13.1	$13.1	$0.0	$0.0
DON-Ship Lease Financing	$941.1	$941.1	$0.0	$0.0
Rural Utilities Service	$13,698.2	$13,599.2	$98.9	$98.9
SBA-State/Local Development Cos.	$128.6	$132.0	-$3.4	-$3.4
DOT-Section 511	$3.4	$3.4	$0.0	$0.0
Subtotal*	$20,522.4	$20,431.4	$91.0	$91.0
Grand total*	$40,574.1	$42,824.6	-$2,250.5	-$2,250.5

* figures may not total due to rounding
\+ does not include capitalized interest

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 9:00AM
January 30, 2002

CONTACT: Betsy Holahan
(202) 622-2960

Assistant Secretary for Financial Markets
Brian C. Roseboro
February 2002 Quarterly Refunding Statement

The Department of the Treasury announced its quarterly refunding needs and related financing changes today. The recently announced budget projections indicate a need for relatively small increases in financing in the fiscal years 2002 and 2003. We anticipate financing these deficits with existing securities and within the existing auction schedules. The specific terms of the refunding follow.

We are offering $29 billion of notes to refund approximately $4.1 billion of privately held bonds maturing or called on February 15, raising approximately $24.9 billion. The securities are:

1. A re-opening of the 5-year note, first issued in November 2001, in the amount of $16 billion, maturing November 15, 2006.

2. A new 10-year note in the amount of $13 billion, maturing February 15, 2012.

These securities will be auctioned on a yield basis at 1:00 p.m. Eastern time on Tuesday, February 5, and Wednesday, February 6, respectively. The balance of our financing requirements will be met through 2-year note and bill offerings.

Short-term Financing Needs

The introduction of the 4-week bill last August has reduced our reliance on cash management bills for bridging short-term cash shortfalls. The April swing in cash balances, however, will be too large to be accommodated by changes in regular weekly bill issuances. As a result, we expect to issue at least one off-cycle cash management bill in April.

PO-953

Buyback Operations

At the last refunding, we listed three conditions that would determine whether any buyback operations would be conducted. As we stated then, our decisions on whether to conduct buyback operations, and on the amount and timing of any purchases, will be made at the time of our regular quarterly refunding announcements and will be based upon three factors: projections of the federal government's annual, unified surplus or deficit position; projections of that three-month period's cash position; and analysis of how best to minimize borrowing costs over time.

Given current circumstances, we will conduct three buyback operations before the next refunding, on April 18, April 23, and April 25, in order to lower high seasonal cash balances that we expect at that time. In these three operations, we expect to repurchase a total of $3 billion to $5 billion in long-dated securities.

Policy Issues Under Discussion

We are reviewing the application of the 35 percent rule, the reopening policy for 5-year and 10-year notes, and ways to enhance development of the market for 10-year Treasury Inflation-Indexed Securities. We are interested in suggestions from the public.

The 35 percent rule: We are examining ways in which the Net Long Position (NLP) rule (as it applies to the calculation of the 35 percent auction award limit) could better achieve its underlying objective and simultaneously facilitate faster, more efficient auctions. Changes under consideration include:

- Whether the "designated reporting time" should be moved closer to the competitive auction closing time to better meet the rule's objective. It is now 30 minutes prior to the closing time for receipt of competitive bids. (31 CFR § 356.13(b), see the Uniform Offering Circular, http://www.publicdebt.treas.gov/gsr/gsruocam.htm#auction);
- Whether the entry of NLP data, and the deadline for its receipt at Treasury, should be split from bid submission to facilitate faster auctions. NLP data could be submitted at some time shortly after the auction.

We welcome suggestions on alternatives that would meet the twin goals of making auctions more operationally efficient and safeguarding the objective of the NLP rule.

Re-opening policy: In response to actual and projected surpluses, Treasury announced a regular re-opening policy for 5-year and 10-year notes at the February 2000 quarterly refunding. Treasury is now considering a return to regular quarterly issuance of new 5-year and 10-year notes without any pre-announced reopenings. Treasury will base its decision on the following factors:

- Treasury's borrowing needs;
- Liquidity needs in the marketplace;
- Future cash management considerations.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 11:30 A.M.
January 28, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $10,000 million to refund an estimated $7,000 million of publicly held 4-week Treasury bills maturing January 31, 2002, and to raise new cash of approximately $3,000 million.

Tenders for 4-week Treasury bills to be held on the book-entry records of *TreasuryDirect* will not be accepted.

The Federal Reserve System holds $11,809 million of the Treasury bills maturing on January 31, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders in this auction up to the balance of the amount not awarded in today's 13-week and 26-week Treasury bill auctions. Amounts awarded to SOMA will be in addition to the offering amount.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of the auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

The allocation percentage applied to bids awarded at the highest discount rate will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about the new security are given in the attached offering highlights.

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Attachment

PO-954

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED JANUARY 31, 2002

January 28, 2002

Offering Amount ....$10,000 million
Public Offering ....$10,000 million
NLP Exclusion Amount ....$13,600 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 HJ 3
Auction date ....January 29, 2002
Issue date ....January 31, 2002
Maturity date ....February 28, 2002
Original issue date ....March 1, 2001
Currently outstanding ....$53,636 million
Minimum bid amount and multiples $1,000

Submission of Bids:
Noncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.
Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.
Competitive bids:
(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 4.215%.
(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Rate...35% of public offering
Maximum Award...........................35% of public offering

Receipt of Tenders:
Noncompetitive tenders:
Prior to 12:00 noon eastern standard time on auction day
Competitive tenders:
Prior to 1:00 p.m. eastern standard time on auction day

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date.

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EMBARGOED UNTIL 3:00 P.M.
January 28, 2002

CONTACT: Betsy Holahan
(202) 622-2960

TREASURY ANNOUNCES MARKET FINANCING ESTIMATES

The Treasury Department announced today that it expects to borrow $60 billion in marketable debt during the January - March 2002 quarter and to target a cash balance of $20 billion on March 31. In the quarterly announcement on October 29, 2001, Treasury announced that it expected to borrow $59 billion in marketable debt and to target an end-of-quarter cash balance of $30 billion. While there is little net change in borrowing this quarter, the change in the cash balance is expected to cover lower receipts and higher expenditures.

Treasury also announced that it expects to pay down $89 billion in marketable debt during the April – June 2002 quarter and to target a cash balance of $60 billion on June 30.

During the October – December 2001 quarter, Treasury borrowed $52 billion in marketable debt and ended with a cash balance of $52 billion on December 31. This included borrowing of $61 billion in marketable Treasury securities and buybacks of $8½ billion in outstanding marketable Treasury securities. On October 29, Treasury announced that it expected to borrow $31 billion in marketable debt and to target an end-of-quarter cash balance of $35 billion. The increase in borrowing was primarily related to timing in tax receipts.

Additional financing details relating to Treasury's Quarterly Refunding will be released at 9:00 A.M. on Wednesday, January 30, 2002.

PO-955

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PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
January 28, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	January 31, 2002
Maturity Date:	August 01, 2002
CUSIP Number:	912795KU4

High Rate: 1.830% Investment Rate 1/: 1.872% Price: 99.075

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 25.46%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 27,673,220	$ 12,216,990
Noncompetitive	1,311,055	1,311,055
FIMA (noncompetitive)	472,000	472,000
SUBTOTAL	29,456,275	14,000,045 2/
Federal Reserve	5,131,931	5,131,931
TOTAL	$ 34,588,206	$ 19,131,976

Median rate 1.795%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.720%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 29,456,275 / 14,000,045 = 2.10

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,097,703,000

http://www.publicdebt.treas.gov

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PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
January 28, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	January 31, 2002
Maturity Date:	May 02, 2002
CUSIP Number:	912795JS1

High Rate: 1.715% Investment Rate 1/: 1.748% Price: 99.566

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 21.12%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 28,726,815	$ 13,263,823
Noncompetitive	1,569,353	1,569,353
FIMA (noncompetitive)	167,000	167,000
SUBTOTAL	30,463,168	15,000,176 2/
Federal Reserve	5,010,212	5,010,212
TOTAL	$ 35,473,380	$ 20,010,388

Median rate 1.690%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.660%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 30,463,168 / 15,000,176 = 2.03

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,310,880,000

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EMBARGOED UNTIL DELIVERY
January 29, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

ACTING DIRECTOR OF THE OFFICE OF MACROECONOMIC ANALYSIS KAREN HENDERSHOT REMARKS TO THE TREASURY BORROWING ADVISORY COMMITTEE OF THE BOND MARKET ASSOCIATION

A great deal has happened in the three months since we last met. In late November, the National Bureau of Economic Research (NBER) officially confirmed that the economy was in recession. More recently, however, we have begun to get increasingly strong signals of a likely bottoming out. A sense of incipient recovery is emerging in surveys of both consumers and businesses.

The improved tone to recent economic data is a welcome development after the initial post-September 11 readings. More than 800,000 jobs were lost in October and November, the steepest two-month drop since the early 1980s both in volume and percentage terms. New orders for nondefense capital goods excluding aircraft, a leading indicator of business investment spending, plunged by 10 percent in September. That was the sharpest fall since 1989 and a further blow to the already-fragile investment sector. The impact of the attacks appeared likely to throw the economy seriously off course.

Instead, the economy regained its footing rather smoothly and appears poised to resume growth in the current quarter. Fourth-quarter real GDP estimates will be released by the Commerce Department tomorrow. The latest consensus forecast predicts that real GDP will have contracted by an annual rate in the neighborhood of 1-1/4 percent. Should this prediction come to pass and growth resumes in the first quarter as expected, the entire GDP loss during the latest recession will have been a mere 0.6 percent. This would be much less than the average decline of 2.2 percent associated with the previous nine post-World War II recessions and would be matched only by the contraction of 1970 as the mildest on record.

The source of this relatively modest decline can be found in the behavior of households. Benefiting from tax cuts, low mortgage and auto finance rates, the lift to real incomes from falling energy prices, and a competitive pricing environment generally, both personal consumption and residential investment have outperformed typical recession patterns.

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*U.S. Government Printing Office: 1998 - 619-559

- Real personal consumption expenditures seem quite likely to have gone throughout the entire recession without turning negative on a quarterly basis and in the fourth quarter are expected to have increased by a rapid 4 to 5 percent annual rate. That consumption does not decline in a recession is not typical but also not unprecedented. It also occurred in 1970. Still, this strength is surprising after the spending boom of the late 1990s led to the widespread assessment that consumption had little room for further growth.

- Also atypical for a recession has been continued growth in residential investment, which in the past has always fallen early in a downturn. While a decline is likely in the fourth quarter, the overall strength has been another important pillar supporting real GDP.

The burst in consumption in the fourth quarter, along with a possible increase in investment in equipment for the first time in more than a year, could propel real final sales forward at a fairly healthy pace in tomorrow's GDP report. More than offsetting that growth, however, is an expected record rate of inventory liquidation – a vital pre-requisite for a revival in production. Thus, even a negative headline GDP number would obscure a healthy composition of developments – strong demand and lean inventories – that set the stage for recovery. While it is too soon to declare the recession over, positive signs are becoming more abundant.

- Initial claims for unemployment insurance benefits have fallen by about 20 percent on a four-week average basis from a peak in late October to the lowest point since the beginning of September. In 1991, the economy was 3-1/2 months into recovery before such a drop was achieved.

- Consumer attitudes have risen back to levels of last January.

- The average factory workweek jumped four-tenths of an hour in December and overtime hours rose two-tenths, likely signaling an imminent need for additional workers.

- New orders for nondefense capital goods have risen in each of the latest two months and high-tech categories, such as computers, are beginning to grow.

- The Conference Board's composite index of leading indicators, which includes the statistics cited above, has now risen three months in a row – including a gain in December which was the strongest in nearly 6 years.

- And finally, a survey by the National Association for Business Economics (NABE) noted that demand revived at businesses of most of its members in the fourth quarter. Surveys of purchasing managers are similarly upbeat.

Despite reasonably compelling evidence that an economic rebound is near, less certainty can be attached to its likely profile and strength. Most current forecasts place real growth for the year following the GDP trough in the 2-1/2 to 3-percent range. While this is substantially less than the 5-1/2 percent averaged in the first year of growth following other post-war downturns, a conservative estimate may be warranted.

- A portion of consumption and residential investment was surely pulled forward by the recent favorable interest rates and auto incentives, perhaps limiting scope for further large gains.

- In addition, business willingness to expand both payrolls and investment is likely to hinge heavily on the restoration of corporate profits. In the current environment of little pricing power, that may prove a difficult challenge.

That is the summary of recent economic developments and the near-term outlook.

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL DELIVERY
January 29, 2002

CONTACT: Rob Nichols
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TESTIMONY OF KENNETH W. DAM
DEPUTY SECRETARY
DEPARTMENT OF THE TREASURY
BEFORE THE
SENATE BANKING COMMITTEE
JANUARY 29, 2002, 10:00 A.M.
THE UNITED STATES SENATE

Chairman Sarbanes and distinguished members of the Senate Banking Committee, thank you for inviting me to testify about the Treasury Department's efforts to disrupt terrorist financing and, in particular, the steps we are taking to implement the provisions of the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001. I have asked Under Secretary for Enforcement Jimmy Gurulé to join me today.

On September 24, 2001, President Bush stated, "we will direct every resource at our command to win the war against terrorists, every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence. We will starve the terrorists of funding." The Treasury Department is determined to help make good on this promise. I am here today to tell you about the progress we have made and some of the complexities we still face.

Much of our progress is directly attributable to the Congress and this Committee. The swift passage of the USA PATRIOT Act and, in particular, Title III of that Act – the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, have given us important new tools in the financial front of the war on terrorism. To highlight just two aspects of the Act:

- The Act requires financial institutions to terminate correspondent accounts maintained for foreign shell banks and to take reasonable steps to ensure that they do not indirectly provide banking services to foreign shell banks. Treasury provided immediate, interim guidance to financial institutions, suggesting that they obtain certification from all foreign banks with correspondent accounts that they were not shells and that the foreign banks did not themselves maintain correspondent accounts for shell banks.
- The Act requires all financial institutions to have an anti-money laundering program in place by April. Although many broker-dealers already had anti-money laundering programs in place, the Act ensures that all will.

This Committee played an important role in securing the passage of these and other provisions. On behalf of the Treasury Department – including our 25,000 law enforcement officers – I thank you.

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I also wish to thank the many federal agencies that have worked with Treasury. This is a team effort. We have worked closely with the State Department, the Defense Department, the Department of Justice, the Federal Bureau of Investigation, the intelligence community, and many other parts of the federal government. We coordinate daily at all levels and, I think, have done a good job of setting aside some of our historical rivalries. To cite just one of many examples of this coordination, the Administration recently created a new-high level strategies and priorities committee that I chair. This committee brings together senior officials from across the government to chart our strategy for pursuing terrorist finances over the coming months and years.

Summary of Developments in Financial Aspects of U.S. Anti-Terrorism Initiatives

Our priority is to help prevent terrorist attacks by disrupting terrorist finances. As the President has said, we seek to "starve the terrorists of funding." Our goal is to deprive terrorists of one of the raw ingredients in terrorism: money for arms, explosives, plane tickets, and even the day-to-day sustenance of operatives. I will tell you candidly that where there is a conflict between preventing terrorist attacks and the prosecution of criminal cases against terrorists, preventing terrorist attacks comes first.

The strategy for the financial front of the war on terrorism closely tracks our strategy in the rest of the war. We remain focused on finishing off Al Qaeda. We are targeting not only Al Qaeda operatives, but their financial intermediaries and others that support them. Increasingly, we are also focussing on other terrorist groups of global reach. In addition, we are striving to ensure that fight on the financial front is not a unilateral effort or even a U.S.-led effort, but, like the rest of the war, a multilateral effort led by nations around the world.

We use several tactics on the financial front of the war on terrorism. Some of our tactics are public – like the public designation of terrorist organizations and the civil blocking of terrorist assets. Other tactics are private – for example, we work with foreign governments to enable them to designate and block terrorist assets on their own behalf. I would be pleased to tell you more about our private efforts in a closed session.

One thing that is different about the financial front from the rest of the war is that it is perhaps harder to measure success in the financial effort. To address this, we measure success in many ways. For example, we track the total amount of terrorist assets blocked. Since September 11th, the United States and other countries have frozen more than $80 million in terrorist-related assets. We expect the amount of blocked assets to continue to grow – although we also expect to release some of the money. For example, assets once controlled by the Taliban regime of Afghanistan will be returned to the legitimate government of Afghanistan.

The amount of assets blocked underscores the importance of another measure – the amount of international cooperation in the financial front of the war. I cannot emphasize enough how vitally important international cooperation is. After all, we cannot bomb foreign bank accounts. We need the cooperation of foreign governments to investigate and block them. So far, we have received a remarkable degree of cooperation. Foreign governments have blocked more than $46 million – over half of the total of $80 million. 147 countries and jurisdictions around the world have blocking orders in place. We work with these countries daily to get more information about their efforts and to ensure that the cooperation is as deep as it is broad. For example, we are providing technical assistance to a number of countries to help them develop the legal and enforcement infrastructure they need to find and freeze terrorist assets.

We have also had success pursuing international cooperation through multilateral fora including the U.N., the G7, the G20, the Financial Action Task Force (FATF), and the international financial institutions to combat terrorist financing on a global scale. A good example of Treasury leadership on this issue is in the role of the United States in the FATF on Money Laundering, a 31-member organization. In late October 2001, the United States hosted an Extraordinary FATF Plenary session, at which FATF members established eight Special Recommendations on Terrorist Financing. These recommendations quickly became the international standard on steps that countries can take to protect their financial systems from abuse by terrorist financiers. Our delegation is at a meeting in Hong Kong as I speak establishing a process by which all countries will engage in a self-assessment of compliance with these recommendations.

Still a third measure is the flow of funds disrupted. For example, when we shut down the Al-Barakaat hawala network, we seized $1.9 million in assets. But we disrupted the flow of much more. Our analysts believe that Al-Barakaat's worldwide network channeled as much as $15 to $20 million to Al Qaeda a year. It is important, therefore, to keep an eye on the flow of funds – how much money moved through a pipeline that we froze – as well has how much money happened to be in the pipeline when we froze it.

Finally, we do not ignore non-quantified measures of success. I would be willing to elaborate upon these measures in a closed session. I can tell you in open session, however, that we believe from our intelligence channels that Al Qaeda and other terrorist organizations are suffering financially as a result of our actions. We also believe that potential donors are being more cautious about giving money to organizations where they fear that the money might wind up in the hands of terrorists.

Having discussed some of our successes, I wish to spend a moment on some of the complexities we face. This Committee is intimately familiar with the challenges facing our anti-money laundering efforts. Stopping terrorist financing is perhaps more nuanced than money laundering because terrorist financing could be described as "reverse money laundering." In money laundering, the proceeds of crime are laundered for legitimate use or for use in perpetrating more crimes. If you find evidence of the original crime, you are likely to be placed on the trail of some money-laundering. In terrorist finance, it is often the other way around. Proceeds of legitimate economic activity are used for illicit purposes. The money can come from almost anywhere.

A particular form of this problem is presented by the case of illicit charities. Illicit charities are organizations that exploit their charitable status to funnel money to terrorists. Such organizations are, in my view, particularly deplorable. But at the same time, it cannot be doubted that some of them do perform some charitable acts and that many donors believe that their donations are paying for charitable works. To solve this problem, we are developing a comprehensive, coordinated, inter-agency strategy to clean up illicit charities while still providing vehicles for legitimate charitable works.

I would like to highlight a few additional steps that we have taken. First, we got the Foreign Terrorist Asset Tracking Center (FTAT) up and running under the direction of the Office of Foreign Assets Control (OFAC). FTAT was funded by Congress in the FY 2001 Appropriations Bill and was being organized and staffed when the attacks occurred. When fully operational, FTAT will serve as an analytical and strategic center for attacking the problem of terrorist financing.

Since September, FTAT has served not only to provide analysis of particular targets and networks, but also as an information hub where intelligence and law enforcement agencies can share and analyze information for a common purpose. Thus far, the Department of Defense, the Department of Justice, and the intelligence community have made vital contributions to this inter-agency effort to hunt down the sources of terrorist financing. Though FTAT is still in its infancy, it is making a significant impact on this cooperative and concentrated interagency venture.

Second, on October 25, 2001, Treasury created Operation Green Quest ("Green Quest"), a new multi-agency financial enforcement initiative intended "to augment existing counter-terrorist efforts by bringing the full scope of the government's financial expertise to bear against systems, individuals, and organizations that serve as sources of terrorist funding." Green Quest is made up of investigators and analysts from the U.S. Customs Service, the IRS-Criminal Investigation Division, the Financial Crimes Enforcement Network (FinCEN), OFAC, the Secret Service, and the FBI, with support from the Department of Justice. These agencies have brought their world-renowned financial expertise to bear on terrorist financing and have seen remarkable results in the three months FTAT has been in existence.

Green Quest has complemented the work of FTAT in identifying terrorist networks at home and abroad, and it has served as an investigative arm in aid of blocking actions. Green Quest's work, in cooperation with the Department of Justice, has led to 11 arrests, 3 indictments, the seizure of nearly $4 million, and bulk cash seizures of over $8.5 million. Green Quest agents, along with the FBI and other government agencies, have traveled abroad to follow leads, exploit documents recovered, and to provide assistance to foreign governments. The work of these financial experts is just starting but they have already opened well over two hundred terrorist financing investigations and are following new leads on a daily basis.

Third, we have worked closely with the FBI-led investigation into the September 11th attacks. Immediately after the attacks, Treasury deployed personnel to the FBI's Financial Review Group, bringing additional financial investigative capabilities, contacts in the financial sector, and expertise to the FBI's group. Treasury has also deployed people to serve on various Joint Terrorism Task Forces (JTTFs) headed by the FBI. Since then, those committed to this mission have made significant contributions, in the Group and in the field, to tracking the perpetrators of those heinous acts.

The November 7, 2001, designation of al-Barakaat as a terrorist-related financial entity is an example of how Treasury efforts, along with the fine work of our inter-agency partners, can lead to results in this war on terrorist financing. Al-Barakaat is a Somali-based hawaladar[1] operation, with locations in the United States and in 40 countries, that was used to finance and support terrorists around the world.[2] FTAT analysis identified Al-Barakaat as a major financial operation that supported terrorist organizations and was providing material, financial, and logistical support to Usama bin Laden, Al Qaeda, and other terrorist groups.

Treasury coordinated efforts to block assets and to assist other law enforcement agencies to take actions against Al-Barakaat. On November 7, 2001, federal agents executed search warrants in three cities across the country (Boston, Columbus, and Alexandria) and shut down eight Al-Barakaat offices across the U.S., including locations in the following cities:

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[1] Hawala is a type of alternative remittance system that is common in many parts of the world, including the Middle East and Far East. A hawaladar is an entity that engages in hawala transactions.

[2] Some individuals may have used Al-Barakaat as a legitimate means to transfer value between individuals in different countries without passing through the formal international banking system.

- Boston, Massachusetts;
- Columbus, Ohio;
- Alexandria, Virginia;
- Seattle, Washington; and
- Minneapolis, Minnesota.

As part of that action, OFAC was able to freeze $1,900,000 domestically in Al-Barakaat-related funds on November 7, 2001. Treasury also worked closely with key officials in the Middle East to facilitate blocking of Al-Barakaat's assets at its financial center of operations. Disruptions to Al-Barakaat's worldwide cash flows could be as high as $300 to $400 million per year, according to our analysts. Of that, our experts and experts in other agencies estimate that $15 to $20 million per year would have gone to terrorist organizations. The Al-Barakaat investigation exemplifies the importance of the flow of funds disruption measure that we are attempting to use more broadly. In addition, the combined work of FTAT and law enforcement led to additional leads in the Al-Barakaat investigation.

This is an example of what our combined efforts can do when we join our resources and our expertise to fight the scourge of terrorist financing.

Although we have made much progress, we still have much work to do. First, we must encourage more independent identification of terrorist groups by other countries. The EU designation at the end of December is a step in the right direction, but we need more countries to initiate more designations.

Second, we have to ensure that more countries issue blocking orders for more of the entities identified, by the United States, other countries, and the international community, as being part of terrorist financial networks. We must also do a better job of following up with the countries to make sure that their orders, once issued, are fully implemented and obeyed.

Third, we must do a better job of exploiting the "industrial quantity" of documents captured in Afghanistan and increasingly elsewhere. Hard drives and e-mails must be exploited as well. This is a massive task. To do it, we must bring documents together from all over the world, translate them, cross-reference them, and thereby build a complete picture. No one document can tell us that much.

Fourth, we must redouble efforts by U.S. and allied intelligence services against such financial intermediaries as hawala dealers and other informal systems.

To conclude this portion of my testimony, I believe that we have had several important successes on the financial front of the war on terrorism. We have marshaled the considerable expertise of our Treasury law enforcement personnel to execute the President's mission to detect, disrupt, and dismantle the financial infrastructure of terrorist financing. We have worked closely with other agencies of the federal government and, I believe, obtained an unprecedented level of cooperation and coordination. We have worked extensively with foreign governments to ensure that terrorist money has nowhere to hide.

Some have said that the financial war on terrorism is an impossible task. After all, money is fungible and illegal money tends to flow to the most hospitable country. I disagree. That the task is difficult does not mean that it is impossible. This is an unconventional war where there are no boundaries, where civilians are the targets, where people (or so-called "martyrs") are the weapons, and where electronic money transfers and messaging are the fuel and the logistics train. Among other things, identifying the flow of money helps us find the footprint of sleeper cells, disable them, and perhaps prevent the next attack.

Implementation of the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001

The Treasury Department is committed to the aggressive and thorough implementation of the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001. In the aftermath of September 11, efforts to enhance the Federal Government's ability to combat international money laundering, which had already begun before September 11th, were given a whole new level of priority by Congress and the Administration. The government and the financial community were forced to rethink assumptions, to reevaluate risks of money laundering and abuse in connection with terrorist financing, and, ultimately, to take the steps necessary to protect the country's financial system. The results of this reassessment were dramatic. Through the Act, which is also known as Title III of the USA PATRIOT Act, Congress took up the challenge of eliminating vulnerabilities within our anti-money laundering regime. Now, we at Treasury will continue this initiative through implementing regulations.

The Act is ambitious not only in scope, but also in its aggressive implementation schedule. The inclusion of numerous key provisions demonstrates remarkable resolve by Congress following the September attacks. Perhaps the most striking aspect of the Act is that in one legislative package, Congress addressed many deficiencies identified in our counter-money laundering regime. Treasury must address a wide array of challenging issues and promulgate regulations with far-reaching consequences—all on an accelerated schedule.

Treasury's Implementation Plan

Our plan for implementation relies heavily on tapping the existing resources and expertise found in the government to develop creative solutions to complex issues. Once the Act became law, we formed interagency working groups to handle each of the statutory provisions requiring implementation or reports. After identifying the appropriate Treasury personnel to chair these working groups, we solicited interagency participation. This system offers two distinct advantages: (1) it brings the collective knowledge and expertise of the various governmental agencies and departments together; and (2) it facilitates the consultation requirements found in many provisions of the Act. I am pleased to say that the results thus far have been remarkable. Other agencies and departments stepped forward immediately, committing personnel and resources. For example, less than one month after the Act was signed by the President, Treasury issued interim guidance on two key provisions that were set to take effect on December 26, 2001. When Treasury requested consultation, the other agencies and departments responded quickly, assisting with our analysis of the issues and the completion of the guidance in time for the affected financial institutions to use it. And the cooperation continues. Working groups and subgroups meet almost daily. Drafts are being circulated and comments are received when requested. We are grateful for the assistance.

Another encouraging result of this process has been the response of the private sector and industry groups. With respect to several key provisions, we have received not only positive comments about the legislation, but also helpful insight into implementation issues. Others have contributed by simply taking the time to educate us on their particular industry and existing practices and procedures. Regulations cannot be conceived and drafted in a vacuum. Creative and constructive suggestions from those who will be affected by the regulations allow us to identify issues early and then find solutions early.

As I noted, our implementation plan has met with some early success. Since October of last year, we have issued interim guidance and regulations covering four statutory provisions. The two provisions that took effect in December were the prohibition against certain U.S. financial institutions maintaining correspondent accounts for foreign shell banks or indirectly providing services to them (Section 313) and the requirement that U.S. financial institutions obtain ownership and registered agent information from foreign banks for which they maintain correspondent accounts (Section 319(b)). On November 20, less than one month after the passage of the Act, Treasury issued interim guidance that explained the provisions, identified their scope, and provided financial institutions with a certification that could be utilized to comply with the provisions. Treasury subsequently issued a formal proposed rule in December that codified the Interim Guidance as a regulatory standard. On a separate front, four months ahead of the statutory deadline, Treasury issued in December a regulation implementing Section 365 of the Act, which effectively gives FinCEN access to reports filed by non-financial trades or businesses when they receive $10,000 or more in coins or currency. Finally, as required by Section 356 of the Act, Treasury issued in December a proposed rule that would require securities brokers and dealers to file suspicious activity reports. In support of FinCEN's increased responsibilities under the Act, the President's FY 2003 budget calls for a $3.3 million dollar increase in FinCEN's budget to help FinCEN expand suspicious activity reporting to a number of new industries and maintain the Suspicious Activity Reporting Hotline, begun this fall, to expedite the investigation of suspicious financial activities.

We have many additional regulations to promulgate and reports to file with Congress. We are determined to promulgate these regulations and prepare the reports expeditiously. We are always cognizant of the urgency of our task. At the same time, we are also working closely with other agencies, the private sector, and, of course, the Congress to ensure that we do our job not just fast, but well.

Treasury's Implementation Principles

As we implement the Act, we are guided not only by the express statutory language, but also by certain core principles that reflect our vision of what this legislation should accomplish and the manner in which it should be implemented. This legislation addresses broad issues and relies heavily on implementing regulations to define the scope of the provisions. Through the regulatory process, we will take the general and make it specific, exercising our discretion where appropriate. In this role, it is essential that we remain true to our core principles, which are as follows:

1. Prevent regulatory arbitrage.

The Act takes aim at those areas of our financial and regulatory system that present opportunities for exploitation. Treasury embraces this goal, and, through the regulatory process, will adhere to the principle that people should not be able to shift from one type of financial institution to another in order to avoid a regulatory scheme or anti-money laundering controls. The test is a functional one, namely, can a similar financial transaction be accomplished through another financial institution with less regulation. The justification for this principle is two-fold: first, our financial system is only as secure as its most vulnerable point; and second, a regulatory scheme must not create a competitive advantage for one type of financial institution over another when they perform the same or similar functions.

Our proposed regulation for Section 319(b) illustrates the point. Section 319(b) provides the Secretary of the Treasury and the Attorney General with administrative subpoena authority to compel the production of documents from foreign banks with correspondent accounts in the U.S.

The section also requires "covered" U.S. financial institutions that maintain a correspondent account on behalf of a foreign bank to maintain records identifying the owners of the foreign bank as well as its registered agent. But, Section 319(b) does not define "financial institution" for purposes of the section. Based on the notion that similar activity ought to be regulated similarly, instead of limiting the application to depository institutions—such as banks, thrifts, credit unions—Treasury proposed to extend the rule to securities brokers and dealers who also maintain correspondent accounts for foreign banks. In this way, the rule does not create the opportunity to shift from a bank to a securities broker or dealer in order to avoid regulation.

The provision of the Act requiring Treasury to issue a rule requiring securities brokers and dealers to file suspicious activity reports embodies this same principle. Banks and other depository institutions must file suspicious activity reports because such reports are important to the fight against money laundering. Because the potential for money laundering exists in the securities industry, a similar rule will soon apply. Section 356 of the Act also directs us to recommend whether and how to bring investment companies under the Bank Secrecy Act. For this as well we will analyze the functional activities of such entities, compare them with the activities of regulated entities, and identify the money laundering risks presented. With this information, Treasury will be able to proffer methods for applying the BSA to such entities.

2. Honor a central purpose of the Act: to enhance coordination and information flow.

An overarching goal of this legislation, and an important lesson we are learning as we continue our work to disrupt the financial underpinnings of terrorism, is that appropriate information must be made available to enable law enforcement, the intelligence community, and the regulators to protect our financial system. The financial institutions themselves have a critical role in sharing and reporting information. The Act facilitates information sharing on a number of levels: (1) among law enforcement and financial institutions; (2) among regulators, law enforcement, and the intelligence community; and (3) among financial institutions themselves. We will fulfill this goal of enhancing the ability to use and share information to combat terrorism and money laundering.

Treasury, through FinCEN, is well positioned to continue to expand its role as the lynchpin for information sharing and coordination between the government and the financial sector. Indeed, Section 361 of the Act, among other things, requires FinCEN to establish a high-speed network for access to its extensive BSA data and information. Similarly, Section 362 requires Treasury to establish a highly secure network through which financial institutions can make Bank Secrecy Act filings and receive alerts regarding suspicious activities or persons requiring immediate attention. Treasury is charged with establishing a highly secure network through which financial institutions can make Bank Secrecy Act filings and receive alerts regarding suspicious activities or persons requiring immediate attention. I am pleased to report that FinCEN is on schedule to have a working prototype for initial testing by mid-April.

Additionally, Section 314 of the Act contemplates an expanded role for Treasury in the sharing of information regarding terrorism and money laundering not only among law enforcement and financial institutions, but also among financial institutions themselves.

Treasury is completing work on a regulation that will be issued by the February deadline that, in part, first sets up the procedures by which financial institutions may share information among themselves regarding suspected terrorist financing, including money laundering, after providing notice to Treasury.

3. Respect important privacy rights.

The significant anti-money laundering provisions of the Act also serve to highlight the tension between the need to share information and the legitimate need for financial privacy. We acknowledge, as we must, that now more than ever law enforcement and the intelligence community must have the ability to obtain and share financial information. However, that need must always be balanced against our fundamental notions of privacy. Striking that balance is the challenge for Treasury as we implement this legislation.

4. Require only the degree of reporting that results in action by the government.

The potential new reporting obligations created by the Act mean that we must be even more vigilant in ensuring that the information reported is useful and in fact will be used effectively by the government. One consequence of an aggressive regulatory scheme is increased reporting obligations. But additional reporting requirements in and of themselves cannot serve as proxies for an effective anti-money laundering regime. If the information is not going to be used, it should not be requested. This principle guided our approach to implementing Section 365. That Section requires that non-financial trades or business file a report when they receive over $10,000 in coins or currency—a requirement that is virtually identical to the requirement placed on the very same businesses to file a report with the IRS under section 6050I of the Internal Revenue Code. Although the purpose of Section 365 was unquestionably to provide law enforcement and regulatory authorities with access to the same information currently received by the IRS—information that could not be easily shared because of the IRS confidentiality statute—as written, Section 365 seemed to impose a new reporting requirement. Thus, we crafted a rule that permits businesses to file a single cash reporting form that will go to both FinCEN and the IRS, thus satisfying both reporting requirements with a single report.

5. Protect our financial system.

The Bank Secrecy Act exists to protect our financial system. The Act provides Treasury with additional authority to systematically eliminate known risks to the financial system as well as to act in response to a specific threat that may arise. Proven high-risk accounts, such as correspondent accounts maintained on behalf of foreign shell banks, will no longer be permitted access to our system. In Section 311, you have also given us a powerful weapon with which we can apply graduated, proportionate measures when specific money laundering risks involving foreign jurisdictions and individuals arise. This new authority makes it clear that the Secretary, in consultation with other agencies, can impose an array of special measures that are tailored to the particular risk presented. Treasury is conducting active training and outreach to educate law enforcement agencies about this new tool.

Treasury's Implementation Priorities

Within the framework of the principles I have outlined above, the first priority for Treasury is to take all reasonable steps to meet the deadlines imposed by the Act.

We have devoted considerable resources to this task, redirecting our policy objectives to accommodate this effort. I will not sit here today and assure this Committee that, without fail, we will meet each deadline. The issues presented are complex and, as we proceed, new ones continue to arise. I can assure you, however, that we are working and will continue to work diligently on implementation, while taking the time that may be necessary to resolve difficult legal and policy questions.

Beyond the deadlines imposed in the Act, we have identified various provisions which, for a variety of reasons, we seek to pursue at the outset. These are provisions that, in our view, ought to be addressed on an expedited basis if possible. Finally, certain provisions with no immediate deadlines will inevitably have to be implemented after the more immediate priorities.

1. <u>The First Tranche -- To be Implemented by April</u>.

Over the next three months, we are striving to implement statutory provisions addressing: (1) information sharing among financial institutions, law enforcement and regulatory authorities (Section 314); (2) enhanced due diligence provisions applicable to financial institutions that maintain either private bank accounts or correspondent accounts for non-U.S. persons (Section 312); (3) methods for identifying and confirming the identity of foreign nationals (Section 326); (4) the minimum requirements for anti-money laundering compliance programs for financial institutions; (5) the role of the IRS in the administration of the Bank Secrecy Act (Section 357); and (6) methods for improving compliance with the obligation to report foreign bank accounts (Section 361). Additionally, we will be issuing final regulations covering the foreign shell bank correspondent account prohibition (Section 313), the record-keeping provision under Section 319(b), and the cash reporting requirements (Section 365).

2. <u>The Second Tranche – To Be Implemented as Expeditiously as Possible</u>.

Treasury is moving forward now to implement the following provisions addressing: (1) the authority of the Secretary, in consultation with other agencies, to designate primary money laundering concerns and impose special measures against them (Section 311); (2) concentration accounts (Section 325); (3) account opening procedures (Section 326); (4) suspicious activity reporting for futures commission merchants, commodity trading advisors, and commodity pool operators (Section 356); and (5) the efficient use of exemptions for currency transaction reports (Section 366). We intend to issue regulations further defining terms contained in Section 311 at the same time we issue regulations implementing the due diligence provisions of Section 312. Also, Treasury and the regulators are aggressively moving forward to draft regulations setting forth customer identification procedures for financial institutions.

IMMEDIATE RESULTS

Although we have much to do to fully implement the provisions of the Act, I wish to emphasize that the Act has helped us generate immediate results in the financial front of the war on terrorism. I alluded to two of those results at the beginning of my testimony.

INFORMATION SHARING

The amendments to the Bank Secrecy Act clarify the authority of the Secretary to share BSA information with the Intelligence Community for intelligence or counterintelligence activities related to domestic or international terrorism, regardless of whether the BSA information is related to law enforcement.

The amendments to the Right to Financial Privacy Act ("RFPA") further enhance the ability of government to obtain and share relevant financial records with another agency or department, such as FinCEN and OFAC, involved in intelligence or counterintelligence activities related to international terrorism without notifying the targets. The amendment to the Fair Credit Reporting Act facilitates government access to information contained in suspected terrorists' credit reports when the inquiry relates to international terrorism. This amendment allows those investigating suspected terrorists prompt access to credit histories that may reveal key information about the terrorists' plan or source of funding — without notifying the targets.

The Act also allows for greater information sharing with the private sector and self-regulatory organizations. Under the Act, for example, financial institutions that submit voluntary disclosures of information relating to terrorism and money laundering are immunized from liability, and Bank Secrecy Act reports can now be made available to securities and commodities self-regulatory organizations.

IEEPA Amendments That Have Helped in Our Freezing Efforts

This Committee was also largely responsible for amendments to the International Emergency Economic Powers Act ("IEEPA") that clarified the authority of the President and the Treasury Department to target and block terrorist assets successfully and efficiently. On December 14, 2001, OFAC utilized this authority to block suspect assets and records during the pendency of an investigation in the case of Global Relief Foundation and Benevolence International Foundation, two charities with locations in the United States.

In addition, it has become easier to share and use intelligence information for freezing assets since the PATRIOT Act authorized courts to consider classified information under the Act without such information being disclosed to those challenging the blocking. The IEEPA amendment also grants the President the power to confiscate and vest in the United States Government property of countries or persons involved in hostilities or attacks against the United States. Though this authority has not been used, it is a powerful new tool available to the Executive and a deterrent effect to those who would support terror.

New Tools to Follow the Money and to Deter Money Laundering

The Act also strengthens existing money laundering provisions and enhances the Treasury Department's ability to deal with this problem – which, in many respects, is related to the issue of terrorist financing. For example, the Act now requires that trades or businesses receiving more than $10,000 in coins or currency file reports with FinCEN. In addition, as of January 1, 2002, certain money service businesses are required to register with FinCEN and are now required to file suspicious activity reports (SARs) for money orders, travelers checks, and all transactions by money transmitters. While Congress gave Treasury the authority to impose some of these requirements before the Act was enacted, the Act extended the requirement to underground money transmitters. We have acted promptly to take full advantage of this new extension of authority. To date, it appears that registration is on track, and we will be able to begin the process of finding those underground money remitters who fail to register and charge them criminally if they have not registered in accordance with the law. In addition, the Act has given sharper teeth to these provisions by increasing civil and criminal penalties for Bank Secrecy Act violations.

In all, the Act enables us to fulfill our mission of thwarting the criminal use of the financial system in a way that was unavailable or impossible before October 25, 2001.

Conclusion

Mr. Chairman, we are engaged in a long-term battle against illegal abuse of the financial system. Whether it is terrorist financing or classic narcotics money laundering, we need to take every measure possible to combat the evil deeds that soil our financial system and pose a real threat to our security.

Treasury will continue to use the powers and assets at its disposal to ferret out terrorist financiers and networks and choke the funding source for terrorists here at home and abroad. We will continue to work in close coordination with our sister departments and agencies and with our international partners to make our campaign against terrorist financing as effective as possible. Furthermore, we will continue to fight the battle against money laundering and the criminal misuse of the financial system. An essential part of this mission is the complete and efficient implementation of the provisions of the Act. We are ready for this sustained effort, and we appreciate your support.

Mr. Chairman, this concludes my formal testimony. I would be pleased to answer any questions that you, or members of the Committee, may have regarding the Administration's goals and policies regarding terrorist financing and the Act.

Thank you.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Contact: Rob Nichols
202-622-2910

DEPUTY TREASURY SECRETARY KENNETH DAM TO PAKISTAN AND INDIA

Deputy U.S. Treasury Secretary Kenneth Dam will travel to Pakistan and India February 4-11.

During his visit, Deputy Secretary Dam will discuss our common efforts to combat terrorist financing; he will address trade, investment and a range of steps supportive of strong economic growth; and he will reinforce President Bush's message that these two nations resolve their differences peacefully.

Deputy Secretary Dam will meet with a wide array of senior government officials and private sector political, financial and economic experts.

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federal financing bank NEWS
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FEDERAL FINANCING BANK January 31, 2002

Kerry Lanham, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of December 2001.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $39.1 billion on December 31, 2001, posting a decrease of $1,388.9 million from the level on November 30, 2001. This net change was the result of decreases in holdings of agency debt of $1,385.6 million and in holdings of government-guaranteed loans of $3.3 million. The FFB made 80 disbursements, received 16 prepayments, and extended the maturities of 110 loans guaranteed by the Rural Utilities Service during the month of December.

Attached to this release are tables presenting FFB December loan activity and FFB holdings as of December 31, 2001.

PO-961

FEDERAL FINANCING BANK
DECEMBER 2001 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
;ENCY DEBT				
I.S. POSTAL SERVICE				
I.S. Postal Service	12/03	$100,000,000.00	12/04/01	1.928% S/A
I.S. Postal Service	12/03	$306,200,000.00	12/04/01	1.907% S/A
I.S. Postal Service	12/04	$56,400,000.00	12/05/01	1.866% S/A
.S. Postal Service	12/07	$200,000,000.00	12/10/01	1.897% S/A
.S. Postal Service	12/07	$227,900,000.00	12/10/01	1.815% S/A
.S. Postal Service	12/10	$480,000,000.00	12/11/01	1.876% S/A
.S. Postal Service	12/10	$244,300,000.00	12/11/01	1.836% S/A
.S. Postal Service	12/11	$190,000,000.00	12/12/01	1.815% S/A
.S. Postal Service	12/11	$253,000,000.00	12/12/01	1.784% S/A
.S. Postal Service	12/12	$266,800,000.00	12/13/01	1.795% S/A
.S. Postal Service	12/13	$60,400,000.00	12/14/01	1.815% S/A
.S. Postal Service	12/24	$263,500,000.00	12/26/01	1.845% S/A
.S. Postal Service	12/26	$54,900,000.00	12/27/01	1.877% S/A
.S. Postal Service	12/27	$187,500,000.00	12/28/01	1.866% S/A
.S. Postal Service	12/28	$1,600,000,000.00	12/31/01	1.877% S/A
.S. Postal Service	12/28	$313,700,000.00	12/31/01	1.845% S/A
.S. Postal Service	12/31	$780,000,000.00	1/02/02	1.866% S/A
.S. Postal Service	12/31	$245,800,000.00	1/02/02	1.866% S/A
VERNMENT-GUARANTEED LOANS				
ENERAL SERVICES ADMINISTRATION				
tlanta CDC Lab	12/06	$76,273.38	1/30/02	1.897% S/A
oley Services Contract	12/11	$32,677.99	7/31/25	5.667% S/A
hamblee Office Building	12/14	$12,319.33	10/01/26	5.648% S/A
tlanta CDC Lab	12/14	$14,824.22	1/30/02	1.815% S/A
tlanta CDC Lab	12/26	$97,870.63	1/30/02	1.845% S/A
EPARTMENT OF EDUCATION				
arber-Scotia College	12/03	$112,624.07	3/01/30	5.282% S/A
arber-Scotia College	12/03	$30,108.35	3/01/30	5.282% S/A
incoln University	12/03	$66,594.15	1/02/15	4.592% S/A
incoln University	12/03	$1,319,765.27	1/02/15	4.592% S/A
ivingstone College	12/03	$6,168.75	7/01/31	5.267% S/A
ougaloo College	12/11	$201,402.48	9/04/29	5.585% S/A
nnett College	12/14	$62,717.76	7/01/31	5.557% S/A
JRAL UTILITIES SERVICE				
icalola Electric #664	12/03	$7,000,000.00	4/01/02	1.776% Qtr.
arles Mix Elec. #630	12/03	$498,000.00	12/31/30	5.216% Qtr.
tizens Tel (VA) #680	12/03	$97,000.00	12/31/15	4.635% Qtr.
anters Electric #763	12/03	$1,100,000.00	12/31/30	5.221% Qtr.

FEDERAL FINANCING BANK
DECEMBER 2001 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
:utherford Electric #779	12/03	$3,500,000.00	12/31/35	5.226% Qtr.
nited Power Assoc. #433	12/03	$11,599,800.00	12/31/20	4.972% Qtr.
nited Power Assoc. #433	12/03	$119,400.00	12/31/20	4.972% Qtr.
ashington Electric #655	12/04	$325,000.00	1/02/35	5.201% Qtr.
labama Electric #695	12/06	$20,658,000.00	12/31/25	5.265% Qtr.
neida-Madison Elec. #582	12/06	$85,000.00	1/03/34	5.219% Qtr.
ookson Hills Elec. #797	12/07	$3,500,000.00	12/31/35	5.431% Qtr.
ast Central Energy #660	12/07	$4,000,000.00	1/02/35	5.428% Qtr.
eade County Elec. #662	12/07	$2,000,000.00	4/01/02	1.779% Qtr.
ast Kentucky Power #489	12/10	$7,970,000.00	12/31/24	5.644% Qtr.
arlboro Elec. #642	12/10	$1,375,000.00	1/02/35	5.574% Qtr.
nion Electric #783	12/10	$5,000,000.00	1/03/23	5.658% Qtr.
elaware County Elec. #682	12/11	$930,000.00	12/31/02	2.217% Qtr.
ast River Power #453	12/11	$393,000.00	4/01/02	1.847% Qtr.
oweta-Fayette Elec. #620	12/12	$10,540,000.00	1/03/34	5.517% Qtr.
astern Maine Coop. #795	12/13	$550,000.00	12/31/35	5.429% Qtr.
organ County Elec. #759	12/13	$1,500,000.00	12/31/35	5.429% Qtr.
tearns Cooperative #733	12/13	$1,400,000.00	4/01/02	1.670% Qtr.
lock Island Power #652	12/14	$321,000.00	12/31/24	5.449% Qtr.
rcas Power and Light #775	12/14	$3,700,000.00	12/31/35	5.490% Qtr.
ake Region Elec. #712	12/17	$3,762,000.00	1/02/35	5.575% Qtr.
. Indiana Rural Elec. #548	12/17	$1,700,000.00	1/03/34	5.576% Qtr.
umter Elec. #735	12/17	$1,000,000.00	4/01/02	1.739% Qtr.
itizens Tel (VA) #680	12/18	$100,000.00	12/31/15	5.095% Qtr.
RECI Electric #650	12/18	$2,331,000.00	12/31/30	5.504% Qtr.
est River Elec. #751	12/19	$4,459,000.00	3/31/06	4.173% Qtr.
dams Rural Electric #706	12/20	$440,000.00	1/02/35	5.426% Qtr.
itizens Elec. #742	12/20	$4,005,000.00	12/31/35	5.427% Qtr.
arrison County #532	12/20	$1,750,000.00	7/01/02	1.816% Qtr.
orth Georgia Elec. #781	12/21	$4,624,000.00	12/31/35	5.417% Qtr.
orth Plains Elec. #785	12/21	$373,000.00	1/02/35	5.419% Qtr.
rince George Elec. #796	12/21	$860,000.00	12/31/35	5.417% Qtr.
ri-State #475	12/21	$14,049,000.00	12/31/25	5.522% Qtr.
ri-State #757	12/21	$4,584,000.00	12/31/25	5.397% Qtr.
nite River Valley Elec. #776	12/21	$8,000,000.00	1/03/05	3.664% Qtr.
ake Region Elec. #737	12/27	$200,000.00	12/31/30	5.541% Qtr.
ille Lacs Electric #769	12/27	$500,000.00	1/03/12	5.153% Qtr.
RTCommunications #798	12/27	$4,802,000.00	4/01/02	1.748% Qtr.
ick River E.M.C. #656	12/28	$6,358,000.00	1/02/07	4.413% Qtr.
eorgia Trans. Corp. #559	12/28	$20,254,649.00	12/31/25	5.455% Qtr.
nterstate Tele #661	12/28	$2,965,918.00	12/31/19	5.120% Qtr.
nches River Elec. #634	12/28	$500,000.00	12/31/03	3.177% Qtr.
micalola Electric #664	12/31	$5,000,000.00	12/31/03	3.147% Qtr.
.g Sand Elec. #540	12/31	$793,422.08	4/01/02	1.721% Qtr.
.g Sand Elec. #540	12/31	$595,066.54	4/01/02	1.721% Qtr.
.g Sand Elec. #540	12/31	$994,822.06	4/01/02	1.721% Qtr.
.g Sand Elec. #540	12/31	$2,300,000.00	7/01/02	1.834% Qtr.
.ue Grass Energy #674	12/31	$4,000,000.00	1/03/12	5.077% Qtr.
.ue Grass Energy #674	12/31	$2,000,000.00	1/03/12	5.077% Qtr.
:azos Electric #917	12/31	$3,122,674.95	4/01/02	1.721% Qtr.

FEDERAL FINANCING BANK
DECEMBER 2001 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
Brazos Electric #917	12/31	$1,386,960.50	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$346,416.45	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$799,030.64	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$1,043,286.45	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$694,763.13	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$399,451.44	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$746,806.89	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$902,760.25	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$291,112.02	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$211,277.65	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$363,081.08	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$212,795.98	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$152,462.37	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$132,824.93	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$72,771.11	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$109,963.88	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$35,392.99	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$1,171,492.25	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$233,732.89	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$884,289.64	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$2,648,811.37	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$1,586,301.32	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$950,669.79	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$573,991.28	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$891,940.53	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$484,574.55	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$1,398,206.47	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$1,684,659.80	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$1,978,412.89	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$809,376.66	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$619,204.22	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$407,241.06	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$1,092,632.35	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$1,419,687.82	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$2,334,038.73	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$2,498,332.58	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$489,873.04	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$15,850.75	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$835,737.54	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$2,737,990.68	4/01/02	1.721% Qtr.
Brazos Electric #917	12/31	$2,146,602.24	4/01/02	1.846% Qtr.
Brazos Electric #437	12/31	$4,049,638.24	4/01/02	1.846% Qtr.
Brazos Electric #437	12/31	$1,368,508.78	4/01/02	1.846% Qtr.
Brazos Electric #437	12/31	$310,416.38	4/01/02	1.846% Qtr.
Brazos Electric #437	12/31	$2,973,478.44	4/01/02	1.846% Qtr.
Brazos Electric #437	12/31	$1,148,346.02	4/01/02	1.846% Qtr.
Brazos Electric #437	12/31	$482,351.61	4/01/02	1.846% Qtr.
Brazos Electric #561	12/31	$10,799,598.38	4/01/02	1.721% Qtr.
Brazos Electric #561	12/31	$5,435,687.93	4/01/02	1.721% Qtr.
Brazos Electric #561	12/31	$10,606,524.69	4/01/02	1.721% Qtr.

FEDERAL FINANCING BANK
DECEMBER 2001 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
3razos Electric #561	12/31	$8,346,462.52	4/01/02	1.721% Qtr.
3rown County Elec. #687	12/31	$250,000.00	4/01/02	1.721% Qtr.
:odington-Clark Elec. #551	12/31	$495,559.32	12/31/08	4.857% Qtr.
:entral Georgia Elec. #731	12/31	$1,780,000.00	4/01/02	1.721% Qtr.
:entral Elec. Power #624	12/31	$5,593,000.00	12/31/02	2.262% Qtr.
:entral Elec. Power #504	12/31	$2,923,000.00	1/03/33	5.643% Qtr.
:itizens Elec. #742	12/31	$2,694,000.00	4/01/02	1.721% Qtr.
:lark Energy Coop. #611	12/31	$2,984,466.17	4/01/02	1.721% Qtr.
:umberland Valley #668	12/31	$4,200,000.00	4/01/02	1.721% Qtr.
)arien Telephone Co. #719	12/31	$1,927,403.00	4/01/02	1.721% Qtr.
)arien Telephone Co. #719	12/31	$444,000.00	4/01/02	1.721% Qtr.
)arien Telephone Co. #719	12/31	$214,000.00	4/01/02	1.721% Qtr.
)elaware County Elec. #682	12/31	$364,000.00	4/01/02	1.721% Qtr.
'ederal Rural Elec. #728	12/31	$500,000.00	7/01/02	1.834% Qtr.
'leming-Mason Energy #644	12/31	$2,586,537.34	4/01/02	1.721% Qtr.
'leming-Mason Energy #644	12/31	$1,392,750.87	4/01/02	1.721% Qtr.
'leming-Mason Energy #644	12/31	$1,492,233.08	4/01/02	1.721% Qtr.
'leming-Mason Energy #644	12/31	$2,188,608.52	4/01/02	1.721% Qtr.
'leming-Mason Energy #644	12/31	$1,392,750.87	4/01/02	1.721% Qtr.
'reeborn-Mower Coop. #736	12/31	$750,000.00	7/01/02	1.834% Qtr.
'reeborn-Mower Coop. #736	12/31	$500,000.00	1/02/35	5.517% Qtr.
'reeborn-Mower Coop. #736	12/31	$300,000.00	1/02/35	5.517% Qtr.
'armers Telephone #399	12/31	$1,791,728.21	1/03/06	4.185% Qtr.
'armers Telephone #399	12/31	$1,984,607.69	1/03/06	4.185% Qtr.
rayson Rural Elec. #619	12/31	$1,193,786.47	4/01/02	1.721% Qtr.
rayson Rural Elec. #619	12/31	$596,893.24	4/01/02	1.721% Qtr.
rayson Rural Elec. #619	12/31	$994,822.06	4/01/02	1.721% Qtr.
arrison County #532	12/31	$990,776.42	4/01/02	1.721% Qtr.
arrison County #532	12/31	$891,698.78	4/01/02	1.721% Qtr.
nter-County Energy #592	12/31	$1,486,164.63	4/01/02	1.721% Qtr.
nter-County Energy #592	12/31	$1,981,552.85	4/01/02	1.721% Qtr.
nter-County Energy #592	12/31	$2,582,954.12	4/01/02	1.721% Qtr.
nter-County Energy #592	12/31	$219,855.67	4/01/02	1.721% Qtr.
ohnson County Elec. #482	12/31	$1,594,631.44	4/01/02	1.846% Qtr.
icking Valley Elec. #522	12/31	$2,723,644.38	4/01/02	1.721% Qtr.
agnolia Electric #560	12/31	$4,956,448.67	4/01/02	1.846% Qtr.
eade County Elec. #662	12/31	$1,300,000.00	4/01/02	1.721% Qtr.
eade County Elec. #662	12/31	$2,000,000.00	4/01/02	1.721% Qtr.
ewberry Electric #704	12/31	$4,164,000.00	4/01/02	1.721% Qtr.
olin Rural Elec. #528	12/31	$1,875,539.76	4/01/02	1.721% Qtr.
olin Rural Elec. #577	12/31	$2,559,175.49	4/01/02	1.721% Qtr.
olin Rural Elec. #577	12/31	$2,559,175.49	4/01/02	1.721% Qtr.
wen Electric #525	12/31	$1,980,312.06	4/01/02	1.721% Qtr.
ee Dee Elec. #547	12/31	$5,330,664.67	12/31/29	5.522% Qtr.
iedmont Tel. #566	12/31	$160,006.00	7/01/02	1.834% Qtr.
an Miguel Electric #919	12/31	$8,167,555.41	4/01/02	1.721% Qtr.
an Miguel Electric #919	12/31	$8,576,028.76	4/01/02	1.721% Qtr.
cenic Rivers Energy #677	12/31	$1,380,000.00	12/31/03	3.149% Qtr.
olitrock Telecom Coop. #506	12/31	$1,680,731.68	1/02/18	5.243% Qtr.
earns Cooperative #733	12/31	$2,400,000.00	4/01/02	1.721% Qtr.

FEDERAL FINANCING BANK
DECEMBER 2001 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
Surry-Yadkin Elec. #534	12/31	$984,324.21	4/01/02	1.721% Qtr.
Surry-Yadkin Elec. #534	12/31	$984,324.21	4/01/02	1.721% Qtr.
Surry-Yadkin Elec. #534	12/31	$492,162.10	4/01/02	1.721% Qtr.
Surry-Yadkin Elec. #534	12/31	$984,324.21	4/01/02	1.721% Qtr.
Surry-Yadkin Elec. #534	12/31	$984,324.21	4/01/02	1.721% Qtr.
Upsala Coop. Tele. #429	12/31	$316,323.51	4/01/02	1.846% Qtr.

S/A is a Semiannual rate.
Qtr. is a Quarterly rate.
maturity extension or interest rate reset

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	December 31, 2001	November 30, 2001	Monthly Net Change 12/1/01-12/31/01	Fiscal Year Net Change 10/1/01-12/31/01
Agency Debt:				
U.S. Postal Service	$7,575.8	$8,961.4	-$1,385.6	-$3,737.2
Subtotal*	$7,575.8	$8,961.4	-$1,385.6	-$3,737.2
Agency Assets:				
FmHA-RDIF	$2,310.0	$2,310.0	$0.0	-$125.0
FmHA-RHIF	$4,375.0	$4,375.0	$0.0	$0.0
Rural Utilities Service-CBO	$4,270.2	$4,270.2	$0.0	$0.0
Subtotal*	$10,955.2	$10,955.2	$0.0	-$125.0
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	$2,103.1	$2,141.0	-$37.9	-$53.5
DoEd-HBCU+	$43.7	$41.9	$1.8	$12.3
DHUD-Community Dev. Block Grant	$7.0	$7.1	-$0.1	-$0.9
DHUD-Public Housing Notes	$1,207.3	$1,207.3	$0.0	-$71.4
General Services Administration+	$2,246.8	$2,264.6	-$17.8	-$21.2
DOI-Virgin Islands	$13.1	$13.1	$0.0	$0.0
DON-Ship Lease Financing	$941.1	$941.1	$0.0	$0.0
Rural Utilities Service	$13,875.8	$13,822.2	$53.6	$276.6
SBA-State/Local Development Cos.	$123.5	$126.3	-$2.8	-$8.4
DOT-Section 511	$3.4	$3.4	$0.0	$0.0
Subtotal*	$20,564.9	$20,568.2	-$3.3	$133.5
Grand total*	$39,095.9	$40,484.8	-$1,388.9	-$3,728.7

* figures may not total due to rounding
\+ does not include capitalized interest

FROM THE OFFICE OF PUBLIC AFFAIRS

FOR IMMEDIATE RELEASE
January 30, 2002
PO-962

REPORT TO THE SECRETARY OF THE TREASURY FROM THE TREASURY ADVISORY COMMITTEE OF THE BOND MARKET ASSOCIATION
January 30, 2002

Dear Mr. Secretary:

Over the past three months, data on the economy's performance and forecasts for the next year have become mixed. Indeed, signs of weakness persist. The unemployment rate rose from 5.4% in October to 5.8% in December. Payroll employment fell by almost 1 million jobs in that period, and most economists believe GDP fell in both the third and fourth quarters. The National Bureau of Economic Research declared that a recession began in March of 2001. On the other hand, other information, especially recent data, suggest that the recession may be drawing to a close. Weekly data on new claims for unemployment benefits have declined by over 100,000 over the past few months. Household spending has proven to be much more resilient than anticipated and consumer confidence has been rising. Orders for durable goods have increased and recent reports by the Institute for Supply Management have shown marked increases. Most economists expect a swing in business inventories to lead to positive GDP growth in the first and the second quarters of 2002. At issue among forecasts is whether household and business final demand will be strong enough to ignite a self-sustaining recovery and, if so, how strong that recovery will be.

Interest rates on most Treasury maturities have risen since our last meeting on October 30. Yields on 2-year notes have risen by about 40 basis points, on 5-year notes by 65 basis points, and on 10-year notes by about 60 basis points. At the November refunding announcement, the Treasury stated its intention to discontinue issuing 30-year bonds. This caused an almost immediate decline in the yield on 30-year bonds of almost 40 basis points, but the move was subsequently reversed. The yield on outstanding 30-year bonds are now about 25 basis points higher than at the time of our October 30 meeting. Yields on short-term Treasury bills have declined by 40 basis points for 3-month bills and 20 basis points for 6-month bills, in sympathy with the 75 basis point drop in the federal funds rate that took place in two installments in early November and early December. Spreads to Treasuries on corporate bonds, mortgage-backed securities, and swaps have all declined since October 30 but generally not enough to

offset the rise in Treasury yields. Overall, fixed income markets appear to anticipate an end to Fed easing, an economic recovery, and at some point a rise in the federal funds rate from its current level of 1.75%.

The equity market has risen since October 30, with the Dow Jones Industrial Index up about 5%, the S&P 500 Index up about 4%, and the NASDAQ Composite up over 13%. However, the averages peaked in early January and are off about 7%, 6%, and 8%, respectively, from highs achieved on January 4. Company reports have become less pessimistic since our October 30 meeting. Data collected by First Call show that while the 129 negative pre-announcements or earnings warnings for the first quarter of 2002 are 12% above those recorded at the same point in the first quarter of 2001, they are 31% below those at comparable points in the second, third, and fourth quarters of 2001. In addition, positive pre-announcements have accelerated.

As noted in our October 30 report, the budget outlook is significantly different from what it was earlier in 2001. The Congressional Budget Office estimates a current policy deficit for the current fiscal year of $21 billion, compared to a surplus of $313 billion projected last year at this time and a surplus of about $150 billion projected as of mid-2001 after the tax cut was enacted. The CBO also now projects a deficit of $14 billion for 2003 and a surplus of $54 billion in 2004. However, these projections assume current policies are left unchanged. The President's budget is reported to contain proposals that would increase the deficit for the current fiscal year to over $100 billion and the deficit for 2003 to $80 billion. However, the President's proposal would still have the budget returning to surplus in 2004.

Against this economic and financial background, the Committee began consideration of debt management questions posed by the Treasury and the composition of financing to refund $4.1 billion of privately held Treasury debt maturing on February 15.

The first question posed by the Treasury asked what adjustments to financing plans should be made this year and next because of changes in the budget outlook. In particular, the Treasury asked what changes, if any, should be made in terms of the following:

- Issue size
- Reopening policies
- Frequencies
- Types of securities and maturities
- Buybacks

To begin with, the Committee report of October 30 had considered the effect on financing plans of the change in the budget outlook, under the assumption of a deficit/surplus projection that was roughly similar to the latest CBO current policy projection. At that time, the Committee concluded that "the Treasury does not appear to have to make dramatic changes in its current coupon offering frequencies or sizes in fiscal year 2002 or even in 2003." The Committee believed at that time and continues to believe that the extra money raised in 2-year notes, now being issued at $25 billion per month, as well as some extra issuance in Treasury bills, will accomplish the bulk of the additional financing required in 2002 and 2003 as long as deficits fall within the ranges encompassed by the CBO current policy projections and would probably, with minor adjustments, cover the budget profile of the President's budget.

The CBO estimated that between 1981 and 2001 the average absolute divergence between their forecast for the budget deficit in the current year and the actual outcome because of economic and technical factors alone was the equivalent of about $60 billion, expressed in terms of the deficit for 2002. Current financing schedules are geared toward small to moderate deficits, with a return to surplus within the next few years. If budget outcomes are more favorable than now anticipated, with smaller deficits and a more rapid return to surplus, the current financing schedules can be modified at the margin, similar to what had been the trend prior to fiscal year 2002. On the other hand, it is conceivable that the combination of enactment of policy proposals equivalent in size to those in the President's budget and unforeseen economic and technical factors could result in significantly larger financing needs that would require changes to current financing schedules. If this were to occur, the Treasury could, in short, begin to unwind some of the financing changes made over the past several years. More specifically, the following represent a general list of alternatives and possible changes if unfavorable deficit outcomes develop.

- **Issue size:** The Treasury has increased the issue size of the 2-year note from $17 billion in September to $25 billion in January. Most members believe that the market is having some difficulty absorbing the increase, with two of the last three auctions having cover ratios of 1.5 to 1, the lowest for a 2-year note since 1988. One member disagreed, suggesting that auction procedures, such as single price auctions, were the problem. However, the majority believe that if the Treasury needs to raise more cash, it should next move to the 5-year note, where members believe the market could absorb increased issue sizes. Members expressed some ambiguity about making significant increases to 10-year note issuance. Some expressed skepticism about increasing 10-year note sizes if the budget is still going to return to surplus in a few years after a short period of higher deficits. If unfavorable budget outcomes appear to be pushing the date of the return to surplus back several years, all members agreed that 10 year-issuance could be increased.

- **Reopening policies:** The Treasury policy of reopening 5-year and 10-year issues in alternate quarters was formulated as a means of providing large liquid issues in a period of sharply rising budget surpluses. If an unfavorable deficit outcome results in a significant rise in issue sizes, it is not clear that the reopening policy would be needed and could even create cash management problems for the Treasury at maturity.

- **Frequencies:** Members are of the belief that it would take a very sharp deterioration of the deficit outlook for the current financing schedule, with larger issue sizes, to be insufficient to meet financing needs. If that outcome were to occur, clearly the Treasury could revert to more frequent 5-year and 10-year auctions.

- **Types of securities:** Finally, the Treasury could, in theory, re-institute discontinued new issue maturities, in the event that other changes did not satisfy financing requirements.

- **Buybacks:** A somewhat different question arises in the case of buybacks. The Committee recommended and the Treasury implemented debt buybacks in a period when surpluses were developing, and there were projections that the public debt would be paid down within the next decade. Buybacks were a useful way of maintaining market liquidity by making it possible to issue larger sizes of current coupons than would otherwise have been the case. A side benefit was interest cost savings to the Treasury. In a period of budget deficits, buybacks are not necessarily needed to enhance liquidity in current coupons. However, even in a period of overall deficit, the Treasury continues to have isolated windows when they have significant amounts of excess cash or surplus and buybacks are an opportune use of that excess cash. Some members believed that buybacks should be continued throughout the

year even if at a lower level as long as the Treasury continues to believe the budget will eventually return to surplus. However, the majority believed that for the time being the Treasury might want to engage in buybacks primarily during months or quarters when they run surpluses. A continuation of the program under such circumstances would be less likely to be interpreted as an attempt to manipulate the yield curve but as a reasonable component in a program to manage cash positions that is also consistent with the belief that the budget will return to surplus at some point.

In response to Treasury's request for ways to enhance the development of the 10-year inflation indexed securities market, the Committee recognized that for a number of reasons including supply/demand imbalances and the current low-inflation environment, the IIs market remains an expensive debt management tool. Some member believe that the program has not been in existence long enough to fully ascertain whether it will ultimately require higher interest payments than on nominal securities, citing past experience with the introduction of the 30-year bond. Regardless, most felt that a number of program adjustments might help broaden demand for the product and eventually lead to more favorable financing terms for Treasury.

First, Treasury should reiterate their long-term commitment to the program. Despite broader acceptance among investors in recent years, many still are skeptical as to whether the Treasury will continue the program in any meaningful way.

Additionally, Treasury should upgrade its marketing program for IIs by highlighting, for instance, the deflation protection imbedded in new issue IIs as well as the non-correlated nature of the product as a portfolio management tool. This could help create more interest in the product among non-traditional IIs players.

Smoothing the new issue process by spreading issuance more uniformly throughout the year and moving auctions to more effective dates might create more interest in the auction process and alleviate some of the previously mentioned supply/demand imbalances. To accomplish this, Treasury should move from 2 to 4 auctions per year including 2 new issues and 2 reopenings. Additionally, Treasury should consider aligning the IIs new issues with the quarterly refundings when interest in Treasuries is at a peak. This change could increase crossover participation from traditional Treasury participants and generally increase focus on the product.

The next question from the Treasury had to do with the calculation of the net long position (NLP) as part of the auction process and efforts by the Treasury to reduce the time between submission of auction bids and announcement of results. Currently, net long positions for Treasury auctions are calculated as of 12:30 p.m. for a 1:00 p.m. auction close, and reportable net long positions are submitted along with bids for calculation of the 35 percent award limit. Would it be feasible to have the net long position calculation computed at 1:00 p.m., but reported after the close of an auction? Effectively, bidding entities would be responsible for net long calculations relative to amounts bid, and auction awards would would be based solely on amounts bid. Net long positions for purposes of the 35 percent rule would be determined after awards are made. If this approach were taken, the Treasury asked what sanctions the Committee would recommend if an entity were found to be in violation of the 35 percent rule.

Most Committee members felt that separating NLP reporting from actual auction bidding and moving the reporting point from 12:30 to 1:00 p.m., while somewhat more burdensome to the bidder, was manageable practically. It might create some unintended consequences including smaller bid to cover rates and generally weaker auction results. In recent years the dealer community has improved its ability to calculate NLP quickly and accurately and because of this most Committee members felt that moving the NLP calculation from 12:30 to 1:00 could be accomplished easily. The self policing aspect of the 35

percent rule, however, was more troubling as it shifted the burden of staying within the 35 percent limit squarely from Treasury to the bidder. In the past, a bidder could submit multiple bids in excess of the 35% rule knowing Treasury would reduce the award to be conforming. Under the self policing method, however, the bidder would be in violation once the threshold bid was awarded in auction. To avoid this situation bidders would almost certainly place fewer auction bids leading to smaller bid/cover ratios and possibly to weaker auction results. The Committee felt strongly that any benefits to Treasury afforded by quicker turnaround time in these situations should be weighed against the potential for weaker auction results.

In response to the question of recommended sanctions if an entity were found to be in violation of the 35 percent rule, the strong majority of Committee members felt that current sanctions were appropriate if not onerous. Also, it was unclear whether the change in NLP reporting would lead to fewer or more violations of the 35 percent rule. Treasury could adjust sanctions in the future if material violations of the 35 percent rule increased.

Finally, the Committee felt that improving the electronic capabilities of the auction platform could both improve Treasury auction turnaround and increase investor participation in the auction. For instance, if a bidder were able to check all auction inputs electronically prior to submission, errors would be kept to a minimum while customer participation remained high and auction turnaround quick.

The Treasury asked for the Committee's recommendation on the composition of financing in 5- and 10-year notes to refund $4.1 billion of privately held bonds maturing on February 15, the composition of marketable financing for the remainder of the January-March quarter, and the composition of the marketable financing for the April-June quarter.

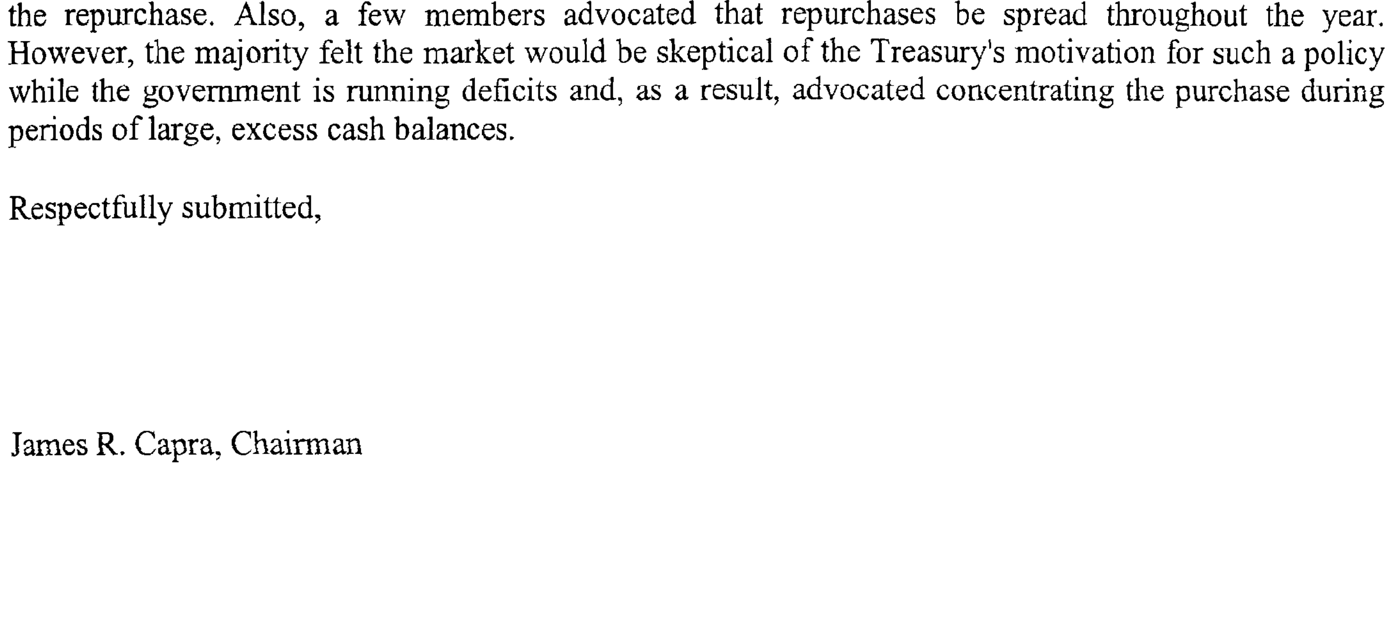
The Committee recommends a $15 billion reopening of the outstanding 5-year note due November 15, 2006 and a new $13 billion 10-year note due February 15, 2012. For the remainder of the quarter the Committee recommends a $25 billion 2-year note to be auctioned on February 27. The Committee does not recommend any cash management bills, projecting that the funding that would normally take place in cash management bills will be accomplished by increasing the size of 4-week bills to a high of $23 billion in mid-March as shown in the attached table.

For the April-June quarter, the Committee's recommended financing is contained in the attached table. However, three salient features of the recommendation are worthy of note.

First, the Committee suggests an $18 billion new issue of 5-year notes, to be auctioned on May 7. This larger initial size for the 5-year is consistent with the Committee's October 30 recommendation that the initial issue size for 5-year notes should be larger relative to the reopening so that more securities are available for hedging purposes during the initial three months when the issue's usefulness as a hedge is at its best.

Next, the financing plan for April-June includes a $3 billion reopening of the January inflation indexed 10-year. Committee members believe that making the indexed security part of the refunding would call attention to the issue and would enhance somewhat the development of the indexed market. Some members believed $3 billion was too small an issue size, even for a reopening. However, the majority believed the amount was a good starting point if the Treasury decides to include indexed securities in all four refundings.

Finally, the Committee recommendation for the April-June period includes a $12 billion (approximately $9 billion par amount) purchase of outstanding long-term bonds by the Treasury, concentrated in the



period of maximum Treasury cash balances, approximately April 17 to May 15, consistent with the earlier discussion of buybacks in this report. Some members believed $12 billion was too large an amount for repurchases in a one-month period, but the majority believed the market could accommodate the repurchase. Also, a few members advocated that repurchases be spread throughout the year. However, the majority felt the market would be skeptical of the Treasury's motivation for such a policy while the government is running deficits and, as a result, advocated concentrating the purchase during periods of large, excess cash balances.

Respectfully submitted,

James R. Capra, Chairman

Timothy W. Jay, Vice Chairman

Q1table

Q2table

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U.S. TREASURY FINANCING SCHEDULE FOR 1ST QUARTER 2002

BILLIONS OF DOLLARS

ISSUE	ANNOUNCEMENT DATE	AUCTION DATE	SETTLEMENT DATE	OFFERED AMOUNT 4-WK	OFFERED AMOUNT 3-MO	OFFERED AMOUNT 6-MO	MATURING AMOUNT	NEW MONEY	FED NON ROLLOVER
4 WEEK AND	12/27	12/31	01/03	7.00 A	14.70 A	17.65 A	43.7	-4.38*	0.00
3&6 MONTH BILLS	01/03	01/07	01/10	6.00 A	12.00 A	14.00 A	38.7	-6.72	0.00
	01/10	01/14	01/17	6.00 A	13.00 A	13.00 A	37.8	-5.82	0.00
	01/17	01/21	01/24	6.00 A	14.00 A	13.00 A	37.8	-4.79	0.00
	01/24	01/28	01/31	10.00 A	15.00 A	14.00 A	35.8	3.15	0.00
	01/31	02/04	02/07	10.00	15.00	14.00	36.0	3.00	0.00
	02/07	02/11	02/14	12.00	15.00	14.00	36.0	5.00	0.00
	02/14	02/18	02/21	15.00	15.00	14.00	36.0	8.00	0.00
	02/21	02/25	02/28	15.00	15.00	14.00	39.0	5.00	2.76
	02/26	03/04	03/07	19.00	15.00	14.00	39.0	9.00	0.00
	03/07	03/11	03/14	23.00	15.00	14.00	38.0	14.00	0.00
	03/14	03/18	03/21	23.00	14.00	13.00	41.0	9.00	0.00
	03/21	03/25	03/28	23.00	13.00	12.00	41.0	7.00	0.00
					541.35		499.92	41.44	2.76

* Note: There was an error at the December 31 auctions that resulted in more 3 and 6 month bills being issued than the originally announced $13 and $15 billion

ISSUE	ANNOUNCEMENT DATE	AUCTION DATE	SETTLEMENT DATE		OFFERED AMOUNT	CHANGE IN SIZE	MATURING AMOUNT	NEW MONEY	FED NON ROLLOVER
1-YEAR BILLS									
			02/28		0.00		10.0	-10.00	-2.76
COUPONS									
10-Year TIPS	01/02	01/09	01/15		6.00 A	+1.00	0.0	6.00	0.00
2-Year Note	01/23	01/30	01/31		25.00 A	+2.00	27.1	-2.07	0.00
5-Year Note (R)	01/31	02/05	02/15		15.00	-1.00			
10-Year Note	01/31	02/06	02/15	28.00	13.00		4.1	23.70	0.00
2-Year Note	02/20	02/27	02/28		25.00		23.6	1.37	0.00
-					84.00		54.99	29.01	0.00

R=Reopening
A = Announced

Treasury announced a Q1 borrowing need of $60 billion on 1/28/02.

NET CASH RAISED THIS QUARTER:	60.44
NET FED ROLLOVER:	0.00
MARKETABLE BORROWING:	60.44
BUYBACKS:	0.00
TOTAL NET BORROWING:	60.44

U.S. TREASURY FINANCING SCHEDULE FOR 2ND QUARTER 2002

BILLIONS OF DOLLARS

ISSUE	ANNOUNCEMENT DATE	AUCTION DATE	SETTLEMENT DATE	OFFERED AMOUNT 4-WK	OFFERED AMOUNT 3-MO	OFFERED AMOUNT 6-MO	MATURING AMOUNT	NEW MONEY	FED NON ROLLOVER
4 WEEK AND 3&6 MONTH BILLS	03/28	04/01	04/04	15.00	13.00	12.00	44.7	-4.70	0.00
	04/04	04/08	04/11	12.00	13.00	12.00	46.0	-9.00	0.00
	04/11	04/15	04/18	6.00	13.00	12.00	48.0	-17.00	0.00
	04/18	04/22	04/25	6.00	13.00	12.00	50.0	-19.00	0.00
	04/25	04/29	05/02	6.00	13.00	12.00	44.0	-13.00	0.00
	05/02	05/06	05/09	6.00	13.00	12.00	42.0	-11.00	0.00
	05/09	05/13	05/16	9.00	13.00	12.00	37.0	-3.00	0.00
	05/16	05/20	05/23	15.00	13.00	12.00	37.0	3.00	0.00
	05/23	05/27	05/30	18.00	13.00	12.00	37.0	6.00	0.00
	05/28	06/03	06/06	6.00	14.00	12.00	37.0	-5.08	0.00
	06/06	06/10	06/13	6.00	14.00	13.00	40.0	-7.00	0.00
	06/13	06/17	06/20	6.00	14.00	13.00	44.0	-11.00	0.00
	06/20	06/24	06/27	7.00	14.00	13.00	46.0	-12.00	0.00
					173.00		552.70	-102.70	0.00
CASH MANAGEMENT BILLS									
15-Day Bill Matures 4/18	03/28	04/02	04/03		30.00		30.00	0.00	
BUYBACKS									
April 15 to May 17 Total								-12.00	
COUPONS						CHANGE IN SIZE			
2-Year Note	03/20	03/27	04/01		25.00		24.0	0.98	0.00
2-Year Note	04/17	04/24	04/30		25.00		25.5	-0.53	0.00
5-Year Note	05/01	05/07	05/15		18.00	+3.00			
10-Year Note (R)	05/01	05/08	05/15	29.00	11.00	-2.00	9.4	22.58	0.00
10-Year (R)	05/01	05/09	05/15		3.00	-3.00			
2-Year Note	05/22	05/29	05/31		25.00		22.2	2.79	0.00
					107.00		81.19	25.81	0.00

R=Reopening
A = Announced

Treasury announced a Q2 borrowing need of $89 billion on 1/28/02.

NET CASH RAISED THIS QUARTER:	-76.89
NET FED ROLLOVER:	0.00
MARKETABLE BORROWING:	-76.89
BUYBACKS:	-12.00
TOTAL NET BORROWING:	-88.89

TREASURY NEWS

FROM THE OFFICE OF PUBLIC AFFAIRS

FOR IMMEDIATE RELEASE
January 29, 2002
PO-963

MINUTES OF THE MEETING OF THE TREASURY BORROWING ADVISORY COMMITTEE OF THE BOND MARKET ASSOCIATION
January 29, 2002

The Committee convened at 9:00 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present except for Messrs. Anderson, Druckenmiller and Lyski. The Federal Register announcement of the meeting and a list of Committee members are attached.

The Committee was welcomed by Timothy Bitsberger, Deputy Assistant Secretary for Federal Finance. Karen Hendershot, Acting Director of the Office of Macroeconomic Analysis, summarized the current state of the U.S. economy (statement attached). Fred Pietrangeli, a senior economist in the Office of Market Finance, presented a series of charts updating Treasury borrowing estimates, and debt and interest rate statistics.

The public meeting ended at 9:20 a.m.

The Committee reconvened in closed session at the Madison Hotel at 10:35 a.m. All members were present except for Messrs. Anderson, Druckenmiller and Lyski. The charge, also attached, was distributed to the Committee.

After reading the charge, the Committee began by reviewing its financing advice from the previous Committee meeting in October. In October, it observed that central budget forecasts can be met with existing securities and existing schedules. The Committee then discussed any financing changes needed if financing requirements exceed current central projections and sought to provide advice that would acknowledge any potential downside risks.

Committee members generally agreed that there was little room for additional increases in 2-year notes, at least in the short-term. One member argued that there is additional capacity at the short-end of the curve.

For some Committee members, the need for leveling off issuance of 2-year notes, combined with more pessimistic budget forecasts, indicates that Treasury may be approaching a time when it will need to increase issuance of 5-year notes. Members generally spoke positively about Treasury's ability to issue

5-year notes. The high level of fails in the financing market experienced recently can be taken as an indication that the market can readily absorb more supply. The Committee also discussed whether increased auction sizes would allow for a suspension of reopenings and the market impact of returning to single-issue 5-year notes. Members generally favored suspending the regular reopening policy, if auction sizes become large enough, and some noted that more frequent maturities would help investors managing duration risk.

Committee members discussed the appropriateness of buybacks in a period of fiscal deficits. Most members viewed the buyback program as a valuable tool that should be kept viable until surpluses return. Members acknowledged the need for a transparent justification for buyback operations in the absence of surpluses and that financing gains, by themselves, were an insufficient justification for the program. Suggestions for maintaining the program until surpluses return included only conducting buyback operations in surplus quarters and using the buyback program as a cash management tool. One member suggested that participation could be increased by conducting more frequent operations with fewer securities.

The Committee next considered the question of how Treasury could enhance development of the Treasury inflation-indexed securities (IIS) market. Committee members noted that the IIS program has been an expensive way to raise debt to date, but may not be in the future. Some members noted that IIS have a unique position in portfolios because of their lack of correlation with other assets. One member argued that there is insufficient demand for a security linked to the consumer price index and that Treasury could shift the index to something that the market needs. Other members disagreed with this assessment and argued, instead, that relatively high cost of IIS to date is a result of supply outstripping demand.

Committee members identified several actions the Treasury could take to enhance the TIPS market. Most important, Treasury needs to make an explicit statement about its commitment to the program. Treasury could also work to increase awareness of the program to various investor classes (the deflation protection feature was cited as attractive). Auction cycle could be moved, possibly tying IIS issuance to the quarterly refunding, or moving to four auctions a year. Another suggestion is that tax treatment should be simplified.

The Committee next considered ways in which the net long position (NLP) reporting requirement could be modified to help reduce auction turnaround times. While compliance by dealers was characterized as more complex. Committee members acknowledged that separation of NLP reporting from the auction process was feasible. While noting that a change to a reporting time as of auction time would require a higher level of self-policy by auction participants, existing sanctions were generally viewed as sufficient. Treasury should state what the costs of non-compliance are.

For the quarterly refunding, the Committee recommended a $15 billion reopening of the 5-year note, a $13 billion initial offering of the 10-year note, and no buybacks for this calendar quarter. For the next quarter, the Committee made a tentative recommendation of $18 billion for a new 5-year note, $11 billion reopening of the 10-year note and a par amount of $9 billion in buybacks (which seemed large to some members). The Committee also suggested that Treasury consider revising the IIS schedule to coincide with the quarterly refunding process and move to more frequent issuance to increase market focus (perhaps with a $4 billion initial offering and a $2 billion reopening).

The Committee also had a brief discussion of a proposed schedule change that would move the Committee meeting two weeks forward. This change is attractive from Treasury's perspective because it allows additional time for deliberation on Committee advice. Some Committee members, however, voiced concern about additional focus on the committee Report to the Secretary which could lead to two

weeks of greater market uncertainty.

The Committee adjourned at 12:35 p.m.

The Committee reconvened at the Madison Hotel at 5:50 p.m. All members were present except for Messrs. Anderson, Axelrod, Druckenmiller and Lyski. The Chairman presented the Committee report to the Under Secretary for Domestic Finance Peter Fisher, Assistant Secretary for Financial Markets, Briar Roseboro and Deputy Assistant Secretary for Federal Finance, Tim Bitsberger. A brief discussion followed the Chairman's presentation, but did not raise significant questions regarding the report's content.

The meeting adjourned at 6:10 p.m.

Paul F. Malvey

Director

Office of Market Finance

January 29, 2002

Certified by:

James R. Capra, Chairman

U.S. TREASURY FINANCING SCHEDULE FOR 1ST QUARTER 2002

BILLIONS OF DOLLARS

ISSUE	ANNOUNCEMENT DATE	AUCTION DATE	SETTLEMENT DATE	OFFERED AMOUNT 4-WK	OFFERED AMOUNT 3-MO	OFFERED AMOUNT 6-MO	MATURING AMOUNT	NEW MONEY	FED NON ROLLOVER
4 WEEK AND 3&6 MONTH BILLS	12/27	12/31	01/03	7.00 A	14.70 A	17.65 A	43.7	-4.38 *	0.00
	01/03	01/07	01/10	6.00 A	12.00 A	14.00 A	38.7	-6.72	0.00
	01/10	01/14	01/17	6.00 A	13.00 A	13.00 A	37.8	-5.82	0.00
	01/17	01/21	01/24	6.00 A	14.00 A	13.00 A	37.8	-4.79	0.00
	01/24	01/28	01/31	10.00 A	15.00 A	14.00 A	35.8	3.15	0.00
	01/31	02/04	02/07	10.00	15.00	14.00	36.0	3.00	0.00
	02/07	02/11	02/14	12.00	15.00	14.00	36.0	5.00	0.00
	02/14	02/18	02/21	15.00	15.00	14.00	36.0	8.00	0.00
	02/21	02/25	02/28	15.00	15.00	14.00	39.0	5.00	2.76
	02/26	03/04	03/07	19.00	15.00	14.00	39.0	9.00	0.00
	03/07	03/11	03/14	23.00	15.00	14.00	38.0	14.00	0.00
	03/14	03/18	03/21	23.00	14.00	13.00	41.0	9.00	0.00
	03/21	03/25	03/28	23.00	13.00	12.00	41.0	7.00	0.00
					541.35		499.92	41.44	2.76

* Note: There was an error at the December 31 auctions that resulted in more 3 and 6 month bills being issued than the originally announced $13 and $15 billion

ISSUE	ANNOUNCEMENT DATE	AUCTION DATE	SETTLEMENT DATE		OFFERED AMOUNT	CHANGE IN SIZE	MATURING AMOUNT	NEW MONEY	FED NON ROLLOVER
1-YEAR BILLS			02/28		0.00		10.0	-10.00	-2.76
COUPONS									
10-Year TIPS	01/02	01/09	01/15		6.00 A	+1.00	0.0	6.00	0.00
2-Year Note	01/23	01/30	01/31		25.00 A	+2.00	27.1	-2.07	0.00
5-Year Note (R)	01/31	02/05	02/15		15.00	-1.00			
10-Year Note	01/31	02/06	02/15	28.00	13.00		4.1	23.70	0.00
2-Year Note	02/20	02/27	02/28		25.00		23.6	1.37	0.00
-					84.00		54.99	29.01	0.00

R=Reopening
A = Announced

Treasury announced a Q1 borrowing need of $60 billion on 1/28/02.

NET CASH RAISED THIS QUARTER:	60.44
NET FED ROLLOVER:	0.00
MARKETABLE BORROWING:	60.44
BUYBACKS:	0.00
TOTAL NET BORROWING:	60.44

U.S. TREASURY FINANCING SCHEDULE FOR 2ND QUARTER 2002

BILLIONS OF DOLLARS

ISSUE	ANNOUNCEMENT DATE	AUCTION DATE	SETTLEMENT DATE	OFFERED AMOUNT 4-WK	3-MO	6-MO	MATURING AMOUNT	NEW MONEY	FED NON ROLLOVER
4 WEEK AND	03/28	04/01	04/04	15.00	13.00	12.00	44.7	-4.70	0.00
3&6 MONTH BILLS	04/04	04/08	04/11	12.00	13.00	12.00	46.0	-9.00	0.00
	04/11	04/15	04/18	6.00	13.00	12.00	48.0	-17.00	0.00
	04/18	04/22	04/25	6.00	13.00	12.00	50.0	-19.00	0.00
	04/25	04/29	05/02	6.00	13.00	12.00	44.0	-13.00	0.00
	05/02	05/06	05/09	6.00	13.00	12.00	42.0	-11.00	0.00
	05/09	05/13	05/16	9.00	13.00	12.00	37.0	-3.00	0.00
	05/16	05/20	05/23	15.00	13.00	12.00	37.0	3.00	0.00
	05/23	05/27	05/30	18.00	13.00	12.00	37.0	6.00	0.00
	05/28	06/03	06/06	6.00	14.00	12.00	37.0	-5.08	0.00
	06/06	06/10	06/13	6.00	14.00	13.00	40.0	-7.00	0.00
	06/13	06/17	06/20	6.00	14.00	13.00	44.0	-11.00	0.00
	06/20	06/24	06/27	7.00	14.00	13.00	46.0	-12.00	0.00
					173.00		552.70	-102.70	0.00
CASH MANAGEMENT BILLS									
15-Day Bill	03/28	04/02	04/03		30.00		30.00	0.00	
Matures 4/18									
BUYBACKS									
April 15 to May 17 Total								-12.00	
COUPONS						CHANGE IN SIZE			
2-Year Note	03/20	03/27	04/01		25.00		24.0	0.98	0.00
2-Year Note	04/17	04/24	04/30		25.00		25.5	-0.53	0.00
5-Year Note	05/01	05/07	05/15		18.00	+3.00			
10-Year Note (R)	05/01	05/08	05/15	29.00	11.00	-2.00	9.4	22.58	0.00
10-Year (R)	05/01	05/09	05/15		3.00	-3.00			
2-Year Note	05/22	05/29	05/31		25.00		22.2	2.79	0.00
					107.00		81.19	25.81	0.00

R=Reopening
A = Announced

Treasury announced a Q2 borrowing need of -$89 billion on 1/28/02.

NET CASH RAISED THIS QUARTER:	-76.89
NET FED ROLLOVER:	0.00
MARKETABLE BORROWING:	-76.89
BUYBACKS:	-12.00
TOTAL NET BORROWING:	-88.89

Treasury Borrowing Advisory Committee

Of the Bond Market Association

January 29, 2002

Q1table

Q2table

January 29, 2002

COMMITTEE CHARGE

The Treasury Department would like the Committee's advice on the following:

- The composition of financing in 5- and 10-year notes to refund $4.1 billion of privately held bonds maturing on February 15.
- The composition of Treasury marketable financing for the remainder of the January-March quarter, including cash management bills if necessary.
- The composition of Treasury marketable financing for the April-June quarter.
- The Administration announced last week that the budget deficit is expected to be $106 billion in FY2002 and $80 billion in FY2003. It is still forecasted that in the out years the budget balance will return to significant surpluses. Given the significant change in the projected outlook, Treasury needs to make additional adjustments to its financing plans this year and next. What would you recommend as adjustments to Treasury's financing? In terms of issue sizes, buybacks, reopenings, frequencies, securities?
- What recommendation do you have for the issuance calendar of Treasury's 10-year inflation-indexed security? What suggestions do you have for enhancing the development of the 10-year IIS market?
- Currently, net long positions for Treasury auctions are calculated as of 12:30 p.m. for a 1:00 p.m. auction close, and reportable net long positions are submitted along with bids for calculation of the 35 percent award limit. Would it be feasible to have the net long position calculation computed at 1:00 p.m., but reported after the close of an auction? Effectively, bidding entities would be responsible for net long calculations relative to amounts bid, and auction awards would be based solely on amounts bid. Net long positions for purposes of the 35 percent rule would be determined after awards are made. Also, what sanctions do you recommend if an entity were found to be in violation of the 35 percent rule. What else do you recommend to improve the turnaround in Treasury auctions?
- Any other topics related to Treasury's debt management program.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

For Immediate Release
January 30, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY, IRS ANNOUNCE NEW EFFORTS TO EXPAND E-FILING

Today the Treasury Department and the Internal Revenue Service announced new efforts to reduce taxpayer burden through expanded electronic filing opportunities.

E-filing is an immediate and important way to reduce the burden for both taxpayers and the government. Taxpayers who file returns electronically, and opt for Direct Deposit, get their refunds in half the time. Electronic returns are far less error-prone, which cuts down on unnecessary notices and penalties. Electronic returns are also far cheaper to process, which saves money for Uncle Sam.

"I believe that the current tax code is an abomination that cries out for vast simplification and reform. Until that vision can be accomplished, we need to reduce the burden on taxpayers in the short term by rapidly expanding opportunities such as e-filing, and making it free to those who choose it. No one should be forced to pay extra just to file his or her tax return. To accomplish this goal, this Administration is committed to taking a new approach. I've asked Commissioner Rossotti to reach out and work in a new partnership with the private sector. I don't intend for the IRS to get into the software business, but rather to open a constructive dialogue with those who already have established expertise in this field. In the end, this effort should come up with a better way to save time and money for both taxpayers and the government," stated Treasury Secretary Paul O'Neill.

The President's budget will contain two proposals aimed at increasing the number of taxpayers who choose to e-file. First, legislation is to be proposed extending the April filing date for electronic returns by at least ten days. This will give taxpayers a little extra time to get their affairs in order around tax day as an added inducement to e-file. Second the Administration proposes to encourage further growth in electronic filing by providing taxpayers the option to file their tax return on-line without charge. Treasury believes the best way to accomplish this is by forging a new partnership with existing private sector expertise in the field.

Currently, e-filing is the product of a public-private arrangement where taxpayers use e-filing vendors which must be approved by the IRS. Today, over 40 million taxpayers take advantage of this process. However, that leaves the more than 90 million taxpayers who don't. Research shows there are many factors that influence this decision.

One is cost: while it only costs 34 cents to mail a paper return, e-filing is sometimes offered for free, but can sometimes cost up to $10-$12. Another is privacy: some taxpayers don't want to send their personal tax information to the IRS via a third party.

"This Administration has worked hard to lower the tax burden on working Americans. There's more to be done. We should do everything we can to reduce the burdens the tax system places on taxpayers. By encouraging more people to file their returns electronically, the proposals in the President's budget will produce real benefits for taxpayers." stated Treasury Secretary Paul O'Neill.

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DEPARTMENT OF THE TREASURY

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1789

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FOR IMMEDIATE RELEASE
January 30, 2002

Contact: Tasia Scolinos
(202) 622-2960

Treasury Strengthens Transparency on Global Standards

On June 25th, 2001, Treasury Secretary Paul O'Neill launched a web site aimed at increasing the transparency of U.S. actions with respect to ongoing international efforts to improve the stability of financial systems around the globe and to keep criminals from abusing the international financial system. Today, the Treasury Department has taken another important step on the transparency front by posting the United States' recently completed self-evaluation with respect to the Financial Action Task Force (FATF) Special Recommendations on Terrorist Financing. Also posted on the site is the Federal Reserve's self-evaluation of compliance with core principles that serve as universal guidelines for the design and operation of safe and efficient payment systems worldwide. These guidelines and other internal evaluations can be found at: http://www.treas.gov/standards/.

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PO-965

DEPARTMENT OF THE TREASURY
TREASURY NEWS
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EMBARGOED UNTIL 9:00 A.M.
January 30, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY FEBRUARY QUARTERLY FINANCING

The Treasury will auction $16,000 million of 4-3/4-year 3-1/2% notes and $13,000 million of 10-year notes to refund $4,146 million of publicly held securities maturing February 15, 2002, and to raise about $24,854 million of new cash.

In addition to the public holdings, Federal Reserve Banks, for their own accounts, and Government accounts hold $1,847 million of the maturing securities, which may be refunded by issuing additional amounts of the new securities.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of each auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately $12 million into the 4-3/4-year note and $3 million into the 10-year note.

The auctions being announced today will be conducted in the single-price auction format. All competitive and noncompetitive awards will be at the highest yield of accepted competitive tenders. The allocation percentage applied to bids awarded at the highest yield will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

The notes being offered today are eligible for the STRIPS program.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about the notes are given in the attached offering highlights.

The 7-5/8% Bonds of 2002-07 that were called for redemption on October 15, 2001, are also being redeemed on February 15, 2002. This bond, of which $2,668 million is publicly held, will be repaid from available funds.

oOo

attachment

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MEDIA ADVISORY

Treasury To Block the Assets of Additional Drug Cartel Fronts Under the Kingpin Act

What: Treasury Under Secretary for Enforcement Jimmy Gurulé and DEA Administrator Asa Hutchinson will hold a press conference to discuss action taken by the Treasury Department's Office of Foreign Assets Control to block the assets of individuals and entities operating as fronts for the drug cartels.

Where: The Treasury Department
The Diplomatic Room, 3rd Floor
Please enter at the 15th Street Entrance

When: Thursday, January 31, 2002
11:00 AM

Contact: Media without Treasury or White House press credentials planning to attend Should contact Treasury's Office of Public Affairs at (202- 622-2960)
With the following information: name, social security number and date of birth.
This information may also be faxed to (202- 622-1999.

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PO-967

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
January 31, 2002

Contact: Tasia Scolinos
(202) 622-2960

STATEMENT OF TREASURY UNDER SECRETARY FOR ENFORCEMENT JIMMY GURULE KINGPIN TIER TWO DESIGNATIONS

Thank you all for coming today. I am particularly pleased to be joined here today by the Director of OFAC Rick Newcomb, DEA Administrator Asa Hutchinson and Customs Deputy Commissioner Chuck Winwood. As many of you know, since September 11th, the Treasury Department has been at the forefront of the war against terrorism. We have moved aggressively on many fronts to cut off the money used to fund these terrible acts that threaten the security and well being of our nation. We are determined and committed to this cause. At the same time, we know that there are other enemies that threaten the stability of our society and the safety of our children. We continue to battle every day the scourge of illegal narcotics that infects our society.

Today we send a very clear message to those who support the drug traffickers financially by devising schemes to legitimize their dirty money by operating front companies that allow drug proceeds to infiltrate legitimate looking businesses. The United States is committed to routing out both the drug dealers and the financiers who make their illegal actions profitable. To those who think otherwise – who think the United States is too preoccupied with the war on terrorism to pay attention - I am here today to tell you that you are wrong. We have been, and remain, committed to this objective.

Let me now turn to the specific actions taken today by Treasury's Office of Foreign Assets Control. Rick Newcomb and his team have worked tirelessly to make today's actions possible. Their long hours and dedication to this project has resulted in credible information linking the individuals and entities named here beside me to major narcotics traffickers. Twelve foreign businesses and fifteen individuals in the Caribbean and Mexico have been named "Tier II" designations, pursuant to the Foreign Narcotics Kingpin Designation Act. Under authority of the Kingpin Act, OFAC has determined that these 27 entities are acting as fronts or agents for foreign drug kingpins previously named by the President.

Today's action prohibits Americans from doing business with these 27 designees and blocks their assets found in the United States. The newly designated businesses and individuals, located in the Caribbean and Mexico, include a drugstore chain and pharmaceutical distributor, air courier services, a hotel and resort complex, as well as real estate, electronic security and consulting firms. Treasury has determined that drug kingpins previously named by the President under the Kingpin Act exert ultimate control over these Tier II designees.

PO-968

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
January 31, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY ANNOUNCES NEW HEALTH TAX CREDIT TO HELP PROVIDE AFFORDABLE HEALTH INSURANCE

Today the Treasury Department announced the new Health Insurance Tax Credit (HITC) that will be included in President Bush's budget for 2003. This HITC would provide a permanent tax credit to make insurance more affordable.

"We need to make sure that all Americans have access to affordable health insurance. The Administration's innovative Health Insurance Tax Credit will help uninsured Americans obtain health insurance coverage to provide greater health security for themselves and their families," stated Treasury Secretary Paul O'Neill

This HITC would create a refundable income tax credit for the cost of health insurance purchased by individuals under age 65. The credit would provide a subsidy for a percentage of the health insurance premium, up to a maximum credit of $1,000 per adult and $500 per child, up to two children. A two-parent family with two children would be eligible for a maximum credit of $3,000. The maximum subsidy percentage would be 90 percent for low-income taxpayers and would phase down with income. Individuals participating in public or employer-provided health plans would not be eligible for the tax credit. The credit could also be used in state sponsored private purchasing pools. In addition, individuals would not be allowed to claim the credit and make a contribution to an MSA for the same taxable year.

This is an improved HITC proposal, compared to the health insurance tax credit proposal in last year's FY 2002 budget. Elements of the current proposal are phased in one-year faster, and it provides additional subsidies for married couples with children.

-30-

PO-969

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*U.S. Government Printing Office: 1998 - 619-559

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For Immediate Release
January 31, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY TO ISSUE GUIDANCE ON LOSS DISALLOWANCE RULES

Today the Treasury Department announced that it intends to issue interim regulations shortly that will replace the loss disallowance rule in the consolidated return regulations. These rules determine the amount of loss allowable on a sale or disposition of subsidiary stock by a consolidated group.

Notice 2002-11 is being issued as a result of the Solicitor General's decision not to file an appeal with the Supreme Court in *Rite Aid Corp. v. United States*. In *Rite Aid*, the Federal Circuit Court of Appeals held invalid the duplicated loss factor in section 1.1502-20 of the consolidated return regulations. Section 1.1502-20, commonly known as the loss disallowance rule, disallows certain losses on sales of stock of a member of a consolidated group.

"The Treasury Department and IRS were advised that the Supreme Court was unlikely to grant a petition for certiorari without a split in the circuit courts of appeal regarding the validity of the loss disallowance rule. Without prompt resolution of the issue, continuing to defend the validity of the duplicated loss component of section 1.1502-20 is not in the interests of sound tax administration. New rules governing the treatment of loss on sales of stock of a member of a consolidated group must be implemented, because the duplicated loss factor is inextricably linked with the other factors in the loss disallowance rule," stated Mark Weinberger, Treasury Assistant Secretary for Tax Policy.

Interim temporary regulations will require consolidated groups to determine the allowable loss on a sale or disposition of subsidiary stock under a regime that does not include a duplicated loss rule. The temporary regulations will apply prospectively. For transactions entered into, or for which there is a binding contract, before the date of issuance of temporary regulations, groups will be allowed certain choices with respect to a disposition of subsidiary stock, including the new interim rule. The Treasury Department and the IRS are undertaking a broader study of the affected regulatory provisions of the consolidated return regulations. Treasury and the IRS intend to request comments in conjunction with the issuance of the interim regulations.

Treasury and the IRS emphasized that the decision in *Rite Aid* implicates no other provisions of the consolidated return regulations.

PO-970

The text of Notice 2002-11 follows:

Part III—Administrative, Procedural, and Miscellaneous

IRS Announces New Position With Regard To Consolidated Return Loss Disallowance Rule

Notice 2002-11

This Notice sets forth the Internal Revenue Service's position with respect to the opinion of the U.S. Court of Appeals for the Federal Circuit in Rite Aid Corp. v. United States, 255 F.3d 1357 (Fed. Cir. 2001), and the loss disallowance rules that apply to sales of stock of a member of a consolidated group.

In Rite Aid, the Federal Circuit held that the duplicated loss component of § 1.1502-20 of the Income Tax Regulations, which disallows certain losses on sales of stock of a member of a consolidated group, was an invalid exercise of regulatory authority. The Internal Revenue Service believes that the court's analysis and holding were incorrect.

Nevertheless, the Service has decided that the interests of sound tax administration will not be served by continuing to litigate the validity of the loss duplication factor of § 1.1502-20. Moreover, because of the interrelationship in the operation of all of the loss disallowance factors, the Service has decided that new rules governing loss disallowance on sales of stock of a member of a consolidated group should be implemented.

Accordingly, the Service intends to promulgate interim regulations that, prospectively from the date of their issuance, will require consolidated groups to determine the allowable loss on a sale or disposition of subsidiary stock under an amended § 1.337(d)-2 instead of under § 1.1502-20. For transactions (including those for which a return has been filed) completed before the date of issuance of interim regulations, or for which there is a binding contract before that date, groups will be allowed certain choices with respect to a disposition of subsidiary stock, including a choice to apply § 1.337(d)-2 as amended. The Service and Treasury are undertaking a broader study of the regulatory provisions necessary to implement § 337(d) of the Internal Revenue Code in the context of affiliated groups filing consolidated returns and will request comments in conjunction with the issuance of the interim regulations.

It is the Service's position that the Rite Aid opinion implicates only the loss duplication aspect of the loss disallowance regulation and that the authority to prescribe consolidated return regulations conferred on the Secretary is limited only by the requirement that the Secretary, in his discretion, has determined such rules necessary clearly to reflect consolidated tax liability.

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U.S. International Reserve Position 1/31/02

The Treasury Department today released U.S. reserve assets data for the week ending January 25, 2002. As ndicated in this table, U.S. reserve assets totaled $67,712 million on that date, compared to $68,509 million at the end of the prior week.

US millions)

)fficial U.S. Reserve Assets	January 18, 2002			January 25, 2002		
TOTAL	68,509			67,712		
ᐨoreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
ι. Securities	5,457	9,673	15,129	5,330	10,136	15,467
Of which, issuer headquartered in the U.S.			0			0
ι. Total deposits with:						
b.i. Other central banks and BIS	9,184	4,567	13,750	8,993	3,910	12,903
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
1F Reserve Position [2]			17,828			*17,649*
ɔecial Drawing Rights (SDRs) [2]			10,757			*10,649*
ɔld Stock [3]			11,045			11,045
her Reserve Assets			0			0

Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), ed at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect ring values.

he items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in r terms at the official SDR/dollar exchange rate for the reporting date. The entries in the table above for latest week (shown in italics) ct any necessary adjustments, including revaluation, by the U.S. Treasury to the prior week's IMF data. The IMF data for the prior week nal.

ɔld stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of December 30, 2001. The November 30, 2001 value 511,045 million.

U.S. International Reserve Position (cont'd)

. Predetermined Short-Term Drains on Foreign Currency Assets

	January 18, 2002	January 25, 2002
Foreign currency loans and securities	0	0
Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the U.S. dollar:		
2.a. Short positions	0	0
2.b. Long positions	0	0
Other	0	0

. Contingent Short-Term Net Drains on Foreign Currency Assets

	January 18, 2002	January 25, 2002
Contingent liabilities in foreign currency	0	0
a. Collateral guarantees on debt due within 1 year		
b. Other contingent liabilities		
Foreign currency securities with embedded options	0	0
Undrawn, unconditional credit lines	0	0
3.a. With other central banks		
3.b. With banks and other financial institutions headquartered in the U.S.		
3.c. With banks and other financial institutions headquartered outside the U.S.		
Aggregate short and long positions of options in foreign currencies vis-à-vis the U.S. dollar	0	0
.a. Short positions		
4.a.1. Bought puts		
4.a.2. Written calls		
b. Long positions		
4.b.1. Bought calls		
4.b.2. Written puts		

Offical Reserve Assets Worksheet
(actual US dollar amounts)

	Last Week	This Week
Enter Dates Here	18-Jan-02	25-Jan-02

Foreign Currency	18-Jan-02	25-Jan-02	Change
Euro Securities	$5,456,744,951.17	$5,330,479,490.09	-126,265,461
Yen Securities	$9,672,703,068.46	$10,136,039,332.19	463,336,264
Sec. Total	*$15,129,448,019.63*	*$15,466,518,822.28*	337,070,803
Euro Deposits	$9,183,682,976.52	$8,993,447,564.52	-190,235,412
Yen Deposits	$4,566,676,081.99	$3,909,658,672.70	-657,017,409
Deposit Total	*$13,750,359,058.00*	*$12,903,106,237.22*	-847,252,821
Total	$28,879,807,078.15	$28,369,625,059.49	-510,182,019
Euro Rate	*$0.8844*	*$0.8655*	
Yen Rate	*Y 132.64*	*Y 134.47*	

Source: NY Fed (fax)
copy and paste data into last week and put new data from fax into right column

IMF	18-Jan-02	25-Jan-02	
		(prelim. with adjust.)	
Reserve Tranche	17,827,819,785.04	17,649,070,986.49	-178,748,798.55
GAB	0.00	0.00	0.00
NAB	0.00	0.00	0.00
Total	17,827,819,785.04	17,649,070,986.49	-178,748,798.55
SDR	10,756,557,150.99	10,648,707,638.50	-107,849,512 49
			0.00

Source: IMF (email)
put actual figures in for last week

as of 10/31/01	18-Jan-02	25-Jan-02	
Gold	11,044,675,236.85	11,044,675,236.85	0.00
			0

Source : FMS website
http://www.fms.treas.gov/gold

	18-Jan-02	25-Jan-02
Other Res.Assets	0	0

TOTAL	68,508,859,251.03	67,712,078,921.34	-796,780,329.69

Adjustments to IMF and SDR data, translated at current exchange rates

Prelim. IMF Data Calculation Section	IN SDRs 18-Jan-02	Adjustments		SDR rate for 25-Jan-02	In USD
Reserve Tranche	14,221,144,876		14,221,144,876	0.805[illegible]	$17,649,070,986.49
GAB	0		0		$0.00
NAB	0		0		$0.00
			14,221,144,876	Total =	$17,649,070,986.49
SDRs	8,580,441,100		8,580,441,100	SDRs =	$10,648,707,638:50

Source:
http://www.imf.org/external/map.htm, then go to "Exchange Rates in Terms of SDRs Daily"

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TREASURY NEWS
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For Immediate Release
February 1, 2002

Contact: Public Affairs
(202) 622-2960

MEDIA ADVISORY:
DEPARTMENT OF THE TREASURY "BLUE BOOK" TECHNICAL TAX BRIEFING
Monday, February 4th, 3:00 p.m.

WHO: Assistant Secretary for Tax Policy Mark Weinberger and other Treasury Tax Policy Staff

WHAT: The "Blue Book" technical **background** briefing on the President's tax proposals. This session will provide a synopsis of the tax proposals and will also allow for a Question and Answer session with Tax Policy staff. No cameras will be admitted-- this is a "pen and pad" only briefing.

The "Blue Book" will be posted on the Internet Monday, February 4th at 8:00 a.m. at http://www.treas.gov/taxpolicy/library/bluebk02.pdf

WHEN: Monday, February 4th, 3:00 p.m.

WHERE: Large conference Room (3rd floor, Room 3327)
U.S. Department of Treasury
1500 Pennsylvania Ave., NW (Please use Visitor's Entrance on 15th Street)

Media without Treasury or White House press credentials planning to attend should contact Treasury's Office of Public Affairs at (202) 622-2960 with the following information: full name, organization, social security number and date of birth. This information may also be faxed to (202) 622-1999

PO-972

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EMBARGOED UNTIL 2:30 P.M.
January 31, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling $30,000 million to refund an estimated $29,922 million of publicly held 13-week and 26-week Treasury bills maturing February 7, 2002, and to raise new cash of approximately $78 million. Also maturing is an estimated $6,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced February 4, 2002.

The Federal Reserve System holds $12,540 million of the Treasury bills maturing on February 7, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders either in these auctions or the 4-week Treasury bill auction to be held February 5, 2002. Amounts awarded to SOMA will be in addition to the offering amount.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of each auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

TreasuryDirect customers have requested that we reinvest their maturing holdings of approximately $1,151 million into the 13-week bill and $705 million into the 26-week bill.

The allocation percentage applied to bids awarded at the highest discount rate will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

PO-973

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January 31, 2002

Offering Amount	$16,000 million	$14,000 million
Public Offering	$16,000 million	$14,000 million
NLP Exclusion Amount	$ 5,000 million	None
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 JT 9	912795 KV 2
Auction date	February 4, 2002	February 4, 2002
Issue date	February 7, 2002	February 7, 2002
Maturity date	May 9, 2002	August 8, 2002
Original issue date	November 8, 2001	February 7, 2002
Currently outstanding	$20,370 million	---
Minimum bid amount and multiples	$1,000	$1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.

Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.

Competitive bids:

(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 7.100%, 7.105%.

(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.

(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Rate .... 35% of public offering

Maximum Award .... 35% of public offering

Receipt of Tenders:

Noncompetitive tenders .....Prior to 12:00 noon eastern standard time on auction day

Competitive tenders ....Prior to 1:00 p.m. eastern standard time on auction day

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

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FOR IMMEDIATE RELEASE
February 1, 2002

Contact: Public Affairs
(202) 622-2960

Treasury Secretary Paul O'Neill's Remarks at the World Economic Forum New York, New York

I want to talk today about a vision. A vision of a world that works better. By working better, I mean a world where people everywhere are enjoying a higher and rising standard of living -- rising incomes that come from good jobs for everyone who wants one.

Let me begin by telling you the perspective I bring to this vision. From 1977 to 2001 I worked in the private sector after working 15 years in the Federal Government. During those private sector years I worked in two large multi national companies. From 1987 to 2001 I was the Chairman and CEO of Alcoa. When I joined Alcoa in 1987 we employed 55,000 people in 13 counties. When I left at the end of the year 2000; 140,000 people worked for Alcoa at 350 locations in 36 counties. This is to establish the basis for an assertion that I know something about job creation and about the ways of life and work in many places around the globe.

As I traveled the world over the last quarter century I was struck by two things. First, and most important, the demonstrated fact that human beings everywhere, with the proper education, training, and a stable social environment, can and do perform value adding work at world competitive levels.

That means they can be paid compensation that gives them the capacity for independence and their self-determined pursuit of the good life for themselves and their families. I draw from this observation that human beings everywhere have in them the latent capacity to create a high standard of living.

The second general observation is this: In spite of the first observation, the disparity of living standards among the world's people is so large as to be practically incomprehensible.

The obvious question is: Why? Why is it, if people have the capacity to create a good life that so many billions of people exist today with little hope of the good life we know is possible. Some of you will think this is a dead end question - - a question too big to ask - - one of life's imponderables - - let's move on to something else.

PO-974

I do not agree. I believe this is the question for us and our time.

If you examine the economic history of the last 300 years it is easy to conclude that there is no absolute limit on world economic product.

That is to say, economic prosperity is not rooted in some people getting more by taking someone else's share. In fact, it appears that the world economic pie is limited only by our imagination -- when we back up our imagination with the necessary social institutions and structures and human beings and resources are organized to create value.

I realize this is a lofty perspective and I intend to bring it down to the ground. But, as an analytic habit of mind, I find it useful to remind myself of the purpose and potential of what we do lest we get caught up in the alphabet soup of development agencies and NGO's and government organizations as though their existence were the only objective.

Let me bring these general ideas down to the ground and talk more specifically about economic development and the role of the international financial institutions.

I want to affirm that I believe the IFI's have been, and are now important and they need to be even more important in the future. By important in the future I mean identified with ever greater success in contributing to a rising standard of living for people everywhere.
To illustrate the thought process I believe we should employ in reaching for this objective, I want to discuss five interrelated subjects. The first is sovereign debt interest rates.

As the world has become evermore one capital market, sovereign interest rates have become a measure or proxy that allows us to compare conditions and prospects across geographic and political boundaries. For as long as I can remember, we seem to have accepted the proposition that low-income nations are destined to have high interest rates as compared to developed countries. Implicit in this notion is the idea that low-income nations are inherently less creditworthy than developed nations. Our expectations are fulfilled when nations borrow amounts that raise the risk of default. As the risk of default increases, the rates go up. But this proposition is not ordained, it is just a practice we have fallen into. In fact, low-income nations could have investment grade debt if they disciplined their debt issues to amounts they can service on a reliable basis.

We haven't paid much attention to this issue because we tend to forget the connection between governments and their people.

To put the issue squarely, governments get their revenue from their people and, when governments take on debt that results in interest rates of 20% or more they are, in effect, causing their people to pay those interest rates, sapping the ability of the people to tend to their individual needs. I saw this issue starkly in reviewing an analysis of a developing country economic plan where the target interest rate associated with economic success was judged to be 18%. Think about the consequences of an 18% interest rate for a country and its development prospects as compared to say a 10% rate or a 6% rate. Obviously, there is an interaction between interest rates and total amounts of capital borrowed but it isn't possible to make a case for sovereign rates that exceed a rate that can be returned by investments.

Out of this, I conclude that an objective of the international financial institutions should be to work with developing nations to achieve investment grade ratings for their debt issues. This will not be easy but it should be our objective because as developing nations move toward investment grade status they will reduce the danger of economic collapse; in effect, creating a cushion against unanticipated adverse events.

The second issue is related to the first. It is the issue of the appropriate balance between loans and grants in providing assistance to developing nations. Let me ask you a question. Do you think it makes sense to make a loan, even a highly concessional loan (that means long term and low interest rates) to a nation that is already up to its eyeballs in debt with scant prospects of being able to service its already outstanding commercial debt? I don't think so, but there are staunch advocates for preserving the practices of the past fifty years and continuing to encourage developing nations to take on loans from the development agencies. I think the advocates do not understand the first principles of capital markets and they certainly have not learned a lesson from the current experience of having to write off loans for the heavily indebted nations. President Bush has proposed that we shift assistance so that in the future 50% of the money provided by development banks be in the form of grants, moving from the current practice of 98% loans and 2% grants.

The opposition's main argument against this proposition seems to be that the virtue of loans is that it teaches developing nations important lessons about how to conduct their affairs. The HIPC loan forgiveness process makes a mockery of this notion.

Rather than add to the financial woes of developing nations by adding to a debt burden they cannot service we should openly admit that some countries need grants. Let me hasten to add, that does not mean gifts for the profligate. By grant I mean, a sum of money given for a specific purpose with measurable results that are pro growth and a higher standard of living for the people. Some of the critics of shifting the balance between loans and grants see such a shift as a nefarious plot to reduce the total amount of aid provided. On the contrary, I believe the world's taxpayers, who are after all the ultimate source of all development assistance, will respond with more assistance, if and when those of us in leadership positions can demonstrate that we know what we are doing by producing results measured by rising standards of living in developing nations.

The third issue is related to the first two; it is the importance of creating the conditions in developing countries that will result in the establishment and growth of a vibrant private sector economy. If a country is seen to be fiscally well managed, patient private sector investments will be made instead of the flighty deposits seeking short-term high risks and returns. Patient private sector investors create a multiplier effect that leads to more jobs, and more stable jobs.

Prudent sovereign fiscal management is a key but it needs to be buttressed by a stable social environment as demonstrated by the clear rule of law, enforceable contracts, and protection from extortionists and other forms of capital thieves. For a truly vibrant economy these conditions are not discretionary. They must be the center of attention for sovereign governments and for serious development agencies and efforts.

When these things are said in development circles, everyone shakes their heads in agreement but the real world circumstances do not bear a close relationship to this prescription. I believe until the fundamentals are in place and working, the effectiveness of development assistance is a small fraction of what it should be.

The fourth issue is what I will call the process of deliberate learning. Over the last 50 years, hundreds of billions of dollars have been spent in the name of economic development. With so many of the countries that have been aided still not showing strong evidence of positive change, I believe we need to sift and sort the facts and experience to understand where our efforts have produced great results and, as importantly, where there are no results or retrogression. This is an important task for the analytic community. At the last meeting of the G-20, I asked Jim Wolfensohn of the World Bank to prepare a report to begin this process. I emphasized the importance of learning and saying in a forthright way what hasn't worked and why so that we can agree to stop making such interventions.

The fifth and final issue is examining and refining the systems and tools we have, or ought to have, to help countries that fall into troubled times. As an illustration, let me use Argentina as a reference case. When we began early last year to examine the financial facts in Argentina we found that they had national debts totaling about $130 billion and a revenue stream capable of supporting perhaps $100 billion. As we looked at things they might do we examined their debt instruments and found that the country had given away their rights to restructure.

We should learn from that experience and seek to convince developing countries not to give away important fiscal flexibility for a few basis points of advantage when they issue debt.

A related learning is the need to create a process for controlled restructuring when a country falls on hard times. A serious discussion has been started by the recent call for the creation of a bankruptcy process. Many questions must be answered before a workable system can be put in place. I believe we should press ahead on this issue as quickly as possible but I hope you can tell from what I have said that I believe if we do a better job of economic development we will not often have to use such a tool.

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Contact: Tara Bradshaw
(202) 622-2014

TREASURY SECRETARY PAUL O'NEILL'S STATEMENT ON PROTECTING RETIREMENT SAVINGS

Today the President announced four steps recommended by his Task Force on Retirement Security to enhance the safeguards protecting workers' retirement savings. The Treasury looks forward to working with Congress to enact these important reforms.

Large companies often make contributions to their employees' 401(k) accounts in the form of employer stock. Employers should continue to be encouraged to make generous contributions to these plans. When these contributions are made in the form of employer stock, workers should have the freedom to diversify those contributions into other investment options after they have participated in the 401(k) plan for three years.

"Blackout periods" occur when employees cannot change their investments due to administrative changes being made to their plans. These periods must be fair, responsible, and transparent. Thus, corporate executives should not be able to buy or sell company stock while the company's workers are prohibited from trading employer stock in their 401(k) plans due to a blackout. By requiring 30 days advance notice before a blackout period begins, workers will have appropriate time to plan around these changes.

Current law inhibits employers from hiring investment advisors to give investment advice at the workplace that could assist workers in making retirement planning decisions. Enactment of the House-passed Retirement Security Advice Act would remove the existing barriers.

Workers deserve timely information on their 401(k) accounts, including the value of those accounts, their right to diversify their investments, and the importance of asset diversification.

The Task Force's recommendations will provide hardworking Americans greater freedom to choose, better information to make decisions, and a level playing field during blackout periods, thereby enhancing their retirement security.

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PO-975

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*U.S. Government Printing Office: 1998 - 619-559

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 11:30 A.M.
February 4, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $14,000 million to refund an estimated $6,000 million of publicly held 4-week Treasury bills maturing February 7, 2002, and to raise new cash of approximately $8,000 million.

Tenders for 4-week Treasury bills to be held on the book-entry records of *TreasuryDirect* will not be accepted.

The Federal Reserve System holds $12,540 million of the Treasury bills maturing on February 7, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders in this auction up to the balance of the amount not awarded in today's 13-week and 26-week Treasury bill auctions. Amounts awarded to SOMA will be in addition to the offering amount.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of the auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

Note: The closing times for receipt of noncompetitive and competitive tenders will be at 11:00 a.m. and 11:30 a.m. eastern standard time, respectively.

The allocation percentage applied to bids awarded at the highest discount rate will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about the new security are given in the attached offering highlights.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Details about the new security are given in the attached offering highlights.

oOo

Attachment

PO-976

For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED FEBRUARY 7, 2002

February 4, 2002

Offering Amount ....$14,000 million
Public Offering ....$14,000 million
NLP Exclusion Amount ....$10,100 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 JJ 1
Auction date ....February 5, 2002
Issue date ....February 7, 2002
Maturity date ....March 7, 2002
Original issue date ....September 6, 2001
Currently outstanding ....$38,760 million
Minimum bid amount and multiples $1,000

Submission of Bids:
Noncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.
Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.
Competitive bids:
(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 4.215%.
(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Rate...35% of public offering
Maximum Award...........................35% of public offering

Receipt of Tenders:
Noncompetitive tenders:
Prior to 11:00 a.m. eastern standard time on auction day
Competitive tenders:
Prior to 11:30 a.m. eastern standard time on auction day

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date.

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

OR IMMEDIATE RELEASE
February 04, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	February 07, 2002
Maturity Date:	May 09, 2002
CUSIP Number:	912795JT9

High Rat : 1.735% Investment Rate 1/: 1.769% Price: 99.561

All noncompetitive and successful competitive bidders were awarded curities at the high rate. Tenders at the high discount rate were lotted 62.01%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 29,144,949	$ 14,246,179
Noncompetitive	1,658,951	1,658,951
FIMA (noncompetitive)	95,000	95,000
SUBTOTAL	30,898,900	16,000,130 2/
Federal Reserve	4,964,492	4,964,492
TOTAL	$ 35,863,392	$ 20,964,622

Median rate 1.710%: 50% of the amount of accepted competitive tenders tendered at or below that rate. Low rate 1.680%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

-to-Cover Ratio = 30,898,900 / 16,000,130 = 1.93

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = $1,369,532,000

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED FEBRUARY 7, 2002

February 4, 2002

<u>Offering Amount</u> ....$14,000 million
<u>Public Offering</u> ....$14,000 million
<u>NLP Exclusion Amount</u> ....$10,100 million

<u>Description of Offering</u>:
Term and type of security ....28-day bill
CUSIP number ....912795 JJ 1
Auction date ....February 5, 2002
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Original issue date ....September 6, 2001
Currently outstanding ....$38,760 million
Minimum bid amount and multiples $1,000

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Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total non-competitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.
Competitive bids:
(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 4.215%.
(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

<u>Maximum Recognized Bid at a Single Rate</u>...35% of public offering
<u>Maximum Award</u>............................35% of public offering

<u>Receipt of Tenders</u>:
Noncompetitive tenders:
Prior to 11:00 a.m. eastern standard time on auction day
Competitive tenders:
Prior to 11:30 a.m. eastern standard time on auction day

<u>Payment Terms</u>: By charge to a funds account at a Federal Reserve Bank on issue date.

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

)R IMMEDIATE RELEASE
:bruary 04, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	February 07, 2002
Maturity Date:	May 09, 2002
CUSIP Number:	912795JT9

High Rate: 1.735% Investment Rate 1/: 1.769% Price: 99.561

All noncompetitive and successful competitive bidders were awarded curities at the high rate. Tenders at the high discount rate were lotted 62.01%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 29,144,949	$ 14,246,179
Noncompetitive	1,658,951	1,658,951
FIMA (noncompetitive)	95,000	95,000
SUBTOTAL	30,898,900	16,000,130 2/
Federal Reserve	4,964,492	4,964,492
TOTAL	$ 35,863,392	$ 20,964,622

Median rate 1.710%: 50% of the amount of accepted competitive tenders s tendered at or below that rate. Low rate 1.680%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

1-to-Cover Ratio = 30,898,900 / 16,000,130 = 1.93

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = $1,369,532,000

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PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

'OR IMMEDIATE RELEASE
'ebruary 04, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term: 182-Day Bill
Issue Date: February 07, 2002
Maturity Date: August 08, 2002
CUSIP Number: 912795KV2

High Rate: 1.830% Investment Rate 1/: 1.872% Price: 99.075

All noncompetitive and successful competitive bidders were awarded
ecurities at the high rate. Tenders at the high discount rate were
.lotted 12.97%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

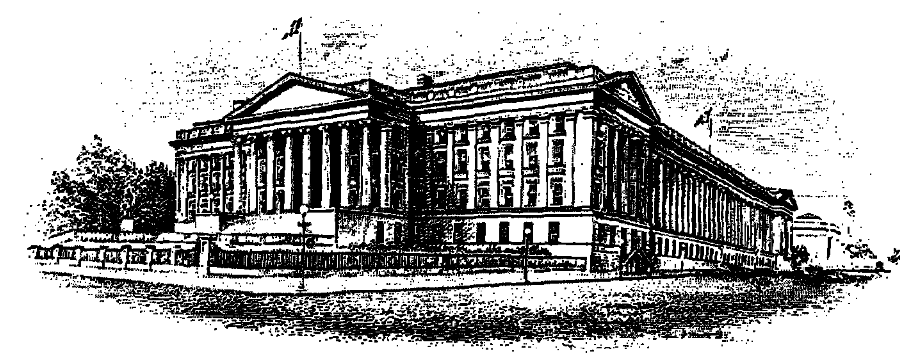
Tender Type	Tendered	Accepted
Competitive	$ 26,504,721	$ 12,834,734
Noncompetitive	1,065,672	1,065,672
FIMA (noncompetitive)	100,000	100,000
SUBTOTAL	27,670,393	14,000,406 2/
Federal Reserve	5,052,260	5,052,260
TOTAL	$ 32,722,653	$ 19,052,666

Median rate 1.800%: 50% of the amount of accepted competitive tenders
; tendered at or below that rate. Low rate 1.750%: 5% of the amount
accepted competitive tenders was tendered at or below that rate.

l-to-Cover Ratio = 27,670,393 / 14,000,406 = 1.98

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = $840,124,000

http://www.publicdebt.treas.gov



DEPARTMENT OF THE TREASURY

OFFICE OF PUBLIC AFFAIRS

202-622-2960

FOR IMMEDIATE RELEASE
February 4, 2002

Contact: Tony Fratto
(202) 622-2960

Treasury Secretary Paul O'Neill made the following statement today on Argentina:

Argentina is an important friend and ally of the United States.

We have been very concerned about the difficult circumstances now facing the people of Argentina.

We are encouraged that the Argentine Government is taking substantive steps to address its economic problems, and hope that it will now accelerate its work with the IMF to formulate a sustainable economic program, including an appropriate budget.

The United States also welcomes recently announced initiatives of the World Bank and Inter-American Development Bank to implement programs to address social safety net issues in Argentina.

We remain prepared to support, through the international financial institutions, a sustainable plan for economic recovery in Argentina.

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PO-979

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EMBARGOED UNTIL 9:30 A.M.
February 5, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

PAUL H. O'NEILL SECRETARY
U.S. DEPARTMENT OF THE TREASURY
BEFORE THE
SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

FINANCIAL EDUCATION

Introduction

Chairman Sarbanes, Senator Gramm, distinguished members of the Committee. Thank you for the opportunity to appear before you this morning to talk about the vital importance of financial education. I am especially pleased to do so in the company of Chairman Greenspan and Chairman Pitt. Mr. Chairman, I commend you for focusing a national spotlight on this critical topic, which is so closely linked to our economic future. It is one, I might add, in which I have a deep and longstanding personal interest.

In his inaugural address, the President stated "[t]he ambitions of some Americans are limited by failing schools and hidden prejudice and the circumstances of their birth. We do not accept this, and we will not allow it." Ownership, independence, and access to wealth should not be the privilege of a few. They should be the hope of every American. Financial literacy is an essential tool to make that hope a reality.

PO-980

Need for Improved Financial Education

The U.S. financial system commands the respect and admiration of the world in large part because of the widespread availability of low-cost, high quality financial services. Technology and innovation have made possible a rich diversity of financial products to meet the individual needs of millions of American households and businesses.

Today's expansive menu of financial product offerings, however, has added complexity to the decisions Americans must make in choosing the financial products that best serve their needs. I recall a time not so long ago when, for a large number of Americans, mortgage rates were fixed, savings went into a bank passbook account, consumer goods were bought on a cash-only basis, and pensions all had defined benefits for retirement. Today, mortgage financing comes in a variety of packages, credit card use is universal, and savings investment vehicles range from CDs to mutual funds to individual stocks to annuities. Moreover, the importance of knowing how to invest savings wisely has risen exponentially with the decline in popularity of defined benefit retirement plans.

To be sure, the evolution of our nation's financial system has created wonderful new opportunities for Americans to meet their needs as consumers, while at the same time, building wealth and security for their and their families' economic futures. However, Americans need to be fully prepared and financially educated to take advantage of these opportunities. If we do not understand the most important concepts of personal finance, such as how to budget, save, invest and use credit wisely, then we are missing our full potential as individuals, as well as our potential as a country.

We have significant room for improvement in the area of financial education. Recent studies illuminate this fact. In one test of financial basics given to high school students, the average score was a disappointing 51 percent, with only one-tenth of students scoring above 70 percent on the exam. Remarkably, only fifty percent of high school students understood the concept of compound interest. Results were similarly disappointing when adults were tested: their average score was only 57 percent.

There is a tragic human and personal cost that our society pays for this lack of financial knowledge. All of us know family or friends who have had money problems at some stage in their life. We all know the terrible price in suffering, stress, and humiliation that is faced by those in financial trouble. Four in ten Americans admit they are living beyond their means, primarily because of the misuse and misunderstanding of credit. Between 1990 and 2000, personal bankruptcies rose by 69%, again stemming primarily from credit misuse.

A lack of financial knowledge is especially problematic for the most vulnerable members of our society. The poor, the elderly, and minority groups can be victims of fraud and deception, predatory lending, and other such abuses. Financial education is a crucial weapon in our arsenal to protect our citizens from these types of attack. Understanding personal finance is a consumer's first line of defense against financial rip-offs and scams. Those most vulnerable to these attacks are precisely the people who have the most to gain by a concerted nationwide effort to raise Americans' level of financial knowledge.

Current Efforts to Address the Problem

Considerable efforts are being made in the private and public sector to promote financial education. Our staff has completed a list of financial educational resources offered by the various Federal departments and agencies that is attached to my testimony for inclusion in the record.

As the attached document shows, no fewer than 10 federal departments and agencies, including the Treasury Department, offer a wide variety of financial education programs and resources. In addition, many states, Wisconsin, Maryland, and California, to name a few, have taken initiatives to raise the level of their residents' financial knowledge. Similarly, financial service providers have made extensive efforts in the banking, securities, and insurance industries to teach the public how to properly use their products.

Faith-based organizations and community groups have also promoted financial education. As we all know, talking about money, and especially about the state of one's own finances, can be difficult. Faith-based and community organizations tend to foster the trust necessary for their members to discuss these personal matters with them. Such groups can encourage people who have never saved before to begin saving; to think twice about making an impulse purchase; or to consider more deeply the need to focus not only on short-term consumption, but also on long-term investment.

A Focus on the Schools

These current efforts are important, yet much more needs to be done if we are to significantly raise the ability of Americans to more effectively master their financial lives. To be sure, our national strategy must address the financial educational needs of Americans in all walks of life. This morning, however, I would like to focus in particular on the need for more financial education in our nation's schools.

No better venue exists for us to reach such a large segment of the population than through our schools. No better mechanism exists for providing our nation's youth with the educational building blocks they will need to become competent consumers and managers of household wealth. By beginning the financial education process early, we can equip our youth with a foundation for making sound financial decisions throughout their lives. Indeed, in those states that have begun requiring personal financial education in high school, research shows that high school graduates have higher savings rates and higher levels of net-worth.

Of course, financial education must begin with basic literacy. A child with insufficient reading skills will never be able to comprehend a credit card application or a Truth in Lending disclosure. A child lacking basic math skills will never be able to balance a checkbook or compare credit card interest rates. Financial education programs will be successful only for those children who have mastered basic academic skills. This is one of the reasons why it was so important for the Congress to pass the President's education bill – the No Child Left Behind Act of 2001 – signed into law on January 8.

Faith-based organizations and community groups have also promoted financial education. As we all know, talking about money, and especially about the state of one's own finances, can be difficult. Faith-based and community organizations tend to foster the trust necessary for their members to discuss these personal matters with them. Such groups can encourage people who have never saved before to begin saving; to think twice about making an impulse purchase; or to consider more deeply the need to focus not only on short-term consumption, but also on long-term investment.

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This landmark legislation provides the most sweeping reforms of the Elementary and Secondary Education Act since it first became law in 1965. Included among the bill's provisions are requirements that states set high standards for achievement in reading and math and that they test every child in grades 3 through 8 to ensure that students are making progress in achieving those standards. The bill also includes specific language recognizing the importance of financial education efforts by local schools.

State and local educators are now undertaking the process of developing standards in math and reading, and the educational curricula that will help their students achieve those standards. In collaboration with Secretary Paige, I would like to take the opportunity of this hearing to call upon schools to integrate financial education into those standards and curricula – not as a separate discipline, but as means of exposing children to basic financial and economic principles at the same time they acquire core reading and mathematical skills.

Teaching a child how to balance a checkbook reinforces basic addition and subtraction. Learning how to calculate compound interest provides an excellent way to exercise knowledge of percentages. Reading lessons can include stories about children saving money to buy something special, or getting their first after-school job. For older children, assignments in English literature can easily be structured to include novels that not only build reading comprehension, but also help students explore and analyze principles of economic behavior.

Successfully interweaving financial education into math and reading standards required by the President's education program would be a giant leap forward in helping prepare our nation's youth to become financially literate adults. In the short run, building financial education into courses that are already required by all schools may be the most expeditious and least expensive way to make our educational system more responsive to students' financial educational needs.

At the same time, such efforts would complement initiatives already underway in several states to incorporate personal finance courses into school curriculums. Mississippi, Illinois, Idaho and New York have been leaders in assuring that personal finance is at least offered to all students before they graduate from high school. I would also note that legislation or resolutions have now been passed in Tennessee, Delaware, Louisiana, Michigan and Wisconsin to provide personal finance education courses. And Delaware and Wisconsin have established task forces to review the issue and make recommendations.

A Financial/Educational Alliance

In 1996, I had the privilege of co-chairing the Pennsylvania Advisory Commission on Academic Standards. This was a 17-member panel of non-educators, charged by then Governor Tom Ridge with the job of reviewing education standards being developed for Pennsylvania. Our goal was two-fold: to ensure that the concerns of students, parents, and local businesses were considered in developing the standards; and to serve as a reality check, if you will, so that the standards reflected the real-world needs of students once they graduated and entered the workforce. The effort was highly successful and today Pennsylvania is recognized as having one of the highest quality education standards for its children.

Just as Governor Ridge called upon non-educators in Pennsylvania to partner with educators in the successful development of "real world" education standards, I believe the financial services sector can just as effectively partner with state and local educators in the development of financial education standards. For instance state banking superintendents, insurance commissioners, and securities administrators all possess a wealth of expertise and experience to contribute to the development of financial education guidelines. Private financial institutions also have much to offer in terms of expertise, as well as providing a source of additional resources to support teacher training and the establishment of financial education curricula and programs.

At the national level, the Treasury Department is focusing much of its existing financial education programs on youth. Just last year, we launched the *Money Math* program, a personal finance education kit for young people in grades 7 through 9. More than 110,000 middle school math teachers in 16,000 school districts nationwide received the kits free of charge.

In terms of new initiatives, I am pleased to announce that our Treasurer, Rosario Marin, has agreed to organize an effort to recruit the support of state treasurers in pressing for more financial education in the schools.

In addition, we are working to find a suitable way in which we can recognize, in conjunction with the U.S. Department of Education, local schools that have exhibited high distinction in the area of financial education. By providing a national spotlight for innovative educators who have developed successful programs for teaching personal finance, we hope to motivate their colleagues in other schools to follow suit.

In partnership with the Department of Education, I am willing to do whatever I can to promote financial education in the schools. As all of us know, education forms one of the most important bases of our free and prosperous society, and financial education skills figure prominently in the success with which we exercise our economic freedoms. As a grandfather of twelve wonderful grandchildren, I know well that children are America's future, and I would like to see an educational system that provides all American children with these vital life skills.

Other Areas of Focus

Youth education will not, of course, help the legions of adult Americans whose financial education skills fall short. Let me mention some of the policy issues where we have identified financial education as key to protecting and promoting the financial health of the adult population.

We should extend our efforts on financial education to retirement security. As you know, the President requested that I, along with Labor Secretary Chao and Commerce Secretary Evans examine retirement savings laws to determine whether any reforms are necessary to promote the ability of all Americans to plan for a secure retirement. Last week, the President announced our recommendations, which include proposals to increase the freedom of American workers to choose how they wish to invest their 401(k) assets, as well as to prevent corporate officers from selling company stock during a so-called "blackout" when workers are prohibited from trading in their 401(k) plans. A key feature of our recommendations is to expand workers' access to financial educational resources and professional investment advice, so that they can have the tools they need to make informed investment decisions.

Moreover, investors cannot learn what companies do not disclose. Recognizing that the Nation's corporate disclosure system is not working as well as it should, the President has asked his Working Group on Financial Markets to take a hard look at what we can do to fix it. Chairman Greenspan, Chairman Pitt, CFTC Chairman James Newsome and I are looking for ways to realign our corporate disclosure and accounting system with its basic purpose – to provide investors with the information they need to make informed decisions about public corporations' financial positions and prospects. Clear, accurate, and comprehensive disclosures are essential to all Americans' ability to invest and save. The key is accountability and responsibility for corporate officers and directors, accountants and auditors. We are committed to the President's call to hold corporate America to "the highest standards of conduct." I am confident that the Working Group's recommendations to the President will point the way to strengthening our disclosure regime.

Financial education is also a centerpiece of First Accounts, a program in which Senator Sarbanes has a major interest. First Accounts is a grant program administered by the Treasury Department and designed to move a maximum number of "unbanked" low- and moderate-income individuals to "banked" status with insured depository institutions. Without basic financial services, low- and moderate-income individuals may have a reduced ability to manage their finances and may be limited in planning and saving for the future.

We issued a Notice of Funding Availability on December 27, 2001, and are providing applicants until March 20, 2002 to respond. In addition, we sent hundreds of copies of this Notice to community groups, faith-based organizations, labor unions in all fifty states, and dozens of financial institutions and their trade associations. We expect to use the First Accounts program to fund replicable model projects that develop financial products and services for these individuals without the need for ongoing public subsidies. In seeking applications, we have recognized that financial education can be a key component in persuading more Americans to open bank accounts. We will also undertake research to evaluate the success of the funded projects and to understand what products, services, educational initiatives, marketing techniques, or incentives are needed.

Finally, I think it is important to make this observation: unwise financial decisions do not always stem from a lack of financial education. All too often, bad choices stem from economic despair. No amount of financial education will help individuals build their retirement nest eggs if their incomes barely cover their families' living expenses. No amount of financial education will help individuals escape the high fees charged on short-term, unsecured loans if their families are in need of food or medicine, and there is no other place to go for the funds. With more money in their pockets, people will be better positioned to make sound economic choices and provide for their and their families' economic futures. As we aggressively promote financial education, we must not lose sight of the larger goal to promote economic prosperity through the President's economic program.

Conclusion

The importance of high quality education to the future of our society and to our nation's economy can never be underestimated. I am reminded of a saying from the gentleman who graces the one hundred dollar bill - Benjamin Franklin, "If a man empties his purse into his head, no man can take it away from him." Those words written at the dawn of this great nation's history are as true today.

Financial education can be compared to a road map to the American Dream. I believe that we need to teach all Americans the necessary tools to read that map, so that they can reach the Dream.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

Embargoed Until: 2:30 P.M.
February 5, 2002

Contact: Tara Bradshaw
(202) 622-2960

**TESTIMONY OF TREASURY SECRETARY PAUL O'NEILL
BEFORE THE
SENATE FINANCE COMMITTEE**

Good morning Chairman Baucus, Senator Grassley and members of the committee. Thank you for inviting me to testify today. Now that we've had a year to work together, you should know that I am an optimist about the US economy. I believe we always have untapped potential that can be unleashed to spread prosperity throughout the nation. Never has that been more true than right now. Even after a difficult year, my optimism about the fundamentals of the US economy has not changed. I believe we were on the verge of recovery before the September 11 terrorist attacks, and that our resilience and determination have brought us back to the early stages of recovery today. We see more and more signs every day indicating that the seeds for a recovery are there, and only need nourishing to speed the process of putting Americans back to work. I believe we will return to prosperous economic growth rates of 3 to 3.5 percent, as soon as the fourth quarter of this year, especially if we are able to pass still-needed economic security legislation to hasten and strengthen our recovery.

Strengthening our economy must be our primary goal. It is the focus of the President's budget. That must be our goal, because a return to our normal growth rates means jobs for the 1.4 million Americans who have lost jobs during this recession. Just as a strengthening economy means greater prosperity for our nation's people, it also means greater strength for our government. It means greater revenues going into the Treasury, without raising taxes, giving us resources to address the nation's needs, and the retirement of even more federal debt – leading to long-term economic security for our children. Even with all that must be done to enhance our security, we expect that a return to economic growth will bring us back to government surplus in 2005.

The economy's slowdown began in mid-2000, when GDP and job-growth slowed sharply. Business capital spending began to plummet in late 2000, and accelerated its decline in 2001, dragging down the economy. In August we were beginning to see the evidence of an economic rebound. I firmly believe that had it not been for the terrorist attacks of September 11th, that we would have seen an end to the economic downturn and would perhaps have avoided a recession.

PO-981

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*U.S. Government Printing Office: 1998 - 619-559

The September 11 attacks created shockwaves that rippled throughout all sectors of the economy. Financial markets were shut down for almost a week. Air transportation came to a standstill. As a result, GDP fell 1.3 percent at an annual rate in the third quarter.

By late November, the National Bureau of Economic Research declared that the US was in a recession. They designated the end of the previous expansion to be March 2001, but they observed that the slowdown might not have met their qualitative standards for recession without the sharp declines in activity that followed the terrorist attacks.

In sum, the scorecard for the economy in 2001 reflected a combination of adverse events:

- The private sector lost more than 1.5 million jobs.
- The unemployment rate rose 1.8 percentage points.
- Industrial production was off nearly 6 percent during the year.
- Industry was using less than 75 percent of its capacity.

As bad as these numbers are, they could have been worse. Our well-timed bipartisan tax relief package put $36 billion directly into consumers' hands in the late summer and early fall, providing much needed support as the economy sagged. It was the right thing to do, at just the right time.

It's not surprising then that both the Congressional Budget Office and the Office of Management and Budget project deficits for this year and next as a result of the economic slowdown and the response to the September 11 attacks. Last April's budget forecast a fiscal 2002 surplus of $283 billion. The Mid-Session review figures, released in August, took account of the impact of the President's tax relief package and projected a $195 billion surplus in fiscal 2002. The new budget forecasts a fiscal 2002 deficit of $9 billion, assuming no policy action to stimulate the economy. The reduced surplus estimates are the result of the economic downturn and the response to the September 11 attacks. CBO's projections confirm that tax relief played a minor role in the surplus decline in the next few years – accounting for less than 12 percent of the decline in 2002 and less than 28 percent in 2003.

	FY02 surplus (in billions)
April 2002 budget baseline:	$283
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weaker economy/technical changes	-197
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The CBO budget projects a 10-year surplus of $1.6 trillion. Last August, after factoring in the tax relief package, the CBO projected a $3.4 trillion surplus for the next 10 years. The recession and the war on terrorism depleted the 10-year projections by $1.8 trillion. The lesson from these numbers is simple – 10-year projections are a useful discipline but they do not predict the future.

None of last year's 10-year estimates foresaw the events of September 11 or a negative $660 billion worth of "technical changes" that are now included in the new 10-year estimates by agreement among the technical experts. We do know about the here and now, and we should deal with the here and now, reigniting growth to restore long-term surpluses.

The Administration's growth projections are similar to the consensus of private forecasts. Over 90 percent of the Blue Chip Economic Indicators panel members say the recession will end before April of this year. We share that assessment. Personally, I am optimistic that the economy will do even better than our budget assumptions suggest. For the near term, we expect the economy to grow 2.7 percent during the four quarters of 2002. That projection includes the foreseeable effects on the economy of the President's economic security package.

The lesson is clear. A strong economy is crucial to restoring budget surpluses. Some would suggest that we need surpluses to improve our economy. They have the logic backwards. Growth creates surpluses, not the other way around.

The federal budget was in deficit every year from 1970 through 1998. From 1970 through the early 1990s, government spending growth exceeded government revenue growth by ¾ of a percentage point a year, on average. Fiscal discipline was imposed by the historic *Omnibus Budget Reconciliation Act*, signed in 1990 by President Bush. With fiscal restraint made an integral part of the budget process, once the economy took off in the 1990s, revenue growth was double the pace of spending growth. It was the rapid economic growth of the 1990s that generated the burgeoning budget surpluses, which appeared even as federal outlays grew about 3.5 percent a year from 1993 through 2000.

Today the economy is recovering. The tax cut of last May helped to keep the economic downturn shallow and it will continue to help. Energy prices have retreated. The Federal Reserve has reduced short-term interest rates 11 times since the beginning of 2001. Measures of consumer confidence are bouncing back. The index of leading indicators increased sharply in December for the third straight gain. Motor vehicle sales have remained strong. And initial filings for unemployment benefits are in decline. But we all know that unemployment itself is a lagging indicator. Although the current trend is positive, too many people will remain out of work. And given the choice, they'd rather have a regular paycheck than an unemployment check.

The President has presented a budget to speed our recovery. First, the budget includes tax relief to stimulate job creation as a crucial tool to speed our recovery and put Americans back to work. The President's proposals – accelerated depreciation, speeding up the reduction in the 27 percent income tax rate, adjustments to the corporate AMT so it doesn't cancel out tax relief, and checks to those who didn't benefit from last summer's tax rebates – enjoy bipartisan support in both houses of Congress. I'm eager to work with all of you to complete work on a package to create jobs and assist dislocated workers with extended unemployment benefits and temporary assistance with health care.

Second, the President's budget proposes strict fiscal discipline – increasing spending for national security and homeland defense, and holding the line on other spending.

His management agenda calls for performance measures to be used to determine where budget increases are allocated – so that our resources go into the projects and programs that make the biggest difference in people's lives. As the experience of the 1990s shows, this discipline in crucial to ensuring we do not return to systemic deficits of the past. But fiscal discipline alone will not guarantee budget surpluses. We must return to 3 to 3.5 percent annual growth to ensure surpluses for years to come.

The focus must be on restoring growth. Surpluses will then follow naturally. Raising taxes would stifle the process of getting Americans back to work. This is a bad idea, as our recovery is struggling to take hold. According to 1999 data, the most recent available, 17 million small business owners and entrepreneurs pay taxes under the individual income tax rates. They have made business plans that assume that the tax relief enacted last summer will take place as scheduled. Eighty percent of the benefit of cutting the top two rates goes to small business owners and entrepreneurs. These are the engines of job creation in our economy.

Tax relief should be accelerated, as the President has proposed to boost job creation. Such relief will have minimal, or no, effect on long-term interest rates. According to a recent analysis by the CEA, an expected $1 trillion change in the public debt over 10 years would tend to raise the long-term interest rate by 14 basis points. Since the tax cut last year, the 10-year nominal rate has averaged 4.93 percent, which is substantially below the 6.16 percent averaged from 1993 through 2000.

Restoring growth is the key to America's future. Restoring growth is the key to ensuring we have the resources in Washington to fight the war on terrorism, provide for homeland defense and provide the services the American people demand. The President's budget will help to ensure that both peace and prosperity are restored to the American people as soon as possible.

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Embargoed Until: 10 A.M.
February 5, 2002

Contact: Tara Bradshaw
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BEFORE THE
HOUSE WAYS AND MEANS COMMITTEE**

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-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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U.S. International Reserve Position February 5, 2002

.e Treasury Department today released U.S. reserve assets data for the week ending February 1, 2002. As licated in this table, U.S. reserve assets totaled $67,756 million on that date, compared to $67,999 million at the 1 of the prior week.

; millions)

icial U.S. Reserve Assets	January 25, 2002			February 1, 2002		
TOTAL		67,999			67,756	
eign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
Securities	5,330	10,136	15,467	5,358	10,270	15,628
f which, issuer headquartered in the U.S.			0			0
otal deposits with:						
i. Other central banks and BIS	8,993	3,910	12,903	9,030	3,962	12,992
ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
ii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
Reserve Position [2]			17,828			*17,458*
cial Drawing Rights (SDRs) [2]			10,757			*10,633*
d Stock [3]			11,045			11,045
er Reserve Assets			0			0

cludes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect g values.

; items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in erms at the official SDR/dollar exchange rate for the reporting date. The entries in the table above for latest week (shown in italics) any necessary adjustments, including revaluation, by the U.S. Treasury to the prior week's IMF data. The IMF data for the prior week al.

d stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of December 31, 2001. The November 30, 2001 value 1,045 million.

Offical Reserve Assets Worksheet
(actual US dollar amounts)

	Last Week	This Week
Enter Dates Here	25-Jan-02	1-Feb-02

Foreign Currency	25-Jan-02	1-Feb-02	Change
Euro Securities	$5,330,479,490.09	$5,358,002,508.58	27,523,018
Yen Securities	$10,136,039,332.19	$10,270,465,744.86	134,426,413
Sec. Total	*$15,466,518,822.28*	*$15,628,468,253.44*	161,949,431
Euro Deposits	$8,993,447,564.52	$9,030,304,106.05	36,856,542
Yen Deposits	$3,909,658,672.70	$3,961,508,560.78	51,849,888
Deposit Total	*$12,903,106,237.22*	*$12,991,812,666.82*	88,706,430
Total	$28,369,625,059.49	$28,620,280,920.26	250,655,861
Euro Rate	*$0.8655*	*$0.8685*	
Yen Rate	*Y 134.47*	*Y 132.71*	

Source: NY Fed (fax)
copy and paste data into last week and put new data from fax into right column

IMF	25-Jan-02	1-Feb-02	Change
		(prelim. with adjust)	
Reserve Tranche	17,827,819,785 04	17,458,253,475 73	-369,566,309.31
GAB	0 00	0 00	0.00
NAB	0.00	0 00	0.00
Total	17 827,819,785.04	17,458,253,475.73	-369,566,309.31
SDR	10,756,557,150.99	10,633,136,130 60	-123,421,020.39
			0.00

Source: IMF (email)
put actual figures in for last week

as of 10/31/01	25-Jan-02	1-Feb-02	Change
Gold	11,044,675,236.85	11,044,675,236 85	0.00
			0

Source : FMS website
http://www.fms.treas.gov/gold

	25-Jan-02	1-Feb-02
Other Res.Assets	0	0

TOTAL	67,998,677,232.37	67,756,345,763.44	-242,331,468.93

Adjustments to IMF and SDR data, translated at current exchange rates

Prelim. IMF Data Calculation Section	IN SDRs 25-Jan-02	Adjustments		SDR rate for 1-Feb-02	In USD
Reserve Tranche	14,087,990,017		14,087,990,017	0.806953	$17,458,253,475.73
GAB	0		0		$0.00
NAB	0		0		$0.00
			14,087,990,017	Total =	$17,458,253,475.73
SDRs	8,580,441,100		8,580,441,100	SDRs =	$10,633,136,130.60

Source:
http://www.imf.org/external/map.htm, then go to "Exchange Rates in Terms of SDRs Daily"

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

IMMEDIATE RELEASE
Feruary 05, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term: 28-Day Bill
Issue Date: February 07, 2002
Maturity Date: March 07, 2002
CUSIP Number: 912795JJ1

High Rate: 1.700% Investment Rate 1/: 1.723% Price: 99.868

All noncompetitive and successful competitive bidders were awarded
ırities at the high rate. Tenders at the high discount rate were
ɔtted 83.54%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 37,547,200	$ 13,974,820
Noncompetitive	25,516	25,516
FIMA (noncompetitive)	0	0
SUBTOTAL	37,572,716	14,000,336
Federal Reserve	2,523,437	2,523,437
TOTAL	$ 40,096,153	$ 16,523,773

Median rate 1.690%: 50% of the amount of accepted competitive tenders
tendered at or below that rate. Low rate 1.650%: 5% of the amount
ccepted competitive tenders was tendered at or below that rate.

:o-Cover Ratio = 37,572,716 / 14,000,336 = 2.68

�california quivalent coupon-issue yield.

http://www.publicdebt.treas.gov

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

)R IMMEDIATE RELEASE CONTACT: Office of Financing
ıbruary 05, 2002 202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-3/4-YEAR NOTES

This issue is a reopening of a note originally issued November 15, 2001.

.terest Rate:	3 1/2%	Issue Date:	February 15, 2002
ries:	F-2006	Dated Date:	November 15, 2001
SIP No:	9128277F3	Maturity Date:	November 15, 2006

High Yield: 4.254% Price: 96.780

All noncompetitive and successful competitive bidders were awarded :urities at the high yield. Tenders at the high yield were lotted 11.31%. All tenders at lower yields were accepted in full.

Accrued interest of $ 8.89503 per $1,000 must be paid for the period m November 15, 2001 to February 15, 2002.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 22,840,000	$ 15,383,483
Noncompetitive	616,519	616,519
FIMA (noncompetitive)	0	0
SUBTOTAL	23,456,519	16,000,002 1/
Federal Reserve	944,332	944,332
TOTAL	$ 24,400,851	$ 16,944,334

Median yield 4.210%: 50% of the amount of accepted competitive tenders tendered at or below that rate. Low yield 4.160%: 5% of the amount ıccepted competitive tenders was tendered at or below that rate.

to-Cover Ratio = 23,456,519 / 16,000,002 = 1.47

.wards to TREASURY DIRECT = $486,188,000

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 10:00 A.M. EST
February 6, 2002

Contact: Tony Fratto
(202) 622-2960

**STATEMENT OF JOHN B. TAYLOR
UNDER SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE
OF THE HOUSE FINANCIAL SERVICES COMMITTEE**

Thank you Chairman Bereuter, Ranking Member Sanders and members of the Subcommittee for inviting me to participate in this hearing on the current economic situation in Argentina.

The people of Argentina are facing extremely trying times. Throughout this difficult period, President Bush has made it clear that Argentina is an important friend and ally of the United States of America. We want our allies to be strong leaders of free democracies and free markets. Argentina should be an engine of economic growth in our hemisphere. It is important that Argentina succeeds.

In order to understand the current situation in Argentina, I think it is helpful to begin by reviewing some of the key economic developments in Argentina during the last decade.

The Economy of Argentina in the 1990s

In the early 1990s, the government of Argentina undertook a series of important reforms in economic policy, including monetary policy, fiscal policy, structural policy, and international trade policy. Perhaps most dramatic and immediately noticeable was the change in monetary policy. A highly inflationary monetary policy was replaced by a new "convertibility law," which pegged the peso one-to-one with the dollar and largely prevented the central bank from financing the government's budget deficit by printing money. Fiscal policy was also brought into better control with a decline in deficits. On the structural side, a comprehensive privatization program was implemented through which a number of inefficient state-owned enterprises were privatized. Moreover, barriers to international trade and investment were reduced and Argentina's financial sector was opened to foreign investors.

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These market-oriented reforms produced very impressive results. Hyperinflation—which had risen to over 3000 percent—was brought to a quick end by the convertibility law. Economic growth turned around sharply: after falling during the 1980s, real GDP began growing at over 4 percent per year. Investment and exports grew particularly rapidly. The sharp increase in economic growth was even more remarkable given the very rapid disinflation that was occurring at the same time.

However, starting in the late 1990s there were a number of policy setbacks and external shocks which sharply reduced economic growth in Argentina and ultimately led to the financial crises in 2000-2001 and the current halt to economic activity.

First, government budget deficits began to increase, an indication that fiscal discipline had begun to wane. Government spending at the federal and provincial level increased faster than tax revenues. These deficits could not be financed by money creation because of the convertibility law. Instead, they were financed by borrowing in both the domestic and the international capital markets; however, as the government's debt began to rise and raise questions about sustainability of the debt, risk premia rose and increased interest rates. Eventually the higher interest rates put additional pressure on the budget deficit and held back economic growth.

Second, the low inflation of the early-to-mid 1990s turned into persistent deflation which also had negative effects on economic growth. In addition, the currencies of Argentina's major trading partners in Europe and Brazil depreciated relative to the dollar, and therefore relative to the Argentine peso. This effective appreciation of the peso led to a deterioration in Argentina's competitiveness which, along with the higher interest rates, further held back economic growth.

Third, persistent expectations of depreciation of the peso caused interest rates on peso loans to be higher than dollar interest rates. Whenever policy actions were taken that raised questions about central bank independence or about the convertibility law, market expectations of depreciation increased causing domestic interest rates to rise further.

As low economic growth persisted into 2000, concerns began to grow that a vicious cycle of low tax revenues and continued government spending increases would lead to rising interest rates, which would further slow the economy. Following the political turmoil in October 2000 when Vice President Alvarez resigned, Argentina's borrowing costs soared and rolling over government debt became more and more difficult. Renewed plans to reduce the budget deficit brought interest rates down temporarily, but by February 2001 it was clear that further actions needed to take place. The Argentine government introduced a number of policy changes and finally decided to create a rule – the zero deficit law – in the summer of 2001 to try to provide confidence about the government's seriousness in getting its fiscal house in order.

Eventually, however, it became clear that these changes to the budget were not working. Many market participants considered the government's economic plan to be unsustainable, and interest rates on government debt began to increase sharply. By November, it was apparent that the government's debt would have to be restructured and, indeed, President de la Rua took the step of announcing that such a restructuring would take place.

As the restructuring effort was underway, the uncertainty about its impact on the banking system led to increasingly large deposit withdrawals from banks and international reserves began to fall. In order to stop the withdrawals and the decline in reserves, the government imposed severe restrictions on such withdrawals in December. Soon after the restrictions were imposed, social and political protests turned violent, leading to the resignation of President de la Rua and his Ministers.

Economic circumstances in Argentina deteriorated after the imposition of the restrictions on deposit withdrawals. The lack of a functioning payments system led to a virtual halt of much economic activity. The shortage of liquidity is hindering economic growth and underlies much of the social frustration. The Duhalde government, which took over in January, is in the process of gradually removing these restrictions and at the same time moving to a flexible exchange rate system.

It is of course up to the government of Argentina to work out the details of a set of economic policies that will increase economic growth in a sustainable way. Indeed, it has begun to lay out the broad outlines of such a policy strategy in the last few days, and, as Secretary O'Neill said on Monday, we are encouraged that the Argentine Government is taking substantive steps to address its economic problems. In terms of economic policy, the government must still develop a growth-oriented tax system and a lasting budget arrangement with the provinces that is based on realistic assumptions about available sources of non-inflationary financing. The central bank must establish a transparent, rules-based monetary regime that will keep inflation from rising as the convertibility law did in the 1990s. The government must begin discussions to restructure its debt. And banks must be recapitalized so that lending to the private sector can resume, which in turn will strengthen growth, investment, and job creation.

Summary of IMF Programs

During the period of time discussed above, the government of Argentina had several programs with the International Monetary Fund (IMF). In March 2000, Argentina obtained a $7.4 billion IMF program. The Argentine government treated the program as "precautionary," meaning that the government did not intend to draw upon it. However, starting in the summer of 2000, the growing concern in financial markets was that the persistent Argentine recession was setting up the potential for a financial crisis.

In December 2000, Argentina drew on $2 billion from its IMF program, and the next month the IMF approved an additional $6.3 billion for Argentina's program, bringing the total program size to $13.7 billion. As a condition for the January package, the Argentine government agreed to a series of structural measures in the area of fiscal, pension and health care reforms to help develop a sustainable fiscal position in the medium-term and to build investor confidence.

In August 2001, the IMF provided Argentina with a further augmentation of $8 billion. Of this amount, $5 billion was to bolster reserves in the central bank to counter a substantial fall in deposits during the summer.

The remaining $3 billion could be used to support a voluntary, market-based debt operation and thereby begin to address Argentina's debt sustainability problem. However, when tax revenues continued to fall short and the government failed to reach an agreement on transfers to the provinces, it became increasingly clear that the government was not going to be able to meet its fiscal targets and had no other sources of financing. This fueled concerns about the government's ability to service its debt, particularly to domestic banks, and eventually prompted an accelerated run on the banking system.

In December, IMF staff determined that Argentina was not going to make its fiscal targets for the fourth quarter that were agreed upon in August and that its program was no longer sustainable. Thus, the IMF could not complete its review and consequently did not disburse a loan tranche in December 2001.

U.S. Policy

Since the Bush Administration took office, we have remained in close engagement with the IMF, the G-7, and other leaders in the region about the financial and political problems that Argentina faces. Moreover, we have and will remain fully engaged with Argentina -- our neighbor, friend, and strong ally. As President Bush has stated and Secretary O'Neill has reiterated, once Argentina has designed a sustainable economic program, we are prepared to support it through the international financial institutions.

Our engagement with the International Monetary Fund and the government of Argentina during the last year should be viewed in the context of our overall approach to emerging markets. During the last four years the flows of capital to the emerging markets have declined sharply, and it has been the intent of the Bush Administration to reverse this trend by reducing the frequency of financial crises of the kind that we have seen in Argentina.

Of course the ideal would be to prevent crises such as the one in Argentina from occurring. This requires not only early detection of policies or of external shocks that could cause crises, but also the resolve to take actions to reverse such policies or counter such shocks. The Bush Administration has encouraged the IMF to strengthen its capacity to detect potential troubles on the horizon, and to be willing to warn countries that are heading down a dangerous path to take appropriate action. Effective communication with markets is also key. And the IMF can be more effective and credible in undertaking these tasks if it focuses on issues that are central to its expertise – notably strengthening monetary, fiscal, exchange rate, financial sector, and debt management policies. In the last decade, the IMF became too involved in matters outside of these core areas.

I hope the emerging market asset class grows much more in the future as the rates of economic growth in developing and emerging market countries rise. But we have to recognize that official sector resources cannot possibly grow at such a high rate that we can continue with very large official finance packages to deal with emerging market debt crises as in recent years. There will inevitably be limitations on the use of official sector resources.

Moreover, in order to reduce bailouts of private investors it is necessary to limit the use of official resources, especially in cases where debt sustainability is in question. We must therefore gradually move in the direction of less reliance on large official finance packages.

An important change has been occurring in emerging markets and we have encouraged this change as part of our approach to emerging markets. Investors are increasingly differentiating between countries and markets based on fundamental economic assessments -- judgments that are facilitated by better information. This differentiation is reducing contagion from one country to another, as exemplified most recently by the relative stability in other emerging markets over the past few months despite the crisis in Argentina. Emphasis on the risk of contagion by the official sector in the past led to the expectation on the part of investors and emerging market governments that the official sector would bail them out. That encouraged excessive risk-taking and gave rise to the very conditions that made financial crises more likely. Changing this mindset has been an important priority, and, I think, an area where we have made some progress.

One important challenge that remains is to explore options to promote more orderly sovereign debt restructurings. The official sector should not encourage countries to default on their debts, but we recognize that restructuring can and will happen in certain cases. At the moment, there is a great deal of uncertainty about the process involved in such restructurings. It is important to find a way such that when a sovereign debt restructuring occurs, it does so in a more orderly manner that treats debtors and creditors fairly and reduces the scope for arbitrary, unpredictable official action.

Thank you again for this opportunity to speak with you. I look forward to hearing your views and answering your questions.

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**TESTIMONY OF TREASURY SECRETARY PAUL O'NEILL
BEFORE THE
HOUSE BUDGET COMMITTEE**

Good morning Chairman Chairman Nussle, Congressman Spratt and members of the committee. Thank you for inviting me to testify today. Now that we've had a year to work together, you should know that I am an optimist about the US economy. I believe we always have untapped potential that can be unleashed to spread prosperity throughout the nation. Never has that been more true than right now. Even after a difficult year, my optimism about the fundamentals of the US economy has not changed. I believe we were on the verge of recovery before the September 11 terrorist attacks, and that our resilience and determination have brought us back to the early stages of recovery today. We see more and more signs every day indicating that the seeds for a recovery are there, and only need nourishing to speed the process of putting Americans back to work. I believe we will return to prosperous economic growth rates of 3 to 3.5 percent, as soon as the fourth quarter of this year, especially if we are able to pass still-needed economic security legislation to hasten and strengthen our recovery.

Strengthening our economy must be our primary goal. It is the focus of the President's budget. That must be our goal, because a return to our normal growth rates means jobs for the 1.4 million Americans who have lost jobs during this recession. Just as a strengthening economy means greater prosperity for our nation's people, it also means greater strength for our government. It means greater revenues going into the Treasury, without raising taxes, giving us resources to address the nation's needs, and the retirement of even more federal debt – leading to long-term economic security for our children. Even with all that must be done to enhance our security, we expect that a return to economic growth will bring us back to government surplus in 2005.

The economy's slowdown began in mid-2000, when GDP and job-growth slowed sharply. Business capital spending began to plummet in late 2000, and accelerated its decline in 2001, dragging down the economy. In August we were beginning to see the evidence of an economic rebound. I firmly believe that had it not been for the terrorist attacks of September 11th, that we would have seen an end to the economic downturn and would perhaps have avoided a recession.

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The September 11 attacks created shockwaves that rippled throughout all sectors of the economy. Financial markets were shut down for almost a week. Air transportation came to a standstill. As a result, GDP fell 1.3 percent at an annual rate in the third quarter.

By late November, the National Bureau of Economic Research declared that the US was in a recession. They designated the end of the previous expansion to be March 2001, but they observed that the slowdown might not have met their qualitative standards for recession without the sharp declines in activity that followed the terrorist attacks.

In sum, the scorecard for the economy in 2001 reflected a combination of adverse events:

- The private sector lost more than 1.5 million jobs.
- The unemployment rate rose 1.8 percentage points.
- Industrial production was off nearly 6 percent during the year.
- Industry was using less than 75 percent of its capacity.

As bad as these numbers are, they could have been worse. Our well-timed bipartisan tax relief package put $36 billion directly into consumers' hands in the late summer and early fall, providing much needed support as the economy sagged. It was the right thing to do, at just the right time.

It's not surprising then that both the Congressional Budget Office and the Office of Management and Budget project deficits for this year and next as a result of the economic slowdown and the response to the September 11 attacks. Last April's budget forecast a fiscal 2002 surplus of $283 billion. The Mid-Session review figures, released in August, took account of the impact of the President's tax relief package and projected a $195 billion surplus in fiscal 2002. The new budget forecasts a fiscal 2002 deficit of $9 billion, assuming no policy action to stimulate the economy. The reduced surplus estimates are the result of the economic downturn and the response to the September 11 attacks. CBO's projections confirm that tax relief played a minor role in the surplus decline in the next few years – accounting for less than 12 percent of the decline in 2002 and less than 28 percent in 2003.

	FY02 surplus (in billions)
April 2002 budget baseline:	$283
Changes from:	
weaker economy/technical changes	-197
enacted spending	-54
tax relief	-40
February 2003 budget baseline:	-9

The CBO budget projects a 10-year surplus of $1.6 trillion. Last August, after factoring in the tax relief package, the CBO projected a $3.4 trillion surplus for the next 10 years. The recession and the war on terrorism depleted the 10-year projections by $1.8 trillion. The lesson from these numbers is simple – 10-year projections are a useful discipline but they do not predict the future.

None of last year's 10-year estimates foresaw the events of September 11 or a negative $660 billion worth of "technical changes" that are now included in the new 10-year estimates by agreement among the technical experts. We do know about the here and now, and we should deal with the here and now, reigniting growth to restore long-term surpluses.

The Administration's growth projections are similar to the consensus of private forecasts. Over 90 percent of the Blue Chip Economic Indicators panel members say the recession will end before April of this year. We share that assessment. Personally, I am optimistic that the economy will do even better than our budget assumptions suggest. For the near term, we expect the economy to grow 2.7 percent during the four quarters of 2002. That projection includes the foreseeable effects on the economy of the President's economic security package.

The lesson is clear. A strong economy is crucial to restoring budget surpluses. Some would suggest that we need surpluses to improve our economy. They have the logic backwards. Growth creates surpluses, not the other way around.

The federal budget was in deficit every year from 1970 through 1998. From 1970 through the early 1990s, government spending growth exceeded government revenue growth by ¾ of a percentage point a year, on average. Fiscal discipline was imposed by the historic *Omnibus Budget Reconciliation Act,* signed in 1990 by President Bush. With fiscal restraint made an integral part of the budget process, once the economy took off in the 1990s, revenue growth was double the pace of spending growth. It was the rapid economic growth of the 1990s that generated the burgeoning budget surpluses, which appeared even as federal outlays grew about 3.5 percent a year from 1993 through 2000.

Today the economy is recovering. The tax cut of last May helped to keep the economic downturn shallow and it will continue to help. Energy prices have retreated. The Federal Reserve has reduced short-term interest rates 11 times since the beginning of 2001. Measures of consumer confidence are bouncing back. The index of leading indicators increased sharply in December for the third straight gain. Motor vehicle sales have remained strong. And initial filings for unemployment benefits are in decline. But we all know that unemployment itself is a lagging indicator. Although the current trend is positive, too many people will remain out of work. And given the choice, they'd rather have a regular paycheck than an unemployment check.

The President has presented a budget to speed our recovery. First, the budget includes tax relief to stimulate job creation as a crucial tool to speed our recovery and put Americans back to work. The President's proposals – accelerated depreciation, speeding up the reduction in the 27 percent income tax rate, reducing the corporate AMT, and checks to those who didn't benefit from last summer's tax rebates – enjoy bipartisan support in both houses of Congress. I'm eager to work with all of you to complete work on a package to create jobs and assist dislocated workers with extended unemployment benefits and temporary assistance with health care.

Second, the President's budget proposes strict fiscal discipline – increasing spending for national security and homeland defense, and holding the line on other spending.

His management agenda calls for performance measures to be used to determine where budget increases are allocated – so that our resources go into the projects and programs that make the biggest difference in people's lives. As the experience of the 1990s shows, this discipline in crucial to ensuring we do not return to systemic deficits of the past. But fiscal discipline alone will not guarantee budget surpluses. We must return to 3 to 3.5 percent annual growth to ensure surpluses for years to come.

The focus must be on restoring growth. Surpluses will then follow naturally. Raising taxes would stifle the process of getting Americans back to work. This is a bad idea, as our recovery is struggling to take hold. According to 1999 data, the most recent available, 33 million small business owners and entrepreneurs pay taxes under the individual income tax rates. They have made business plans that assume that the tax relief enacted last summer will take place as scheduled. Eighty percent of the benefit of cutting the top two rates goes to small business owners and entrepreneurs. These are the engines of job creation in our economy.

Tax relief should be accelerated, as the President has proposed to boost job creation. Such relief will have minimal, or no, effect on long-term interest rates. According to a recent analysis by the CEA, an expected $1 trillion change in the public debt over 10 years would tend to raise the long-term interest rate by 14 basis points. Since the tax cut last year, the 10-year nominal rate has averaged 4.93 percent, which is substantially below the 6.16 percent averaged from 1993 through 2000.

Restoring growth is the key to America's future. Restoring growth is the key to ensuring we have the resources in Washington to fight the war on terrorism, provide for homeland defense and provide the services the American people demand. The President's budget will help to ensure that both peace and prosperity are restored to the American people as soon as possible.

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MEDIA ADVISORY

Treasury Secretary Paul H. O'Neill Press Conference to Discuss G-7 Finance Ministers Meeting Agenda

Treasury Secretary Paul H. O'Neill will hold a press conference in advance of his trip to Ottawa, Canada to attend a meeting of Group of Seven (G-7) Finance Ministers this weekend. The press conference will take place on Thursday, February 7, 2002 in the Treasury Department's Cash Room at 2:00PM. Secretary O'Neill will brief reporters on the agenda items to be discussed in Ottawa and will take questions.

The Room will be available for pre-set at 1:00 p.m.

Media without Treasury or White House press credential planning to attend should contact Treasury's Office of Public Affairs at (202- 622-2960) with the following information: name, social security number and date of birth. This information may also be faxed to (202) 622-1999.

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THE HONORABLE SHEILA C. BAIR
ASSISTANT SECRETARY FOR FINANCIAL INSTITUTIONS
U.S. DEPARTMENT OF THE TREASURY

SEVENTH ANNUAL INSTITUTE ON
THE EMERGING LAW OF CYBERBANKING AND ELECTRONIC COMMERCE

WASHINGTON, DC

"FOLLOWING THE MONEY & SEIZING THE ASSETS"

"I fear we have awakened a sleeping giant, and filled him with a terrible resolve." Admiral Isoroku Yamamoto after the attack on Pearl Harbor

Note of Thanks

I would first of all like to thank Thomas Vartanian, Roland Brandel, John Douglas, and John Muller for their invitation to speak before you today. As I examine the many interesting discussions that will be held during the next two days, and the many distinguished speakers, I know that you will all find this to be a valuable opportunity. I note that your conference will focus on such interesting issues as cybercrime, insurance against risks of the new economy, privacy issues, and many others. I know that you will find this conference not only professionally valuable, but also intellectually interesting. In addition, I hope that all of you will take the opportunity to informally share information and expertise as you work to help your financial institution clients with the many complex issues raised by money laundering and terrorist related asset seizures.

Introduction

On October 26, 2001, President Bush signed into law the Patriot Act. On that date, the President noted that this legislation "will help counter a threat like no other our nation has ever faced. We've seen the enemy, and the murder of thousands of innocent, unsuspecting people.

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They recognize no barrier of morality. They have no conscience. The terrorists cannot be reasoned with."

This legislation is markedly different from previous anti-money laundering legislation. It requires that all of us, whether in the government or in the private sector, work together and cooperate, and it specifically charges us in the government to be more responsive to financial institutions and to work harder to communicate with you. As we face such an unprecedented threat, we in the government must be even more willing to share knowledge and insights with the public, just as we require that financial institutions share their knowledge of potentially suspicious activities with us.

I recognize that such measures require much from all of us, from government, from financial institutions, and from the public. However, let me describe what we are doing and how it will benefit our common goal – to make the laundering of funds and the financing of terrorist activity as difficult as possible.

Terrorist Financing

Let me start with the premise that tools to combat terrorist financing, money laundering and related illicit activities are present as building blocks in the federal structure. The Federal government has dedicated criminal investigators, hard-working prosecutors, the ability to seize assets and block the movement of funds to known terrorist groups, and the ability to interdict goods entering or leaving the country.

September 11th has had us focus even more on how to best organize the basic elements of anti-money laundering and anti-terrorist efforts. These building blocks are being put together in ways that demonstrate to the world our national resolve to combat terrorist financing. The basic elements of asset forfeiture, sanctions lists issued by the Office of Foreign Assets Control, the use of highly skilled criminal investigators, and a close working relationship with the financial services sector have all been in place. What the Treasury has done is to assemble these constituent elements in innovative ways that signal our intention to address terrorist financing in the most rigorous ways possible under the law. With the use of these tools, senior decision-makers at the Treasury and elsewhere in the Administration are able to see links and connections about which no one was previously aware.

The overriding purpose is the creation of a picture, through the use of all our legal powers, that provides the Treasury with the ability to pinpoint vulnerabilities and weaknesses of those who may be working to finance terrorist operations and launder criminal proceeds.

Suspicious Activity Reporting

Suspicious activity reporting is one of the most effective tools that we have to create that picture for prosecutors and law enforcement officials. At the heart of suspicious activity reporting are the efforts of financial institutions, examining information, in order to provide the Nation with information on potential illegal activities.

Banks have been required now to file suspicious activity reports for more than five years, and Congress has mandated that we extend this obligation to other industries. Moreover, prior to the Patriot Act, the Treasury had specifically endorsed the application of suspicious activity reporting to additional financial service providers.

I wish to touch upon the proposed regulation to require securities brokerage firms to report suspicious activities to the Treasury. Published on December 31, 2001, we will accept comments on it until March 1, 2002. The purpose of this regulation – to prevent the criminal abuse of the securities brokerage industry – is one that I have heard many in the financial services industry support, and for many years.

This regulation would impose an affirmative obligation on all securities brokers and dealers to report suspicious activities. As you know, final regulations are required to be issued by July 2, 2002. There are certain exceptions in the proposed rule, for reporting stolen or counterfeit securities, for example, or for reporting certain securities violations by firm employees. However, what is significant is that the proposed regulation creates a "level playing field" with those financial services industries already required to report suspicious activities.

The concept of suspicious activity reporting by securities brokerages is not new, and has been endorsed by the International Organization of Securities Commissioners and by the Financial Action Task Force – the leading international body with a focus on money laundering and terrorist financing. Many larger securities firms already come under such requirements, either because of laws in other nations, or because of an affiliation with a bank. Moreover, the Treasury has endorsed the concept of suspicious activity reporting for many years, and we believe that, given the significant levels of funds moving through securities firms, such a measure is warranted.

Many securities firms already have anti-money laundering programs in place, and many have stated publicly that they voluntarily file suspicious activity reports when they suspect money laundering may be occurring. The securities industry has taken a leadership role, even in the absence of any formal regulatory requirement, to aggressively analyze and report suspicious activity to the authorities. Many securities brokerage firms have systems and controls in place that rival those of other industries for which such controls already exist as required by law.

The current regulatory proposal is just that – a proposal – and we welcome and hope that comments will be made by all of you on ways to improve or refine this regulatory proposal before it becomes final. We are anxious to understand what potential concerns may exist, including special issues applicable to smaller securities brokers, specialist firms, and the relative obligations of clearing and introducing brokers. The goal of our efforts is to get this right. We need the expertise of the financial services industry in formulating a regulation that accomplishes both the public goal of thwarting money laundering and terrorist financing, and the goal of doing this in a way that yields the best possible result with the least unnecessary use of resources.

Prohibition on Correspondent Accounts with Shell Banks

Another regulatory proposal we have issued, requires the termination of correspondent account activities by securities brokerage firms with foreign shell banks. Banks have been under a statutory obligation to terminate correspondent banking activities with foreign shell banks since December 25, 2001. The proposed rule was published on December 28, 2001, and the comment period for this proposal closes on February 11, 2002. A shell bank is a bank, licensed under the authority of any government that has no physical presence, including employees, in the jurisdiction in which it is licensed as a bank. The proposal would require securities brokers to terminate any correspondent accounts with such foreign shell banks. For purposes of this proposed regulation, the term "correspondent account" includes many types of transaction, clearing, and settlement accounts.

This regulation would assist banks and securities brokers in determining whether a foreign bank client is, in fact, a foreign shell bank, and provide guidance on ways to make such a determination and thereby be compliant with the statute.

The statute also makes it unlawful to offer correspondent account services *indirectly* to a foreign shell bank. As such, banks and securities brokerages are provided in this proposed rule with an optional method to determine whether their foreign bank clients, in turn, offer services to foreign shell banks. The proposed rule does not require the adoption of this method, but rather offers it as an option. The questionnaire, which would be sent by the bank or securities firm to its foreign bank clients, asks such clients whether they service foreign shell banks, using the correspondent accounts of the U.S. bank or securities broker. Treasury is aware that in many cases it may be difficult for a bank or securities broker to independently determine what types of client relationships a foreign bank may have. This questionnaire is intended to be a way for U.S. banks and securities firms to satisfy their obligation to have some level of knowledge as to whether the U.S. firm is indirectly affiliated with foreign shell banks.

Foreign shell banks have often been noted as being tied to money laundering and other illegal activities, and this rule seeks to hinder that process. I know that you have long supported measures to prohibit criminal activity, and we look forward to your comments and suggestions on this proposal as well.

<u>Minimum Customer Identification Standards</u>

Other efforts underway at the Treasury involving the Patriot Act include a discussion of the types of identifying customer information needed when opening an account, and what types of information are most helpful in preventing future acts of money laundering or terrorist financing, and in prosecuting criminals who do engage in such illegal acts.

Section 326 authorizes and requires the Treasury to issue, jointly with other Federal regulators, minimal client identification requirements by October 26, 2002. Such requirements are extremely important to identifying accurately the clients of a securities brokerage firm. Such minimal requirements should be consistent among various financial services industries, so that a client of one type of financial services firm cannot direct funds or marketable assets among other types of financial services firm, without having had minimal client identification standards applied.

Challenging issues to be confronted will include: how to identify clients who may only engage in Internet transactions for which no physical face-to-face meeting is ever necessary; how to ensure that the needs of smaller financial institutions are appropriately considered; and whether there are any "level playing field" issues (*i.e.* whether specific industries will be required to raise their standards to meet those of other regulated financial institutions). In addition, the current identification requirements among various types of financial services providers, such as banks, securities brokers, mutual funds, futures firms, and insurance firms all vary somewhat, and we need to understand what those requirements are and what differences exist. Treasury Domestic Finance is taking a leading role, along with Treasury Enforcement, in chairing this intra-governmental effort in order to ensure that the best possible results are achieved, on a timely basis, and with due consideration of the many issues involved.

We all need to better understand what steps firms are currently taking to deter criminal abuse by those seeking to hide or disguise their identity when using securities brokerage houses. Such knowledge can inform the process of determining whether and how to cure any potential weaknesses that could be exploited by criminals.

Anti-Money Laundering Programs

Another effort involves an examination of anti-money laundering programs within securities brokerage firms, as required by Section 352 of the Patriot Act. By April 24, 2002, banks, securities brokerage firms, investment companies, and many other types of financial institutions will be required to have in place anti-money laundering programs. Of course, some financial institutions, including banks and credit unions are already required to have such programs in place. The statute states that such programs must have: appropriate policies, procedures and controls; a compliance officer to assume responsibility for the program; training of employees regarding their duties pursuant to the program; and an independent audit to test the operation of the program. The statute further authorizes Treasury to refine or augment these minimal requirements by regulation.

The types of such anti-money laundering programs will no doubt vary with the type of financial institution, its size and characteristics, and the market it serves. Financial institutions that markets heavily to overseas customers may need to have a more robust internal program than a small community financial institution.

We also need to examine issues between different types of financial institutions. Just as banks and credit unions are required to have anti-money laundering programs that are quite similar, so too, one might expect that certain securities brokers would have anti-money laundering programs very similar to those of a futures commission merchant. Consistency when appropriate can be a unifying factor bringing together disparate activities. Yet I am reminded that we must create workable rules that can adapt to the rapidly changing nature of the financial marketplace. Mark Twain asked, "Who is the really consistent man? The man who changes." Financial institutions have seen enormous change during the last few decades, and we must ensure that rules that we create are able to operate in an environment of change.

In the area of promulgating regulations that clarify the obligation to have anti-money laundering programs, Treasury Domestic Finance shares the lead with Treasury Enforcement. We are examining what regulations, if any, should be promulgated to clarify or augment the existing statutory responsibilities. This includes an examination of the application of this requirement to the insurance industry and mutual funds.

Cooperation will be important for everyone. Banks and other financial service providers that are experienced with federal money laundering requirements can provide useful expertise to industry sectors that will be grappling with these requirements for the first time. I am encouraged because I have heard repeatedly that while individual financial institutions of all types earnestly and strenuously compete for market share and profitability in general, in their anti-money laundering efforts, these same firms work just as hard to cooperate with one another and to share insights, tips, and advice on how to stay at the head of the pack, and cheer each other on.

We all have much to learn from each other in the area of anti-money laundering and the deterrence of terrorist financing, including which types of measures are most effective, and which balance benefits with resources available most effectively. At the Treasury, our ability to promulgate useful and effective regulations in these areas benefits greatly from the experience of the financial services industry, and their regulators.

Next Steps and Conclusion

We will all continue to heed the President's call regarding terrorism, that "[o]urs will be a broad campaign, fought on many fronts." One of those fronts that President Bush has described is the financing of terrorist activities and the money laundering that accompanies it. To all of you that have and are serving in that campaign, and to those of you serving on the financial fronts, you deserve and have our thanks. While you may never receive a medal for your efforts, your contributions have been and continue to be valuable, and are recognized.

Prior to, September 11th, many Americans thought of international enforcement efforts to stop money laundering and terrorist financing as applying to crimes committed in remote, foreign locations and therefore irrelevant to our daily lives. The tragedy of September 11 made us all aware of how important such efforts are to protect the homeland. We have done a great deal since September 11th, and we will all undoubtedly be called upon to do more. We must continue to build upon a framework of cooperation, trust, and shared responsibility in order to stop the financing of terror and the laundering of funds that support terror.

Finally, it is my hope that as we all proceed with our many tasks, we pause to thank one another for the hard work and Herculean efforts that have characterized our post-September 11 resolve to stamp out money laundering and terrorist financing. Many in the financial services sector lost offices, friends, or colleagues on September 11th. Our mutual goal is to ensure that this does not happen again. I thank you all.

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TREASURY NEWS

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TREASURY SECRETARY PAUL O'NEILL STATEMENT ON SENATE ACTION ON STIMULUS PACKAGE TODAY

I'm disappointed the Senate Democratic leadership couldn't produce a bill to help create jobs and put Americans back to work. Passing an extension of unemployment benefits is the least they can do. It's just as important that we create new jobs. By failing to produce a bill to stimulate the economy, the Senate Democratic leadership has failed to help Americans get back to work as quickly as possible.

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TREASURY NEWS

FROM THE OFFICE OF PUBLIC AFFAIRS

FOR IMMEDIATE RELEASE
February 7, 2002
PO-992

UNLEASHING INDIA'S VAST GROWTH POTENTIAL

REMARKS BY KENNETH W. DAM
DEPUTY U.S. TREASURY SECRETARY
DELIVERED TO THE
CONFEDERATION OF INDIAN INDUSTRY (CII)
NEW DELHI, INDIA

I would like to thank Sanjiv Goenka for those kind introductory remarks, and CII for inviting me to speak to you today. I am pleased to be with so many prominent Indian businessmen and businesswomen under one roof.

Also, special thanks to my old friend, Bob Blackwill, for his kind words of introduction. I understand the Ambassador spoke to a similarly distinguished audience -- in this very room -- just over a week ago. I understand the subject of his address was, among other things: "chapatis," rabbits, turtles, and rocks.

All kidding aside, I have carefully read the text of Bob's outstanding precis on US-India economic relations, and I concur with his conclusions as well as his prescriptions for enabling us to maximize our bilateral economic relationship.

Indeed, the importance of the U.S.-India bilateral relationship cannot be overstated. We are the two largest democracies in the world. Both of us boast of a proud intellectual heritage. Both of us have a strong-willed and determined citizenry.

Ladies and gentleman, I have wanted to travel to India for some time to witness firsthand the extraordinary changes taking place here and to understand India's enormous economic potential. Last year, when President Bush appointed me to serve as Deputy Secretary of the United States

Treasury, I decided that my first international trip would be to India.

On the morning of September 11, I arrived at the office with all of my bags packed, ready to depart for New Delhi. Unfortunately, no planes left the United States that day.

Less than five months have passed since that terrible morning. Nevertheless, we are witnessing an international landscape transformed. New alliances have developed to fight the international scourge of terrorism. An unyielding coalition has toppled one of the world's most repressive regimes in Afghanistan. One hundred and forty-nine nations and jurisdictions are working together to halt underground networks of terrorist financing.

I am happy to say that India has been a constructive ally in this effort. Since September 11, the United States, working closely with many countries, including India, has blocked some $34 million in terrorist assets and our allies have blocked nearly $70 million. Your government is no stranger to the fight against terrorism and has stood tall with us since September. Your blocking efforts are active, meaningful and comprehensive.

Just as important as grappling with the new challenges posed by terrorism, is that we work hard to promote and stimulate economic growth and prosperity. Just as we take steps to block the terrorists of today, we must strive to address the economic conditions that contribute to the terrorists of tomorrow. Economic progress remains one of the strongest weapons we have against the despair and hopelessness on which terrorism feeds, and I believe it is incumbent upon governments to move ahead with their economic reforms. Therefore, I would like to focus some of my remarks today on the challenge and the opportunity of economic reform, and in particular, freer trade.

Why is freer trade so important? In a sentence, because trade is a *sine qua non* of economic growth and poverty reduction, necessary but not sufficient.

For those of you who are exporters and importers, the benefits of freer and more expanded trade are clear. Freer trade means open markets. Open markets mean greater sales. Greater sales mean higher profits.

For farmers, small-scale local manufacturers or service providers, more open trade brings broader markets in which to sell a greater variety of goods and services. For the average housewife, open markets provide a wider range of products with more choices and of better quality. In sum, trade increases access to goods and services, and it boosts the overall standard of living.

But the benefits of trade are more than just more bountiful markets. Freer trade also accelerates the exchange of technology, more productive capital inputs, and the transfer of best practices. Firms in protected economies often find themselves mired in old technologies, using out-of-date machinery. Increased trade and investment provides new access to the world's best management practices, the world's best production processes, the world's best financial management.

This is not mere theory. Look at the way Korean textile production processes have spread across East Asia. It all began with Korean textile firms investing in production facilities in Thailand, Malaysia, and Indonesia. These firms brought local managers and selected workers to Korea for months at a time to learn the highly successful methods of Korean textile production.

In Korea, local managers used the best machinery, saw how various parts of the production process fit together, and learned advanced management techniques. After several months, local Thai, Malay and Indonesian managers returned home and put these best practices to use in local factories. Over time, these local managers started their own firms and Korean production processes were permanently transferred to locally owned textile firms.

Freer trade also allows domestic firms to specialize their production processes to a much greater extent than they can under import substitution. Local firms can join global production and distribution systems and can use their comparative advantage to specialize in one part of the operation. As workers and managers become more productive and learn new skills, they can move up the value-added chain of manufacturing.

Consider, also, Malaysia in the early 1970s. Malaysia built a powerful electronics sector by specializing in the assembly of parts. Over time, Malaysian firms "graduated" to producing packaging material and simple components, then later to more sophisticated electronic parts, and later still to testing and design. At each step, Malaysian firms carefully concentrated on being the best at a specialized stage of the process, and connected with other firms to make truly world-class products.

The effect of free trade on services is even more impressive. Services already contribute to more than 40 percent of India's GDP, with commercial services accounting for about 27 percent of India's trade. Services exports generate large numbers of jobs for workers at a variety of skill levels. With the Indian economy presently supplying the world with only about one percent of its overall trade in services, India has the potential to convert its immense human resource skills and capabilities into vast services exports.

Don't just take my word for it. Study after study has shown a positive correlation between trade liberalization and economic growth. The Uruguay Round alone - according to studies by the WTO - increased world income by $109 billion; more generous estimates put the figure at over $500 billion. That helps explain why the United States is so intent on beginning another round of multilateral trade negotiations. It will be an arduous, multi-year undertaking, but the pay-off will be great.

Economic gains accrue to the countries that are more open to trade, while more closed economies lag behind. Economist Jeffrey Sachs and Andrew Warner found that over the last thirty years, the most open economies grew by more than two percentage points faster per year than closed economies. This translates into 60 percent higher per capita income over 25 years - an astonishing difference.

India's own experience over the past decade also shows that trade liberalization inexorably leads to economic growth. The Indian reform program initiated in 1991 -- which included substantial unilateral reductions in trade barriers -- breathed life into the Indian economy after 44 years of being closed off to the outside world. In just four short years, India's total trade increased from 16 percent to 23 percent of GDP. And India's nominal GDP doubled in the same period. Since the Uruguay round, India's total trade has grown by 44 percent, an average increase of 7.5 percent annually.

With India's opening to external markets, a whole lexicon has been tossed out the window:

special import licenses, "export quality," import quotas, and the Inspector Raj, to name a few. We hope that more will follow: "octroi," the special additional duty, and the negative list for imports.

Freer trade has also helped increase India's access to the U.S. market dramatically, almost doubling India's exports from $5.3 billion in 1995 to more than $10 billion in 2000. The United States now absorbs 23 percent of India's goods exports and has accounted for more than 35 percent of India's export growth over the last five years.

More dramatic has been the expansion of India's exports to the United States in what is generally viewed as our most restrictive market - textiles and apparel. India now supplies more than $2.7 billion worth of textiles and apparel to the United States - an 84 percent increase as a result of the reduction in U.S. barriers through the Uruguay Round.

Nowhere is the confluence of globalization, trade liberalization, and Indian ingenuity more obvious than in information technology. India's domestic reforms during the 1990s combined with international trade liberalization, under the 1997 Information Technology Agreement, to give impetus to India's nascent IT sector. India's IT sector has grown at an average annual rate of 50 percent, from almost nothing in 1991 to sales of $8.3 billion in 2000 and employment of 400,000. India's IT sector generates 15 percent of Indian exports and accounts for about 2 percent of GDP. Bangalore - India's "Silicon Valley" - is setting an example of how private enterprise, if left alone, can flourish in India.

However, in no way am I suggesting that trade liberalization, whether unilateral or as part of multilateral trade negotiations, is an easy process. Or that trade liberalization is a process in which every individual firm and every worker will benefit. Firms that enjoy the greatest protections often find it difficult to compete in an opening trading system. At the same time, many firms that cannot even exist in a closed economy come to life under open trade to provide more jobs at better wages, while providing consumers with much better choices and prices.

As a lifelong advocate for freer trade, I am sympathetic to the hurdles policymakers must confront in trying to lower domestic trade barriers. Like India, the United States historically has had its own highly protectionist trade regimes. In the United States, we spent almost 70 years trying to claw back from the economic disruption caused by the high tariffs of our own Smoot-Hawley Tariff Act of 1930. It is hard to believe that in 1934, the average U.S. tariff on manufactured goods was 44 percent. Today it stands at just 3 percent.

I would also like to stress again that freer trade alone will not unleash India's vast growth potential. More open trade must be part of a broader economic development strategy. Economic experiences from around the world point to four key policy ingredients to maintaining economic growth:

First, governments must maintain macroeconomic stability. Large budget deficits and undisciplined monetary policy lead to high levels of debt and inflation, they restrict the private sector's access to capital, and they undermine incentives for new investment.

Second, governments must invest heavily in health and education. A healthier, better-educated population is essential to a productive workforce.

Third, governments must establish strong institutions for governance, with minimal corruption, enforceable contracts, and a lean and competent civil service.

And fourth, governments must establish conditions under which private enterprise can flourish: strong infrastructure, minimal red tape, and very little government intervention.

As you know, India's economic reforms in the early 1990s took significant steps in this direction. The results of the first phase of this program were striking -- a substantial expansion of trade and acceleration of economic growth to 6-7 percent in real terms. *These reforms provided a glimpse of the kind of growth India could reclaim if its growth potential were truly unleashed.*

Yet, in recent years, India's reform program has, frankly, stalled on many fronts. Progress on privatization has slowed. Many bureaucratic hurdles to private enterprise remain. Macroeconomic balance has proven elusive. Large fiscal deficits have re-emerged. And unfortunately, lingering investment disputes have cast a dark cloud over foreign investor attitudes towards India.

I have noticed that some of the media debate in India about the Dabhol power company has focused on only one of its U.S. shareholders, when there are three. This preoccupation misses the point. U.S. policy is that we want to see Dabhol and similar difficulties faced by U.S. companies in the Indian power sector resolved in a manner that is fair to all parties. A fair and equitable resolution to the Dabhol project will have the effect of assuring American investors that India honors the sanctity of contract and the rights of investors. The sooner these difficulties are resolved, the better it will be for both our countries.

Also, I truly hope that India will redouble its efforts to accomplish important second-generation reforms, and vigorously work towards achieving macroeconomic balance. Progress on these fronts, together with steps to further open the trade regime, will lock in and build upon the gains achieved by the first generation of reforms. India, a country of over 1 billion people, owes it to its people - not to the United States or anyone else - to finish the job of creating an environment that will allow India achieve its enormous economic potential.

Moreover, by accelerating the process of trade and broader economic reform, I believe India has a golden opportunity to continue to increase its influence and stature in the world. In this regard, I am reminded of what one of the fathers of modern day India, Jawaharlal Nehru once said: "The policy of being too cautious is the greatest risk of all."

In conclusion, let me go back to one of my opening thoughts. We stand at a critical, though not entirely new moment in history, forced, as we are, to consider both the possibilities of expanded trade and expanded global conflict. Writing at a similar junction in history, noted Western economist Adam Smith drew a direct connection between trade and conflict in his classic work "The Wealth of Nations," penned in 1776.

According to Smith, "the inhabitants of all the different quarters of the world may arrive at that equality of courage and force, which . . . can alone overawe the injustice of independent nations into some sort of respect for the rights of one another. But nothing seems more likely to establish this equality of force than the mutual communication of knowledge and all sorts of improvements which an extensive commerce carries along with it."

It is my hope that India and the United States can cooperate more closely in the years to come, not just to defeat terrorism, but to continue to lead the world as friends, partners, and allies. Thank you for your attention and for inviting me here today.

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TESTIMONY OF TREASURY SECRETARY PAUL O'NEILL BEFORE THE SENATE BUDGET COMMITTEE

Good morning Chairman Chairman Conrad, Senator Domenici and members of the committee. Thank you for inviting me to testify today. Now that we've had a year to work together, you should know that I am an optimist about the US economy. I believe we always have untapped potential that can be unleashed to spread prosperity throughout the nation. Never has that been more true than right now. Even after a difficult year, my optimism about the fundamentals of the US economy has not changed. I believe we were on the verge of recovery before the September 11 terrorist attacks, and that our resilience and determination have brought us back to the early stages of recovery today. We see more and more signs every day indicating that the seeds for a recovery are there, and only need nourishing to speed the process of putting Americans back to work. I believe we will return to prosperous economic growth rates of 3 to 3.5 percent, as soon as the fourth quarter of this year. I'm disappointed the Senate was not able to vote out a bill to speed job creation to more quickly return Americans to work.

Strengthening our economy must be our primary goal. It is the focus of the President's budget. That must be our goal, because a return to our normal growth rates means jobs for the 1.4 million Americans who have lost jobs during this recession. Just as a strengthening economy means greater prosperity for our nation's people, it also means greater strength for our government. It means greater revenues going into the Treasury, without raising taxes, giving us resources to address the nation's needs, and the retirement of even more federal debt – leading to long-term economic security for our children. Even with all that must be done to enhance our security, we expect that a return to economic growth will bring us back to government surplus in 2005.

The economy's slowdown began in mid-2000, when GDP and job-growth slowed sharply. Business capital spending began to plummet in late 2000, and accelerated its decline in 2001, dragging down the economy. In August we were beginning to see the evidence of an economic rebound. I firmly believe that had it not been for the terrorist attacks of September 11th, that we would have seen an end to the economic downturn and would perhaps have avoided a recession. The September 11 attacks created shockwaves that rippled throughout all sectors of the economy. Financial markets were shut down for almost a week. Air transportation came to a standstill. As a result, GDP fell 1.3 percent at an annual rate in the third quarter.

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By late November, the National Bureau of Economic Research declared that the US was in a recession. They designated the end of the previous expansion to be March 2001, but they observed that the slowdown might not have met their qualitative standards for recession without the sharp declines in activity that followed the terrorist attacks.

In sum, the scorecard for the economy in 2001 reflected a combination of adverse events:

- The private sector lost more than 1.5 million jobs.
- The unemployment rate rose 1.8 percentage points.
- Industrial production was off nearly 6 percent during the year.
- Industry was using less than 75 percent of its capacity.

As bad as these numbers are, they could have been worse. Our well-timed bipartisan tax relief package put $36 billion directly into consumers' hands in the late summer and early fall, providing much needed support as the economy sagged. It was the right thing to do, at just the right time.

It's not surprising then that both the Congressional Budget Office and the Office of Management and Budget project deficits for this year and next as a result of the economic slowdown and the response to the September 11 attacks. Last April's budget forecast a fiscal 2002 surplus of $283 billion. The Mid-Session review figures, released in August, took account of the impact of the President's tax relief package and projected a $195 billion surplus in fiscal 2002. The new budget forecasts a fiscal 2002 deficit of $9 billion, assuming no policy action to stimulate the economy. The reduced surplus estimates are the result of the economic downturn and the response to the September 11 attacks. CBO's projections confirm that tax relief played a minor role in the surplus decline in the next few years – accounting for less than 12 percent of the decline in 2002 and less than 28 percent in 2003.

	FY02 surplus (in billions)
April 2002 budget baseline:	$283
Changes from:	
weaker economy/technical changes	-197
enacted spending	-54
tax relief	-40
February 2003 budget baseline:	-9

The CBO budget projects a 10-year surplus of $1.6 trillion. Last August, after factoring in the tax relief package, the CBO projected a $3.4 trillion surplus for the next 10 years. The recession and the war on terrorism depleted the 10-year projections by $1.8 trillion. The lesson from these numbers is simple – 10-year projections are a useful discipline but they do not predict the future. None of last year's 10-year estimates foresaw the events of September 11 or a negative $660 billion worth of "technical changes" that are now included in the new 10-year estimates by agreement among the technical experts. We do know about the here and now, and we should deal with the here and now, reigniting growth to restore long-term surpluses.

The Administration's growth projections are similar to the consensus of private forecasts. Over 90 percent of the Blue Chip Economic Indicators panel members say the recession will end before April of this year. We share that assessment. Personally, I am optimistic that the economy will do even better than our budget assumptions suggest. For the near term, we expect the economy to grow 2.7 percent during the four quarters of 2002. That projection includes the foreseeable effects on the economy of the President's economic security package.

The lesson is clear. A strong economy is crucial to restoring budget surpluses. Some would suggest that we need surpluses to improve our economy. They have the logic backwards. Growth creates surpluses, not the other way around.

The federal budget was in deficit every year from 1970 through 1998. From 1970 through the early 1990s, government spending growth exceeded government revenue growth by ¾ of a percentage point a year, on average. Fiscal discipline was imposed by the historic *Omnibus Budget Reconciliation Act*, signed in 1990 by President Bush. With fiscal restraint made an integral part of the budget process, once the economy took off in the 1990s, revenue growth was double the pace of spending growth. It was the rapid economic growth of the 1990s that generated the burgeoning budget surpluses, which appeared even as federal outlays grew about 3.5 percent a year from 1993 through 2000.

Today the economy is recovering. The tax cut of last May helped to keep the economic downturn shallow and it will continue to help. Energy prices have retreated. The Federal Reserve has reduced short-term interest rates 11 times since the beginning of 2001. Measures of consumer confidence are bouncing back. The index of leading indicators increased sharply in December for the third straight gain. Motor vehicle sales have remained strong. And initial filings for unemployment benefits are in decline. But we all know that unemployment itself is a lagging indicator. Although the current trend is positive, too many people will remain out of work. And given the choice, they'd rather have a regular paycheck than an unemployment check.

The President has presented a budget to speed our recovery. First, the budget includes tax relief to stimulate job creation as a crucial tool to speed our recovery and put Americans back to work. The President's proposals – accelerated depreciation, speeding up the reduction in the 27 percent income tax rate, reducing the corporate AMT, and checks to those who didn't benefit from last summer's tax rebates – enjoy bipartisan support in both houses of Congress. I'm eager to work with all of you to complete work on a package to create jobs and assist dislocated workers with extended unemployment benefits and temporary assistance with health care.

Second, the President's budget proposes strict fiscal discipline – increasing spending for national security and homeland defense, and holding the line on other spending. His management agenda calls for performance measures to be used to determine where budget increases are allocated – so that our resources go into the projects and programs that make the biggest difference in people's lives. As the experience of the 1990s shows, this discipline in crucial to ensuring we do not return to systemic deficits of the past. But fiscal discipline alone will not guarantee budget surpluses. We must return to 3 to 3.5 percent annual growth to ensure surpluses for years to come.

The focus must be on restoring growth. Surpluses will then follow naturally. Raising taxes would stifle the process of getting Americans back to work. This is a bad idea, as our recovery is struggling to take hold. According to 1999 data, the most recent available, 33 million small business owners and entrepreneurs pay taxes under the individual income tax rates. They have made business plans that assume that the tax relief enacted last summer will take place as scheduled. Eighty percent of the benefit of cutting the top two rates goes to small business owners and entrepreneurs. These are the engines of job creation in our economy.

Tax relief should be accelerated, as the President has proposed to boost job creation. Such relief will have minimal, or no, effect on long-term interest rates. According to a recent analysis by the CEA, an expected $1 trillion change in the public debt over 10 years would tend to raise the long-term interest rate by 14 basis points. Since the tax cut last year, the 10-year nominal rate has averaged 4.93 percent, which is substantially below the 6.16 percent averaged from 1993 through 2000.

Restoring growth is the key to America's future. Restoring growth is the key to ensuring we have the resources in Washington to fight the war on terrorism, provide for homeland defense and provide the services the American people demand. The President's budget will help to ensure that both peace and prosperity are restored to the American people as soon as possible.

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TREASURY SECRETARY PAUL O'NEILL
PRE-OTTAWA PRESS CONFERENCE

Good afternoon. Tomorrow I will be travelling to Ottawa to attend a meeting of G-7 Finance Ministers. I will emphasize two points in particular to my colleagues. First, we must continue our efforts to ensure that our financial systems are not used for terrorists' benefit. Second, we must continue to work together to bolster economic growth in our economies.

With our G-7 partners we have made a lot of progress in combating the financing of terrorism. I want to thank them for their support. To date, 149 countries and jurisdictions, including the G-7, have issued orders to freeze terrorist assets, and we have blocked over $104 million since September 11. But we can do more. My goal is for the United States to work with the G-7 and our allies to develop a mechanism to block the assets of terrorists simultaneously in all our countries. This will require even closer cooperation and commitment. We will also develop key principles regarding information to be shared, the procedures for sharing it, and the protection of sensitive information. We should spare no effort in ridding the world's financial system of terrorist fundraising activities.

I want to hear from my G-7 colleagues about their efforts to implement the rigorous G-7 Action Plan that we agreed upon back in October. I will also discuss with the heads of the IMF and World Bank their institutions' efforts to assess all countries' compliance with international standards on terrorist financing.

Improving living standards around the world is also paramount, and the G-7 countries all need to contribute to strong and vibrant growth in order to help make this possible. The resumption of strong growth in our economies will benefit both emerging economies and the poorest countries.

I expect to discuss the steps that each G-7 country is taking to reinvigorate global economic growth. For our part, the United States has put the worst part of the economic slowdown behind us. We see more signs every day indicating that the seeds for a recovery are there, and they only need nourishing to speed the process of putting Americans back to work. I believe we will return to prosperous real economic growth rates of 3 to 3.5 percent, as soon as the fourth quarter of this year.

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Two other priorities for our discussions tomorrow are to discuss the important challenges the world faces in aiding the poorest nations and the efforts underway to involve the private sector in resolving financial crises. On development issues, I plan to emphasize the importance of the President's grants proposal and the need to improve the effectiveness of development assistance. Rather than adding to the debt burden many developing countries cannot service, we should openly admit that some countries need grants, and that grants are more appropriate than loans for education, sanitation projects, and other projects that offer great societal return but do not necessarily create a direct financial return that can finance the repayment of a loan.

On crisis resolution, a serious discussion has been started by the recent call for the creation of a bankruptcy process. I will stress my commitment to work on a sovereign debt restructuring mechanism that is market-based, gives responsibility and ownership to debtors and creditors, and minimizes any potential conflict of interest. We should press ahead on this topic and address the many questions that need answering so that we can put a workable process in place.

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For Immediate Release
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ADMINISTRATION ANNOUNCES BIPARTISAN AGREEMENT ON CHARITABLE GIVING TAX INCENTIVES

Today, President Bush, Treasury Secretary Paul O'Neill and Senators Lieberman and Santorum announced a compromise bill, "The Charity Aid, Relief, and Empowerment Act of 2002" ("CARE") that includes many of the charitable giving tax incentives sought by the Administration, as well as elements of the Administration's faith-based initiative that provide direct support to groups aiding the poor and the needy.

"In the aftermath of September 11th, many Americans have eagerly reached out to support their favorite charities and non-profits. At the same time, the recent decline in the economy has pinched many hardworking Americans' pocketbooks---making it more difficult to contribute those precious dollars that charities rely on to continue their good works," said Secretary Paul O'Neill. "As the economy begins to rebound, we must seize this window of opportunity to provide incentives to encourage all Americans to support charities."

Currently, approximately two-thirds of tax filers who make charitable contributions do not get the benefit of a charitable contribution deduction because they don't itemize. This bipartisan CARE Act will allow taxpayers that don't itemize to deduct charitable contributions in addition to claiming the standard deduction.

"The CARE Act makes it easier for those who already give, to continue giving, and it will encourage people who don't currently make charitable contributions, to start," O'Neill continued.

The CARE Act will allow tax-free withdrawals from IRAs for charitable contributions for individuals over the age of 67. Rather than the individual making the withdrawal, including it as taxable income, and then claiming the charitable deduction, the individual can just make the tax-free withdrawal contribution directly to the charity.

"This vastly simplifies the complexity these donors face today," said Secretary O'Neill.

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Many charities also rely on the support of corporate charitable contributions. To encourage corporations to increase their amount of support, the CARE Act increases the limit for corporate charitable contributions from 10% to 13% in 2002 and 15% in 2003.

"I want to thank Senators Santorum and Lieberman for their work and I look forward to working with Congress to get this CARE Act passed into law to help Americans give---and to help charities grow," O'Neill concluded.

HIGHLIGHTS OF THE CHARITY AID, RELIEF, AND EMPOWERMENT ACT OF 2002 ("CARE")

Many of the provisions in the CARE Act are in effect for two years--the changes aren't permanent, but they are a step in the right direction and will provide relief to charities at a time when the need for their services is great.

1. Charitable contribution deduction for nonitemizers. The CARE bill would allow nonitemizers to deduct their charitable contributions up to $400 for single taxpayers ($800 for married taxpayers filing joint returns) during 2002 and 2003.

   Allowing nonitemizers to deduct charitable contributions would provide an incentive for all taxpayers to give to charity (compared to current law, which only rewards giving by itemizers). Currently, only one-third of taxpayers can deduct their charitable contributions.

2. Tax-free distributions from IRAs for charitable purposes. The CARE bill would provide tax-free treatment of distributions made from IRAs for charitable purposes after the beneficiary reaches age 67. Tax-free treatment would apply to distributions made (in 2002 and 2003) directly to charitable organizations or "indirectly" through charitable remainder trusts, pooled income funds, or the purchase of charitable gift annuities.

   This proposal would encourage donations of otherwise taxable IRA assets to charity, by eliminating the need for taxpayers first to include the taxable amounts in income, and then claim an offsetting charitable contribution deduction. Because not all taxpayers can deduct the full amount of their charitable contributions, current law effectively discourages some taxpayers from donating IRA assets to charity.

3. An increase in the percentage limit for corporate charitable contributions. The CARE bill would raise the deduction limit (currently 10% of taxable income) to 13% for 2002 and 15% for 2003.

   Raising the limit on corporate charitable contributions would provide an incentive for corporations to increase their support for charitable organizations.

An expanded and increased enhanced deduction for donations of food inventory. For 2002-2003, the CARE bill would allow all businesses (not just C corporations) to claim an enhanced deduction for donated food equal to the lesser of FMV or two times basis. (Certain cash method taxpayers could assume a basis in the donated food equal to 25 percent of FMV.) Special rules are provided for valuing surplus food for which there is no ready market. This provision would assist charities in combatting hunger.

4. Individual Development Accounts. After 2002 and before 2008, the CARE bill would allow up to 900,000 eligible lower income Americans to create individual development accounts (IDAs). For each account, the financial institutions sponsoring the IDA program would match up to $500 per year in account-holder contributions. Neither the matching amounts nor earnings on those amounts would be subject to income tax. Withdrawals of these matching amounts and earnings would have to be for higher education expenses, first-time home purchase expenses, and business capitalization expenses. A withdrawal from the main account for other purposes may result in a forfeit of some or all of the matching account. The program would be funded through 2009 by allowing the sponsors both an income tax credit for the matching amounts and an annual $50 per account credit to cover the costs of administration and participant education.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
February 7, 2002

Contact: Tony Fratto
(202) 622-2960

IMPROVING THE BRETTON WOODS FINANCIAL INSTITUTIONS
BY

JOHN B. TAYLOR
UNDER SECRETARY OF TREASURY FOR INTERNATIONAL AFFAIRS

ANNUAL MIDWINTER STRATEGIC ISSUES CONFERENCE
BANKERS ASSOCIATION FOR FINANCE AND TRADE
WASHINGTON, DC

One of my responsibilities as the Under Secretary of Treasury for International Affairs is to oversee our relationships with the Bretton Woods Financial Institutions—the World Bank and the International Monetary Fund. These institutions, along with regional development banks, are essential instruments in achieving two of the most important international economic policy goals of the United States—*raising economic growth* and *improving economic stability* in the world economy.

Many people think these institutions could be doing a better job than they have been in recent years. I agree with that view. And from the start of the Bush Administration, a high priority has been to improve the performance of these institutions. Last year President Bush, in a speech at the World Bank, and Secretary O'Neill, in a speech at the Detroit Economic Club, called for reforms in these institutions. In my remarks here today, I would like to describe some of the details of our reform strategy and explain the rationale that underlies our specific reform proposals.

The Past as Prologue: From Post World War II to Post September 11

Let me begin with a little history. More than 50 years ago, as World War II was drawing to a close, our predecessors in the United States Treasury began thinking about what the world economy would look like after the war. They showed great knowledge and leadership in doing so.

PO-996

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*U.S. Government Printing Office: 1998 - 619-559

They knew that world depression and financial collapse had led to economic nationalism in the 1930s and ultimately to the war itself. They knew that it was in the interest of the United States to establish conditions in the world economy that would prevent a recurrence of such calamities. They saw the need for two new international financial institutions to help carry out this task: (1) a multilateral fund to keep the world financial system running smoothly by preventing crises in payments flows and exchange rates; and (2) a multilateral development bank to help reconstruct the countries devastated by the war. They worked with our allies to actually create two new institutions—the International Monetary Fund and the World Bank—with many of the key discussions taking place in Bretton Woods, New Hampshire. They then convinced the U.S. Congress to authorize and fund the institutions. In later years, the World Bank took on the task of economic development more broadly and was joined by regional development banks. By any measure these institutions were successful in their original task; the post-World War II reconstruction, development, and economic integration was an amazing success.

Simply put, the job of the World Bank today is to help poor countries become less poor – that is, to increase the well-being of people in poor countries. The Bank's mission, I believe, is particularly important after September 11 because poverty can be a breeding ground for terrorism. Improving the lives of people around the world is a priority in and of itself. Our fight against terror makes these investments to improve the lives of the world's poor all the more imperative.

I think it is helpful to think of the current situation this way: We at Treasury should view the post-September 11 period much as our predecessors at Treasury viewed the post-World War II period. They thought it was imperative to create new international financial institutions in part to help prevent another war. We should think it is imperative to reform these same international financial institutions in part to help prevent future acts of terror.

Productivity and Measurable Results

How are we trying to improve the World Bank? To start, we have suggested two broad themes. One theme is to call for a greater focus by the World Bank on increasing productivity growth. Productivity is the amount of goods or services that a worker can produce in a set period of time, such as a day or a year. The simple truth is that countries are poor because productivity is low in those countries. And countries are rich because productivity is high in those countries. The best way to understand this is to look at a color-coded map of the countries that are poor and the countries are rich. Countries that are poor have low levels of productivity. So if we can improve productivity growth in the poor countries, we will reduce poverty in those countries.

An advantage of the focus on productivity is that we already know a lot about the basic causes of productivity. Low education, low productivity. Low business investment, low productivity. Lack of proper health care, low productivity. So by looking at productivity, you can focus your attention on those areas that really make a difference to people's standard of living.

The second broad theme we are emphasizing is measurable results – that is, looking at the activities that are undertaken by the institution and seeing exactly where it makes a difference. And how much of a difference? And compared to what other activity? We have to measure results – higher productivity, more children in school, fewer people with HIV/AIDS – rather than just hope that the results are delivered.

The President's Grants Proposal

We have made three specific reforms proposals that are meant to deliver on these broader themes. The first is our grants initiative. Last year, in his speech at the World Bank President Bush announced his proposal to take 50 percent of the funds that the World Bank currently provides to the poorest countries in the form of loans and convert them into grants. This is a major initiative; let me try to explain why.

The World Bank, as part of its efforts in poor countries, has a branch called the International Development Association (IDA). What IDA does is make loans to very poor countries. And the terms on these loans are quite remarkable: the loans have a 40-year maturity, the interest rate is 0.75 percent, and there is a 10-year grace period. Now, if you think about it, that's not a loan -- that's a grant. In many respects, it is dishonest to call it anything but a grant. At the least it's misleading.

Moreover, what has happened in recent years is that we have developed a process effectively to write off these loans. It is called the Highly Indebted Poor Country (HIPC) initiative. "HIP-ick" is the way that it is pronounced. And under the HIPC initiative, these IDA loans are being forgiven. In fact there is a major movement around the world – the U2 rock singer Bono is a major proponent of it – to "drop the debt."

You see, at the same time we are effectively writing off old loans to poor countries – countries that have unsustainable amounts of debt already – the IDA program is out there writing new loans. Sure, the terms are very favorable. But the truth is that we know that many of these countries cannot really afford even one dollar more of additional debt.

The idea behind the grant proposal is to say, "Look, let's be honest about it. Let's recognize that these countries' loans are probably not going to be paid back anyway. So let's just give them grants. Start educating your children. Improve your health delivery systems. Put in place the basic building blocks of productivity."

Now, to be sure, under the President's proposal grants are not "free." In fact, an important advantage of grants is that they can easily be tied to measurable performance or results. For example, if it is a grant for education, then the grant doesn't continue unless enrollment goes up or unless test scores go up, or however else you want to measure the performance. If it's a grant to deliver a better vaccine or deal with HIV/AIDS, then the grant continues as long as the health service is being delivered.

Grants can be tied more effectively to performance in a way that longer-term loans simply cannot. You have to keep delivering the service or you don't get the grant.

Results-Based Replenishment

There is another novel proposal we have suggested to the World Bank – to have shareholders' contributions tied to measurable results. Let me explain a little bit how this proposal works. Every three years, the United States and other shareholders in the World Bank contribute a certain amount to this IDA program. The United States has reduced its contributions to IDA in the 1990s. We intend to reverse this trend. We want to increase our contributions to IDA, but we think it is essential to do so in a way that gears the contribution to results.

In the budget President Bush released this week, he is proposing that the United States' IDA contribution be stepped up from $850 million the first year, to $950 million in the second year, and then to $1.05 billion in the third year. But these increments will only occur if concrete performance benchmarks are met. The stepped-up, results-based replenishment is a new idea. We are very much hoping it will make a difference by providing an incentive for achieving better development results – again, emphasizing the goal of increasing productivity and reducing poverty through whatever means work.

Private Sector Development

A third major initiative is to encourage more emphasis at the World Bank and the other multilateral development banks on private sector loans, especially to small businesses. The activity of the European Bank for Reconstruction and Development (EBRD) has been very effective in Russia and other formerly centrally planned economies. But the mandate of the EBRD is limited to the regions of Eastern Europe and the former Soviet Union. We are working on a new proposal for this type of activity to be undertaken in all developing countries.

Toward More Capital Flows and Greater Stability in Emerging Markets

I'd also like to talk about reforms related to the International Monetary Fund and emerging markets. To have greater economic stability in the world, you certainly have to have greater economic stability in emerging markets. Unfortunately, emerging markets have not been very stable in recent years. There have been many crises. Moreover, the flow of investments going through these markets has declined sharply during the last four years. If you want more countries to experience higher economic growth, you want more funds going through these emerging markets, not less – and ultimately at lower interest rates for countries that are having to pay the interest rates.

So what do you do about this? What possible methods are there? Let me go down the list of things that we are proposing and that I hope will ultimately be effective.

The Components of an IMF/Emerging Markets Reform Strategy

First is to focus more on crisis prevention. That means asking the IMF to look more closely at countries that have the telltale signs of a future crisis – or close to a situation where economic trends are not sustainable. This also entails giving more ownership of the problems to the countries so that they can make the decisions before the crises get out of hand.

Second, we need to narrow the focus of the IMF. The IMF, in giving loans to countries over the years, has insisted on conditions that go well beyond the expertise and the purview of the IMF -- areas that have more to do with social policy or interfere in the politics of governments. This reduces a country's sense of ownership in a way that is counterproductive. And by narrowing the focus to things like fiscal policy, monetary and exchange rate policy, and financial sector policies, the hope is that the IMF will be able to focus more on preventing crises.

We also want the IMF to make efforts to avoid giving advice that might discourage economic growth. Tax policy is an area that deserves special care. Economic growth can be encouraged by lower tax rates; and the lower rates may encourage more collection and make tax administration easier. A remarkable example, I think, is how Russia instituted a 13 percent flat tax and actually raised more tax revenue. It is worth noting that they did this after their IMF program ended. When Russian authorities were unable to borrow from the IMF (or any other source) and had to make decisions helpful for raising revenues on their own, they chose a remarkably effective reform.

The third part of our strategy is to work to reduce contagion. Contagion refers to the phenomenon that when there is a crisis in one country it spreads to other countries. Many people thought contagion was an important characteristic of the Asian crises in the late 1990s. When we started in the Bush Administration, we looked carefully at this contagion issue and tried to see whether it was changing. And it was pretty clear to us that contagion was declining for a number of reasons. One is that people in the markets were paying more attention to the fundamentals. Another was that countries were starting to be more transparent in their policies. And there was more discerning analysis at investment banks, trading firms, and mutual funds on developments in the emerging market countries.

We tried to comment on this change in contagion because we believed that if people were not so concerned about contagion, then they wouldn't be so willing to bail out bondholders. So, early on in the Administration, we said that we did not think contagion is automatic. We said that if it is there, it is more likely to be based on fundamentals. In fact, we were criticized quite heavily for saying this early on. But I think it has been effective because irrational fears of contagion have come down dramatically over the course of the last year. This is illustrated by the terrible economic situation in Argentina. Despite the tragic situation for the world's largest emerging market debtor, yield spreads have gone down in virtually every other country. People in the markets call this de-coupling. I think it has fundamentally changed the nature of emerging markets and what the official sector response to these crises should be. And, in fact, this also creates the opportunity for countries to have more ownership and responsibility for their problems.

The fourth part of our strategy is to limit official sector support to countries when they reach unsustainable debt situations. Too much official sector assistance reduces incentives for countries to come to the right decisions and it also ends up bailing out bondholders, as I think we've seen in a number of cases. It's only by limiting official sector support that you can prevent both of those things. I think it is clear to people who observe these markets that – although it took us a while to get there – the official sector support is being limited to a significant degree. The reality is that if we want emerging markets to grow much more rapidly in the future, it will be necessary to limit official sector support: the size of the markets will outpace what is politically feasible for the official sector to do.

The fifth part of our strategy regarding emerging markets and IMF reform has to do with creating an alternative to IMF bailouts that countries can use when they get in bad situations. This alternative is to create a more systematic approach to the restructuring of sovereign debt – trying to make restructuring more predictable. When countries get close to the situation where debt is unsustainable, it frequently becomes very cloudy as to what happens next. And in my experience in this job so far I can attest that when a country gets close to a position where things might be unsustainable, too many decision-makers simply must guess what might happen next. There is too much uncertainty.

What is needed here is a more formal workout strategy for countries that reach an unsustainable debt position. Secretary O'Neill called for us all in the international community to work on such a strategy last year. And the First Deputy Managing Director of the IMF Anne Krueger responded, showing great courage in laying out some specific suggestions in detail. In Anne Krueger's proposal, the IMF—at some point when it was clear that a country's debt was unsustainable—would step in and call a standstill—a time out—when the country would stop servicing its debt and at the same time there would be a stay on the legal activities that might occur.

There are alternatives to this proposal. Several alternatives would facilitate the workout of sovereign debt problems by debtors and creditors themselves without a strong IMF role. In my view these alternatives are promising; and they may be easier to implement and more predictable. For example, one could introduce new bond provisions so that when a country gets to a situation where it needs a restructuring, there is a more orderly process for a workout with the bondholders. One could require such provisions as a condition for the use of IMF resources. Of course, introducing new provisions is something one can only do for new bonds. That might not effectively deal with the situation we are in now, so there also may need to be some way to deal with the existing bond provisions. Even with existing bond provisions, there may be ways to create a more predictable workout process that emphasizes private sector decision-making and does not require the IMF to play such a central role. Irrespective of how this discussion turns out, it is essential to get a greater degree of predictability to the workout process, and I think that will make these markets work better in the future.

If you look at what has happened over the course of the year, I think you can point to some progress in our efforts. Contagion in emerging markets has gone down significantly. I hope that continues.

I hope it is a fundamental change. And then finally you have seen—despite the increased uncertainty after September 11 and the situation in Argentina—a decline in spreads for almost all these markets; this is promising. We also have to continue to expand free trade because developing countries will grow more quickly when they are able to trade freely.

It's clear that we still have a long way to go with many of our reforms. Not everyone agrees with our reforms. But no one should doubt our commitment to pursuing them. But I think the progress we have made this year is significant and we intend to be persistent in achieving these goals.

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For Immediate Release
February 7, 2002

Contact: Tara Bradshaw
(202) 622-2014

RICHARD H. CLARIDA SWORN IN AS ASSISTANT SECRETARY OF THE U.S. TREASURY FOR ECONOMIC POLICY

Today at 4:30 p.m. Treasury Secretary Paul O'Neill will swear-in Richard H. Clarida as Assistant Secretary for Economic Policy. The U.S. Senate confirmed Clarida on January 25, 2002. President George W. Bush nominated Richard Clarida on October 31, 2001.

As Assistant Secretary for Economic Policy, Clarida is the senior advisor to the Treasury Secretary and the Deputy Secretary on all aspects of economic policy. His office is responsible for reporting on current and prospective economic developments and assisting in the determination of appropriate economic policies. His office is also responsible for the review and analysis of both domestic and international economic issues and developments in the financial markets.

Prior to joining the Treasury Department, Clarida was Chairman of the Department of Economics at Columbia University, and has been a Professor at Columbia since 1988. From 1983 to 1988 he served as an assistant professor of economics at Yale University. In 1987, 1988 and 1989, we was a consultant to President Reagan's Council of Economic Advisors, and was a Senior Staff Economist at the CEA from 1986 to 1987. Clarida was a visiting scholar at the International Monetary Fund in 1992 and 1993, and then again from1995 to 1997. He was a visiting scholar at the Federal Reserve Board in 1992, 1994 and 1997.

Clarida earned his Master's and Ph. D in Economics from Harvard in 1983. He earned a B.S. in Economics with Highest Honors from the University of Illinois in 1979.

He is married, has two children and resides in Southport, CT.

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For Immediate Release
February 7, 2001

Contact: Tara Bradshaw
(202) 622-2014

B. JOHN WILLIAMS, JR. SWORN IN AS CHIEF COUNSEL OF THE INTERNAL REVENUE SERVICE

Today at 4:30 p.m. Treasury Secretary Paul O'Neill will swear-in B. John Williams, Jr. as Chief Counsel of the Internal Revenue Service and an Assistant General Counsel in the Department of the Treasury. The U.S. Senate confirmed Williams on January 25, 2002. President George W. Bush nominated Williams on July 3, 2001.

As the IRS Chief Counsel, Williams will oversee the administration of the Federal tax laws. His office is responsible for providing guidance on the correct legal interpretation of the tax laws, representing the IRS in litigation, and providing all other legal support the IRS needs to carry out its mission of serving American taxpayers. His office also drafts regulations, rulings, and other published legal guidance; handles tens of thousands of cases per year in the U.S. Tax Court and bankruptcy courts and works closely with the Department of Justice on other tax litigation in other Federal courts; and provides specific legal advice and determinations to taxpayers and to various IRS offices both before and after taxes are filed.

Most recently, Mr. Williams was a partner at Shearman & Sterling and was responsible for the firm's tax litigation practice. Prior to joining Shearman & Sterling, he was Chairman of the Tax Section at Morgan, Lewis & Bockius, where he lead the tax litigation practice for 10 years. He was appointed to the United States Tax Court in 1985 by President Reagan and served until 1990.

From 1984 to 1985 Mr. Williams was a partner at Morgan, Lewis & Bockius, where he practiced administrative law, specializing in Treasury and IRS matters. He has also served as Deputy Assistant Attorney General, US Department of Justice, Tax Division, from 1983 to 1984. He was initially responsible for appellate litigation before being assigned to supervise the Division's trial litigation. Mr. Williams was also instrumental with respect to settlement recommendations and legislative policy.

He served as Special Assistant to Chief Counsel, Internal Revenue Service, from 1981 to 1983. During his tenure at the IRS Mr. Williams was also responsible for policy and technical review of rulings and regulations.

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While an Associate at Ballard, Spahr, Andrews & Ingersoll from 1976 to 1981, his principal areas of concentration included corporate tax planning and tax litigation. He also served as an Attorney-Advisor, United States Tax Court from 1974 to 1976, where he researched and drafted opinions and conference memoranda for the Hon. Bruce M. Forrester.

Mr. Williams earned a J.D., with distinction, from George Washington University Law School in 1974 and a B.A., with distinction, from George Washington University in 1971.

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For Immediate Release
February 7, 2001

Contact: Tara Bradshaw
(202) 622-2014

EDWARD R. KINGMAN JR. SWORN IN AS ASSISTANT SECRETARY OF THE U.S. TREASURY FOR MANAGEMENT

Today at 4:30 p.m. Treasury Secretary Paul O'Neill will swear-in Edward R. Kingman, Jr. as Assistant Secretary for Management and Chief Financial Officer in the Department of Treasury.
The U.S. Senate confirmed Kingman on January 25, 2002. President George W. Bush nominated Kingman on September 19, 2001.

As the Assistant Secretary for Management and Chief Financial Officer, Kingman is the senior advisor to the Treasury Secretary and the Deputy Secretary on all matters involving the internal management of the Department and its Bureaus. He serves as the Chief Operating Officer of the Department and he represents the Department to the President's Management Council. His office is responsible for strategic management (planning and budgeting), budget execution and development, financial management, information technology, human resources, procurement, asset management and security. The ASM/CFO oversees all administrative and support services for the Department Headquarters offices. The Treasurer of the United States, U.S. Mint and the Bureau of Engraving and Printing report to the ASM/CFO.

Most recently, Kingman served as President and Chief Executive Officer of EuroTel Praha in Prague from 1998 to 2000, where he developed and led strategic initiatives that more than quadrupled the customer base, grew the private market value by more than $2B USD, and made it the second most profitable company in the Czech Republic. He also launched the first mobile/web portal in Central Europe, the first pre-paid roaming in the world and the first GPRS and high speed 43.2 kB/s data in Central Europe.

While in Prague, Kingman was awarded the Democracy & Free Enterprise Award, as well as numerous community service awards for supporting humanitarian efforts by providing wireless telecommunications at the Tirana, Albanian refugee camp during the Kosovo conflict.

From 1994 to 1997, as Senior Vice President and Chief Financial Officer of Grupo IusaCell in Mexico City, he took the company public on the New York Stock Exchange. Also with Grupo IusaCell, he served as the Executive Vice President and Chief Operating Officer, from 1997 to 1998.

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From 1992 to 1994, Kingman was Vice President of Finance-Network, for Verizon Communications (formerly Bell Atlantic). He served with the Chesapeake and Potomac Telephone Companies, from 1969 to 1991, in several positions of increasing responsibility including Controller, Executive Director of External Affairs, as well as Treasurer.

Mr. Kingman earned a B.A., from American University in 1970, and an MBA in Finance from American University in 1979. In 1997 he attended the Harvard Business School's Advanced Management Program.

Mr. Kingman currently resides in Maryland with his wife and two children.

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EMBARGOED UNTIL 2:30 P.M.
February 7, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling $30,000 million to refund an estimated $29,804 million of publicly held 13-week and 26-week Treasury bills maturing February 14, 2002, and to raise new cash of approximately $196 million. Also maturing is an estimated $6,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced February 11, 2002.

The Federal Reserve System holds $12,777 million of the Treasury bills maturing on February 14, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders either in these auctions or the 4-week Treasury bill auction to be held February 12, 2002. Amounts awarded to SOMA will be in addition to the offering amount.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of each auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

TreasuryDirect customers have requested that we reinvest their maturing holdings of approximately $1,140 million into the 13-week bill and $985 million into the 26-week bill.

The allocation percentage applied to bids awarded at the highest discount rate will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about each of the new securities are given in the attached offering highlights.

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Attachment

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TO BE ISSUED FEBRUARY 14, 2002

February 7, 2002

Offering Amount	$16,000 million	$14,000 million
Public Offering	$16,000 million	$14,000 million
NLP Exclusion Amount	$ 5,400 million	None

Description of Offering:

Term and type of security	91-day bill	182-day bill
CUSIP number	912795 JU 6	912795 KW 0
Auction date	February 11, 2002	February 11, 2002
Issue date	February 14, 2002	February 14, 2002
Maturity date	May 16, 2002	August 15, 2002
Original issue date	November 15, 2001	February 14, 2002
Currently outstanding	$21,433 million	---
Minimum bid amount and multiples	$1,000	$1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.

Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.

Competitive bids:

(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 7.100%, 7.105%.

(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.

(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Rate .... 35% of public offering

Maximum Award .... 35% of public offering

Receipt of Tenders:

Noncompetitive tenders .....Prior to 12:00 noon eastern standard time on auction day

Competitive tenders ....Prior to 1:00 p.m. eastern standard time on auction day

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

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FOR IMMEDIATE RELEASE
February 8, 2002

Contact: Tara Bradshaw
(202) 622-2960

STATEMENT BY DEPUTY TREASURY SECRETARY KENNETH W. DAM ON EUROPEAN UNION E-COMMERCE TAX PROPOSAL

The Administration has serious concerns about a European Union proposal to apply value-added taxes (VAT) to imports of certain e-commerce goods and services.

According to European Union statements, U.S. sellers of goods or services digitally-delivered to EU consumers may soon be required to register in the EU and charge EU VAT, at the VAT rate that applies in the consumer's country of residence. Conversely, EU companies that sell digitally-delivered products to EU consumers would continue to charge VAT at the rate applicable in the *companies'* country of establishment, regardless of where in the EU the consumer is resident. Moreover, such EU companies would *not* be subject to any additional administrative requirements.

Thus, under the proposal, U.S. sellers may be required to charge VAT on sales to an EU consumer at a rate higher than their EU competitors would charge on sales of the same product to the same consumer. In addition, U.S. sellers may be subject to more onerous administrative and compliance requirements than are placed on their EU competitors.

Furthermore, EU VAT on digitally-delivered products may be imposed at a rate higher than on physically-delivered equivalents. For example, in many EU countries, the VAT rate applied to sales of digitally-delivered books, newspapers and magazines may be higher than that applied to sales of the same books, newspapers and magazines sold in physical form.

The United States and each country of the EU have been working within the Organization for Economic Cooperation and Development with other governments and with the business community on tax issues associated with electronic commerce taxation, and have pledged that any taxation of e-commerce be neutral and equitable between conventional and electronic forms of commerce. In addition, each has obligated itself in international treaties not to impose measures that discriminate against nationals of the other signatories. The EU proposal may be contrary to those agreements.

PO-1001

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*U.S. Government Printing Office: 1998 - 619-559

The proposal may potentially be inconsistent with international trade obligations in the World Trade Organization, in particular the commitment to accord national treatment to foreign goods and services.

Unilateral proposals such as the EU's may encourage others to take unilateral measures, rather than waiting for the global consensus that can be developed through a deliberative and inclusive process, such as the OECD's. Further efforts to achieve a more global consensus that reflects a consideration of all the issues raised must be made before unilateral action can be justified. We hope we can continue to work with the EU and with other stakeholders regarding the difficult substantive and administrative issues raised by the taxation of e-commerce, in order to achieve the required consensus.

-30-

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FOR IMMEDIATE RELEASE
February 8, 2002

Contact: Tara Bradshaw
(202) 622-2960

STATEMENT BY DEPUTY TREASURY SECRETARY KENNETH W. DAM ON EUROPEAN UNION E-COMMERCE TAX PROPOSAL

The Administration has serious concerns about a European Union proposal to apply value-added taxes (VAT) to imports of certain e-commerce goods and services.

According to European Union statements, U.S. sellers of goods or services digitally-delivered to EU consumers may soon be required to register in the EU and charge EU VAT, at the VAT rate that applies in the consumer's country of residence. Conversely, EU companies that sell digitally-delivered products to EU consumers would continue to charge VAT at the rate applicable in the *companies'* country of establishment, regardless of where in the EU the consumer is resident. Moreover, such EU companies would *not* be subject to any additional administrative requirements.

Thus, under the proposal, U.S. sellers may be required to charge VAT on sales to an EU consumer at a rate higher than their EU competitors would charge on sales of the same product to the same consumer. In addition, U.S. sellers may be subject to more onerous administrative and compliance requirements than are placed on their EU competitors.

Furthermore, EU VAT on digitally-delivered products may be imposed at a rate higher than on physically-delivered equivalents. For example, in many EU countries, the VAT rate applied to sales of digitally-delivered books, newspapers and magazines may be higher than that applied to sales of the same books, newspapers and magazines sold in physical form.

The United States and each country of the EU have been working within the Organization for Economic Cooperation and Development with other governments and with the business community on tax issues associated with electronic commerce taxation, and have pledged that any taxation of e-commerce be neutral and equitable between conventional and electronic forms of commerce. In addition, each has obligated itself in international treaties not to impose measures that discriminate against nationals of the other signatories. The EU proposal may be contrary to those agreements.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
February 8, 2002

Contact: Tasia Scolinos
(202 622-2960

TREASURY SIGNS LICENSE UNBLOCKING ADDITIONAL FROZEN AFGHAN ASSETS

Today the Treasury Department authorized the unblocking of another $25.5 million in Afghan government-owned commercial bank assets. These assets were frozen by the Department of Treasury under a 1999 Presidential Executive Order issued to prevent their use by the Taliban authorities. The authorization, signed today by Treasury's Office of Foreign Assets Control, will allow the new Afghan Interim Authority (AIA) to access assets of Afghan Export Promotion Bank, Bank Millie, and subsidiaries of Bank Millie, Afghan House and Afghan Trading.

Today's authorization follows action taken by the Sanctions Committee of the United Nations Security Council on January 24th which removed these four banks from its list of blocked entities. These actions follow the issuance of a January 24th license by the Office of Foreign Assets Control which unblocked approximately $193 million in gold and $25 million in other assets of the Afghan Central Bank held at the Federal Reserve of New York.

"We are committed to helping the Afghan people during this critical period of rebuilding," said Treasury Secretary Paul O'Neill. "We are optimistic that the funds unblocked today will play an integral role in this new chapter of Afghan history."

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PO-1002

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE:
February 9, 2002

Contact: Michele Davis
(202) 622-2920

STATEMENT OF SECRETARY PAUL O'NEILL FOLLOWING THE G-7 FINANCE MINISTERS MEETING IN OTTAWA

Good afternoon. It was a pleasure to meet again with my G-7 colleagues for a frank and useful discussion of the world economy and each of our own economies. We agreed that we must continue to bolster economic growth in our economies, for the good of our own citizens and the people of the world. For our part, the United States has put the worst part of the economic slowdown behind us. We see more signs every day indicating that a recovery is underway and I believe we will return to prosperous real economic growth rates of 3 to 3.5 percent, as soon as the fourth quarter of this year.

Working together, the G-7 nations have made progress in combating the financing of terrorism. I took the opportunity to once again thank my colleagues for their support. To date, 149 countries and jurisdictions, including the G-7, have issued orders to freeze terrorist assets, and we have blocked over $104 million since September 11.

At today's meeting, we agreed to do more. In our Action Plan we committed to develop a mechanism to block the assets of terrorists simultaneously in all our countries. This will require even closer cooperation, both to share intelligence and protect sensitive information. We should spare no effort in making the world's financial system off limits to terrorist fundraising activities.

In bilateral meetings and in a group session I raised the President's grants proposal and the need to improve the effectiveness of development assistance. I urged my colleagues to expand the portion of aid provided as grants, especially to the lowest income nations where an additional debt burden cannot be serviced. I am confident that the outstanding issues on the 13th replenishment of the International Development Association will be resolved in a timely manner.

On crisis resolution, I am pleased that my colleagues are eager to play a leading role in improving the framework to prevent and resolve financial crises. A market-based predictable process for sovereign debt restructuring would be a helpful contribution to the orderly functioning of the world financial markets.

I want to thank Paul Martin for hosting these meetings. In my discussions with Minister Martin, we reaffirmed our joint commitment to finding innovative means to improve both the security and efficiency of border crossings so vital to the free flow of trade between Canada and the United States. We will continue to work toward greater information exchange to create a seamless border process.

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EMBARGOED UNTIL 11:30 A.M.
February 11, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $18,000 million to refund an estimated $6,000 million of publicly held 4-week Treasury bills maturing February 14, 2002, and to raise new cash of approximately $12,000 million.

Tenders for 4-week Treasury bills to be held on the book-entry records of *TreasuryDirect* will not be accepted.

The Federal Reserve System holds $12,777 million of the Treasury bills maturing on February 14, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders in this auction up to the balance of the amount not awarded in today's 13-week and 26-week Treasury bill auctions. Amounts awarded to SOMA will be in addition to the offering amount.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of the auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

The allocation percentage applied to bids awarded at the highest discount rate will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about the new security are given in the attached offering highlights.

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HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED FEBRUARY 14, 2002

February 11, 2002

Offering Amount ....$18,000 million
Public Offering ....$18,000 million
NLP Exclusion Amount ....$ 9,000 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 JK 8
Auction date ....February 12, 2002
Issue date ....February 14, 2002
Maturity date ....March 14, 2002
Original issue date ....September 13, 2001
Currently outstanding ....$34,904 million
Minimum bid amount and multiples $1,000

Submission of Bids:
Noncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.
Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.
Competitive bids:
(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 4.215%.
(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Rate...35% of public offering
Maximum Award...........................35% of public offering

Receipt of Tenders:
Noncompetitive tenders:
Prior to 12:00 noon eastern standard time on auction day
Competitive tenders:
Prior to 1:00 p.m. eastern standard time on auction day

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date.

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
February 11, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	February 14, 2002
Maturity Date:	August 15, 2002
CUSIP Number:	912795KW0

High Rate: 1.810% Investment Rate 1/: 1.852% Price: 99.085

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 34.49%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 37,381,181	$ 12,522,206
Noncompetitive	1,352,879	1,352,879
FIMA (noncompetitive)	125,000	125,000
SUBTOTAL	38,859,060	14,000,085 2/
Federal Reserve	5,109,999	5,109,999
TOTAL	$ 43,969,059	$ 19,110,084

Median rate 1.800%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.750%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 38,859,060 / 14,000,085 = 2.78

/ Equivalent coupon-issue yield.
/ Awards to TREASURY DIRECT = $1,056,379,000

http://www.publicdebt.treas.gov

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
February 11, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	February 14, 2002
Maturity Date:	May 16, 2002
CUSIP Number:	912795JU6

High Rate: 1.715% Investment Rate 1/: 1.748% Price: 99.566

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 60.62%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 34,232,340	$ 14,265,670
Noncompetitive	1,534,388	1,534,388
FIMA (noncompetitive)	200,000	200,000
SUBTOTAL	35,966,728	16,000,058 2/
Federal Reserve	5,446,225	5,446,225
TOTAL	$ 41,412,953	$ 21,446,283

Median rate 1.700%: 50% of the amount of accepted competitive tenders as tendered at or below that rate. Low rate 1.660%: 5% of the amount : accepted competitive tenders was tendered at or below that rate.

.d-to-Cover Ratio = 35,966,728 / 16,000,058 = 2.25

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = $1,276,455,000

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FOR IMMEDIATE RELEASE

February 12, 2002

Contact: Tony Fratto

(202) 622-2960

MEDIA ADVISORY

Under Secretary for International Affairs, John Taylor will testify at a hearing hosted by the Joint Economic Committee of the Congress regarding "Reform of the IMF and World Bank". The hearing will take place on Thursday, February 14, 2002, 10:00 AM at the 2318 Rayburn House Office Building, Washington, DC.

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PO-1007

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE

February 12, 2002

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-30-

PO-1007

*U.S. Government Printing Office 1998 - 619-559

Restrictions on Travel to Cuba: Administration and Enforcement

Prepared Statement of

R. Richard Newcomb
Director, Office of Foreign Assets Control
United States Department of the Treasury

before the Subcommittee on
Treasury and General Government Appropriations

Committee on Appropriations
United States Senate
Washington, D.C.

February 11, 2002

I. Introduction

Chairman Dorgan, Members of the Subcommittee,

Thank you for the opportunity today to address issues concerning the administration and enforcement of restrictions on travel-related transactions involving Cuba. As you know, the Treasury Department's Office of Foreign Assets Control ("OFAC") is currently responsible for administering and enforcing 24 economic sanctions programs, most recently the President's September 23 Executive Order targeting persons who commit, threaten to commit, or support terrorism. With respect to the embargo on Cuba, the President, as recently as January 17, has reasserted his commitment to the use of the embargo and travel

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restrictions to encourage a transition to democracy in Cuba. (Tab 1)

When I speak about travel during the course of this testimony, I refer specifically to restrictions on "*transactions* related to travel," rather than simply to "restrictions on travel." OFAC's jurisdiction under the Trading With the Enemy Act ("TWEA") is to prohibit or regulate commercial or financial transactions, not travel *per se*. The licensing criteria set forth in the Cuban Assets Control Regulations, 31 CFR Part 515 (the "Regulations"), implemented under the authority of this statute, address transactions incident to travel and other transactions that are directly incident to those activities deemed consistent with U.S. foreign policy.

We enforce against transactions engaged in by persons subject to U.S. jurisdiction when those transactions are entered into without authorization. In contrast, travel to Cuba that is fully hosted by Cuban or third-country nationals, where nothing of value is provided in return, is not covered by the Regulations. OFAC's jurisdiction under TWEA to regulate these classes of transactions has withstood judicial review and been confirmed by the United States Supreme Court.[1]

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[1] The Supreme Court upheld restrictions on travel-related transactions with Cuba in Regan v. Wald, 468 U.S. 111 (1984). The Court held that TWEA provides an adequate statutory basis for the 1982 amendment to the Regulations restricting the scope of permissible travel-related transactions with Cuba and Cuban nationals. The Court rejected the argument that such a

II. Licensing

A. Historical Context

The licensing regime applicable to transactions involving Cuba travel took its present form toward the end of the last administration, with an emphasis on people-to-people contact and family reunification. This is only the most recent development in administration policy on the subject, however, and the current status of Cuba travel is very much a legacy of both political parties. I have appended a chronology demonstrating how often the policy has shifted with respect to Cuba travel. (Tab 2)

In 1977, for example, President Carter lifted restrictions on travel to Cuba in their entirety, such that all travel-related transactions involving Cuba were authorized under a general license. General licenses in OFAC parlance constitute

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regulation violates the right to travel guaranteed by the Due Process Clause of the Fifth Amendment to the Constitution. It held that, in light of the traditional deference given to executive judgment in the realm of foreign policy, the Fifth Amendment right to travel did not overcome the foreign policy justifications supporting the President's decision to curtail the flow of currency to Cuba by restricting financial transactions relating to travel to Cuba. The Court rejected the respondents' argument that a restriction on travel was inappropriate because, in their view, there was no "emergency" at the time with respect to Cuba and that the relations between Cuba and the United States were then subject to "only the 'normal' tensions inherent in contemporary international affairs." 468 U.S. at 242. The Court declined to second-guess the

blanket authorization for those transactions set forth in the general license in OFAC's regulations, and are self-selecting and self-executing. No further case-specific permission is required to engage in transactions covered by that general license. Then, in 1982, the pendulum swung in the other direction, and President Reagan reimposed a prohibition on all travel-related transactions. The pre-existing general license was limited to official U.S. or foreign government travel, visits to close relatives, and travel related to journalism, professional research of an academic nature and certain professional meetings.

From 1982 to early 1994, the general license authorization remained unchanged. Travel transactions for humanitarian reasons, public performances, exhibitions, and similar activities were specifically licensed on a case-by-case basis. In 1993, under President Clinton, specific licenses were made available for travel transactions related to educational, religious, and human rights activities and the export or import of informational materials.

In the summer of 1994, responding in part to Cuban policies that resulted in thousands of Cuban rafters crossing the Florida Straits, President Clinton tightened OFAC's licensing regime to

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Executive branch on this foreign policy issue. Id. *See also:* Freedom to Travel Campaign v. Newcomb, 82 F 3d 1431 (9th Cir. 1996).

require specific licenses for all but diplomats and full-time journalists. U.S. persons seeking to visit close relatives in Cuba instantly became by far the largest source of specific license applications. The following year, the general license was reinstated for professional research, professional meetings and the first family visit in circumstances of "extreme humanitarian need" during any 12-month period.

Subsequent to the Pope's visit to Cuba in 1998, President Clinton announced a new policy in 1999 to promote increased people-to-people contacts in support of the Cuban people. The result of this policy shift is reflected in the current twelve regulatory categories of activities for which travel-related and other transactions are authorized, either by general or specific license. General licenses continue to apply to diplomats, full-time journalists, professional researchers, certain professional meetings and the first family visit per 12-month period. The requirement that the family visit take place under circumstances of "extreme" humanitarian need, however, was eliminated.

Existing categories were expanded, most requiring case-by-case authorization by specific license, including educational exchanges, religious activities, athletic competition and public performances and exhibitions. In addition, consistent with an overall policy development applicable to most countries subject to economic sanctions programs that liberalized the export of

food and medicine, travel and other transactions directly incident to the marketing, sales negotiation, accompanied delivery or servicing of agricultural exports to Cuba became eligible for authorization by specific license, provided that the exports are of the kind licensed by the Department of Commerce.

Over the years, Congress has been actively involved in the formulation of policy with regard to Cuba generally, and Cuba travel in particular. In 1992, the Cuban Democracy Act (the "CDA") added civil penalty authority and required the creation of an administrative hearing process for civil penalty cases and the establishment of an OFAC satellite office in Miami to assist in administering and enforcing the Cuba program. The Cuban Liberty and Democratic Solidarity (Libertad) Act of 1996 (the "Libertad Act") required that the underlying prohibitions as set forth in the Regulations are to remain in place until there is a transition to a democratically-elected government in Cuba.[2]

Finally, in 2000, Congress passed the Trade Sanctions Reform and Export Enhancement Act (the "TSRA"), restricting the President's discretionary authority to authorize certain travel-

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[2] In a December 1998 report, the General Accounting Office concluded that this provision of the Libertad Act did not eliminate the President's authority to make modifying amendments to the Regulations, short of lifting the underlying prohibitions. *See:* Cuban embargo: Selected Issues Relating to Travel, Exports, and Telecommunications, GAO/NSIAD-99-10.

related transactions to, from, or within Cuba. Under section 910 of the TSRA, that authority is restricted to travel-related transactions related to activities ". . . expressly authorized in paragraphs (1) through (12) of section 515.560 of title 31, Code of Federal Regulations, or in any section referred to in any of such paragraphs (1) through (12) (as such sections were in effect on June 1, 2000)." Any activity falling outside of these twelve categories is defined in this section of the TSRA as "tourism" and may not be the basis for issuing a license.

Section 910 of the TSRA also expressly provides for case-by-case review of license applications for travel in support of agricultural exports -- an activity referred to in paragraph (12) of section 515.560 of the Regulations -- but in so doing restricted the President's discretion to authorize such trips by general license. I have appended a synopsis of these twelve categories of activities for which travel-related transactions may be authorized to this testimony for ease of reference. (Tab 3) I have also appended our brochure on Cuba entitled: "What You Need to Know About the U.S. Embargo," which covers all facets of this economic sanctions program. (Tab 4)

B. Licensing

1. **Administrative process:** OFAC processes a large number of license applications relating to the Cuba embargo, the majority of which concern travel. License applications relating to subsequent family visits, free-lance journalism, educational activities by accredited U.S. academic institutions, religious activities, informational materials and agricultural and medical exports are processed by OFAC's Miami office. During calendar year 2001, the Miami office handled 19,045 license applications for travel, particularly family visits, and at least as many attendant telephone calls.

Another of the office's primary responsibilities is to regulate certain activities of 182 entities nationwide, which are currently licensed to: (1) provide travel and carrier services to authorized travelers; and (2) remit funds to Cuban households on behalf of individuals who are subject to U.S. jurisdiction in the amounts and frequency authorized under the Regulations (the "Service Provider Program"). Almost two-thirds of these licensed entities are headquartered in Miami. Integral to this regulatory program is the licensing and compliance oversight of the direct charter flights to Cuba currently authorized from Miami, Los Angeles and New York to carry authorized travelers. I have appended a copy of OFAC's Circular

2001, setting forth guidelines applicable to the Service Provider Program. (Tab 5) The Miami office also investigates alleged violations of the Regulations and processes enforcement referrals from the U.S. Customs Service and the U.S. Coast Guard.

The remaining travel-related license applications are processed at OFAC's main office in Washington, DC, along with all non-travel license applications involving Cuba, relating to everything from blocked estates to international corporate acquisitions. The travel-related applications include those involving professional research and attendance at professional meetings not covered by the general license, educational exchanges not involving academic study pursuant to a degree program, participation in a public performance, clinic, workshop, athletic or other competition, or exhibition in Cuba, support for the Cuban people as provided in the CDA, humanitarian projects, activities of private foundations or research or educational institutes, and exports of medicine or medical supplies and certain telecommunications equipment or reexports of U.S.-origin agricultural commodities from a third country to Cuba. During calendar year 2001, OFAC's Washington, DC staff handled 1,283 license applications for travel in these various categories, with support from Treasury's Office of the General Counsel.

We endeavor to process license applications within two weeks absent the need for interagency review, and most travel-related applications fall within this category. There are many instances, however, where a given application fails to meet the applicable licensing criteria. Depending upon the circumstances, the licensing officer may contact the applicant to request additional information or clarification or prepare a letter of denial. Certain applications may have been delayed by the anthrax threat, which caused the main Treasury Department mailroom to shut down for several weeks. Mail continues to be delayed for up to two months because of the decontamination process that has since been put into place.

2. Licensing Criteria: Recent events have unfortunately given rise to misperceptions on the part of the U.S. public regarding travel to Cuba. While travel for purposes of tourism or most business transactions remains strictly prohibited, travel guides to Cuba are readily available in any bookstore or on the internet portraying Cuba as just another Caribbean tourist destination. The Pope's visit to Cuba in 1998, President Clinton's 1999 people-to-people initiative, the recent surge in popularity of Cuban music and culture and the Elian Gonzales case have all served to focus the American public's interest and attention on this country.

It appears that a great deal of the current frustration regarding the denial of license applications involves a disconnect on what constitutes an "educational exchange" or "people-to-people contact." These terms are often used in license applications but are not accompanied by material sufficient to demonstrate eligibility according to the applicable licensing criteria. We will continue to streamline these licensing criteria and, at the same time, promote greater transparency and understanding by the public.

Educational exchanges not involving academic study pursuant to a degree program must take place under the auspices of an organization that sponsors and organizes such programs to promote people-to-people contact. We have published explanatory guidelines on our Internet website. (Tab 6) These guidelines provide, in part, that people-to-people contact normally entails direct interaction between U.S. and Cuban individuals not affiliated with the Cuban government, and normally does not involve meetings with Cuban government officials. OFAC evaluates, among other things, whether the U.S. program is structured to result in direct and individual dialogue with the Cuban people and whether the proposed activities with the Cuban people are educational in nature, such as participation in joint activities that may include seminars, lectures and workshops. OFAC also evaluates whether each traveler will be fully

participating in all of the proposed people-to-people activities.

Educational exchange involving people-to-people contact does not include travel for purposes of, for example: railroad hobbyists' desire to see aging locomotives in Cuba; a U.S. city's desire to establish a sister city relationship with government officials of a Cuban city or provence, or a group of architects getting together to take a walking tour of Havana. Such proposed itineraries are not made more acceptable by a traveler's commitment to distribute a small amount of over-the-counter medicines or visit Cuban clergy or dissidents during the trip, when such contacts are minimal and clearly not the primary focus of the trip.

Two-year licenses for such exchanges issued at the advent of the people-to-people initiative in 1999 are now coming up for renewal. As we review activities undertaken pursuant to those licenses during the past two years, it appears that not all of the activities that took place pursuant to those licenses entirely conformed to the intent of the licenses as issued. For example, some license holders allowed other groups to travel to Cuba under the authority of their licensees when that particular use of the license was not contemplated in the original submission to OFAC. Accordingly, we are exercising a heightened degree of scrutiny in our review of these requests for renewals,

and are incorporating reporting requirements into the renewed licenses to ensure better compliance.

Finally, there has also been some confusion with respect to our licensing criteria with respect to applications to permit persons to travel to Cuba in conjunction with the exportation of agricultural commodities authorized by the Department of Commerce. Consistent with the TSRA, the Regulations provide that travel and other transactions that are directly incident to the "marketing, sales negotiation, accompanied delivery, or servicing of exports that appear consistent with the export licensing policy of the Department of Commerce" may be authorized by specific license.[3]

This licensing criterion does not include trade missions to discuss transactions that are not currently authorized, such as direct U.S. financing, with a view toward the eventual end of the embargo. It also does not permit individuals with no apparent nexus to this criterion to join the trip, simply out of

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[3] General transportation services relating to these exports are authorized by general license. Consistent with the CDA, vessels are authorized by another OFAC general license to carry goods to Cuba that are authorized for export by the Department of Commerce provided that: (1) they have not engaged in trade or purchased or provided services in Cuba within 180 days or; (2) the vessels are not otherwise carrying goods or passengers in which Cuba or a Cuban national has an interest. Vessels not qualifying for this general authorization may be specifically licensed. Financing of these exports is restricted by the TSRA to payment of cash in advance or to financing by third country financial institutions, except that such financing may be

personal interest or a familial relationship to another traveler. While there is no limitation on numbers of participants in any given group, this nexus must exist between each traveler and the activity in which he or she seeks to engage. Large numbers are sometimes an indication that no such nexus exists. We have just issued explanatory guidelines on our website to provide additional guidance to persons applying for these licenses. (Tab 7)

III. Enforcement

A. Historical Context

Prior to 1992, OFAC lacked civil penalty authority to enforce the Cuban embargo. Criminal prosecution of travel-related violations was extremely rare. In my experience, U.S. Attorneys often do not accept travel violations for criminal prosecution absent other illegal commercial or financial transactions by the traveler involving Cuba or Cuban nationals. The lack of criminal prosecutions is widely reported in the media and in almost any travel publication that discusses Cuba.

With the passage of the CDA in 1992, the Trading With the Enemy Act ("TWEA") was amended to provide that civil fines of up

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confirmed or advised by a United States financial institution.

to $50,000 (now adjusted for inflation to $55,000) could be levied for violations of the Regulations. The CDA also required that the Secretary of the Treasury impose such penalties "only on the record after opportunity for an agency hearing . . . with the right to pre-hearing discovery." In 1996, the LIBERTAD Act increased the number of categories of violations for which civil penalties may be sought to include all travel-related violations. In February 1997, OFAC promulgated proposed regulations to govern the hearings, and in March 1998 published final regulations. Judicial review by Article III courts is available once the Administrative Law Judge's civil penalty determination is made final.

No administrative review process is currently in place, despite efforts over the years to establish such a process. I am pleased to note, however, that Secretary O'Neill has approved a proposal for Treasury Department funding of two Administrative Law Judges with the necessary support staff.

B. Investigation

The majority of OFAC's enforcement actions with respect to the Cuba embargo concern individuals who engage in unauthorized travel transactions related to Cuba tourism. For many reasons, including those previously articulated, increasingly larger

numbers of Americans disregard the law and travel to Cuba purely for tourism. Interest in Cuba on the part of otherwise law-abiding Americans has also been exploited by foreign travel agencies that falsely advertise trips to Cuba claiming that such travel is legal. OFAC has endeavored to correct these agencies' misrepresentations by contacting them directly and placing advisories for all to see on our website. (Tab 8)

Beyond tourism, certain organizations and individuals view travel to Cuba as an act of civil disobedience. Organized challenges to the embargo have taken the form of protests involving unlicensed travel transactions and the unlicensed export of goods. There are passionate constituencies on both sides of this issue, those who believe that we do not do enough to stem the flow of U.S. tourist travel to Cuba and those who believe that any regulation of travel is an infringement of their constitutional rights.

OFAC has worked hard to develop procedures with the Customs Service to identify unlicensed travelers returning to the United States from Cuba. We have endeavored to enforce these restrictions in an evenhanded manner that is consistent with our responsibilities under the law. Returning Cuba travelers are identified by Customs agents and inspectors at ports of entry in the United States or at U.S. Customs Preclearance Facilities in Canada or the Bahamas. Those travelers who do not claim a

general or specific license from OFAC to engage in Cuba travel-related transactions are routinely referred to OFAC for investigation and civil penalty action. This workload is an extremely heavy drain on finite enforcement and legal resources.

C. Civil Penalties

When an enforcement case is referred for civil penalty consideration, the administrative record either contains evidence of transactions involving Cuba or the prepenalty notice is premised upon a rebuttable presumption that an individual traveling to Cuba necessarily engaged in transactions involving Cuba. This presumption appears in OFAC's Regulations and may be rebutted by documentation establishing that the traveler was fully hosted by a Cuban or third-country national. If the presumption is not rebutted, a prepenalty notice with statement of rights and procedures attached is then issued alleging violations of the embargo. (Tab 9) In many instances, individuals request an informal settlement before OFAC issues a prepenalty notice.

Typical penalty assessments for unauthorized travel range from $5,000 to $7,500, but the majority of cases are settled in amounts ranging from roughly $2,000 to $5,000, depending upon the circumstances. A number of prepenalty notice recipients,

however, request administrative hearings, often with the assistance of public interest legal organizations. As previously mentioned, these cases are awaiting the funding and selection of Administrative Law Judges.

I have appended a chart that depicts our Cuba travel enforcement case openings and referrals for civil penalty review, as well as the number of Cuba travel Prepenalty Notices issued, for the period of January 1996 through June 2001. (Tab 10) As shown, 4,535 travel cases were opened for investigation; 1,690 cases were referred for civil penalty review; and Prepenalty Notices were issued in 947 cases. Again, many individuals request informal settlements with OFAC without the issuance of prepenalty notices.

III. Conclusion

At this time, OFAC devotes approximately 5% of its budget and 7 full-time equivalent positions to the administration and enforcement of restrictions involving travel to Cuba. In addition, Treasury's Office of the General Counsel devotes significant resources in support of these efforts. OFAC remains committed to carrying out the President's mandate that enforcement of the Cuba embargo be enhanced under current law. OFAC will continue to administer and enforce the restrictions on

travel-related transactions involving Cuba in a manner that is timely, fair, and consistent with that law.

Thank you.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Testimony of Juan C. Zarate
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Terrorism and Violent Crime

U.S. Department of the Treasury

House Financial Subcommittee
Oversight and Investigations
2:00 p.m. February 12, 2002

The United States House of Representatives
2167 Rayburn House Office Building

Chairman Kelly and distinguished members of the House Financial Services Subcommittee, permit me to begin by thanking you for inviting me to testify today about the measures the Treasury Department has taken to disrupt terrorist financing, the lessons we have learned to date about patterns of financing and fundraising, and how the provisions of the recently enacted USA PATRIOT Act (PATRIOT Act) are helping us in our mission. With me today are three individuals who are assisting the Treasury Department in connection with the U.S. government's efforts to investigate the financing of terrorism: John Varrone, Assistant Commissioner, Office of Investigations, U.S. Customs Service; R. Richard Newcomb, Director of the Office of Foreign Assets Control (OFAC); and James F. Sloan, Director of the Financial Crimes Network (FinCEN). Thank you for having us here today to address you.

As you are aware, on September 24, 2001, President Bush stated, "We will direct every resource at our command to win the war against terrorists, every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence. We will starve the terrorists of funding." The President directed Secretary O'Neill to lead the nation's war against the financing of global terrorism, and we have devoted our extensive resources and expertise to fulfill this mandate. In our actions and in our words, the Treasury Department has shown quite clearly that in this war, financial intermediaries and facilitators who infuse terrorist organizations with money, materiel, and support must be held accountable along with those who perpetrate terrorist acts.

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The Treasury Department owes this Committee, and Congress in general, a debt of gratitude in helping us with the resources and authority to identify, disrupt, and dismantle terrorist financial networks. Immediately after the horrific attacks of September 11th, Congress worked closely with the Department of the Treasury, along with the Department of Justice and other agencies and departments, to make significant improvements in the law that allows us to tackle the issue of terrorist financing in a more unified, aggressive manner. Of particular importance to our counter-terrorist efforts, the PATRIOT Act clarifies the law enforcement and intelligence communities authority to share financial information regarding terrorist investigations. These provisions are already being utilized and are bearing fruit in disrupting financing networks.

Before I address the specific issues raised in your invitation letter, allow me to share with you the efforts the Treasury Department has taken to date, along with our sister departments and agencies, to combat terrorist financing.

THE BATTLE AGAINST TERRORIST FINANCING:

Treasury, in close partnership with the State Department, the Defense Department, the Department of Justice, the Federal Bureau of Investigation, the intelligence community, and many other parts of the federal government, has been dealing with terrorist financing on multiple levels. We have concentrated much of our enforcement efforts and resources on identifying, tracing, and blocking terrorist-related assets. In this endeavor, we have collected the financial expertise, information, and authorities that are unique to the Treasury Department to attack terrorist financing on all fronts. We have also engaged the world, in bilateral and multilateral fora, to ensure international cooperation in our anti-terrorist campaign. Allow me to highlight briefly the efforts the Treasury Department has taken to date to tackle the global problem of terrorist financing.

TREASURY ENFORCEMENT ACTIONS

First, the Treasury Department chairs the inter-agency working group that has been targeting and listing individuals and entities pursuant to the President's September 23, 2001 Executive Order. In this inter-agency process, we have assembled experts and policymakers from the Treasury Department, including the Office of Foreign Assets Control (OFAC), the Department of Justice, the Department of State, the Federal Bureau of Investigation (FBI), the intelligence community, and the White House. Through this process, the U.S. Government has designated 168 individuals and entities as terrorist-related entities pursuant to the Executive Order. Since September 11th, the United States and other countries have frozen more than $104 million in terrorist-related assets. Since the attacks, the United States alone has blocked over $34 million. A portion of that amount has since been unblocked for the new Afghan Interim Authority.

In this process, we have identified, among other entities, front companies, charities, banks, and a hawala conglomerate that served as the financial support networks for al-Qaida and other global terrorist groups. We have shut down the operations of these entities in the United States and abroad.

Second, as part of the anti-terrorist financing strategy, we utilized the inter-agency Foreign Terrorist Asset Tracking Center (FTAT), led by Treasury's OFAC, immediately after the September 11th attacks to serve as an analytical center for attacking the problem of terrorist financing. Treasury's OFAC and its FTAT division have served not only to provide essential analysis on particular targets and networks, but the center is a place where intelligence and law enforcement agencies can share and analyze information for a common purpose. This inter-agency concentration on hunting the sources of terrorist financing complements the work being done by the FBI's Financial Review Group, the Department of Defense and the intelligence community to uncover terrorists. Though FTAT is still in its infancy, it continues to make a significant impact on this cooperative and concentrated venture.

The process of identifying and investigating targets is ongoing, and we are currently investigating other financial entities, businesses, groups, and persons for potential listing. We are focusing on uncovering high-impact financial intermediaries that act as financial conduits and facilitators for terrorist groups. Our ultimate goal is to use all the tools at our disposal to disrupt vigorously terrorist financing in an effort to prevent the perpetration of further terrorist attacks.

Third, on October 25, 2001, Treasury created Operation Green Quest ("Green Quest"), a new multi-agency financial enforcement initiative intended "to augment existing counter-terrorist efforts by bringing the full scope of the government's financial expertise to bear against systems, individuals, and organizations that serve as sources of terrorist funding." Green Quest is aimed at identifying, freezing and seizing the accounts and assets of terrorist organizations that pose a threat to the United States and to all nations of the world. This task force is led by the Customs Service, and includes the Internal Revenue Service, the Secret Service, the Bureau of Alcohol Tobacco and Firearms (ATF), Treasury's Office of Foreign Asset Control (OFAC), FinCEN, the Postal Inspection Service, the Federal Bureau of Investigation (FBI), the Department of Justice, and the Naval Criminal Investigative Service (NCIS). Green Quest brings together the extensive financial expertise of the Treasury Bureaus along with the exceptional experience of our partner agencies and departments to focus on terrorist financing.

Green Quest has complemented the work of OFAC and FTAT in identifying terrorist networks at home and abroad, and it has served as an investigative arm in aid of blocking actions. Green Quest's work has led to 11 arrests, 3 indictments, the seizure of nearly $4 million, and bulk cash seizures—cash smuggling—of over $9 million. Green Quest, along with the FBI and other government agencies, has also traveled abroad to follow leads, exploit documents recovered, and to provide assistance to foreign governments. In this effort, Green Quest has made full use of its overseas Customs Attachés to investigate suspect networks and to gather information for its own use and the use of FTAT. The work of these financial experts is just starting as they have opened numerous terrorist financing investigations and are following leads on a daily basis. Green Quest's work, in combination with the work of OFAC and FTAT, serves as a seminal part of our enforcement efforts.

Finally, we have also been committed fully since the terrorist attacks to the FBI-led investigation into the September 11th mass murders. Immediately after the attacks, Treasury

assets were deployed to engage in the FBI efforts to bring the perpetrators and their financiers to justice. Treasury agents and analysts from the Customs Service, IRS-Criminal Investigation Division, U.S. Secret Service, the Bureau of Alcohol, Tobacco, and Firearms, and FinCEN combined efforts with the FBI's Financial Review Group, bringing with them their unique financial investigative capabilities, contacts in the financial sector, and expertise.

For example, the U.S. Secret Service was able to bring its experience in credit card and identity fraud as well as its electronic crimes expertise to bear immediately on the investigation, working with the Department of Justice in the following ways:

- Assisting in developing complete financial profiles of all suspects (living and deceased) in the investigation;
- Identifying other suspects through current and historical financial investigations;
- Contributing to an intelligence assessment regarding possible future acts through analysis of money movement, expenditures, and other financial data;
- Developing an analysis of current credit card usage by the suspects in the investigation; and
- Investigating more than 17,000 leads in support of the Department of Justice investigation.

As you can see, the U.S. Secret Service, along with the other Treasury Bureaus, has made significant contributions in close coordination with the FBI to tracking the perpetrators and facilitators of the September 11th attacks.

INTERNATIONAL COOPERATION

Our efforts cannot be successful if prosecuted unilaterally and are ultimately doomed to failure if we cannot obtain the cooperation of other nations. To date, all but a handful of countries have expressed their support for the international fight against terrorist financing. Currently, 149 countries and jurisdictions around the world can block terrorist assets. The U.S. government is working with a number of countries with respect to technical assistance to strengthen their capacity to freeze terrorist funds. Daily, we are in contact with foreign financial officials and are engaged in bilateral and multilateral discussions regarding international cooperation and action against terrorist activities and financing.

Treasury has engaged in numerous international fora, including the G7, G8, G20, the Financial Action Task Force (FATF), the global network of Financial Intelligence Units (FIUs) of which FinCEN is a key member, and the international financial institutions to combat terrorist financing in a global, systematic way. Treasury has also worked with regional organizations such as APEC and the Manila Framework Group to further coordinate international efforts to stop the financing of terrorism. In March, we, along with the State Department, will be participating in an ASEAN Regional Forum and Pacific Island Forum regarding counter-terrorism and financing issues.

A good example of the work of Treasury, State and Justice on this issue is in the role of the United States in the FATF on Money Laundering, a thirty-one member organization. We have directed the international effort to use the successful FATF to address the issue of terrorist financing. The United States hosted an Extraordinary FATF Plenary session in October of 2001,

at which FATF members established 8 Special Recommendations on Terrorist Financing that have quickly become the international standard on how countries can ensure that their financial regimes are not being abused by terrorist financiers. Our delegation just returned from a Plenary Session in Hong Kong in which, among other things, FATF is engaging all countries, including non-members, in a self assessment process concerning measures against terrorist financing in their respective financial regimes. This FATF effort, along with our continued engagement at a bilateral and multilateral level, will ensure that we are marginalizing terrorist financiers by securing the global financial system.

Also, on November 17, the G20 finance ministers and central bank governors met in Ottawa, Canada and agreed that they would block terrorist assets in their respective countries, and report publicly on precisely which terrorist groups each country has blocked and the amount of actual monies blocked, if any. Meeting the next day, the governing body of the IMF announced that the IMF will take similar steps.

This past weekend, the G7 group of industrial countries met in Ottawa and agreed to an ambitious new work program. In particular, the G7 agreed to develop a mechanism to identify jointly terrorists whose assets would be subject to freezing. This will require even closer cooperation and commitment. We will also develop key principles regarding information to be shared, the procedures for sharing it, and the protection of sensitive information.

Treasury also supports FinCEN's active involvement in the growing network of financial intelligence networks or FIUs. The specialized agencies created by governments to fight money laundering first met in 1995 at the Egmont-Arenberg Palace in Belgium to share experiences. Now known as the Egmont Group, these FIUs meet annually to find ways to cooperate, especially in the areas of information exchange, training, and the sharing of expertise.

This global network of information exchange and cooperation has been a valuable and responsive avenue of terrorist-related information. FinCEN hosted a special meeting of the Egmont Group on terrorist financing in October 2001 to support the unprecedented law enforcement investigation in the wake of the events of September 11. During the special meeting, the Egmont Group agreed to: (1) review existing national legislation to identify and eliminate existing impediments to exchanging information between FIUs, especially when such information concerns terrorist activity; (2) encourage national governments to make terrorist financing a predicate offense to money laundering and to consider terrorist financing one form of suspicious activity for which financial institutions should be on the look out; (3) pass requests for information involving FIUs exclusively between FIUs rather than other government agencies; (4) have FIUs play a greater role screening requests for information; and (5) to pool Egmont Group resources, where appropriate, to conduct joint strategic studies of money laundering vulnerabilities, including Hawala.

THE WORLDWIDE AL-BARAKAAT INVESTIGATION AND FREEZING OF ASSETS

The November 7, 2001 designation of Al-Barakaat as a terrorist-related financial entity is a good example of how Treasury efforts both domestically and abroad, along with the fine work of our inter-agency partners, can lead to results in this war on terrorist financing. Al-Barakaat is

a Somali-based hawaladar[1] operation, with locations in the United States and in 40 countries, that was used to finance and support terrorists around the world.[2] OFAC, FinCEN, and intelligence analysis, along with investigative work by the U.S. Customs Service, IRS-Criminal Investigation Division, and the FBI, identified Al-Barakaat as a major financial operation that supported terrorist organizations and was providing materiel, financial, and logistical support to Usama bin Laden and other terrorist groups.

Treasury and the FBI took decisive action to block assets and to take law enforcement actions against Al-Barakaat. On November 7, 2001, federal agents executed search warrants in three cities across the country (Boston, Columbus, and Alexandria) and shut down eight Al-Barakaat offices across the U.S., including locations in the following cities:

- Boston, Massachusetts;
- Columbus, Ohio;
- Alexandria, Virginia;
- Seattle, Washington; and
- Minneapolis, Minnesota.

At the same time, OFAC was able to freeze approximately $1,100,00 domestically in Al-Barakaat-related funds. As part of the Department's international outreach efforts, Treasury also worked closely with the United Arab Emirates to enable the UAE to block Al-Barakaat's assets at its financial center of operations in Dubai. Disruptions to Al-Barakaat's cash flows, resulting from OFAC's designation actions and international cooperation, are estimated to be in excess of $65 million from the United States alone. In addition, the combined work of OFAC, Operation Green Quest, and law enforcement had led to additional leads in the Al-Barakaat investigation.

This is an example of what our combined efforts can accomplish when we join our resources and our expertise to fight the common scourge of terrorist financing.

In sum, Treasury is tapping the full spectrum of our financial forensic expertise as well as the experience and resources of other agencies and foreign governments to execute the President's mission to detect, disrupt, and dismantle the financial infrastructure of terrorist financing.

TERRORIST FINANCING TRENDS

Based on our combined efforts and our experience in this war against terrorist financing, we are beginning to see more clearly the mosaic of terrorist financing and the movement of suspected terrorist funds. Terrorist groups differ from other criminal organizations or networks because of the motive behind the crime. Unlike drug traffickers and organized crime groups that primarily seek monetary gain, terrorist groups usually have non-financial goals: publicity; the

[1] Hawala is a type of alternative remittance system that is common in many parts of the world, including the Middle East and Far East. A hawaladar is an entity that engages in hawala transactions.
[2] Some individuals may have used Al-Barakaat as a legitimate means to transfer value between individuals in different countries without passing through the formal international banking system.

dissemination of an ideology; the destruction of a society or regime; and simply sowing terror and intimidation.

Terrorist financing, therefore, is different than classic money laundering. In cases of money laundering, the proceeds of illicit activity are laundered or layered in ways to make the proceeds appear legitimate, and the ultimate goal is usually the attainment of more money. With terrorist financing, the source of funding or financing is often legitimate – as in the case of charitable donations or profits from store-front businesses – and the ultimate goal is not necessarily the attainment of more funds. The ultimate goal of terrorist financing is destruction.

Uncovering the sources and methods of terrorist financing is a complex endeavor. The complexity stems in part from the sophistication of the individuals attempting to hide their activities. It is also difficult to attribute certain types of activities or movement of money directly to terrorism.

Nevertheless, there are similarities in the way international criminal enterprises and terrorist organizations of global reach, like al-Qaida, move money or attempt to hide their financial tracks. International terrorist groups need money to attract, support, and retain adherents throughout the world as well as to secure the loyalty of other groups that share the same goals. Thus, there is a need to devise schemes to raise, collect, and distribute money to operatives preparing for attacks. This need to move money makes the terrorist funds vulnerable to detection if we have the right safeguards in place.

SOURCES OF TERRORIST FUNDING

There are a plethora of terrorist funding sources, and the means used by particular terrorist organizations varies from group to group. Some terrorist groups, such as those in Europe, East Asia, and Latin America, rely on common criminal activities including extortion, kidnapping, narcotics trafficking, counterfeiting, and fraud to support their heinous acts. Other groups, such as those in the Middle East, rely on commercial enterprises, donations, and funds skimmed from charitable organizations to not only fund their activities but also to move materiel and personnel. Still other groups rely on state sponsors for funding.

The following is a basic summary of the sources of funding and the means used to move money that we believe terrorist organizations and their supporters use to plan attacks and to support their networks.

1. DONATIONS TO CHARITIES

Investigation and analysis by enforcement agencies have yielded information indicating that terrorist organizations sometimes utilize charities to facilitate funding and to funnel money. Charitable donations to non-governmental organizations (NGOs) are commingled and then often diverted or siphoned to groups or organizations that support terrorism. Fundraising may involve community solicitation in the United States, Canada, Europe, and the Middle East or solicitations directly to wealthy donors. Though these charities may be offering humanitarian services here or abroad, funds raised by these various charities are sometimes diverted to terrorist causes. This

scheme is particularly troubling because of the perverse use of funds donated in good will to fuel terrorist acts.

We have seen clear examples of this type of scheme in our efforts to identify and freeze terrorist-related assets. In one instance, Hamas, a foreign terrorist organization, used the largest U.S. Islamic charity, the Holy Land for Relief and Development (Holy Land), as a fundraising source for its terrorist activities. Based on preliminary work of the FBI, we acted to designate Holy Land on December 4, 2001, pursuant to E.O. 12334 and to freeze the assets of Holy Land because it was being used as a charitable front to raise and funnel money to Hamas. In another example, on January 9, 2002, the Treasury Department blocked the assets of two foreign charities that were funneling funds to al-Qaida: the Afghan Support Committee and the Pakistan and Afghanistan offices of the Revival of Islamic Heritage Society (RIHS).

The Treasury Department continues to scrutinize the activities of suspect charitable organizations, both in North America and abroad that may have ties to terrorist organizations. In addition, we will continue to work closely with our international partners to ensure that there are monitoring and regulatory mechanisms in place for any such NGOs in their jurisdiction. As we have said before, charities advertising to help refugees, widows and orphans should be doing just that–not being used, wittingly or otherwise, to funnel money to terrorist organizations or to indoctrinate impoverished populations with political-religious extremism and with it a potential breeding ground for future terrorism.

2. COMPANIES AND BUSINESSES

Terrorist groups create front businesses and corporations, transfer funds between them, and "layer" the financial transactions to avoid detection. We have designated several companies, such as the Al-Barakaat companies, as fronts for terrorist organizations pursuant to the President's Executive Order.

Seemingly legitimate businesses have been used by terrorists and their supporters as "fronts" to disguise a variety of criminal activities. These businesses often can be convenience stores, restaurants, or fast food stores. The businesses are usually acquired using funds furnished by a single individual. This investor, in exchange for providing financing, receives a portion of the profits from legitimate business operations until the investment is repaid. In some cases, it is alleged that the "seed" money to acquire the businesses is provided by terrorist groups.

Small retail businesses that deal extensively in cash are ideal for laundering the proceeds from a variety of criminal activities and provide retail outlets for stolen merchandise. They are also ideal locations from which informal money remittors, like hawaldars, can transact business.

Regular fraud schemes frequently result in illegal profits and resulting criminal investigations that ultimately uncover terrorist financing. One clear example of this occurred last year, when an inter-agency task force, involving the FBI, the Bureau of Alcohol, Tobacco, and Firearms, the Immigration and Naturalization Service, and other law enforcement uncovered a contraband cigarette trafficking and fraud scheme involving approximately a dozen Lebanese individuals. In the course of investigating this scheme, the task force uncovered that some of the

participants were involved in a military procurement program designed to obtain and send dual use items to Hizbollah operations in Lebannon.

We continue to monitor, analyze, and investigate the links between businesses, in the United States and elsewhere, and terrorist groups. Using Bank Secrecy Act data and analysis provided by FinCEN and other relevant data from various Treasury databases, we are able to target suspicious business activities and anomalous transactions. This type of methodical investigative and analytical work will continue to uncover networks of businesses used to generate and funnel money to terrorist groups.

3. TRADE MISPRICING

International trade may be utilized by terrorist organizations to disguise funding sources. Terrorist front companies might overvalue or undervalue merchandise, or they might use double invoicing or might fabricate shipments altogether. The Treasury Department is looking into this method of raising funds, but there has as yet been no direct link established to terrorist financing.

There are various Customs commercial databases that are capable of identifying trends and anomalies in a particular company or industry. Specifically, the U.S. Customs Service has developed a program known as the Numerically Integrated Profiling Systems (NIPS). NIPS allows for the manipulation of trade data, BSA data, commerce data and I-94 passenger data. Green Quest has applied NIPS in targeting commodities and companies that may be funneling funds in support of terrorism. NIPS is a component of the Green Quest strategy to target trade-based money laundering or terrorist financing systems.

An example of this type of activity involved an analysis conducted by the U.S. Customs Service Offices of Strategic Trade and Intelligence. This analysis involved the exportation of honey to Middle Eastern countries. On October 12, 2001, the Treasury Department named two honey companies as fronts for terrorist funding to al-Qaida. The Customs Service analysis identified anomalies in the packing weight, shipping weight and the reported value of the shipped honey, which may be indicative of trade-based money laundering or terrorist financing.

4. USE OF CREDIT CARDS

While I cannot comment on ongoing investigations into credit card usage, in connection with several regulatory provisions of the USA PATRIOT Act, we are exploring whether whether and what type of further regulatory action is warranted.

5. NARCOTICS TRAFFICKING

From our experience with terrorist groups, we know that some use narco-trafficking to support and fuel their militant activities. We also know that the portion of Afghanistan that the Taliban previously controlled produced at least three-quarters of poppy in the world and that al-Qaida members may have been involved in the heroin trade.

Green Quest and the Customs Service will continue to pursue narcotics investigations for any terrorist related links to further disrupt the funding of any future acts of terrorism against the United States.

METHODS OF MOVING MONEY

Terrorist groups, including al-Qaida, use different means of moving money to support their respective organizations. This money movement around the world, which largely still relies on traditional wire transfers, provides the footprints to where sleeper cells lie and allows us to attempt to disrupt those fund flows. Like other criminal organizations, terrorist groups use various means to move money. The following is a brief summary of ways in which money may be moved to terrorist organizations.

1. USE OF CORRESPONDENT ACCOUNTS AND OFFSHORE SHELL BANKS

There is some evidence to indicate that those who support terrorist groups use shell banks and companies and perhaps correspondent accounts to collect and move money. On November 7, 2001, the Treasury Department listed Bank al-Taqwa, a Bahamian-based shell bank, as a terrorist financing source. In 1997, it was reported that the $60 million collected annually for Hamas was moved to accounts with Bank Al Taqwa. As of October 2000, Bank Al Taqwa appeared to be providing a clandestine line of credit to a close associate of bin Laden and as of late September 2001, bin Laden and his al-Qaida organization received financial assistance from the chairman of that bank.

The Treasury Department continues to monitor the use of shell bank, shell companies, and correspondent accounts to move illicit funds or funds directed for terrorist financing purposes. Though Bank Secrecy Act (BSA) data, including Suspicious Activity Reports (SARs) and Currency Transaction Reports (CTRs), reflects documented use of correspondent accounts and shell entities for money laundering purposes, it is difficult, without knowing more about the transactions, to link such suspicious activities to terrorism. Nevertheless, over the past twenty months, the Treasury's Financial Crimes Enforcement Network (FinCEN) has enhanced its support to law enforcement in the area of counter-terrorism by proactively analyzing Bank Secrecy Act (BSA) data to help identify activities indicative of the movement of funds that may be associated with terrorism. During this period, tactical information was developed and supplied to law enforcement and others for action, as appropriate. There are ongoing investigations of such companies and banks that I cannot discuss at this time. As part of our ongoing efforts with respect to this threat, FinCEN issued an advisory in January 2002 relating to the Republic of Nauru, pursuant to Section 313 of the USA PATRIOT Act, reminding banks of their obligation to terminate any correspondent accounts provided to foreign shell banks.

The banking sector plays an important role in monitoring and policing correspondent accounts and relationships with shell entities. Banks have actively reported information regarding activity in correspondent accounts that has proven valuable to law enforcement. In addition, some U.S. banks have voluntarily closed correspondent accounts with foreign-based banks when there have been suspicious wire transfers or "shell" entities involved. The reporting and record keeping rules contained in the Bank Secrecy Act ("BSA"), administered by FinCEN,

create a paper trail to trace funds through the financial system. Information reported under existing suspicious transaction-reporting rules for banks is currently being forwarded to law enforcement on an expedited basis through the establishment of a toll-free hotline operated by FinCEN.

The Treasury Department will continue to investigate the use of correspondent accounts and shell entities for terrorist financing for blocking purposes as well as to providing assistance to the Department of Justice.

2. INFORMAL VALUE AND UNDERGROUND BANKING SYSTEMS

Informal systems of moving money may be used by al-Qaida and other terrorist groups operating in Third World countries to support related organizations, sleeper cells, or supporters. One system of transfer is called "hawala" which operates on trust, guaranteed anonymity, outside traditional regulation and with virtually no paper trail. Operators engaged in this system deliver money across borders without physically moving it–assured the account will be settled by money or material goods returned in a future reverse transaction. Used widely in the Middle East and South Asia for centuries, there are indications that the system is being exploited by Al-Qaida and other terrorist organizations.

As mentioned above, on November 7, 2001, the Treasury Department blocked the assets of the al-Barakaat network, which was a global money remitting company being used by Usama bin Laden to support terrorist activities. Though the operations of Al-Barakaat in the United States relied on traditional banking systems, internationally it operated as a hawala network that allowed for funds to be funneled into Somalia through Dubai. This hawala network was not only used to finance bin Laden's organization, but also to provide logistical support for his network. Our actions put that hawala network out of business.

At this stage, FinCEN is examining non-traditional money remittance systems, such as hawala, because funds have the potential of being moved anonymously. In an effort to broaden its understanding of alternate remittance systems, FinCEN is forming an Alternate Remittance Branch which will be responsible for the analysis of BSA data and other information to identify mechanisms and systems used by criminal organizations to move operational funds in support of domestic and international activity. Analysis will focus initially on Informal Value Transfer Systems (IVTS) such as hawala, hundi and other Asian and South American systems as a potentially key but inadequately understood methodology for funds movement; development of indicators of IVTS use by criminal organizations to support law enforcement initiatives to combat criminal activity; and identification of policy implications of IVTS for law enforcement and financial regulators. Analysis will expand to include identification of the methods by which IVTS intersects with regulated funds transfer systems, and then identification of criminal funds movement methodologies based entirely on the legitimate financial industry.

The branch will be responsible for monitoring law enforcement support activities provided by FinCEN as a whole in order to identify trends and patterns in financial or fund raising activities. Strategic products will include trend and pattern analysis; industry/technology vulnerability analysis; methodology bulletins and advisories for law enforcement, regulators and

the financial industry; threat assessments; and policy papers. The branch will work jointly and/or coordinate its analytic efforts with appropriate law enforcement and intelligence organizations in the production of national threat assessments related to the funding of domestic and international criminal activity.

3. BULK CASH SMUGGLING

Law enforcement has always suspected that bulk cash smuggling is used by some terrorist organizations to move large amounts of currency. In response to the September 11th events, Customs utilized an existing outbound currency operation, OPERATION OASIS, and refocused its efforts to target twenty three identified nations involved in the laundering of money for terrorist organizations. After September 11th, Oasis was implemented at seven airports and five courier hubs around the United States. Customs' success with Oasis has led to the nationwide expansion of the operation.

To date, Customs Operation Oasis has seized $9,030,100. The Customs Service has primary jurisdictional authority for enforcing those regulations requiring the reporting of the international transportation of currency and monetary instruments in excess of $10,000 (Title 31 U.S.C. § 5316 et al.). The USA PATRIOT Act has enhanced the Customs Service's ability to investigate terrorist related financial crimes by making inbound and outbound smuggling of bulk cash a criminal offense (Title 31 U.S.C. § 5332(a)). By criminalizing this activity, Congress has recognized that bulk cash smuggling is an inherently more serious offense than simply failing to file a Customs report.

In short, we will continue to pursue all the means and methods that terrorists and their supporters could use to fund and funnel money intended for terrorist acts. Our vigilance will not waiver in this mission.

TOOLS AVAILABLE UNDER TITLE III OF THE USA PATRIOT ACT TO COMBAT MONEY LAUNDERING AND TERRORIST FINANCING

Title III of the USA PATRIOT Act (PATRIOT Act) supplied Treasury with a host of new and important weapons to both systematically eliminate known risks to our financial system as well as to identify and nullify new risks that develop. The tragic events of September 11 have taught us three key lessons about financial crime: (1) although distinct in important respects, our ability to combat terrorist financing is inextricably linked with our ability to combat money laundering generally; (2) we must remain vigilant in our continuing efforts to identify the new ways in which criminals and terrorists will attempt to use our own financial system to fuel their enterprises; and (3) the ability of governmental entities to obtain and share financial information is critical to our success in identifying and bringing down terrorist networks. Title III of the PATRIOT Act reflects these lessons, providing us with the mechanisms, the authority, and the initiative to take the steps necessary to protect our financial system.

As this Committee is aware, Treasury, with the full cooperation and assistance of the various agencies and departments, continues the ambitious task of implementing the regulatory provisions of Title III under their tight deadlines. To utilize existing resources within the

government, we created interagency working groups chaired by Treasury to help develop, and in some cases, draft the regulations. The cooperation and assistance that we have received has been tremendous. Though the task is daunting, we accept the challenge. Today I repeat the pledge of Deputy Secretary Dam that Treasury will work diligently to attempt to meet these deadlines, while taking the time necessary to ensure that educated and informed policy decisions are made along the way. This is especially true for those provisions of the Act that support our financial war on terrorism. This is a learning process for us. As we focus on each section to draft regulations, we are better able to identify the vulnerabilities of our financial system and how best to eliminate them.

I will briefly highlight some of the significant provisions of Title III that form the foundation of the regulatory side of Treasury's fresh approach to combating money laundering and terrorist financing.

1. **Critical Information-Sharing Provisions**

One challenge in the financial war on terrorism is to maximize the use of existing information resources to identify the terrorist financing networks. Because different governmental entities and financial institutions maintain important information, we must have the ability to access that information and review it as a whole. Thus, some of the more important provisions of the PATRIOT Act are those permitting greater information sharing among law enforcement and other governmental entities. The information sharing provisions found in section 358 provided an immediate impact in our financial war on terrorism. With this expanded ability to access and share important financial information, law enforcement and the intelligence community are working together to identify better the financing mechanisms of terrorist networks. Section 358 expanded Treasury's ability to share Bank Secrecy Act information with the intelligence community, clarified that the Right to Financial Privacy Act does not preclude the use of financial information to combat international terrorism, and gave law enforcement and intelligence agencies access to credit reports when the inquiry relates to international terrorism.

Similarly, we will shortly issue regulations implementing section 314 of the Act, a provision in which the Congress allowed for and encouraged both the sharing of information among financial institutions as well as the sharing of information between law enforcement and financial institutions. We are confident that the ability of financial institutions to share information concerning suspected terrorists or money launderers will allow the financial institutions—the ones who are uniquely positioned to identify risks early—to work together, discuss their suspicions, and notify law enforcement of potential criminal activity at an early stage. Moreover, while we are still developing our proposal for sharing information between law enforcement and financial institutions, it is clear that open and developed channels of communication are essential. Along with FinCEN's development of a highly secure computer network under section 362, we look to improve the timing and efficiency of information sharing to maximize our ability to identify and respond to threats to our financial system.

With this new information sharing authority, however, comes the responsibility of ensuring that important privacy interests are not sacrificed. A fundamental principle of

Treasury's implementation strategy is to respect these privacy interests while achieving our goal of eliminating risks of money laundering and terrorist financing.

2. The Systematic Elimination of Known or Unacceptable Risks

The approach of this Congress to money laundering is as bold as it is simple: identify risky financial practices and accounts at the outset and deny them access to our financial system. Correspondent accounts maintained in the U.S. by foreign banks, under certain circumstances, form the channel through which illicit funds find their way into our system. The public record is replete with evidence of their abuse in connection with money laundering. Thus, eliminating the known risks associated with correspondent accounts was the genesis for several provisions of Title III.

For example, Section 313's prohibition on U.S. financial institutions maintaining correspondent accounts for foreign shell banks and section 312's requirement that financial institutions apply enhanced due diligence when maintaining correspondent accounts for foreign banks located in jurisdictions lacking sufficient anti-money laundering regimes both require financial institutions to minimize the risks associated with correspondent accounts. Section 313 in particular is a bold step forward, sending a strong message about our commitment to cutting off unregulated foreign shell banks. Treasury has already provided guidance to U.S. financial institutions on how to comply with section 313. We will issue a final rule after we have reviewed comments submitted. By the April deadline, Treasury intends to issue regulations setting forth the due diligence procedures required under section 312.

Private banking accounts have likewise proven to present risks of abuse, such as in the *Salinas* case. Under section 312, such accounts for foreign individuals, especially accounts maintained for senior political figures or their family members, are subject to enhanced due diligence procedures by financial institutions, including the identification of the source of funds. Due diligence policies for private banking accounts will also be addressed in regulations under section 312. Similarly, the GAO report on the activities of Raul Salinas described the danger of concentration accounts in which clients' funds are commingled without linking the client to the funds. Under section 325, Treasury and bank regulators are working to ascertain whether regulations governing the use of concentration accounts are needed. Although we have not yet seen the abuse of these accounts in our terrorist financing investigations, elimination of these risks may be appropriate to ensure that they are not abused in the future.

This systematic approach to avoiding unreasonable risk is also embodied in two other important provisions of Title III: sections 326 and 352, which require customer identity verification and anti-money laundering programs, respectively, for all financial institutions. These provisions in particular will allow Treasury to close loopholes in our anti-money laundering regime and make certain that as terrorists and money launderers move toward less traditional financial institutions, they will not be able to avoid our regulatory controls. Treasury is moving aggressively to implement both sections, paying particular attention to financial institutions such as the insurance industry, the mutual fund industry, credit card companies and others that are not currently subject to Bank Secrecy Act requirements. We intend to protect our financial system by preventing migration to these and other unregulated industries. Through this

process in particular, however, we are carefully educating ourselves about the industries in order to derive sensible regulations that accomplish our objectives without imposing undue or unnecessary regulatory burdens.

Also, section 371 addressed the known risks associated with the smuggling of bulk cash and currency by making it an offense under Title 31 not to declare amounts in excess of $10,000 to the Customs Service. With lead responsibility for ensuring the safety of our borders, and primary authority for enforcing section 371, such provisions further aid the Customs Service in its efforts to disrupt terrorism. As noted, this provision has already netted substantial seizures.

3. Authority to Identify and Respond to Specific Risks

Equally as important to a comprehensive anti-money laundering regime is the ability to identify specific risks and take steps necessary to eliminate it. Various provisions in Title III help us to do just that. A cornerstone of the Bank Secrecy Act is our reliance on financial institutions notifying us of suspicious activities. Title III emphasizes the expansion of suspicious activity reporting by directing Treasury develop regulations for securities brokers and dealers, and authorizing such regulations for futures commission merchants, commodities trading advisors, and commodity pool operators. This is not only consistent with Treasury's implementation goal to eliminate regulatory arbitrage, but also provides law enforcement with an increased capacity to identify threats. Similarly, section 365—a provision that Treasury implemented four months ahead of its statutory deadline—provides Treasury and law enforcement with access to currency reports filed by non-financial trades or businesses, a form previously difficult to obtain in light of IRS confidentiality restrictions. Because non-financial trades and businesses were under an existing obligation to file such reports with the IRS, Treasury issued a regulation permitting the filing of a single form to satisfy both statutory requirements.

The provision that best enables Treasury to respond to specific, identified threats is section 311, which authorizes the Secretary of the Treasury to require financial institutions to impose graduated, proportionate measures against a foreign jurisdiction, financial institution, class of transaction, or account designated a primary money laundering concern. The special measures range from increased record-keeping requirements to prohibiting certain types of correspondent or payable through accounts. The statute requires Treasury to define certain key terms in section 311 by regulation. Because some of those same definitions are incorporated in section 312 of Title III, Treasury intends to define such terms in April in conjunction with the regulation outlining the due diligence requirements of section 312. Given the need to define key terms and the significance of naming a jurisdiction or financial institution a primary money laundering concern, Treasury is proceeding cautiously. Care must be taken to assemble sufficient evidence to support the designation and to make sure that the designation will not actually undermine our overall anti-money laundering or anti-terrorist financing strategy. Furthermore, the Secretary of the Treasury is required to consult with both the Attorney General and the Secretary of State prior to making any designation. We are now working on internal procedures for making designations that will ensure compliance with the consultation requirements while still enabling us to respond quickly to identified threats.

Finally, under section 319(b), the Secretary of the Treasury has the authority to issue administrative subpoenas to foreign banks maintaining correspondent accounts in the U.S. for documents related to those accounts, regardless of whether the documents are located in the U.S. Treasury has already issued interim guidance and a proposed rule covering the record-keeping portion of this provision. Given the potential impact of this provision on existing forms of information sharing between the U.S. and foreign governments, such as mutual legal assistance treaties, Treasury is looking to create internal procedures for exercising that authority with due regard for existing practices.

IDENTIFIED LOOPHOLES IN THE ANTI-TERRORIST FINANCING OR ANTI-MONEY LAUNDERING REGIME

As we continue to expand our efforts to undermine the financial underpinnings of terrorism, we learn more about the vulnerabilities of our system. Through the process of analyzing the applicability of the various provisions of Title III to the wide range of financial institutions and drafting implementing regulations, we learn more about how our regulatory regime can be used to eliminate those vulnerabilities. To this point, our focus has been, first and foremost, to locate and seize terrorist assets in order to prevent any further attacks. With regard to the PATRIOT Act, we have spent our time doing everything we can to meet the aggressive implementation deadlines. As Deputy Secretary Dam noted two weeks ago, we have not yet identified a need for additional legislation and, correspondingly, we have not identified any obvious loopholes in the forthcoming regulatory regime. But I stress that we are only at the beginning of the process of implementing regulations; thus, we may discover loopholes as we work through the issues.

We are especially aware of the need to carefully examine the proposed regulatory regime being imposed on those entities not previously subject to Bank Secrecy Act regulation. These include, for example, the insurance industry and the commodity futures industry. At this moment, we are working with industry representatives to understand how they operate, how they can best be regulated under the Bank Secrecy Act, and whether we have the necessary statutory authority.

Also, as I discussed previously, we are concerned with the ability of alternative remittance systems or informal money transfer systems to avoid regulation. Section 359 of the Act requests that Treasury notify Congress in October 2002 of the need for additional legislation. With FinCEN's initiatives in this area, Treasury will be well positioned to offer suggestions. We look forward to continuing to work with this Committee as issues develop.

CONCLUSION

I was heartened to read the words of Committee Chairman Michael G. Oxley regarding this hearing when he stated the following: "Make no mistake -- we are in this battle against terrorist financing for the long haul." Indeed, as President Bush has stated on numerous occasions, this is a long-term war that will require us to uproot the networks of terror. As part of this war, the battle against terrorist financing is a long-term mission for the Treasury Department and the entire U.S. government. We must work tirelessly as a government to choke the flow of

funds so as to prevent further acts of terror such as those we witnessed on September 11th. Ours is a long-term campaign to save lives by denying the terrorists the funds they need to train, to plan, to travel, to hide, and to attack. By denying these evil doers dollars and yen, we are depriving them of bullets and bombs.

This is a war we must win, with every tool at our disposal, because there is no other alternative. I thank you for your support. I will be happy to answer any questions you may have.

DEPARTMENT OF THE TREASURY

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Under Secretary of the Treasury Peter R. Fisher
Bloomberg News' Bonds Roundtable 2002
New York, NY

"Debt Management: Regular and Predictable in a Changing World"

The Treasury's commitment to "regular and predictable" debt management practices should be understood as a means to an end and not an end in itself. The preeminent objective of the Treasury's debt management is to achieve the lowest borrowing cost, over time, to meet the government's financing needs. A schedule of regular and predictable auction dates for particular maturities is one way we seek to achieve the lowest borrowing costs over time. But in order to serve this ultimate objective in a constantly changing world, the Treasury's debt management practices must also change and adapt.

Secretary O'Neill likes to remind us that the real goal is to make excellence a habit and to do this we must strive for continuous improvement. Applied to our debt management, this principle drives us to examine all aspects of the issuance of Treasury securities, from savings bonds to the long bond.

Our decision last fall to suspend auctions of the 30-year bond is only the most recent big change made to debt management, as I explained in our quarterly refunding announcement in October. The previous administration also made significant changes with the introduction of buyback operations and the launch of inflation-indexed securities. They took the step of introducing these new debt management tools to improve the efficiency with which Treasury finances the needs of the Federal government.

Regular and Predictable

Since the mid-1970s, the Treasury has self-consciously adhered to the principle of a regular and predictable schedule of auction dates for specific maturities. We do not attempt to "time the market" – as some countries did and some still do – by holding "snap" auctions for a given maturity when its yield appears particularly low. Instead, we provide predictable auction dates for each maturity.

PO-1010

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*U.S. Government Printing Office: 1998 - 619-559

This provides certainty for investors as to the availability of our securities and, over time, helps to smooth out the distribution of our overall borrowing costs. This is why, for instance, we continue issuing bills in late April and May even when we are flush with cash from tax revenues. While the Treasury may not need the cash, by holding auctions every week we keep an even, steady presence in the capital markets.

We have used our regular quarterly refunding announcements to provide the details of any changes to our debt management, providing a substantial lead time for any specific changes to the instruments we are issuing and also as a means for us to inform the markets of any issues we are considering over the medium term. In addition, we provide the market with advance announcements of our anticipated borrowing needs and the timing of our bill and note auctions.

But the Treasury's commitment to a "regular and predictable" schedule of auctions has never meant that debt management is static. Our auction sizes are constantly shifting, with seasonal changes in our cash flow, structural changes in tax policy and shifts in the level of government spending, and cyclical changes in the economy. In practice, we absorb a great deal of the variability in our revenues with our cash balance in order to smooth out the variance in our month to month borrowing. The Treasury's cash balance can shift by $30 billion in a day. It has routinely been the case that the very best forecasts of our annual borrowing needs – both public and private – are routinely off by roughly $70 billion. As a result, we must build into our debt management strategy the flexibility to deal with outcomes that do not match our expectations.

More importantly, the capital markets in which we operate and the technology which we use are constantly changing. Just as financial intermediaries are constantly adapting to meet customer needs and serve shareholder interests, we – at the Treasury – are engaged in a process of continuous improvement and adaptation in order to achieve the lowest borrowing costs for the American taxpayer.

Over the last three decades this process of adaptation has resulted in the introduction, *and the withdrawal*, of numerous securities including: the fifty-two week bill, the three-year note, the four-year note, the five-year inflation-indexed note, the seven-year note, the twenty-year bond, the thirty-year bond, the thirty-year callable bond, the thirty-year inflation-indexed bond, and foreign targeted securities.

More recently, the Treasury has made a number of changes that remain in place today, including: the move to single price auctions, the introduction of the ten-year inflation-indexed note, debt buybacks, regular re-openings, and our new four-week bills. Most significant among all these changes, to my mind, are buybacks and inflation-indexed securities.

Debt Buybacks

When the Treasury department introduced the debt buyback program, then-Secretary Summers outlined three main purposes for the program: enhancing the liquidity of benchmark securities; preventing an increase in the average maturity of the debt outstanding; and to make more effective use of cash balances at certain times of the year. Treasury settled into a regular pattern of two-buyback operations per month that persisted through last December.

In the quarterly refunding announcement made in October of last year, we announced that we would modify the buyback program beginning in this quarter to reflect the altered budget outlook for this fiscal year. Specifically, the schedule was changed so that announcements of buyback operations coincide with the quarterly refunding process. Our decisions to conduct buyback operations will be based on three factors: first, our projections of the federal government's annual, unified surplus or deficit position; second, our projections of that three-month period's cash position; and third, our analysis of how best to minimize borrowing costs over time. Consistent with this approach, we announced at the end of January that we will conduct three buyback operations in April in order to lower high seasonal cash balance at that time.

Inflation Indexed Securities

The boldest initiative of Treasury's debt management in recent years was the introduction of inflation-indexed securities in 1997. These instruments were designed at a time when a rising volume of debt was presumed to be the norm, and it was in Treasury's interest to provide a new product that could expand our investor base by providing inflation protection.

Even in their brief history, they have undergone a number of changes. Today we are issuing only a ten-year inflation-indexed security, and we are looking at ways to develop the market for this security. It may be that we at the Treasury and you in the investment community have to work at little harder to make these instruments live up to their potential. As a completely different asset class, inflation-indexed securities present an opportunity for us to diversify our portfolio of debt instruments, and an opportunity for investors to take advantage of both inflation and deflation protection. The challenge for both of us is to see how we can enhance the development of this market.

Both dealers and the Treasury's Borrowing Advisory Committee have suggested that there may be ways to enhance the Inflation Indexed program's appeal, including more aggressive marketing to pension consultants and retail investors, more frequent auctions, a shorter when-issued trading period, and different issuance sizes and/or calendars.

At our most recent quarterly refunding, Assistant Secretary Brian Roseboro invited public suggestions on how we can help develop the inflation-indexed market. We look forward to hearing as many ideas as possible.

We also invited suggestions and ideas from the public on our current reopening policy and on changes to net long position reporting rule. This latter request was made in service to our goal of faster auction processing, which is the key to widening the appeal of direct auction participation – something I hope very much will also help us lower borrowing costs over time.

It is in pursuit of this goal - the lowest cost of funding over time for the American taxpayer – that we are constantly pushing forward and searching for new and better ways to finance the government's operations. We believe that a regular and predictable schedule is an important tool that has demonstrated its value over the years, and it will remain our standard as we continue to strive to continuously improve our debt management practices in a constantly changing world.

To comment on the issues raised by Under Secretary Fisher, email Treasury Department's Office of Market Finance at debt.management@do.treas.gov.

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Contact Tasia Scolinos
(202)-622-2960.

TESTIMONY BEFORE THE UNITED STATES SENATE
COMMITTEE ON GOVERNMENTAL AFFAIRS
BY TIMOTHY SKUD
ACTING DEPUTY ASSISTANT SECRETARY
REGULATORY, TARIFF AND TRADE ENFORCEMENT
U.S. DEPARTMENT OF TREASURY

Mr. Chairman, members of the Committee, thank you for inviting me to speak about the role of the Department of the Treasury and its bureau, the U.S. Customs Service, in enforcing current sanctions on diamonds, and our possible role in enforcing an international certification system for trade in rough diamonds.

The role of diamonds in conflicts in Angola and Sierra Leone has been well documented. More broadly, as a precious commodity, diamonds are often used in trafficking networks running parallel to legitimate international trade channels and offer criminals opportunities to conceal their financial and organizational relationships. Diamonds can provide a lucrative means of funding an array of transnational criminal activities. They can be used in money laundering, arms trafficking, and, potentially, international terrorism. Techniques for illicit trade in diamonds include physical concealment, mis-description, and undervaluation. Customs' recently initiated Operation GreenQuest aims to identify and investigate suspected financial or other crimes, which may utilize diamonds as a means of concealment.

Current Import Prohibitions on Conflict Diamonds

The Customs Service currently enforces prohibitions on importation of diamonds from three countries: Angola, Sierra Leone, and Liberia. These prohibitions are in place pursuant to three Executive orders that take into account United Nations Security Council Resolutions.

On September 26, 1993, the President issued Executive Order 12865, declaring a national emergency in response to military and other actions by the National Union for the Total Independence of Angola (UNITA) and imposing sanctions on UNITA. In Executive Order 13098 of August 19, 1998, the President imposed additional sanctions on UNITA including prohibiting the direct or indirect importation into the United States of all diamonds exported from Angola that are not controlled through the certificate of origin regime of the Angolan Government of Unity and National Reconciliation.

PO-1011

In Executive Order 13194 of January 18, 2001, the President declared a national emergency in response to the actions of the insurgent Revolutionary United Front (RUF) in Sierra Leone and prohibited the importation into the United States of rough diamonds from Sierra Leone that have not been controlled by the Government of Sierra Leone through its certificate of origin regime. The order's stated purpose was to ensure that the direct or indirect importation into the United States of rough diamonds from Sierra Leone would not contribute financial support to the RUF, whose illicit trade in conflict diamonds has fueled the civil war in Sierra Leone by funding the rebels' aggressive actions and procurement of weapons.

On May 22, 2001, the President issued Executive Order 13213 to expand the scope of the national emergency declared in Executive Order 13194 in order to respond, among other things, to the Government of Liberia's complicity in the RUF's illicit trade in conflict diamonds through Liberia. This order prohibits the direct or indirect importation into the United States of all rough diamonds from Liberia, whether or not the diamonds originated in Liberia.

The regulations for Angola can be found in 31CFR Part 590; interim final regulations for Sierra Leone and Liberia were published in the Federal Register on February 6, 2002. Customs has in all instances been enforcing the import bans as of the effective dates of the underlying Executive orders.

Customs Enforcement

Consistent with the Executive orders and implementing regulations, Customs requires that authorized imports of rough diamonds from Sierra Leone and all diamonds from Angola be accompanied by legitimate government certificates or other documents demonstrating to the satisfaction of Customs that the diamonds were legally exported from the relevant country. Under Customs regulations, importers must present appropriate documentation to Customs upon demand and have the responsibility to keep certificates of origin on file for 5 years after importation.

In addition to targeted examinations at entry, Customs uses risk management techniques as a means of identifying those imports that represent the greatest risk of non-compliance and to focus resources in those areas. This may include post-importation audits to review importers' overall trade, identify anomalies, and verify claims made at entry. In the case of diamonds, verification of claims can include verification with exporting authorities of certification validity. If any intelligence is developed internally, or obtained from outside sources, indicating certain importers are importing conflict diamonds, Customs can seize shipments or develop leads by initiating formal investigations. Customs' Strategic Investigations Division programs, such as Operation EXODUS and the newly-initiated SHIELD AMERICA program, aggressively investigate, interdict and disrupt international arms trafficking networks, and are relevant to diamonds trade and smuggling.

There have been two recent interdictions of diamond imports based on the failure to present proper export certificates. On December 31, 2001, Customs inspectors at Baltimore-Washington International Airport seized 37 diamonds from a passenger who had arrived on an international flight. A search of the passenger's luggage revealed documents that led the officers to believe the passenger may be carrying diamonds.

When the officers asked if he was carrying diamonds, the passenger removed a package from his pocket and the diamonds were detained for formal Customs entry. The Customs entry was filed, but there was no accompanying certificate from the Republic of Sierra Leone and the diamonds were seized pursuant to Executive Order 13194.

On February 4, 2002, an arriving international passenger declared $12,350 in diamonds to Customs officers at Baltimore-Washington International Airport. Upon review of the Certificate of Origin, the Customs inspectors noticed several inconsistencies in the document that led them to believe the certificate was fraudulent. The stones and the accompanying documents are currently under detention by Customs.

Kimberley Process

In January of 2001, the United Nations General Assembly passed a resolution (55/56) which, *inter alia*, encourages member states to devise "effective and pragmatic measures to address the problem of conflict diamonds" including "the creation and implementation of a simple and workable international certification scheme for rough diamonds." Over thirty countries have engaged in discussions to develop such a scheme through the so-called Kimberley process. The Department of State has led U.S. participation.

Six international meetings on the Kimberley process were held in 2001; another meeting is scheduled to take place in Canada in March 2002 to continue work on the draft document and surrounding issues. The objective of the Kimberley certification scheme is to assist in tracking legitimate diamond trade in order to try to isolate illegal shipments and persons involved in the trade of illicit conflict diamonds, thus making their infiltration of the legitimate trade more difficult.

The Treasury Department and the Customs Service have participated in interagency and international discussions of the draft Kimberley document and have shared information with participating countries on what we believe are the most modern and effective customs analysis and interdiction techniques for imports.

The proposed Kimberley certification scheme would require that, at each point of exportation, every shipment of rough diamonds be accompanied by a certificate, identifying the shipment as made in a manner consistent with the Kimberley procedures. The exporting country would validate such a certificate. The importing country would require possession of a valid certificate at importation.

The U.S. Customs Service would enforce any import regulations concerning Kimberley certificates as it does under the existing sanctions with respect to shipments from Sierra Leone, Angola and Liberia. In its enforcement, Customs would use modern risk-assessment techniques, intelligence, and investigations, as the most effective tools for interdicting diamonds not shipped in accordance with Kimberley procedures.

While the United States is a significant consumer of polished diamonds, it is a small importer of rough diamonds, which are primarily processed in Europe, South Africa, Israel and elsewhere.

The United States accounts for only four percent of global imports of rough diamonds, but 45 percent of global imports of polished diamonds. An effective global regime for excluding conflict diamonds from legitimate trade will need to rely on effective trade monitoring mechanisms in countries of first extraction, and in primary importing countries, and on effective international cooperation to prevent smuggling. Under the Kimberley process, an attempt has been made to involve the traders and strike a balance between trader vigilance and government involvement. A system that relies strictly on government enforcement and excludes the industry -- which is the most knowledgeable about the trade -- would be far less effective.

In summary, we support the objectives of the Kimberley process, and stand ready to assist in the enforcement of import-related measures designed to address this serious issue. In addition, Treasury has actively participated in the Administration's dialogue with the House concerning H.R. 2722. We believe this bill complements the efforts of the Administration to combat trade in conflict diamonds under the Executive orders and through the Kimberley process. It would reinforce U.S. leadership on this issue, while respecting our international obligations. It also envisages enforcement in a manner consistent with Customs risk management techniques.

Thank you for the opportunity to present Treasury's views. I would be happy to answer any questions.

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U.S. International Reserve Position 02/13/02

The Treasury Department today released U.S. reserve assets data for the week ending February 8, 2002. As indicated in this table, U.S. reserve assets totaled $67,856 million on that date, compared to $68,249 million at the end of the prior week.

(in US millions)

I. Official U.S. Reserve Assets	February 1, 2002			February 8, 2002		
TOTAL	68,249			67,856		
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Foreign Currency Reserves [1]						
a. Securities	5,358	10,270	15,628	5,388	10,113	15,502
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	9,030	3,962	12,992	9,079	3,901	12,980
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
2. IMF Reserve Position [2]			17,828			*17,646*
3. Special Drawing Rights (SDRs) [2]			10,757			*10,682*
4. Gold Stock [3]			11,045			11,045
5. Other Reserve Assets			0			0

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries in the table above for latest week (shown in italics) reflect any necessary adjustments, including revaluation, by the U.S. Treasury to the prior week's IMF data. The IMF data for the prior week are final.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of December 31, 2001. The November 30, 2001 value was $11,045 million.

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EMBARGOED UNTIL 10:00 A.M.
February 13, 2002

Contact: Tara Bradshaw
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JOINT TESTIMONY OF MARK McCLELLAN, MEMBER, COUNCIL OF ECONOMIC ADVISERS AND MARK WEINBERGER, ASSISTANT SECRETARY OF THE TREASURY (TAX POLICY), UNITED STATES DEPARTMENT OF THE TREASURY BEFORE THE HOUSE WAYS AND MEANS COMMITTEE ON HEALTH INSURANCE TAX CREDITS

Mr. Chairman, Congressman Rangel, and distinguished Members of the Committee, we appreciate the opportunity to discuss with you today the President's proposals for tax credits for the purchase of health insurance.

Mr. Chairman, the Administration looks forward to working with Congress, in a bipartisan manner, to address the pressing need to expand access to health insurance for uninsured Americans. Almost 40 million Americans are reported to go without health insurance coverage for an entire year, and as many as 20 million more are without health insurance coverage during some part of the year. In addition, millions more Americans are struggling to afford rising health insurance premiums, with little help from the government. The scope and persistence of this issue highlights the importance of our making progress this year.

The President's proposals to introduce health credits for the purchase of health insurance will enable millions of Americans to purchase private health insurance, improving the functioning of private markets, empowering patients to make informed decisions, and increasing utilization of high quality health care. This proposal is part of a broader vision for promoting health care quality and access by developing flexible, market-based approaches to providing patient-centered health care coverage for all Americans.

Health insurance credits use the infrastructure of the tax system to expand access to health insurance. They are a common element of proposals from both Republicans and Democrats. Many of the distinguished Members of this Committee have supported such proposals and sponsored such legislation in prior sessions of Congress. We must seek to bridge partisan divides to come to agreement on this key issue which enjoys such wide bipartisan support.

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To help do so, the President has proposed health insurance credits that build on the best features of previous proposals, and that include new innovations to address past criticisms of tax credit proposals. And the President's budget backs up his agenda for using health insurance credits to improve access to good coverage with over $100 billion in funding. We hope that these steps forward will provide a foundation for decisive action in Congress this year to address the serious problem of health care affordability and the uninsured.

The Problem of the Uninsured

In 2000, 14 percent of Americans reported that they were uninsured for the entire year. They may go without effective health care, or may rely on inefficient episodic care at hospital emergency rooms. As a result, our health system spends more than it should on complications of diseases that could have been prevented and on inefficient ways of delivering health care. Even worse, the absence of insurance makes it harder for Americans to work with health care professionals to stay healthy.

The uninsured population does not consist only of the poor or the unemployed. In 1999, 81 percent of the uninsured population were in families with at least one full-time worker. Furthermore, while 36 percent of the uninsured had incomes below the poverty line, a large fraction, 29 percent, had incomes between 100 and 200 percent of poverty. Nearly three-quarters of the uninsured below 200 percent of poverty are adults, many of whom do not live in households with children.

Insurance coverage differs significantly by race and ethnicity. In 2000, 32 percent of Hispanics were uninsured, compared to 20 percent of blacks and 19 percent of Asians. In contrast, just 10 percent of whites were uninsured.

The benefits of increasing participation in health insurance markets extend beyond the ability to have more control over their health care and health realized by the individuals themselves. First, although some people without insurance could receive subsidized basic health care through emergency rooms, it is a very expensive way to provide care, and it is either paid at governmental expense or is uncompensated care that imposes higher costs on others. Second, improved public health through expanded health insurance coverage is important to control the spread of disease. Third, as discussed below, greater participation in insurance markets allows better pooling of health risks – the insurance markets themselves work better.

Problems in Health Insurance Markets

The major goal of health insurance is to allow individuals to join together to reduce their risk of high medical expenses by sharing that risk. Individuals trade the uncertainty of very unpredictable health care costs for the greater certainty of a known premium and protection from very high medical expenses. An important element of insurance is thus the "pooling" of risk – people sign up for insurance before they know how much they will spend on health care, and then the premiums of those who have low expenses help subsidize spending on those with high expenses.

Another important goal of health insurance is to make sure that Americans have access to the most innovative, high-value health care available. The American health care system leads the world in Nobel prizes and in the development of new drugs, devices, and other treatments to prevent and cure illnesses. To make sure these impressive medical breakthroughs translate into good care, health care coverage must be innovative as well. One need look no further than the lack of prescription drug coverage in Medicare to understand the consequences of out-of-date health care coverage. In the years ahead, far more breakthroughs are possible – such as customized treatments based on a clear understanding of an individual's genetic makeup, and specialized "disease management" programs that rely on the Internet and other modern telecommunications technologies that allow patients with chronic illnesses not only to stay out of the hospital, but also out of the doctors office. Innovative health care coverage is essential for creating an environment for medical practice that encourages innovation, value, and continuous improvement in health care.

Several problems can interfere with the ability of insurance markets to achieve these goals. A key problem is lack of choice and competition. As the President has said, our health care system works best when it is centered on helping patients work with health care professionals to decide the best possible treatments. To give control to patients, Americans need the opportunity to choose the health care coverage that is best for them. Without good choices, patients do not have the power to make sure that they are getting the best value from the health care system for their own needs. Instead, government or health plan bureaucrats effectively make decisions for them about what is covered, how their care is reimbursed, and how treatments are provided. In other countries, this has led to queues for treatments, poor quality, and lagging availability of innovative care. Our country has chosen another path: private sector health care based on trust in patients and their physicians. This path rewards innovation in delivering the best possible health care. But the tremendous potential of our health care system is threatened when patients do not have choices about how to get health care coverage. For this reason, the President strongly believes that we must take action to improve the health care coverage options available to Americans

A second problem is adverse selection. If only individuals whose health insurance expenditures are likely to be high sign up for insurance, then the pooling of risk that is the key to insurance is undermined. Just as individuals with higher expenses want more insurance, insurance companies want customers with lower expenses, and may design their plans to appeal to those with low risk.

Health insurance credits can help solve these problems in health insurance markets by making more coverage options affordable, increasing participation, and reducing adverse selection. Greater affordability and participation will encourage competition to provide coverage that delivers high-value, innovative care. Thus, well-designed health insurance credits reinforce the best features of our private, highly innovative health care system.

In the remainder of our testimony, we discuss the critical design issues in more detail. Design issues include the mechanics of how people actually use the credits to get assistance with health insurance purchases. To work effectively, especially for families with modest means, credits must be refundable, advanceable, and nonreconcilable.

- Refundability means that the value of the credit does not depend on taxes owed; even persons who owe no taxes can still receive its full value.
- Advanceability means that those eligible for the credit have the option of using it when they are actually purchasing insurance, to reduce their monthly premium payments, rather than having to wait until they file their tax return at the end of the year.
- Nonreconcilability means that eligible persons do not have to wait until they know their actual income at the end of the year before they know exactly how much assistance they are eligible to receive. Rather, they can be confident that – as long as they are not committing fraud – they are entitled to the full value of an advanceable credit.

Health insurance credits are not the only promising direction for a health care policy that helps patients get high-quality, innovative care. There is no single approach that can work with the best features of all of our health care institutions to help ensure that our health care system remains the best in the world. Given the need for a broad approach to this problem, the President supports both an immediate temporary health insurance tax credit for displaced workers, as contained in the economic security package, and a permanent new health insurance tax credit to expand health insurance coverage for others that is not dependent on employment status. The President 's Budget also contains a number of other initiatives designed to expand health insurance coverage. These include: (i) an above-the-line deduction for the purchase of long-term care insurance; (ii) expanded flexibility of health flexible spending arrangements; (iii) reform and permanent extension of Archer Medical Savings Accounts, to permit Americans to set up health accounts to help them meet the out-of-pocket payments required in many health plans that do not restrict choices of doctors and treatments; and (iv) an additional personal exemption for home caretakers of family members.

These proposals are designed to target a diverse group of people while improving the functioning of insurance markets. In addition, as the President outlined in an address on his health care agenda on Monday, the President's budget includes many other proposals to give all Americans access to high-quality, affordable options for health care coverage. Together, these proposals will provide health security and additional health insurance coverage for millions of Americans, while preserving the best features of our highly innovative health care system.

Permanent Health Insurance Credit for Americans Who Do Not Have Employer-Provided Coverage

Current law provides a number of tax incentives for individuals to obtain health insurance coverage. Employer-provided health insurance and reimbursements for medical care are generally excluded from gross income for income tax purposes and from wages for employment tax purposes. Active employees participating in a cafeteria plan may pay their employee share of premiums and other medical care expenses on the same pre-tax basis. In addition, for self-employed individuals who are not eligible for subsidized employer coverage, 70 percent of health insurance premiums are deductible for 2002, and 100 percent are deductible for 2003 and thereafter.

Proposal

However, as noted above, millions of Americans still are without health insurance coverage. The refundable health insurance credit proposed in the President's Budget is designed to provide these incentives to assist uninsured individuals in purchasing health insurance.

The credit is refundable, so even those without income tax liability can receive the benefit of the credit. In addition, the largest subsidies will be targeted to low-income families, and only individuals who are not covered by public or employer-based health insurance will be eligible for the credit. Therefore, the credit will be of most help to individuals who are most likely to be uninsured—childless adults who are generally not eligible for public insurance and persons in families with incomes too high to participate in public insurance programs and too low to find affordable coverage options in the private market. The credit will help families who prefer the innovation and flexibility of private insurance options to public insurance, and will enable families to obtain coverage for the entire family from the same providers. The credit is also designed to be available at the time the individual purchases health insurance. That is, people eligible for the credit can receive it in advance, before filing their tax returns, to reduce their monthly checks for insurance premium payments. Finally, because the credit is based on income from the previous year, it is nonreconcilable – earning more income in the current year does not reduce the value of the credit. We believe that the availability and certainty of the advance credit will increase the credit's attractiveness, making it more effective in expanding health insurance coverage.

The proposal would create a refundable, advanceable income tax credit for the cost of health insurance purchased by individuals under age 65. Individuals participating in public or employer-provided health plans would generally not be eligible for the tax credit. In addition, individuals would not be allowed to claim the credit and make a contribution to an Archer MSA for the same taxable year. Eligible health insurance plans would be required to meet minimum coverage standards, including coverage for high medical expenses.

The credit would provide a subsidy of up to 90 percent of a capped amount of health insurance premiums. The maximum credit would be $1,000 per adult and $500 per child for up to two children. The maximum subsidy percentage of 90 percent would apply for low-income taxpayers and would be phased down at higher incomes. While the subsidy percentage would be phased down with income, the maximum premium that could be taken into consideration in calculating the credit amount would be fixed at $1,111 for an adult and $556 for a child. These dollar amounts would be indexed by the Consumer Price Index for all-urban consumers.

Individuals with no dependents who file a single return and have modified Adjusted Gross Income (AGI) up to $15,000 would be eligible for the maximum subsidy rate of 90 percent and a maximum credit of $1,000. The subsidy percentage for these individuals would be phased down ratably from 90 percent to 50 percent between $15,000 and $20,000 of modified AGI, and then phased out completely at $30,000 of modified AGI. For example, the maximum credit for these individuals would be $556 at $20,000 of modified AGI.

All other filers (including single filers with dependents, heads of households, and joint filers) with modified AGI up to $25,000 would be eligible for the maximum subsidy rate of 90 percent, and the maximum credit of $1,000 per adult and $500 per child for up to two children. The subsidy percentage would be phased out ratably between $25,000 and $40,000 of modified AGI in the case of a policy covering only one individual, and between $25,000 and $60,000 of modified AGI in the case of a policy or policies covering more than one person.

The maximum credit for these other filers would vary by income and the number of adults and children covered by a policy. For example, the maximum tax credit would be $3,000 for a low-income family with modified AGI up to $25,000 who obtained a policy covering two adults and two or more children. The maximum credit would be phased down to $1,714 as the family's modified AGI rose to $40,000. For a policy covering only two adults, the maximum credit would be $2,000 for families with modified AGI up to $25,000 and $1,143 for families with $40,000 of modified AGI.

Examples of the maximum credit:

(1) Individuals with No Dependents Filing a Single Return

Modified AGI	$15,000	$20,000	$30,000
Maximum Credit	$1,000	$556	$0

(2) Other Filers Obtaining a Policy Covering Only One Adult

Modified AGI	$25,000	$30,000	$40,000
Maximum Credit	$1,000	$667	$0

(3) Other Filers Obtaining a Policy Covering Two Adults

Modified AGI	$25,000	$40,000	$60,000
Maximum Credit	$2,000	$1,143	$0

(4) Other Filers Obtaining a Policy Covering Two Adults and One Child

Modified AGI	$25,000	$40,000	$60,000
Maximum Credit	$2,500	$1,429	$0

(5) Other Filers Obtaining a Policy Covering Two Adults and Two or More Children

Modified AGI	$25,000	$40,000	$60,000
Maximum Credit	$3,000	$1,714	$0

Individuals could claim the tax credit for health insurance premiums paid as part of the normal tax-filing process. Alternatively, the tax credit would be available in advance at the time the insurance is purchased.

Individuals would reduce their premium payment by the amount of the credit and the health insurer would be reimbursed by the Department of Treasury for the amount of the advance credit. Eligibility for the advance credit would be based on the individual's prior year's tax return.

The credit would be used for qualifying health insurance purchased in the non-group market. In addition, qualifying health insurance could also be purchased through private purchasing groups, state-sponsored insurance purchasing pools and state high-risk pools. At state option, effective after December 31, 2003, the tax credit would be allowed for certain individuals not otherwise eligible for public health insurance programs to purchase insurance from private plans that already participate in State sponsored purchasing groups, such as Medicaid, SCHIP, or state government employee programs.

States could, under limited circumstances, provide an additional contribution to individuals who claim the credit in connection with purchases of private insurance through Medicaid or SCHIP purchasing groups. The maximum state contribution would be $2,000 per adult for up to two adults for individuals with incomes up to 133 percent of poverty. The maximum state contribution would phase down ratably reaching $500 per adult at 200 percent of poverty. Individuals with income above 200 percent of poverty would not be eligible for a state contribution. States would not be allowed to provide any other explicit or implicit cross subsidies.

The health insurance tax credit would be effective for taxable years beginning after December 31, 2002.

Discussion

This proposal contains a number of important and innovative features. First, the credit amount varies with family size and composition, reflecting the impact of these factors in the non-group market. For example, two adults face higher premiums, and will receive a larger credit, than a single adult. Likewise, families with children face higher premiums, and will receive a larger credit, than families without children. Second, the credit is "advanceable," and eligibility for the advance credit is based on the individual's prior year's tax return. This design guarantees certainty of the amount of the credit and makes it available at the time individuals purchase health insurance; they do not have to wait until they file their tax returns after the year is over. Third, the proposal allows the credit to be used toward private insurance purchased through private purchasing groups, state-sponsored insurance purchasing pools and state high-risk pools. This provision will increase coverage options, achieve economies of scale, and encourage risk pooling in the non-employer market.

In designing a policy to expand health insurance coverage to the uninsured, one concern is that the policy does not inadvertently decrease health insurance options to those presently insured. Some have suggested that if the purchase of health insurance outside of the employer market became sufficiently attractive, employers might stop providing health insurance coverage to their workers, potentially resulting in a net decrease in health insurance coverage among the population.

Based on these concerns, the Administration's proposal has been carefully designed to avoid "crowdout" of subsidized employer coverage, and thus will expand coverage substantially. Several elements of the credit design contribute to this desirable result. Most importantly, low-income individuals and families, who are least likely to have employer-based health insurance, will receive the largest incentives under this proposal. In addition, the health credit subsidy rate decreases with income, requiring larger individual contributions for any given policy and making it a less attractive alternative to the employer-provided insurance at higher income levels. The health credit is further limited by a cap on the amount of premium eligible for subsidy. Although this capped premium amount is adequate for many individuals to purchase health insurance, it is typically less generous than most employer plans.

The credit is also designed to be targeted to the individuals who are most likely to be uninsured during at least some part of the year. Approximately six million such individuals are expected to gain coverage as a result of the credit. Most of these individuals are neither offered employer-based insurance nor eligible for public programs over the course of their uninsured spells. The credit will provide a strong new incentive for these persons to find coverage in the individual market. It will also allow many families that are already purchasing coverage in the individual insurance market, and receiving very little government assistance in doing so, to obtain better coverage at a lower out-of-pocket cost.

The credit will significantly increase participation and quality of coverage in non-group health insurance markets. These improvements will not come at the expense of employer group markets. Those low-income Americans who are eligible for the largest credit are less likely to have employer-sponsored health insurance. Around 80 percent of uninsured workers are not offered health insurance by their employers. Only 36 percent of people under age 65 with income below 200 percent of the federal poverty line have employer-sponsored health insurance, while 77 percent of those above do. Furthermore, the generosity of employer-sponsored insurance is determined by the tax benefits for the group of employees, not the attractiveness for low-income employees only. Tax benefits for employer coverage will remain large for the middle- and higher-income workers that make up most of the employees of most firms that offer generous employer-sponsored plans. Those workers' incomes are too high for them to get more attractive benefits from the proposed health credit. Thus, employer-provided coverage will remain more attractive for firms that offer generous coverage today. That is, the phase-out and cap on the credit ensure that employers will continue to offer insurance and that employees will continue to enroll. The proposed credit will simply eliminate an inequity in the current system that disadvantages workers without employer coverage, helping them to purchase the coverage that meets their needs.

Recent research also suggests that the credit would provide good, affordable health insurance options for the vast majority of individuals who are eligible for the credit. This is the subject of a detailed analysis by the Council of Economic Advisers. The minority of less healthy persons who lack any insurance options and find insurance unaffordable or unavailable for their health status in the individual market could use the credit to buy into the state high-risk pool for which the premium is usually subsidized. The proposal also permits certain low-income individuals to purchase private insurance through other state-sponsored health insurance purchasing groups.

Coupled with the Administration's other proposals for strengthening employer coverage and for providing more assistance to individuals with the greatest health care needs, the health credit is a critical part of our approach for ensuring that all Americans have good, affordable private health care coverage options.

This proposal is part of a broader Administration goal of achieving more patient-centered health care by encouraging innovations in the financing and delivery of health care services. Market-based approaches such as this will encourage high-quality, high-value coverage by giving patients the ability to choose the coverage that best meets their needs. In turn, innovative coverage will permit Americans to benefit from the tremendous potential of our health care system in the 21st century.

Health Insurance Credit for Displaced Workers

Because the permanent health insurance credit would not be effective until next year, the President continues to support the immediate health insurance credit for displaced workers, which was one component of the economic security bill supported by a bipartisan group of centrist Senators and passed by the House last December.

The health credit for displaced workers is a refundable, advanceable tax credit that could be claimed by unemployed workers for a period of up to 12 months. The credit can be used to offset 60 percent of the cost of health insurance premiums for unemployed workers and their families.

The credit can be applied to the purchase of COBRA or "super-COBRA" continuation coverage, and other types of qualified private non-employer health insurance. Eligible unemployed workers include those receiving unemployment insurance benefits and those who would be eligible for benefits except that their rights to benefits were exhausted or the period during which their benefits were payable ended.

The design of the health credit for displaced worker reflects the President's goals of providing targeted, quick assistance to Americans who have lost their jobs in the recession. Because the proposal builds on the existing infrastructure of programs to assist displaced workers, and because it strengthens all of the coverage options available to displaced workers now, it can be fully implemented in a matter of a few months. In particular, state workforce agencies will certify eligibility for the health insurance credit when they certify that a displaced worker is eligible for unemployment insurance benefits. Almost all unemployed workers who lose their job involuntarily are eligible for unemployment insurance, at least initially. The Administration also supports emergency grants to states to enable them to quickly provide additional health insurance assistance, without the need for state legislative action. Displaced workers can claim an advance credit at the time of purchasing health insurance coverage by providing their insurer their certification along with the remainder of the premium. The insurer will be reimbursed by the U.S. Treasury for the amount of advance credits it provides.

We believe the displaced worker credit offers a number of advantages over competing proposals that limit tax credits or subsidies to COBRA-only policies. Medicaid expansion is also not an ideal way to provide quick and efficient replacement insurance to the affected individuals.

A COBRA-only credit would provide no benefit to 40 to 50 percent of displaced workers with health insurance, because they work for small firms not covered by COBRA or they purchase non-employer policies. The alternative of forcing workers not covered by COBRA into a State Medicaid plan would require these workers to drop their current insurance coverage and possibly change health care providers if they do not participate in Medicaid. Extending Medicaid to cover these displaced workers would require State legislation, and would necessitate delays before State legislatures were even in session to address this issue. Many States have made clear that, because of tight budgets, they cannot afford such unprecedented expansions beyond their core target populations anyway. Moreover, such expansions would take away resources from their ability to fund better coverage for their priority populations: low-income children, families, and seniors.

In addition, a COBRA-credit would impose a costly new mandate that employers would be required to implement immediately. The mandates are most burdensome on smaller firms and those that have had significant layoffs – precisely the firms that need the most help now to prevent further job losses. Further, a COBRA-credit is poorly targeted to workers who lose their jobs because of the economic downturn. At least 60 percent of those eligible for the COBRA-credit are workers who voluntarily leave their job, not displaced workers. According to independent estimates, twice as many workers who have lost their jobs in the recession would be helped by the health credit for displaced workers than by a COBRA credit or subsidy.

As a result, for a similar budgetary cost (and at no budgetary cost to States), the health insurance credit for displaced workers would be available for a longer period of time, would be more efficiently targeted, would offer workers a greater choice among health insurance plans, and would not weaken employer incentives to continue to provide health insurance to their workers. The credit would also reduce adverse selection in both the employer market (because more healthy workers would choose to remain in COBRA coverage) and in the individual market (because many people who otherwise would have gone without health insurance will purchase coverage).

Conclusion

The absence of health insurance coverage for some 40 million Americans is a problem calling for immediate solutions. The President's Budget sets forth a package of solutions, including most importantly a proposal for the use of tax credits to offset the cost of obtaining health insurance that has received broad bipartisan support. If enacted, this proposal can lead to a significant reduction in the uninsured population and at the same time lead to improvements in the market for individually purchased health insurance, greater choice and flexibility for individuals in determining the coverage that best fits their needs, and improvements in the quality and price of health care provided to all Americans. This Administration desires to work closely with Congress, in a bipartisan manner, to make this vision a reality.

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
February 12, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	February 14, 2002
Maturity Date:	March 14, 2002
CUSIP Number:	912795JK8

High Rate: 1.720% Investment Rate 1/: 1.749% Price: 99.866

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 59.33%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 46,094,635	$ 17,976,160
Noncompetitive	23,954	23,954
FIMA (noncompetitive)	0	0
SUBTOTAL	46,118,589	18,000,114
Federal Reserve	2,220,925	2,220,925
TOTAL	$ 48,339,514	$ 20,221,039

Median rate 1.700%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.660%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 46,118,589 / 18,000,114 = 2.56

1/ Equivalent coupon-issue yield.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Embargoed Until: 10 A.M. EST
February 14, 2002

Contact: Michele Davis
(202) 622-2920

**TESTIMONY OF TREASURY SECRETARY PAUL O'NEILL
BEFORE THE
SENATE COMMITTEE ON FINANCE
SUBCOMMITTEE ON LONG-TERM GROWTH AND DEBT REDUCTION**

Mr. Chairman, and Members of the committee last December, just three months to the day after the tragic events of September 11, I wrote to Congress requesting an increase in the statutory debt ceiling by $750 billion. Yesterday I sent another letter, repeating this request with a revised projection that the debt ceiling will be reached in late March. Failure to enact a permanent increase in a timely manner would only serve to undermine confidence in our government and in our economy.

Last August, we forecast that the debt ceiling would be reached in late 2003. Since then, war, recession and national emergency have intervened. This year's surplus has been eroded by the economic downturn and the response to the September 11 attacks.

While the timing of the need to increase the statutory ceiling is sooner than we had anticipated just six months ago because of untoward events, we've always known it would need to be raised at some point. Payroll taxes that the American people put aside and send to the Social Security trust fund result in an increase in the level of debt subject to limit because these funds are invested in special Treasury securities. The same holds true collections for Medicare, highways, airports and other special purposes for which the government has established trust funds. Government account holdings of these special Treasury securities increase by more than $200 billion each year. As these trust funds grow they push up the level of the Treasury's outstanding debt. Indeed, over time the growth of the Social Security trust fund is – and will continue to be – the most significant contributor to the increase in the level of the government's debt subject to limit.

The US Government has the premier position in world capital markets because there is no doubt the United States will honor its financial commitments. Legislative action on the debt ceiling is necessary to preserve the US position in world capital markets. Any delay could create uncertainty that would raise the cost of borrowing for US taxpayers. This is an unnecessary expense and, of course, any uncertainty added to the early stages of our economic recovery would be particularly unwelcome at this time.
I urge Congress to enact this increase in the debt ceiling quickly.

PO-1015

*U.S. Government Printing Office: 1998 - 619-559

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EMBARGOED FOR DELIVERY
February 14, 2002

Contact Tony Fratto
(202) 622-2960.

GRANTS AND SOVEREIGN DEBT RESTRUCTURING: TWO KEY ELEMENTS OF A REFORM AGENDA FOR THE INTERNATIONAL FINANCIAL INSTITUTIONS

TESTIMONY OF JOHN B. TAYLOR UNDER SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS BEFORE THE JOINT ECONOMIC COMMITTEE

Thank you Chairman Saxton, Vice-Chairman Reed, and other members of the Committee for inviting me to participate in this hearing on the international financial institutions. I know that reform of these institutions has been a high priority for this Committee. Indeed, many ideas coming out of the Committee's hearings—including calls for greater transparency and better accounting of costs—are already having a positive impact on these institutions.

Reform of the international financial institutions has also been a high priority of the Bush Administration. Our fundamental goals in this reform effort are to raise economic growth and improve economic stability in the world economy. The international financial institutions can help us achieve these goals, but there is room for improvement.

The Bush Administration—in a series of speeches by President Bush and Secretary O'Neill—has put forth a substantial reform agenda for the World Bank and the International Monetary Fund. In my written testimony today, I would like to discuss two key parts of that reform agenda —the use of grants rather than loans and the creation of an improved sovereign debt restructuring process. Both reforms are now a major focus of international discussion and negotiations.

Higher Economic Growth Through World Bank Grants

Clearly there is too much poverty in the world. We know that the key to reducing poverty is higher productivity growth. But productivity growth is far below its potential in many poor countries. We know that we can raise productivity growth by improving education and by increasing private investment. But educational achievement remains low as do private capital flows to developing countries and emerging markets in general.

PO-1016

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So, in order to achieve our goals of raising standards of living around the world, the World Bank and other multilateral development banks must address the problems of productivity growth. That is why we have chosen productivity growth as a major theme of our reform effort. And to be sure that the actions taken actually increase productivity growth, we have emphasized the importance of measuring results of all actions taken, so we can see what works and what doesn't. Achieving measurable results and raising productivity growth are the rationales behind the proposal to shift from loans toward grants at the multilateral development banks.

Last summer in a speech at the World Bank, President Bush first put forth this grant proposal for the World Bank and the other multilateral development banks. And last month in a speech to the World Affairs Council at the Organization of American States, he forcefully reiterated that proposal. He "urged the World Bank to provide up to 50 percent of its assistance to the world's poorest nations in the form of grants rather than loans—grants for education, for health, for nutrition, for water supplies and for sanitation." Why is this grants proposal so important? Why is moving from loans to grants a major element of our reform effort? How does it relate to the theme of measurable results?

The Advantages of Grants

The part of the World Bank that provides assistance to the poorest countries is the International Development Association, or IDA. Funds for IDA are replenished at three-year intervals by the United States and other donor countries, and U.S. contributions to IDA must be appropriated each year by Congress. Virtually all of the IDA assistance to poor countries is now in the form of loans (these loans are sometimes called IDA credits). The terms on these loans are highly favorable to the borrowing country—far more favorable than the government of the country could obtain in private capital markets. The loans have a 40-year maturity; the interest rate (referred to a "service charge") is 0.75 percent; and there is a 10-year grace period.

Because the terms on these IDA loans are so favorable, they are really not loans in the everyday sense of the word. The total interest and principal that must be paid back is much less, in present value terms, than the amount loaned. For example, the present discounted value of all future payments on a $1,000,000 IDA loan at a 6 percent discount rate is only $337,671. Most developing countries, however, face interest rates much higher than this: if the discount rate were 15 percent, then the present discounted value would be only $97,569. Moreover, because the grace period is so long, a finance minister of a borrowing country could be out of office long before any principal has to be paid back on such a loan; and while in office there is only the small 75 basis point interest payment. It is misleading to call such assistance "lending." Such terminology is not consistent with basic goals of transparency in government. Thus, one reason that grants are better than IDA-type loans is simply that they are more straightforward and transparent.

Another reason to prefer grants to loans as a form of IDA assistance is that many of the countries now borrowing from IDA are part of the Heavily Indebted Poor Country (HIPC) initiative. HIPCs are poor countries that have unsustainable amounts of debt. As many have argued, by forgiving this debt the hope is that these countries can achieve a more sustainable debt situation.

Through the HIPC initiative, the international financial institutions, in effect, write off their loans to these poor countries and relieve the countries' debt burden. However, at the same time we are writing off loans to these poor countries, by creating more loans from IDA—even at favorable terms—we are adding to their debt burden. This approach seems counter productive. Grants, on the other hand, are better than loans because they do not add to the debt burden of these countries.

Grants are particularly advantageous in cases where it is unrealistic to assume that the activity being supported will generate enough direct economic returns to pay back IDA loans. The use of grants thus removes a disincentive for governments to focus on the most disadvantaged people and sectors, e.g., rural poor, girls, indigenous people, and AIDs orphans. For example, issuing a loan rather than a grant for humanitarian assistance or major social crises—for instance, to provide assistance to HIV/AIDS patients—seems particularly inappropriate. That is why President Bush emphasized that grants should be used in certain social sectors—for "education, for health, for nutrition, for water supplies and for sanitation."

Yet another advantage of grants is that they can easily be tied to measurable performance or results. Some people think that the President's proposal is for "free" grants. That is certainly not the case; on the contrary, the grants are to be tied to specific performance. For example, if there is a grant for education, then the grant would not continue unless there are results—unless enrollment rises, for example. If the grant is designed to assist HIV/AIDS patients, for example, then the grant will continue as long as the assistance is being provided. If the assistance becomes inadequate, then the grant funds should go to another provider. Month by month, quarter by quarter, the group receiving the grant has to keep delivering the service or the grant stops.

International Differences and Negotiations

Since the President made the grants proposal last summer, we have been working and negotiating with other IDA donors to move from loans toward more grants. Of course, the World Bank is an international institution, so to implement any reform a coalition of support must be developed. A number of non-governmental organizations and developing countries have expressed strong support for the proposal, but for the proposal to be implemented it is necessary to garner the support of major donors to IDA. The current international negotiations are taking place in the context of the current three-year replenishment of IDA, which we hope to settle soon. An important and extensive discussion on this subject took place among the G-7 Finance Ministers and Central Bank Governors in Ottawa last weekend.

There is now widespread agreement among G-7 donor countries that a larger proportion of IDA assistance should be given in the form of grants, as the President proposed. However, there are still differences of opinion among donor countries about the details and ultimately about how much should go to grants. For example, the President called for 50 percent grant assistance for the "world's poorest nations." But exactly how poor countries should be before they qualify for this percentage of grants rather than loans is still an unsettled question.

The United States has shown flexibility in the negotiations, stating that it would be acceptable to provide 50 percent grant assistance to those countries with annual per capita incomes less than $365, that is, less than $1 per day. But some donor countries would like a more exclusive definition of "poor"; some would exclude those countries with annual per capita incomes above $250. Another difference of opinion is how to define the categories of assistance that would qualify for grants. Some donor countries would like to exclude education, in contrast to the President's proposal.

One of the more strongly voiced objections to increasing the proportion of grant assistance beyond a certain level is that it would reduce the "re-flows" to IDA. Re-flows are primarily the funds that are paid back into IDA by countries with IDA loans. These payments can then be lent again to poor countries. But, of course, poor countries themselves pay these re-flows. In other words, under the current IDA program the poor are supporting the poor. So reduced re-flows through the grants really means more support for poor countries.

Significant Increase in U.S. Support for IDA, Based On Results

Another objection to moving further toward grants is the argument that U.S. assistance to IDA will decline under a grants program. The facts say otherwise. Indeed, the United States is offering a significant increase in its contribution to IDA. The United States in the last six years has been bringing down its contributions to IDA in real terms. The President intends to reverse this trend. He proposes to increase our contributions to IDA, as long as the contributions result in better performance. In the budget he submitted to Congress last week, he is proposing that the U.S. IDA contribution increase—from previous years' annual total of $803 million—to $850 million in the first year, to $950 million the second year, and to $1,050 million in the third year. These step-ups will only occur if there is an improvement in performance at the World Bank, but they would bring the annual U.S. contribution to a level 30 percent above what it was last year. That is a clear demonstration of support for economic development, tied to the idea that we want that support to create measurable improvements in peoples' lives.

A Better Sovereign Debt Restructuring Process

The second major reform initiative that I would like to discuss today is sovereign debt restructuring. It is part of our overall approach to emerging markets and the International Monetary Fund. The truth is that emerging markets have not been performing very well in the last four years. The flow of investments going through these markets has declined sharply. We would like more funds to go to the emerging markets and at lower interest rates. A more predictable sovereign debt restructuring mechanism can help achieve that goal.

An Emerging Markets/IMF Reform Strategy

Our sovereign debt restructuring initiatives are part of a multifaceted strategy toward emerging markets and the IMF. That strategy starts with a greater focus on crisis prevention, asking the IMF to look more closely at countries where economic trends appear unsustainable, giving more ownership to countries so that they can make the decisions before the crises get out of hand, and encouraging more transparency both on the part of countries and the IMF itself.

A related part of the strategy is to narrow the focus of the IMF—both its work and the conditions it imposes on borrowers. By narrowing the focus to core responsibilities—exchange rate regimes, monetary policy, fiscal policy, and the financial sector—the IMF will be able to concentrate more on preventing crises and give countries more ownership of policy.

Limiting official sector support to countries when they reach unsustainable debt situations is another key element of our emerging markets strategy. Large official sector support packages can distort incentives for countries and for investors. And, of course, such packages effectively bailout private sector investors who have already received high rates of return. I think it is becoming clearer that the official sector support in such cases is now being limited to a significant degree.

Keeping contagion low is another part of the overall strategy and is a major reason why official sector support can be limited in many cases. Clearly contagion was an important characteristic of the Asian crisis in the late 1990s. However, coming into the Bush Administration, we re-examined this contagion issue and saw that important trends were developing. People in the markets were paying more attention to economic fundamentals, differentiating between countries and events. Countries were being more transparent in their policies. Market research was more thorough. We commented favorably on this change, noting that contagion is not automatic. This communication with the markets was meant to build on and encourage the changes in the markets by emphasizing that policy decisions would not be based on unfounded claims of contagion. In fact, contagion has come down dramatically over the course of the last year. This is illustrated by the fact that the terrible economic situation in Argentina has not spread to other countries in the world, let alone the region.

A Decentralized Contract-Based Approach

But even if we are successful in all parts of the strategy mentioned above there is still something that is missing. Currently, when countries get close to a situation where debt is unsustainable, it is like approaching a black hole: no one knows exactly what will happen next. This leads to uncertainty on the part of public officials and market participants alike. It leads to pressures for IMF bailouts even in situations where debt becomes unsustainable.

A more predictable sovereign debt restructuring mechanism—a workout strategy—for countries that reach an unsustainable debt position would therefore be useful. Of course, ideally such a mechanism would never have to be used, but simply having it in place would greatly reduce uncertainty. There are several alternatives now being considered. We at the U.S. Treasury have been in close contact with people in the private sector—market participants, lawyers, and academics—as well as people at the IMF and other governments, especially finance ministries and central banks.

The most practical and promising proposal now on the table is a decentralized approach that creates debtor and creditor ownership of, and participation in, the process. This proposal would encourage borrowers and lenders to put certain clauses in their debt so that when a country needs to restructure, there is a more orderly process.

For example, now in many bonds, 100 percent of bondholders must agree to restructure the financial terms of the bonds. This makes it possible for a small minority to stand in the way of a restructuring that the majority of bondholders feel is in their best interests. Majority action clauses in bonds would allow a specified majority to agree to restructuring terms. The decision of this majority would be binding on the minority. The clauses would also provide for the process and timing through which debtors and creditors come together

There are several possible ways to create incentives for countries to use such clauses, and encourage them to overcome the urge to cut a few basis points from their interest rate by avoiding such clauses. For example, the official sector could require that these clauses be utilized by any country with an IMF program. Or the IMF could make it a condition of exceptional access to its funds that countries utilize these clauses in their debt contracts. A range of ways to implement this proposal is possible. Of course, introducing new clauses is something one can only do for new bonds. Consequently, we are also exploring options that would facilitate more predictable workout processes under existing bond provisions.

Another possible approach to sovereign debt restructuring that is receiving wide attention is an IMF proposal, in which the IMF would step in and impose a stay on legal actions in certain circumstances. This proposal obviously calls for a larger role for the IMF than the more decentralized market-oriented approach described here. But even with the market-oriented approach there will be a role for the IMF in assessing sustainability and deciding on a new IMF program, at least for countries that choose to work with the IMF on a program.

As with the grants proposal, it will be necessary to work with other governments to come to a common agreement on a sovereign debt restructuring proposal. It will also be important to consult regularly with the private sector and with Congress. And as these discussions proceed we should never lose sight of the overall objective: to increase predictability and reduce uncertainty in the emerging markets so that more funds flow through them at lower interest rate spreads.

Concluding Remarks

In conclusion, there is one final point I would like to make about our reform efforts with the international financial institutions. A high priority with us is to make our own work with the institutions more effective and efficient. Currently, we are required to implement a very large number of mandates legislated by the Congress. These mandates including requirements for directed voting at the institutions, certifications, notifications, and reports. Our effectiveness in carrying our responsibilities with the IMF and the development banks could be strengthened if we are able to reduce and better rationalize these mandates. Some mandates go back 50 years. Some provisions overlap, or are inconsistent. We have 32 directed vote mandates, over 100 policy mandates, plus numerous reports, certifications, and notifications. We want the Congress to be fully informed, but numerous reporting requirements have increased the amount of time staff spends on these reports to levels that warrant serious concern. We would like to work with you to rationalize and focus our mandated requirements and reports.

Thank you very much. I would be pleased to answer any questions that you may have about the reform issues I discussed here, about our overall reform strategy, or about any other issues relating to the international financial institutions.

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
February 13, 2002

Contact: Peter Hollenbach
(202)691-3502

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY ICE STORMS IN OKLAHOMA

The Bureau of Public Debt took action to assist victims of ice storms in Oklahoma by expediting the replacement or payment of United States Savings Bonds for owners in the affected areas. The emergency procedures are effective immediately for paying agents and owners in those areas of Oklahoma affected by the storms. These procedures will remain in effect through the end of March, 2002.

Public Debt's action waives the normal six-month minimum holding period for Series EE and Series I savings bonds presented to authorized paying agents for redemption by residents of the affected area. Most financial institutions serve as paying agents for savings bonds.

Oklahoma counties involved are: Alfalfa, Beaver, Beckham, Blaine, Caddo, Canadian, Cimarron, Cleveland, Comanche, Creek, Custer, Dewey, Ellis, Garfield, Garvin, Grady, Grant, Greer, Harmon, Harper, Jackson, Kay, Kingfisher, Kiowa, Lincoln, Logan, Major, McClain, Noble, Nowata, Oklahoma, Osage, Pawnee, Payne, Pottawatomie, Rogers, Roger Mills, Stephens, Texas, Tillman, Tulsa, Washington, Washita, Wood and Woodward. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

Public Debt will also expedite the replacement of bonds lost or destroyed. Bond owners should complete form PD-1048, available at most financial institutions or by writing the Kansas City Federal Reserve Bank's Savings Bond Customer Service Department, 925 Grand Boulevard, Kansas City, Missouri 64198; phone (816) 881-2000. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, and approximate dates of issue, bond denominations and serial numbers if available. A notary public or an officer of a financial institution must certify the completed form. Completed forms should be forwarded to Public Debt's Savings Bond Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "DISASTER" on the front of their envelopes, to help expedite the processing of claims.

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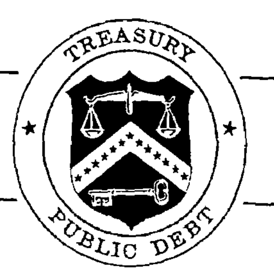
PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239



FOR IMMEDIATE RELEASE
February 13, 2002

Contact: Peter Hollenbach
(202)691-3502

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY ICE STORMS IN MISSOURI

The Bureau of Public Debt took action to assist victims of ice storms in Missouri by expediting the replacement or payment of United States Savings Bonds for owners in the affected areas. The emergency procedures are effective immediately for paying agents and owners in those areas of Missouri affected by the storms. These procedures will remain in effect through the end of March 2002.

Public Debt's action waives the normal six-month minimum holding period for Series EE and Series I savings bonds presented to authorized paying agents for redemption by residents of the affected area. Most financial institutions serve as paying agents for savings bonds.

Missouri counties involved are: Adair, Audrain, Bates, Benton, Boone, Buchanan, Caldwell, Carroll, Cass, Chariton, Clay, Clinton, Cooper, Grundy, Henry, Howard, Jackson, Johnson, Lafayette, Linn, Livingston, Macon, Monroe, Morgan, Pettis, Platte, Randolph, Ray, Saline, Shelby, St. Clair, Sullivan, and Vernon. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

Public Debt will also expedite the replacement of bonds lost or destroyed. Bond owners should complete form PD-1048, available at most financial institutions or by writing the Kansas City Federal Reserve Bank's Savings Bond Customer Service Department, 925 Grand Boulevard, Kansas City, Missouri 64198; phone (816) 881-2000. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, and approximate dates of issue, bond denominations and serial numbers if available. A notary public or an officer of a financial institution must certify the completed form. Completed forms should be forwarded to Public Debt's Savings Bond Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "DISASTER" on the front of their envelopes, to help expedite the processing of claims.

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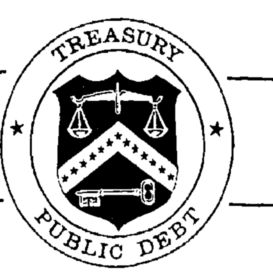
PO-1018

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239



FOR IMMEDIATE RELEASE
February 13, 2002

Contact: Peter Hollenbach
(202)691-3502

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY ICE STORMS IN KANAS

The Bureau of Public Debt took action to assist victims of ice storms in Kansas by expediting the replacement or payment of United States Savings Bonds for owners in the affected areas. The emergency procedures are effective immediately for paying agents and owners in those areas of Kansas affected by the storms. These procedures will remain in effect through the end of March 2002.

Public Debt's action waives the normal six-month minimum holding period for Series EE and Series I savings bonds presented to authorized paying agents for redemption by residents of the affected area. Most financial institutions serve as paying agents for savings bonds.

Kansas counties involved are: Allen, Anderson, Barber, Bourbon, Butler, Chautauqua, Cherokee, Coffee, Comanche, Cowley, Crawford, Douglas, Elk, Franklin, Greenwood, Harper, Jefferson, Johnson, Kingman, Kiowa, Labette, Leavenworth, Linn, Lyon, Miami, Montgomery, Neosho, Osage, Pratt, Sedgwick, Shawnee, Summer, Wilson, Woodson, and Wyandotte. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

Public Debt will also expedite the replacement of bonds lost or destroyed. Bond owners should complete form PD-1048, available at most financial institutions or by writing the Kansas City Federal Reserve Bank's Savings Bond Customer Service Department, 925 Grand Boulevard, Kansas City, Missouri 64198; phone (816) 881-2000. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, and approximate dates of issue, bond denominations and serial numbers if available. A notary public or an officer of a financial institution must certify the completed form. Completed forms should be forwarded to Public Debt's Savings Bond Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "DISASTER" on the front of their envelopes, to help expedite the processing of claims.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 2:30 P.M.
February 14, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling $30,000 million to refund an estimated $29,768 million of publicly held 13-week and 26-week Treasury bills maturing February 21, 2002, and to raise new cash of approximately $232 million. Also maturing is an estimated $6,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced February 19, 2002.

The Federal Reserve System holds $12,857 million of the Treasury bills maturing on February 21, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders either in these auctions or the 4-week Treasury bill auction to be held February 20, 2002. Amounts awarded to SOMA will be in addition to the offering amount.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of each auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

TreasuryDirect customers have requested that we reinvest their maturing holdings of approximately $1,073 million into the 13-week bill and $685 million into the 26-week bill.

The allocation percentage applied to bids awarded at the highest discount rate will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about each of the new securities are given in the attached offering highlights.

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Attachment

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For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED FEBRUARY 21, 2002

February 14, 2002

Offering Amount	$16,000 million	$14,000 million
Public Offering	$16,000 million	$14,000 million
NLP Exclusion Amount	$ 5,600 million	None
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 JV 4	912795 KX 8
Auction date	February 19, 2002	February 19, 2002
Issue date	February 21, 2002	February 21, 2002
Maturity date	May 23, 2002	August 22, 2002
Original issue date	November 23, 2001	February 21, 2002
Currently outstanding	$21,405 million	---
Minimum bid amount and multiples	$1,000	$1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.

Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.

Competitive bids:

(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 7.100%, 7.105%.

(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.

(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Rate........ 35% of public offering

Maximum Award................................ 35% of public offering

Receipt of Tenders:

Noncompetitive tenders .....Prior to 12:00 noon eastern standard time on auction day

Competitive tenders ....Prior to 1:00 p.m. eastern standard time on auction day

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
February 15, 2002

Contacts: Rob Nichols
202-622-2910
-or-
Noe Garcia
202-622-0087

Media Advisory

Press Briefing with U.S. and Mexican Officials to Discuss "Partnership for Prosperity" Meeting

Deputy Treasury Secretary **Kenneth Dam**, Undersecretary of State **Alan Larson**, Presidential Public Policy Coordinator **Eduardo Sojo**, Deputy Finance Secretary **Augustin Carstens**, and Deputy Foreign Relations Secretary **Miguel Hakim**, will hold a press conference to discuss the second "Partnership for Prosperity" conference in Washington, DC.

The "Partnership for Prosperity" is a binational working group - aimed at stimulating investment and generating job opportunities in Mexico - first announced by Mexican President Vicente Fox and U.S. President George Bush on September 6, 2001. The working group's first conference was convened in Merida, Mexico in December 2001.

The five officials will deliver brief statements followed by Q & A.

The press conference will take place on Tuesday, February 19, 2002 at 2:30 pm in the Treasury Department's Diplomatic Reception Room (room 3311).

The room will be available for pre-set at 1:30 pm.

Members of the media without Treasury or White House press credentials need to contact the Treasury Office of Public Affairs at (202) 622-2960 with the following information: full legal name, social security number, and date of birth. This information may also be faxed to (202) 622-1999.

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PO-1021

THE OFFICE OF PUBLIC AFFAIRS IS ELIMINATING FAXING OUT NEWS AND ANNOUNCEMENT BY FAX

The Office of Public Affairs is eliminating faxing out news and announcements by fax, instead we are shifting to using the email system to deliver all news.

Please **email** us at publicaffairs@do.treas.gov. Your email should include your name, title, organization, email address and phone number.

Please also include issue areas that you cover (ex: Tax, Healthcare, Budget, International Economics).

Also include the email address for your news organization's daybook and assignment editor.

If you have any questions, please contact the Office of Public Affairs at (202) 622-2960.

PO-1022

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 11:30 A.M.
February 19, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $23,000 million to refund an estimated $6,000 million of publicly held 4-week Treasury bills maturing February 21, 2002, and to raise new cash of approximately $17,000 million.

Tenders for 4-week Treasury bills to be held on the book-entry records of *TreasuryDirect* will not be accepted.

The Federal Reserve System holds $12,857 million of the Treasury bills maturing on February 21, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders in this auction up to the balance of the amount not awarded in today's 13-week and 26-week Treasury bill auctions. Amounts awarded to SOMA will be in addition to the offering amount.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of the auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

The allocation percentage applied to bids awarded at the highest discount rate will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about the new security are given in the attached offering highlights.

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Attachment

PO-1023

For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED FEBRUARY 21, 2002

February 19, 2002

Offering Amount ....$23,000 million
Public Offering ....$23,000 million
NLP Exclusion Amount ....$ 9,000 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 JL 6
Auction date ....February 20, 2002
Issue date ....February 21, 2002
Maturity date ....March 21, 2002
Original issue date ....September 20, 2001
Currently outstanding ....$34,805 million
Minimum bid amount and multiples $1,000

Submission of Bids:
Noncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.
Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.
Competitive bids:
(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 4.215%.
(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Rate...35% of public offering
Maximum Award...........................35% of public offering

Receipt of Tenders:
Noncompetitive tenders:
Prior to 12:00 noon eastern standard time on auction day
Competitive tenders:
Prior to 1:00 p.m. eastern standard time on auction day

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date.

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
February 19, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term: 91-Day Bill
Issue Date: February 21, 2002
Maturity Date: May 23, 2002
CUSIP Number: 912795JV4

High Rate: 1.730% Investment Rate 1/: 1.760% Price: 99.563

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 27.45%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 31,005,503	$ 14,409,091
Noncompetitive	1,441,047	1,441,047
FIMA (noncompetitive)	150,000	150,000
SUBTOTAL	32,596,550	16,000,138 2/
Federal Reserve	5,772,144	5,772,144
TOTAL	$ 38,368,694	$ 21,772,282

Median rate 1.700%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.660%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 32,596,550 / 16,000,138 = 2.04

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,185,205,000

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PO-1024

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
February 19, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	February 21, 2002
Maturity Date:	August 22, 2002
CUSIP Number:	912795KX8

High Rate: 1.830% Investment Rate 1/: 1.872% Price: 99.075

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 40.63%. All tenders at lower rates were accepted in full.

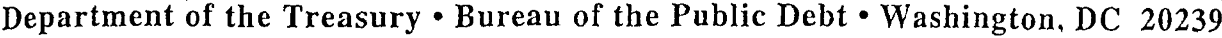
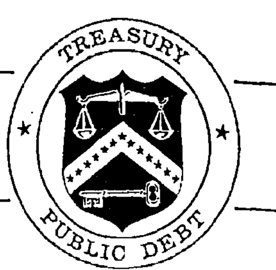
AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 33,897,435	$ 12,985,193
Noncompetitive	964,815	964,815
FIMA (noncompetitive)	50,000	50,000
SUBTOTAL	34,912,250	14,000,008 2/
Federal Reserve	4,950,607	4,950,607
TOTAL	$ 39,862,857	$ 18,950,615

Median rate 1.805%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.760%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 34,912,250 / 14,000,008 = 2.49

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $741,133,000

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
February 19, 2002

Contact: Peter Hollenbach
(202) 691-3502

AMOUNTS AWARDED TO TREASURY DIRECT REDUCED FOR RECENT AUCTIONS

In the recent Treasury bill and note auctions, conducted during the week of February 4, 2002, noncompetitive tenders totaling $905 million were submitted, accepted in the auctions, and not paid for. The tenders were electronically submitted through *TreasuryDirect*. In addition, the tenders were submitted in a manner that violated existing rules on noncompetitive bidding. Controls were effective in preventing the bidder from receiving any securities, but the published auction results included these noncompetitive amounts. Additional controls are now in place to prevent a recurrence.

The yields, prices, and percentages allotted at the high rate or yield stand as previously published. This information is provided to clarify that the reported noncompetitive and total tendered and accepted amounts were overstated.

This matter is currently under investigation by Federal law enforcement authorities.

The table below shows the reduction in the amounts awarded to *TreasuryDirect* for each auction.

Security	CUSIP	Auction Date	Issue Date	Reduction in Amount Awarded to *TreasuryDirect*
13-week bill	912795JT9	2/4/02	2/7/02	$84 million
26-week bill	912795KV2	2/4/02	2/7/02	$76 million
4 ¾ year note	9128277F3	2/5/02	2/15/02	$375 million
10-year note	9128277L0	2/6/02	2/15/02	$370 million

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PO-1026

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960
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EMBARGOED UNTIL 2:30 P.M.
February 20, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 2-YEAR NOTES

The Treasury will auction $25,000 million of 2-year notes to refund $23,628 million of publicly held notes maturing February 28, 2002, and to raise new cash of approximately $1,372 million.

In addition to the public holdings, Federal Reserve Banks hold $6,735 million of the maturing notes for their own accounts, which may be refunded by issuing an additional amount of the new security.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of the auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately $670 million into the 2-year note.

The auction will be conducted in the single-price auction format. All competitive and noncompetitive awards will be at the highest yield of accepted competitive tenders. The allocation percentage applied to bids awarded at the highest yield will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

The notes being offered today are eligible for the STRIPS program.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about the new security are given in the attached offering highlights.

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Attachment

PO-1027

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF
2-YEAR NOTES TO BE ISSUED FEBRUARY 28, 2002

February 20, 2002

Offering Amount .... $25,000 million
Public Offering .... $25,000 million

Description of Offering:
Term and type of security .... 2-year notes
Series K-2004
CUSIP number 912827 7M 8
Auction date .... February 27, 2002
Issue date .... February 28, 2002
Dated date .... February 28, 2002
Maturity date .... February 29, 2004
Interest rate .... Determined based on the highest accepted competitive bid
Yield .... Determined at auction
Interest payment dates .... The last day of August & February
Minimum bid amount and multiples $1,000
Accrued interest payable by investor .... None
Premium or discount .... Determined at auction

STRIPS Information:
Minimum amount required $1,000
Corpus CUSIP number .... 912820 GW 1
Due date(s) and CUSIP number(s)
for additional TINT(s) .... February 29, 2004 - - 912833 YR 5

Submission of Bids:
Noncompetitive bids:
Accepted in full up to $5 million at the highest accepted yield.
Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.
Competitive bids:
(1) Must be expressed as a yield with three decimals, e.g., 7.123%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield .... 35% of public offering
Maximum Award .... 35% of public offering

Receipt of Tenders:
Noncompetitive tenders:
Prior to 12:00 noon eastern standard time on auction day.
Competitive tenders:
Prior to 1:00 p.m. eastern standard time on auction day.

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

U.S. International Reserve Position 02/20/02

The Treasury Department today released U.S. reserve assets data for the week ending February 15, 2002. As indicated in this table, U.S. reserve assets totaled $68,081 million on that date, compared to $68,111 million at the end of the prior week.

(in US millions)

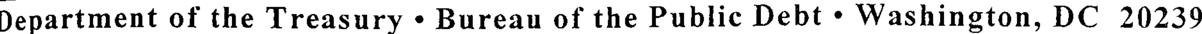
I. Official U.S. Reserve Assets	February 8, 2002			February 15, 2002		
TOTAL		68,111			68,081	
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	5,388	10,113	15,502	5,393	10,267	15,659
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	9,079	3,901	12,980	9,088	3,960	13,048
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
2. IMF Reserve Position [2]			17,828			*17,646*
3. Special Drawing Rights (SDRs) [2]			10,757			*10,682*
4. Gold Stock [3]			11,045			11,045
5. Other Reserve Assets			0			0

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values.

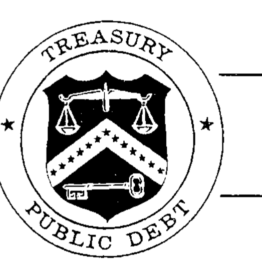
2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries in the table above for latest week (shown in italics) reflect any necessary adjustments, including revaluation, by the U.S. Treasury to the prior week's IMF data. The IMF data for the prior week are final.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of December 31, 2001. The November 30, 2001 value was $11,045 million.

PO-1028



PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
February 20, 2002

Contact: Office of Financing
202-691-3550

TREASURY'S INFLATION-INDEXED SECURITIES
MARCH REFERENCE CPI NUMBERS AND DAILY INDEX RATIOS

Public Debt announced today the reference Consumer Price Index (CPI) numbers and daily index ratios for the month of March for the following Treasury inflation-indexed securities:

(1) 3-3/8% 10-year notes due January 15, 2007
(2) 3-5/8% 5-year notes due July 15, 2002
(3) 3-5/8% 10-year notes due January 15, 2008
(4) 3-5/8% 30-year bonds due April 15, 2028
(5) 3-7/8% 10-year notes due January 15, 2009
(6) 3-7/8% 30-year bonds due April 15, 2029
(7) 4-1/4% 10-year notes due January 15, 2010
(8) 3-1/2% 10-year notes due January 15, 2011
(9) 3-3/8% 30-1/2-year bonds due April 15, 2032
(10) 3-3/8% 10-year notes due January 15, 2012

This information is based on the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers (CPI-U) published by the Bureau of Labor Statistics of the U.S. Department of Labor.

In addition to the publication of the reference CPI's (Ref CPI) and index ratios, this release provides the non-seasonally adjusted CPI-U for the prior three-month period.

This information is available through the Treasury's Office of Public Affairs automated fax system by calling 202-622-2040 and requesting document number 1027. The information is also available on the Internet at Public Debt's website (http://www.publicdebt.treas.gov).

The information for April is expected to be released on March 21, 2002.

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Attachment

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
March 2002

Security:		3-3/8% 10-Year Notes	3-5/8% 5-Year Notes	3-5/8% 10-Year Notes	3-5/8% 30-Year Bonds
Description:		Series A-2007	Series J-2002	Series A-2008	Bonds of April 2028
CUSIP Number:		9128272M3	9128273A8	9128273T7	912810FD5
Dated Date:		January 15, 1997	July 15, 1997	January 15, 1998	April 15, 1998
Original Issue Date:		February 6, 1997	July 15, 1997	January 15, 1998	April 15, 1998
Additional Issue Date(s):		April 15, 1997	October 15, 1997	October 15, 1998	July 15, 1998
Maturity Date:		January 15, 2007	July 15, 2002	January 15, 2008	April 15, 2028
Ref CPI on Dated Date:		158.43548	160.15484	161.55484	161.74000
Date	**Ref CPI**	**Index Ratio**	**Index Ratio**	**Index Ratio**	**Index Ratio**
March 1 2002	176.70000	1.11528	1.10331	1.09375	1.09249
March 2 2002	176.71290	1.11536	1.10339	1.09383	1.09257
March 3 2002	176.72581	1.11544	1.10347	1.09391	1.09265
March 4 2002	176.73871	1.11552	1.10355	1.09399	1.09273
March 5 2002	176.75161	1.11561	1.10363	1.09407	1.09281
March 6 2002	176.76452	1.11569	1.10371	1.09415	1.09289
March 7 2002	176.77742	1.11577	1.10379	1.09423	1.09297
March 8 2002	176.79032	1.11585	1.10387	1.09431	1.09305
March 9 2002	176.80323	1.11593	1.10395	1.09439	1.09313
March 10 2002	176.81613	1.11601	1.10403	1.09447	1.09321
March 11 2002	176.82903	1.11609	1.10411	1.09454	1.09329
March 12 2002	176.84194	1.11618	1.10419	1.09462	1.09337
March 13 2002	176.85484	1.11626	1.10427	1.09470	1.09345
March 14 2002	176.86774	1.11634	1.10435	1.09478	1.09353
March 15 2002	176.88065	1.11642	1.10444	1.09486	1.09361
March 16 2002	176.89355	1.11650	1.10452	1.09494	1.09369
March 17 2002	176.90645	1.11658	1.10460	1.09502	1.09377
March 18 2002	176.91935	1.11666	1.10468	1.09510	1.09385
March 19 2002	176.93226	1.11675	1.10476	1.09518	1.09393
March 20 2002	176.94516	1.11683	1.10484	1.09526	1.09401
March 21 2002	176.95806	1.11691	1.10492	1.09534	1.09409
March 22 2002	176.97097	1.11699	1.10500	1.09542	1.09417
March 23 2002	176.98387	1.11707	1.10508	1.09550	1.09425
March 24 2002	176.99677	1.11715	1.10516	1.09558	1.09433
March 25 2002	177.00968	1.11724	1.10524	1.09566	1.09441
March 26 2002	177.02258	1.11732	1.10532	1.09574	1.09449
March 27 2002	177.03548	1.11740	1.10540	1.09582	1.09457
March 28 2002	177.04839	1.11748	1.10548	1.09590	1.09465
March 29 2002	177.06129	1.11756	1.10556	1.09598	1.09473
March 30 2002	177.07419	1.11764	1.10564	1.09606	1.09481
March 31 2002	177.08710	1.11772	1.10572	1.09614	1.09489

CPI-U (NSA) for : November 2001 177.4 December 2001 176.7 January 2002 177.1

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
March 2002

Security:		3-7/8% 10-Year Notes	3-7/8% 30-Year Bonds	4-1/4% 10-Year Notes	3-1/2% 10-Year Notes
Description:		Series A-2009	Bonds of April 2029	Series A-2010	Series A-2011
CUSIP Number:		9128274Y5	912810FH6	9128275W8	9128276R8
Dated Date:		January 15, 1999	April 15, 1999	January 15, 2000	January 15, 2001
Original Issue Date:		January 15, 1999	April 15, 1999	January 18, 2000	January 16, 2001
Additional Issue Date(s):		July 15, 1999	October 15, 1999 October 15, 2000	July 15, 2000	July 16, 2001
Maturity Date:		January 15, 2009	April 15, 2029	January 15, 2010	January 15, 2011
Ref CPI on Dated Date:		164.00000	164.39333	168.24516	174.04516
Date	**Ref CPI**	**Index Ratio**	**Index Ratio**	**Index Ratio**	**Index Ratio**
March 1 2002	176.70000	1.07744	1.07486	1.05025	1.01525
March 2 2002	176.71290	1.07752	1.07494	1.05033	1.01533
March 3 2002	176.72581	1.07760	1.07502	1.05041	1.01540
March 4 2002	176.73871	1.07768	1.07510	1.05048	1.01548
March 5 2002	176.75161	1.07775	1.07518	1.05056	1.01555
March 6 2002	176.76452	1.07783	1.07525	1.05064	1.01562
March 7 2002	176.77742	1.07791	1.07533	1.05071	1.01570
March 8 2002	176.79032	1.07799	1.07541	1.05079	1.01577
March 9 2002	176.80323	1.07807	1.07549	1.05087	1.01585
March 10 2002	176.81613	1.07815	1.07557	1.05094	1.01592
March 11 2002	176.82903	1.07823	1.07565	1.05102	1.01600
March 12 2002	176.84194	1.07830	1.07572	1.05110	1.01607
March 13 2002	176.85484	1.07838	1.07580	1.05117	1.01614
March 14 2002	176.86774	1.07846	1.07588	1.05125	1.01622
March 15 2002	176.88065	1.07854	1.07596	1.05133	1.01629
March 16 2002	176.89355	1.07862	1.07604	1.05140	1.01637
March 17 2002	176.90645	1.07870	1.07612	1.05148	1.01644
March 18 2002	176.91935	1.07878	1.07620	1.05156	1.01651
March 19 2002	176.93226	1.07886	1.07627	1.05163	1.01659
March 20 2002	176.94516	1.07893	1.07635	1.05171	1.01666
March 21 2002	176.95806	1.07901	1.07643	1.05179	1.01674
March 22 2002	176.97097	1.07909	1.07651	1.05186	1.01681
March 23 2002	176.98387	1.07917	1.07659	1.05194	1.01688
March 24 2002	176.99677	1.07925	1.07667	1.05202	1.01696
March 25 2002	177.00968	1.07933	1.07674	1.05209	1.01703
March 26 2002	177.02258	1.07941	1.07682	1.05217	1.01711
March 27 2002	177.03548	1.07948	1.07690	1.05225	1.01718
March 28 2002	177.04839	1.07956	1.07698	1.05232	1.01726
March 29 2002	177.06129	1.07964	1.07706	1.05240	1.01733
March 30 2002	177.07419	1.07972	1.07714	1.05248	1.01740
March 31 2002	177.08710	1.07980	1.07722	1.05255	1.01748

CPI-U (NSA) for : November 2001 177.4 December 2001 176.7 January 2002 177.1

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
March 2002

Security:		3-3/8% 30-1/2-Year Bonds	3-3/8% 10-Year Notes		
Description:		Bonds of April 2032	Series A-2012		
CUSIP Number:		912810FQ6	9128277J5		
Dated Date:		October 15, 2001	January 15, 2002		
Original Issue Date:		October 15, 2001	January 15, 2002		
Additional Issue Date(s):					
Maturity Date:		April 15, 2032	January 15, 2012		
Ref CPI on Dated Date:		177.50000	177.56452		
Date	**Ref CPI**	**Index Ratio**	**Index Ratio**		
March 1 2002	176.70000	0.99549	0.99513		
March 2 2002	176.71290	0.99557	0.99520		
March 3 2002	176.72581	0.99564	0.99528		
March 4 2002	176.73871	0.99571	0.99535		
March 5 2002	176.75161	0.99578	0.99542		
March 6 2002	176.76452	0.99586	0.99549		
March 7 2002	176.77742	0.99593	0.99557		
March 8 2002	176.79032	0.99600	0.99564		
March 9 2002	176.80323	0.99607	0.99571		
March 10 2002	176.81613	0.99615	0.99579		
March 11 2002	176.82903	0.99622	0.99586		
March 12 2002	176.84194	0.99629	0.99593		
March 13 2002	176.85484	0.99637	0.99600		
March 14 2002	176.86774	0.99644	0.99608		
March 15 2002	176.88065	0.99651	0.99615		
March 16 2002	176.89355	0.99658	0.99622		
March 17 2002	176.90645	0.99666	0.99629		
March 18 2002	176.91935	0.99673	0.99637		
March 19 2002	176.93226	0.99680	0.99644		
March 20 2002	176.94516	0.99687	0.99651		
March 21 2002	176.95806	0.99695	0.99658		
March 22 2002	176.97097	0.99702	0.99666		
March 23 2002	176.98387	0.99709	0.99673		
March 24 2002	176.99677	0.99716	0.99680		
March 25 2002	177.00968	0.99724	0.99688		
March 26 2002	177.02258	0.99731	0.99695		
March 27 2002	177.03548	0.99738	0.99702		
March 28 2002	177.04839	0.99746	0.99709		
March 29 2002	177.06129	0.99753	0.99717		
March 30 2002	177.07419	0.99760	0.99724		
March 31 2002	177.08710	0.99767	0.99731		

CPI-U (NSA) for : November 2001 177.4 December 2001 176.7 January 2002 177.1

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
February 20, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	February 21, 2002
Maturity Date:	March 21, 2002
CUSIP Number:	912795JL6

High Rate: 1.720% Investment Rate 1/: 1.749% Price: 99.866

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 29.12%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 57,706,611	$ 22,980,771
Noncompetitive	20,176	20,176
FIMA (noncompetitive)	0	0
SUBTOTAL	57,726,787	23,000,947
Federal Reserve	2,134,623	2,134,623
TOTAL	$ 59,861,410	$ 25,135,570

Median rate 1.710%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.670%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 57,726,787 / 23,000,947 = 2.51

1/ Equivalent coupon-issue yield.

http://www.publicdebt.treas.gov

PO-1030

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
February 20, 2002

CONTACT: BETSY HOLAHAN
202-622-1997

CORRECTED VERSION
Treasury Department Statement on TreasuryDirect Auction Bids

Yesterday Treasury reported that noncompetitive TreasuryDirect tenders totaling $905 million, from one bidder, had been received but not paid for in four recent auctions. The following is additional information on these tenders and the investigation of what occurred.

The bids that were submitted and not paid for were noncompetitive tenders submitted electronically using TreasuryDirect's Internet bidding option that was introduced in 1998. The bids were submitted for a single TreasuryDirect account.

During the four auctions affected by these bids, controls were in place to limit the amount of any one TreasuryDirect tender to the maximum noncompetitive limit for the auction. Further, there were controls in place that prevented the bidder from receiving any securities without paying for them. Both of these controls have been in place since the inception of the Internet bidding option in 1998 and worked as designed. However, there was not a control to prevent multiple tenders for the same account, which in aggregate exceeded the noncompetitive limit, from being included in the auction calculations. A control to prevent this was implemented on 2/15/02 and is now in place for all auctions. This control detected and prevented an additional $410 million in tenders, entered at the end of January for the same TreasuryDirect account, from being included in the 2/27/02 2-year note auction. Treasury Direct accepts tenders for regularly scheduled securities offerings before announcement to permit efficient management of reinvestments.

As previously announced, the rate or yield, price per $100, and the percentage of tenders allotted at the high rate or yield for each of the four auctions will not be changed and stand as originally published.

The noncompetitive amounts were reduced by $84 million for the 13-week and $76 million for the 26-week bill auctions on 2/4/02. Had these noncompetitive tenders not been included, there would have been no change to the high rate or price for either of the two bill auctions. The effect of the $375 million noncompetitive reduction on the 4 ¾-year note auction (2/5/02) would have been to raise the yield by less than one-half a basis point to 4.258%. In the 10-year note auction (2/6/02), the effect of the $370 million noncompetitive reduction would have been to raise the yield by one basis point to 4.890%.

PO-1031

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The Bureau of the Public Debt, upon learning of these events, immediately engaged the United States Secret Service to investigate these matters. The Secret Service confirms that it is pursuing an active, aggressive investigation into the bids that were not paid for, as well as the $410 million in bids submitted for the 2/27/02 auction. At the direction of the Secretary, Public Debt and Secret Service, both Treasury bureaus, are devoting all necessary resources to this investigation. Public Debt, and the relevant depository institution and Federal Reserve Banks (which act as Treasury's fiscal agent), are fully cooperating in this investigation. The Department of the Treasury is committed to vigorously pursuing this matter to federal prosecution by the appropriate U.S. Attorney's office.

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FOR IMMEDIATE RELEASE
February 19, 2002

CONTACT: Tony Fratto
(202) 622-2960

IMPROVING THE REGIONAL DEVELOPMENT BANKS
BY
JOHN B. TAYLOR
UNDER SECRETARY OF TREASURY FOR INTERNATIONAL AFFAIRS

CONFERENCE ON FINANCING FOR DEVELOPMENT
REGIONAL CHALLENGE AND THE REGIONAL DEVELOPMENT BANKS

INSTITUTE FOR INTERNATIONAL ECONOMICS

Reform of the multilateral development banks has been a high priority from the very start of the Bush Administration. We want to improve the effectiveness of these institutions. We want them to be highly successful in increasing economic growth and raising the living standards of poor people around the world. Reform is an even higher priority since the war on terrorism began last September because the poorest countries are often breeding grounds for terrorism.

In a series of speeches beginning last year President Bush and Secretary O'Neill have put forth an ambitious reform agenda, and Secretary O'Neill will be joining you tomorrow to share this agenda with you. I think we have made a good start on implementing this agenda, especially in the context of the World Bank negotiations to replenish the International Development Association (IDA). We are setting broad themes, making specific proposals, and working with our friends at the institutions and fellow shareholders. The most recent proposal was put forth by President Bush in his 2003 budget: he is calling for a substantial increase in the U.S. contribution to the IDA replenishment, and at the same time insisting that this contribution be tied to explicit performance results.

We are promoting the same broad agenda in the regional development banks—the African Development Bank (AFDB), the Asian Development Bank (ADB), the Inter-American Development Bank (IDB), and the European Bank for Reconstruction and Development (EBRD). Of course the specific proposals differ because of the diversity of the regional banks and because of timing differences. It is the regional bank component of our reform agenda that I would like to discuss with you today. In particular, I will discuss our reform themes and three particular reform proposals: grants, results-based replenishments, and private sector development.

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Reform Themes: High Productivity Jobs and Measurable Results

We have stressed two themes to guide the reform and to set priorities.

The first theme is *productivity growth*. A development strategy will be effective if and only if it raises the growth rate of productivity—the amount of goods or services that a worker can produce in a set period of time, such as a day or a year. It is nearly a tautology to say that countries are poor because productivity is low, and that countries are rich because productivity is high. But there are advantages of focusing on the importance of an economy where workers are employed in high productivity jobs.

We know about what leads to productivity growth. Both practical experience and formal growth accounting studies show that productivity depends on capital—including human capital—and on technology in the broadest sense. Thus higher education and more private investment will raise productivity growth. So will technology transfer and anything that will encourage it, such as a better rule of law to attract foreign investment. If—when considering a loan or a grant—you look at its effect on productivity, that will lead you automatically to focus on activities that will raise living standards and reduce poverty on a sustained basis. We need to go further in emphasizing that economic growth—productivity growth—is the key to reducing poverty. This point is made clearly in a recent report of the Inter-American Development Bank, *The Business of Growth*. I am glad to hear, as President Iglesias states in the preface to the report, that economic growth is the "business of the Inter-American Development Bank," and that "private investment and the creation of high-productivity jobs are essential..."

The other theme we stress is *measurable results*. President Bush emphasizes the importance of being able to measure results in every activity of government, not only the operations of the development banks. By measuring results you can see if a given activity is actually making a difference. And if it is not making a difference then we should change and do something that works. For example, is an education loan or grant raising enrollment, test scores, or literacy? Are the funds really making a difference to children's skills so that their own productivity will increase once they are employed? How much of a difference? Compared to what other kind of educational activity?

From Concessional Loans to Grants at the Regional Development Banks

Last summer, President Bush first proposed using more grants at the multilateral development banks. Just last month, he reiterated that proposal. He called on the multilateral development banks to provide up to 50 percent of their assistance to the poorest countries in the form of grants rather than loans. And he indicated that grants are particularly effective for education, health, nutrition, water supplies, and sanitation. Why is this grants proposal so important for our reform effort?

With the exception of the European Bank for Reconstruction and Development, all the regional development banks have separate concessional loan windows for the poorest countries analogous to IDA at the World Bank.

The African Development Bank has the African Development Fund (AFDF), the Inter-American Development Bank has the Fund for Special Operations (FSO), and the Asian Development Bank has the Asian Development Fund (ASDF). Donor countries replenish these windows every few years. This year, replenishments of both IDA and the African Development Fund are underway.

All except a small fraction of this assistance to poorest countries is now in the form of loans. About 98 percent of IDA is in the form of loans; about 94 percent of the African Development Fund is in the form of loans. These loans have terms that are highly favorable to the borrower. The maturities are very long (30 to 50 years, depending on the institution), the interest rate is very low (less than one percentage point), and there is a long grace period. We feel that it is misleading to call such assistance a loan. The total interest and principal that must be paid back is much less, in present value terms, than the amount loaned; to call it a loan is not transparent either for the people who are actually giving or actually receiving the assistance. It is these concessional loans that President Bush wants to move toward grants. Grants are better than these highly concessional loans because they are more straightforward and transparent.

A second reason to convert to grants from loans is that many of the poorest countries now borrowing from the concessional loan windows are part of the Heavily Indebted Poor Country (HIPC) initiative. In other words they are very poor countries with unsustainable amounts of debt. Under the HIPC program, the development banks are writing off their loans to these poor countries in order to relieve the countries' debt burdens. However, by creating more loans, even at favorable terms, the development banks are adding to these debt burdens. Grants would not add to the debt burden. Grants are particularly appropriate when countries emerge from conflict and cannot afford to take on loans.

A third reason to prefer grants is that many worthwhile projects do not yield enough of a direct economic return to pay back loans. Grants thus remove barriers for governments to take on such worthwhile projects such as raising enrollment rates for girls or assisting HIV/AIDS orphans. Offering a country a loan rather than a grant to provide assistance to HIV/AIDS patients is obviously inappropriate. President Bush wants grants to be used for health as well as for education, nutrition, water supply, and sanitation.

A fourth advantage of grants is that they can easily be tied to measurable results. The President's proposal is not for "free" grants, but for grants that are tied to specific performance. A grant for education could be tied to enrollment increases, for example. If the grant were provided for HIV/AIDS, then the government would have to go to another provider if patients are not being treated adequately.

Currently, international negotiations on grants are taking place in the context of the IDA and the African Development Fund replenishments. A new replenishment of the Asian Development Fund and the IDB's Fund for Special Operations are both several years away, though we hope that even before negotiations for new replenishments take place these institutions can begin to explore how existing resources can be devoted to grants. For example, we have proposed that the IDB establish a grant program from the income of the Emergency Loans Program.

There is agreement among major donor countries that a larger proportion of IDA and AFDF assistance should be given in the form of grants. However, there are still differences of opinion about how much should go to grants. Some are concerned that increasing grant assistance too much would adversely affect the soft loan windows by reducing "re-flows," the funds paid back by countries with concessional loans. However, the reduction in re-flows would be very small because of the favorable terms on the loans. Also it should be emphasized that it is the poorest countries themselves that pay these re-flows, so that with the current soft loan windows, you have the poor helping the poor.

The U.S. has demonstrated its readiness to come to the table with the resources needed to make a difference in the lives of the world's poor. As I already mentioned the United States is offering a significant increase in its contribution to IDA, a sharp reversal of the last six years during which contributions have declined in real terms. We are also proposing an 18 percent increase in the U.S. contribution to the African Development Fund, the largest increase in dollar terms of any donor.

Results-Based Replenishments: From IDA to AFDF, ASDF, and FSO?

Another specific reform proposal is illustrated by this year's U.S. IDA replenishment proposal. It would have our contributions tied to measurable results. In particular the President is proposing that the United States' IDA contribution be stepped up from $850 million the first year, to $950 million in the second year, and to $1,050 million in the third year. But these increments to the U.S. contribution to the second and third year will only occur if there is an improvement in IDA's performance.

This results-based replenishment concept is a new idea, put forth for the first time in the President's budget. It is one example of how we are emphasizing measurable results in our reform efforts. We are hoping it will make a difference and that it will help in getting better measures of performance, toward achieving the goals of increasing productivity and reducing poverty.

We hope that this idea can be used for future replenishments not only in IDA, but also in the regional development banks' assistance for the poorest countries—the ASDF, the AFDF, and the FSO. Already in the context of the African Development Fund negotiations we have been successful in obtaining a commitment to significant improvements in the monitoring and evaluation process to ensure tracking of the achievements of AFDF projects and ultimately real increases in productivity in the beneficiary country.

Private Sector Development: Bankable Loans to Entrepreneurs

A third specific reform proposal involves the private sector. Investment by private firms is critical to increasing productivity, employment and economic growth in developing countries. I am very interested in working with the regional development banks to find new ways to support entrepreneurs in emerging markets.

Last summer, Secretary O'Neill and I went to Russia and witnessed first hand the positive impact of the EBRD's activities in promoting small business loans by combining donor-funded technical assistance to train bankers with EBRD's loan resources. The Russia Small Business Fund has made over 73,000 loans and disbursed over $760 million for small and micro-businesses in 100 cities and towns throughout Russia since its inception in 1994. A U.S.-sponsored SME Special Fund in Southeastern Europe, established in 2000, builds on this approach and combines it with policy dialogue to engage local officials in removing barriers to SME development and finance.

I believe that the regional development banks can do much more in the area of private sector development. A vibrant private sector cannot develop without a healthy investment climate that provides entrepreneurs with access to capital and incentives to build new businesses. Existing MDB programs have largely failed to integrate policy reform, technical assistance and private investment. We believe that investment climate reforms and capacity building at the government and enterprise level should be at the front and center of development policies. A special focus should be placed on private firms that provide manufactured goods and services for the global market, since these firms are typically conduits for advanced technologies, new ideas and best management practices that are the foundation for sustained productivity growth.

We welcome the World Bank's emphasis on investment climate reform and believe that this should be given high priority in the proposed private sector development strategy. We would like the regional development banks to become partners in this effort. All need to ensure that private sector development is a core element of their lending operations and policy dialogue. To take this initiative further, we are developing a new proposal, which will create incentives for governments to pursue investment climate reforms and which will increase support for private entrepreneurs by the multilateral development banks.

Free Trade, Capacity Building, and Education

Freer trade is a *sine qua non* of economic growth and poverty reduction. Freer trade means open markets, which lead to greater sales, which lead to higher profits and greater access to goods and services, all of which leads to increased standards of living. Freer trade also accelerates the exchange of technology, more productive capital inputs and the transfer of best practices.

I see a large role for the regional banks to play in assisting countries to take advantage of growing trade opportunities and in providing technical assistance to put in place necessary policies and capacity to facilitate trade. Yet liberalization alone is not a sufficient antidote for sustainable growth and poverty reduction. Building enabling environments for vibrant private sector and human capital formation is a critical complement. More and better education is an essential element of increasing productivity. Better educated people are better equipped to take advantage of economic opportunities and to address family health and nutrition needs, thereby generating increased individual and national productivity and income. This is why the U.S. has proposed that the MDBs increase the share of their funding and attention devoted to education.

Concluding Remarks

In conclusion, I want to thank Fred Bergsten for inviting me to participate in this meeting today and to share some of our ideas with you. I am very glad that Presidents Iglesias and Kabbaj were also able to attend. I look forward to working with all of you to achieve our common objective of increasing growth and reducing poverty.

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FOR IMMEDIATE RELEASE
February 21, 2002

Contact: Michele Davis
(202) 622-2960

**OUTLINE OF REMARKS
TO BE DELIVERED BY
TREASURY SECRETARY PAUL O'NEILL
AT THE US CHAMBER OF COMMERCE**

For immediate release –
(These comments can be attributed to Secretary O'Neill)

- I believe we were on the verge of recovery before the September 11 terrorist attacks, and that our resilience and determination have brought us back to the early stages of recovery today.

- The President's tax relief plan enacted last year certainly softened the economic downturn.

- More than 1.4 million Americans lost their jobs during this recession. The President asked Congress last October to enact an economic security package that would help employers create and retain jobs.

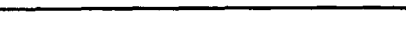
- The complexity of our tax code also strangles our prosperity. Our tax code is an abomination. And it is a drag on our ability to create jobs in this nation.

- Small businessmen have to read through indecipherable rules for any number of specific business-related expenses.

- In the coming weeks, we at Treasury will be producing a series of reports on the complexities of the tax code, for individuals, for small businesses and for corporations. We'll highlight possible solutions to specific complexities and work with Congress to see what we can implement this year.

- The President has called on Congress to enact Trade Promotion Authority.

PO-1033



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- A fundamental necessity for a strong economy is confidence. The lack of confidence lingers in some parts of our economy, because of a lack of terrorism risk insurance.

- Recent events have also created some doubts about the confidence investors should have in corporate financial information.

- I believe we must have greater accountability for the information that is made available to shareholders.

- Our responsibility as a government is to ensure that they have the information they need to make intelligent choices.

- The President has called for protections so that employees have as much access to the company shares in their 401(k) as corporate officers have to their own shares in the company.

- Government has no business telling Americans where they can and can't invest their money. And government can't ensure that no one ever makes a bad investment decision. What we can do, and should do, is make every effort to ensure that Americans have the skills to evaluate their savings and investment choices.

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EMBARGOED UNTIL 1:30 P.M. EST
February 21, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

REMARKS BY
THE HONORABLE SHEILA C. BAIR
ASSISTANT SECRETARY OF THE TREASURY FOR FINANCIAL INSTITUTIONS

NATIONAL ASSOCIATION OF AFFORDABLE HOUSING LENDERS
FEBRUARY 21, 2002

PREDATORY LENDING: CAN BEST PRACTICES BE PART OF THE SOLUTION?

Good morning and thank you for this opportunity to speak before you today about our ideas for addressing predatory lending.

We should all be proud of the positive developments in mortgage and housing markets that have taken place during the last decade. During the last decade, the percentage of Americans who have achieved the dream of home ownership has increased significantly. This increase in homeownership has, in part, been fueled by the broader availability of mortgage-related credit to all types of borrowers. This increase in credit availability has been most evident in the subprime market, which primarily serves borrowers with past credit problems. As noted recently by Governor Gramlich, from 1993 to 2000, the number of subprime loans to purchase homes increased from 19,000 to 306,000. The number of subprime home equity loans increased from 66,000 to 658,000 during that same time period.

Clearly much has been done to improve home ownership opportunities and expand access to credit. However, as President Bush noted in the State of the Union speech, "broader home ownership, especially among minorities," remains a priority. While the Administration has set forth an aggressive program for further increasing home ownership opportunities, we are also focused on preserving those opportunities by keeping people in their homes and protecting them from unscrupulous lenders. A key component of that goal is eliminating what has come to be known as predatory lending.

We all know that predatory lending is difficult to clearly define. Predatory lending is generally characterized by abusive lending practices that include deception, fraud, and other practices that are unfair to borrowers.

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In the most egregious cases, lenders have made loans with little or no regard for a borrower's ability to repay, and have engaged in multiple refinance transactions that result in little or no benefit to a borrower. These types of abusive lending practices can result in the stripping of borrowers' equity and, in the worst case, borrowers losing their homes. The result is not only devastating to the borrower, but it also can contribute to a general decline in the conditions of the surrounding neighborhood.

As different methods for combating predatory lending are considered, we must be careful not to damage what has generally been a positive development – the expansion of the availability of credit through the subprime market. Responsible providers of subprime credit provide an important source of credit to borrowers with damaged credit histories. The current services of responsible subprime lenders will not be easily replaced by government programs or through the activities of other lending institutions.

Let me now briefly describe recent and current activities underway in the Administrative Branch that should be beneficial in combating predatory lending, and some ideas for additional initiatives that we have been considering at Treasury.

Federal Efforts to Combat Predatory Lending

The Federal government has recently or is currently undertaking a number of efforts related to disclosures and enforcement that should contribute to a reduction in predatory lending.

First, the Department of Housing and Urban Development (HUD) is taking a new look at improving mortgage disclosures. In particular, HUD is considering ways to improve disclosures of mortgage yield spread premiums. High levels of broker compensation are often associated with predatory lending, and to the extent that improved disclosures can better inform consumers about broker compensation, some abusive lending practices could be stopped by consumers.

HUD is also considering ways to address predatory lending within its own mortgage programs. Secretary Martinez has stated his intention to improve accountability within Federal Housing Administration loan programs by considering rules that that would specify lenders' responsibilities for the actions of mortgage brokers and appraisers.

Second, the Board of Governors of the Federal Reserve System has recently finalized revisions to its regulations under the Home Ownership and Equity Protection Act (HOEPA) and the Home Mortgage Disclosure Act (HMDA). The new HOEPA regulations will expand the protections available under HOEPA to a broader group of borrowers by reducing the annual percentage rate threshold for coverage from 10 percent (above the rate on a comparable maturity Treasury bond) to 8 percent for first-lien mortgages. The Board estimates that this change alone could triple the amount of first-lien mortgages covered by HOEPA. Other revisions include: adding fees paid for single premium credit insurance to the HOEPA points and fees trigger; prohibiting the original lender from refinancing a HOEPA loan within twelve months of origination unless it is clearly in the borrower's interest; and requiring lenders to verify and document borrowers' repayment ability.

Third, the Justice Department and the Federal Trade Commission (FTC) have taken aggressive steps in recent years to crack down on abusive lending. The FTC has undertaken several high profile cases that could mean broad redress for many consumers. The FTC also devotes resources to consumer education and the Commission goes on record with its views on legislative and regulatory proposals in this field. Because many of the practices associated with predatory lending are already illegal, stronger enforcement is a key component of any solution to the problem. In addition to stronger enforcement at the Federal level, increased enforcement activity at the state level is also needed.

Treasury's Ideas for Combating Predatory Lending

While these recent Federal actions should be useful in reducing abusive lending practices associated with predatory lending, is there more that we can do? At least two areas have stood out to us – improved consumer education and encouraging greater mortgage industry responsibility.

We must do more to educate borrowers so they are in a better position to provide a first line of defense against abusive lending practices. To better prepare consumers for this task, the Federal government should take a leadership role in educational efforts. My office is working with others in the Administration and with industry, education, and non-profit groups to enhance financial literacy. In addition, the Community Development Financial Institutions Fund – also a part of my office – is increasingly building financial literacy programs into its award-making process.

There is a lot of great work being done by the private sector – including many of the institutions and groups that are members of the National Association of Affordable Housing Lenders – to educate consumers about the mortgage process and the financial responsibilities of home ownership. We applaud those efforts and hope to continue working with the mortgage industry and consumer groups to improve borrower education.

The second area we have been considering is what the Federal government can do to encourage private sector efforts to eliminate abusive lending practices. One area we have been examining is whether it would be useful for the Federal government to play a role in developing a national code of best practices that address predatory lending.

Many key players in the prime and subprime mortgage industry – again with the leadership of many of the institutions and groups that are members of the National Association of Affordable Housing Lenders – have implemented best practices or lending guidelines to address predatory lending. Many of these lending guidelines were developed with active participation of consumer groups.

Some of the practices addressed in current lending guidelines include: prohibiting the sale and financing of single premium credit life insurance; limiting or prohibiting loans with balloon terms or negative amortization features; limiting prepayment penalties and providing borrowers the option of a loan without a prepayment penalty; requiring full credit bureau reporting; requiring documentation of a borrower's ability to repay; limiting refinancing to prevent loan "flipping"; and requiring that borrowers be given fair access to prime credit. Many such codes also address developing standards for third party relationships; implementing procedures to mitigate foreclosures; restricting charges for points and fees; and requiring fair and less burdensome arbitration procedures. We have been taking a detailed look at these lending guidelines and there appears to be a fair amount of agreement in a number of areas.

Given that there is a fair amount of agreement among individual institutions' best practices and lending guidelines, it seems that it might be possible to build off of what has already been implemented to develop a national code of best practices to address predatory lending. We would see such a code as being voluntary, and hopefully a significant number of institutions would agree to adopt the code. Institutions that agreed to abide by the code and then failed to do so could be subject to enforcement actions by the FTC. Though we would view the code as voluntary, we would hope to significantly expand the number of lenders adhering to best practices through the participation of the secondary mortgage market.

The development of a national code of best practices could help promote consistency and uniformity among state and local predatory lending laws. By setting national standards for good lending practices, a code of industry best practices might provide a helpful model for the efforts of state and local leaders in this area.

A code of best practices could also help consumers navigate the complex mortgage financing process by giving them some assurance that the lender with whom they are dealing adheres to certain core standards. I am strongly committed to an aggressive program of financial education to help consumers better protect themselves against abusive lending practices. The reality is, however, that home financing is exceedingly complex – I would venture to guess that many of the homeowners in this room didn't fully understand the documents they signed at their closing –if you even bothered to read them all. Through a well-publicized national code of best practices, we could empower consumers with the ability to ask their lender a single question "Do you adhere to the code?" If the lender said, yes, the consumer would know that they would receive key protections for which their existed a federal enforcement mechanism. If the lender said no, the consumer could then consider whether they wanted to look elsewhere for credit.

While a code of best practices is typically thought of as a private sector initiative, the Federal government could play a leadership role in coordinating and encouraging the development of a national code of best practices. In my view, the key components of that leadership role would be: evaluating best practices and lending guidelines that are already in place; considering the views of all stakeholders – brokers, lenders, consumer groups, secondary market participants, and government regulators; and working with stakeholders to develop a national code of best practices that could be broadly adopted.

Some stakeholders have raised concerns over the concept of a national code of best practices. There is concern that code will not provide consumers with strong enough protection and that the code will take pressure off of legislative efforts. In the coming weeks I hope to evaluate these issues more closely, and further consider what role if any the Federal government should take in encouraging the development of a national code of best practices. The goal of this potential initiative would be to strengthen consumer protections by building upon the work already done by a number of lenders in collaboration with consumer groups. In evaluating the merits of a national code, the key issue is whether there would be value added to consumers.

I would greatly appreciate the thoughts and input of the members of this well-respected organization on developing a national code of best practices and other steps the Federal government can take to combat predatory lending. There is a tremendous amount of expertise in this room, and I look forward to the opportunity to work with you in tackling this important issue.

In closing, I would like to thank the National Association of Affordable Housing Lenders for inviting me to speak at your annual meeting.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
February 21, 2002

Contact: Tara Bradshaw
(202) 622-2014

U.S., NETHERLANDS TO NEGOTIATE REVISIONS TO INCOME TAX TREATY

Today the Treasury Department announces the United States and the Netherlands have scheduled the negotiation of revisions to their current income tax treaty. The negotiations are scheduled to begin in Washington, D.C. in April 2002. The revisions would modify the treaty currently in force between the two countries, which has been in effect since 1993.

The Treasury Department invites written comments from the public regarding the upcoming negotiations. Comments on the proposed treaty revisions should be sent to Barbara M. Angus, International Tax Counsel, Room 1000 Main Treasury, Washington, DC 20220. Comments may also be sent by fax to (202) 622-1772.

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PO-1035

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EMBARGOED UNTIL 2:30 P.M.
February 21, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling $29,000 million to refund an estimated $38,860 million of publicly held 13-week, 26-week and 52-week Treasury bills maturing February 28, 2002, and to pay down approximately $9,860 million. Also maturing is an estimated $10,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced February 25, 2002.

The Federal Reserve System holds $16,444 million of the Treasury bills maturing on February 28, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders either in these auctions or the 4-week Treasury bill auction to be held February 26, 2002. Amounts awarded to SOMA will be in addition to the offering amount.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of each auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

TreasuryDirect customers have requested that we reinvest their maturing holdings of approximately $1,187 million into the 13-week bill and $1,099 million into the 26-week bill.

The allocation percentage applied to bids awarded at the highest discount rate will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about each of the new securities are given in the attached offering highlights.

PO-1036

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Attachment

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED FEBRUARY 28, 2002

February 21, 2002

Offering Amount	$15, 000 million	$14,000 million
Public Offering	$15, 000 million	$14,000 million
NLP Exclusion Amount	$ 5,600 million	None
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 JW 2	912795 KY 6
Auction date	February 25, 2002	February 25, 2002
Issue date	February 28, 2002	February 28, 2002
Maturity date	May 30, 2002	August 29, 2002
Original issue date	November 29, 2001	February 28, 2002
Currently outstanding	$22,011 million	- - -
Minimum bid amount and multiples	$1,000	$1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.

Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.

Competitive bids:

(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 7.100%, 7.105%.

(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.

(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Rate........ 35% of public offering

Maximum Award.. 35% of public offering

Receipt of Tenders:

Noncompetitive tenders ...... Prior to 12:00 noon eastern standard time on auction day

Competitive tenders .... Prior to 1:00 p.m. eastern standard time on auction day

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
February 22, 2002

Contact: Tara Bradshaw
(202) 622-2014

LINE 47 EXISTS TO GIVE MORE MONEY BACK TO TAXPAYERS

Krugman got it Backwards in Today's New York Times

Statement of Michele Davis, Treasury Assistant Secretary for Public Affairs:

In the Editorial/Op-Ed pages of today's New York Times, Paul Krugman's "The W Scenario," is totally incorrect in stating that last summer's checks from the IRS are about to be "snatched away" by the new line 47 on Form 1040. In fact, line 47 takes nothing away from any taxpayer, and instead provides a tax cut for millions of taxpayers.

Here's the true story behind line 47:

Last summer Congress passed, and the President signed into law, a bill that provided immediate tax relief for taxpayers. The bill created a new 10% bracket that did not go into effect until January 1, 2002. In order to give taxpayers the benefit of the new 10% bracket immediately, Advance Payment checks were sent in the maximum amounts of $300 for singles, $500 for head of households, and $600 for married filing jointly.

Line 47 of Form 1040 (line 30 of Form 1040A and line 7 of Form 1040EZ) provides a Rate Reduction Credit for those taxpayers who did not get the maximum benefit from last summer's Advance Payments, and whose 2001 income or tax amounts qualify them for an additional amount.

Contrary to the column's assertion, last summer's checks did not reduce refunds or increase tax bills. In fact, the most recent figures show that the average amount for nearly 23 million refunds processed has actually increased by $232, to $2,210.

Taxpayers who received the maximum Advance Payment for their filing status should leave line 47 blank. The Advance Payment check they received last year is theirs to keep. Period.

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PO-1037

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*U.S. Government Printing Office 1998 - 619-559

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For Immediate Release
February 25, 2002

Contact: Tasia Scolinos
(202) 622-2960

MEDIA ADVISORY

WHAT: Treasury Secretary Paul O'Neill will provide an update on the war against terrorist financing to Customs Service employees at the Naval Air Station in Jacksonville, Florida.

WHEN: Tuesday, February 26, 2002

TIME: Press Conference will begin at 2:15 p.m.

WHERE: Naval Air Station Jacksonville
Highway 17, Jacksonville, FL

To access this press event please meet at the Main Gate of the Naval Air Station at 1:30 p.m. Base personnel will escort members of the media onto the base at this time. For questions regarding access to this event please contact Rick Crews, Public Affairs NAS Jacksonville at (904) 542-4032.

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PO-1038

*U.S. Government Printing Office: 1998 - 619-559

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EMBARGOED UNTIL 11:30 A.M.
February 25, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $23,000 million to refund an estimated $10,000 million of publicly held 4-week Treasury bills maturing February 28, 2002, and to raise new cash of approximately $13,000 million.

Tenders for 4-week Treasury bills to be held on the book-entry records of *TreasuryDirect* will not be accepted.

The Federal Reserve System holds $16,444 million of the Treasury bills maturing on February 28, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders in this auction up to the balance of the amount not awarded in today's 13-week and 26-week Treasury bill auctions. Amounts awarded to SOMA will be in addition to the offering amount.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of the auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

The allocation percentage applied to bids awarded at the highest discount rate will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about the new security are given in the attached offering highlights.

oOo

Attachment

PO-1039

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HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED FEBRUARY 28, 2002

February 25, 2002

Offering Amount ....$23,000 million
Public Offering ....$23,000 million
NLP Exclusion Amount ....$ 9,000 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 JM 4
Auction date ....February 26, 2002
Issue date ....February 28, 2002
Maturity date ....March 28, 2002
Original issue date ....September 27, 2001
Currently outstanding ....$35,113 million
Minimum bid amount and multiples $1,000

Submission of Bids:
Noncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.
Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.
Competitive bids:
(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 4.215%.
(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Rate...35% of public offering
Maximum Award...........................35% of public offering

Receipt of Tenders:
Noncompetitive tenders:
Prior to 12:00 noon eastern standard time on auction day
Competitive tenders:
Prior to 1:00 p.m. eastern standard time on auction day

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date.

PUBLIC DEBT NEWS

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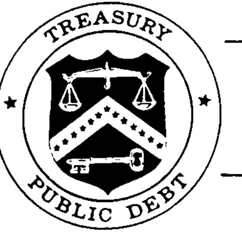

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
February 25, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term: 91-Day Bill
Issue Date: February 28, 2002
Maturity Date: May 30, 2002
CUSIP Number: 912795JW2

High Rate: 1.735% Investment Rate 1/: 1.769% Price: 99.561

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 35.04%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 33,403,615	$ 13,170,535
Noncompetitive	1,622,527	1,622,527
FIMA (noncompetitive)	207,000	207,000
SUBTOTAL	35,233,142	15,000,062 2/
Federal Reserve	6,754,463	6,754,463
TOTAL	$ 41,987,605	$ 21,754,525

Median rate 1.720%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.700%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 35,233,142 / 15,000,062 = 2.35

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,296,900,000

http://www.publicdebt.treas.gov

PO-1040

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TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
February 25, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	February 28, 2002
Maturity Date:	August 29, 2002
CUSIP Number:	912795KY6

High Rate: 1.850% Investment Rate 1/: 1.893% Price: 99.065

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 21.71%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 30,782,003	$ 11,914,838
Noncompetitive	1,600,550	1,600,550
FIMA (noncompetitive)	485,000	485,000
SUBTOTAL	32,867,553	14,000,388 2/
Federal Reserve	5,810,002	5,810,002
TOTAL	$ 38,677,555	$ 19,810,390

Median rate 1.835%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.800%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 32,867,553 / 14,000,388 = 2.35

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,162,243,000

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 8:45 A.M.
February 26, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

REMARKS BY
THE HONORABLE PETER R. FISHER
UNDER SECRETARY OF THE TREASURY FOR DOMESTIC FINANCE

BEFORE THE
CREDIT UNION NATIONAL ASSOCIATION'S
2002 GOVERNMENTAL AFFAIRS CONFERENCE

ENHANCING FINANCIAL UNDERSTANDING

Good morning and thank you for this opportunity to speak before you today.

Credit unions have a long and proud tradition of providing basic financial services to the working men and women of America. The history of the credit union movement is, in many ways, a story of volunteers, something the President has recently called upon Americans to take up. As volunteer organizations, credit unions have helped to build communities for almost a hundred years. While the credit union movement has since grown to include large and sophisticated financial institutions, offering a broad menu of services, I hope that you never lose sight of your roots and of the importance of volunteerism to the credit union ideal.

I would like to talk with you this morning about an issue of great importance to you and your members, and to ask for your assistance.

Secretary O'Neill has demonstrated great leadership on the issue of financial education and has made it a high priority issue at the Treasury Department. As the Secretary explained it to the Senate Banking Committee earlier this month, "[T]he evolution of our nation's financial system has created wonderful new opportunities for Americans to meet their needs as consumers, while at the same time, building wealth and security for their and their families' economic futures. However, Americans need to be fully prepared and financially educated to take advantage of these opportunities. If we do not understand the most important concepts of personal finance, such as how we budget and save, invest and use credit wisely, then we are missing our full potential as individuals, as well as our potential as a country."

PO-1042

This morning I would like to talk about financial education, but even more broadly, financial understanding. As managers and directors of financial institutions that serve 80 million Americans, you are directly involved with your members in their financial transactions. With that in mind, I seek your assistance as we work to enhance both financial understanding and financial opportunity for all Americans.

Regrettably, for some Americans, problems with financial literacy begin with literacy problems and basic arithmetic. As you know, the President made the establishment of meaningful education standards one of the first priorities of his new Administration, and important legislation to improve our education system has already been enacted. In all that we do in developing and overseeing our financial system, we must work diligently to help those who lack the most basic skills. As financial institutions, you know the importance of ensuring your members' understanding of your products and services for them to achieve their personal goals and for your credit union to remain viable.

One direct way in which credit unions could help us draw more Americans into the financial mainstream is through our First Accounts program. The paramount goal of First Accounts is to move a maximum number of unbanked low- and moderate-income individuals to a banked status with either an insured depository institution or an insured credit union through the development of financial products and services that can serve as replicable models in meeting the financial services needs of such individuals. Additional goals include the provision of financial education to unbanked low- and moderate-income individuals to enhance the sustainability of the new financial relationships.

On December 27th, we published a notice of funds availability in the Federal Register inviting applications for First Accounts grants. The amount available is approximately $8 million to fund projects that can serve as models to connect unbanked low- and moderate-income individuals to mainstream financial services. A wide variety of entities are eligible to apply for the grants, including credit unions. I encourage you to visit our web site and consider this opportunity (www.treas.gov/firstaccounts/).

Looking beyond the problem of financial literacy, many otherwise educated, even highly educated, Americans are not conscious of the basic financial concepts that are familiar, even second nature, to everyone in this room. I would submit that part of the difficulty this group may have in managing their financial affairs is a basic shortcoming in their understanding not just of finance and economics, but of probability and statistics.

For most household financial decisions, the data needed for decision-making are available. Indeed, in today's digital age, some might say we are swimming, or even drowning in financial data. Yet what good is the data without the understanding of how to use it to make informed decisions? As we seek to improve our country's financial education, we should consider the importance of teaching our children probability and statistics. Armed with this knowledge, they will be far better prepared to manage their financial affairs and chart a course for their own financial security.

To deal with financial decision-making in the computer age, the Internet age, we all need to develop our understanding not of computers but of statistics and probability. To keep up with the changing world of finance, we all have to be able to know what to do with the financial data at our disposal.

Before we sell ourselves and the American people short, we do need to recognize that millions of Americans have demonstrated in practice a financial understanding that many may not be able to articulate. Put simply, many Americans have shown in their financial behavior an intuitive understanding of basic financial concepts even if they would not be able to articulate the rationale for their financial decision-making the way a professor of finance -- or a credit union executive - might. Consider:

The active mortgage refinance market today shows that millions of homeowners functionally understand the prepayment option in their mortgage. The development of numerous mortgage products reflects an ability of households to select among a diverse array of mortgage payment structures. In short, the way in which millions of Americans use the mortgage credit options available to manage their personal cash flows and balance sheets reflects an understanding of rather complex financial principles.

Automobile purchase arrangements offer another example. Decisions to buy or lease, and to think about auto purchases in terms of personal cash flows rather than just price and color, reflect an essential principle of finance. Thirty or forty years ago this kind of financial analysis, thinking in terms of prospective cash flows rather than asset prices or purchase prices, was something for CFOs, not for the mass market of auto purchasers. Yet today it is there at the end of all the auto ads on TV - comparing lease payments with APR.

We need your help not only with First Accounts but also to make sure that we in this town don't underestimate the ability of the American people to make financial decisions for themselves. Limiting people's choices is no way to enhance and further their financial understanding.

In closing, I thank you for this opportunity to talk with you and wish you continued success.

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EMBARGOED UNTIL 8:45 PM EASTERN TIME
Monday, February 25, 2002

CONTACT: Rob Nichols
(202) 622-2910

**ADDRESS OF TREASURY SECRETARY PAUL O'NEILL
BEFORE THE
CHICAGO ECONOMIC CLUB
CHICAGO, ILLINOIS**

I am an optimist about the U.S. economy. Let me tell you why. In 1977, after working for the federal government for 15 years, I moved to the private sector, affording me a front row perspective on the U.S. economy and on many other countries of the world economy as a product supplier. Let me remind you of the circumstances then. At that time and through the early 1980s, our situation was characterized by a struggling economy – relatively high unemployment rates, high inflation and high interest rates and a general sense that we were being eclipsed by Japan and that Russia was probably our equal.

If you fast forward to today and look back you see a U.S. economy that has had a remarkable period of income and productivity growth while Japan has had 11 years of average growth of less than 1% and Russia's economy by their own reckoning is the size of Portugal's.

Why the change? We have an enabling economic structure – not perfect, but as compared to other economies it is truer to the fundamentals that are necessary to economic growth and rising living standards. Our government system provides the rule of law, enforceable contracts and minimal corruption, buttressed by a relative openness to world competition and flexibility in our labor markets.

The energies of the private sector were awakened by the realization that we were slipping. We stopped complaining about low wage rates and subsidized products in other places and focused on winning the world as it was. And we have prospered.

Robust growth and prosperity began in the early 1980s, and hardly flagged until the year 2000. In the last half of the 1990s we grew at an unsustainable rate. The excesses of the dot-coms and telecom began a correction, first seen in order rates in mid-2000. By December of 2000 we were clearly in a correction phase that deepened through the first half of 2001. The Federal Reserve responded with rate cuts and Congress passed tax reform which began releasing money to the taxpayers on July 23rd.

PO-1043

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*U S Government Printing Office 1998 - 619-559

I believe we were headed for a recovery – a correction without a recession – until our economy was basically shut down for a period following the attacks of September 11. The third quarter negative growth came as no surprise and those who crunch the economic models were certain the fourth quarter would be even worse, estimating 2.5% or even 3% negative growth. As I looked at the data and talked to people around the country I heard a lot of doom and gloom but when I asked business leaders about their own businesses I found they were taking action. As a consequence when the third quarter numbers were released I said I thought there was a possibility that the fourth quarter would show positive growth. Businesses were discounting product prices to move goods and services and they were pulling down rates of production to eliminate inventory. They also rethought capital spending plans. On balance they took the actions necessary to sharply improve productivity and together these actions produced a modest rate of real growth in the fourth quarter – a rate I expect with be adjusted up when the regular reviews are made.

The best of the best around the world take their ideas and made them reality – creating jobs and improving living standards of people everywhere. The leading edge innovators in every sector of the economy are miles ahead of their competition – and that large gap means there is immense untapped potential for improvement.

It is useful to remember how the improvement is realized. Last summer after the tax reform bill was passed, I met the owner of a small florist shop who told me he was hiring one new person because the tax reform freed up the money to do it. This is an important story that makes this point: job growth in this country occurs one at a time. And when we leave people with more of what they earn, they pursue their individual goals, creating jobs and developing products and processes that make our lives healthier and more comfortable.

This individual story links to an important observation about our fiscal condition. Those who think American workers are getting to keep too much of their own incomes after last summer's tax reforms don't realize we are looking at a tax system that will still take in 19% of the GDP compared to an average rate of 18% since 1945. I think they also don't understand that a vibrant growing economy is what produces the basis for taxes that can be used for shared public purposes. But most people do understand this, and that is the reason not many voices are calling for tax increases as our economy is only in the early stages of recovering to the 3-3.5% annual growth rates that will create jobs for the 1.4 million people who have been displaced in the last year, and provide jobs for each year's increment of new job seekers. As we get back to a good rate of economic growth, budget surpluses with reappear so long as we exercise discipline in federal spending. It is true that the President's budget plan for fiscal year 2003 would produce a modest unified budget deficit because of funding requirements for the war and homeland security, but we believe this is the correct balance for the current circumstances.

Our job in government is to continuously improve the framework for our economy. While our recovery is underway, there are significant obstacles imposed by government that slow its speed. The President doesn't want to sit still and wait for the recovery to gain strength – he wants to speed Americans' return to work.

We are hopeful the Senate will act soon to take up a stimulus package as the President requested, to reduce the tax burden on job-creating investments. The Senate has voted to extend unemployment benefits, but I hope they will also see the need to vote to boost job creation.

The complexity of our tax code is a take away from our economic potential. Estimates of how much taxpayers spend complying with the tax code range from $70 to $125 billion a year. That's a lot of lawyers and accountants. The cost of their services has to be included in the price of products. I wonder how many of you think your food tastes better or your car performs better or your clothes fit better because of the added cost you pay to cover the cost of lawyers and accountants figuring out the tax code. Apologies to lawyers and accountants, but it would be great to have the need for a federal retraining program to convert you into product engineers.

We at Treasury are conducting a comprehensive review of the tax laws and their complexities, and the options for fixing some of the biggest headaches. We'll begin releasing these reports in the coming months. Did you know there are five different definitions of child in the tax code? You'd think it would be easy to know if you have a child living in your household or not. Guess again. And it doesn't end there. Take a look at all the provisions that allow for deducting different higher education expenses. Or all the different rules and requirements for various types of retirement savings.

It's not just individuals who suffer, either. Small businessmen have to read through indecipherable rules. Determining whether someone who works for you is an independent contractor or an employee can be an incredible headache. Small businessmen spend countless hours battling the IRS over timing of a deduction – not whether or not the cost can be deducted, just whether the deduction should be taken this year or next.

Our tax code is an abomination. And it is a drag on our ability to create jobs in this nation. I hope that by publishing detailed descriptions of these complexities, we can begin a cooperative effort with the Congress to undo some of these complexities that give individuals headaches and force small business to pay for tax advice instead of expanding their businesses and creating jobs.

Our agenda for prosperity encompasses other important policy objectives. The President has called on Congress to enact Trade Promotion Authority, to open foreign markets to U.S. products and services and create jobs here at home. The House has passed TPA, and it is awaiting action in the Senate. The President has also put forth a national energy strategy, to assure cleaner energy and stable prices. His plan would create jobs in the energy sector, and also in the technology sector as it spurs innovation to make our energy sources cleaner.

And now just a few words about a topical subject. Let me say that the subject is TRUST. When publicly traded companies provide information to their shareholders or potential shareholders, there must be accountability for the accuracy and completeness of the information put forward.

In the wake of recent events, the President asked me to work with Alan Greenspan, Harvey Pitt of the SEC and Jim Newsome of the CFTC to review the current requirements for disclosure and corporate governance, to assure that investors are getting the information they need to make informed decisions. We will make recommendations to the President in the coming weeks.

I start from this premise: with the highest position in an organization goes the highest responsibility. Let's tighten the meaning of what it means to be responsible. CEOs are the ones who know what's going on in their companies – there's no excuse for them not to know the position of the company and what variables will determine the company's future success. Every quarter the CEO should say I know what every investor needs to know and I've given it all to you. That doesn't mean investors should be forced to figure out what's important in a dense report the size of the NYC phonebook. The CEO should also identify the 5 or 10 most important things. And if there's negligence, there should be some recourse.

On a related subject, I believe government has no business telling Americans where they can and can't invest their money. And government can't ensure that no one ever makes a bad investment decision. What we can do, and should do, is make every effort to ensure that Americans have the skills to evaluate their savings and investment choices. We at Treasury are devoting serious attention to how best to improve Americans' financial literacy. I'm very pleased that Rosario Marin, the Treasurer of the United States, is going to lead an effort for us to make financial education part of the school curriculum for children everywhere – not as a separate course to take, but integrated into math and reading classes, so they learn at a young age the reward to saving and the costs and benefits of assuming debt.

Financial literacy is part of the foundation of a vibrant entrepreneurial economy – it ensures that everyone can join in and make the most of their ideas in a world where hard work is rewarded and capital flows freely to develop and implement good ideas.

Let me say again, as I did at the outset, I am an optimist about the U.S. economy and more broadly about our society. I believe the progress we will make in the next 25 years will dwarf the progress of the past 25 years. Together we can do it and together we will do it.

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FOR IMMEDIATE RELEASE
February 26, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Treasury Announces USA PATRIOT Act Regulations To Improve Information Sharing

The Department of the Treasury announces the issuance of additional regulations implementing the anti-money laundering and anti-terrorism provisions of the USA PATRIOT Act. The regulations, sent today to the *Federal Register* for publication, set forth the requirements of two important information-sharing provisions contained in section 314 of the Act.

First, in a proposed rule, the regulations seek to utilize the existing communication resources of Treasury's Financial Crimes Enforcement Network (FinCEN) to establish a link between federal law enforcement and financial institutions for the purpose of sharing information concerning accounts and transactions that may involve terrorist activity or money laundering.

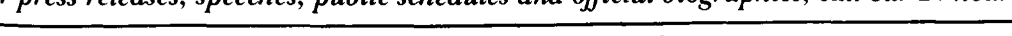
Second, in a regulation effective as soon as it is published in the Federal Register, certain financial institutions will be able to share information amongst themselves for the purpose of identifying and reporting suspected terrorism and money laundering once the financial institutions have notified FinCEN that they intend to share such information and that they will take adequate steps to maintain confidentiality.

The USA PATRIOT Act, in particular Title III of the Act, authorized bold, new measures to protect our financial system from money laundering and terrorism by reducing the barriers to the sharing of financial information among governmental entities as well as financial institutions, systematically targeting known risks to the financial system, and providing Treasury with the ability to identify new risks as they develop and take appropriate action to counter them. Section 314 of the Act bolsters the information exchange regime by enhancing two key channels for sharing information: (1) information exchange between the government and financial institutions (section 314(a)); and (2) information exchange among financial institutions (section 314(b)).

Information Sharing Between the Government and Financial Institutions

The proposed rule released today seeks to create a communication network to link federal law enforcement with financial institutions so that vital information relating to suspected terrorists and money launderers can be exchanged quickly and without compromising pending investigations.

PO-1044



*U S Government Printing Office 1998 - 619-559

FinCEN, a bureau of Treasury, already maintains a government-wide data access service to assist federal, State, and local law enforcement agencies in the detection, prevention, and prosecution of terrorism, organized crime, money laundering, and other financial crimes. Under the proposed rule, federal law enforcement will have the ability to locate accounts of, and transactions conduct by, suspected terrorist or money launderers by providing their names and identifying information to FinCEN, which will then blast that information, both electronically and by fax, to financial institutions so that a check of accounts and transactions can made. If matches are found, law enforcement can then follow up with the financial institution directly. The rule is intended to formalize and streamline the information sharing and reporting process that the federal government undertook following the attacks of September 11, 2001, by permitting FinCEN to serve as a conduit for information sharing between federal law enforcement agencies and financial institutions.

This regulation is a proposed rule, meaning that it will not go into effect until publication of a final rule that considers comments received.

Information Sharing Among Financial Institutions

In order to facilitate financial institutions' ability to identify and report to the federal government instances of money laundering or terrorism, Congress authorized the sharing of information among financial institutions about those suspected of terrorism and money laundering. Once notice has been provided to Treasury, financial institutions are free to share such information amongst themselves solely for the purpose of identifying and reporting to the federal government such activities.

The regulation issued today sets forth a notice provision requiring financial institutions to file a yearly certification if they wish to share information under this provision. The certification, which can be completed online at FinCEN's webpage (http://www.treas.gov/fincen), requires financial institutions to take the steps necessary to protect the confidentiality of the information and to use the information only for purposes specified in the rule.

Given the importance of this information sharing provision, Treasury is issuing this regulation as an interim final rule, effective when published in the *Federal Register*. By also issuing this provision in the proposed rule, Treasury ensures that the public has an opportunity to comment on the rule.

This news release and links to the regulations can be found at www.treas.gov/press.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 1:30 P.M.
February 26, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

REMARKS BY THE HONORABLE SHEILA C. BAIR ASSISTANT SECRETARY FOR FINANCIAL INSTITUTIONS

BEFORE MULTILATERAL INVESTMENT FUND/ INTER-AMERICAN DEVELOPMENT BANK SECOND REGIONAL CONFERENCE ON IMPACT OF REMITTANCES AS A DEVELOPMENT TOOL

I. INTRODUCTION

Thank you for that kind introduction. I am pleased and privileged to have this opportunity to speak before such a broad range of dedicated organizations that recognize the importance and impact that U.S. remittances have on Latin America and the Caribbean. I would first like to thank Mr. Enrique Iglesias and Mr. Donald Terry for inviting me to speak today and I look forward to our continued dialogue on this issue.

The IDB has been a leader on the issue of remittances to Latin America and the Caribbean. In addition to today's conference and the release of the Survey of Remittances Senders: U.S. to Latin America, the IDB held a regional conference last May to highlight the role of remittances as a development tool. Through today's conference and the two regional roundtables that preceded it, the IDB fulfills an important role in raising awareness of the issue surrounding remittances, proposing innovative solutions, and promoting cooperation among the many public- and private-sector groups involved in remittances.

My role as the Treasury Assistant Secretary for Financial Institutions encompasses a wide range of responsibilities, but one that holds a particular interest to me is that of consumer policy. As you know, the majority of remittances sent to Latin America and the Caribbean are generated at the consumer level – with individuals making investment decisions on how to spend their money. These remittances, although small in individual transaction size, have a significant global impact in the aggregate. Some estimates show that the level of U.S. remittances sent annually to Latin America and the Caribbean has reached the $15 to $20 billion mark. With the increasing number of Latin American workers residing in the U.S. and the familial ties that are maintained abroad, the level of remittances will continue to grow as well.

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At Treasury, we recognize the importance of remittances to Latin America and support the efforts of the IDB and other groups and entities to improve existing remittance systems and provide remittance services at reasonable prices. This has been a special focus of the Partnership for Prosperity, a key initiative of President Bush and President Fox, launched during Fox's State visit in September 2001. The Partnership, led by senior government officials from both the U.S. and Mexico including Deputy Secretary of the Treasury Kenneth Dam, is a public-private alliance that aims to boost the social and economic well being of citizens in Mexico particularly in regions and sectors where economic growth has lagged and fueled migration. Since the Partnership focuses on private capital flows of capital, the focus on remittances is a natural area to address. I also look forward to having an ongoing dialogue with IDB and the other organizations represented here today as we work together to expand the availability and affordability of remittance services in the United States.

II. BACKGROUND

According to an IDB study, Latin American immigrants living in the United States send an average of $250 home to their native countries eight to ten times per year. This activity translates into Latin American countries receiving close to $20 billion annually – about one-fifth of total worldwide remittances. In a number of Latin American countries, income from remittances accounts for a significant percentage of the gross domestic product. If current growth rates are maintained, cumulative remittances to Latin America could reach $300 billion for the ten-year period ending in 2010.

Although the sheer volume of remittances to Latin America is a key indicator of their importance, how recipients are using these funds further demonstrates their significance. In Latin American countries, most remittances are used to pay for daily household expenses, including food, clothing, and health care, and comprise a substantial portion of household income. Recipients may also use remitted funds to improve their standard of living through spending to build or improve housing or the purchase of durable consumer goods, such as washing machines. Finally, some of funds that are remitted to Latin America are spent on income- and employment-generating activities, such as starting a business or for community development projects.

As the volume of funds remitted to Latin American countries is expected to continue to grow rapidly, and in light of the importance of remittances to the recipient nations' economies, we intend to support efforts aimed at improving the U.S. remittance infrastructure and making remittance services more affordable.

Treasury also is seeking ways to ensure that remittances to Latin America are put to the most economically efficient uses. In this regard, it is important that the countries receiving remittances have the financial services infrastructures in place to translate capital into productive investments. Accordingly, we invite the IDB, in particular the MIF, to continue funding projects that improve the financial services infrastructures of Latin American and Caribbean countries, such as the recent $3.5 million grant to Mexico's Ministry of Finance and Public Credit for a project to strengthen the Mexican popular savings and loan sector.

III. THE REMITTANCE INDUSTRY

The IDB's study of remittances has found that although charges have declined significantly over the past two years, transfer costs for remittances are still high. The average transfer fee and exchange rate commission to send $200 varies from approximately $15 to $26. The cost varies as a result of the type of institution used to send the money and the country where the money is being sent, but can often reach up to 20% of the amount being sent, when transmission fees and losses on the exchange rate are both factored in. One of the reasons that prices have remained high is a lack of competition in the money transfer business. The industry continues to be dominated by a small number of money transmitters that generally tend to charge higher fees than banks or credit unions. By increasing competition, the price of remittances should continue to drop.

With respect to competition, an important recent trend in the area of remittances has involved traditional banking institutions increasing their efforts to provide money transfer services to the immigrant market at lower prices. Wells Fargo recently introduced a remittance service that charges a flat fee of $10 for remittances to Mexico of up to $1000. The service is offered through a joint venture with Mexico's Bancomer. Bank of America is also working on a safe, low-cost, and convenient remittance product that can be offered to Latino workers. MetroBank in Houston now offers a Matricula Checking account that allows the account holder to designate an individual in Mexico to have ATM access to the account. Another bank that has successfully targeted remittance services to a particular population is El Salvador's Bancomerio.

Credit unions provide an alternative for remittance activities in certain markets. For example, in Durham, North Carolina, the Latino Community Credit Union, which opened in June 2000 to serve the area's Hispanic population, offers a remittance service that charges $6.50 to $10 for money transfers to Latin America. Another credit union initiative is IRnet, the World Council of Credit Unions, Inc.'s international remittance service, which facilitates credit unions' ability to transfer of money at reasonable prices to a large of number of countries throughout the world.

I am excited to see a focus at these and other depository institutions as they recognize that large segments of the U.S. population have yet to be courted into the traditional banking system – a move that makes good business sense and at the same time can make remittance products more affordable. The recent efforts of these to entities reach out to the Hispanic population in the United States and to offer reasonably-priced remittance services is an excellent first step toward achieving the goal of a more efficient and affordable remittance system.

We encourage depository institutions to continue their efforts to serve the Hispanic community in the United States and to take advantage of technological advances to offer remittance and other services to this population on a broad basis and at a reasonable price. One example of a depository institution using technology in this way is Wells Fargo's "Intercuenta Express" service. Intercuenta Express allows a customer of Wells Fargo to initiate a funds transfer to Mexico using an ATM, the Internet, or telephone banking, thereby making such transactions easier for customers by eliminating the requirement to visit a branch location.

At Treasury, we understand that the remittances sent to Latin America can serve as a vital piece of foreign aid that goes beyond consumption. We support any efforts made to make the process of sending remittances more affordable for the people that use it – most of whom earn low wages to begin with.

IV. USA PATRIOT ACT'S EFFECT ON REMITTANCES

On October 26, 2001, President Bush signed into law the USA Patriot Act. The Patriot Act requires financial institutions, including money services businesses such as money transmitters, to establish anti-money laundering programs and verify the identification of their customers. These requirements are in addition to the suspicious activity reporting requirements that already apply to money services businesses.

With respect to the promulgation of any regulations under the Act, Treasury will seek to minimize the regulatory burdens on financial institutions in a manner that is consistent with fighting terrorism and money laundering. The Act's anti-money laundering provisions, however, undoubtedly will affect industries engaged in transmitting money to Latin America.

Financial institutions engaged in the remittance business may face special challenges in complying with the identification requirement because many of their customers may not have standard forms of U.S. identification. The issue of how to deal with identification of non-U.S. persons is being considered carefully by Treasury Domestic Finance, along with Treasury Enforcement, as they chair an intra-governmental effort to develop identification standards for the various types of financial services providers. Recognizing the importance of remittances to Latin America, the Treasury will strive to find a balance between the need for strong regulation that provides a real benefit to those working to achieve national security and law enforcement objectives and the ability of financial institutions to serve Latin American migrant communities and provide remittance services at a reasonable price.

Non-banking institutions, including those engaged in the remittance business, are likely to face higher compliance burdens both as a result of the Patriot Act and the recently effective requirement that such institutions register with the Treasury as money services businesses. These requirements should provide additional consumer protections to the individuals utilizing these businesses.

Subjecting non-banking institutions to requirements that are similar to those applicable to banking institutions will create a more level playing field between the two industries with respect to providing remittance services. A level playing field provides an incentive for traditional banking institutions to enter the remittance business, thereby providing additional market competition and leading to lower prices for remittance services.

The entry of traditional banking institutions into the remittance business also should result in an increase in the number of Latin American migrants being incorporated into the mainstream banking system.

By attracting Latin American migrants through reasonably priced remittance services, traditional banks have an opportunity to extend these relationships to account relationship.

V. FIRST ACCOUNTS

In addition to seeking improvements in remittance systems, I am also working on a closely related topic – increasing the number of people using mainstream financial services. As we bring more mainstream financial institutions into providing remittance services, we also want to encourage more "unbanked" families and individuals to use mainstream financial services.

There are at least three benefits to being banked:

First, increased safety and security – Carrying large amounts of cash is dangerous. Keeping cash at home is risky.

Second, lower financial transaction costs – The costs of financial transactions outside the banking system are high. Recent Treasury research indicates that a minimum wage worker can pay an average of $18 per month for cashing paychecks at a check casher. A Social Security recipient would pay an average of $9-16 a month to cash his or her risk-free government check.

And, third, the opportunity to build a promising future – It is difficult to participate in the mainstream economy without a checking account. It is more difficult to establish a sound credit record, qualify for a car loan, obtain a home mortgage, and receive a small business loan. Bank accounts can help families to save and manage their money.

Our initiative to move unbanked families and individuals into mainstream financial services is called **First Accounts**. This past December 27th, Treasury published a notice of funds availability, a NOFA, in the Federal Register inviting applications for First Accounts grants. The amount available is approximately $8 million to fund projects that can serve as models to connect unbanked low- and moderate-income individuals to mainstream financial services.

A wide variety of entities are eligible to apply for the grants – such as employers, financial services electronic networks, insured depository institutions, labor organizations, local governments, nonprofit organizations, and States. Given the number of calls and e-mails Treasury has received, many applications are expected from a wide range of entities.

The paramount goal of First Accounts is to move a maximum number of unbanked low- and moderate-income individuals to a banked status with either an insured depository institution or an insured credit union through the development of financial products and services that can serve as replicable models in meeting the financial services needs of such individuals. Additional goals include the provision of financial education to unbanked low- and moderate-income individuals to enhance the sustainability of the new financial relationships. We will also undertake research to evaluate the success of the funded projects and to understand what products, services, educational initiatives, marketing techniques or incentives are needed.

VI. CONCLUSION

In closing, I would like to reiterate Treasury's support for efforts that will expand the availability and affordability remittances to Latin America. We particularly encourage initiatives that, in addition to providing remittance services, will bring groups that have traditionally been outside of the mainstream banking system into it. I look forward to learning from the innovative experience of the MIF and my Latin American colleagues and gaining knowledge from your valuable insights with respect to this issue. Working together, I am confident that we can improve the current remittance system in a manner that is consistent with the global effort to combat money laundering and terrorism.

Thank you.

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For Immediate Release
February 26, 2002

Contact: Tara Bradshaw
(202) 622-2014

TESTIMONY OF MARK WEINBERGER
ASSISTANT SECRETARY OF THE TREASURY (TAX POLICY)
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman, Congressman Rangel and distinguished Members of the Committee, I thank you for the opportunity to testify before the Ways and Means Committee on the important issue of retirement security -- specifically, employer sponsored tax-qualified retirement savings plans, such as 401(k) plans.

My testimony this afternoon will address the President's Retirement Security Plan. As background, I will also address the current structure of the employer-provided retirement system as it is reflected in the Internal Revenue Code (the Code), especially plans that invest in company stock, and the expansions brought about by last year's Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA).

The members of this Committee have always been serious proponents of the expansion of the retirement system for American workers, retirees, and their families. Mr. Portman and Mr. Cardin have lead the way in promoting retirement legislation. Their efforts over the last few years resulted in retirement legislation that had overwhelming bipartisan support in the House of Representatives. Most of the provisions in their retirement bill were enacted last year as part of EGTRRA and we, at Treasury and the IRS, are working hard to make sure that these provisions have been implemented. Thank you for your leadership.

There are many more members of this Committee who also lead the way when it comes to expanding and protecting American retirement security. Mr. Johnson is one of those leaders both by using his position on this Committee and as the Chairman of the Employer-Employee Relations Subcommittee of the Education and the Workforce Committee. Mr. Neal has always shown great interest in retirement savings over the years. Both Mr. Weller and Mr. Matsui have been champions for greater disclosure to participants when employers change plan formulas. Mr. Ramstad has been a great friend of employee stock ownership plans, especially when used by small business. Ms. Dunn has always been an advocate of retirement issues, especially as they relate to women.

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She was a passionate proponent of the catch-up contribution, which is now available to those over age 50. Mr. Pomeroy, although new to this Committee, has a longstanding interest in retirement policy, especially the revitalization of the defined benefit plan. Mr. Rangel has demonstrated interest solving some of the problems that have arisen in the defined contribution world. And finally, you, Mr. Chairman, have been a long-time sponsor of legislation that expands retirement savings through the expansion of IRAs. We at Treasury appreciate all of your efforts in this area.

The issues relating to promoting and protecting retirement savings can be difficult and the proper balances hard to strike. The substantial experience of this Committee will be a valuable asset.

In talking about retirement security and the defined contribution system, let us follow the path of bipartisanship that the House of Representatives has been following when dealing with retirement issues. When looking at how to further improve the system, both sides having common goals. They include the promotion of the use of the voluntary, employer-based retirement system to provide retirement benefits to Americans and to protect participants' savings and retirement income. These laudable goals are reflected in all the various legislative proposals that have been introduced. Let us remember that we have the same goals when commencing this debate.

While the universal goal of the system is to provide for retirement security, each individual's personal goals for retirement savings differ. All agree that we must equip participants with tools to accomplish individual goals in a rational manner. Artificial restrictions may not be appropriate for all employees who are making personal decisions on how much to contribute to a plan and how to invest their contributions. Employees who determine their own investment goals do not want a government to restrict the amount of their investment that can be invested in specific funds.

Last month, President Bush formed a task force on retirement security. He asked Treasury Secretary O'Neill, Labor Secretary Chao and Commerce Secretary Evans to analyze our current pension rules and regulations and make recommendations to create new safeguards that protect the pensions of millions of American workers. In his State of the Union speech, the President reiterated this commitment when he said:

> "A good job should lead to security in retirement. I ask Congress to enact new safeguards for 401(k) and pension plans. Employees who have worked hard and saved all their lives should not have to risk losing everything if their company fails."

The President's Retirement Security Plan, announced on February 1, 2002, would strengthen workers' ability to manage their retirement funds by giving them freedom to diversify their investments and better information for making savings and investment decisions, including access to professional investment advice.

It would ensure that senior executives are subject to the same restrictions as American workers during temporary blackout periods and that employers assume full fiduciary responsibility during such times. I will talk more about the specifics of his proposal later in my testimony.

Under our retirement system, no employer is obligated to provide a retirement plan for employees; the private retirement plan system is completely voluntary. There are clear benefits to employers who provide retirement plans – not only tax benefits but also the benefits of hiring and retaining qualified employees who help the business prosper. Because of these benefits, we must be careful not to overburden the system. If costs and complexities of sponsoring a plan begin to outweigh advantages, employers will stop sponsoring plans. What benefit does an elaborate protection mechanism provide for retirement savings if the employer ceases sponsoring a plan? We should join together in a bipartisan fashion to ensure that the legislative proposals we advance will not result in a reduction in the number of employers' sponsoring plans.

An important point I would like to make is that the retirement system is thriving. Some statistics illustrate the strengths of the system.

- In 1998 (the most recent data available from the Department of Labor), qualified retirement plans for private employers covered a total of 41 million defined benefit plan participants and 58 million defined contribution plan participants. These plans held assets of $4 trillion. Contributions of $202 billion were made and benefits of $273 billion were paid.

- Currently, it is estimated that 42 million workers participate in 401(k) plans, which hold $2 trillion in assets (of which 19 percent are invested in employer securities). Employees contribute about $100 billion per year to 401(k) plans, and employers contribute another $50 billion per year. About half of 401(k) participants are also covered by another pension plan.

These statistics underscore the breadth of coverage of employer-sponsored plans and the strength and vitality of the 401(k) plan system. Other statistics, however, point out the lack of coverage in small business – something that EGTRRA was designed to remedy.[1] In 1998, 86 percent of the employers with 500 or more employees sponsored a retirement plan. Fewer than 14 percent of the smallest employers sponsored a plan.

Tax Principles Regarding Retirement Plans and Company Stock

The importance of the retirement system under the tax code is long-standing.

[1] For example, EGTRRA provided a small business tax credit for qualified plan contributions and new plan expenses for small businesses.

In the Revenue Act of 1921, Congress provided that contributions by an employer to a stock bonus or profit sharing plan[2] are deductible by the employer and not taxable until the amounts contributed are distributed or made available to the employee. Five years later, in the Revenue Act of 1926, the Congress extended this tax treatment to pension plans. The concepts of profit-sharing and stock bonus plans date back to the 1920's, and some of the oldest defined contribution plans now maintained by well-known and well-run companies began as stock bonus plans. Many companies that contribute stock to their retirement plans have employees who end up with very comfortable retirements. For example, the average rate of return from 1990 to 1997 for employee stock ownership plans was 13.3 percent, while for 401(k) plans it was 11.9 percent.

Some assert that having company stock in a retirement plan is a gamble that employees should not take. We believe that company stock, as part of one's overall retirement nest egg, has generally proven to be a favorable for employees. We all know examples of employees who did not fare well. While appropriate steps should be taken to enable employees to better protect themselves, we should not abandon the long-standing and successful employer-provided plan retirement system. Rather we should give employees more flexibility and more information so that they can better manage their retirement nest egg.

Tax qualified plans are accorded favorable tax treatment. A sponsoring employer is allowed a current tax deduction for plan contributions, subject to limits, and employees do not include contributions or earnings in gross income until distributed from the plan. Trust earnings accumulate tax-free.

Qualified plans are also subject to rules protecting participants and restricting the use of plan assets, including the following:

- Plan funds must be used only for the exclusive benefit of employees or their beneficiaries.
- To ensure that employers provide benefits under these plans to moderate and lower-paid employees, qualified plans are subject to rules that prohibit discrimination in favor of highly compensated employees (the nondiscrimination rules).
- To encourage participants to keep amounts in plans to satisfy retirement needs, sanctions are imposed if funds are withdrawn from a qualified retirement plan prior to retirement.

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[2] A "profit sharing" plan is a tax qualified plan under which employer's contributions on behalf of covered employees are allocated according to a definite predetermined formula and distributed after a fixed number of years, the attainment of a stated age, or upon the occurrence of some event such as layoff, illness, disability, retirement, death, or severance of employment. An employer does not have to have profits to make contributions to a profit sharing plan. A "stock bonus" plan is similar to a profit sharing plan, except that the contributions by the employer are distributable in stock of the employer.

- To ensure that plan assets are accumulated for retirement purposes and not accumulated as a death benefit, sanctions are imposed for not taking distributions during a participant's retirement years.

Since 1974, many of the tax qualification rules have also been addressed in provisions of the Employee Retirement Income Security Act of 1974 (ERISA).[3]

Types of Retirement Plans.

There are two broad categories of tax qualified retirement plans: defined benefit plans and defined contribution plans. While many of the tax rules regarding these types of plans are similar, there are important differences.

A defined benefit plan provides a participant with a benefit defined by the plan. The employer makes plan contributions that are actuarially determined to fund the benefit over the working life of the employee. The employee has no risk that his or her entire pension benefit will be lost. If the funds of the plan are insufficient to pay the benefits promised and the company is bankrupt, the Pension Benefit Guaranty Corporation provides a guarantee of benefits up to a statutory maximum, which in most cases exceeds the promised benefits. Conversely, if the investment experience of the underlying fund outpaces the promised benefits, the employer benefits through a lower contribution obligation. While excess funds are held for employees, they are not required to be used to increase pension benefits.

In a defined contribution plan, the employer makes a contribution that is allocated to participants' accounts under an allocation formula specified by the plan. Investment gains or losses increase or decrease the participant's account, without obligating the employer to make further contributions. Earnings increase the participant's ultimate retirement benefit; losses will decrease that ultimate benefit. Under a defined contribution plan the plan sponsor may, but is not required to, give participants the ability to allocate assets in their accounts among a number of investment alternatives. If a participant has the ability to direct plan investments, his or her investment decisions will determine the ultimate retirement benefit.

Due to a number of factors, there is a recent trend among employers to shift toward defined contribution plans. One of these factors has been the increasing mobility of the American workforce and demands by employees for a portable benefit.

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[3] For example, most of parts 2 and 3 of Title I of ERISA (the vesting, participation, and funding rules) are virtually identical to tax qualification rules in the Internal Revenue Code. The Internal Revenue Service makes determinations as to the qualified status of the form of a plan and audits whether plans operate in accordance with their terms. Generally, an employee cannot bring an action to enforce tax qualification requirements, which are enforced by the Internal Revenue Service. If a tax qualification requirement is also contained in ERISA, however, it can also be enforced by a plan participant or by the Department of Labor. The Reorganization Plan No. 4 of 1978 provides that, in general, the Secretary of the Treasury has the regulatory authority for those provisions that are contained in both the Internal Revenue Code and ERISA.

It is difficult for an employee who changes jobs frequently to vest in a significant defined benefit. From 1985 to 1998, the number of defined benefit plans fell by 67 percent and the number of active defined benefit participants fell by 21 percent. Over the same period, the number of defined contribution plans rose by 46 percent and the number of active defined contribution plan participants rose by 52 percent. In particular, the growth in the number of defined contribution plans and participants is due to an explosion in the number of 401(k) plans and participants.

Employees and employers both appreciate many of the advantages of defined contribution plans. Employees have become more mobile and defined contribution benefits are more valuable than defined benefits for employees who change employers during their working life. Employees also appreciate the ability to control the allocation of the assets in their accounts. Employers appreciate the more predictable funding obligations of defined contribution plans.

401(k) Plans.

A very popular feature in defined contribution plans is the cash or deferred arrangement, codified under section 401(k) of the Code (hence, the term "401(k) plan"). Section 401(k) of the Code permits a participant to elect to contribute, on a pre-tax basis, to a defined contribution plan instead of receiving cash compensation.

There are restrictions on these elective contributions, including a requirement that the average amount of elective contributions made by highly compensated employees (as a percentage of compensation) may not be greater than a certain percentage of the average amount of contributions made by non-highly compensated employees. This test is referred to as the Actual Deferral Percentage (ADP) test and must be satisfied annually. One result of the ADP test is that employers encourage participation by lower-paid employees. Employer matching contributions give an incentive to lower-paid employees to contribute to the plan. A new EGTRRA provision requires that matching contributions be 100 percent vested after three years of service or vested ratably over six years. Another important provision of EGTRRA, the Saver's Credit, provides a tax credit equal to 50 percent of the retirement savings (up to $2,000) of many lower paid employees. The more lower-paid employees save for retirement the more higher-paid employees can save.

Matching contributions are subject to a nondiscrimination test similar to the ADP test. This test, the Actual Contribution Percentage (ACP) test, is used to make sure that matching contributions do not disproportionately favor the highly compensated (as a percentage of compensation) relative to non-highly compensated employees. Prior to EGTRRA, an additional nondiscrimination test – called the Multiple Use Test –had to be passed. EGTRRA eliminated this third nondiscrimination test because it unnecessarily complicated 401(k) plan testing. Congress and the Administration agreed that the ADP and ACP tests are adequate to prevent discrimination in favor of highly compensated employees.

The ADP and ACP tests can be avoided through the use of one of two statutory safe harbors. Under one of the safe harbors, the employer matches 100 percent of an employee's contributions, up to 3 percent of compensation, and 50 percent of the employee's contributions between 3 percent and 5 percent of compensation. The other safe harbor requires the employer to make a contribution on behalf of all eligible employees (regardless of whether the employee actually makes a 401(k) contribution) equal to 3 percent of compensation.

Employee Stock Ownership Plans.

A stock bonus plan may be designated in whole or in part as an employee stock ownership plan, or ESOP. An ESOP is a plan that is designed to invest primarily in company stock. Currently, it is estimated that there are about 11,500 ESOPs, covering about 8.5 million workers. Only about nine percent of ESOPs are in publicly traded companies. However, these tend to be large companies and hence account for about half of ESOP-covered workers. In 1999, ESOPs held about $500 billion in assets and received $20 billion in contributions.

If a plan or a portion of a plan is an ESOP, the ESOP generally must pass voting rights on publicly traded stock held in participants' accounts to participants. An ESOP must give participants the right to request the distribution in stock, and, if the distribution is made in stock, the right to "put" (i.e., sell) the stock back to the company or the plan. In addition, participants who are age 55 and have at least 10 years of participation in the plan must be given the opportunity to diversify a portion of the stock held in their ESOP account.

Employers establish ESOPs for many reasons. In addition to providing retirement benefits to employees, an ESOP transfers employer stock to employees, thereby encouraging employee ownership and aligning employees' interests with the success of the company. An ESOP can be used to transfer ownership from a company founder to employees by having the ESOP borrow funds to purchase company stock as the owner retires or to provide additional capital for employer expansion. Tax-deductible ESOP contributions can be used by the ESOP to repay a loan. As the loan is repaid, the stock purchased with loan proceeds is allocated to participants. About three-quarters of ESOPs have used borrowed funds to acquire employer securities.

Another advantage to establishing an ESOP is the ability of the employer to deduct dividends paid on employer stock held in the plan. EGTRRA made this feature even more attractive by extending this deductibility feature to all ESOP dividends provided that participants are given the opportunity to elect to receive the dividend in cash. Because of the value of this expanded deduction for ESOP dividends, we understand that most publicly traded companies that have a non-ESOP employer stock fund will convert that stock fund to an ESOP and offer participants the opportunity to take a distribution of the dividend in cash.

When talking about ESOPs, many people refer to K-SOPs and M-SOPS. A K-SOP is an ESOP that uses an employee's 401(k) contributions to purchase employer stock or repay a loan whose proceeds had been used to purchase employer stock for the plan. Likewise, an M-SOP is an ESOP that uses the employer's matching contributions to purchase employer stock or repay an ESOP loan.

The President's Retirement Security Plan.

The President's plan puts employees in better control of amounts that they contribute to a 401(k) plan and improves employees' ability to make good individual investment decisions and reach their retirement goals. The President's plan focuses on the following four areas:

1. Giving Employees Investment Choice

The President believes that federal retirement policy should expand, not limit employee ability to invest their contributions or matching contributions as they see fit. Under the President's plan, employers cannot require that accounts of employees who have three or more years of participation in the plan be invested in employer stock. However, the employee is not required to diversify these amounts; it is the employee's choice. The three-year rule provides a balance between the employer's desire to have employees invested in employer stock and the employee's interests in diversification. The three-year period is consistent with the shorter vesting rule for employer matching contributions.

ESOPs are intended to be invested primarily in employer securities and are an accepted method of transferring ownership of a company to employees. Requiring diversification in all ESOPs would make it virtually impossible to accomplish the well-accepted purposes of an ESOP, including the encouragement of employee ownership and a source of financing to the employer. Moreover, ESOPs are subject to special diversification rules already in the Code. Therefore, the President's plan provides that a stand-alone ESOP (i.e., an ESOP that holds no 401(k) contributions, matching contributions, or other contributions used to satisfy the Code's nondiscrimination tests) will not be subject to these diversification requirements. K-SOPs and M-SOPs will be required to offer diversification rights to plan participants.

This new diversification requirement will be an addition to the overall tax qualification requirements under the Code. Since the diversification rule will be a tax qualification requirement, the plan document must specifically provide for the diversification right. If the diversification right is not contained in the plan, the IRS will refuse to issue a favorable determination letter stating that the plan meets the qualification requirements.[4] The diversification requirement would also be added to Title I of ERISA, thereby giving participants and the Department of Labor the ability to enforce the diversification right.

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[4] The IRS estimates that it will review approximately 120,000 plans during this year's filing season to determine whether they meet the qualification rules of the Code.

2. **Clarifying Employers' Responsibilities During Blackout Periods and Creating Parity Between Senior Corporate Executive and Rank-and-File Workers**

The President's plan provides fairness by eliminating double standards with respect to the ability to sell employer stock during the time plan recordkeepers or plan investments change – the so-called blackout period. This is accomplished by placing restrictions on corporate executives trading employer stock outside of a plan that parallel restrictions on employer stock transactions inside the plan during a blackout period. In addition to being fair to employees, this rule would create a strong incentive for corporate management to shorten the blackout period to the minimum time required to make changes.

Section 404(c) of ERISA provides employers with a defense against lawsuits when employers give workers control of their individual account investments. The President's plan would clarify ERISA to disallow employers from utilizing this 404(c) defense for fiduciary breaches that occur during a blackout period. Because the 404(c) defense is based on the premise that employers have given investment control to their workers, the defense logically is inappropriate during blackout periods when employers have suspended investment control from their workers.

3. **Giving Employees Better Information about Their Pensions**

To make sure that employees have maximum control over the investment of their retirement savings, the President's plan requires that notice be given to employees 30 days before the blackout period begins. With this notice, employees will be able to adjust investment selections in anticipation of the blackout period. Failure to provide this notice will result in a penalty on the plan sponsor of $100 per day per employee for every day that an employee did not get the notice.

The President also wants to make sure that employees get up-to-date information on plan investments and reminders of sound investment principles. The President's plan expands the current reporting requirements for 401(k)-type plans so that quarterly statements are required. In addition, the quarterly statement should address appropriate investment diversification. We believe that the more employees hear about diversification, the more they can decide for themselves whether their overall retirement savings are secure.

4. **Expanding Workers' Access to Investment Advice**

In order for employees to get the investment advice they need, the President advocates the enactment of the Retirement Security Advice Act – which passed the House with overwhelming bipartisan support. Currently, ERISA impedes employers from obtaining investment advice for their employees from the financial institutions that often are in the best position to provide advice.

The Retirement Security Advice Act would address this by providing employees with access to advice from fiduciary advisers that are regulated by Federal or State authorities. As fiduciaries, these advisers would be held to the standard of conduct currently required by ERISA. This legislation encourages employers to make investment advice more widely available to workers and only allows qualified financial advisors to offer advice if they agree to act solely in the interests of employees. The Retirement Security Advice Act would also add important protections by requiring information about fees, relationships that may raise potential conflicts of interest, and limitations on the scope of advice to be provided. The legislation also would place advisers who have affiliations with investment products on a more equal footing with non-affiliated advisers, foster competition among firms, and promote lower costs to participants.

I reiterate the Administration's desire to achieve consensus on both the problems and solutions surrounding the retirement security of all Americans. I hope that we can work together to improve the employer-based retirement system and provide more retirement security for all Americans by providing more investment choice, plan information, and investment education to employees.

I appreciate the opportunity to discuss these important issues with the Members of this Committee, and would be pleased to explore these issues further.

Mr. Chairman, this concludes my formal statement. I will be pleased to answer any questions you or other Members may wish to ask.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Embargoed until 2:15 pm [eastern]
February 26, 2002

Contact: Rob Nichols, Tasia Scolinos
202-622-2960

REMARKS BY TREASURY SECRETARY PAUL O'NEILL ON NEW TERRORIST FINANCING DESIGNATIONS
U.S. CUSTOMS AIR AND MARINE BRANCH
JACKSONVILLE, FLORIDA

First, let me say thank you for having me here today, and thank you for the job you are doing protecting our homeland. Each and every member of the Customs Service has responded to the call for greater vigilance since the attacks of September 11, and your nation appreciates your hard work.

Immediately after September 11, President Bush said our enemies are terrorist organizations of global reach, and all who harbor them, and all who support them. He asked me to pursue the money that fuels terrorism, and every asset of the Treasury Department has been deployed in that pursuit. The Customs Service and other Treasury bureaus and offices have created an international effort to track and block terrorist money. Today, the Treasury Department has designated 21 more individuals under Executive Order 13224 as financiers of terrorism.

These individuals have acted for or on behalf of ETA, also known as the Basque Fatherland and Liberty. The United States Department of State previously designated ETA as a "foreign terrorist organization," our government's gravest categorization.

Today's blocking action is the result of close cooperation with the Government of Spain and the European Union - a collaboration that symbolizes a new and extremely important chapter in the financial war against terrorism. I am very pleased to share the podium with Carmen Guttierez, who is here today representing the Government of Spain. Our two nations have a common goal. We are not only committed to cooperating in the financial war against terrorism, but we are playing a leadership role together.

The United States wholeheartedly welcomes this international cooperation. It is our hope that other governments will take the lead in identifying terrorists and their supporters, so that together the civilized world can shut down their organizations and eradicate their sources of support.

PO-1047

*U.S. Government Printing Office: 1998 - 619-559

We are starting to see this occur. At the end of December the EU designated several terrorist entities and organizations, including extremist groups who threaten peace in Europe. We were pleased to follow the EU's lead and designate those entities, too.

This trend must continue, as terrorists are as likely to attack in New Delhi or Nairobi, as they are in New York. This designation is a crucial step in the right direction, and I hope this serves as a model for more countries to independently initiate more designations.

Now, speaking from this facility, in front of this impressive P3, affords me the opportunity to highlight the role the U.S. Customs Service has played in combating terrorism financing, specifically through Operation Green Quest, a Treasury-led inter-agency task force with vigorous participation from IRS-CI, USSS, FinCEN, OFAC, FBI, DOJ, the Postal Service, and Naval Criminal Investigative Service. Green Quest – founded in October - is a unique operation. It brings the full scope of the government's financial expertise to bear against systems, individuals, and organizations that serve as sources of terrorist funding.

In the four months it has existed, Operation Green Quest has seized approximately $10.3 million in smuggled U.S. currency and $4.3 million in other assets. Operation Green Quest's work has also resulted in 21 search warrants/consent searches, 12 arrests, and 4 indictments. Currently, Operation Green Quest has more than 300 ongoing investigations into terrorist finances. Green Quest, along with the FBI and other law enforcement and intelligence agencies, has also traveled abroad to follow leads, exploit documents recovered, and to provide assistance to foreign governments.

This model of international co-operation – demonstrated by today's blocking action - coupled with our domestic enforcement efforts – like Green Quest – have begun to put a dent in the global infrastructure that finances terrorism. But there are more terrorist networks of global reach, and more front groups who seek to support them. We must, and we will, remain vigilant.

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For Immediate Release **February 26, 2002**

Fact Sheet

Designations of Basque Fatherland and Liberty (ETA) Members

"Our crackdown on terrorists is blind to nationality and origin. Rather, it's a net that is being cast on all terrorist parasites that threaten our allies and our national security. By taking this action we join many nations to act forcefully against such terrorists."

Treasury Secretary Paul O'Neill
February 26, 2002

Basque Fatherland and Liberty, also known as Euzkadi Ta Askatasuna, also known as ETA (hereinafter "ETA"), was founded in 1959 with the aim of establishing an independent homeland based on Marxist principles in the northern Spanish provinces of Vizcaya, Guipuzcoa, Alava, and Navarra and the southwestern French departments of Labourd, Basse-Navarra, and Soule. Its terrorist activities consist primarily of bombings and assassinations of Spanish Government officials, especially security and military forces, politicians, and judicial figures. ETA finances its activities through kidnappings, robberies, and extortion. The group has killed more than 800 persons since it began lethal attacks in the early 1960s. In November 1999, ETA broke its "unilateral and indefinite" cease-fire and began an assassination and bombing campaign that killed 23 individuals and wounded scores more by the end of 2000.

ETA's current strength is unknown, though it may have hundreds of members, plus supporters. It operates primarily in the Basque autonomous regions of northern Spain and southwestern France, but also has bombed Spanish and French interests elsewhere. ETA has received training at various times in the past in Libya, Lebanon, and Nicaragua. Some ETA members allegedly have received sanctuary in Cuba while others reside in South America. ETA also appears to have ties to the Irish Republican Army through the two groups' legal political wings.

ETA was designated by the U.S. Government as a Foreign Terrorist Organization ("FTO") on October 8, 1997, and has been re-designated every two years, most recently on October 5, 2001. On October 31, 2001, ETA was also designated by the U.S. Government as a Specially Designated Global Terrorist ("SDGT") under the President's September 23, 2001, Executive Order 13224 blocking property and prohibiting transactions with persons who commit, threaten to commit, or support terrorism. Based on information provided by the Spanish government, the Department of the Treasury is designating 21 individuals as Specially Designated Global Terrorists ("SDGT") pursuant to Executive Order 13224. The 21 individuals are members of, assist in, sponsor, or provide financial, material, or technological support for, or financial or other services to or in support of ETA's acts of terrorism, and are otherwise believed to be acting

for or on behalf of. These individuals were designated by the European Union on December 27, 2001, for their involvement in terrorist acts.[1]

[1] EU Council Common Position of 27 December 2001 on the application of specific measures to combat terrorism (2001/931/CFSP)

Individuals Designated by the Department of Treasury

February 26, 2002

Abaunza Martinez, Javier
DOB 01 January 1965; POB Guernica (Vizcaya), Spain
D.N.I. 78.865.882

Alberdi Uranga, Itziar
DOB 7 October 1963; POB Durango (Vizcaya), Spain
D.N.I. 78.865.693

Alcalde Linares, Angel
DOB 2 May 1943; POB Portugalete (Vizcaya), Spain
D.N.I. 15.390.353

Albisu Iriarte, Miguel
DOB 7 June 1961; POB San Sebastián (Guizpúcoa), Spain
D.N.I. 15.954.596

Arzallus Tapia, Eusebio
DOB 8 November 1957; POB Regil (Guipúzcoa), Spain
D.N.I. 15.927.207

Elcoro Ayastuy, Paulo
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D.N.I. 15.394.062

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DOB 2 December 1972; POB Baracaldo (Vizcaya), Spain
D.N.I. 20.172.692

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IMMEDIATE RELEASE
February 27, 2002

Contact: Tara Bradshaw
(202) 622-2014

TESTIMONY OF BARBARA ANGUS, INTERNATIONAL TAX COUNSEL, UNITED STATES DEPARTMENT OF THE TREASURY BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS ON THE WTO DECISION REGARDING THE EXTRATERRITORIAL INCOME EXCLUSION PROVISIONS

Mr. Chairman, Congressman Rangel, and distinguished Members of the Committee, we appreciate the opportunity to appear today at this hearing on the World Trade Organization's recent decision regarding the extraterritorial income exclusion (ETI) provisions of the U.S. tax law.

On January 29th, the WTO Dispute Settlement Body adopted a final report finding that the ETI provisions of the U.S. tax law are inconsistent with the United States' obligations under the WTO. We all are very disappointed with this outcome. This decision is the culmination of a challenge brought by the European Union in late 1997 against the foreign sales corporation (FSC) provisions then contained in the U.S. tax law. However, the origins of this dispute go back almost 30 years, predating the WTO itself. The United States has vigorously pursued this matter and defended its laws because of the importance of the provisions and principles at stake.

At its core, this case raises fundamental questions regarding a level playing field with respect to tax policy. Few things are as central to a country's sovereignty as the right to choose its own tax system. The ETI provisions, like the FSC provisions that preceded them, represent an integral part of our larger system of international tax rules. These provisions were designed to help level the playing field for U.S.-based businesses that are subject to those international tax rules. As we contemplate our next steps, we should not lose sight of that.

The Congress has demonstrated its commitment to the U.S. businesses, both large and small, that operate in the global marketplace and to the U.S. workers that produce the output that is sold in markets around the world. The Congress took decisive action, under significant time pressure, in passing legislation in November 2000 to respond to the first WTO decision in this dispute by repealing the FSC provisions and enacting the ETI provisions. That legislation represented a good faith effort to bring the United States into compliance with its WTO obligations while protecting the level playing field for U.S. businesses.

PO-1048

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*U.S. Government Printing Office: 1998 - 619-559

To be facing the same issue again so soon certainly is a disappointment. Nevertheless, we must look forward and pursue all options to resolve this matter so that American workers and the businesses that employ them will not be disadvantaged.

Mr. Chairman, the Administration looks forward to working closely with the Congress, on a bipartisan basis, to find a solution that will protect America's interests and honor our obligations in the WTO.

Our testimony today will focus on the particular provisions of our tax law at issue, the history of the dispute in the WTO over these provisions, and the findings and analysis of the WTO Dispute Settlement Body with respect to these provisions.

The Foreign Sales Corporation Provisions

The FSC provisions were enacted in 1984. They provided an exemption from U.S. tax for a portion of the income earned from export transactions. This partial exemption from tax was intended to provide U.S. exporters with tax treatment that was more comparable to the treatment provided to exporters under the tax systems common in other countries.

A FSC that elected to be subject to these provisions generally was a foreign subsidiary of a U.S. manufacturer. The U.S. manufacturer sold its products to the FSC for resale abroad or paid the FSC a commission in connection with its sales of products abroad. In order to qualify for these provisions, the FSC was required to be managed outside the United States and was required to conduct certain economic processes outside the United States with respect to these export transactions. These economic processes related to the solicitation, negotiation, and making of contracts with respect to such transactions.

The sales or commission income of the FSC on these transactions was determined under specified pricing rules. The exemption from tax applied to a portion of the FSC's income from sales and leases of export property and from related services. The FSC was subject to current U.S. tax on the remainder of its income from these transactions.

The FSC provisions were enacted to resolve a General Agreement on Tariffs and Trade (GATT) dispute involving a prior U.S. tax regime – the domestic international sales corporation (DISC) provisions enacted in 1971. Following a challenge to the DISC provisions brought by the European Union and a counter-challenge to several European tax regimes brought by the United States, a GATT panel in 1976 ruled against all the contested tax measures. This decision led to a stalemate that was resolved with a GATT Council Understanding adopted in 1981 (the "1981 Understanding"). Pursuant to this 1981 Understanding regarding the treatment of tax measures under the trade agreements, the United States repealed the DISC provisions and enacted the FSC provisions.

The WTO Decision Regarding the FSC Provisions

The European Union formally challenged the FSC provisions in the WTO in November 1997, thirteen years after their enactment. Consultations to resolve the matter were unsuccessful, and the EU challenge was referred to a WTO dispute resolution panel. In October 1999, the WTO panel issued a report finding that the FSC provisions constituted a violation of WTO rules. The United States appealed the panel report; the European Union also appealed the report. In February 2000, the WTO Appellate Body issued its report substantially upholding the findings of the panel.

Although the United States believed that the FSC provisions were blessed by the 1981 Understanding, the WTO panel completely dismissed this argument, concluding that the 1981 Understanding had no continuing relevance in the interpretation of current WTO rules. The panel's analysis focused mainly on the application of the WTO Agreement on Subsidies and Countervailing Measures. The panel found that the FSC provisions constituted a prohibited export subsidy under the Subsidies Agreement.

Under the Subsidies Agreement, a subsidy exists if (1) government revenue otherwise due is foregone and (2) a benefit is thereby conferred. The Subsidies Agreement prohibits subsidies that are contingent, in law or in fact, on export performance. Looking first at the subsidy issue, the panel concluded that three specific aspects of the FSC provisions, taken together, resulted in an exception from taxation for income that otherwise would be subject to U.S. tax; the panel therefore concluded that the FSC provisions resulted in foregone government revenue through which a benefit was conferred. The panel then concluded that this subsidy provided by the FSC provisions was export-contingent, and therefore prohibited, because the tax treatment under the FSC provisions depended upon the exportation of U.S. goods. The panel further found that the FSC provisions constituted an export subsidy in violation of the WTO Agreement on Agriculture. The panel declined to rule on the European Union's additional arguments that the pricing rules and "domestic content" rules contained in the FSC provisions constituted separate violations of the WTO rules. The panel recommended that the subsidy provided by the FSC provisions be withdrawn with effect from October 1, 2000 (which date was later extended to November 1, 2000, under a procedural agreement between the parties).

The Extraterritorial Income Exclusion Provisions

In response to the WTO decision against the FSC provisions, the FSC Repeal and Extraterritorial Income Exclusion Act was enacted on November 15, 2000. This legislation had been voted out of this Committee with a vote of 34 to 1, and was passed by the House with a vote of 316 to 72. The legislation repealed the FSC provisions and adopted in their place the ETI provisions. The legislation was intended to bring the United States into compliance with WTO rules by addressing the analysis reflected in the WTO decision. The new regime addressed the subsidy issue by establishing a new general rule of taxation under which extraterritorial income is excluded from gross income; the new regime addressed the export-contingency issue by applying to income from all foreign sales and leases of property, without regard to where the property is manufactured. At the same time, the legislation also was intended to ensure that U.S. businesses not be foreclosed from opportunities abroad because of differences in the U.S. tax laws as compared to the laws of other countries.

The ETI provisions provide an exclusion from U.S. tax for certain extraterritorial income. This exclusion applies to a portion of the taxpayer's income from foreign sales and leases and certain related services. The ETI provisions apply to foreign sales and leases of property manufactured in the United States and also to foreign sales and leases of property manufactured outside the United States. In the case of property manufactured outside the United States, the manufacturer either must be subject to the taxing jurisdiction of the United States or must elect to subject itself to such jurisdiction. Thus, the income from transactions to which the ETI provisions apply is subject to consistent U.S. tax treatment.

Unlike the FSC provisions, the ETI provisions do not require the filing of an election or the formation of a special entity to which sales are made or commissions are paid. Also unlike the FSC provisions, the ETI provisions apply to both corporations and individuals in the same manner.

The exclusion provided under the ETI provisions generally is available only if certain economic processes are conducted outside the United States. As under the FSC provisions, these economic processes relate to the solicitation, negotiation, and making of contracts. A portion of the income from foreign transactions covered by the ETI provisions is exempt from U.S. tax. Because this exclusion is an alternative approach to addressing potential double taxation, foreign tax credits are not allowed with respect to the excluded income.

The WTO Decision Regarding the ETI Provisions

Immediately following the enactment of the ETI Act, the European Union brought a challenge in the WTO. In August 2001, a WTO panel issued a report finding that the ETI provisions also violate WTO rules. The panel report contained sweeping language and conclusory statements that had broad implications beyond the case at hand. Because of the importance of the issues involved and the troubling implications of the panel's analysis, the United States appealed the panel report.

The WTO Appellate Body generally affirmed the panel's findings. However, significantly, the Appellate Body modified and narrowed the panel's analysis. The Dispute Settlement Body adopted the report as modified by the Appellate Body on January 29, 2002.

The Appellate Body report makes four main findings with respect to the ETI provisions: (1) the ETI provisions constitute a prohibited export subsidy under the WTO Subsidies Agreement; (2) the ETI provisions constitute a prohibited export subsidy under the WTO Agriculture Agreement; (3) the limitation on foreign content contained in the ETI provisions violate the national treatment provisions of Article III:4 of GATT; and (4) the transition rules contained in the ETI Act violate the WTO's prior recommendation that the FSC subsidy be withdrawn with effect from November 1, 2000.

Prohibited Export Subsidy Under the Subsidies Agreement

The analysis of the prohibited export subsidy under the Subsidies Agreement involved three separate issues.

First, the Appellate Body found that the ETI provisions constitute a subsidy under Article 1.1(a)(ii) of the Subsidies Agreement. The Appellate Body compared the ETI exclusion to the tax rules that otherwise would have applied to income from this type of transaction. Based on that analysis, the Appellate Body found that the ETI exclusion constitutes the "foregoing of revenue which is 'otherwise due'," that it confers a benefit, and that it is therefore a subsidy.

Second, the Appellate Body found that the ETI provisions are export contingent because of the provisions' application only to income from transactions involving property that is sold, leased, or rented for direct use, consumption, or disposition outside the United States. As did the lower panel, the Appellate Body bifurcated the ETI provisions, separating the application to transactions involving property produced within the United States from the application to transactions involving property produced abroad. For property produced within the United States, the foreign use requirement could be met only by exporting the property. Based on this bifurcation, the Appellate Body found that the ETI provisions are export contingent with respect to domestically produced products. This conclusion was not affected by the fact that the ETI provisions apply in circumstances that are plainly not export contingent (i.e., with respect to property produced outside the United States and sold for use outside the United States).

Third, the Appellate Body rejected the U.S. argument that the ETI provisions constitute a permitted measure for avoidance of double taxation. The United States believed that the ETI provisions fell within the fifth sentence of footnote 59 of the Subsidies Agreement which effectively permits a country to "tak[e] measures to avoid the double taxation of foreign-source income," even if the measures constitute export subsidies. The Appellate Body found that footnote 59 applies only to "foreign-source income" and that, to be considered "foreign-source income," the income must have sufficient links to another country that the income could be taxed by that other country. The Appellate Body further viewed the ETI provisions as potentially applying to income that would not fall within the reach of this rule as so interpreted. Therefore, the Appellate Body found that the ETI provisions do not constitute a measure to avoid double taxation under footnote 59.

Export Subsidy Under the Agriculture Agreement

Because the Appellate Body held that the ETI provisions constitute a prohibited export subsidy under the Subsidies Agreement, it followed that the ETI provisions also violate the export subsidy provisions of the WTO Agriculture Agreement.

National Treatment Under GATT Article III:4

The Appellate Body affirmed the panel's finding that the 50 percent limitation on foreign articles and direct labor costs contained in the ETI provisions violates GATT Article III:4.

The Appellate Body dismissed the U.S. factual point that taxpayers may meet this requirement without using any U.S. content whatsoever. The Appellate Body found that this limitation in the ETI provisions represents an encouragement of domestic manufacturers to use domestic over imported components, thereby providing less favorable treatment to imported products than to like domestic products.

Withdrawal of FSC Benefits

The Appellate Body also rejected the transition rules included in the ETI Act, finding no basis for permitting the continuance of the application of the FSC provisions beyond the November 1, 2000 date specified for withdrawal of the subsidy found to have been provided by the FSC provisions. The Appellate Body rejected the U.S. position that efficient and fair administration of the tax laws frequently requires tax legislation to include transition rules and binding contract relief for taxpayers that acted in reliance on the prior law provisions.

Current Arbitration Proceeding

When it challenged the ETI Act in November 2000, the European Union simultaneously requested authority from the WTO to impose trade sanctions on $4.043 billion worth of U.S. exports. The United States responded by initiating a WTO arbitration proceeding on the grounds that the amount of trade sanctions requested by the European Union was excessive under WTO standards. This arbitration was suspended pending the outcome of the European Union's challenge to the WTO-consistency of the ETI Act, and resumed on January 29th with the Dispute Settlement Body's adoption of its final report. The parties are filing written submissions and will meet with the arbitration panel, which will issue its report on the appropriate level of trade sanctions on April 29th. Following adoption of that report, the European Union will be authorized to begin imposing trade sanctions on U.S. exports up to the level set by the arbitrators.

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FACT SHEET

February 27, 2002

FUTURE OF US LEADERSHIP AND US ECONOMY REQUIRE AN IMMEDIATE PERMANENT INCREASE IN THE DEBT LIMIT

In just the next few weeks, the federal government is projected to reach the statutory debt limit. An immediate permanent increase in the debt limit is crucial to preserve the confidence of our global allies in the US Government as we lead the effort to end terrorism, and an immediate permanent increase is essential to prevent uncertainty that could damage our economic recovery. The Full Faith and Credit of the United States is a unique asset that underlies the leadership position of our nation. People here and around the world can count on the US government to pay its bills on time, no matter what, and that certainty is an invaluable part of our economic strength. America is and must remain a safe haven for investors around the world. Any delay in raising the statutory debt limit could create uncertainty that would raise the cost of financing essential government services for US taxpayers. We should not play politics with the full faith and credit of the United States.

WHY ACTION IS NEEDED NOW

Treasury will be forced to take actions to preserve cash balances even before we actually reach the debt limit, in order to preserve a cushion to ensure we stay within the law. Even before we reach the actual limit, Treasury could be forced to cancel the sale of Patriot Bonds and State and Local Government Securities. As we approach the ceiling and are unable to issue more debt, Treasury must take other steps to provide cash balances so that the government can pay its bills. In the past, inaction on the debt ceiling has forced Treasury to disinvest or delay the investment of federal employees 401(k) and retirement fund contributions in order to have cash on hand to meet our obligations.

A failure to increase the debt limit threatens our very ability to meet our fundamental priorities. A lack of cash on hand in the Treasury would endanger our ability meet our obligations – including our obligations to pay Social Security benefits, make Medicare payments, and purchase the tools necessary to protect our homeland and prosecute the war on terrorism.

PO-1049

*U.S. Government Printing Office: 1998 - 619-559

RECESSION AND SEPTEMBER 11 SPED APPROACH TO DEBT LIMIT

The current debt ceiling is $5.95 trillion. The President's budget projects that debt subject to limit will rise to $6.099 trillion at the end of fiscal year 2002 and to $6.489 trillion at the end of fiscal year 2003.

Last August, the Office of Management and Budget projected that the debt ceiling would not be reached until late 2003. The recession and the response to the September 11 attacks have moved that projection forward, and today we expect to reach the debt ceiling in March of this year.

The Secretary of the Treasury has requested a $750 billion increase in the debt ceiling. That amount would simply restore the debt limit time horizon to where it was just prior to September 11. Since November 1983, there have been four increases in the debt limit that were larger than the current request when measured relative to GDP, as a percentage of total debt, as a percentage of the federal budget. The current request is the same size as the last increase enacted during the Clinton Administration in 1997 ($755 billion).

Permanent Increases in the Debt Ceiling

	$ billions	constant 1996 dollars $billions	as % of ceiling	as % of budget	as % of GDP
1983	101	147	7%	12%	3%
1984	30	42	2%	4%	1%
1984	53	75	3%	6%	1%
1984	251	353	16%	29%	7%
1985	255	347	14%	27%	6%
1986	32	43	2%	3%	1%
1987	689	891	33%	69%	15%
1989	323	389	12%	28%	6%
1990	1,022	1,188	33%	82%	18%
1993	755	804	18%	54%	12%
1996	600	625	12%	38%	8%
1997	450	441	8%	28%	5%
2002	750	725	13%	37%	7%
RANK			6th	5th	5th

GOVERNMENT DEBT GROWS AS SOCIAL SECURITY SURPLUSES GROW

While the timing of the need to increase the statutory ceiling is sooner than we had anticipated just six months ago because of untoward events, we've always known it would need to be raised at some point. The growth of the Social Security trust fund is – and will continue to be – the most significant contributor to the increase in the level of the government's debt subject to limit. The President's budget forecasts a $158 billion Social Security surplus in 2002. That is, Social Security payroll taxes and other receipts coming in to the Social Security trust fund will exceed payments from the trust fund by $158 billion. That surplus is, by law, immediately invested in Treasury securities, and therefore increases the government debt that is subject to limit. In 2003, the President's budget forecasts the Social Security surplus will be $177 billion. Thus, over two years, the surplus revenues to the Social Security Trust Funds will add more than $335 billion to the debt subject to the statutory limit.

There are nearly 200 trust funds of this kind maintained by the federal government (although no other as large as Social Security.) Other federal government trust funds similarly bring in more revenues than are spent each year, including the Medicare Part A trust fund, the civil service retirement trust fund and the military retirement trust fund. Similarly, these surplus revenues to those trust funds are invested in Treasury securities and therefore increase the government debt.

Overall, the expected growth in government trust funds alone is over $400 billion over the next two years. According to an OMB summary table in the fiscal year 2003 budget: The trust fund total surpluses total $212.6 billion for fiscal year 2002, $257.3 billion in fiscal 2003, and $289.5 billion in fiscal 2004; or $759.7 billion over fiscal years 2002-04.

PUBLICLY-HELD DEBT AS SHARE OF ECONOMY IS DECLINING

Even as trust fund surpluses increase total government debt, publicly held debt as a share of our economy is declining, and continues to fall under the President's budget. In 1995, publicly held debt amounted to 49% of GDP. By 2001 that had fallen to 33% of GDP, and by 2007, that percentage will fall to 25%.

INTEREST AS SHARE OF FEDERAL OUTLAYS IS DECLINING

Similarly, net interest on the debt is consuming a smaller share of federal government outlays (Table 8.3 in Historical Tables for fiscal 2003 budget). In 1995, interest payments consumed 15.3% of the federal outlays. As the economy grew and the budget returned to surpluses, interest payments as a share of outlays fell. In 2001, interest payments consumed 11.1% of federal spending, and the President's budget projects that interest will consume just 7.5% of federal spending in 2007, leaving more resources available for priority programs.

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February 27, 2002

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Economic Impact of the Lack of Terrorism Risk Insurance

Testimony of Mark J. Warshawsky,
Deputy Assistant Secretary for Economic Policy, U.S. Treasury
Before the Financial Services Subcommittee on Oversight and Investigation
United States House of Representatives

Wednesday, February 27, 2002

Chairwoman Kelly, Representative Gutierrez, Members of the Subcommittee, I appreciate the opportunity to present to you the views of the Office of Economic Policy at the Treasury Department on the current and possible future impacts of the lack of terrorism risk insurance on the American economy. We appreciate the speedy action of the House in passing legislation last year that would have created a temporary federal back-stop to insured losses from terrorist attacks. We look forward to continuing to work with you to achieve our shared objective of restoring private insurance coverage for this risk. Terrorist attacks have the potential for significant nationwide costs and thus justify a carefully designed collective approach to insuring against the losses from such events, utilizing the already existing coverage and payment mechanisms of private insurance markets.

The terrorist attacks have had a negative impact on the ability of businesses and property owners to insure against risk.

Industry estimates of insured losses resulting from the attacks of September 11, over all principal lines of coverage, range from $30 billion to $90 billion, with the consensus estimates in the $36 billion to $54 billion range. These losses hit many major lines of the property/casualty insurance business including property, business interruption, workers' compensation, and liability, as well as life and health. Wherever the final figures settle, these will be the largest insured losses in history. By contrast, Hurricane Andrew, which led to significantly higher premiums and reduced availability of insurance in flood prone areas, caused, in today's dollars, $19.3 billion of insured losses in all lines, although it should be noted that the industry was much better capitalized on the eve of the September 11th tragedy than it was when Andrew hit.

PO-1050

*U.S. Government Printing Office: 1998 - 619-559

Investment losses experienced by primary property/casualty (P/C) insurance and reinsurance companies, which had been growing prior to September 11, accelerated dramatically immediately after that date. Hence, unlike other insured events, the insurance losses from these terrorist attacks were highly correlated with investment losses at the time -- a difficult and risky situation for insurance and reinsurance companies.

In addition to these two types of losses actually experienced, the attacks revealed to the insurance industry a potential for huge future losses which it had not priced before and cannot yet readily model. Terrorism creates the possibility of a large loss, but it does so with an uncertain probability. This is unlike other insurable events where the law of large numbers operates to effectively pool risk, as in personal lines such as life, health, long-term care or automobile. It is more comparable to dramatic natural catastrophes, such as hurricanes or earthquakes, causing large losses. But unlike terrorism risk, natural catastrophes have predictable patterns and probabilities quantifiable by sophisticated models, based on past weather conditions or seismic activity, that better allow the assumption and diversification of risk.

It is well known that primary insurers in most lines of coverage reduce their risk by laying it off to reinsurers. Reinsurance is a valuable, sensible, and well-established way of spreading risk. Many participants in the reinsurance market are large sophisticated organizations, are often foreign-owned and operate world wide, thus assuring that risks in any one country or type of business are spread around the world. As a consequence of the September 11 losses, which reduced their capital base, and the inability to model terrorism risk, at least at the present time, the reinsurance industry has almost entirely stopped assuming terrorism risk. Primary insurers have also withdrawn, and continue to withdraw, from covering this risk in states and lines of coverage where the law or insurance regulators have not prevented them from so doing.

I will be brief in summarizing the insurance market impacts; I understand that the testimony of the GAO will cover this in detail.

Primary insurers are being allowed by insurance commissioners in all states, with the prominent exceptions of New York, California, and Georgia, to exclude terrorism coverage above certain dollar amounts from smaller, regulated commercial policies. Most states, however, do not allow an exclusion from damage caused by fire following a terrorist attack. No states have allowed the exclusion of terrorism risk in personal insurance lines.

Terrorism is defined broadly in the exclusion as activity that involves the threat of, or actual use of, violence if the effect is to intimidate the government or disrupt some segment of the economy and the intent is to further political or ideological objectives. The definition includes the use of nuclear, chemical or biological weapons. It apparently does not make a distinction between the foreign or domestic origin of the act of terrorism.

Because state laws do not allow companies offering workers' compensation insurance to exclude terrorism risk, some primary insurers have chosen to drop the workers' compensation line completely, rather than underwrite terrorism risk absent reinsurance. Others are issuing it on a more selective basis, forcing many businesses into state sponsored insurance pools.

In one case brought to our attention workers compensation insurance was not renewed because the insured had over 500 employees located in a tall office building in Pennsylvania.

Insurance brokers report that terrorism coverage for large commercial properties, whose insurance policies are unregulated, is difficult to obtain, and importantly, subject to limits of coverage that are much lower than customers want. And premiums for these properties have increased dramatically. In some instances the total policy cost with limited terrorism coverage is reported to be roughly double the cost of the P/C policy without the terrorism coverage. Stand alone coverage for terrorism risk is very limited and quite expensive where it is available. In fact, separate terrorism risk coverage costs more than the insurance covering all other risks while it provides a lower limit and responds to only one event.

Owners of large commercial properties and holders of mortgages on such properties (pension funds, trusts, etc.) are reluctant to discuss the extent and nature of their insurance coverage because few property owners want to make public the fact that they are uncovered or inadequately covered. This makes it especially difficult to gage the extent of the coverage and cost problems, but we have indications that they are widespread on many types of properties, especially those currently thought to be most at risk from terror attacks.

The effects of conditions in the market for terrorism risk insurance are being heightened by rising rates for types of insurance coverage unrelated to terrorism risks, where the insurance market is tightening. Insurance brokers, who deal in most commercial P/C coverage, report that median rate increases are 30-50 percent and mean rate increases are 40-70 percent. Industry sources report that rates had begun to rise and coverage shrink well before September 11 as part of the classic underwriting cycle. This cycle is generally started when insurance company earnings on investments decrease, reducing their capacity to underwrite insurance. Insurance industry capital losses as a result of September 11, however, have exacerbated the cycle, as has the increased risk for primary insurers remaining after excluding allowable terrorism risk coverage. While some increase in premiums might be expected in response to the low earnings in the insurance industry before September 11 and the attacks themselves, the recent increases have been so dramatic that they harm the Nation's economic recovery.

These insurance difficulties in turn are affecting the financing of new real estate projects and sales of existing properties.

Reports to us indicate that financing is limited for new construction and/or acquisition of high-profile properties which are at risk for terrorist attack and inadequately insured. Lenders are carefully screening the location and size of buildings. Some are simply refusing to lend on trophy properties that are not fully insured. Others will lend on underinsured properties, but only if the owner will provide recourse. In one case, a large construction project in the Midwest known to be financially viable prior to September 11 is now at risk of being abandoned because of gaps in the available terrorism coverage. Eventually the market might be able to price for the new risks facing such properties. Both the severity and timing of changes to date, however, make them harmful to the economy.

The impact on existing properties at risk is equally troubling. While, technically, properties without adequate insurance are in default of financing covenants, lenders may well not foreclose but, rather, raise their fees to cover their own risk.

Rating agencies have indicated that they will substantially increase subordination levels on new issues of commercial mortgage backed securities whose collateral properties have inadequate insurance coverage. They are also in the process of establishing risk criteria that would lead to the downgrading of securities collateralized by properties inadequately insured and at an elevated risk of attack. Those deemed high risk by the agencies include trophy assets, symbols of America, structures for large gatherings of people (arenas, stadiums, and convention centers), critical infrastructure (major bridges, tunnels, and transportation hubs), and critical energy-providing structures. It also includes structures that are tall, located in a central business district, or with a highly visible tenancy.

Ratings downgrades would, of course, have a major negative impact on the value of such securities, which are widely held by mutual funds and pension plans. Spreads between the yields for large property commercial mortgage backed securities and Treasury securities have in fact widened recently, especially for properties with greater exposure to terrorism risk. And we have received reports that the volume of commercial mortgage backed securities issued since the beginning of the year has fallen.

We have particular concern about the impact of high premium rates and lack of insurance availability for smaller projects being built near what is considered potential terrorist targets. Hospitals, municipal entities and other nonprofits where trustees feel a fiduciary responsibility may well forgo terrorism coverage if they see the cost is equal or greater than what they're paying for all other perils.

Of equal concern to us is the steep rise in rates for commercial and other insurance policies for all developers, because this rise has the potential to cause significant impact on the economy and is likely to last for the next year or two. While low interest rates may be offsetting some of the increased insurance costs right now, we cannot count on that situation to remain constant.

Finally, the full effects of the terrorist attacks on insurance conditions have yet to be felt, because about a third of the reinsurance treaties and many primary insurance contracts negotiated prior to September 11 have not yet expired. Many real estate lenders are still deciding how to adjust their lending strategies to the lack of coverage for their properties. Others may delay bringing properties to markets in hopes of improvement later. These impacts are difficult to quantify and document because they are dispersed, and the affected policyholders may be reluctant to publicize that they are having trouble finding financing for real estate projects, or that outstanding debt secured by inadequately insured property risks a ratings downgrade. In this regard, I understand that the SEC is considering whether to require businesses left without commercial terrorism risk insurance after the September 11 attacks to disclose the loss to investors as a material risk factor.

The implication of these insurance market conditions and economic consequences makes it critical for Congress to enact a federal terrorism risk insurance backstop for at least four reasons.

1. The lack of coverage and high premium rates imply a drag upon our economy and a burden to the nascent recovery, including the potential for a loss of even more jobs. Some are now arguing that the lack of a dramatic economic impact resulting from Congress' failure to enact a federal terrorism risk insurance backstop prior to January 1 means that the legislation is not necessary. This argument reflects a fundamental misunderstanding of the nature of the problem and the drag that terrorism risk is placing on an economy that is in the early stages of recovery. As I've indicated, the insurance industry has been significantly destabilized, with coverage well below "equilibrium", and prices for coverage well above normal levels. Investors in new properties and lenders on properties on which contracts have expired are paying disequilibrium costs, either directly, because of the spikes in renewal policy costs, or indirectly, because they are the ones now bearing this risk.

The economic impact is therefore two-fold: first, the decreased returns and higher risk experienced by businesses and developers are a disincentive to future investment over this interim period. Second, as suppliers of capital in turn seek to lay off the cost, the impact is passed through to consumers and workers. Further, it will increase as more and more insurance contracts come up for renewal. In brief, the impact is just like a "tax" increase on productive capital. What is the ultimate impact on consumer prices and jobs? While it is always difficult to estimate accurately, we know that in the long run, in our open and elastic capital markets, workers and consumers will bear the brunt of the burden.

2. The cost of lost and postponed investment opportunity is potentially large for future economic growth. Many real estate lenders are still deciding how to adjust their lending strategies to the lack of coverage for their properties. Many developers may be delaying bringing properties to capital markets in hopes of improvement in insurance conditions later, which in turn is now dependent on government action. Thus capital is not committed to worthy projects--that would have received financing and created jobs had insurance markets been in a better equilibrium.

3. Inaction paralyzes the private sector. Furthermore, the lack of government action, one way or another, is itself costly as insurers, financiers, and businesses wait to see what new institutions the government might set up before themselves committing to creating new insurance mechanisms, even ones significantly less efficient than a robust private insurance market. Moreover, economic activity itself could adjust in the design and location of building projects. Planning and decision making would be much better if they knew the insurance environment they faced. We can do better by our investors, consumers, and workers than this.

4. The economic impact of another terror attack could be even greater than the September 11 attack. Finally, there is a real concern about the potential costs to the federal government and the economy in the event of another attack, with no backstop program in place to stem the tide of uninsured and underinsured properties. Private insurance covered a significant percentage of losses arising from the September 11 attacks. Following the attacks, insurance companies quickly stated that they would pay claims on the World Trade Center and other losses (including business interruption) incurred because of its destruction.

The ability of the insurance industry to make this simple and credible promise was likely instrumental in calming investors after the attacks and giving business confidence that funds would be available to resume business operations, particularly in New York City.

The subsequent rapid disbursement of payments has been vital in speeding New York City's recovery according to a report commissioned by that city's Chamber of Commerce. Nearly half of the projected payouts are expected to be made within a year of the attack. Such rapid disbursement will be possible only because a payment scheme (via well-established insurance conduits) was in place prior to the attacks. Trying to devise such a scheme on short notice and in the aftermath of another terror attack would be considerably less effective and would slow recovery.

But without a backstop program in place to encourage participation by private insurance that might well happen. In the event of a major terrorist strike, many of the losses would likely be borne by the federal government. We would expect defaults on commercial mortgages and other losses. It might be difficult to resist the call for federal assistance to compensate uninsured property owners and businesses victimized by the terrorist strike. Compensation for losses by private insurance industry has worked smoothly and efficiently. It is highly unlikely that a federal payment system, hastily conceived in the aftermath of a major attack, could perform as well.

We need action now.

As the President has stated strongly, our enemies are persistent, clever, and should not be underestimated: future incidents may be quite different from the attacks we have already experienced. Our enemies have stated that their intent is to cause economic harm, as well as physical harm, to us. We firmly believe that our Nation's battle against the scourge of terrorism will ultimately be successful. We also believe that private markets will stabilize--capital levels will be restored and insurers' ability to price this risk will improve. But we now know how difficult and costly it can be for an economy to adjust to terrorist events. We bear responsibility for assuring that our citizens are adequately protected against terrorism. This includes our citizenry's ability to obtain insurance in the interim against this insidious threat, as well as reducing the costs of restoring their financial well-being were another event to occur. And we want to encourage economic growth. Hence, we have proposed a federal insurance backup.

Congress should act before the economic damage caused by lack of terrorism risk insurance takes too great a toll. We want to work with you to create the best possible support for our economy, job creation, and consumers.

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PUBLIC DEBT NEWS

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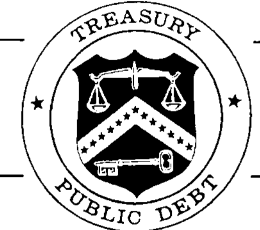

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
February 27, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate:	3%	Issue Date:	February 28, 2002
Series:	K-2004	Dated Date:	February 28, 2002
CUSIP No:	9128277M8	Maturity Date:	February 29, 2004

High Yield: 3.059% Price: 99.886

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 35.07%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 43,897,415	$ 23,679,580
Noncompetitive	1,320,420	1,320,420
FIMA (noncompetitive)	0	0
SUBTOTAL	45,217,835	25,000,000 1/
Federal Reserve	6,734,810	6,734,810
TOTAL	$ 51,952,645	$ 31,734,810

Median yield 3.014%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 2.980%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 45,217,835 / 25,000,000 = 1.81

1/ Awards to TREASURY DIRECT = $902,693,000

http://www.publicdebt.treas.gov

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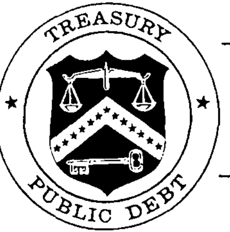

TREASURY SECURITY AUCTION RESULTS
BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE
February 26, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term: 28-Day Bill
Issue Date: February 28, 2002
Maturity Date: March 28, 2002
CUSIP Number: 912795JM4

High Rate: 1.745% Investment Rate 1/: 1.775% Price: 99.864

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 63.17%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 50,986,401	$ 22,971,226
Noncompetitive	29,358	29,358
FIMA (noncompetitive)	0	0
SUBTOTAL	51,015,759	23,000,584
Federal Reserve	3,879,529	3,879,529
TOTAL	$ 54,895,288	$ 26,880,113

Median rate 1.730%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.700%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 51,015,759 / 23,000,584 = 2.22

1/ Equivalent coupon-issue yield.

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PO-1052

DEPARTMENT OF THE TREASURY

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U.S. LEADERSHIP IN THE GLOBAL ECONOMY

TESTIMONY OF TREASURY SECRETARY PAUL H. O'NEILL BEFORE THE COMMITTEE ON FINANCIAL SERVICES OF THE HOUSE OF REPRESENTATIVES

I. Introduction

Chairman Oxley, Representative LaFalce and Members of the Committee, thank you for inviting me here today to discuss President Bush's international economic agenda and our efforts at the Treasury Department to advance that agenda.

Mr. Chairman, when I accepted the job of Secretary of the Treasury, President Bush directed me to meet a number of important challenges. One of those challenges – one I take very seriously and personally – is our nation's role in international economic growth and development. The President's message to me was very clear: if we care, and we have simple respect for human dignity, then we must finally begin to deliver on a half-century of unfulfilled promises to raise the standard of living of poor people living – and dying – in the world today. President Bush feels that U.S. leadership is essential to meet this challenge and I agree with him. The United States should be a locomotive of global economic growth and a champion of economic development in those parts of the world that have lagged behind.

Let me be clear: the creation of economic growth and jobs in the U.S. economy is our overriding concern. In fact, I believe that getting our economic policies right at home is one of the best contributions we can make to global economic growth.

It is also true that growth and prosperity in the global economy are vital interests of the United States because economic growth is associated with peace, stability, democracy, innovation, and the expansion of markets. These are important national goals. An even more fundamental goal for our nation is to see that the people of the world have the opportunity to live at their potential. That is a hope each and every one of us holds out for the world, and we have an obligation to do what we can to achieve it.

PO-1053

*U.S. Government Printing Office: 1998 - 619-559

When the leaders of the free world joined together more than fifty years ago with a commitment to speed the progress of the underdeveloped world, they could not have imagined how slow progress would be. This is especially unsettling since over those same fifty years, we have also witnessed incredible feats of human progress. Countries have risen from the ashes of war to become vibrant, thriving members of the community of nations. People have struggled and succeeded in discarding the yoke of totalitarian regimes to create free democracies. Today, more people than ever before in the history of the world have the opportunity to compete, to reap the benefits of their labor and creativity in free markets, and to create wealth. And the resultant miracles of science, health, and technology are truly inspiring.

So why are so many people still poor? Why have so many people been left behind?

It is not because the people in developing countries aren't capable of all the same advances the rest of the world has created. In my experience running a global enterprise, I saw brilliant ideas put forward by people in every corner of the world. What is lacking in the nations that have failed to progress is a system that supports the deployment of new ideas. Most of the basic building blocks of such a system are relatively inexpensive: good government, good educational systems, the rule of law, respect for property rights, a commitment to free markets, a commitment to peaceful relations with neighboring countries.

But for many countries these foundations for development are beyond their reach – either for lack of money, lack of know-how, or lack of encouragement or incentives to do the right thing. And in some cases, countries have simply been led down the wrong road because of policy prescriptions from the international community and the sometimes perverse incentives our international assistance programs have created.

I believe that we can succeed in effecting change. Let me take a few minutes to discuss some of the ways we are trying to drive change.

II. Strengthening International Economic Cooperation

Achieving economic growth and stability is absolutely fundamental to improving the lives of our citizens and those all around the world. And it is vital to greater security for all of us. With this in mind, we spend an enormous amount of time and effort working with other countries toward these goals.

One of the challenges we face in this task is balancing the need to provide leadership and impetus with the importance of respect and deference to other countries' decision-making processes. As President Bush has said, the United States should not lecture other countries but rather should respect their sovereignty concerning their own policies. Indeed, a fundamental principle of our approach is that other countries should have ownership of their economic policies. Governments need to bear the responsibility for addressing their own economic problems and challenges – and ensuring that they choose prudent policies that will bring them sustained growth and stability over the medium and long term.

We would accomplish little if we tried to force them to follow our wishes, since only lasting and committed implementation of economic policy measures will deliver real results.

This is why, while seeking to deepen and enrich our contacts and cooperation with other countries on economic and financial issues, we avoid pressuring countries to adopt our solutions to their problems. The ongoing dialogue that we maintain with our Group of Seven (G-7) partners has embodied this approach. We value our interactions with our G-7 colleagues. At the same time, we are careful in these sessions to be sensitive to the fact that each country needs to – and should be encouraged to – pursue policies appropriate for its own circumstances.

G-7 meetings provide key opportunities to share information, discuss policy considerations in our own economies and pursue innovative approaches to international policy issues of shared concern. In recent months, we have had concrete discussions with others in the G-7 on how to achieve our common objective of higher global economic growth. We expect to issue a quantitative, fact-based study around the time of the G-8 Heads of State Summit in June that discusses a number of policy changes that could vastly improve global economic growth. The G-7 is also working together on a variety of other issues, including our efforts to rid the world's financial system from terrorist fundraising activities and reform of the international financial institutions.

III. Enhancing Stability and Growth: Reform of the International Monetary Fund

To unleash human economic potential, it is vital that economies have a sound and stable basis on which to grow. Cultivating conditions in the international economic and financial system that support growth is the job of the International Monetary Fund. Indeed, rather than serving as a firefighter for crises, the IMF should become more like a gardener, nurturing the seeds of private sector growth.

The first task is to prevent the eruption of crises that undermine and reverse growth. This is a formidable intellectual challenge, since it is difficult at best to identify trouble far enough ahead so that something can be done to prevent it. And it is equally a leadership challenge, since prevention requires the political will to take decisive and often unpopular steps early in order to avert a crisis that may not yet be apparent to others. Enhancing its crisis prevention role means that the IMF must take a number of steps. It needs to do better in detecting signs of trouble itself, and with our encouragement the IMF is taking steps to strengthen its internal early warning systems. Greater transparency is also fundamental, both on the part of the IMF and its member countries, so that financial markets can discern the true performance and potential risks of individual economies and the system as a whole. When countries publish timely data on their performance, markets can make informed decisions – and this is indeed happening now, with forty-nine countries complying with the new standards for data disclosure. For its part, in addition to being more transparent about its operations, the IMF needs to speak out when it sees trouble looming. It is up to countries themselves to make policy changes to avoid crises, but the IMF must make itself more vocal in identifying problems as they develop.

I want to touch briefly here on contagion. I was criticized last year when I said that contagion was not something that God intended us to have. But I saw that something important was changing in international financial markets, and I thought that it was important to draw attention to it to further drive that change. Fear of contagion can cause the IMF and others to do things that shield investors from the risks of their investments, which only increases the chances that a crisis will recur. In fact, financial markets, aided by greater access to information, are now increasingly differentiating between those countries that are pursuing strong, growth-oriented policies and those that are not. This is an important development.

To be more effective in cultivating growth, the IMF also needs to narrow the focus of its involvement in member economies. In the past, the IMF allowed its activities to expand into areas outside those central to its mission and thus to overlap with the mandates of the multilateral development banks, for instance in promoting agricultural reform and judicial reform. The IMF does not have a comparative advantage in addressing such issues, and attempting to do so arguably diminishes the Fund's effectiveness in pursuing more central objectives. Rather, the Fund should focus on monetary, fiscal, exchange rate and financial sector policies that lay the macroeconomic framework for growth.

The IMF is already making progress in narrowing the focus of its work. New country programs reflect a sharper concentration on key areas and a prioritization of measures necessary for reforms to succeed. This is a welcome change. And a broader review of the conditions attached to IMF lending continues. As part of this review, we are emphasizing the need for the IMF to be selective in providing financial support. The IMF needs, in short, to demonstrate a greater willingness to focus its support on countries doing the most to help themselves, and to decline to finance cases in which a country is not prepared to take the steps required to achieve credible reforms and a sustainable growth path.

One important mechanism for identifying and supporting countries that are truly committed to reform is to make greater use of "prior actions." These are conditions that countries must meet before a program is approved and Fund resources are disbursed. As such, they provide the opportunity for countries to demonstrate their strong commitment and ownership of sound economic policies – and for the IMF to ensure up front that reforms will be implemented. This approach was important to the IMF's support for Turkey in May last year, when Turkey took decisive steps to implement nine key prior actions before the IMF agreed to a new program with increased financing.

But this in itself is not enough to change fundamentally the role of the IMF in the international system. Rather, we need to make clear that there are limits on official support to countries in unsustainable situations – that they will not be "bailed out" despite a history of bad policy choices and a lack of commitment to reform. This is essential to avoid distorting incentives for countries and investors alike. It is up to the IMF and its members to impose such limits. This does not mean that we should set rigid ceilings on the amount of financing that the IMF can provide when a country is adopting a strong reform program. But it does mean reining in the tendency to provide generous financing packages when a country's debt situation is unsustainable and tough-minded reforms are needed.

This brings me to a particularly difficult but critical issue – what to do when a country's debt situation is unsustainable. Despite several recent incidents, there remains no clear, agreed approach to dealing with such a situation. And the uncertainty that remains simply creates too much pressure for large-scale official lending by the IMF and may contribute to decreased investor willingness to invest in some emerging markets.

To help reduce this uncertainty, we are working with others in the official sector in considering the development of a sovereign debt restructuring mechanism that will provide a more predictable framework for debt workouts. Having such a workout strategy in place may help reduce the pressure for large-scale financing – and it may also create the potential for increased capital flows to emerging markets at lower interest rates. Of course, creating and implementing such a mechanism are not simple tasks. A number of options for the design and implementation of this mechanism are being considered. For our part, the U.S. Treasury is emphasizing the need for a mechanism that is market-based, encourages creditor and debtor ownership of the process, and avoids raising concerns about conflict of interest. One option that fulfills these criteria would encourage borrowers to put certain clauses in their debt documents to help facilitate a more orderly process if a restructuring is necessary. Of course, there are many issues that would need to be considered in implementing such an approach, including how to encourage the use of these clauses in debt contracts. As we proceed, we are consulting with various experts in the private sector, and we look forward to continuing to consult with the Congress as well.

IV. Building Key Bilateral Economic Relationships

Let me spend a few minutes discussing some of our key initiatives in the bilateral area, where we have made a major effort to focus our economic relationships on concrete, measurable goals, with specific timelines for achievement.

Economic Component of the Strategic Framework with Russia

First, Russia. During our meeting with President Putin last summer, Commerce Secretary Evans and I agreed to develop a checklist – a time-bound list of concrete accomplishments that both countries want to achieve in the economic sphere – that would allow the United States and Russia to measure progress on our bilateral economic agenda. In the ensuing months, we worked with President Putin's economic team to develop a list that includes specific steps to advance Russia's WTO accession, to help Russia build a business climate to attract private investment, and to further our common goal of fighting money laundering and terrorist finance. Two important items on this checklist relate to the creation of a sound Russian banking system – capital needs to be much more broadly available in Russia to those outside the natural resource-based sectors. First, we have helped launch a U.S.-Russia Banking Dialogue as a vehicle for practical private sector ideas. And, second, we support expanding the EBRD's Russia Small Business Fund which has been extremely successful in giving small businesses all over Russia access to credit on market terms.

Additionally, it is important to give credit for strong policy reform where credit is due. Following the August 1998 financial crisis, Russia floated its currency and undertook comprehensive tax reform, including the establishment of a flat 13 percent personal income tax and a dramatic overhaul of its tax administration system. Growth has rebounded strongly, averaging over 6 percent a year in 1999-2001. And because of these policy actions, what was a fiscal deficit of 6 percent of GDP in 1998 became a fiscal surplus of 2.5 percent of GDP in 2000. The reduction in the corporate income tax from 35 percent to 24 percent, which went into effect in January 2002, will help support this trend.

U.S.-Mexico Partnership for Prosperity

Second, Mexico. President Bush has said, "The stronger Mexico is, the less pressure on our border; the stronger Mexico is, the more prosperity there will be in both our countries." And, "Trade with Mexico is an integral part of making sure that our hemisphere is safe, secure and prosperous." Mexico and the United States share more than just a geographical border. Since signing the North American Free Trade Agreement in 1993, Mexico has become the U.S.'s second largest trading partner and fastest growing export market. Our business cycles are closely aligned, and financial markets increasingly view Mexico's economy as more closely linked to the U.S. than to Mexico's Latin American neighbors.

These growing links and the close relationship between President George W. Bush and Mexican President Vicente Fox prompted the leaders to form the U.S.-Mexico Partnership for Prosperity in September 2001. The goal of the Partnership is (i) to unleash the economic potential of every citizen, (ii) to harness the power of open markets and private enterprise in order to spur economic development in Mexico, and (iii) to do so through an authentic Partnership not just between governments, but also between our respective private sectors.

Official flows from the U.S. and the international financial institutions are dwarfed by private flows to Mexico. The Partnership is dedicated to facilitating those private flows, maximizing them, and leveraging them through coordination with other private flows and official flows. Along with top government officials from the U.S. and Mexico, experts from business and academia have come together in a series of roundtable discussions to develop ideas to stimulate investment and growth in Mexico and achieve the goals of the Partnership.

A final report is being drafted jointly with public and private sector participants from both Mexico and the U.S. and will be presented to President Bush and President Fox on March 22 at the UN Financing for Development Conference in Monterrey, Mexico.

Reconstuction of Afghanistan

Finally, Afghanistan. The international donor community is committed to close coordination on reconstruction efforts for Afghanistan.

Treasury, working closely with the State Department, initiated efforts to begin the multi-year, multi-billion-dollar process of Afghanistan's reconstruction. On November 20th 2001 – even before the formation of the Afghan Interim Authority – senior officials of the international donor community came together in Washington, D.C., to begin discussing a structure and process for Afghan reconstruction assistance. An early accomplishment was the formation of the Afghanistan Reconstruction Steering Group (ARSG), co-chaired by the United States, Japan, EU/EC, and Saudi Arabia. This group's role is to provide political impetus, encourage contributions and provide overall policy guidance to the international economic reconstruction effort. The first ARSG meeting was held in Brussels on December 20-21, 2001.

Since November, the United States has been a leader in catalyzing international donor efforts. Secretary Powell and I led the U.S. delegation to a January 2002 Tokyo meeting of the Steering Group, where donors pledged some $1.8 billion for Afghan reconstruction efforts in 2002, and a preliminary initial total of $4.8 billion for the 2002 - 2006 period. Ministers and representatives from 61 countries and 21 international organizations attended. The Conference demonstrated the strong commitment of the international community to reconstruction assistance to Afghanistan by making specific commitments and pledges. Afghan and international NGOs held a separate meeting. Experts also met to discuss military demobilization, military and police training, counter-narcotics issues and alternative development.

IV. Raising Economic Growth and Reducing Poverty: Reform of the Multilateral Development Banks

President Bush has said: "A world where some live in comfort and plenty, while half of the human race lives on less than $2 a day is neither just, nor stable." Poverty today remains widespread and deep. About 10 million children die each year, most from preventable diseases. More than 113 million primary school age children do not attend school, with forty percent of the children in Sub-Saharan Africa out of school. Approximately 1.3 billion people lack access to adequate quantities of clean water and nearly 3 billion people are without adequate sanitation, leaving them vulnerable to disease. The HIV/AIDS epidemic continues to spread relentlessly, with over 12 million orphans aged 14 or less in Africa alone, and is rapidly reversing the hard-won development achievements of many countries. The magnitude and human consequences of the development challenge we now confront underscore the need for international development assistance efforts to do a much better job than they have been doing in increasing opportunities for people to create a decent living for themselves and their families. We can and must do better.

In my travels around the world, I have seen an untapped reservoir of human potential in all countries, including the poorest. To fully realize this potential, countries need to create an environment with the institutional conditions and incentives – including the rule of law, enforceable contracts, stable and transparent government, and a serious commitment to eliminate corruption – required to encourage individual enterprise and to provide individuals with the health, knowledge, and skills they need to participate in and contribute to economic activity. Donors and external assistance can help only if the right fundamentals (including policy environment and institutions) are in place to harness human potential.

For this reason, we have worked hard with other shareholders in the multilateral development banks (MDBs) to concentrate assistance on those countries with sound economic policies and good governance practices. For example, for the IDA-13 replenishment period, 17 countries will have their IDA lending allocations significantly reduced due to poor governance ratings.

Rising productivity is the driving force behind increases in economic growth and rising per capita income. We have been pressing the MDBs to focus more intently on operations that raise productivity growth, concentrating on such operations as:

- Improving education and health;
- Promoting private enterprise, including small and medium enterprises;
- Promoting rule of law, effective public expenditure management, accountability and anti-corruption; and
- Opening economies and strengthening trade capacities and investment environments.

Mexico's homegrown PROGRESA program provides a good example of a productivity enhancing investment in children's human capital that should have enormous future dividends. The program, initiated in 1996 and supported by the MDBs, provides financial transfers to the rural poor conditional on keeping children in school and providing them with basic preventive health care and nutrition. Education grants are supporting schooling for 3.6 million poor children, and nutrition and health grants are benefiting 1.6 million children aged 0-5 years of age. It is estimated that children's educational achievement has increased by about 10 percent in the first three years of the program.

As a result of U.S. efforts, productivity is receiving more emphasis in the debate on MDB policies within the institutions and among other shareholders. We will continue working actively to ensure it becomes a hallmark of actual operations. Our goal is to raise economic growth, improve living standards, and improve economic stability in the world economy.

The scale of global poverty and unrealized human potential underscores the importance of the MDBs (and all other donors) focusing much greater attention on improving the effectiveness of their assistance. We are pressing all the MDBs to establish monitoring and evaluation systems that measure development results. In IDA-13, the U.S. is providing supplementary funding conditioned on measurable results in areas crucial to economic growth and poverty reduction. In response to a request I made of World Bank President Jim Wolfensohn in Ottawa last November, the World Bank is undertaking a study of development effectiveness and the "lessons learned" from operational successes and failures. This study will feature prominently in discussions at the upcoming Financing for Development Conference in Mexico and the G-8 Summit in Canada. Our challenge, going forward, will be to ensure that the successes and failures of the past fifty years guide and improve development efforts in the future.

Private sector development is crucial to economic growth and poverty reduction.

We believe that the MDBs can play a larger role in promoting needed investment climate reform and in channeling technical assistance and project finance to fund viable private sector projects in countries that are committed to implementing policy and regulatory changes to ensure a sound investment climate.

President Bush has also proposed that up to 50 percent of the World Bank and other MDB funds for the poorest countries be provided as grants rather than as loans. This is an important part of the Administration's MDB growth agenda. Why? Because grants are the best way to help poor countries make productive investments without saddling them with ever-larger debt burdens. Investments in crucial social sectors (e.g., health, education, water supply and sanitation) do not directly or sufficiently generate the revenue needed to service new debt.

Take, for example, IDA's effort to address the HIV/AIDS pandemic in Africa. The Multi-country AIDS Program (MAP2) is a framework arrangement providing for a series of independent IDA credits/grants with a total value of $500 million to be committed over the next three years in Africa. Unfortunately, IDA's proposal for MAP2 would allow for only a maximum of 20 percent (or up to $100 million) of total financing to be provided in the form of grants instead of loans. I believe such assistance should be delivered on entirely grant terms. How can we expect countries to take on additional debt to fight the scourge of HIV/AIDS? There are no revenue streams directly associated with controlling the spread of HIV/AIDS or treating its victims. Development assistance on grant terms in such cases is the only viable alternative.

This project also demonstrates the important role the World Bank has to play on critical development issues. That is why we have supported and will continue to support the World Bank as well as the other MDBs. President Bush's budget calls for an 18 percent increase in the U.S. contribution to IDA linked to improvements in IDA's performance. He has also called for an 18 percent increase in the U.S. contribution to the African Development Fund.

Unfortunately, the U.S. proposal on grants has been opposed strongly by other donors participating in the IDA-13 and African Development Fund replenishments. It is important to reach an agreement on grants that will facilitate closure on these important replenishments. The United States has demonstrated flexibility on this issue. Final agreement will depend on other donors also demonstrating commensurate flexibility.

The Administration's FY 2003 budget request of $1,447 million for Treasury's international programs reflects our development priorities. Economic progress in the developing world is enormously important to the United States. The need to reduce extreme poverty and improve the lives of people around the world is a priority in and of itself. Because poverty and economic instability can be a breeding ground for terrorism, our fight against terrorism makes our collaborative efforts with our partners to improve the lives of the world's poor take on a new and more strategic dimension.

The Administration's request provides for:

- $1,259.4 million to fully fund annual U.S. commitments to the MDBs;

- $177.7 million to fund the first year of a three-year plan to clear U.S. arrears to the MDBs; and

- $10 million for technical assistance to finance expert advisors to countries facing economic transition or security issues and for training governments' finance ministries and offices to combat terrorist financing.

This request will enable the MDBs to address critical development issues in key regions. It projects U.S. leadership, and it complements our reform efforts to strengthen the effectiveness of these institutions.

V. Promoting Global Free Trade

The global economic slowdown also brings into sharp focus the reasons why we need increased trade. The drop in U.S. trade (both exports and imports) coincided with a deceleration of U.S. growth during 2001. Trade is important to the U.S. economy, and freer trade can help stimulate growth: it fuels competition and innovation, it helps to increase productivity, and it stimulates sustained growth with low inflation. Trade has created millions of jobs that pay above-average wages, and has helped promote the global growth upon which America's own growth and prosperity ultimately depend.

Trade now accounts for about one quarter of our economy, and export growth accounted for one-fifth of U.S. economic growth during the past decade. Together, NAFTA and the Uruguay Round Agreements boosted the annual income and lowered the cost of purchases for an average American family of four by $1,300 to $2,000. In 2001, the United States exported more that $1.0 trillion in goods and services, which generated about 10 cents of every dollar that we Americans earned.

The importance of trade to the U.S. economy underscores the need to restore momentum to trade liberalization. President Bush achieved a key objective in his trade agenda with the WTO Ministerial decision in Doha to launch multilateral trade negotiations. Negotiations are already underway for a Free Trade Area of the Americas (FTAA) and for Free Trade Agreements (FTAs) with Chile and Singapore. In January 2002, the United States announced that it will explore an FTA with the countries of Central America.

Trade liberalization offers the same benefits as a tax cut for the American consumer and the American exporter. And multilateral trade liberalization is a global tax cut for *all* consumers and exporters. A recent study estimates that cutting global trade barriers to goods and services by one-third would provide a boost of $177 billion per year to the U.S. economy – equivalent to a tax cut of $2,500 per year for the typical American family. An FTAA, the creation of which is currently being negotiated, should provide additional benefits of some $53 billion, or about $800 per year for the average American family. When combined with existing free trade agreements, an FTAA, as well as bilateral FTAs with Chile and Singapore, will fully open market access overseas for nearly 50 percent of U.S. exports.

Let me say a few words about trade in financial services, specifically. I view the liberalization of trade in financial services as another powerful instrument for accomplishing our international economic policy goals. True, we have made great strides in liberalizing trade in financial services over the past decade, but I believe we can do more – much more.

In the same way we are approaching other activities under my watch at Treasury, we are approaching trade in financial services from a goal-oriented perspective. We are asking ourselves where to concentrate our time and resources and where our efforts will truly make a difference. The growth potential in many countries is being held back by a lack of deep and liquid capital markets. For example, this potential cannot be reached when there is no secondary mortgage market, when the cost of capital is so high that it is out of reach for all but the largest companies, or when there are few if any safe markets to invest for retirement.

The swift removal of barriers in key markets will help strengthen financial systems internationally and help translate domestic savings into investment in emerging markets. Most of all, it will help enhance economic growth and stability. Freer trade in financial services will mean more American jobs in a sector with above-average wages.

I applaud the House of Representatives for approving Trade Promotion Authority (TPA). You have done a great service to our economy. It is now imperative that the Senate acts quickly and follows suit so the Congress can approve a final version of TPA and send it to the President for his signature. Without question, TPA will be a great confidence-builder for the U.S. and the global economy.

VI. Combating the Financing of Terrorism

The war against terrorism is a new kind of war being fought on many fronts. Nowhere is this truer than in the fight against terrorist financing. The President has directed me to take all measures necessary to deprive terrorists of funds. I would like to take this opportunity to share with you some of the highlights of this battlefront.

One September 23, 2001, President Bush issued an Executive order listing 27 terrorist organizations and individuals and directing the blocking of their property. This Executive order has now been extended to a total of 189 individuals and entities. To date, all but a handful of countries have committed to join this effort; 150 countries and jurisdictions now have blocking orders on terrorist assets in force; and over $104 million in terrorist assets has been frozen globally since September 11, some $34 million here in the United States, and another $70 million by other countries or jurisdictions. A portion of that amount linked to the Taliban has recently been unblocked for use by the new Afghan Interim Authority.

I emphasize our reliance on other countries because that is one of the most salient features of this front of our war. Allies have been, and remain, critical to our military efforts. On the financial front, they are absolutely indispensable. No matter how smart our bombs are, they can't destroy a bank account in a foreign jurisdiction.

Blocking terrorists' access to the international financial system requires an international coalition, all working together. We will work with every nation around the globe to ensure that there is no safe haven for terrorist money.

The actions taken against the Somali-based hawaladar, Al-Barakaat, exemplify how efforts both domestically and abroad can lead to success in this war on terrorist financing. Al-Barakaat used its offices in the United States and in 40 countries to finance and support terrorists around the world. Treasury and the FBI took decisive law enforcement and blocking actions against Al-Barakaat. On November 7, 2001, federal agents executed search warrants in three cities across the country (Boston, Columbus, and Alexandria) and closed eight Al-Barakaat offices in the U.S.

In conjunction with our domestic efforts, our allies closed down Al-Barakaat offices and blocked its accounts in European countries as well. However, the key to shutting down that network and stopping the estimated $15-20 million that was flowing annually from it to Al-Qaeda was the action taken by the UAE in freezing the account of Al-Barakaat corporate headquarters. Not only was that the lion's share of the resources frozen that day, but it also meant that this conduit, which had served Al-Qaeda so well, was closed.

It is vital that we continue to build this coalition and coordinate with our international partners. We have spoken to finance officials in nearly 100 countries, and have advanced this agenda in multilateral forums. In order to measure progress, our Task Force on Terrorist Financing at Treasury is keeping track, account by account, dollar by dollar, of all countries' efforts. We have also had success pursuing international cooperation to combat terrorist financing on a global scale through a number of forums including the U.N., the G-7, the G-8, the G-20, the Financial Action Task Force (FATF), and the international financial institutions. In late October 2001, the United States hosted an Extraordinary FATF Plenary session, at which FATF members established eight Special Recommendations on Terrorist Financing. These recommendations quickly became the international standard for steps that countries can take to protect their financial systems from abuse by terrorist financiers.

Three weeks ago, the G-7 group of industrial countries met in Ottawa and agreed to an ambitious new work program. In particular, the G-7 agreed to develop a mechanism to jointly identify terrorists whose assets would be subject to freezing. This will require even closer cooperation and commitment. We will also develop key principles regarding information to be shared, the procedures for sharing it, and the protection of sensitive information.

Beginning on March 4, I will make a four-day visit to Kuwait, the United Arab Emirates (UAE), Bahrain, and Saudi Arabia. This visit will provide an opportunity to recognize the contributions made by Gulf countries to the international effort to combat terrorist financing. I hope to secure commitments from the host countries to take further concrete steps, some of them jointly with the United States, to deny terrorists the money they need to operate.

Ultimately, implementation and enforcement are the critical factors of success. The Congress and this Committee have been exceptionally helpful in giving us the statutory tools we need. In particular, Title III of the USA PATRIOT Act – the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 – has strengthened our hand considerably against those who would harm the United States and its citizens. I thank you, and assure you that we will not let these tools get rusty.

VII. Promoting Cooperation and Coordination on International Tax Matters

International cooperation and coordination on tax matters are critically important for reducing investment distortions and for promoting the proper functioning of financial markets and systems. Tax rules should not serve as an artificial barrier to cross-border investment. That is an issue not just with respect to our own tax rules, but with respect to the interaction between our tax rules and those of our trading partners, which is why we address these issues through international agreements.

The United States has an extensive network of bilateral income tax treaties covering approximately 60 countries. The purpose of those treaties is both to coordinate our respective income tax systems so as to avoid double taxation and to reduce or eliminate tax "toll charges" on cross-border investment. We currently are working to update and modernize our existing tax treaties with our major trading partners. At the same time, we are working to expand our treaty network to cover trading partners with which we do not currently have a tax treaty relationship.

It also is critically important to establish and maintain the international relationships necessary to assist us in enforcing our tax laws. As I have said many times, we have an absolute obligation to enforce the tax laws of the United States, because failing to do so undermines the confidence of honest taxpayers in the fairness of our tax system. While we do everything we can ourselves to address the evasion of U.S. taxes, given the increasingly global nature of economic activities, we can be more effective with the cooperation of other countries.

To this end, we need to be able to obtain information from another country when we have reason to believe that a taxpayer is using the institutions of that country to evade U.S. taxes. Currently, we have effective tax information exchange arrangements with many of the world's financial centers. However, some significant financial centers have yet to enter into such an arrangement with the United States, and some of our existing arrangements do not provide for the exchange of information for all U.S. tax matters.

We will continue to work aggressively to expand and improve our tax information exchange relationships, with a particular focus on significant financial centers. I am very pleased to inform the Committee that, in furtherance of my commitment before Congress last year to produce results in this area, the United States has recently signed tax information exchange agreements with three significant jurisdictions in the Caribbean – the Cayman Islands, Antigua and Barbuda, and the Bahamas. We are in ongoing discussions with several other jurisdictions to expand further the reach of our information exchange relationships with them. We must act effectively to ensure that financial institutions are not used for cheating on U.S. taxes.

VIII. Concluding Remarks

I greatly appreciate the opportunity you have given me to present our first year achievements, ongoing efforts, and future goals on international economic issues. There is one final point I would like to make. I am determined to enable the Treasury Department to fulfill its mission to develop and implement our international economic policy. Currently, the Administration executes a large number of legislative mandates relating to U.S. participation in the international financial institutions, including requirements for directed voting, policy advocacy, certifications, notifications, and reports, that have built up over time. The U.S. Government's policy development and implementation in the IMF and the MDBs would be improved by a consolidation of these mandates. Some mandates go back 50 years. Some provisions overlap, or are inconsistent. There are 32 directed vote mandates and over 100 policy mandates, plus numerous reports, certifications, and notifications. I want the Congress to be fully informed, but numerous vestigial reporting requirements have increased the amount of time senior officials spend working on these reports to levels that warrant serious concern. I would like to work with you to rationalize and focus our mandated requirements and reports.

I look forward to continuing to work with this Committee and the rest of the Congress on our shared goal of increasing prosperity at home and abroad. Thank you, and I look forward to answering any questions that you might have.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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U.S. International Reserve Position 02/28/02

The Treasury Department today released U.S. reserve assets data for the week ending February 22 , 2002. As indicated in this table, U.S. reserve assets totaled $67,814 million on that date, compared to $68,081 million at the end of the prior week.

(in US millions)

I. Official U.S. Reserve Assets	February 15, 2002			February 22, 2002		
TOTAL	68,081			67,814		
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Foreign Currency Reserves [1]						
a. Securities	5,393	10,267	15,659	5,414	10,183	15,597
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	9,088	3,960	13,048	9,122	3,928	13,050
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
2. IMF Reserve Position [2]			17,646			*17,321*
3. Special Drawing Rights (SDRs) [2]			10,682			*10,801*
4. Gold Stock [3]			11,045			11,045
5. Other Reserve Assets			0			0

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries in the table above for latest week (shown in italics) reflect any necessary adjustments, including revaluation, by the U.S. Treasury to the prior week's IMF data. The IMF data for the prior week are final.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of January 31, 2002. The December 31, 2001 value was $11,045 million.

PO-1054

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Embargoed for Release at 2:30PM
February 28, 2002

Contact Tony Fratto
202-622-2960.

STATEMENT OF JOHN B. TAYLOR[1]
UNDER SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS

BEFORE THE

SENATE BANKING COMMITTEE SUBCOMMITTEE ON INTERNATIONAL TRADE AND FINANCE

February 28, 2002

Thank you Chairman Bayh, Ranking Member Hagel and members of the Subcommittee for inviting me to participate in this hearing on the current economic situation in Argentina.

The people of Argentina are facing extremely trying times. Throughout this difficult period, President Bush has made it clear that Argentina is an important friend and ally of the United States of America. We want our allies to be strong leaders of free democracies and free markets. Argentina should be an engine of economic growth in our hemisphere. It is important that Argentina succeeds.

In order to understand the current situation in Argentina, I think it is helpful to begin by reviewing some of the key economic developments in Argentina during the last decade.

The Economy of Argentina in the 1990s

In the early 1990s, the government of Argentina undertook a series of important reforms in economic policy, including monetary policy, fiscal policy, structural policy, and international trade policy. Perhaps most dramatic and immediately noticeable was the change in monetary policy. A highly inflationary monetary policy was replaced by a new "convertibility law," which pegged the peso one-to-one with the dollar and largely prevented the central bank from financing the government's budget deficit by printing money. Fiscal policy was also brought into better control and there was a decline in deficits. On the structural side, a comprehensive privatization program was implemented through which a number of inefficient state-owned enterprises were privatized. Moreover, barriers to international trade and investment were reduced and Argentina's financial sector was opened to foreign investors.

[1] This is an update to the testimony submitted on February 6, 2002, before the Subcommittee on International Monetary Policy and Trade of the House Financial Services Committee.

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*U.S. Government Printing Office: 1998 - 619-559

These market-oriented reforms produced very impressive results. Hyperinflation—which had risen to over 3000 percent—was brought to a quick end by the convertibility law. Economic growth turned around sharply: after falling during the 1980s, real GDP began growing at over 4 percent per year. Investment and exports grew particularly rapidly. The sharp increase in economic growth was even more remarkable given the very rapid disinflation that was occurring at the same time.

However, starting in the late 1990s there were a number of policy setbacks and external shocks which sharply reduced economic growth in Argentina and ultimately led to the financial crises in 2000-2001 and the current halt to economic activity.

First, government budget deficits began to increase and fiscal discipline began to wane. Government spending at the federal and provincial level increased faster than tax revenues. These deficits could not be financed by money creation because of the convertibility law. Instead, they were financed by borrowing in both the domestic and the international capital markets; however, as the government's debt began to rise and raise questions about sustainability of the debt, risk premia rose and increased interest rates. Eventually the higher interest rates put additional pressure on the budget deficit and held back economic growth.

Second, the low inflation of the early-to-mid 1990s turned into persistent deflation, which also had negative effects on economic growth. In addition, the currencies of Argentina's major trading partners in Europe and Brazil depreciated relative to the dollar, and therefore relative to the Argentine peso. This effective appreciation of the peso led to deterioration in Argentina's competitiveness, which, along with the higher interest rates, further held back economic growth.

Third, persistent expectations of depreciation of the peso caused interest rates on peso loans to be higher than dollar interest rates. Whenever policy actions were taken that raised questions about central bank independence or about the convertibility law, market expectations of depreciation increased causing domestic interest rates to rise further.

As low economic growth persisted into 2000, concerns began to grow that a vicious cycle of low tax revenues and continued government spending increases would lead to rising interest rates, which would further slow the economy. Following the political turmoil in October 2000 when Vice President Alvarez resigned, Argentina's borrowing costs soared and rolling over government debt became more and more difficult. Renewed plans to reduce the budget deficit brought interest rates down temporarily, but by February 2001 it was clear that further actions needed to take place. The Argentine government introduced a number of policy changes and finally decided to create a rule – the zero deficit law – in the summer of 2001 to try to provide confidence about the government's seriousness in getting its fiscal house in order.

Eventually, however, it became clear that these changes to the budget were not working. Many market participants considered the government's economic plan to be unsustainable, and interest rates on government debt began to increase sharply. By November, it was apparent that the government's debt would have to be restructured and, indeed, President de la Rua took the step of announcing that such a restructuring would take place.

As the restructuring effort was underway, the uncertainty about its impact on the banking system led to increasingly large deposit withdrawals from banks and international reserves began to fall. In order to stop the withdrawals and the decline in reserves, the government imposed severe restrictions on such withdrawals in December. Soon after the restrictions were imposed, social and political protests turned violent, leading to the resignation of President de la Rua and his Ministers.

Economic circumstances in Argentina deteriorated after the imposition of the restrictions on deposit withdrawals. The lack of a functioning payments system led to a virtual halt of much economic activity. The shortage of liquidity is hindering economic growth and underlies much of the social frustration. The Duhalde government, which took over in January, is in the process of gradually removing these restrictions and at the same time moving to a flexible exchange rate system.

It is of course up to the government of Argentina to work out the details of a set of economic policies that will increase economic growth in a sustainable way. Secretary O'Neill met with Argentina's Minister of Economy on February 12. I met with the Minister the following day. Argentine officials understand that the decisions they must make will be difficult, but I was impressed with the Minister's sincerity and commitment. We have maintained our dialogue and will seek to build upon the initial progress we have made.

In addition to meeting with Argentine officials, we have also held meetings in recent weeks with U.S. corporate officials operating in Argentina. We apprised these officials of developments taking place on our end, and have listened to their concerns about difficulties that they are facing. In conversations other U.S. Government officials and I have had with Argentine officials, we have repeatedly emphasized the importance of all investors being treated fairly. Foreign investors can play a critical role in Argentina's future.

Summary of IMF Programs

During the period of time discussed above, the government of Argentina had several programs with the International Monetary Fund (IMF). In March 2000, Argentina obtained a $7.4 billion IMF program. The Argentine government treated the program as "precautionary," meaning that the government did not intend to draw upon it. However, starting in the summer of 2000, the growing concern in financial markets was that the persistent Argentine recession was setting up the potential for a financial crisis.

In December 2000, Argentina drew on $2 billion from its IMF program, and the next month the IMF approved an additional $6.3 billion for Argentina's program, bringing the total program size to $13.7 billion. As a condition for the January package, the Argentine government agreed to a series of structural measures in the area of fiscal, pension and health care reforms to help develop a sustainable fiscal position in the medium-term and to build investor confidence.

In August 2001, the IMF provided Argentina with a further augmentation of $8 billion. Of this amount, $5 billion was to bolster reserves in the central bank to counter a substantial fall

in deposits during the summer. The remaining $3 billion could be used to support a voluntary, market-based debt operation and thereby begin to address Argentina's debt sustainability problem. However, when tax revenues continued to fall short and the government failed to reach an agreement on transfers to the provinces, it became increasingly clear that the government was not going to be able to meet its fiscal targets and had no other sources of financing. This fueled concerns about the government's ability to service its debt, particularly to domestic banks, and eventually prompted an accelerated run on the banking system.

In December, IMF staff determined that Argentina was not going to make its fiscal targets for the fourth quarter that were agreed upon in August and that its program was no longer sustainable. Thus, the IMF could not complete its review and consequently did not disburse a loan tranche in December 2001.

Earlier this month, a team from the finance ministry of Argentina visited the IMF. I understand that the meetings with the IMF were productive. As President Bush has said, once Argentina has designed a sustainable economic program, the United States is prepared to support it through the international financial institutions.

U.S. Policy

Our engagement with the International Monetary Fund and the government of Argentina during the last year should be viewed in the context of our overall approach to emerging markets. During the last four years the flows of capital to the emerging markets have declined sharply, and it has been the intent of the Bush Administration to reverse this trend by reducing the frequency of financial crises of the kind that we have seen in Argentina.

Of course the ideal would be to prevent crises such as the one in Argentina from occurring. This requires not only early detection of policies or of external shocks that could cause crises, but also the resolve to take actions to reverse such policies or counter such shocks. The Bush Administration has encouraged the IMF to strengthen its capacity to detect potential troubles on the horizon, and to be willing to warn countries that are heading down a dangerous path to take appropriate action. Effective communication with markets is also key. And the IMF can be more effective and credible in undertaking these tasks if it focuses on issues that are central to its expertise – notably strengthening monetary, fiscal, exchange rate, financial sector, and debt management policies. In the last decade, the IMF became too involved in matters outside of these core areas.

I hope the emerging market asset class grows much more in the future as the rates of economic growth in developing and emerging market countries rise. But we have to recognize that official sector resources cannot possibly grow at such a high rate that we can continue with very large official finance packages to deal with emerging market debt crises as in recent years. There will inevitably be limitations on the use of official sector resources. Moreover, in order to reduce bailouts of private investors it is necessary to limit the use of official resources, especially in cases where debt sustainability is in question. We must therefore gradually move in the direction of less reliance on large official finance packages.

An important change has been occurring in emerging markets and we have encouraged this change as part of our approach to emerging markets. Investors are increasingly differentiating between countries and markets based on fundamental economic assessments -- judgments that are facilitated by better information. This differentiation is reducing contagion from one country to another, as exemplified most recently by the relative stability in other emerging markets over the past few months despite the crisis in Argentina. Emphasis on the risk of contagion by the official sector in the past led to the expectation on the part of investors and emerging market governments that the official sector would bail them out. That encouraged excessive risk-taking and gave rise to the very conditions that made financial crises more likely. Changing this mindset has been an important priority, and, I think, an area where we have made some progress.

One important challenge that remains is to explore options to promote more orderly sovereign debt restructurings. The official sector should not encourage countries to default on their debts, but we recognize that restructuring can and will happen in certain cases. At the moment, there is a great deal of uncertainty about the process involved in such restructurings. It is important to find a way such that when a sovereign debt restructuring occurs, it does so in a more orderly manner that treats debtors and creditors fairly and reduces the scope for arbitrary, unpredictable official action.

Thank you again for this opportunity to speak with you. I look forward to hearing your views and answering your questions.

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EMBARGOED UNTIL 2:30 P.M.
February 28, 2002

Contact: Public Affairs
(202) 622-2960

STATEMENT OF ROBERT B. HOLLAND, III
NOMINEE FOR ALTERNATE UNITED STATES EXECUTIVE DIRECTOR TO THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT BEFORE THE COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE

Mr. Chairman and Members of the Committee, I am grateful for this opportunity to appear before you today.

I would like to first thank President Bush for the honor of my nomination as Alternate U.S. Executive Director to the International Bank for Reconstruction and Development. I would also like to commend Carole Brookins for the work she has been doing at the World Bank. I am looking very forward to working closely with her and joining her team of accomplished individuals at the Bank.

Although the World Bank is a multi-lateral institution, the U.S. is its largest shareholder and donor, and by tradition its President has always been an American. Therefore, it is an appropriate vehicle through which, as President Bush said in his State of the Union address, to "spread American compassion throughout the world".

At the same time, I am aware that the World Bank's effectiveness in improving living standards throughout the developing world could be improved. If confirmed, it will be a privilege to represent the United States at the World Bank and to work with the Administration to improve the Bank's effectiveness by encouraging it to focus its resources on improving the productivity of the world's poor.

Some time ago, I offered my services to the Administration in whatever position it thought my professional and business background would make me qualified and effective. I graduated from Stanford University in 1974 with a degree in economics and from the University of Texas Law School in 1977. My professional career has included nearly 20 years practice in a large law firm concentrating on financial transactions similar to those in which the Bank engages.

More recently, I have been general counsel, chief operating officer and chief executive officer of a New York Stock Exchange international exploration company doing business on every continent.

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*U.S. Government Printing Office: 1998 - 619-559

Most of the exploration prospects our company pursued were in countries which are World Bank borrowers, including prospects that became world class discoveries in Latin America, Africa and Southeast Asia. As a result, I have had the opportunity to evaluate from the private sector's point of view, investment climates of many World Bank borrowers.

In addition, I have had the opportunity to work with the state oil companies of countries throughout the world, with major oil companies headquartered in the World Bank's largest donor countries, and with leading international lending institutions. If confirmed, I look forward to bringing these experiences to bear at the Bank to help ensure that U.S. taxpayers are getting their money's worth by the activities of the Bank.

Mr. Chairman, I look forward to answering the Committee's questions and to earning your confidence.

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FOR IMMEDIATE RELEASE
February 27, 2002

Contact: Tasia Scolinos
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**STATEMENT OF JIMMY GURULE,
UNDER SECRETARY FOR ENFORCEMENT
U.S. DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON TREASURY'S POSTAL SERVICE, AND GENERAL GOVERNMENT COMMITTEE ON APPROPRIATIONS
U.S. HOUSE OF REPRESENTATIVES**

Chairman Istook, Congressman Hoyer, and Members of the Subcommittee, I am privileged to be here today to introduce the President's FY 2003 budget request for the Department of the Treasury's law enforcement bureaus and offices. As you know, this is my first appearance before this distinguished panel, and it is indeed an honor to represent the more than 31,000 dedicated men and women who quietly and selflessly serve their country every day -- often at great personal peril and sacrifice.

Testifying with me this morning is Robert C. Bonner, also appearing before you today for the first time as Commissioner of the United States Customs Service (Customs). Brian L. Stafford, Director of the United States Secret Service (USSS), will testify this afternoon, followed by Bradley A. Buckles, Director of the Bureau of Alcohol, Tobacco and Firearms (ATF), tomorrow morning. Next Wednesday, Paul Hackenberry, Acting Director of the Federal Law Enforcement Training Center (FLETC), and James F. Sloan, Director of the Financial Crimes Enforcement Network (FinCEN), also will testify before your Subcommittee. As you know, FinCEN recently was authorized as a Bureau within Treasury Enforcement with enactment of the USA PATRIOT Act.

The President's FY 2003 budget seeks a program level of $5.247 billion and 31,847 FTEs for Treasury Enforcement. This level is significantly higher than the President's initial FY 2002 request largely due to additional resource needs associated with the horrific events of September 11 and the overall support of this Subcommittee. The request is 20 percent ($879 million) above the President's initial FY 2002 budget request for Treasury Enforcement and it provides for an increase of 2,403 FTEs for Treasury Enforcement. The 2,403 FTE increase includes 1,779 FTE for Customs; 381 FTE for the Secret Service; 124 FTE for ATF; 94 FTE for FLETC; and 25 FTE for FinCEN. Furthermore, the FY 2003 budget request indicates a staffing level of 48 FTE for the Office of Enforcement, with the provision of staffing up to 58 FTE within the Office's appropriated level - the same level for the third consecutive year.

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In response to the tragic events of September 11, Congress provided essential emergency appropriations of $678.1 million to the Treasury enforcement bureaus and the Office of Foreign Assets Control (OFAC): $464.3 million to Customs; $141.5 million to the Secret Service; $32.9 million to ATF; $31.5 million to FLETC; $1.8 million to FinCEN; and $6.1 million to OFAC. Much of this emergency funding was for one-time, non-recurring costs. I am pleased to inform the Subcommittee that the recurring costs from the Terrorism Supplemental have been annualized and incorporated in the President's budget request.

When the President submitted his budget request on February 4, 2002, he indicated it "recognize[d] the new realities confronting our nation, and funds the war against terrorism and the defense of our homeland." To implement this objective, the President's FY 2003 request contains $159 million in new funding for Homeland Security program initiatives for Customs ($158 million) and FinCEN ($1 million). The FY 2003 budget request includes $29.2 million for other program initiatives -- $21.7 million for ATF and an additional $7.5 million for the Customs Automation Modernization programs. The budget request also includes $8 million in additional resources for Secret Service protection services to begin preparation for the 2004 Presidential campaign.

The FY 2003 Budget includes inflation type increases and Homeland Security annualizations of $259.2 million. Although the immediate Office of Enforcement ($8.5 million) FY 2003 budget request is $231,000 more than the FY 2002 Financial Plan, it is $139,000 less than the ($8.6 million) FY 2002 Enacted. As I mentioned, the staffing level remains the same.

The Treasury Enforcement bureau heads will address their new initiatives and programs in greater detail as they appear before this Subcommittee. Therefore, I would like to take this opportunity to provide the Subcommittee with an overview of the newest challenges facing the men and women in Treasury law enforcement and the exemplary manner in which they have responded. That they have been able to do so effectively is, in large part, because of the support that this Subcommittee and the Congress have provided us both before and in the aftermath of September 11.

We have all been deeply affected by the horrific acts of that day. Four members of this Subcommittee are from States where the hijacked planes met their tragic fate. We at Treasury lost a respected member of our law enforcement family, Secret Service Master Special Officer Craig Miller, who perished in the World Trade Center. And of course, the New York offices of Customs, Secret Service, and ATF were destroyed

Combating terrorism has become the Nation's primary agenda. As you are aware, on September 24, 2001, President Bush stated, *"We will direct every resource at our command to win the war against terrorists, every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence. We will starve the terrorists of funding."* The President tasked the Treasury Department to lead the nation's war against the financing of global terrorism, and under Secretary Paul O'Neill's leadership, we in Treasury Enforcement have devoted extensive resources and expertise to fulfill this mandate.

We have worked, and continue to work, in close coordination with the Justice Department and the Federal Bureau of Investigation (FBI). Specific examples of our close cooperation include joint activities in the September 11 investigations and on the Financial Review Group (FRG). In these investigations, Treasury has added its investigative expertise and access to unique databases to support the FBI's efforts.

Our war against terrorist financing extends to financial intermediaries and facilitators who infuse terrorist organizations with money, materiel, and support. We have come to clearly appreciate and understand that terrorism has been nourished by ample funding channeled from a plethora of sources, including banks, charities, hawalas, narcotics traffickers, and money launderers.

Countering Terrorist Financing

Since September 11, Treasury Enforcement, including its component bureaus, has launched a number of new initiatives to identify, disrupt, and dismantle terrorist financial networks both domestically and abroad. I am pleased to report to the Subcommittee this morning that Treasury has named 168 individuals and entities as financiers of terrorism, and has blocked over $34 million in assets. Our Coalition partners have blocked another $70 million. A portion of that amount has since been unblocked for the new Afghan Interim Authority to assist in its critical period of rebuilding. This is truly a global effort -- 196 nations have expressed support to disrupt terrorist financing and 149 nations can block terrorist assets.

We are grateful that you and your colleagues have worked closely with the Department of the Treasury, along with the Department of Justice and other agencies and departments, to make significant improvements in the laws that allow us to tackle the issue of terrorist financing in a more unified, aggressive manner. Of particular importance to our counter-terrorist efforts is the USA PATRIOT Act that clarifies the law enforcement and intelligence communities' authority to share financial information regarding terrorist investigations. These provisions are already being utilized and are bearing fruit in disrupting financing networks.

Office of Foreign Assets Control

The Office of Foreign Assets Control (OFAC), an office within Treasury Enforcement, plays a key role on the inter-agency working group, chaired by Treasury, that has been targeting and listing individuals and entities pursuant to Executive Order 13224 which President Bush signed on September 23, 2001. In this process, we have identified, among other entities, front companies, charities, banks, and a hawala conglomerate that served as the financial support networks for al-Qaeda and other global terrorist groups. We have shut down the operations of these entities in the United States and abroad. Foreign countries have been remarkably cooperative in this process.

OFAC has widely disseminated the names of new designated terrorists to the business and financial communities through websites, Fedwire Alerts, CHIPS system notices, communications to Federal and State regulators, and electronic broadcasts to 175 key industry groups. Information on terrorist designations is also distributed to the public by way of Customs, the Government Printing Office, and other agency networks.

As you recall, the Foreign Terrorist Asset Tracking Center (FTAT) was funded by Congress in the FY 2001 Appropriations Bill and was in the process of being organized and staffed when the September 11 attacks occurred. OFAC helped to accelerate the development of the interagency FTAT, which quickly began to serve as a primary analytical and strategic center for attacking the problem of terrorist financing. FTAT has served not only to provide essential analysis on particular targets and networks, but also has become an information nerve center where intelligence and law enforcement agencies can share and analyze information for a common purpose. This inter-agency concentration on hunting the sources of terrorist financing is unprecedented for the U.S. Government, and this collaborative effort will continue in FY 2003 to identify terrorist assets.

One of the higher profile results of FTAT analysis, in concert with OFAC, was the identification of Al-Barakaat as a major financial operation that supported terrorist organizations. The Al-Barakaat case is a good example of model coordination between the Treasury Department, the FBI, and other enforcement agencies both domestically and abroad.

Al-Barakaat is a Somali-based hawaladar[1] operation, with locations in the United States and in 40 countries, that was used to finance and support terrorists around the world.[2] The investigative work of the FBI, Customs, and IRS-Criminal Investigation, along with analysis by OFAC, FinCEN, and the intelligence community, identified Al-Barakaat as a major financial operation that was providing material, financial, and logistical support to Usama bin Laden and other terrorist groups.

Treasury, along with the Department of Justice, coordinated efforts to block assets and to take law enforcement actions against Al-Barakaat. On November 7, 2001, Federal agents executed search warrants in three cities across the country -- Boston, Columbus, and Alexandria -- and shut down eight Al-Barakaat offices across the U.S., including locations in the following cities:

- Boston, Massachusetts;
- Columbus, Ohio;
- Alexandria, Virginia;
- Seattle, Washington; and
- Minneapolis, Minnesota.

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[1] Hawala is a type of alternative remittance system that is common in many parts of the world, including the Middle East and Far East. A hawaladar is an entity that engages in hawala transactions.

[2] Some individuals may have used Al-Barakaat as a legitimate means to transfer value between individuals in different countries without passing through the formal international banking system.

As part of that action, OFAC was able to freeze approximately $1,100,000 domestically in Al-Barakaat-related funds. Treasury also worked closely with the United Arab Emirates (UAE) to enable the UAE to block Al-Barakaat's assets at its financial center of operations in Dubai. Disruptions to Al-Barakaat's cash flows, resulting from OFAC's designation actions and international cooperation, are estimated to be in excess of $65 million from the United States alone. In addition, the combined work of OFAC, Operation Green Quest, and law enforcement had led to additional leads in the Al-Barakaat investigation.

This is an example of what our combined efforts can accomplish when we join our resources and our expertise to fight the common scourge of terrorist financing.

Operation Green Quest

On October 25, 2001, Treasury created Operation Green Quest ("Green Quest"), a new multi-agency financial enforcement initiative designed "to augment existing counter-terrorist efforts by bringing the full scope of the government's financial expertise to bear against systems, individuals, and organizations that serve as sources of terrorist funding." This task force is led by the Customs Service and includes the Internal Revenue Service, the Secret Service, ATF, OFAC, FinCEN, the Postal Inspection Service, the FBI, the Department of Justice, and the Naval Criminal Investigative Service. Operation Green Quest also receives support from Interpol's National Central Bureau, based in Washington, D.C. Green Quest brings together the extensive financial expertise of the Treasury bureaus along with the exceptional experience of our partner agencies and departments to focus on terrorist financing.

Green Quest has complemented the work of OFAC and FTAT in identifying terrorist networks at home and abroad, and it has served as an investigative arm to aid in blocking actions. Green Quest's work has led to 11 arrests, 3 indictments, the seizure of nearly $4 million, and bulk cash seizures -- cash smuggling -- of over $9 million. Green Quest agents, along with those from the FBI and other government agencies, have traveled abroad to follow leads, exploit documents recovered, and to provide assistance to foreign governments. In this effort, Green Quest has made full use of its overseas Customs Attachés to investigate suspect networks and to gather information for its own use and the use of FTAT. The work of these financial experts is just starting as they have opened well over 200 terrorist financing investigations and are following leads on a daily basis. Green Quest's work, in combination with the work of OFAC, serves as a seminal part of our enforcement efforts.

International Cooperation

Our efforts will not have the greatest success if prosecuted unilaterally, and may ultimately fail if we cannot obtain the cooperation of other nations. To date, all but a handful of countries have expressed their support for the international fight against terrorist financing. Currently, 149 countries and jurisdictions around the world can block terrorist assets. The Office of Enforcement, in concert with other Federal agencies, is providing technical assistance to a number of countries to strengthen their capacity to freeze terrorist funds.

Daily, we are in contact with foreign financial officials and are engaged in bilateral and multilateral discussions regarding international cooperation and action against terrorist activities and financing.

The Office of Enforcement has also helped coordinate the deployment of financial "jump teams" consisting of experienced accountants, bank examiners, and other financial experts from OFAC, the Customs Service, IRS, FBI, FinCEN, and other agencies. These experts review business records and possible links to money associated with bin Laden's al-Qaeda network.

Treasury has engaged in numerous international fora, including the G-7, G-8, G-20, the Financial Action Task Force (FATF), the global network of Financial Intelligence Units (FIUs) of which FinCEN is a key member, and the international financial institutions to combat terrorist financing in a global, systematic way.

Through the leadership of the Treasury Department, the Financial Action Task Force convened an Extraordinary Plenary session in Washington, D.C. at the end of October 2001. At that meeting, FATF established eight Special Recommendations regarding terrorist financing and set forth an action plan for its members. It also invited non-members to engage in the self-assessment exercise based on the eight Special Recommendations. The U.S. strongly endorses the eight Special Recommendations, and believes that they represent an important step to establishing a global regime to cut terrorists off from the international financial system.

The U.S. has recently completed a self-assessment questionnaire against these Recommendations which is posted on the Treasury web site. This questionnaire demonstrates the U.S. commitment to the fight against terrorist financing. We regard ourselves to be in substantial compliance with the Recommendations, but we will of course continue to participate in the FATF process and assess any changes that might be needed to keep pace with international standards.

In early February, FATF held a special forum on terrorist financing which was attended by representatives from over 55 jurisdictions. The representatives to FTAF discussed implementing the eight Special Recommendations and identifying new ways to enhance worldwide cooperation in the fight against terrorist financing.

While countering terrorist financing is a Treasury Enforcement priority, we are also committed to preventing the delivery of terrorist acts to U.S. soil and against U.S. interests abroad, and to reducing violent crime here at home.

Preventing Terrorism and Reducing Violent Crime

Not only is the mission of Treasury law enforcement uniquely suited to combating terrorist financing, but we play a leading role in homeland security efforts -- from protecting the Nation's borders to protecting its leaders, to ensuring the integrity of our financial institutions and critical infrastructures. The President's budget request will ensure that Treasury bureaus can continue to effectively fulfill missions that are integral to protecting the homeland.

The U.S. Secret Service protects the Nation's top leaders, while leading the effort to ensure the safety of thousands of citizens participating in designated National Special Security Events (NSSEs) and combating financial fraud. We have seen the stellar work of the Secret Service in providing security for two recent NSSEs – the Super Bowl and the recently concluded Olympic Games in Salt Lake City. The complexity of these security events highlighted the special expertise and professionalism of the Secret Service. The dedicated men and women of the Secret Service are to be commended for their outstanding work at protecting thousands of spectators, employees, and athletes at these events. The President's budget request will allow the Secret Service to strengthen its efforts in an increasingly complex and threatening environment.

The U.S. Customs Service is the vanguard agency in protecting the country against weapons of mass destruction as it monitors travelers and cargo crossing the northern and southern borders and through the Nation's seaports and airports. Last November, Secretary O'Neill, Commissioner Bonner, and I met with our Canadian counterparts in Ottawa, Canada, to discuss cooperative efforts between the U.S. and Canada along our shared border. We have since been engaged in a number of new collaborative initiatives to strengthen security along our shared border, while working on ways to expedite the flow of trade. Commissioner Bonner and I also are working with the Office of Homeland Security to help implement the 30-point Action Plan announced in December by Governor Ridge and then Foreign Minister John Manley. The "Action Plan for Creating a Secure and Smart Border" has four pillars: 1) The secure flow of people; 2) The secure flow of goods; 3) Secure infrastructure; and 4) Coordination and information sharing. I can assure this Subcommittee today that the coordination and cooperation among Federal border agencies and their Canadian counterparts has never been stronger.

The Customs Service also played a key role in security for the Salt Lake City Olympic Games. The Customs Service role included providing air surveillance in restricted air space, ground support to the United States Secret Service, increased presence at the Northern Border, and screening general aviation aircraft and their passengers and pilots. A total of 500 Customs officers were committed to day-to-day oversight of the Games.

The President's request will ensure that the Bureau of Alcohol Tobacco and Firearms will be able to expand its training capacity at the Canine Training Facility in Front Royal, VA, increase ATF Canine Handler teams, and expand ATF's participation in critical Joint Terrorism Task Force activities. ATF has developed the most respected program in the world for detection of explosives and accelerants. This expertise is vital in our war on terrorism, in which explosives is the terrorists' weapon of choice.

ATF played a significant role in the security of the Winter Olympics. For several years, ATF has worked with its law enforcement and public safety partners on a comprehensive and integrated Olympic security plan. ATF committed over 330 special agents and support personnel to support security for the Olympic Games. ATF Special Agent Certified Explosive Specialists, Explosive Enforcement Officers, Explosive Detection Canines/Handlers, and National Response Team members were assigned to the Olympic Bomb Management Center. These experts were available to respond to any critical incident, explosive or suspected device at any of the venues. At these Olympic Games, unlike at the Atlanta Olympics, ATF had a new mobile crime laboratory with state of the art detection and analysis equipment on-site

The crime lab could identify explosives and other evidence within minutes, which would provide immediate leads to investigators on the ground.

The Federal Law Enforcement Training Center, which conducts the training for the vast majority of the Federal Government's law enforcement personnel, is projecting the greatest increase in training requirements in its history as it responds in full measure to the September 11 attacks. In the days following that attack, representatives of the U.S. Department of Transportation's Federal Air Marshal Division reached out to FLETC regarding increased training needs for the Federal Air Marshal Program (FAMs). These requests have resulted in an increase of over 20,000 student weeks of training. In October, the FLETC and the FAA developed a 5-week integrated basic training program and a 3-week agency specific basic follow-on training program. Moreover, in January, Transportation Security Administration (TSA) representatives met with FLETC staff to identify resources needed to develop a training curriculum for the TSA Security Screeners. FLETC subject matter experts then met with TSA and FAA representatives to develop that training curriculum. The result was a pilot TSA Basic Screeners training program conducted at FLETC in February. The TSA Management Team continues to meet with FLETC personnel to determine the extent to which the FLETC will be asked to further assist the TSA in training Federal Law Enforcement Officers/Agents within a very short time frame. The quality of training developed and delivered by FLETC will set the standard for our level of protection in the air for years to come.

The increased funding in the President's request for the Financial Crimes Enforcement Network will strengthen FinCEN's law enforcement investigative support efforts to enforce the Bank Secrecy Act, combat money laundering and other financial crimes, and implement the new responsibilities under the USA PATRIOT Act of 2001.

While the Office of the Under Secretary for Enforcement does not have direct oversight authority over IRS-Criminal Investigation, we do provide policy guidance for IRS-CI criminal investigators. These investigators offer a unique blend of accounting and enforcement expertise that is invaluable in perfecting complex financial investigations, including cases involving leaders and members of extremist groups who have committed tax, money laundering, or currency violations and individuals engaged in fundraising activities to support terrorism, especially if tax exempt organizations are being used. In the aftermath of September 11, IRS criminal investigators have played critical roles in the Strategic Information Operations Center; the Joint Terrorism Task Force; Operation Green Quest; the Office of Foreign Assets Control; the Anti-Terrorism Task Forces throughout the country; the High Intensity Money Laundering and Related Financial Crime Area Task Forces, and the Air Marshal Program.

Combating Money Laundering

The Office of Enforcement is currently developing the 2002 National Money Laundering Strategy, as well as overseeing the implementation of the 2001 Strategy. The main focus of the Strategy is on enforcement and investigation of money laundering enterprises and sophisticated networks.

This work has been significantly impacted by the passage of the USA PATRIOT Act. We have been working with the Treasury General Counsel to draft timely implementing regulations for the various provisions of the PATRIOT Act, such as the provision that terminated the relationship between U.S. financial institutions and shell banks.

We also are working on designing a system to measure the success of the Federal Government's efforts to counter money laundering. One aspect of this system will track the cost of laundering money in order to see whether our efforts are making it more expensive for criminals to launder money. In addition, we are developing a uniform system to monitor assets forfeited.

The Office of Enforcement is also overseeing the progress and development of the six High-Risk Financial Crime Area (HIFCA) Task Forces. The six HIFCAs are now focused on operational activities, in addition to gathering intelligence which is useful in money laundering investigations. These efforts are paying off. The New York HIFCA, which is part of the El Dorado Task Force, operating out of the U.S. Customs Service Special-Agent-in-Charge office in New York, recently announced the success of Operation Wire Cutter, a 2 ½-year undercover operation targeting the largest Colombian Black Market Peso Exchange (BMPE) money brokers. These brokers are professional money launderers who sell their services to the Colombian drug cartels. On January 15, U.S. and Colombian officials arrested 37 people in the U.S. and Colombia and seized over $8 million in cash, over 800 pounds of cocaine, and a total of over 1,000 pounds of narcotics. One suspect tried to evade arrest in New York City by throwing a suitcase with $400,000 in cash out of his apartment window.

The Multinational Black Market Peso Exchange Experts Working Group (Colombia, Aruba, Panama, Venezuela, and the United States), led by the Office of Enforcement, has produced a report that recommends BMPE initiatives to participating governments to improve international cooperation in efforts to combat and dismantle the BMPE. We anticipate the publication of a joint statement in March embodying the conclusions and recommendations of this Working Group. We are also working closely with senior executives of major trade associations and corporations operating in the United States whose products are vulnerable to being involved in BMPE transactions.

Treasury Enforcement also works together with the Department of Justice's Bureau of Justice Assistance to oversee the Financial Crime-Free Communities Support Program (C-FIC) which awards anti-money laundering grants to State and local law enforcement agencies and prosecutors' offices through a competitive grant award program. Treasury has awarded approximately $4.2 million in grants to 17 recipients in the first 2 years of this program.

Countering Narcotics

The Office of Enforcement and its bureaus are decisively engaged as part of the Federal Government's effort in support of Plan Colombia, which is Colombian President Pastrana's comprehensive and balanced response to his nation's multiple challenges.

In addition to targeting the critical drug trafficking problem, the integrated strategy addresses human rights, democratization, judicial reform, social development, the economy, and the peace process. Colombia's lawlessness, corruption, and long internal conflict are exacerbated by the immense profits generated by the drug trade. Ninety percent of the cocaine supplied to the United States originates in or passes through Colombia, as does two-thirds of the heroin seized in this country. As a result, Colombia is the central focus of the United States' Western Hemisphere efforts to reduce the supply of illicit drugs.

Treasury's Plan Colombia support projects are part of the U.S. Government's programs aimed at strengthening the justice sector and financial infrastructure throughout Colombia. The emergency supplemental funding was provided to State under the provisions of the Foreign Assistance Act, with State transferring authority to Treasury and its components for our programs via specifically negotiated letters of agreement ("632 agreements"). However, sustainment of most Treasury Plan Colombia programs beyond amounts appropriated by the Terrorism Supplemental will rely on assistance provided by the State Department in 2002 and 2003.

We appreciate your support for Treasury's role in Plan Colombia. The Plan Colombia package passed by Congress included programs with $71.5 million in specific line item allocations for Treasury. These are:

- $68 million for Customs detection and monitoring aircraft radar upgrades
- $2 million for the Office of Foreign Assets Control
- $1 million for banking supervision assistance (Office of the Assistant Secretary for International Affairs/Office of Technical Assistance)
- $500,000 for tax revenue enhancement (OASIA/OTA).

In addition to these specific allocations for Treasury components, we have received $14.67 million for law enforcement programs from Justice accounts in the legislation, for a total of $86.17 million. We anticipate all Treasury programs should be completed by June 2003, approximately 24 months from the transfer of Plan Colombia spending authority from State to Treasury and its components in June of 2001.

Enforcing Tariff and Trade Laws

Our Office of Regulatory, Tariff, and Trade Enforcement performs a variety of important functions, including review of all regulations relating to enforcement of trade laws, participation in negotiations of international trade agreements, and management of the private sector Advisory Committee on the Commercial Operations of the Customs Service (COAC).

The COAC is a legislatively constituted advisory committee of 20 private sector members, which meets with Enforcement and Customs officials quarterly. Until September 11, their advice focused on trade facilitation. After September 11, I requested COAC's advice on border security and the role the private sector can play in increasing cargo security.

Utilization of the group's expertise provided a unique opportunity to examine synergies between enhanced cargo security and the private sector concern that the smooth flow of trade not be impeded due to increased security concerns. The committee produced an excellent report on January 25 with 60 recommendations. Many of these have already been implemented, and others are under close examination by Customs and Treasury staff. Three COAC members have already entered into agreements with Customs under the new Customs-Trade Partnership Against Terrorism program.

President's Management Agenda

The Treasury Department's FY 2003 budget recognizes the importance of achieving the President's Management Agenda. The Office of Enforcement is working with the law enforcement bureaus to support the Treasury Department's goal of becoming a results-driven organization, consistent with the President's five Presidential Management Initiatives:

1. Strategic Management of Human Capital;
2. Expanded Electronic Government;
3. Improved Financial Performance;
4. Budget and Performance Integration; and
5. Competitive Sourcing.

Only through a balance of implementing all five Presidential Management Initiatives will the Treasury Department and its enforcement offices and bureaus be able to achieve world class performance and become a results-driven organization.

Enforcement Organization

The Office of the Under Secretary (Enforcement) has oversight responsibility for more than a third of all Federal criminal investigators, including roughly 32,000 personnel and a $5 billion operating budget. Moreover, Treasury Enforcement collects about $35 billion in revenues, When I assumed the duties of the Under Secretary, one of my first imperatives was to ensure that the Office had an efficient organization to be informed adequately about the day-to-day functions and operations of the Bureaus and Offices it supervises. This became even more critical in the post September 11 environment. I am working with the Department's leadership on a reorganization of the Office of Enforcement, within existing FTE ceilings, that I am convinced will enable the Office to achieve its mission more effectively and efficiently.

The reorganization strengthens Enforcement's ability to address critical budgetary, resource, and training needs for the immediate Office of the Under Secretary as well as the Enforcement Bureaus. Additionally, the new organization also provides needed emphasis in the major areas of Terrorism and Violent Crime and Money Laundering and Financial Crimes.

Strategic Goals and Performance Measures

Each year, the world becomes a more complex place.

The events of September 11 only emphasize this point. As a result, Treasury's law enforcement mission grows in complexity, scope, and impact. The Enforcement Bureaus must continue to meet these challenges as they perform their critical role in advancing America's law enforcement priorities. To provide a long range focus, the Office of Enforcement identified six strategic goals for FY 2000 – FY 2005:

- Combat money laundering and other financial crimes;
- Protect our nation's borders and major international transportation terminals from traffickers and smugglers of illicit drugs and weapons of mass destruction;
- Reduce violent crime and the threat of terrorism;
- Protect our nation's leaders and visiting dignitaries;
- Provide high quality training for law enforcement personnel; and
- Collect revenue due to the Federal government

In the aftermath of September 11, we plan to add an additional strategic goal and supporting objectives in the next revision of the Treasury Strategic Plan. This new goal will focus on "Targeting, disrupting and dismantling terrorist financing and terrorist financing organizations."

In addition, our law enforcement Bureaus support two other Treasury strategic goals through the following two strategic objectives:

- Protect the public and prevent consumer deception in specific regulated commodities and
- Facilitate legitimate trade, enhance access to foreign markets, and enforce trade agreements.

To ensure excellence in achieving these goals, and in keeping with the spirit of the Government Performance and Results Act, Treasury continues to engage in a strategic management process to enhance and improve the results we deliver to the American people. To that end, the Office of Enforcement is committed to setting long-term strategic and annual performance goals, managing our resources and investments to achieve those goals, instituting measures, and reporting annually on the results of our performance.

Overall, Treasury law enforcement bureaus' achievement against established performance targets continues to improve. For instance, in FY 1999, the law enforcement bureaus achieved 64 percent of the established performance targets. In FY 2000, 77 percent of the established targets were achieved, and in FY 2001, 79 percent of all performance targets were achieved. While not every goal was met, our results were significant.

For FY 2003, the Office of Enforcement and the Treasury law enforcement bureaus will continue to work hard to accomplish our defined strategic goals and objectives. We will also strive to achieve an even higher percentage of our established performance targets. Doing so will help to ensure excellence in protecting our borders and our nation's leaders, targeting terrorist financing, fighting terrorism and violent crime, combating money laundering and financial crimes, and training our law enforcement personnel for the challenges they will face in the future.

Thank you for the opportunity to provide an overview of the President's FY 2003 budget request and to highlight the efforts of the Office of Enforcement in support of the mission of Treasury's enforcement bureaus. I look forward to answering any questions you may have.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 2:30 P.M.
February 28, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling $27,000 million to refund an estimated $28,745 million of publicly held 13-week and 26-week Treasury bills maturing March 7, 2002, and to pay down approximately $1,745 million. Also maturing is an estimated $14,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced March 4, 2002.

The Federal Reserve System holds $12,539 million of the Treasury bills maturing on March 7, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders either in these auctions or the 4-week Treasury bill auction to be held March 5, 2002. Amounts awarded to SOMA will be in addition to the offering amount.

Up to $1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of each auction. These noncompetitive bids will have a limit of $100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of $1,000 million.

TreasuryDirect customers have requested that we reinvest their maturing holdings of approximately $1,066 million into the 13-week bill and $658 million into the 26-week bill.

The allocation percentage applied to bids awarded at the highest discount rate will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about each of the new securities are given in the attached offering highlights.

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Attachment

PO-1058

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED MARCH 7, 2002

February 28, 2002

Offering Amount	$14,000 million	$13,000 million
Public Offering	$14,000 million	$13,000 million
NLP Exclusion Amount	$ 5,600 million	None
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 JX 0	912795 KZ 3
Auction date	March 4, 2002	March 4, 2002
Issue date	March 7, 2002	March 7, 2002
Maturity date	June 6, 2002	September 5, 2002
Original issue date	December 6, 2001	March 7, 2002
Currently outstanding	$21,441 million	---
Minimum bid amount and multiples	$1,000	$1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.

Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids submitted through the Federal Reserve Banks as agents for FIMA accounts. Accepted in order of size from smallest to largest with no more than $100 million awarded per account. The total noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.

Competitive bids:

(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 7.100%, 7.105%.

(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.

(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Rate........ 35% of public offering

Maximum Award................................ 35% of public offering

Receipt of Tenders:

Noncompetitive tenders .....Prior to 12:00 noon eastern standard time on auction day

Competitive tenders ....Prior to 1:00 p.m. eastern standard time on auction day

Payment Terms: By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender. *TreasuryDirect* customers can use the Pay Direct feature which authorizes a charge to their account of record at their financial institution on issue date.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
February 28, 2002

Contact: Treasury Public Affairs 202-622-2960
IRS Media Affairs 202-622-4000

TREASURY, IRS ANNOUNCE TASK FORCE ON IMPROVING THE ADMINISTRATION OF THE EARNED INCOME TAX CREDIT

The Treasury Department and the Internal Revenue Service announced today a new task force that will examine the administration and complexity of the Earned Income Tax Credit (EITC). The task force, headed by Treasury Assistant Secretary for Tax Policy Mark Weinberger and IRS Commissioner Charles O. Rossotti, will focus on compliance and administrative issues stemming from the complexity of the EITC.

"The EITC has been an instrumental program in helping many low-income families transition out of welfare," Weinberger and Rossotti stated. "This new task force on the EITC will help us make the program even better for those taxpayers in need by identifying ways to reduce complexity and improve administration." The EITC provides a tax credit to low- and moderate-income working families.

The task force has been created to thoroughly examine the complexity and compliance issues of the EITC program identified in two recent IRS reports on the EITC. The focus of the joint Treasury-IRS task force will be on finding new ways of improving the accuracy of the EITC program, while reducing its complexity. The task force will identify a range of solutions based upon its independent review and the information available in the IRS's reports.

A report entitled "Compliance Estimates for Earned Income Tax Credit Claimed on 1999 Returns" found $31.3 billion in earned income tax credits claimed on 1999 tax returns. Of the $31.3 billion, the report estimated that $8.5 billion to $9.9 billion should not have been paid to claimants.

The estimates in the report do not reflect the impact of recent legislative and administrative changes designed to improve compliance rates. The Economic Growth and Tax Relief Reconciliation Act of 2001 substantially changed the rules applying to individuals who have the same qualifying child. It also changed the definitions of foster child and income.

In addition, the IRS recently implemented the Dependent Database for identifying returns with potential EITC errors before refunds are issued.

PO-1059

*U.S. Government Printing Office: 1998 - 619-559

This includes data from the Federal Case Registry of Child Support Orders and a Social Security Administration file linking parent and child social security numbers. Beginning in 2004, the Economic Growth and Tax Relief Reconciliation Act of 2001 gives the IRS expanded authority to deny EITC claims by noncustodial parents before refunds are paid.

Another IRS report released today on the EITC Compliance Initiative found that the $716 million appropriated by Congress resulted in the protection or collection of $5 billion in EITC funds over five years.

Clearly, more needs to be done to reduce errors. The new task force will develop recommendations for achieving the objectives of the EITC program while reducing taxpayer confusion and increasing the accuracy of the administration of the tax credit.

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For Immediate Release
February 28, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY ANNOUNCES STUDY ON U.S.-BASED MULTINATIONAL CORPORATIONS REINCORPORATING IN FOREIGN COUNTRIES

The Treasury Department announced today that it is conducting a study of the issues arising in connection with the reincorporation of U.S.-based multinational corporations in foreign countries, sometimes referred to as "corporate inversion" transactions, and the implications of these transactions for U.S. tax rules.

In recent months, there have been several announcements of transactions involving U.S.-based multinational corporations reincorporating in foreign countries. The documents prepared for shareholders and filed with the Securities and Exchange Commission in connection with these transactions cite substantial reductions in overall taxes as a key reason for the transactions.

The recent transactions are similar to transactions that began occurring in the late 1990s, but have increased in number and size. "We are seeing a marked increase in the frequency of the transaction announcements and an increase in the size of the transactions," said Treasury Assistant Secretary for Tax Policy Mark A. Weinberger. "The inversion transactions are no longer isolated occurrences."

The Treasury Department's study will focus both on the tax treatment of the inversion transaction itself and on the differences in the tax treatment of a company before and after it enters into such a transaction.

The study will examine all factors, tax and non-tax, that may lead to decisions by U.S. companies to consider the transactions. This will include an examination of the U.S. international tax rules more generally and how they affect multi-national companies headquartered in the U.S. and abroad.

"We need to make sure that there are no inadequacies in our current tax rules that facilitate the transactions or that can be taken advantage of as a consequence of the reincorporation," said Weinberger. "We must also understand if there are aspects of our tax system that are driving companies for reasons of competitiveness to consider leaving the United States."

PO-1060

U.S. Government Printing Office 1998 - 619-559

Treasury expects to work with Congress to address any issues identified by the study.

The Treasury Department solicits comments from the public regarding the issues posed by the inversion transactions.

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TREASURY NEWS

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FOR IMMEDIATE RELEASE
February 25, 2002

Contact: Tony Fratto
(202) 622-2960

THE ECONOMIC COMPONENT OF FOREIGN POLICY
BY
JOHN B. TAYLOR
UNDER SECRETARY OF TREASURY FOR INTERNATIONAL AFFAIRS

REMARKS BEFORE THE HOOVER INSTITUTION BOARD OF OVERSEERS

WILLARD HOTEL
WASHINGTON, DC

It's a real pleasure to see so many good friends here tonight. I miss the Hoover Institution. I miss Stanford. I miss California. But the truth is I really love the job I have now—doing international economic policy, being part of President Bush's team, working with Secretary O'Neill and our colleagues at Treasury—especially during this very important period in U.S. history.

I'd like to tell you about some of the things we are working on in the area of international economic policy. Of course, I want to talk about the specifics, but I want to place these specifics in the context of a few principles or guidelines, our overall policy framework if you like. I've found it helpful—because so many things go on each day—to have an overall framework for policy to help keep our eyes on the long-term ball, to check the specifics against the framework, to make sure things are working right. Principles are also useful for communicating what we are doing.

First, what are the goals for our international economic policy? There are two that I repeat often to my staff and to others. They are pretty simple: economic growth and economic stability. We want to keep economic growth high because that is how we improve living standards in the United States and in other countries. Economic stability simply means fewer crises, shorter recessions, longer expansions, again not only in the United States but in other countries as well. These are the two overriding goals that guide our policy.

Now, if I were talking only about the United States it would be easy enough to describe how we carry out these goals. Policy options are developed. Decisions are made. And a roll-out plan is put forth and carried out.

PO-1061

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*U.S. Government Printing Office: 1998 - 619-559

An example is the President's tax cut last year: an idea – developed during the Presidential campaign – was refined, agreed upon, and transformed into a concrete legislative proposal. Of course, there remained the job of building political support. That took place under the rules provided for in our Constitution and the relative certainties of our domestic political system. Another example is legislation for Trade Promotion Authority, which will be necessary for the President to pursue his free trade agenda. So far that legislation has passed the House. It is important for the Senate to pass it too.

When you take these two goals – greater economic growth and greater economic stability – beyond the United States, the challenge becomes more complex. The countries that you are dealing with each have their own interests, governments, political systems, histories, and populations. They are sovereign states that exercise autonomy over their own policies.

That brings me to the second key principle of our overall framework, a principle which I think is particularly important in this Administration. That is to emphasize the ownership that individual countries have over their economic policies. President Bush has emphasized that when dealing with other countries and their policies the idea is to give friendly advice, not to be domineering. If good policy is to be successful over the long term, it is necessary for countries to have ownership over their economic policy. This is especially true in this era of globalization, where the interests of national governments are affected by international financial institutions, multinational firms, and even international non-government organizations.

The third principle that I want to emphasize is that our economic policy goal should be viewed as an integral part of our foreign policy. There are three parts of foreign policy: the economic part, the political part, and the security, or the military, part. From the start of the Administration, President Bush has emphasized the interrelation of these three parts of foreign policy. In the first National Security Presidential Directive that he issued, NSPD No. 1, he placed, for the very first time, the Secretary of the Treasury on the Principals Committee of the National Security Council as a permanent member.

Not only has this decision raised the importance of economic issues in the foreign policy arena, it has also created synergies between the military/political issues and economic issues and has allowed us to take advantage of them in a way that would otherwise not have been possible. These synergies occur not only at the cabinet level—the NSC Principals Committee—but at all levels throughout the government. I sometimes joke with my wife that if I write a book about my first year in government—especially the weeks after September 11—it might be titled, "My Life in the Situation Room." Much of what I do in Treasury is work with State and Defense on issues of foreign policy. These agencies are brought together through the National Security Council under Condi Rice's excellent leadership.

So that's the framework: setting goals, working with other countries, and integrating economics into the political and security parts of foreign policy.

Now, let me try to go through some of the specific things are doing that illustrate the framework. Consider first the issue of combating the financing of terrorism. President Bush first declared war on terrorism in that remarkable speech before a joint session of Congress on September 20, with Tony Blair in the audience. He also declared that any country that was not with us in this war was against us. Soon thereafter, on September 23, he took what he called the "first shot in the war on terrorism" when he began listing individuals and organization that were financing terrorists. He asked the Treasury to take charge of the blocking of the assets of the terrorists and break up the financial networks that were supporting Al-Qaeda and the Taliban.

The effort to combat terrorist financing illustrates the integral partnership between the economic side and the military and political side of foreign policy. It certainly has made a big difference in my job. Suddenly I not only had to be concerned with the stability of the financial markets but with expediting the blocking of assets of people financing terrorism.

Success in the war on the financing of terrorism requires global cooperation. The blocking of terrorist assets in the United States is clearly not enough. All countries have to participate in order to shut down the networks through which these funds flow. So my financial diplomacy work now includes contacting finance ministries and central banks and asking them to help block terrorist assets. Our records show that we contacted nearly 100 finance officials since September 11.

A particularly important action was the blocking on November 7 of the Al-Barakaat financial network. Al-Barakaat is a financial conglomerate headquartered in Dubai. It operates in 40 countries including the United States. The founder of the organization, Shaykh Ahmed Nur Jimale, has close links with Usama bin Laden and has used Al-Barakaat to facilitate the financing and operations of Al Qaida and other terrorist organizations. One of the businesses that Al-Barakaat was involved in was transferring funds of immigrant workers in the United States and other countries to their home countries. These hawala dealers can transfer the funds from one country to another without use of a formal international payments system. A taxi driver in Seattle, for example, can transfer $1000 directly to his family in Somalia at a very low cost by going through one of these hawala dealers. There is nothing inherently wrong with hawala dealers *per se*; in fact, we are bringing them into the formal economy by requiring that they register and provide reports of suspicious activity. However, this particular hawala network was taking its profits and channeling them into terrorist hands.

Combating the financing of terrorism is a very significant part of the overall war on terrorism. Over $104 million in assets has been blocked worldwide since September 11 – more than $34 million in the United States and $70 million in other countries.

Incidentally, the fact that I can give you these numbers is a good example of the President's insistence on measurable outputs, not only in foreign policy but in everything that the government does.

Every week we do a report tabulating the dollar amount of terrorist assets frozen, the number of accounts frozen, and the number of countries that are cooperating in our efforts to block the assets. And we have evidence that these actions are making it more difficult for terrorists to use the financial networks.

Another activity that illustrates the economic component of our foreign policy is our work in Afghanistan. Remarkably, as I look back on it, we started work in Treasury on Afghanistan economic reconstruction issues at the same time that we started the military campaign against the Taliban. We knew to begin that early preparation because of those many meetings with State and Defense where we could see that some kind of economic reconstruction effort would be needed when the hostilities drew to a close. It became clear that if we were going to have a long-term impact in combating terrorism it was going to require getting Afghanistan back on a solid footing again after the war.

To begin this effort, the United States hosted a conference in November to focus international attention on reconstruction issues and to start the process of building an international structure to support Afghanistan's long-term development. In January, I visited Japan for a fund-raising conference for the reconstruction of the Afghan economy. We raised pledges for over $1.8 billion in the first year and $4.5 billion over the next few years. Of course, the reconstruction effort is a formidable task. Afghanistan is a very poor country. The economy is devastated after years of war and repression by the Taliban. School enrollment, for example, is terribly low: only 3 percent of young girls were in school under Taliban rule. Several different issues of the Afghan currency are in circulation, so the threats of high inflation are there. Economic recovery also requires a secure security environment and credible political institutions.

One way we have been able to get some funds to the Afghan Interim Authority is related to our efforts to block assets. It turns out that over $300 million of Taliban assets were frozen, including nearly $200 million in gold at the New York Fed. We went through the financial and legal certification to release those funds. So, in this case, the frozen assets were unfrozen and put to good use. On the technical assistance side, the Treasury has a financial expert on the ground working with the Finance Minister of the Afghan Interim Authority to help get the basic economic institutions up and running.

Another example of how the three components of foreign policy interact is the case of Russia. Our relationship with Russia in this Administration was a great focus even before September 11 and has only increased in importance since then. Most of the things you read about in the press about U.S.-Russia relations are in the political and security spheres, such as the missile defense issue or the war on terrorism. But alongside the political and security discussions have been the economic ones. Indeed, the economic component is an integral part of what President Bush has called a "new strategic framework" with Russia, in which the security, political, and economic elements of the relationship reinforce one another.

The U.S.-Russia economic relationship in the 1990s was defined in large part by Russia's financial need and consequent dependence on aid from the West. The International Monetary Fund (IMF) alone lent Russia over $20 billion.

Today, Russia no longer depends on financing from the international financial institutions. The era of big elephant packages is a thing of the past. Russia has grown more than 20% over the past three years (average of 6% per year; at least 5% each year) and is posting budget surpluses of 2.5% of GDP. In sharp contrast to the default of 1998, which was also followed by periodic threats of nonpayment, Russian officials now take pains to say they will pay debts in full and on time. Russia is even prepaying both the IMF and its private creditors, to the tune of several billion dollars last year alone. This is a key signal that Russia wants to be perceived as a serious player in the world economy.

Our economic engagement with Russia has reflected this new reality. Soon after I was confirmed last June, I went to Russia with colleagues in the State and Commerce Departments to look for ways that we could interact on the economic as well as the political and security issues. Following this preliminary trip, Secretary O'Neill went to Russia with Commerce Secretary Evans – a trip that included a meeting with President Putin. Following Secretary O'Neill's visit, we agreed on an economic checklist that effectively set out a series of specific, time-bound steps focused on helping Russia create a business climate to attract private investment. This checklist has defined our dialogue, and forms the basis of the economic agenda for the Moscow Summit in May. In the new bilateral framework, progress towards these is defined in concrete, measurable terms, not by the pageantry of high-level meetings.

Two aspects of this checklist bear special mention. First, the focus on small business. Despite impressive growth, Russia has yet to create an environment where new businesses emerge on a large scale, where they may drive growth. Without new business, Russia's recent growth rates will be hard to sustain. The Russian Government recognizes this, and President Putin has acknowledged small business growth as a priority.

The United States is helping, among other ways, by contributing to the expansion of the Russia Small Business Fund at the European Bank for Reconstruction and Development. This fund has been extremely successful in providing badly needed credit to small business in 100 cities throughout Russia, and by training Russian bankers to lend to entrepreneurs. Having met some of these entrepreneurs last summer, I have no doubt that they represent the potential of the Russian economy. Since its inception in 1994, the fund has made over 73,000 loans.

This effort is related to another Russian priority we support – building a sound, competitive private financial sector, where banks lend to companies and make capital much more widely available beyond the energy sector. To this end, we have created a bilateral banking dialogue, led by private sector representatives from both our countries, which is providing practical recommendations to inform Russia's bank reform program. Private banks and businesses, large and small, many of which had not had a seat at the policy table before, are playing an active part in the process.

The list goes on. The Russia case is instructive: the economics has been constructive more broadly in the relationship because it emphasizes that there is great potential for mutual gain. Economics by its very nature is a "win-win" proposition. Both parties gain. Our economic dialogue can help advance habits of cooperation that spill over into other areas. In other words, the "win-win" attitude can carry over into military and political issues as well. In addition to shaping attitudes in this way, the concrete economic benefits – for both countries – that come from the economic relationship give each of our governments a greater stake in the success of U.S.-Russia relations more broadly, thus providing a material incentive for greater cooperation in other areas.

I believe there is great potential for a similar dynamic in our relations with other countries.

Take China, for example. Last September, just before September 11, I had a meeting in Beijing with the leader of China's fiscal expenditure reforms. He succinctly reviewed the 40-year history of U.S. fiscal reforms at the turn of the last century. Then he said to me – referring to his efforts to accelerate the implementation of a treasury system very much like ours – "We don't have forty years to get this done. We can build on what you have learned."

Secretary O'Neill is committed to focusing our economic relationship with China on getting things done. As with Russia, he proposed that instead of just meeting to talk, that the U.S. and China commit to a series of actions to strengthen economic relations and speed China's reforms. We are currently preparing activities on market access, financial regulation, and money laundering.

More generally, we need to be looking for more ways to integrate economic issues into our foreign policy. As these examples indicate, there are great benefits from doing so. Think of the challenge this way: Henry Kissinger's fascinating recent book, *Does America Need a Foreign Policy?*, had one chapter devoted to economics, with the other chapters devote almost entirely to political and security issues. Our challenge is to integrate economics into all the chapters of our foreign policy.