Department of the Treasury

PRESS RELEASES

The following numbers were not used:
1087, 2019-2021, 2059
These releases are in numerical order even though
Some releases are not in order by date.

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.
March 4, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $21,000 million to refund an estimated $14,000 million of publicly held 4-week Treasury bills maturing March 7, 2002, and to raise new cash of approximately $7,000 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 $12,539 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 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-1062

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED MARCH 7, 2002

March 4, 2002

Offering Amount ....$21,000 million
Public Offering ....$21,000 million
NLP Exclusion Amount ....$ 8,800 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 JN 2
Auction date ....March 5, 2002
Issue date ....March 7, 2002
Maturity date ....April 4, 2002
Original issue date ....October 4, 2001
Currently outstanding ....$33,667 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
March 04, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	March 07, 2002
Maturity Date:	June 06, 2002
CUSIP Number:	912795JX0

High Rate: 1.760% Investment Rate 1/: 1.793% Price: 99.555

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 16.95%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 25,209,989	$ 12,266,952
Noncompetitive	1,473,117	1,473,117
FIMA (noncompetitive)	260,000	260,000
SUBTOTAL	26,943,106	14,000,069 2/
Federal Reserve	5,149,349	5,149,349
TOTAL	$ 32,092,455	$ 19,149,418

Median rate 1.740%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.710%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 26,943,106 / 14,000,069 = 1.92

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,189,946,000

http://www.publicdebt.treas.gov

PO-1063

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
March 04, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	March 07, 2002
Maturity Date:	September 05, 2002
CUSIP Number:	912795KZ3

High Rate: 1.890% Investment Rate 1/: 1.934% Price: 99.045

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 87.69%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 32,197,827	$ 11,941,086
Noncompetitive	1,034,154	1,034,154
FIMA (noncompetitive)	25,000	25,000
SUBTOTAL	33,256,981	13,000,240 2/
Federal Reserve	4,640,480	4,640,480
TOTAL	$ 37,897,461	$ 17,640,720

Median rate 1.880%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.840%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 33,256,981 / 13,000,240 = 2.56

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $730,035,000

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
March 4, 2002

Contact: Public Affairs
(202) 622-2960

STATEMENT OF TREASURY SECRETARY PAUL O'NEILL AT BAHRAIN INSTITUTE OF BANKING AND FINANCE (BIBF)

I want to thank the Bahrain Institute of Banking and Finance for welcoming me today. I am very interested to learn about the BIBF's activities and view the BIBF's impressive facilities. The BIBF's well-established training program has contributed to the growth of the Bahraini banking sector by cultivating financial professionals equipped to help the Bahraini economy grow. Most of all, I enjoyed looking in on a class in session, where banking professionals were learning more about combating money laundering.

The BIBF is a symbol of continued U.S. –Bahraini cooperation in the effort to strengthen financial systems. BIBF has strategic partnerships with many U.S. organizations including DePaul University and the University of Virginia's Darden Graduate School of Business.

In furtherance of this cooperation, I am pleased to extend U.S. technical assistance to the BIBF. Treasury experts will travel here soon to lead sessions in a new BIBF course on both counter-terrorist financing and anti-money laundering. A well-trained professional workforce is crucial to the success of every nation's effort to secure its financial system against misuse.

On a more personal note, I would like to express my sympathy to the BIBF and Bahrain for the recent passing of American Michael Langton, BIBF's late leader and veteran of our Federal Reserve Bank of New York as well as Citibank and Bankers Trust. Michael Langton was an impressive man who along with Bahrainis, worked to create a vibrant financial system by training dedicated financial professionals. We are pleased to see that the BIBF is continuing Michael Langton's passion by providing important financial sector training.

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PO-1065

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
March 4, 2002

Contact: Public Affairs
(202) 622-2960

JOINT STATEMENT OF U.S. TREASURY SECRETARY PAUL O'NEILL AND BAHRAIN FINANCE MINISTER ABDULLA HASSAN SAIF

We met today for a valuable exchange of information on topics related to terrorism, economics, banking and finance. We affirmed our shared commitment to disrupting the financial flows that fund terrorism.

The U.S. thanked the Government of the Kingdom of Bahrain for its support for Operation Enduring Freedom and the global war against terrorism, and in particular its efforts to combat the financing of terrorism. Bahrain's reaffirmation of its commitment to block terrorist accounts has been particularly important, and the U.S. welcomes continued close cooperation in the future. In this regard, the U.S. looks forward to joining Bahrain and other countries in the region in a combined initiative to ensure that charities throughout the world are not abused by terrorists.

The U.S. appreciates Bahrain having enacted legislation to prevent and combat money laundering in accordance with the guidelines of the Financial Action Task Force (FATF), of which the Gulf Cooperation Council is an active member. The U.S. also welcomes Bahrain's participation in the terrorist financing self-assessment project of FATF and the measures that it is taking to implement the new FATF guidelines on combating terrorist financing.

The Secretary and the Minister discussed the steps the Government of the Kingdom of Bahrain has taken to encourage the development of a strong banking sector in Bahrain. The United States welcomed the continued development of Bahrain's financial sector and appreciates the steps the Government of the Kingdom of Bahrain has taken to strengthen both supervision and regulation. .

PO-1066

The U.S. also praised the Bahrain Monetary Authority's progress in the development of Islamic banking regulation and welcomed the efforts by the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) to promote international accounting standards for Islamic financial institutions.

Bahrain and the U.S. pledged to continue working closely together in the future. The U.S. extended an invitation to personnel at Bahrain's new Financial Intelligence Unit to visit the Financial Crimes Enforcement Network, the U.S.' Financial Intelligence Unit, to share information and strategies.

The U.S. Treasury Secretary commended the strong economic and financial performance of the Kingdom of Bahrain's open and diversified economy, and the country's approach towards attracting foreign direct investment.

The Bahrain Minister of Finance & National Economy thanked the U.S. Treasury Secretary Paul O'Neill for his visit and for the constructive discussions, which the Minister was confident would lead to enhanced economic and financial cooperation, and hailed the outstanding leadership of the U.S. government in promoting economic development.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 1 P.M. EST
March 5, 2002

Contact: Betsy Holahan, 202-622-2960
Karen Mocker, 202-622-8401

REMARKS BY TONY T. BROWN, DIRECTOR
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND (CDFI)

ANNUAL CONFERENCE OF THE COMMUNITY DEVELOPMENT VENTURE CAPITAL ALLIANCE
WYNDHAM ORLANDO RESORT, ORLANDO, FLORIDA

Thank you, Kerwin Tesdell, for that kind introduction. Please allow me to take a minute to express my gratitude and thanks to you in front of your membership. Kerwin has been a tireless advocate of your interest. He's everywhere – I first met Kerwin with the NMTC Coalition. Following that, I met with the CDFI Coalition. And, he was there, too.

My first interface with the industry was the Community Development Venture Capital Alliance. I was interviewed for your newsletter. I heard early on about your interests. I learned quickly about the importance of the New Market Tax Credit Program to your organization.

Kerwin asked my help in coordinating the rollout of New Markets Tax Credit with SBA's New Market Venture Capital Fund. He was concerned that the delays in releasing the IRS guidance on New Markets would have an adverse impact on NMVCs' ability to raise equity and meet SBA's deadline for equity capital.

I assured Kerwin he had my support. Our mutual goal is to increase the flow of capital into low-income communities. If this is the goal of the SBA, then we should support their efforts too. We met with SBA officials and gave them a progress briefing. We met with Tax Policy in Treasury and shared CDVCA's concerns. I understood early on as a new political appointee that interagency cooperation would be critical if the Fund is to succeed in its efforts. The presentation was easy. We need every tool possible to improve the economic health of our nation's most underserved areas.

PO-1067

The outcome was just as easy. As a result of our collective efforts, the IRS agreed to offer a "look-back" period through which NMVCs and other potential recipients of New Market Tax Credit allocations could offer the tax credits to their investors. This look-back period applies to any qualified investments received on or after April 20, 2001. IRS published notification of this decision last November – over a month prior to releasing its NMTC regulations – so that NMVC firms could alert potential investors of this decision right away. We recognized how important this issue was to the community development venture capital industry, and we were glad to help you achieve a desirable outcome. I credit Kerwin for bringing this matter to my attention.

Now, Kerwin, we need your help again! I know CDVCA has been instrumental in encouraging organizations to register as Community Development Entities or CDEs. I am pleased to report that today over 170 organizations have been certified as CDEs. Three of 174 CDEs are SSBICs. We need your help in getting more groups registered. We need you to push NMVCs and SSBICs to get registered as CDEs.

It gives me great pleasure to be here to represent the Department of the Treasury and the CDFI Fund to address your organization; and to welcome you to my adopted home state - Florida. Let me also add, on behalf of every chamber of commerce in the sunshine state, we hope that you invest millions of venture capital dollars in this great state.

I have spent 20 years in banking. Ten of these years have been in community development in the state of Florida. I know the importance of development venture capital. I understand how mezzanine financing can move a deal from declination to approval. I empathize with minority entrepreneurs who have vision and expertise in a particular field and are willing to take risk but can't seem to overcome a financial institutions requirement for equity or collateral.

My heart aches when I see Americans living in poverty, buildings boarded up and homes dilapidated. This is America. No one should feel despair or disenfranchised. America is still the land of opportunity and I am honored to stand in front of you today to say thank you for raising socially conscious capital. Keep up the good work!

We cannot overstate the importance of the NMTC Program and our hope that you will be able to use this program to attract equity in your valuable venture capital funds. We commend you for viewing your investments as providing twice the impact to the bottom-line – investments that generate financial returns and investments that enrich our communities.

Treasury Secretary Paul O'Neill has made creating jobs and improving living standards of people everywhere the standard by which to measure the impact Community Development Entities (CDEs) and Community Development Financial Institutions (CDFIs) have in the marketplace. Secretary O'Neill believes that our job in government is to continuously improve the framework of our economy. He has set a high standard and expectation for the CDFI Fund to help Treasury achieve this mission in low-income communities by targeting populations that have historically been underserved.

By offering a tax credit, the New Markets Program encourages private investment in underserved communities in an unprecedented manner. If the program is embraced by investors, it will be a significant source of new, patient capital that will help to stimulate new industries and entrepreneurs, to diversify the local economy, and to generate new jobs in low-income communities.

Let me put a face on the NMTC program for you. It is $15 billion in tax credits designed to spur economic development in low-income communities. A remarkable 24,562 census tracts in the United States qualify for NMTCs. That's nearly 40 percent of all census tracts, representing 36 percent of the population, or nearly 91 million people. There can be no contest that the New Markets Tax Credit program is seriously needed throughout the nation. The directive at Treasury has been quite pointed – successfully implement the NMTC program this year!

I'd like to spend the next 15 – 20 minutes talking about (1) developments at the Fund; (2) a briefing on the NMTC program; and (3) some things you might want to consider if you are planning to capitalize your venture capital fund or pool by utilizing NMTCs. I hope, following this, we can engage in a dialogue of questions, answers, and ideas from you.

(1) Developments at the Fund

Vision and Change

First, let me talk vision and change. As you know, our vision at the Fund is to have an America in which all people have adequate access to credit, capital, and affordable financial services. My vision for the Fund is to grow our organization as the nation's leading vehicle and best practice government agency for financing economic and community development activities in low-income areas, distressed and underserved communities.

Secretary O'Neill has challenged all employees of the Treasury Department to take the necessary steps needed to achieve a world-class organization. Along these lines, the Secretary has directed the Fund to develop procedures that will provide meaningful measurement of the impact of taxpayer dollars and credits awarded through CDFI Programs.

In response, we have strategically taken a step back in order to leap forward with an ambitious plan of service to America. That first step has been to develop a new organizational structure that is designed to help build your capacity to achieve such results. Some of what we aspire to is placing a higher accountability upon ourselves here at the Fund to complete application reviews, make awards, and close and disburse these awards in a more timely manner. We also are putting systems in place to ensure that we are targeting awards in the areas of highest need with organizations that can help us to achieve the greatest impact.

We will apply these basic principles to the NMTC program from the start. The programs of the Fund will be under the supervision of Fred Cooper, recently named as my Deputy Director for Policy and Programs. An important new addition to the staff is Linda Davenport, who is the manager for the New Markets program.

Linda comes with a long work experience in the Low Income Housing Tax Credit program, has a legal background, and brings many years' experience as a practitioner and as an equity investor, so she will definitely add a valuable and fresh perspective to the development of the New Markets program.

(2) Brief NMTC Overview

To recap briefly, the New Markets Tax Credit Program is designed to help spur economic growth in urban and rural communities across the country. Briefly, here's how NMTCs will work:

- Tax credits are allocated for investments into a Community Development Entity (CDE), certified by the Fund;

- To qualify as a CDE, the entity must have a mission of community development and demonstrate accountability to the low-income communities served (The Fund is allowing multiple, related entities to apply for certification under a single application. CDEs will be allowed to sub-allocate tax credits to subsidiary entities, and it is not necessary that they identify each of these subsidiaries at the time of their initial application for the tax credits).

- A CDE applies for an allocation of NMTCs.

- The CDE uses its allocation of NMTCs to raise equity from private investors.

- Investors can receive NMTCs worth 39% of the invested amount over the life of the credit. (5% in the first three years; 6% in the subsequent four years).

- Investors need to make their investments in a CDE, certified by the CDFI Fund.

- The proceeds from these investments must be made in Qualified Low-Income Community Investments (QLICIs).

There are four types of QLICIs:

1) Investments in or loans to qualifying low-income community businesses;

2) Training or technical assistance to businesses or entrepreneurs in low-income communities;

3) Investments in or loans to other CDEs; and

4) The purchase of qualifying business loans from other CDEs.

$15 billion in equity to which NMTCs may be claimed will be available over the next six years. We expect to allocate up to $2.5 billion in such equity in calendar year 2002. In seminars at the conference, Fund staff will discuss the program in greater detail.

The NMTC staff has been working diligently to finalize the NOAA (Notice of Availability of Allocations) and the application process. Most exciting, we will be accepting applications electronically, another efficiency measure to get this program out on the street as soon as possible. We anticipate release to the Public by April 30th.

We encourage you to check out our website on a regular basis for updates regarding the NMTC. Soon, you will see the NOAA and the application package appearing there! And if you haven't done so, check there, too, for how to become a CDE. So far, as mentioned, we have certified over 170 CDEs!

The New Markets staff also has been working hand-in-glove with the IRS to make sure that the process we are creating matches what they need to create as rules to govern the distribution of tax credits. As you know, the IRS has just closed out its comment period on its temporary rules, and will now be considering these comments and finalizing the rules for use.

Compliance Monitoring and NMTC

Let me share with you how important I believe it is to clearly define what may cause a recapture event. If the NMTC program is to be successful, investors must be very comfortable and clear on what could trigger recapture. As a reminder, the tax credits may be recaptured from the investor if:

1) The CDE fails to invest, either initially or upon subsequent returns of capital, substantially all (generally 85%) of the investor dollars into qualifying activities;

2) The CDE fails to meet the requirements (related to primary mission and community accountability) relating to certification as a CDE; or

3) The investment is redeemed by the CDE prior to the conclusion of the seven-year credit allowance period.

We are working very closely with IRS in developing clear guidelines and outlining our respective roles and responsibilities. As part of this process, they will aid the Fund in developing an entirely electronic reporting and compliance system – so that all CDEs will be submitting uniform compliance documents, customized to the types of investments in which they are engaged. If you have not already done so, I urge you to share any specific suggestions or concerns you may have with Linda Davenport about this.

For its part, the role of the Fund is charged with the implementation of the tax credit program. That means developing and setting policy that will govern the certification of CDEs, and the competitive application process for tax credit allocations awards.

It means administering the process to determine which groups will receive awards each year.

And it means overseeing the use of tax credit investments through excellent compliance monitoring to ensure that low-income and economically distressed communities are served.

The IRS, on the other hand, is responsible for developing the regulations that govern the use of tax credit allocations. They published implementing regulations on December 26, 2001 addressing, among other things: how the proceeds from the tax credit allocations must be used; what qualifies as an eligible investment; and what events will trigger a recapture of the tax credit.

Please familiarize yourself with these rules and share them with your investors. A copy of these regulations is available on the Fund's website.

I would also like to point out that these rules are still in a temporary stage. The IRS public comment period closed last week, but we've been told that they'll review comments that come in after the deadline. So I would encourage you to contact IRS if you have significant comments or concerns regarding the regulations.

(3) Issues in Using the NMTC Program for CDEs

I wanted to spend some time talking about how New Markets Tax Credits can open up opportunities for you, and deal with the challenges presented by being "development venture capitalists."

a. **The Double Bottom-Line**. One of the typical things said about DVC is that it works to achieve the "double bottom line." Your organizations work to ensure that the deals you invest in are profitable, and yet, still accomplish important "human" end results: more jobs, better quality jobs, increased wealth for low-income individuals, better quality of life, and capital access to groups who have historically not participated in traditional venture capital funds.

   Your challenge is how to straddle the social purposes that under-gird your mission, while still having the ability to attract investors.

   We will need your assistance and cooperation in helping us design a process that will measure impact and sustainable economic growth from the funds you raise using NMTCs.

b. **Investor Fit**. Who will be the right kind of investors for this program? There are two issues to tackle under this heading. One is what traditional VC investors look for, and the other is how DVCs will make the conversion from non-taxpaying pool investors, to tax paying investors, who are enticed by the tax credit.

   Many regular VC investors want, not surprisingly, to invest in deals where rapid growth is possible, and they want proximity to their investments for monitoring capability. They make larger investments, in general, than DVCs do, and also would like to know clearly that the exit strategy is in place at the time of investment.

Many of their investments rely heavily on personal relationships that have been built, and the assessment of management oftentimes is the deciding factor to invest. It is just these kinds of issues that have precluded investment in low-income and rural areas.

A tax credit investment through CDEs can help!

Our basic premise is that investors will get an additional return each year for seven years in the form of a tax credit, and their money will go directly into highly economically distressed areas. We're hearing that the tax credit, in itself, is not enough. We know that the deal matters.

1. You will be the middleman that will make their large investments in your CDE work in a variety of smaller deals that they would never have the time or interest in which to participate.

2. You will be the surrogate monitor for the investor, providing skilled technical assistance to the investee businesses and bringing a proven track record of stable, experienced management to oversee these companies.

3. You will develop the personal relationship on both ends. You already have it with the businesses needing patient capital, and you'll be developing it with your investors.

You'll make it easy on them, so why wouldn't they invest? Seriously, the important thing is that New Markets will give you the tool that allows you to have the conversation with tax-paying investors. If Congress wanted to simply provide a credit for investments into low-income areas then the credit would be direct.

Instead, these investments occur through CDEs, empowering you to provide the expertise and technical assistance needed to make these deals work in low-income communities and to have low-income residents as members of your boards. As the program progresses, we will need to hear from you about what works as well as what doesn't.

Conclusion

In talking with several trade groups over the course of the fall and winter, I have also learned that CD venture groups have been lining up investors. With all this investing in businesses going on, and the resources you are stacking up, sounds like you're ready for New Markets! That's very good...

We need the NMTC Program to be the impetus to increase the flow of private capital into low-income communities. Direct subsidies from the Federal government alone will not do it. We hear that NMTCs may take time before investors are comfortable with using it as a tool.

We, in all honesty, do not have the luxury of time. President Bush has made the nation's economic recovery a top priority. The President requested an economic stimulus package to reduce the tax burden on job-creating investments. The Senate has voted to extend unemployment benefits, but have yet to vote on the President's stimulus packet.

While the economic stimulus package debate continues in Congress, we have a head start and a new tool in the community development finance field. Like many of you, I was anxious to ride the stock market wave of the dot-coms and the tele-coms. Now, we have an opportunity today to bring in a new era: that of the low-coms.

Your funds have been on the leading edge in providing assistance to businesses that create jobs for low-income people and help revitalize low-income communities. The market opportunity is tremendous and the commitment from Treasury to see this program succeed is high.

In 10 years time, when we look back, we hope to say the NMTC Program put significant amounts of private sector capital investment to work in the areas where it was needed most. We know that you too share this vision. I look forward to working with you.

Thank you very much for your attention, and now, please share with me your thoughts and questions.

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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
March 05, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	March 07, 2002
Maturity Date:	April 04, 2002
CUSIP Number:	912795JN2

High Rate: 1.750% 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 23.07%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 45,248,522	$ 20,975,227
Noncompetitive	24,833	24,833
FIMA (noncompetitive)	0	0
SUBTOTAL	45,273,355	21,000,060
Federal Reserve	2,748,860	2,748,860
TOTAL	$ 48,022,215	$ 23,748,920

Median rate 1.735%: 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 = 45,273,355 / 21,000,060 = 2.16

1/ Equivalent coupon-issue yield.

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
March 5, 2002

Contact: Public Affairs
(202) 622-2960

TRANSCRIPT OF U.S. SECRETARY OF TREASURY PAUL O'NEILL AND MINISTER OF FINANCE DR. YUSSEF AL-IBRAHIM

PRESS CONFERENCE
KUWAIT INTERNATIONAL AIRPORT
KUWAIT CITY, KUWAIT

MINISTER AL-IBRAHIM: It is our great pleasure to have Secretary O'Neill here in Kuwait and his distinguished delegates. As you know, this visit shows the deepness of the relationship between the United States and Kuwait. This morning he had the chance to meet with the Governor of the Central Bank, with representatives of the banks and the Kuwait Finance House, and also to meet Shaykh Sabah Al-Ahmad and myself. Unfortunately, it's a very short visit. We'd love to have you for a longer period of time to enjoy the spring weather and to show you the desert, but I know you have a very busy schedule. But, again, welcome to Kuwait. It is our pleasure to have you here.

SECRETARY O'NEILL: Thank you very much. We have received a very warm welcome this morning and have had very successful meetings talking about the issues that are of mutual interest. It's wonderful to be in Kuwait and to feel the warmth of the friendship that exists between the United States and Kuwait. Our topic today was to talk about many things, but specifically about financial matters, and to thank the people of Kuwait and government officials for their very quick condemnation of terrorist activities after September the 11th, and for their very quick and forthcoming action of blocking the accounts or the names of the people identified as terrorists or suspected terrorists. I want to say how much we appreciate the wonderful cooperation that we've had on this issue, and also to talk about how we can go forward together and ensure that money is not flowing to terrorists. The United States can learn from the work that has been done in Kuwait, from the thinking about these issues, and to volunteer assistance going forward if it could be useful in Kuwait to deal with some specific issues. One issue that we in the United States have been keen to add to our perspective is to assure people around the world who are giving money to help others for charitable purposes that all of the money given for charitable purposes only goes for good purposes. Again, I think we had a very successful engagement in talking about this issue. I'm convinced we all have the same idea and purpose. Together, I'm also confident that we can reduce the possibility of terrorists having access to funds through our normal financial systems and our charitable systems.

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For me, this was a very successful and pleasant engagement with the high officials in Kuwait. I'd be very happy to take a few questions.

QUESTION: You, the Treasury Department, I think it was December or January, froze the accounts of the Kuwait-based Islamic Heritage Revival Society. I was wondering if any steps had been taken, perhaps to unfreeze the accounts, and if you could give any more information on that specific society.

SECRETARY O'NEILL: We are not prepared to unfreeze those -- what we consider to be sub-accounts -- but we're continuing to exchange information. Again, we're most anxious that -- and think that everyone that I've spoken around the world shares this view -- that it is very important that money given for good purposes not end up being used for bad purposes, and to take every effort to make sure that this doesn't happen.

QUESTION: There are some reports stating that the influx and the size of investment from the GCC countries has actually lowered after September 11 because of the measures taken by your administration. How can you assure investors that their money is in a safe place? And is this accurate first?

SECRETARY O'NEILL: No, I think the assertion is wrong. I think if you look at our general funds and flow of funds they are not different from before and after September 11. In fact, on a somewhat broader note, it seems quite clear now that our economy maybe never suffered a recession. (We experienced) one quarter of negative growth, I guess, but the report now from the fourth quarter of our economy is far above the no-growth level of 1.4 percent. We are expecting a continuation of improving growth rates as we go through this year. So I would say that -- although we will never return to normal in the sense of being able to forget about the terrorist attacks of September 11 -- the economic fundamentals are moving back into place.

QUESTION: To Minister Al-Ibrahim. Kuwait said that it was hiring international auditors to monitor the accounts of the charities, has it done that?

MINISTER AL-IBRAHIM: Well, we didn't say that we are going to hire international auditors. We said we are going to stick to international accounting standards. There are Kuwaiti auditing offices here in Kuwait that can do this job. I have to assure you that what we are doing is part of the international effort and we are dealing with Security Council Resolution 1373 and we are adhering, as a member of the international community, to these resolutions.

QUESTION: Are you planning to freeze other accounts for organizations, especially in Kuwait?

SECRETARY O'NEILL: We are not making any announcements of freezing action today. But we are continually working on the further identification of people who have declared themselves to be terrorists or who take responsibility for a terrorist act.

Through our intelligence activities, we are working hard to identify other people who would harm innocent people around the world and to stop their money flow. It's an ongoing effort. I don't know that it will ever be finished.

QUESTION: I know that all the GCC countries are extremely cooperative with the international allies to stop the terrorist activities, but how is it possible to trace the funds coming in and out the GCC countries when these countries are not applying tax revenues systems where you can trace all the funds?

MINISTER AL-IBRAHIM: I don't see that that has anything to do with having a tax system. Since you have been working with the Commercial Bank of Kuwait, you know how the transfers are being done in Kuwait, through the Central Bank The system is very clear. This is being done for a long time. Kuwait has a very advanced banking system. We were dealing with these issues prior to September 11, and all people and experts who came and visited were very happy with the system we have. So there is nothing to do with our tax system here, or (the fact) that we don't have an income tax system.

QUESTION: I want to know your view and your opinion about the U.S. economy in 2002 and what you expect in 2002 and 2003?

SECRETARY O'NEILL: In 2002, as I said, we are expecting the first quarter of this year to be better than the forth quarter of last year. Then we are expecting to see successive quarters of growth, with the expectation that by the end of the year we will be growing at something between three and three and one-half percent. There are some economic observers who are now making estimates of even stronger growth than that because of the correction that's taken place in the inventory levels, and what looks like more rapid return to good growth rates than what people were expecting. It's my own expectation that 2003 will again be a year of substantial growth for the U.S. economy.

QUESTION: There have been funds that were frozen all over the world which were suspected to be funding terrorists. Are there any steps taken to make sure that these funds are really and certainly funding terrorism and to release those who prove not to have a relation with terrorists?

I mean are you following up the funds frozen already, to release them if they are not certainly in relation with terrorists?

SECRETARY O'NEILL: Yes.

QUESTION: Some people believe that under the pretext of fighting terrorism the United States interferes in the internal affairs of countries. How do you respond to this?

SECRETARY O'NEILL: It's simply not true. After the events of September 11, President Bush himself, and several of the rest of the members of the American administration, were in touch with world leaders and all the countries of the world. We said to them that we believe the attacks of the terrorists are attacks of uncivilized people on civilization.

If we are going to prevail, it will take the combined efforts of people everywhere in the world to identify people who want to do evil things. While we know that there are military cadres in Afghanistan, there are other people in the world who do their dirty work by providing money to those who want to hurt others. So we asked the leaders of the world to please join us in identifying these people and blocking their access to money. The response of every country has been uniformly the same, agreeing that we should together fight terrorism everywhere in the world. We've not given direction or instructions or even suggestions to individual countries about how they should be responding, but every place in the world has responded in an affirmative way to this call to support civilization.

QUESTION: How concerned are you that there are still Kuwaiti charities or individuals here that could still be managing to finance terrorism. Secondly are you fully satisfied with the controls the Kuwaiti government has already taken to tighten certain charities and financials?

SECRETARY O'NEILL: On the broader question about the charities: We have a very strong tradition in the United States of people giving substantial amounts of their own income and wealth to help people who have nothing, to help low income people and poor people, and people who have serious medical problems and don't have enough access to food. So we have a very big tradition in the United States of charities. I understand there is also a very strong tradition in the faith here of giving to help others. So, in that sense, I think we are very much together in believing it's a good thing for those who have much to help those who have little. We don't want to do anything that will interfere with that regular flow of charitable giving and support for good causes. But we do have information from places around the world where there have been instances --without the knowledge of people who gave the money -- of some of the money they gave ending up providing support to those who want to do evil things. So we've said we think we should work together with other governments around the world to make sure that this doesn't happen. I think anyone who gives their own money with the intent of it being helpful to those who don't have very much has the right to believe that their money will go for a good purpose, not for a bad purpose. It's only in that sense that we've raised this issue. I think, frankly, that we're all learning together. One of the earliest identifications of a charitable institution that was providing money to a terrorist organization was located in the state of Texas in the United States. So this is not the United States saying 'everyone else has a problem, we don't have a problem.' We recognize this is a problem. We think it is something we should all work on together. We are very pleased with the response and with the conversations we had this morning, and with the resolutions to accomplish this purpose which I think we all share.

Thank you very much.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
March 5, 2002

Contact: Public Affairs
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STATEMENT OF SECRETARY PAUL O'NEILL
KUWAIT CITY

During my brief visit to Kuwait, I had the opportunity to meet with His Excellency Shaykh Sabah, His Excellency Dr. Ibrahim, and the governor of the Central Bank, Shaykh Salem. I also spoke with representatives of all of the commercial banks operating in Kuwait, including the Kuwait Finance House. I would like to thank my Kuwaiti hosts for their warm hospitality, and for their cooperation in the financial war against terrorism.

I expressed our appreciation to the government of Kuwait for Kuwait's ongoing support for the campaign against terrorism. Given my responsibilities as Secretary of the Treasury, I am particularly grateful for Kuwait's participation in the international effort to disrupt the financing of terrorism. In my discussions, I explained that freezing the assets of terrorists is an issue of paramount importance to the United States. We look forward to continued cooperation between our nations. For example, the United States has offered training and technical assistance to support Kuwait's goal of rapid and effective enforcement of its new anti-money laundering law.

During our talks, we also discussed Kuwait's efforts to improve regulation of the operations of charitable organizations. Charitable organizations perform a vital and valued role in society. We seek to protect and enhance that role. To do so, it is essential to ensure that donations reach those in need. Introducing greater transparency and accountability into the process of charitable financing will increase donor confidence, improve the delivery of assistance to the needy, and deny terrorists the opportunity to steal from widows and orphans. These are goals we all share.

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In closing, let me say how much I appreciated the opportunity to consult with my Kuwaiti friends on this critical topic.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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U.S. International Reserve Position

03/06/02

The Treasury Department today released U.S. reserve assets data for the week ending March 1 , 2002. As indicated in this table, U.S. reserve assets totaled $67,793 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 22, 2002			March 1, 2002		
	TOTAL		67,814			67,793	
		Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Foreign Currency Reserves [1]							
a. Securities		5,414	10,183	15,597	5,380	10,310	15,690
Of which, issuer headquartered in the U.S.				0			0
b. Total deposits with:							
b.i. Other central banks and BIS		9,122	3,928	13,050	9,074	3,977	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]				17,321			*17,214*
3. Special Drawing Rights (SDRs) [2]				10,801			*10,794*
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.

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PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
March 6, 2002

Contact: Peter Hollenbach
(202) 691-3502

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR FEBRUARY 2002

The Bureau of the Public Debt announced activity for the month of February 2002, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$2,092,135,286
Held in Unstripped Form	$1,928,128,796
Held in Stripped Form	$164,006,490
Reconstituted in February	$11,374,760

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-1072

TABLE V - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, FEBRUARY 28, 2002

Loan Description			Corpus STRIP CUSIP	Maturity Date	Amount Outstanding in Thousands			Reconstituted This Month [1]
					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	4,593,008	3,708,800	184,000
DQ8		12	AD5	05/15/05	4,260,758	1,820,208	2,440,550	5,450
DR6		10-3/4	AG8	08/15/05	9,269,713	5,872,213	3,397,500	148,800
DU9		9-3/8	AJ2	02/15/06	4,755,916	4,444,180	311,736	10,200
DN5		11-3/4	912800 AA7	11/15/14	5,015,284	1,804,500	3,210,784	71,400
DP0		11-1/4	912803 AA1	02/15/15	10,783,299	8,365,430	2,417,869	382,320
DS4		10-5/8	AC7	08/15/15	4,023,916	3,080,730	943,186	43,200
DT2		9-7/8	AE3	11/15/15	5,584,859	3,386,289	2,198,570	123,200
DV7		9-1/4	AF0	02/15/16	5,501,754	5,317,848	183,906	161,800
DW5		7-1/4	AH6	05/15/16	18,823,551	18,668,918	154,633	96,000
DX3		7-1/2	AK9	11/15/16	18,824,448	17,478,988	1,345,460	38,320
DY1		8-3/4	AL7	05/15/17	15,619,169	8,754,304	6,864,865	685,840
DZ8		8-7/8	AM5	08/15/17	11,208,358	7,599,965	3,608,393	284,800
EA2		9-1/8	AN3	05/15/18	6,797,439	2,975,839	3,821,600	56,000
EB0		9	AP8	11/15/18	7,174,470	3,504,347	3,670,123	16,000
EC8		8-7/8	AQ6	02/15/19	13,320,498	7,909,616	5,410,882	617,000
ED6		8-1/8	AR4	08/15/19	18,940,932	18,276,945	663,987	567,360
EE4		8-1/2	AS2	02/15/20	9,656,268	7,805,620	1,850,648	222,200
EF1		8-3/4	AT0	05/15/20	7,707,183	3,136,983	4,570,200	80,000
EG9		8-3/4	AU7	08/15/20	17,259,306	8,145,586	9,113,720	604,880
EH7		7-7/8	AV5	02/15/21	10,195,573	9,353,773	841,800	129,400
EJ3		8-1/8	AW3	05/15/21	10,191,788	5,493,365	4,698,423	614,720
EK0		8-1/8	AX1	08/15/21	9,926,382	7,922,690	2,009,692	130,520
EL8		8	AY9	11/15/21	30,632,194	15,728,075	14,904,119	1,887,850
EM6		7-1/4	AZ6	08/15/22	10,227,790	8,968,691	1,259,099	91,200
EN4		7-5/8	BA0	11/15/22	7,423,626	3,414,631	4,008,995	30,800
EP9		7-1/8	BB8	02/15/23	16,152,061	10,455,461	5,696,600	438,400
EQ7		6-1/4	BC6	08/15/23	22,659,044	19,189,952	3,469,092	189,200
ES3		7-1/2	BD4	11/15/24	9,704,162	3,773,922	5,930,240	111,760
ET1		7-5/8	BE2	02/15/25	10,019,170	3,967,769	6,051,401	160,000
EV6		6-7/8	BF9	08/15/25	11,267,207	7,610,445	3,656,762	278,120
EW4		6	BG7	02/15/26	12,837,916	11,647,716	1,190,200	565,400
EX2		6-3/4	BH5	08/15/26	9,000,418	6,293,600	2,706,818	150,400
EY0		6-1/2	BJ1	11/15/26	10,870,177	5,252,927	5,617,250	297,000
EZ7		6-5/8	BK8	02/15/27	9,601,971	6,235,366	3,366,605	302,400
FA1		6-3/8	BL6	08/15/27	9,356,756	7,286,956	2,069,800	373,000
FB9		6-1/8	BM4	11/15/27	22,021,339	11,781,239	10,240,100	292,400
FE3		5-1/2	BP7	08/15/28	11,776,201	11,150,101	626,100	207,800
FF0		5-1/4	BV4	11/15/28	10,947,052	10,355,652	591,400	142,400
FG8		5-1/4	BW2	02/15/29	11,360,341	10,891,446	468,896	49,600
FJ2		6-1/8	CG6	08/15/29	11,178,580	10,391,580	787,000	24,800
FM5		6-1/4	CH4	05/15/30	17,043,162	16,383,290	659,872	3,200
FP8		5-3/8	CK7	02/15/31	16,427,648	16,290,048	137,600	0
Total Treasury Bonds...					503,639,485	362,780,209	140,859,276	10,868,940
Treasury Inflation-Indexed Notes:								
CUSIP:	Series:	Interest Rate:						
912827 3A8	J	3-5/8	912820 BZ9	07/15/02	18,557,280	18,557,280	0	0
2M3	A	3-3/8	BV8	01/15/07	17,577,071	17,577,071	0	0
3T7	A	3-5/8	CL9	01/15/08	18,390,155	18,280,765	109,390	0
4Y5	A	3-7/8	DN4	01/15/09	17,136,264	17,136,264	0	0
5W8	A	4-1/4	EK9	01/15/10	11,891,540	11,891,540	0	0
6R8	A	3-1/2	GA9	01/15/11	11,170,452	11,170,452	0	0
7J5	A	3-3/8	GT8	01/15/12	6,004,283	6,004,283	0	0
Total Inflation-Indexed Notes..................................					100,727,044	100,617,654	109,390	0
Treasury Inflation-Indexed Bonds:								
CUSIP:		Interest Rate:						
912810 FD5		3-5/8	912803 BN2	04/15/28	18,365,783	18,365,783	0	0
FH6		3-7/8	CF8	04/15/29	21,201,459	21,067,083	134,376	0
FQ6		3-3/8	CL5	04/15/32	5,012,235	5,012,235	0	0
Total Inflation-Indexed Bonds..................................					44,579,478	44,445,101	134,376	0

Loan Description			Corpus STRIP CUSIP	Maturity Date	Amount Outstanding in Thousands			Reconstituted This Month [1]
					Total Outstanding	Portion Held in Unstripped Form	Portion Held in Stripped Form	
Treasury Notes:								
CUSIP:	Series:	Interest Rate:						
912827 2P6	E	6-5/8	912803 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	BD6	05/15/02	11,714,397	7,483,597	4,230,800	320
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	14,309,009	11,600	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	19,167,226	4,691,789	20,600
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	12,733,214	73,600	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	26,503,492	90,400	0
3Q3	P	5-3/4	CH8	11/30/02	12,120,580	11,750,780	369,800	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	11,643,793	408,640	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	13,097,440	3,200	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	22,197,463	1,365,228	48,300
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	14,278,695	406,400	0
4B5	E	5-1/2	CU9	03/31/03	14,172,892	14,162,492	10,400	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	13,097,979	28,800	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	25,655,288	2,355,740	16,800
4N8	J	5-1/4	DE4	08/15/03	19,852,263	19,783,263	69,000	102,400
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	22,675,492	22,675,492	0	0
7E6	V	2-3/4	GP6	10/31/03	25,147,960	25,147,960	0	0
4U3	K	4-1/4	DJ8	11/15/03	18,625,785	17,367,385	1,258,400	30,400
7G1	W	3	GR2	11/30/03	28,170,526	28,170,526	0	0
7H9	X	3-1/4	GS0	12/31/03	29,666,988	29,666,988	0	0
7K2	J	3	GU5	01/31/04	30,775,555	30,775,555	0	0
N81	A	5-7/8	BH9	02/15/04	12,955,077	12,218,677	736,400	34,400
5A6	E	4-3/4	DQ7	02/15/04	17,823,228	17,804,828	18,400	0
7M8	K	3	GW1	02/29/04	31,741,296	31,741,296	0	0
P89	B	7-1/4	BJ5	05/15/04	14,440,372	13,645,272	795,100	0
5F5	E	5-1/4	DU8	05/15/04	18,925,383	18,925,383	0	0
Q88	C	7-1/4	BK2	08/15/04	13,346,467	11,477,967	1,868,500	2,400
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	14,369,160	4,600	200
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	13,236,974	597,780	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	14,768,120	441,800	3,000
6N7	F	5-3/4	FX0	11/15/05	28,062,797	27,872,997	189,800	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	15,252,955	762,520	152,000
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	35,380,129	34,970,729	409,400	50,400
2J0	B	6-1/4	BW6	02/15/07	13,103,678	12,715,142	388,536	14,800
2U5	C	6-5/8	BX4	05/15/07	13,958,186	13,775,871	182,315	0
3E0	D	6-1/8	CA3	08/15/07	25,636,803	25,130,803	506,000	4,000
3X8	B	5-1/2	CQ8	02/15/08	13,583,412	13,563,212	20,200	0
4F6	C	5-5/8	CY1	05/15/08	27,190,961	27,123,441	67,520	0
4V1	D	4-3/4	DK0	11/15/08	25,083,125	25,067,925	15,200	0
5G3	E	5-1/2	DV6	05/15/09	14,794,790	14,761,290	33,500	0
5N8	C	6	EA1	08/15/09	27,399,894	27,304,894	95,000	25,000
5Z1	E	6-1/2	EM5	02/15/10	23,355,709	23,351,509	4,200	0
6J6	C	5-3/4	FT9	08/15/10	22,437,594	22,434,594	3,000	0
6T4	E	5	GC5	02/15/11	23,436,329	23,430,569	5,760	0
7B2	C	5	GL5	08/15/11	26,635,316	26,631,316	4,000	0
7L0	B	4-7/8	GV3	02/15/12	13,389,255	13,389,255	0	0
Total Treasury Notes...					1,443,189,280	1,420,285,832	22,903,448	505,820
Grand Total...					2,092,135,286	1,928,128,796	164,006,490	11,374,760

TOTAL P.03

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
March 6, 2002

Contact: Public Affairs
(202) 622-2960

UNITED STATES SECRETARY OF THE TREASURY PAUL O'NEILL

MEDIA ROUNDTABLE CONFERENCE PALACE JEDDAH, SAUDI ARABIA

Secretary O'Neill: We've had very interesting and I think successful meetings beginning yesterday afternoon and continuing into the evening last night. And then we had a resumption of our meetings this morning at 9:00, finishing just a short while ago with a visit to the Technical College.

In these meetings I found a wonderful spirit of shared interest and cooperative spirit about the important issues of the world. We've talked about the world economy at large; we've talked about the regional economy; we've talked about bi-lateral work together. We resolved that in the spirit of an agreement signed in 1974 that we will redouble our efforts to speak with each other and work with each other on a regular basis, to talk about all of the issues that engage Saudi Arabia and the United States. I said that the spirit and feeling has been one of great cooperation and shared interest between our two peoples.

I was intrigued by the visit to the technical college this morning to see how students are being prepared to take part in the economy, to provide education on a world-competitive basis. And it was really quite fulfilling to see the energy of the professional staff at the college and how they're approaching this work and the new initiatives they have coming in the very near future. So I would say to begin with, excellent set of meetings and conversations and I'm looking to the opportunity this afternoon to meet with the Crown Prince and then, hopefully to return on a fairly regular basis for a continuation of our conversation.

PO-1073

The Finance Minister and I had the opportunity to engage each other in Japan a few weeks ago and we both observed that we're having opportunities on a fairly frequent basis. I think the next one will be in Monterey Mexico; we'll have an opportunity to see each other again, then at the World Bank/IMF meetings. So I think we can see a regular program going forward where we can speak with each other and talk about the important issues. And with that I'd be happy to take your questions.

Question: I'm sure that Saudi Arabia would share your views in establishing the trail to terrorist organizations, financial terrorist organizations, but those terrorist organiza-tions do not have declared address to transfer the money to, and the organizations you listed, many of them, I'm sure the Saudis here and other countries abroad also do not share your views that those organizations are terrorist or should be labeled as terrorist organizations. Is that a matter of discussion? For example if you pick just one organiza-tion, it's called Holy Land Foundation, in America. That organization is also known here, is respected here in Saudi Arabia by different business communities and it is not seen as a terrorist organization, when you see it as a terrorist. How could you solve this?

Secretary O'Neill: Okay, well let me start by putting this issue in the broadest context. At last count there are 189 nations in the world. We think there is substantial evidence that there are cells of terrorists in many, many nations in the world. Therefore, if the world's people are going to be protected from terrorists, we need to work on—as you say, they don't have an address—we need to work on where they are, not where we may wish they were or where we may think they are, we need to work on finding out where they are in fact. And they're not holding out a sign saying "We're a terrorist... please come and get us!" What that says to me is that we in the civilized world must work together to identify people who are terrorist or who are suspected to be terrorist, so that we can, together, protect ourselves against the threat of the kind of event that occurred in the United States on September the 11th. We think that the possibility of terrorist attack is as great everyplace in the world as it is in the United States and therefore this is not an issue of the United States or for the United States; this is an issue of and for the world.

To your more specific question about the Holy Land Foundation: we found that this organization that was operating in the United States was, to the best of our knowledge, providing financial support for terrorists. I think the fact that you raised it is important. We're not saying to the world that this is the rest of the world's problem or that there is one country or five countries or ten countries that are the only places where terrorists can be. I think the evidence is much to the contrary. And so when we look at this problem we think about the idea of "we." We don't think about the idea of "us" or "I" or "they." We think this is a subject for "We of the civilized world" to work on together.

Question: Your Excellency, do you have any direct evidence about any Saudis, Saudi businessmen, that he had financed any terrorist activities?

Secretary O'Neill: We have made it our practice, when we think that we have sufficient evidence to register a name, that we register a name. We don't have any comment to make until we believe the evidence is sufficient that there should be a listing. And there's of course an opportunity for people who have been listed to say that it's not true and to offer evidence to refute the charge. We're trying to be as careful as possible in doing this so that we don't unfairly identify people. But we also feel the weight of responsibility of being sure that where the evidence seems to be powerful that we don't leave the subject alone with the hope that it's not true.

I would say that there's another important thing in this, that's a growing trend, which I think is very important. There was a list that was forthcoming from the UK at the end of last year. And I will tell you the reason it came forward. Maybe it would have anyway, but there was a meeting in Washington where I had an opportunity to speak with the finance minister of the UK and I said to him it would be a very helpful if you were showing that you were working on the subject as well and if you have through your own analysis identified people that should be put on the worldwide list this would be a way of making the point that this is "we"; this is the world that needs to pay attention to this subject. So a few weeks after our meeting they produced a list which we added to our list. And last week, when I was on another trip, the people in Spain identified a list which we also added to our list. And so, we're beginning to see this worldwide process of cooperation and with individual governments doing their own work to identify people who might do evil things to the rest of the civilized world.

Question: Mr. Secretary (inaudible) when you are talking about (inaudible) exactly or other names?

Secretary O'Neill: No, we had a long list of names, I forgot, I think there was six. I think six names that were forthcoming from the UK. (Some were IRA.) That's right. We've had, you know, we're seeing now other nations are adding to the list for everybody to know about in the world. I think this is a very favorable development.

Question: In a comment to the listing process of suspects of terrorist financing, does it bother you that you just adopt a list of some other country and you just add it to your main list. I understand your list is more stringent as far as criteria of identifying people suspected of terrorist actions. Does it bother you in any way that they just keep (inaudible) lists on top of one another?

Secretary O'Neill: Well, I'll tell what we're doing, we're not just putting it on the computer and sending it out. When we get a list from other governments we ask them for evidence as other governments have asked us for evidence. And to the limit of our ability and to the limit of their ability they've been very forthcoming in saying that these are the evidence that we have for these names and we believe that these governments are operating in good faith and that they are not frivolous designations.

Question: Are you satisfied with the extensive money laundering measures already being implemented in Saudi Arabia especially after the recent Hajj and this is the large season for collection of Islamic charities? And also this (inaudible).

Secretary O'Neill: First as a general point I would say that the government of Saudi Arabia has been very good in its cooperation with us on these subjects. In a broader sense I think the whole world is working on the issue of money laundering and this is a subject that's been going on for a very long time. I think in all civilized nations there's an alarm and a distress about the drug trade and the money laundering that surrounds the drug trade. I think it's very difficult to separate the flow of funds that are related to illegal activities like the drug trade and other things that are oppressive to the better human spirit. And I don't think anyone including the US has designed a system that captures all of the money laundering activity and all of the drug trade. We don't really know how to do it. We're learning together how to think about this and how to learn from each other's ideas about how to do a more refined job of stopping the assault on not just our adult population but our child population which is subjected to drug usage and again I think that one of the things important about this trip is to be engaged with the governments of the nations we're visiting in the Gulf to learn from them what they are doing and the ideas they have because I have no doubt at all that especially with the strong traditions in the Gulf that the resentment about creating victims of drugs and victims of terrorism is as strong here as it is any place in the world.

Question: Will the US (inaudible) monitoring Islamic charities?

Secretary O'Neill: Well, I don't think so. Let me talk to the issue of charities again in the broadest sense. In the United States we have a very strong tradition of charitable giving. Our people give billions of dollars every year to help people who have nothing or who don't have very much. For education, for healthcare, for housing, for all the human needs that are unmet. And so we believe very much in charitable giving. We have a registration system in the United States much like what you have here that requires charitable organizations to let the government know of their existence and then they get a special a tax form.

The last thing we want to do in the world is dampen the spirit of charitable giving. We think this is a most important human dimension of helping those who don't have anything. Now, at the same time we want to work -- we are working -- we want to work with nations around the world with a focus on finding cases where legitimate important aspects of our society are being used for purposes they weren't intended for. I don't know of any one -- I'm sure there's no one here, I guarantee you there's no one in the United States -- who gives charitable money who wants it to be used for evil purposes. It's a universal perspective. But we have evidence in our own territory—and you gave me an example of the Holy Land Foundation—of funds given with the greatest intentions and benevolence being diverted to support terrorist activity.

We want to make sure that terrorists don't get money. And so wherever we find that terrorists are giving money through legitimate banking systems, through hawalas, through whatever device, that all the peoples of the world who believe in the aspirations of a positive civilization work together to make sure that our legitimate institutions are not contaminated by terrorists.

Question: There seems to be a US criteria, HAMAS and Jihad for example, on what would be considered terrorist organizations and if charities funding them they would be funding a terrorist organization. Now in the Gulf, not only in Saudi Arabia, you'll find a lot of people think that HAMAS and Jihad are not terrorist. How do you resolve that with the governments like if you have evidence that you have a certain charity in Saudi Arabia in UAE, they are funding HAMAS. How do you resolve that? Would they agree, do they agree with your criteria?

Secretary O'Neill: Well, again, I think the focus needs to be on working backward from terrorist activity. The complication is that this is we need to make life so financially difficult for terrorists that it's very hard for them to do evil things. And in order to do that our focus needs to be on getting money sources that flow to them. I think that you don't begin with a general indictment of an institution. You look at where money is coming from. And if in tracing money backwards you find that it's coming from a particular institution I think you don't begin by saying the whole institution is a problem unless you find that there's knowledge at the top of the institution. But it doesn't mean that because you think that say, the Catholic Church is a wonderful organization if you find some little part of it someplace that's providing terrorist financing without the leadership knowing it, you don't contend the whole institution is bad, but it doesn't keep you from saying this part of the organization is doing bad things. And so I think we need to be precise in our language and in our designation and so you know when we've made some recent designations, we make designations of sub units, not of broad scale units. We try to put our attack directly where we have knowledge that people knew what they were doing and provided money to terrorists. That's our objective. So that you know for example we find in our own banks, when we find money laundering going on in one of our major banks we don't indict the whole bank. Maybe we don't indict even the bank even at the small unit level if they are an innocent victim of people who are doing this illegal activity; we go after the people. But it doesn't keep us from asking the financial institutions to help us. So we ask the financial institutions please help us. We're asking the charitable institutions please help us. It's in your interest. It's in our interest together that terrorists not get money. So it's not that we're wanting to assault the legitimate institutions of society. We're wanting to work with the legitimate institutions of society because we believe they share the same goals that we have.

Question: But what I mean is the recipients. There's a difference in identifying the recipients. Are they terrorists groups or are they not. And this is like one issue that there is obviously a difference. How do you resolve that difference?

Secretary O'Neill: Well, I think you can tell a terrorist by the acts they commit. I mean, if you want to go and look at people being killed in the street, innocent people being killed in the street, I mean if you went to look at the people who piloted the airplane, were they terrorists? I would say they were terrorists. And then when you trace back and find out where they got their money, (inaudible) well, we're trying to find clear cut cases because it's our purpose, I think, a shared purpose for the world to stamp out terrorism. That's the shared purpose. It's not to make life miserable for the legitimate institutions of the world. It's to get at terrorists. And knowingly giving money to terrorists we think is a terrorist act. If you fund terrorism, if you, if you know someone is going to go and use your money to create a weapon of mass destruction, that's complicity. And that's support. And that's unforgivable.

Question: But do you find the problem, is that a problem that you're facing now?

Secretary O'Neill: It's not so easy. If we all knew how to do this we would have finished it yesterday afternoon.

Question: Your Excellency, you just talked in the beginning about the cooperation with SAMA about transferring the money to abroad to some institutions. First of all, we want to know what kind of cooperation can we expect in the future, new stages that are going to happen.

And if there's any illegal offices still working now from Saudi Arabia, what's the Saudi government promise you to stop this kind of activity?

Secretary O'Neill: Now first, to the last part of your question, I tell you what, I have a great deal of confidence that if the governmental people in Saudi Arabia had knowledge of people that were providing assistance to terrorists that they would stop it immediately. I don't have any doubt that the people of Saudi Arabia are every bit of as dedicated to the proposition of stamping out terrorism as any other people in the world. I have no doubt at all. Going forward, I think we all, I think as I've talked to people around the world and I have now talked to people from I think in a many different places, maybe talked to representatives of almost every nation in the world, I find all of them are dedicated to the proposition of using their own energy and conviction to work on this problem. And I have to tell you that I wish I could say that I though it would be over shortly. I don't think so. And I think that there are enough people of ill will and evil intent out there that the world is going to have to be continuously vigilant. It's not something that we're going to be able to declare a victory and then we can all go on to something else. We're going to have to keep working on this problem individually and together and learning from each other so that we can relieve our peoples everywhere in the world from the burden of worrying about how their life's going to end tomorrow.

Question: On the oil initiative, Your Excellency, been announced two days ago that the postponement of the letters of agreement with the Saudi officials negotiating in Los Angeles and the consortia, what's your reaction to that? Do you see a link between (inaudible) and the 11th of September, 911, or back down because of some disagreements of other issues?

Secretary O'Neill: You know I… I'm tempted to… I guess I will tell you. I attribute it to bureaucratic process. Which means that when governments work on those kinds of things the propensity to talk is very strong. And to conclude is not so strong. But I have a great deal of confidence that the work will go on and will be concluded in a good time. Again, let me say what I said at the beginning: I found the engagement with the government people very, very cooperative and strong, and the same on both sides to commitment of working together and the continuing ongoing strong relationship between our peoples. In fact even adding the energy to the contact we've had in the sphere of economics and trade and a sharing of insight and information about economic development. We've spent some time this morning talking about economic development in the rest of the world. I think it's really noteworthy. What I said, that I saw the finance minister in Japan, I think it's very noteworthy that the co-chairs of the conference of Japan included the United States and Saudi Arabia. This is co-chairs for the Afghan fundraising initiative. I think this is a really significant thing and it shows that we are working together not only on a bi-lateral basis but on things that are important to the whole world in a broader setting. And I think it's symbolic and practical evidence at the same time of our strong and ongoing friendship and dedication of working together.

Question: Can you report to us how much progress you've made in the fighting terrorism aspect in this visit with the Saudis, like is there something you can report to us?

Secretary O'Neill: Well, you know I think we made, let me say for myself, I learned a lot. You know, just listening to the work that's being done and the attitude, and the explanation of how Islamic banks work is a degree of very helpful knowledge that we can take back with us and help to explain to the rest of the world how some of these things work because they are a mystery. To lots of the world you may not appreciate, but to lots of the world these things are a mystery and I think when you take away the mystery it's very clear that these are a legitimate ways to do business. So I think this is a very important thing for us that we came and we learned a lot. And I think we'll go away with a strong degree of confidence that we are absolutely together in our determination that we individually and together will work on this problem of illegal activities and particularly the terrorist aspect of flows of funds to people that want to do harm to innocent people in the world.

I think it's the same in Bahrain and it's the same in Kuwait, and I'm sure we will find the same tomorrow in the UAE and you know it's what I found in talking about these same subjects in Japan. You may have a feeling that, because you only see it from your point of view, the US being interested in this issue only here.

I've had these conversations now and engaged in ones with leaders everyplace in the world since September the 11th, I mentioned the meeting with the UK finance minister. It was the first subject on our agenda, with the UK. It was the first subject on our agenda with the members of the so-called G7 group. You know, including with the Russians, it's interesting to find we're working with the Russians on these same issues.

Question: Are the Saudis going to come out with their own list?

Secretary O'Neill: Well I don't know, we will see. Maybe, maybe they will. think it's less important whether they come up with their own list than it is important by their own declaration that they will pursue these issues and that they will be a world leader in assuring that terrorist finance doesn't happen within the boundaries of Saudi Arabia. Just as we will do our level best to assure in the United States for the benefit of people other places in the world. As I said earlier I think this is a very important thing. Terrorist can and do attack anywhere. This is not something for one country. This is something for the whole world to be concerned about to work on together.

Thank you (inaudible)

Secretary O'Neil: Thank you

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
March 6, 2002

Contact: Public Affairs
(202) 622-2960

JEDDAH, SAUDI ARABIA
JOINT STATEMENT: U.S. -SAUDI ARABIAN ECONOMIC DIALOGUE

Today Dr. Ibrahim al-Assaf, Minister of Finance and National Economy for the Kingdom of Saudi Arabia, and Mr. Paul H. O'Neill, Secretary of the United States Department of the Treasury, held an in-depth dialogue on economic issues of mutual interest, including the global economic situation. They also discussed the economic reform program being implemented to support more rapid, broad-based growth in Saudi Arabia. Both parties agreed that today's dialogue aims at strengthening the long-standing U.S.-Saudi cooperation on economic issues. This cooperation dates back to the creation of the United States-Saudi Arabian Joint Commission on Economic Cooperation in 1974, following the visit to the United States of King Fahad, Custodian of the Two Holy Mosques, when he was Second Deputy Premier and Minister of Interior. Both parties agreed to continue the dialogue, expressing their intention to meet annually or more often as circumstances require.

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PO-1074

DEPARTMENT OF THE TREASURY

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For Immediate Release
March 7, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY AND IRS ANNOUNCE INTENTION TO ISSUE ANTI-DUPLICATION RULES

Today the Treasury Department and the Internal Revenue Service issued Notice 2002-18, announcing their intention to issue regulations that will prevent a group of corporations filing a consolidated return from obtaining more than one tax benefit from a single economic loss. The regulations will apply to dispositions occurring on or after March 7, 2002.

"Treasury and the IRS are preparing regulations addressing these loss duplication transactions, and will issue this guidance in the near future," stated Mark Weinberger, Assistant Secretary of the Treasury for Tax Policy.

The text of Notice 2002-18 is attached.

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PO-1075

Part III– Administrative, Procedural, and Miscellaneous

IRS Announces Regulations will be Issued to Prevent Duplication of Losses within a Consolidated Group on Dispositions of Member Stock

Notice 2002-18

In Notice 2002-11, 2002-7 I.R.B. 526, the Internal Revenue Service announced its intention 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 of the Income Tax Regulations.

Concurrently with this Notice, the IRS and Treasury are filing with the Federal Register temporary regulations under §§ 337(d) and 1502 of the Internal Revenue Code that set forth rules governing a consolidated group's allowable loss, or basis reduction, on a disposition or deconsolidation of subsidiary stock, as described in Notice 2002-11. These rules do not disallow stock loss that reflects net operating losses or built-in asset losses of a subsidiary member.

Nonetheless, the IRS and Treasury believe that a consolidated group should not be able to benefit more than once from one economic loss. Accordingly, the IRS and Treasury intend to issue regulations that will prevent a consolidated group from obtaining a tax benefit from both the utilization of a loss from the disposition of stock (or another asset that reflects the basis of stock) and the utilization of a loss or deduction with respect to another asset that reflects the same economic loss. For example, where a member of a group contributes built-in loss assets to another member of the group in exchange for stock of such member in a transaction in which the basis of such stock is determined, directly or indirectly, in whole or in part, by reference to the basis of such assets and the transferor member sells such stock without causing the deconsolidation of the transferee, the group may benefit from the built-in loss in the contributed assets more than once. It is expected that the regulations will defer or otherwise limit utilization of the loss on the stock in such transactions and other transactions that facilitate the group's utilization of a single loss more than once. Such regulations will apply to dispositions of stock (or another asset that reflects the basis of stock) occurring on or after March 7, 2002.

The IRS and Treasury are devoting substantial resources to the development of the regulations described in this Notice in order to issue the regulations in an expeditious manner. In addition, the IRS and Treasury are studying the various approaches that could be implemented to give full effect to § 337(d) and to reflect the single entity principles of the consolidated return rules.

REQUEST FOR PUBLIC COMMENT

Comments are requested on the scope and substance of the regulations. Direct all written comments to Internal Revenue Service, Attn: CC:ITA:RU (Notice 2002-18), room 5226, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044. In the alternative, comments may be hand delivered Monday through Friday between the hours of 8:00 a.m. and 5:00 p.m. to: CC:ITA:RU (Notice 2002-18), Courier's desk, Internal Revenue Service, 1111 Constitution Avenue, NW, Washington, DC, or submitted electronically to: Notice.Comments@irscounsel.treas.gov. Please include "Notice 2002-18" in the subject line of your e-mail comments. All submissions will be open to public inspection.

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For Immediate Release
March 7, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY AND IRS RELEASE INTERIM REGULATIONS IN RESPONSE TO *RITE AID* DECISION

Today the Treasury Department and the Internal Revenue Service released temporary and proposed regulations replacing the loss disallowance rules, a portion of which was invalidated by the Federal Circuit in *Rite Aid Corp. v. United States*, 255 F.3d 1357 (Fed. Cir. 2001). In *Rite Aid*, the Federal Circuit held that the duplicated loss rule of Regulation Section 1.1502-20, which disallows certain losses on sales of stock of a member of a consolidated group, was an invalid exercise of regulatory authority.

"The regulations addressed by the Court in *Rite Aid* were developed over a period of years and reflected extensive consideration of a number of complex issues and factual situations. The regulations published today are merely a stop-gap measure to provide interim guidance while we develop a new set of rules," stated Mark Weinberger, Assistant Secretary of the Treasury for Tax Policy.

Treasury and the IRS are devoting substantial resources to the development of a comprehensive regime to replace the rules at issue in *Rite Aid*. In light of the complexity of the issues, Treasury and the IRS are soliciting comments.

The text of the regulations is available from the IRS.

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PO-1076

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
March 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 $26,000 million to refund an estimated $25,593 million of publicly held 13-week and 26-week Treasury bills maturing March 14, 2002, and to raise new cash of approximately $407 million. Also maturing is an estimated $18,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced March 11, 2002.

The Federal Reserve System holds $11,532 million of the Treasury bills maturing on March 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 March 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 $1,049 million into the 13-week bill and $927 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-1077

TO BE ISSUED MARCH 14, 2002

		March 7, 2002
Offering Amount	$13,000 million	$13,000 million
Public Offering	$13,000 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 JY 8	912795 LA 7
Auction date	March 11, 2002	March 11, 2002
Issue date	March 14, 2002	March 14, 2002
Maturity date	June 13, 2002	September 12, 2002
Original issue date	December 13, 2001	March 14, 2002
Currently outstanding	$21,516 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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TREASURY NEWS

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For Immediate Release
March 7, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY SECRETARY PAUL O'NEILL STATEMENT ON HOUSE PASSAGE OF THE "JOB CREATION AND WORKER ASSISTANCE ACT"

I applaud the House on today's passage of the "Job Creation and Worker Assistance Act."

The overwhelming bipartisan support garnered by this proposal is a win for American workers, their families and the nation.

This legislation - which contains many of the provisions President Bush has been calling for since last October - will give immediate help to workers whose unemployment benefits will expire next Monday and it will add needed momentum so that we have a robust economic recovery.

It offers more than just an unemployment check for those out of work and those hurting, it offers the hope of a paycheck in the near future.

I urge the Senate to immediately pass this bill and get it to the President's desk for his signature.

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PO-1078

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
March 8, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY SECRETARY PAUL O'NEILL STATEMENT ON SENATE PASSAGE OF THE "JOB CREATION AND WORKER ASSISTANCE ACT"

I applaud the Senate for following the lead of the House and promptly passing the "Job Creation and Worker Assistance Act," legislation which contains many of the provisions President Bush has been calling for since last October.

As President Bush said, this bill not only takes care of unemployed workers, it also has tax relief for employers to create and retain jobs as a major part of it. This legislation will add momentum so that we have a more robust economic recovery and return to full prosperity.

Make no mistake; this legislation is about jobs. President Bush has insisted that it is not enough to help people out of work unless we can also help them get back to work. This legislation will do that - it will speed American back to work and help the unemployed until they return to work.

This is a great victory for American workers and their families.

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PO-1079

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EMBARGOED UNTIL 12:00 P.M. EST
March 8, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

REMARKS BY J. PATRICK CAVE
DEPUTY ASSISTANT SECRETARY
FOR FINANCIAL INSTITUTIONS & GSE POLICY

BEFORE THE
CONSUMER BANKERS ASSOCIATION

PREDATORY LENDING: CAN BEST PRACTICES BE PART OF THE SOLUTION?

Good afternoon and thank you for this opportunity to speak before you today about our ideas for addressing predatory lending. Assistant Secretary Bair asked me to speak on her behalf, as she has lost her voice to a bout of laryngitis. Let this demonstrate her personal commitment to fighting predatory lending, even when her voice will not cooperate.

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 home ownership 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.

PO-1080

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. 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 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 to educate consumers about the mortgage process, the financial responsibilities of home ownership, and general principles of consumer finance. Members of the Consumer Bankers Association have made important contributions toward improving financial literacy. We applaud those efforts and hope to continue working with the financial institutions 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 – including members of the Consumer Bankers Association – 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 made representations to consumers that they abided by the national code of best practices, and then failed to do so, could be subject to enforcement actions by the FTC. Even though such a code of best practices would be voluntary, the actual code and the dialogue associated with developing the code would be useful in formulating the Administration's views on the contents of potential Federal legislation. The process of developing the code could also prove useful in efforts to reach agreement on key features of any potential Federal legislation.

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 there existed a federal enforcement mechanism. If the lender said no, the consumer could then consider whether they wanted to look elsewhere for credit.

I believe that a national code of best practices for lenders has the potential to reduce abusive lending practices and to provide real value to consumers. However, in today's mortgage market lenders are only one part of the mortgage process.

In many cases the first contact a consumer makes in the mortgage process is with a mortgage broker. Mortgage brokers serve an important function of providing borrowers with a wide array of loan products and generally increasing credit availability throughout the country. While the majority of mortgage brokers follow responsible business practices, some abusive lending practices – such as loan flipping – are often linked to brokers. Regulation and licensing of mortgage brokers is done to varying degrees at the state level. State law enforcement and regulatory agencies need to be vigilant in monitoring mortgage brokers and enforcing existing laws, and consideration of new requirements may be necessary to ensure that a few irresponsible brokers do not damage the positive role played by mortgage brokers. However, all responsibility for monitoring mortgage brokers can not rest only with state enforcement and regulatory agencies. Lenders should also carefully monitor the performance of mortgage brokers that they do business with to ensure that those brokers are following prescribed lending guidelines and not engaging in abusive lending practices.

Another piece of the mortgage process that could contribute to combating predatory lending is the secondary mortgage market. The secondary mortgage market – either through the housing GSEs or Wall Street investment banks – provides a link between capital market funding and mortgage finance to consumers. While clearly these firms do not have a direct relationship to the consumer in the same way as mortgage brokers or lenders, secondary market firms do have a responsibility to play as good corporate citizens. As good corporate citizens, secondary mortgage market firms should seek to work with lenders and mortgage companies that are also good corporate citizens. In that regard, a national code of code of best practices could provide important information to secondary market firms. We would hope to significantly expand the number of lenders adhering to a code of best practices through the active participation of the secondary mortgage market.

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. We have started to evaluate these issues more closely, and in the coming weeks I hope to 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 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 Consumer Bankers Association for inviting me to speak here today.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release | Friday, March 08, 2002

Statement by Rob Nichols, Deputy Assistant Secretary for Public Affairs

The Treasury Department today released the following statement to make clear wire reports:

"The Secretary was offering his personal expectations of future oil prices based on his own view of the market. The U.S. policy is that market forces should determine oil prices."

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PO-1081

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 9:15 A.M. EST
March 12, 2002

Contact: Public Affairs
(202) 622-2960

REMARKS ON THE PATRIOT ACT OF TREASURY UNDER SECRETARY FOR ENFORCEMENT

JIMMY GURULE BEFORE THE BANKERS ASSOCIATION FOR FINANCE AND TRADE

Introduction:

I am sure that many of you here today experienced emotions similar to mine yesterday as the nation took time to reflect on the six month anniversary of the September 11th tragedy. I felt a profound sadness and also anger. I still have a lingering disbelief that what happened that clear day in September actually occurred here on American soil. As I have taken time to reflect on what happened, my resolve has been strengthened to ensure that the Treasury Department is doing everything we can to prevent another large scale attack from occurring on our soil. At the Treasury Department this preventative mindset has translated into taking steps to shut down the flow of funds into the coffers of the terrorists – to make it difficult for them to underwrite their training camps, purchase firearms and explosives, and to send money abroad to fund future attacks. The new PATRIOT Act regulations, when fully implemented, will play a critical role in this anti -terrorist financing strategy.

Background and Purpose:

Let me speak for a moment about the background and purpose of the PATRIOT Act. When President Bush delivered his memorable speech to a joint session of Congress and the nation last September 20th there was no mistaking the President's words: the United States would combat terrorism with every tool, every tactic at our disposal. Just over a month later the United States Congress backed up the President's words with action when they overwhelmingly passed, and the President signed, what is known today as the USA PATRIOT Act of 2001. Although the Act is an omnibus piece of legislation containing many important provisions, the true purpose of the legislation is clear - to unite and strengthen America by providing the tools needed to defeat terrorism. The PATRIOT Act is a bipartisan manifestation of the President's promise at the conclusion of that same speech in which he eloquently stated: "...we will meet violence with patient justice, assured of the rightness of our cause and confident of the victories to come."

PO-1082

Today I will address just a portion of the PATRIOT Act, specifically Title III of the overall package which is also known as the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 (MLAA for short). Many of the sections of this MLAA will directly affect your industry and it is important that all of us - law enforcement, regulators, as well as the providers of financial services - all understand what this law requires of us.

The concepts in the law were derived from accepted international standards, the deliberations of various congressional committees, and in the archives of legislative reports and proposals that surfaced well before the events of September 11th. The final product, as passed by Congress in October, is one of the most significant anti-money laundering statutes since the original Bank Secrecy Act first became law in 1970.

Let me also add at the outset of my remarks that I know there is considerable interest from the private sector in the regulations slated to roll out from the Department in the coming months. I appreciate your interest in understanding how the PATRIOT Act will affect your businesses and what you and your companies can do to help. Although I will be discussing some of these new provisions today in general terms, it would be inappropriate to comment extensively on these regulations before the Department completes them. I can assure you, however, that we will continue consulting closely with the private sector and other government agencies during the drafting process.

Overview of Key Provisions:

Among the many provisions of the MLAA, I would like to highlight some of its key elements.

- **Section 311 - Special Measures** - This is a hallmark provision of the MLAA affording the Secretary of the Treasury a graduated set of five special measures that can be used to combat money laundering. Under this provision, domestic financial institutions, including the U.S. based operations of foreign financial institutions, must comply with the specific measure or measures if the Secretary determines that a foreign jurisdiction, a foreign financial institution, a certain international transaction or a type of account constitutes what is called a "primary money laundering concern." Prior to enactment of this provision, it was not clear that the Secretary had the full authority necessary to protect the U.S. financial system from being abused by money launderers operating from or through international financial crime havens. Previously, we had only two options available. First, we could issue advisories to U.S. banks about specific jurisdictions or transactions. Our second option was a more extreme measure – to issue sanctions authorized by the International Emergency Economic Powers Act (IEEPA). Now, we have a graduated set of interim measures that range from added reporting requirements to requiring the termination of certain accounts. All of these measures can apply to a very broad definition of financial institutions which provides the Secretary of the Treasury with sweeping discretionary power which we intend to use carefully and yet forcefully for its intended objective.

- **Section 312 - Special Due Diligence** - This key section calls for special due diligence on the part of all financial institutions for correspondent accounts and private banking accounts involving foreign persons, entities, and banks. It requires all financial institutions to either establish or enhance those due diligence procedures that will be able to detect and report money laundering through these accounts for all foreign private banking customers and international correspondent accounts. It also necessitates enhanced due diligence by financial institutions with respect to correspondent accounts maintained for offshore banks or for foreign banks that are located in certain designated foreign countries, such as those on the Financial Action Task Force's list of non-cooperative jurisdictions in the global fight against money laundering. Enhanced due diligence is likewise required for private banking accounts maintained for foreign political figures, including their families and close associates. We anticipate that we will meet our statutory deadline of issuing a proposed rule by April 24.

- **Section 314 - Cooperative Efforts** Communication and cooperation are critical to success in the fight against money laundering and terrorist financing. 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; and (2) information exchange among financial institutions. First, in a proposed rule, we seek 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. Under the proposal, 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. Second, in a rule effective immediately, financial institutions may share information amongst themselves related to suspected terrorists or money launderers. Financial institutions wishing to share such information must provide FinCEN with a yearly, blanket certification that they will protect information shared. Both information sharing provisions represent bold, new steps in our efforts to utilize existing resources to eliminate terrorism and money laundering.

- **Section 326 - Verification and Identification** - A pivotal point in any counter money laundering strategy occurs with the initial opening of an account. This section of the MLAA confers upon the Secretary of the Treasury, in conjunction with the bank regulators and the SEC, the authority to issue regulations setting minimum standards for customer identification at the time of account-opening. Once adopted, this regulation will encompass all accounts, including both foreign persons and U.S. citizens. In addition the statute mandates that it will apply to all financial institutions as defined by the Bank Secrecy Act unless they are specifically exempted. It will call for reasonable procedures to verify the identity of the customer opening the account, the maintenance of records used to identify the customer, and consultation of a government provided list of known or suspected terrorists.

- I know for many of you this type of explanation raises more questions than it answers. Understandably you are interested in knowing what exactly "reasonable procedures" means in the real world. As I mentioned earlier in my remarks, the Department of Treasury will continue to consult with private industry as the regulation drafting process continues. The input and expertise of the private sector cannot be underestimated as we continue to assemble available information to make the regulations as effective as possible.

- **Section 352 - Anti-Money Laundering Programs** - While many financial institutions have already instituted their own anti-money laundering programs, section 352 of the MLAA mandates that each financial institution establish a basic anti-money laundering program. Such programs must include: internal policies, procedures and controls; a designated compliance officer; training programs for employees; and, independent audits to test the implementation of the anti-money laundering program. Furthermore, the Secretary of the Treasury is authorized to prescribe, in consultation with the appropriate functional supervisor, additional minimum standards for an anti-money laundering program. The significance of section 352 lies in its broad application to all financial institutions described in the Bank Secrecy Act, many of which have not previously been subject to anti-money laundering regulation.

I have highlighted what I consider to be some of the more salient provisions, soon to come into force, of the MLAA or Title III of the PATRIOT Act. Certain other provisions of the Act are already effective. As of last December 26th, financial institutions operating in the United States were required to sever correspondent banking relationships with foreign shell banks - those foreign banks that have no known physical presence. As I am certain you all are aware, we are now reviewing public comments received on the proposed rule. We hope to issue a final rule shortly. Similarly, the record-keeping requirements for correspondent accounts maintained by foreign banks also took effect last December. We are also considering the many comments raised in connection with that proposed rule. Furthermore, final regulations requiring broker-dealers to file suspicious activity reports, or SARS, with Treasury's FinCEN are to be published by July 1st.

Update on Implementation of the PATRIOT Act:

Let me also take a moment to comment on the status of the implementation of the Act. Treasury has a hardworking and loyal team committed to this process and I am pleased to inform you that we have received the full support of the Administration in our efforts. In fact, I am joined here today by one of Treasury's key players with respect to the implementation process -- Deputy Assistant Secretary for Money Laundering Julie Myers. We currently have about twenty working groups for the different regulatory projects required by the PATRIOT Act, with the Federal Reserve Board involved in about fifteen of these groups.

As you are probably well aware, the implementation of the PATRIOT Act involves close inter- agency and intra- agency coordination. The Department of the Treasury has reached out both government wide and to the private sector during the drafting process. We have been pleased with the interagency response to getting this job done and in getting it done right.

We are also greatly encouraged by the response of the private sector and industry groups. Regarding several key provisions of the law we not only received positive comments about the legislation, but also helpful insights into implementation issues. I cannot underestimate the important value added to the implementation process when others take time to educate us on their particular industry and its practices and procedures. Any attempt to craft regulations in a vacuum is a foolhardy endeavor and we are particularly thankful for the creative and constructive suggestions from those of you who will be affected by the regulations. These contributions allow us to identify issues early and discover solutions expeditiously.

Before I conclude, let me briefly summarize the key principals that are guiding the Treasury Department's implementation of the Act. First, we want to prevent regulatory arbitrage in 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 control. Second, we will prioritize the principles of enhanced coordination and information flow. Third, we will respect important privacy interests. Fourth, we will require only the degree of reporting that results in action by the government - information that is not intended to be used will not be requested. Fifth and finally, we will protect our financial system by using this Act's authority to systematically eliminate known risks as well as to act in response to any specific threat that may arise.

Thank you again for your interest in the work of the Treasury Department. I look forward to continued dialogue and cooperation in the weeks and months ahead.

-30-

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FOR IMMEDIATE RELEASE
March 8, 2002

Contact: Public Affairs
(202) 622-2960

SECRETARY OF THE TREASURY PAUL O'NEILL
DUBAI BUSINESS CHANNEL INTERVIEW
EMIRATES TOWERS HOTEL, DUBAI
MARCH 8TH 2002 - 7 A.M.
INTERVIEWER - SIMON MARS

Interviewer: Thank you for coming in and joining us.

Question: Are you satisfied by the amount of support you are being given by the Gulf states in your campaign against money laundering?

Answer: The support is excellent. It's really gratifying to have been here for a week now and to have had talks with so many people. I have found without exception that we're united in our goal to defeat terrorism and I know that we've had support of the initiative that we found here without failure, so it's been really a wonderful week. I really enjoyed being here. I've been in the Gulf in the past - in Dubai and Bahrain, but I had not been to Saudi Arabia or Kuwait before, and so I really found that very satisfying, to meet people.

Question: Do you think any terrorist money is still being funneled through the UAE at the moment, or the Gulf, or do you think it has dried up?

Answer: I see this on a bigger world stage. For me this is not an issue about the Gulf. This is an issue about a hundred and eighty nine countries around the world banding together with a determination that we're going to defeat terrorism so that people everywhere in the world are able to live without fear in their lives every day. So I don't see this in terms of one country, or a few countries, or a particular destination, as you suggest the Gulf states. We're all in this together.

PO-1083

Question: If we are all in this together, why did your department or the administration help derail the Financial Action Taskforce - the OECD's Financial Action Taskforce last February the 17th? You announced at the G7 Summit you're putting a multilateral agreement under review, and if it is a global campaign, did it just start after September eleventh? I mean, why did you stop before?

Answer: No, I don't think so at all. I think maybe you're talking about my concern about what was being done with the so-called tax-haven legislation. This is a different issue. But if you're interested in that, let me say a word about it. There's a school of thought in the world that was reflected in some of the work that was being done that all countries should have the same tax regime. I don't think that's right. I think sovereign nations should have an ability to have their own tax regime, and if one country wants to have no tax, and other countries have relatively high tax, I think that's the prerogative of the people, of the independent, individual countries themselves.

When I raised the issue about what's going on with this so-called tax-harmonization, I think people wondered why. To me it's a fairly straightforward proposition of sovereignty. In the broader context of money laundering -- which is I think it's the face for illegal, illicit, evil kinds of activity, and it's been going on for a long time -- we've been prosecuting a war against drug lords and doing it by trying to find connections through financial systems, and for me, in a way, the evil that's at the drug trade is connected to the evil of the terrorism in a broader sense. And so what I see going forward is a renewed, determined, connected effort around the world to interdict money that's connected to evil doers, whether it's drugs, or assaults, or assassinations, and I see around the world a real conviction that we can do this.

Question: Why then again, on November 27th last year, did you announce that you've an agreement with the Cayman Islands which, despite what you say, is not just about plain tax (inaudible), that this concerns money laundering and terrorist funds being channeled through there. They didn't have to tighten their banking or tax laws until 2004. That's at odds with your previous statement.

Answer: Not at all. We set out to find agreements with all countries around the world that we don't have specific agreements with, and there haven't been any done for years and years. Last year in testimony before the Congress, I promised them in one year that we would sign agreements with at least fifty percent of the represented accounts in the world, and we're going to easily make that part. Cayman Islands was part of that. There are procedures for how quickly these things can be done, and it takes a year and a half or so in their case. But I think the agreement is already beginning to be in practical effect. (interruption). Pardon me.

Question: You're (inaudible) at the wrong time (inaudible) present situation.

Answer: Well, you know, the world is a few thousand years old, and as much as I would like to change it tomorrow, I find that it's not within my power to do everything I would like to do overnight.

Question: And it's got nothing at all to do with the fact that Enron have some 874 subsidiaries like (inaudible)...

Answer: You know we've signed an agreement with four jurisdictions now and you will see we're going to sign some more. Within the next couple of months, we're going to be relentless about this, and this doesn't have anything to do with anything else except pursuing and prosecuting evil people.

Question: OK. Last time I'm turning to this. According to the FT last year, you said that banks having to report any cash deposits over ten thousand dollars imposed a significant cost on society. Do you still subscribe to that view?

Answer: Well, I didn't say that. I didn't say that, but you know, I've become acquainted with mis-assertions about what I said. It's one of the reasons I welcome doing television: what I say is what I say and as long as it doesn't get edited, then I'm very (inaudible).
My belief is this: that we should seek out and identify and confiscate money of terrorist organizations, and what they were saying is something that is quite important. In the U.S. we have a provision that requires banks to report transactions of over ten thousand dollars. And when I began having responsibilities for these matters I asked the question how many people have we identified as a result of the reporting rule for ten thousand dollars. At first I discovered that with all these reports that cost seventeen million dollars a year for the Treasury people to convert the reported information into computer data so that could be used, and when I asked the question, how many people have we caught because of this, no one could tell me a single case. I'm one who believes tax payers deserve to get value for their money, and I want to stop every one of these dollars from drug traders and terror, and so I'm not comfortable at all with having a process in place that appears to do something when it doesn't do anything. And so I'm questioning every aspect of what we're doing, because I'm going to make sure we accomplish our purpose, and I want taxpayers to get value for their money.

Question: Are you going to support Senator Levin's money laundering abatement act then, because he said he has reports of ... your domestic banking sector's a gateway to an entry of massive criminal sums to the US. He said that laundering is around a five hundred billion dollar a year US industry, so are you working with him?

Answer: Yes, I think we are working with him, and it was when I testified before his committee last June that I made this assertion, much to his amazement I must tell you, that I would do something that has never been done - that I would work with my people and we would cause at least fifty percent of these questionable accounts to be covered by treaties, and it was a great pleasure to call them up and tell them about the Cayman Islands and about Bermuda and the others that we have signed, because I intended to do what I said, and I said, "Yes, I'm working very closely with them."

Question: OK. Moving on. How do you assess the current state of the U.S. economy? Are you happy?

Answer: Yes, I must say I'm not surprised by it. Last fall when everyone seemed to be so certain that we were going to have a negative GDP growth in the fourth quarter, it didn't look like that to me. From the people that I talked to around the country I was pretty convinced that there was a possibility that we could be positive for the fourth quarter. As you know it's turned out that not only were we positive, but that we were positive one point four percent, and I saw in the overnight report that productivity numbers have not been revised so that we have five point two percent productivity increase for the fourth quarter, which is a mark of an economy that's moving quite quickly. So yes, I'm pleased with the movement back to a significant positive growth rate that we're seeing in the U.S. economy, and I expect it to continue.

Question: Are you at all worried about the implications of the tariff that's been imposed on steel by the US. That the rest of the world might decide to retaliate? It could cause a global trade war. And the implications on the global economy?

Answer: As people look at the details of what the President has decided to do, they will have a second thought as they look at how this will work, because (interruption). No I don't think so at all. I think that other people, when they see what the President said is this: we've got an industry that's got thirty one companies in bankruptcy...

Interviewer - genius – capitalism...

Answer: That's a troubled industry. But with that troubled industry, the President said "all right." For example for slag product he said we're going to draw a line on the level of imports that can come in at the level that came in the year 2000. And if the imports go above that level, then there will be an imposition of a tariff. So it's not really saying there has to be a cut-back. The level that's been suggested for the next three years is above the current level. The first reaction that I've seen on television as I've been traveling, and having an opportunity to look at the television reports at night – it seems to me are, not unexpectedly, the kind of quick reaction you get before people study the details. I think that they've studied the details and maybe we'll have some calming on this issue.

It includes a doubling of the level of money that we were spending on what we've come to call homeland security; and it delivers on the President's promise for things like big increases in education spending. And so, as I've had the same question you've given me from Congress, I've said to them, "What is it you would like to stop doing?" You know, and I must say I'm getting a deafening silence from the members of Congress. They don't want to say that we shouldn't pursue terrorists, and they don't want to say that we shouldn't have better homeland security, and they don't want to say that we shouldn't have better education for our children.

We're going to pay for it by having economic growth that will return us to surpluses at the federal level. The way to develop surpluses in a federal budget is to have a fast growing economy - not to take more money away from the people, who are already paying an historically high level of their income to the federal government. Even with the tax reductions that were made last year, the American people are going to be paying nineteen percent of all of their income to the federal government, and since 1945, the average level has been eighteen percent. So we're asking them to do more already. As we see this economic improvement take place, we're going to return to surpluses at the federal level, and I think this is the correct way of doing it, not by diminishing the money we need to spend on priorities, and not by raising taxes, which will kill the economic boom.

Interviewer: Mr. Secretary, thank you very much.

END

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FOR IMMEDIATE RELEASE
March 11, 2002

Contact: Rob Nichols
202-622-2910

TREASURY SECRETARY PAUL O'NEILL TO DISCUSS PROGRESS ON THE WAR AGAINST TERRORIST FINANCING

What: Treasury Secretary Paul O'Neill will update the press on the financial war against terrorism

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

When: Monday, March 11, 2002
2:00pm

Contact: The room will be available for pre-set up at 1:00 p.m. News media without Treasury or White House press credentials planning to attend should contact Public Affairs at (202) 622-2960 by 11:00 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
March 11, 2002

Contact: Public Affairs
(202) 622-2960

AN ECONOMIC GROWTH AGENDA AT THE IDB
BY

JOHN B. TAYLOR
UNDER SECRETARY FOR INTERNATIONAL AFFAIRS
UNITED STATES TREASURY

AT THE BOARD OF GOVERNORS OF THE INTER-AMERICAN DEVELOPMENT BANK AND THE INTER-AMERICAN INVESTMENT CORPORATION

FORTALEZA, BRAZIL

1. President Iglesias, fellow Governors, ladies and gentlemen: I would like to begin by thanking Brazil and Minister Tavares for hosting this meeting in beautiful Fortaleza.

2. This is my first Board of Governors meeting. At the time of last year's meeting I was still awaiting confirmation of my appointment by the United States Senate. I was very disappointed that I could not attend last year. But I have been looking forward to attending this year's meeting and I am happy to be here today.

3. This past year has been a challenging one for all of us. Our attention has been drawn to important new tasks, such as combating the financing of terrorism and restoring economic growth after last September's terrorist attacks. At the same time we continued to deal with the difficult problems of economic instability, slow growth, and reduced capital flows in the region.

4. Some say that the problems of this past year have diverted attention from the region and have eroded the commitment of the United States to increased trade, free-markets, and democracy in the hemisphere. Nothing could be further from the truth. We are neighbors and friends. Geography, culture, history, and the strong bonds of mutual economic and security interests tie the Americas together. The United States remains committed to this friendship.

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5. The Inter-American Development Bank (IDB) is an essential part of this friendship—playing a role in economic development in the region. Today I would like to discuss how we should build on the successes of the IDB to make the hemisphere a better neighborhood—one characterized by more economic growth and less poverty.

Productivity Growth in the Hemisphere

6. The place to begin talking about economic development is with *productivity growth*. Poverty reduction and higher standards of living cannot occur without productivity growth. Productivity is simply the amount of goods and services a worker can produce in a particular period of time. The higher productivity is in a country or a region, the higher income per capita is in that country or region. You can see that by comparing the richer and the poorer countries in our region.

7. For the countries of Latin America as a whole the 1990s were better than the 1980s in terms of productivity growth, reflecting many economic reforms, especially in the macroeconomic areas. Productivity growth was 0.7 percent per year in the region as a whole in the 1990s after averaging below zero in the 1980s. That is an improvement, of course, but I believe there is room for much more improvement.

8. During the period that productivity growth was 0.7 percent in Latin America, it was 1.7 percent in the developed countries, and 2.7 percent in the East Asian countries. That 1 percent or 2 percent productivity difference could have made a huge difference in living standards in the region. Productivity growth in the United States is projected to be at least 2 percent in the next few years. Productivity growth in Latin America should be higher than 2 percent—or more than triple what it was in the 1990s.

9. While productivity is not a new thing, experience and research during the recent years have taught us many new things about productivity. As a matter of accounting, productivity will grow if capital—including human capital—per worker grows or if technology improves. The reason why I think that the productivity potential is so much higher in the region is that there is so much room to increase capital—including human capital—and to adopt cutting edge technology in use around the world today.

10. So, when evaluating a loan or a grant the IDB should look at its effect on productivity. That will lead to activities that will raise living standards and reduce poverty. I was very glad to see the emphasis placed on productivity growth in the recent report of the IDB, *The Business of Growth*. Secretary Paul O'Neill gave his strong endorsement of that report when he spoke at the IDB last fall. Using the latest research and data, the report demonstrates that more investment and more education in the region will increase productivity.

11. The report also shows that an improved business climate—a more consistent rule of law, better control of corruption, fewer obstacles to starting a business—will raise productivity. And the report shows that there is room for improvement.

12. For example, in Canada it takes 2 "procedures" to start up a business; in the United States it takes 4 and in Latin America it takes 12. And the report points out important success stories such as the *Oportunidades*, formerly known as *Progresa,* program in Mexico and the *Bolsa Escola* program here in Brazil which provide funds to families with low incomes whose children attend school. I am pleased that the IDB is using this model to develop educational programs in other countries.

Measurable Results

13. To achieve success in any endeavor it is necessary to have measurable results. That certainly holds true in our endeavor to raise productivity growth. We must be sure that the activities of the IDB actually do the things they are supposed to do. While nearly everyone welcomes the recent increases in funding for education by the IDB, we should not be satisfied with the funding alone. We must look at the outputs. Is enrollment increasing? Are more children graduating? Are literacy rates rising? Close monitoring is needed to assure that tangible, measurable results are being obtained. It is not enough to look at input. It is output that counts.

14. It is good that the IDB has already started strengthening the independent evaluation office—a process that has prompted candid debates about results. But it is not enough to have a separate and independent evaluation unit. Quality has to be built into every project at the early design stage, before it is presented to the Board of Directors, with clearly stated output-based objectives. I understand that during this past year, the independent evaluation office reviewed every loan proposal to see if it contained adequate indicators to measure results. I also understand that the review shows a broad need for improvement. This is a special challenge for the line managers in their day-to-day operations.

15. Some of you may know that the United States has proposed a large 18 percent increase in funding for the World Bank's International Development Association (IDA) in the current replenishment. We have also proposed that the year-to-year increments in this replenishment be tied to measurable results. Although an FSO replenishment is not immediate, the approach we are now proposing for IDA should eventually apply to FSO. If resources can be shown to be delivering effective economic development, the United States will be ready to make meaningful financial commitments.

Strengthening the Private Sector

16. Economic development will falter and fail without a strong private sector. Without a transparent economic environment based on the rule of law, private investment simply will not happen. This is especially important for small and medium sized enterprises, since opaque regulatory and legal environments create insurmountable barriers to entry. These barriers must be removed if the region is to grow rapidly.

17. The IDB and the other development banks can do more to promote private sector development. This will include giving practical investment climate assessments and providing more loans to small businesses. Work on improving transparency and governance in each country remains the biggest challenge.

18. We further need to remove the continuing obstacles to hemispheric integration. The United States is committed to the Free Trade Area of the Americas so that all the countries of the region can benefit from the free flow of goods and services. We know that this process will not be easy. The IDB is doing important work on trade capacity building.

19. The recent report by the IDB External Advisory Group gave particular attention to the private sector operations. I share the view expressed in that report that the IDB needs to strengthen risk management and evaluation functions for its private sector operations and for the IDB as a whole.

20. I would also like to comment on the work of the Multilateral Investment Fund in strengthening the environment for the private sector in Latin America. Its investment and technical assistance for Caja Los Andes in Bolivia, for example, enabled that institution to increase its portfolio seven fold, improve the efficiency of credit officers, and transform itself from an NGO to a full fledged formal financial institution. The MIF realized an internal rate of return of 17.9% when it exited Caja Los Andes in 2001, demonstrating that small business finance can be profitable.

21. We were pleased to support the extension of the MIF for 5 years so it can fully utilize its existing resources. The MIF and the IDB are focusing on reducing the transaction costs of remittances to Latin America and the Caribbean—a flow that is estimated to have grown to $23 billion last year.

The Importance of Grants

22. The IDB needs to look at grants as an important development tool. President Bush proposed increasing the share of development bank support for poor countries that is in the form of performance-based grants. Grants are appropriate for projects that fail to generate the revenues needed to service loans. It does not make sense, for example, to finance disease interventions such as HIV/AIDS with loans. Education support can also be in the form of grants. There is already agreement that a larger share of support from IDA and from the African Development Fund should be in the form of grants, though there is debate about how large that share should be.

23. How does the IDB fit into President Bush's grants proposal? Again there is currently no FSO replenishment underway. However, the IDB could use a portion of resources resulting from emergency lending to provide grants. If grant programs can be funded from this source, it will also take some pressure off the FSO, leaving added resources for the very poorest countries.

Conclusion

24. I have noted a number of difficult obstacles to economic growth in the region today. I have also noted that it is possible to remove these obstacles and achieve the goal of substantially higher economic growth. I am confident that the goal can be met successfully in the years ahead, and the IDB can play an important role in achieving this goal. Of course, we as shareholders must continue to ask the tough questions about productivity and measurable results. As President Iglesias has said, the goal of economic growth is the "business of the Inter-American Development Bank," and we look forward to working with him on this goal in the future.

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For Immediate Release
March 11, 2002

Contact: Michele Davis
(202) 622-2920

REMARKS BY TREASURY SECRETARY PAUL O'NEILL ON NEW U.S.-SAUDI ARABIA TERRORIST FINANCING DESIGNATIONS

Today, on the six month anniversary of the September 11 attacks, we take a new step in the war on terrorist financing, making our first joint designation of a financial supporter of terrorism. Today we are blocking the accounts of the Somalia and Bosnia-Herzegovina branches of the Saudi Arabia-based Al-Haramain Islamic Foundation. While the Saudi headquarters for this private charitable entity is dedicated to promoting Islamic teachings, we and our Saudi Arabian allies have determined that the Somalia and Bosnia-Herzegovina branches of Al-Haramain have been engaged in supporting terrorist activities and terrorist organizations such as al-Qaida, AIAI (al-Itihaad al-Islamiya), and others.

Few deceits are more reprehensible than the act of collecting charity from well-intentioned donors, and then diverting those funds to support hatred and cruelty. As I said during my visit to the Gulf, misusing charity funds to support terrorism harms the people who gave the donation, harms the people who should have received it and is dangerous to us all. Organizations that pervert the name of charity are an affront to us all, and we will find them, expose them, and shut them down.

Today the Saudi government is joining us in this blocking action. We have had significant co-operation in blocking accounts of those named by the United States, and our European allies have made designations of their own. As the first joint blocking we've undertaken, today's action is a sign of the growing strength of the anti-terror coalition, appropriate to mark the six month anniversary of the September 11 attacks.

I just returned from a visit to the Persian Gulf, where I had the opportunity to meet with King Fahd and Crown Prince Abdullah, others in the Saudi government, and the leadership in Bahrain, Kuwait and the UAE. Throughout the region I encountered a great recognition that the September attacks weren't only an attack on the United States, but were an attack on the civilized world. The governments there, like elsewhere in the world, are eager to cut off terrorists' access to funds, wherever we may find them. We all agree that we have a responsibility to safeguard charities, so that we can assure people giving to charities that their donations will be used only for their intended good purposes.

This joint designation marks a new level of coordination in the international cooperation that has characterized the fight against international terrorism to date.

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I thank the Saudi leadership for taking this step with us, and I hope this is only the first of many similar joint designations we will undertake with other allied nations. On this, the six-month anniversary of the September 11 attacks, as we remember the victims and the horror of that day, we recognize that we still have much to do to prevent such an outrage from ever occurring again.

The United States has blocked more than $34 million in terrorist assets, and other nations around the world have blocked more than $70 million. More important than the dollars found in the accounts is the shutting down of these pipelines for much larger amounts of money. We are implementing new safeguards at home to identify suspicious financial transactions and we are improving information sharing within the US government and among our allied governments. We are engaging the entire world to examine and improve the safeguards on their own financial system. We will continue to perfect the tools in this financial war and to increase our coordination so that we can stop the flow of funds that support terrorism.

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March 11, 2002

Contact: Public Affairs
(202) 622-2960

Media Advisory

What: Joint Financial Management Improvement Program's (JFMIP) Annual Conference will meet with Bush Administration Senior Officials to discuss management reform initiatives at the one day conference. "Geeting to Green- The President's Management Agenda."

Who: Secretary O'Neill will address the Joint Financial Management Improvement Program's (JFMIP) Annual Conference on Tuesday, March 12, 2002.

When: March 12, 2002
9:30am EST Secretary O'Neill will make remarks

Where: Hilton Washington and Towers
1919 Connecticut Avenue NW
Washington, DC

Contact: Journalist contacting Isabelle Howers at the Graduate School, USDA at 202-314-3471 or send registration form by faxing to 202-479-6801.

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For Release Upon Delivery
March 12, 2002

Contact Tony Fratto at 5585-399-1031 .

PRODUCTIVITY GROWTH IN THE AMERICAS

REMARKS BY

JOHN B. TAYLOR
UNDER SECRETARY FOR INTERNATIONAL AFFAIRS
UNITED STATES TREASURY

AT BRAZILIAN AMERICAN CHAMBER OF COMMERCE

FORTALEZA, BRAZIL

Thank you for inviting me to this meeting of the Brazilian American Chamber of Commerce. It is a pleasure to discuss economic issues with people from the private sector.

I would like to focus my remarks today on productivity growth. Of course I do not need to tell business people about the importance of productivity growth. Productivity is simply the amount of goods or services a worker can produce in a particular period of time—a day, or a week, or a year. Successful firms must monitor productivity closely. There are strong incentives to raise productivity because with higher productivity the same amount of goods or services can be produced at lower cost. In a competitive environment higher productivity eventually leads to higher real wages for workers.

In fact, for an economy as a whole economic progress itself is based on productivity growth. Higher standards of living cannot occur without productivity growth. We cannot reduce poverty without productivity growth. The higher productivity is in a country or a region, the higher income per capita is in that country or region. You can see that by comparing the richer and the poorer countries in our own hemisphere.

In the United States productivity growth has been the subject of an enormous amount discussion and research in recent years. And I do not mean simply academic research and discussion.

PO-1089

The Federal Reserve Board, for example, under Chairman Alan Greenspan's leadership, has devoted a great deal of resources to the study of U.S. productivity growth: Getting better data, using more sophisticated statistical techniques, looking for changing trends, assessing the importance of new technology. And the Fed takes this research into account when deciding whether to raise or lower the federal funds interest rate.

Productivity growth has changed trends for the better in the United States in recent years. Productivity had been trending around 1 percent per year during the period from the mid-1970s to the mid-1990s. The trend now appears to be at least 2 percent, perhaps higher. During the recent economic slowdown in the United States productivity growth has held up remarkably well compared with earlier slowdowns and recessions in the United States.

I am happy to say that the United States is now coming out of the recent slowdown. The fourth quarter of last year showed positive real GDP growth, and recent data on production and employment indicate that the U.S. economy has turned the corner. Once the recovery is underway, we have strong evidence to believe that productivity growth will remain closer to the improved trend of recent years.

For the countries of Latin America as a whole productivity growth has also improved. Data published by the Inter-American Development Bank (IDB) indicate that the 1990s were better than the 1980s in terms of productivity growth, reflecting many economic reforms, especially in the macroeconomic areas. Productivity growth was 0.7 percent per year in the region as a whole in the 1990s after averaging below zero in the 1980s.

However, I believe there is room for much more improvement in productivity growth. During the period that productivity growth was 0.7 percent in Latin America, it was 1.7 percent in the developed countries, and 2.7 percent in the East Asian countries. That 1 percent or 2 percent productivity difference could have made a huge difference in living standards in the region. As I indicated productivity growth in the United States is projected to be at least 2 percent in the next few years. Productivity growth in Latin America can and should be higher than 2 percent—or more than triple what it was in the 1990s.

The average trend in productivity in Latin America hides important difference between countries. In fact, productivity growth varied substantially across the region in the 1990s. According to the IDB, productivity grew by 2 percent annually in Chile, about the same as the United States. And the economic reforms in the early 1990s in Argentina led to similar high productivity growth, but of course the events of recent economic crisis are preventing that trend from continuing for the time being. According to the same IDB report, productivity growth was also strong in Uruguay. However, in Brazil productivity growth was close to zero—actually slightly negative according to the data we have—for the 1990s as a whole.

Why do I think productivity growth can improve so much in Latin America? The observed differences between regions and countries certainly point in that direction. Experience and research during the recent years have taught us many new things about productivity. Productivity will grow if capital—including human capital—per worker grows or if technology improves.

The main reason why I think that the productivity potential is so much higher in Latin America is that there is so much room to increase capital—including human capital—and to adopt cutting edge technology in use around the world today.

Research has shown that a better business climate—a more consistent rule of law, better control of corruption, fewer obstacles to starting a business—will raise productivity. Quantitative studies show that there is room for improvement here too. For example, in Latin America on average it takes 12 legal and government administrative steps to start up a business. In Canada it takes 2 steps to start up a business; in the United States it takes 4 steps.

Excessive taxes and regulations are obstacles to raising productivity growth that can be reduced or removed. According to a recent survey, 66 percent of business people in Brazil believe excessive taxes and regulations hinder investment. In Chile, however, only 12 percent of business people see overtaxing and regulation as a serious problem. Recall that productivity growth was negative in Brazil in the 1990s and 2 percent per year in Chile over the last decade.

Inefficient government intervention in labor markets may also reduce productivity. According to the Inter-American Development Bank, the costs of job restrictions are higher on average in Latin America (nearly 3.0 months of wages per worker) than in the OECD countries (1.7 months of wages).

There is wide agreement that better education is key to productivity growth. Although the labor force in Latin America grew at similar rates as East Asia in the 1990s, the rate of educational improvement was slower than in the countries of East Asia, and it even slowed further in Latin American during the past decade. There are of course important educational success stories. For example, here in Brazil the *Bolsa Escola* program, which provides funds to families with low incomes, whose children attend school has led to higher enrollments.

In conclusion, by reviewing some key facts and recent studies on productivity growth in the hemisphere, I hope I have convinced you that the goal of substantially raising productivity growth is important and feasible. I mentioned some of the obstacles to raising productivity growth. And I have also noted that the substantial gains in terms of higher living standards and reduced poverty that would come with the reduction or removal of these obstacles.

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EMBARGOED UNTIL 12:45 P.M. EST
March 12, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Remarks of Peter R. Fisher
Treasury Under Secretary for Domestic Finance
to the Financial Services Analysts Association

President Bush spoke last week about the importance of improving the accountability of corporate leaders as part of a broader effort to improve our system of corporate disclosure for the benefit of investors. I would like to take this opportunity to explain both the President's program and your critical role as financial analysts.

The goal is for public companies to inform investors better so that the financial markets can price risk better and allocate capital more efficiently. Nothing could be more important both for the long-run health of our economy and for investor protection. While federal and state governments can mandate minimum standards for the behavior of corporate actors and disclosure requirements for them to follow, unless you put that information to work, it will all be for naught. You, the financial analysts of America, must become the engine that takes the improvements in corporate disclosure and then drives the new information into the pricing of risk and into the efficiency of our capital markets.

The remarkable resilience that our economy has demonstrated is a consequence of our adaptable, flexible, and open markets for labor, goods, services, and capital. Over the past few months, however, we have learned once again not to take the performance of our capital markets for granted. For you and your clients and employers to allocate capital to the firms with the brightest prospects, you must have access to reliable information that allows you to make those judgments. The demise of Enron, other recent confidence-driven financial implosions, and the rash of recent earnings restatements have made us realize that our system of corporate disclosure is not working as well as it should.

Last Thursday, President Bush called on all of us to raise the bar for corporate disclosure in the United States, for all of us to hold corporate executives to the highest standards of conduct. I say "all of us" because this is not just a job for government. We in government can raise the legal minimums that public companies' CEOs must meet. But in our open society, committed to democracy and freedom of choice, government should not be the only source for setting behavioral norms for corporate actors.

PO-1090

Legal minimums enforced by fines and penalties will only take us so far. Improving the efficiency of financial markets and the ethics of our corporate leaders is principally a job for the business community itself.

The President's program is guided by three core principles: first, providing better (not necessarily more) information to investors; second, making corporate officers more accountable; and, third, developing a stronger, more independent accounting and auditing system.

As the President made clear, and as the SEC has recently re-affirmed, mere compliance with GAAP is not enough. Each investor should have access to a true and fair picture of the company, in plain English, and should be promptly informed of unquestionably significant events that affect the condition and prospects of the company. Much of the press coverage of the President's announcement underestimates the importance of this. Our goal is to raise the bar for what constitutes adequate disclosure.

President Bush directed our attention to CEOs because "reform should start at the top." We believe that CEOs should personally vouch for the veracity, timeliness, and fairness of their companies' public disclosures, including their financial statements. If a CEO or other corporate officer is guilty of misconduct, he or she should have to give back any compensation gained thereby. If corporate leaders abuse their power, they should lose the right to serve as a director or officer of a public company. And corporate leaders should have to tell investors within two days whenever they buy or sell the company's stock for personal gain.

Finally, the President believes that we need a stronger and more independent auditing and accounting system. To do this we need to establish a new, independent regulatory board, under the SEC's supervision, to develop standards of professional conduct and competence. In addition, the SEC needs to exercise more effective and broader oversight of the Financial Accounting Standards Board to ensure that accounting standards are issued more promptly and are more responsive to the needs of investors.

A word on the policy choices that the President made with his economic team. Some have suggested that Congress should enact an absolute ban on audit firms providing any non-audit services but we don't think that rigid lines should be drawn in statutes. The President instead would re-assert the responsibility of audit committees, working under new SEC guidelines, to decide whether a non-auditing service would compromise an auditor's integrity, and to report their choice of auditor directly to the shareholders. The President would also step-up enforcement of securities fraud; we all think existing legal standards and penalties are sufficient and well-honed for the task. Last, the President does not want to induce more lawsuits. Nor does anyone on the President's team think that more litigation would solve the problem of corporate disclosure.

The President's proposals are the product of vigorous thinking and discussion among his advisors; in the end, the President and his entire team agreed on these proposals as the best way to secure fuller corporate disclosure. Many reflect the ideas of Harvey Pitt, the SEC chairman whom President Bush appointed.

Harvey was working at improving corporate disclosure before it became front page news, before the President asked Secretary O'Neill to lead the Working Group on Financial Markets to take up the topic, before congressional committees held hours upon hours of hearings. Harvey Pitt is doing a terrific job and the country is lucky to have his service. I think the country has been lucky to have both Chairman Pitt and Secretary O'Neill – one of America's most effective securities lawyers and one of America's most effective corporate leaders – working to improve corporate disclosure and governance.

What's next? In Washington, I have learned that the Congress and President have to spend some time disagreeing before we can agree. But there is a lot of common ground. The President's program shares much with the thoughtful proposals of House Financial Services Committee Chairman Michael Oxley and Congressman Richard Baker. As we move along, I think we are going to find greater convergence of ideas between the House and Senate and between Republicans and Democrats than some may want to admit. We all want to serve the same goals of better corporate disclosure and improved investor protection. And we all know that, even while we strive to improve it, our corporate disclosure regime is the best in the world.

But perhaps the most important next step for the President's proposals is not what happens in Washington but, rather, what happens outside of Washington. In many respects, the most important next step depends on you.

However we feel about the role that some financial analysts played in the exuberance of the late 1990s, our financial system is dependent on your profession to interpret the flow of financial information that drives our market economy. In the highly-articulated division of labor in our capital markets, you serve as the information intermediaries between the providers of capital and the users of capital, between the asset managers who pool and invest our savings and the companies that raise equity and borrow.

For capitalism to work, the people who control capital have got to behave like capitalists. They need to care intensely about where and how the capital they control is invested. But in the institutional setting of asset management today, we may have lost some of the sharp incentives present when one is putting one's own capital at risk.

Much of our investment capital is in the hands of banks, mutual funds, insurers, and private pensions. These are our modern capitalists. Yet it's not clear that the individual asset managers – who control the discrete investment portfolios -- have the incentives and the accountability to act like real capitalists. Indexation has many advantages as an investment strategy. One disadvantage, for society, is that the managers who run trillions of dollars by overtly or covertly tracking indexes are not exerting discipline on the leaders of the firms in which they invest. Nor are they demanding improved corporate disclosures.

Even with this large pool of inert capital, there are still probably enough marginal buyers and sellers to price investments properly, based on the information known to the market. But do we have enough asset managers pressing management for more information? I'm not sure.

As a consequence, we look to you. We rely upon you – the Fourth Estate of finance – to poke behind the screen of boilerplate reports and tedious footnotes. You are the engines of learning for modern capital markets. We depend on you to question corporate authority, to probe for inconsistencies in corporate disclosures, and to lead the drive for better, more meaningful information with which to price financial instruments.

It is up to you to press for the flow of financial information to keep pace with the rapid evolution of our capital markets and corporate finance. If you let us down, risks will be mispriced and capital misallocated. Eventually, when the markets take sudden notice of particularly egregious misallocations, we will witness yet more financial implosions.

President Bush called last week to hold CEOs and auditors accountable to their investors and employees, and to their society. That is why it is so important that you rise to the challenge, to President Bush's challenge, to press corporate America to fulfill its obligations.

To do this, of course, you yourselves have to be accountable, too. I applaud the steps that Richard Grasso at the NYSE and Robert Glauber at the NASD have taken together with the leadership of the House Financial Services Committee and the SEC to sharpen that accountability for the sell-side members of your profession. Keep at it. Deploy your skepticism. American capitalism depends on you.

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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
March 12, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	March 14, 2002
Maturity Date:	April 11, 2002
CUSIP Number:	912795JP7

High Rate: 1.770% Investment Rate 1/: 1.801% Price: 99.862

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 73.05%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 49,668,680	$ 22,965,905
Noncompetitive	34,286	34,286
FIMA (noncompetitive)	0	0
SUBTOTAL	49,702,966	23,000,191
Federal Reserve	2,099,991	2,099,991
TOTAL	$ 51,802,957	$ 25,100,182

Median rate 1.760%: 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 = 49,702,966 / 23,000,191 = 2.16

1/ Equivalent coupon-issue yield.

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.
March 11, 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 $18,000 million of publicly held 4-week Treasury bills maturing March 14, 2002, and to raise new cash of approximately $5,000 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 $11,532 million of the Treasury bills maturing on March 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.

oOo

Attachment

PO-1092

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED MARCH 14, 2002

March 11, 2002

Offering Amount ....$23,000 million
Public Offering ....$23,000 million
NLP Exclusion Amount ....$ 7,900 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 JP 7
Auction date ....March 12, 2002
Issue date ....March 14, 2002
Maturity date ....April 11, 2002
Original issue date ....October 11, 2001
Currently outstanding ....$30,837 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
March 11, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	March 14, 2002
Maturity Date:	September 12, 2002
CUSIP Number:	912795LA7

High Rate: 2.020% Investment Rate 1/: 2.069% Price: 98.979

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 55.34%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 30,509,871	$ 11,721,141
Noncompetitive	1,278,948	1,278,948
FIMA (noncompetitive)	0	0
SUBTOTAL	31,788,819	13,000,089 2/
Federal Reserve	4,660,847	4,660,847
TOTAL	$ 36,449,666	$ 17,660,936

Median rate 2.010%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.970%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 31,788,819 / 13,000,089 = 2.45

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,007,195,000

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 11, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	March 14, 2002
Maturity Date:	June 13, 2002
CUSIP Number:	912795JY8

High Rate: 1.825% Investment Rate 1/: 1.858% Price: 99.539

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 70.90%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 30,900,519	$ 11,424,819
Noncompetitive	1,425,212	1,425,212
FIMA (noncompetitive)	150,000	150,000
SUBTOTAL	32,475,731	13,000,031 2/
Federal Reserve	4,770,773	4,770,773
TOTAL	$ 37,246,504	$ 17,770,804

Median rate 1.800%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.775%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 32,475,731 / 13,000,031 = 2.50

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,159,997,000

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press 202-622-2960
FFB 202-622-2450

FEDERAL FINANCING BANK February 28, 2002

Kerry Lanham, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of January 2002.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $38.1 billion on January 31, 2002 posting a decrease of $956.3 million from the level on December 31, 2001. This net change was the result of decreases in holdings of agency debt of $886.7 million, in holdings of agency assets of $55.0 million, and in holdings of government-guaranteed loans of $14.6 million. The FFB made 79 disbursements, and received 15 prepayments during the month of January. The FFB also refinanced one Rural Utilities Service ("RUS") guaranteed loan, and priced three buydowns of RUS guaranteed loans. A maturity extension of a General Services Administration ("GSA") guaranteed loan also was priced during the month of January.

Attached to this release are tables presenting FFB January loan activity and FFB holdings as of January 31, 2002.

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FEDERAL FINANCING BANK
JANUARY 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
Chamblee Office Building	1/25	$26,971.02	10/01/26	5.569% S/A
Atlanta CDC Lab	1/30	$25,269,237.78	1/30/31	5.523% S/A
DEPARTMENT OF EDUCATION				
Barber-Scotia College	1/04	$180,059.47	3/01/30	5.596% S/A
Barber-Scotia College	1/04	$19,008.70	3/01/30	5.596% S/A
Barber-Scotia College	1/18	$173,587.84	3/01/30	5.430% S/A
RURAL UTILITIES SERVICE				
Grundy County Elec. #689	1/02	$200,000.00	1/02/35	5.444% Qtr.
Comanche County Elec. #765	1/04	$2,029,000.00	12/31/35	5.516% Qtr.
Maquoketa Valley #636	1/08	$754,000.00	1/02/35	5.458% Qtr.
Medina Electric #622	1/08	$1,500,000.00	3/31/04	3.184% Qtr.
Pee Dee Elec. #547	1/09	$2,475,000.00	3/31/03	2.402% Qtr.
Brazos Electric #561	1/10	$4,070,000.00	7/01/02	1.750% Qtr.
Jackson Energy #794	1/10	$3,000,000.00	7/01/02	1.750% Qtr.
Rutherford Electric #779	1/10	$2,500,000.00	12/31/35	5.474% Qtr.
S. Illinois Power #792	1/10	$1,785,000.00	1/02/35	5.475% Qtr.
Surry-Yadkin Elec. #534	1/10	$1,000,000.00	7/01/02	1.750% Qtr.
Darien Telephone Co. #719	1/11	$253,000.00	7/01/02	1.733% Qtr.
Orange County Elec. #771	1/14	$425,000.00	12/31/35	5.249% Qtr.
Brazos Electric #561	1/15	$7,629,000.00	7/01/02	1.610% Qtr.
East Kentucky Power #753	1/15	$20,000,000.00	12/31/30	5.322% Qtr.
Tri-County Elec. Coop. #646	1/17	$3,000,000.00	1/02/35	5.299% Qtr.
Firelands Elec. #621	1/18	$500,000.00	1/03/34	5.366% Qtr.
Southside Electric #786	1/18	$2,200,000.00	12/31/35	5.370% Qtr.
United Power Assoc. #432	1/18	$3,376,000.00	1/02/18	4.978% Qtr.
Hart Elec. #698	1/22	$2,000,000.00	1/02/35	5.229% Qtr.
Burke-David Elec. #494	1/23	$168,000.00	1/03/33	5.467% Qtr.
Codington-Clark Elec. #551	1/23	$800,000.00	12/31/08	4.644% Qtr.
Coop. Power Assoc. #722	1/23	$1,977,000.00	1/02/18	5.125% Qtr.
Rosebud Elec. #723	1/23	$1,300,000.00	12/31/29	5.339% Qtr.
Coop. Power Assoc. #450	1/25	$4,018,000.00	1/02/18	5.039% Qtr.
Sho-Me Power #480	1/25	$2,000,000.00	12/31/31	5.428% Qtr.
Arrowhead Electric #773	1/28	$700,000.00	12/31/35	5.442% Qtr.
Cookson Hills Elec. #797	1/28	$1,500,000.00	12/31/35	5.442% Qtr.
Hamilton County Elec. #686	1/28	$1,000,000.00	1/02/35	5.440% Qtr.
Fleming-Mason Energy #644	1/29	$3,000,000.00	7/01/02	1.831% Qtr.
National Power #788	1/29	$1,262,000.00	12/31/30	5.364% Qtr.
National Power #789	1/29	$27,435,000.00	12/31/30	5.364% Qtr.
South Texas Electric #505	1/29	$176,500.00	12/31/24	5.524% Qtr.
United Elec. #519	1/29	$1,187,000.00	1/03/34	5.443% Qtr.
Associated Electric #906	1/31	$9,836,666.45	12/31/19	5.092% Qtr.
Basin Electric #232	1/31	$158,952.10	1/02/24	5.411% Qtr.
Basin Electric #232	1/31	$418,801.14	1/02/24	5.411% Qtr.
Basin Electric #232	1/31	$246,001.42	1/02/24	5.411% Qtr.
Nueces Electric Coop. #774	1/31	$600,000.00	12/31/35	5.302% Qtr.
Thumb Electric #767	1/31	$250,000.00	6/30/05	3.779% Qtr.

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	January 31, 2002	December 31, 2001	Monthly Net Change 1/1/02- 1/31/02	Fiscal Year Net Change 10/1/01- 1/31/02
Agency Debt:				
U.S. Postal Service	$6,689.1	$7,575.8	-$886.7	-$4,623.9
Subtotal*	$6,689.1	$7,575.8	-$886.7	-$4,623.9
Agency Assets:				
FmHA-RDIF	$2,255.0	$2,310.0	-$55.0	-$180.0
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*	$10,900.2	$10,955.2	-$55.0	-$180.0
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	$2,090.9	$2,103.1	-$12.2	-$65.7
DoEd-HBCU+	$43.9	$43.7	$0.2	$12.5
DHUD-Community Dev. Block Grant	$6.7	$7.0	-$0.3	-$1.1
DHUD-Public Housing Notes	$1,207.3	$1,207.3	$0.0	-$71.4
General Services Administration+	$2,242.0	$2,246.8	-$4.9	-$26.0
DOI-Virgin Islands	$11.9	$13.1	-$1.2	-$1.2
DON-Ship Lease Financing	$841.2	$941.1	-$100.0	-$100.0
Rural Utilities Service	$13,981.6	$13,875.8	$105.8	$382.3
SBA-State/Local Development Cos.	$121.5	$123.5	-$2.1	-$10.5
DOT-Section 511	$3.4	$3.4	$0.0	$0.0
Subtotal*	$20,550.3	$20,564.9	-$14.6	$118.9
	=========	=========	=========	=========
Grand total*	$38,139.6	$39,095.9	-$956.3	-$4,685.0

* 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

U.S. International Reserve Position

03/14/02

The Treasury Department today released U.S. reserve assets data for the week ending March 8 , 2002. As indicated in this table, U.S. reserve assets totaled $68,232 million on that date, compared to $67,793 million at the end of the prior week.

(in US millions)

I. Official U.S. Reserve Assets	March 1, 2002			March 8, 2002		
TOTAL		67,793			68,232	
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	5,380	10,310	15,690	5,400	10,631	16,031
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	9,074	3,977	13,050	9,128	4,101	13,228
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]			17,214			*17,165*
3. Special Drawing Rights (SDRs) [2]			10,794			*10,763*
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.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMEDIATE RELEASE
March 13, 2002

Contact: Office of Public Affairs
(202) 622-2960

MEDIA ADVISORY

Treasury Under Secretary for Enforcement Jimmy Gurulé will host a press conference and signing ceremony in the Diplomatic Reception Room at the Department of the Treasury on Thursday, March 14, 2002, 10:30 a.m., EST.

Senior Officials of the Black Market Peso Exchange (BMPE) System Multilateral Working Group will sign a statement that recommends short and long term actions to combat the biggest money laundering system in the Western Hemisphere.

The Black Market Peso Exchange System Multilateral Working Group was established in 1999 to combat this black market peso exchange system which is believed by U.S. law enforcement to launder between $3 to $6 billion a year. Participants will be available for a few minutes to answer questions from the press.

Mr. Gurulé will be joined by: Nilo J.J. Swäen, Minister of Finance of the Ministry of Finance of Aruba, Mr. Luis Alberto Moreno, Ambassador of Colombia to the U.S., is representing Mr. Santiago Rojas Arroyo, Colombian Director General, National Tax and Customs Directorate; Mr. Guillermo A. Ford, Ambassador of Panama to the United States, is representing Mr. Jose Miguel Aleman, Minister of Foreign Relations for Panama; and Dr. Jose Luis Perez Castillo, Director of the Anti-Money Laundering Unit of Venezuela will represent Dr. Mildred Camero, President of the National Commission Against Illicit Use of Drugs of Venezula

Media without Treasury or White House press credentials planning to attend should contact Treasury's Office of Public Affairs at 202-622-2960, by close of business Wednesday, March 13, 2002 with the following information: name, social security number and date of birth. This information may also be faxed to 202-622-1999. For additional information about the event, please contact Tasia Scolinos of Treasury Public Affairs (202) 622-1996.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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REMARKS OF UNDER SECRETARY OF THE TREASURY PETER R. FISHER TO THE FUTURES INDUSTRY ASSOCIATION BOCA RATON, FLORIDA

Clarifying Treasury's Objective for Federal Debt Management

The resilience of the U.S. economy has surprised even its admirers.

One source of this resilience is the federal government's role as a shock absorber. When economic activity slows, taxes fall and expenditures rise, both automatically and as a result of targeted legislation. From physics we know, however, that every action has an equal and opposite reaction. So while for a given sector of the economy, or set of incomes, the federal government can absorb a shock, this only happens by transferring it somewhere else. The ultimate cost is passed to the broader risk pool of federal taxpayers. The immediate cost – in terms of funding – is transmitted from the real economy back to the financial markets as variance in the federal government's borrowing requirements.

You contribute to the economy's resilience as well. You price the risk of likely and unlikely outcomes for the value of commodities and products and companies and help to transfer these risks to those most willing to absorb them. You also price the risk of likely and unlikely outcomes for the federal government's borrowing needs.

It is one of my jobs to manage the fluctuations in the government's borrowing needs. It is one of your jobs to price that risk. So I thought I would take this opportunity to explain how I see the objectives and the constraints of the Treasury's debt management in the hope that it might be of some use to you.

By way of illustration, I will say a few words about our decision last fall to suspend issuance of the long bond.

PO-1098

Signs of Economic Resilience

But, first, let's talk about the economy.

Both Glenn Hubbard, the chairman of the President's Council of Economic Advisors, and Alan Greenspan, have said that an economic expansion is underway. GDP growth in the fourth quarter of 2001 was recently revised up to 1.4 percent, so that it now appears that there was only one quarter of contraction in 2001 - the third quarter, which included September 11th. Of course, even revisions have a way of being revised themselves, but signs point to improvement.

Of particular significance, I think, is the fact that estimates of productivity for the fourth quarter were revised up again to an astounding 5.2 percent annual rate. This is almost surely above that possible in the long run but it may indicate that the long-run growth rate is higher than we previously thought.

The outlook for 2002 thus looks fairly bright. In the first half of this year, we expect the economy to benefit from a swing in the inventory cycle and a continued growth in household and government spending. In the second half of the year it will be crucial that business investment spending rebound from the path of contraction that has been evident since the summer of 2000. There are reasons to be optimistic. In recent months shipments of non-defense capital goods have been increasing. Also, the passage of the stimulus bill that was just signed into law by President Bush will provide significant new incentives for corporate investment.

Although most of the indicators are favorable and recovery appears to be under way, we must not forget that more than a million Americans lost their jobs since the recession began. As Secretary O'Neill stated recently, the stimulus bill "will add momentum so that we have a more robust recovery and return to full prosperity. [The bill] will speed Americans back to work and help the unemployed until they return to work."

Both the extension of unemployment insurance and the new tax incentives for corporate investment will have to be absorbed, in the first instance, in our borrowing requirements. We know that in times of war, national emergency or recession it makes economic sense for the federal government to run deficits. We also know that we would like to return the federal government to a surplus position and that this will happen as our economy gathers momentum and discipline is exerted in the budget process.

The recent swing from large surpluses to deficits and our objective of returning to surpluses, once again, all serve to cast a spot light on the role of debt management and the impact that variance in the federal government's borrowing needs has on our financial markets.

Debt Management: the Past Twenty-five Years

For the last quarter of a century, the Treasury's debt management has been described as serving three objectives: first, the lowest borrowing cost over time; second, efficient management of cash balances; and, third, the promotion of efficient capital markets.

For many years, these three stated objectives appeared to be complementary and market participants have often thought of them as self-reinforcing. In practice, however, debt management has always involved trade-offs among these three objectives and these trade-offs have become more evident in recent years.

From the late 1970s to the mid-1990s, we faced seemingly ever-expanding deficits and borrowing needs. During this period, Treasury developed its pattern of regular and predictable issuance of a wide range of securities in order to promote efficient capital markets and, by doing so, also serve our objective of borrowing at the lowest cost over time. But, given the lumpiness of federal tax receipts, regular and predictable issuance has always posed a challenge for efficient cash management. For the most part, variance in receipts has been absorbed by expanding and contracting cash balances. Only at the margin have we deviated from regular and predictable issuance – through seasonal changes in bill issuance and the use of cash management bills – to limit the swings in cash balances.

In the late 1990s, as surpluses rapidly materialized and it became necessary to reduce issuance, the tension became obvious between promoting capital markets, on the one hand, and achieving the lowest cost borrowing, on the other. Market participants habituated to the use of Treasury securities for pricing and hedging and for their own cash management perceived continuation of established issuance patterns as desirable for the promotion of efficient capital markets. But sustaining those issuance patterns, in sizes necessary to maintain the liquidity of each maturity, would have added unnecessary borrowing costs and without a large buyback program would have converted our cash management into an asset management function.

I am dissatisfied with the conventional trilogy of objectives because – as expressed – they give no guidance as to how we will make trade-offs and choices among them and, thus, I fear they will not serve us well in communicating how debt management is conducted in the current uncertain environment. Both as a description of past debt management actions and as a guide for understanding our future behavior, I believe that the same elements can be restated to express the idea that the Treasury's debt management serves a single, overriding objective and confronts multiple constraints.

Going Forward: The Clarity of a Single Objective

Simply put, the objective is to meet the financing needs of the federal government at the lowest cost over time.

The dominant constraint that we confront in achieving this objective is that we see the future only imperfectly. We are always making decisions in conditions of uncertainty.

As a consequence, debt management necessarily involves three judgments: first, about what will be the likely size and duration of our borrowing needs, second, about how we should respond if actual needs differ substantially from expectations and, third, about what will be the lowest cost means of financing those needs in the future. We cannot escape these three issues. We face them in our weekly financing decisions, in our quarterly refundings, and in our strategic planning.

Cash management is better thought of as a constraint on our actions, not an independent objective. We need to pay the government's bills as they come due even though our cash flow from tax receipts varies considerably from week to week. We must have enough cash on hand to meet the expected and unexpected variance in both revenues and expenditures even when doing so imposes added costs. But we seek to minimize the extent to which our objective of the lowest borrowing costs is burdened by the constraint of our cash management.

The promotion of efficient capital markets is important, but should not be thought of as an independent objective of Treasury's debt management. In the long run, we know that we need efficient capital markets in order to sustain our ability to finance the federal government. Efficient capital markets are a means to the end of lowest cost borrowing over time. In the short run, however, where we all live, the need to promote and sustain efficient capital markets can act as a constraint on our objective of the lowest cost borrowing.

For example, the unscheduled reopening of the 10-year note last October was undertaken because of concerns about the long-term consequences of systemic failure in our credit markets - even though the uncertainty it engendered may have added to our borrowing costs in the short run. For that reason, unscheduled reopenings will remain the exception – the exceedingly rare exception.

Similarly, the Treasury's continuing commitment to a schedule of regular and predictable auction dates is a means, over time, to the end of the lowest cost borrowing. In the short run, however, this commitment serves as a constraint: with regular and predictable auction dates we accept the cost of occasionally borrowing when it is inconvenient or expensive in return for the lower costs, over time, from providing greater certainty to the Treasury market.

There are other constraints. For example, the availability of the full faith and credit of the United States as a savings vehicle should not be limited only to those who can afford the minimum one thousand-dollar denominations available in our auctions of marketable securities. Thus, we will continue to offer savings bonds even though they are not the most efficient form of borrowing in operational terms. But, again, we will seek to minimize the cost of this constraint as it weighs on our objective by striving for more efficiency.

The framework I am describing, of a single overriding objective and of multiple constraints, informs the decisions of the debt manager. There is an entirely different discussion about positive externalities and the optimal level of government debt for the purpose of financing the federal government, for the functioning of our financial markets and of our economy. For my part, I doubt that zero is the right number for federal debt outstanding. But that policy debate needs to take place away from the explanation of the debt manager's reaction function, away from the effort to explain how we manage the variance in the federal government's borrowing needs as we receive them, day by day.

In explaining this process, I want to underscore the importance of the three judgments we are always making. To achieve our objective of the lowest borrowing costs, we want to maintain a pattern of regular and predictable issuance of as broad a portfolio of instruments as is consistent with (a) our best projections of likely borrowing requirements and (b) our ability to respond if those projections are not realized, and (c) our current understanding of what will provide the lowest borrowing cost over time.

Understanding the Suspension of 30-Year Bond Issuance

By way of example, you know that in my judgment continued issuance of the long bond was not consistent with our objective, nor compelled by our constraints.

Last October, given the likely path of our borrowing needs over the coming decade, we could not sustain continued issuance of our complete portfolio of instruments. Because we want to maintain the liquidity and depth of the instruments we issue – as a means of achieving the lowest borrowing costs over time – we suspended issuance of the 30-year bond so we could concentrate our borrowing needs on our other instruments. Consolidating our long-term borrowing at the 10-year point is the most effective way for us to maintain a reasonable yield curve and to provide the supply necessary for adequate liquidity.

At that time, it seemed to some as if the economic downturn would be extended and the recovery would be slow. Now it seems that these views may have been too pessimistic. In making our decision to suspend the 30-year, we were neither optimistic nor pessimistic. We simply made a judgment about the most likely path of our borrowing needs.

In addition, we considered the likely consequences of the unlikely outcomes – that is, the situation we would find ourselves in if our projections were not realized and how we would respond. On one side, we faced the risk that we return to surpluses even more quickly than we expected. In this event, maintaining issuance of the 30-year would impair our ability to maintain a portfolio of liquid instruments and prove unnecessarily costly to the taxpayer.

On the other side, we faced the risk that sustained surpluses would not materialize as promptly as we expect. As I explained last October, "if later in this decade it turns out that 30-year borrowing is necessary to meet the government's financing needs, it is still likely that our decision to suspend 30-year borrowing at this time will have saved the taxpayers money. In addition, the reintroduction of the 30-year bond, at some in the future, if necessary, would likely be costless to the Treasury."

I don't expect that to happen – and you shouldn't either – because we also made a judgment about the cost effectiveness of the long-bond, over time. For over a decade, market participants have been telling the Treasury that demand for the bond was insufficient to achieve our objective of the lowest cost financing. Investors simply wanted too high a premium for this added cost to be a sensible means of minimizing our refinancing "risk" on ten-year securities. Think about it: is our refinancing risk on two rollovers of a 10-year note so great that we should bear the additional cost of the 30-year? We think not.

Continued issuance of the 30-year is not consistent with our objective. Nor is it compelled by our constraints. The 30-year bond is not a necessary feature of efficient capital markets. With the cut backs in long-bond issuance carried out by my predecessors, it's role and liquidity had already been significantly impaired. Benchmark status had already shifted, several years ago, to the 10-year note.

Given our objective of maximizing our ability to finance at the lowest cost over time, and our desire to minimize the burden of our constraints on that objective, the decision to suspend the long-bond was relatively straight forward.

Volatility: A Fact of Life in Our Financial System

In the fourth quarter of last year, fixed-income markets experienced extraordinarily high levels of volatility, which only recently have abated somewhat. My hunch is that, several years from now that spike in volatility will be better understood as a reflection of an extraordinary conjunction of economic and financial events.

Essentially, financial markets were absorbing the slowdown in manufacturing and the rapid inventory adjustment, the bursting of the technology bubble, the dramatic swing in the federal government's short-run financing needs, and the immediate shock of 9-11 to confidence and economic activity and they also were beginning to anticipate an end to the economic slowdown. Those expectations of recovery help explain why the yield curve remained so steep – particularly at the short end. In addition, that steep curve provided an opportunity for millions of Americans to improve their personal cash flows. They did this by exercising the puts embedded in their fixed-term mortgages and refinancing at lower interest rates.

All of this took place in an environment of heightened risk aversion on the part of both our major financial institutions and speculative capital. This risk aversion diminished the pool of capital willing to step in to price the risk of both the likely and the unlikely outcomes.

As a society we have made a number of choices that reflect our collective desire to limit the variance in real economic outcomes – especially jobs and income. Particularly through federal fiscal policy, as I mentioned at the outset, but also through the provision of the put option embedded in conventional fixed-term mortgages and by the very structure and role of financial intermediation in America, we have made choices that result in the transmission of economic shocks to and through our financial system.

Having made these choices, we as a society are highly dependent upon the strength of our financial system to attenuate the transmission of shocks. But to do that, our financial system needs investors willing to commit capital in return for bearing risk.

But given the choices we've made perhaps, as a society, we should be somewhat less surprised to find so much volatility "going on" in our financial system.

Then again, we in the financial community need to do a better job explaining the importance of the transmission and attenuation of volatility throughout financial markets. Indeed, given its central importance in our financial system, we need to do a better job promoting the transparency, depth and resilience of the volatility market.

For my part, I thought it incumbent on me to do a better job of explaining how we see our role and what motivates our decisions in order to help you do your job of pricing the volatility that our behavior engenders. We cannot eliminate the volatility that debt management creates. We can, however, explain our objective clearly and identify the constraints under which we operate. Having done so, I hope we have at least taken a step towards greater understanding. Thank you.

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TREASURY SECRETARY PAUL H. O'NEILL TESTIMONY BEFORE THE SENATE APPROPRIATIONS COMMITTEE SUBCOMMITTEE ON TREASURY AND GENERAL GOVERNMENT

Mr. Chairman, Senator Campbell, and members of the Committee, I appreciate this opportunity to discuss Treasury's FY2003 budget request.

As you know, Treasury plays a crucial role in the core functions of government, and serves as tax administrator, revenue collector, law enforcer, financial manager, as well as leading policymaker for tax policy, banking policy and international and domestic economic policy.

For FY2003, we are proposing a performance budget that will enable Treasury to continue to provide the American public with both the service and program reliability it expects and deserves. I have challenged each of my bureaus to carefully examine their operations to achieve improved effectiveness in business practices. I expect that Treasury can realize reasonable savings from this type of review through reviewing programmatic efforts on a continual basis and reducing or removing those producing little or no value.

Our budget request totals $16.654 billion for all operations. Taking into account the offset from the proposed $250 million dedicated toward Customs commercial operations, our program level totals $16.903 billion, compared to $16.5 billion appropriated in FY 2002, and $14.8 billion in FY 2001.

Mr. Chairman, the budget request includes the impact of proposed legislation for retirement and health costs for federal employees and I will speak to that proposal later in my statement. However, I do want to note that the budget presents for the Committee the comparative information on this proposal for prior fiscal years, in order to not materially affect the real changes being proposed and reviewed by the Committee for FY 2003.

We have provided the Committee with a detailed breakdown and justification for Treasury's FY 2003 budget request. I would like to take the opportunity today to highlight four important areas of focus for FY 2003.

PO-1099

Treasury's FY 2003 budget recognizes the importance of, and provides adequate and appropriate funding for, the following:

- *a. Protecting our Nation from Terrorists and Terrorist Activity*
- *b. Stewarding Change through Technological Improvement*
- *c. Improving Customer Service & Compliance at the Internal Revenue Service*
- *d. Achieving the President's Management Agenda*

FIRST, in light of the recent events concerning terrorism in the U. S., I would like to discuss Treasury's role in protecting our Nation from terrorists and terrorist activity.

The tragic events of September 11, 2001 sparked a Nation-wide effort to prevent and combat terrorism. Treasury has been at the forefront of these efforts with all of its law enforcement bureaus participating in counter-terrorism functions, including internal bureau and agency security and ensuring the continuity of operations. We bear the responsibility of protecting the Nation on three fronts:

- *(a) At its borders;*
- *(b) In the banks; and*
- (c) *At home.*

In FY 2002, Treasury received $683 million in additional counter-terrorism funding through the Emergency Supplemental. In the proposed FY 2003 budget, the follow-on costs associated with the funding provided in FY 2002 have been estimated in the amount of $518 million.

Our nation's first line of defense against terrorists and terrorist activity is the security of our borders.

Following the attacks of September 11th, the border threat level was raised from Alert Level 4 (normal operations) to the highest level, Alert Level 1 (Code Red). The Customs Service, our Nation's first line of defense at 301 ports of entry into the Nation, has made the fight against terrorism its number one priority. In response to this heightened state of alert, Customs has hired additional personnel to staff our borders and seaports, and has engaged members of the National Guard to increase security around our Nation's borders.

Customs received almost $400 million in new FY 2002 appropriations for addressing homeland security matters (in addition to $65 million provided through separate presidential releases). Of this amount, $235 million is being used for a combination of personnel and new equipment in ports of entry on the northern border and at critical seaports, along with selected investments on the southern land border.

Customs has set out an expenditure plan for this funding for Congressional review that responds to both short and long-term security concerns. The recurring cost of labor-intensive efforts will be coupled with technology investments that will increase efficiencies and enhance the level and degree of scrutiny for various ports of entry.

The FY 2003 proposal for the U.S. Customs Service includes $365 million to fund counter-terrorism efforts in the second year, continuing to focus principally on Northern Border and Marine Port security efforts, but also addressing other areas of vulnerability, such as: international money laundering, security infrastructure, southwest border staffing, and funding for the backup of commercial data facilities. Ports of Entry (POE) have been identified as main entry points for terrorists as well as the most likely avenue for them to introduce implements of terror into the country. The danger this presents has become a focus for the FY 2003 request.

In FY 2003, Customs will add 626 new positions, in addition to the 1,075 positions allocated in FY 2002, to vulnerable locations on the northern and southern land borders, and in seaports with the highest volume of containerized cargo. They will counter the terrorist threat while facilitating legitimate trade and travel.

The FY 2003 request also includes a large complement of inspection and targeting technology (including a modest research component), a further expansion of the Advance Passenger Information System (APIS) to real-time processing capability, and technology to expedite the passage of goods imported by highly trusted entities.

Finally, low volume Ports of Entry would be protected through "hardening" measures including physical barriers, sensors and monitoring devices to prevent and detect unauthorized crossings. Customs serves as the lead agency for <u>Operations Green Quest</u> and <u>Shield America</u>. These multi-agency task forces are dedicated to: (1) identifying, disrupting, and dismantling terrorist financing sources and systems, and (2) ensuring that munitions and sensitive U.S. technologies are not unlawfully exported into the hands of terrorists. The FY 2003 budget supports and maintains these critical task forces.

Equally important with protecting our Nation's borders is deterring the terrorists from being able to finance their operations.

Treasury's Financial Crimes Enforcement Network (FinCEN), along with the Office of Foreign Assets Control (OFAC), lead the Nation's war against global terrorism financing.

In his November 7th address at Treasury, President Bush proclaimed that *"the first strike in the war against terror targeted the terrorists' financial support."* Following the attacks, **FinCEN** and **OFAC** were able to identify and stymie numerous supporters of the Al Qaida and other terrorist organizations by freezing $34 million in terrorist assets and working with allies overseas to freeze over $45 million. Funding levels proposed for FY 2003 will better enable FinCEN to sustain and maintain these activities.

While leading protection efforts on the borders and in the banks, Treasury has also placed an increased emphasis on security within the Nation in the protection of our Nation's leaders, foreign dignitaries and, ultimately, our Nation's freedom. The United States Secret Service, Bureau of Alcohol, Tobacco and Firearms, and Federal Law Enforcement Training Center are at the forefront of these efforts.

The **United States Secret Service** is the only federal government entity charged with the challenging mission of protecting the President and foreign dignitaries. In response to increasing homeland security threats, the Secret Service has been assigned new protectees and has seen significant workload increases in its protective functions. The FY 2003 budget provides funding to enable the Secret Service to meet its protective requirements, including funding for travel, overtime, and follow-on costs associated with Special Agents and Uniformed Division Officers hired in FY 2002.

Around the world, firearms and explosives are the most frequent tools of terrorist attacks. The **Bureau of Alcohol, Tobacco and Firearms** is charged with enforcing Federal laws relating to commerce in, and the criminal misuse of, firearms and explosives, and ATF's authority and technical expertise is an integral component in fighting the Nation's war against terrorism. Through the awareness that terrorists need funds to operate, ATF has found that illegal commerce in alcohol and tobacco products serve as attractive and lucrative sources for generating funds for illegal activities.

As new law enforcement officials are being recruited and hired to fulfill the various positions critical to the Nation's war on terrorism, training for these individuals to perform their duties in a safe and highly proficient manner has become an immediate necessity. The **Federal Law Enforcement Training Center (FLETC)** serves as the Federal government's leading provider of law enforcement training. FLETC currently provides training for 74 Federal Partner Organizations, and also for state, local and international law enforcement organizations on a reimbursable basis. Training is provided in the most cost-effective manner by taking advantage of economies of scale available only from a consolidated law enforcement training organization. The FY 2003 request provides funding to maintain current levels prior to the September 11th terrorist attacks, while also providing additional funding to support the training of new agents hired as a result of the attacks.

<u>SECOND</u>, the FY 2003 budget is Treasury's continuing commitment to stewarding change through technological improvement. This effort entails modernizing two of Treasury's mission-critical technological systems.

The budget continues critical support for the **IRS computer modernization**. The Internal Revenue Service is committed to providing excellent customer service and takes pride in the integrity of their systems. As a result, they are continually making improvements in operations efficiency and performance by adopting best business practices and state-of-the-art technology.

The IRS is replacing its antiquated computer system with an information technology capacity that is appropriate for the new century. Modernizing the agency's technology will enable it to deliver on its pledge to provide better customer service for all.

The Business Systems Modernization effort was begun not just to keep up with modern systems, but also because it was a necessity due to the fundamentally deficient nature of the IRS core data systems. The Master File system, on which all taxpayer accounts reside, is based on outdated 1960s technology.

It is important, if the agency is to provide quick and reliable service to its customers, to continue the ongoing shift to modern standards of technology by adopting a new architecture. As this is the project's fourth year, much has been achieved, but the process is still incomplete.

This multi-year endeavor is providing IRS with the technological tools and revamped business processes needed to deliver first class customer service to American taxpayers and to ensure that compliance programs are administered efficiently and fairly.

FY 2002 and FY 2003 are key transition years for IRS Modernization efforts, as the foundation of our Nation's tax system is being replaced, building a bridge to providing interactive and improved customer service.

The Department's FY 2003 budget provides $450 million for the continuation of effort in re-engineering business processes and developing new business systems to replace their antiquated and obsolete system. This amount is $58 million above the FY 2002 enacted level of $392 million, and $378 million above the FY 2001 enacted level of $72 million.

The budget also continues important investments initiated for the **Customs modernization** effort. Illegitimate trade and contraband trafficking have been of the utmost concern to the Department, the Administration, the Congress and the American public. This concern was heightened due to the tragic events of September 11th, and increased pressure has been placed on the Customs Service to inspect all cargo entering and exiting the United States.

The strains on our Customs Service are growing increasingly severe every day. Since the Customs Modernization Act was passed in 1993, the value of exports has grown by 36 percent while the value of imports has risen by 51 percent. The agency is required to cope with this sharp rise in input and export volumes with the same outdated technology it had when the Act was passed.

Customs is not alone in having to work with antiquated technology. We believe we are on the right track in our efforts to modernize IRS technology and we have learned a great deal from this experience. Given the critical role of Customs in handling enormous volumes of goods and in combating drug and other types of trafficking, it is important that they are equipped with the best tools available to fulfill these goals.

In FY 2003, the Customs Service expects to process 27 million formal trade entries. Customs is dedicated to replacing the outdated and unreliable Automated Commercial System (ACS), which has been subject to an increasing number of system outages, with the Automated Commercial Environment (ACE). The replacement system will enable Customs to adopt a paperless, account-based process for importers. FY 2003 marks the third year of funding for this modernization effort.

Besides trade facilitation and compliance, ACE will play an integral role, in conjunction with other targeting and inspection tools, in assisting Customs with the evaluation of high-risk cargo for possible contraband as it passes the Nation's borders.

The Department's FY 2003 proposal provides for: (1) additional investments in the automation modernization program to further develop and migrate to the Automated Commercial Environment ($307.5 million), as well as continued funding for a government-wide trade data interface through the International Trade Data System ($5.4 million); and (3) sufficient funding to maintain the existing Automated Commercial System while modernization efforts are underway.

THIRD, our FY 2003 budget request addresses the improvement of customer service and compliance at the Internal Revenue Service. This has been of significant concern to the Committee and the Department, and the Internal Revenue Service has been making great strides for improvement in this area.

To achieve its mission of "providing America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all," the IRS has realized that organizational improvements and increased employee satisfaction lead to improved customer satisfaction. As a result, strategic objectives focus not only on the taxpayer, but also on the improvement of the bureau as a whole.

Under the leadership of Commissioner Rossotti, the IRS has already made impressive progress towards providing a more responsive and effective service to its customers. But there is still more to accomplish. An inefficient tax system imposes costs on all. The longer it takes to implement improvements, the greater the cost to the consumer and the economy.

The IRS is well down the road towards modernizing its organizational structure and computer systems. Although the IRS has no intention of returning to its peak employment, recognizing that real productivity has made the agency more effective and efficient, modest staffing increases, along with improvements from systems modernization are needed to provide the best service in both compliance and customer service areas.

This is the ideal moment to re-engineer the agency to serve all Americans by providing the most effective, up-to-date service possible. We must not allow this opportunity to pass us by.

During its strategic planning and budget process, the IRS identified $260 million in requirements to improve processing, customer service and compliance across its organization as part of its tax administration responsibilities.

Using a combination of strategic redeployment of staff and identification of labor savings programs, the IRS has been able to internally redirect $158 million from existing resources to focus on customer service, compliance and workload requirements.

The FY 2003 request seeks additional funding for the remaining requirement of $102 million needed to meet this mission-critical goal. The request supports efforts that are already underway to improve customer service and compliance operations. Re-engineering and Quality Improvement projects and programs are focusing on redesigning internal processes, policies and procedures. These additional resources, in addition to the redirected resources discussed earlier, will be realized by the American taxpayer through the following improvements:

- Providing additional assistance and forms, schedules and new return types to its e-file website in order to meet the Congressional goal of having 80% of all returns filed electronically;
- Through effective implementation of the e-file and e-services programs, the IRS will save more than 500 FTE to be redirected to assist in achieving other parts of this initiative.
- Hiring of lower-cost employees to handle the submission processing growth anticipated increase from new tax returns filed, reducing the number of high cost employees needed for compliance during filing season;
- Increasing the level of telephone service to taxpayers with respect to tax law inquiries;
- Providing almost instant access to return at Customer service sites, assisting staff in providing top-quality customer service to business taxpayers.

The FOURTH, and overriding area of focus for this year's request, addresses Treasury's role in becoming a results-driven organization, consistent with the President's Management Reform Agenda. Although it may referred to as the President's Management Agenda, the concept of the agenda is very similar to the types of results this Committee is concerned with.

The Agenda's five areas of emphasis are:

- Strategic Management of Human Capital;
- Expanded Electronic Government;
- Improved Financial Performance;
- Budget and Performance Integration; and
- Competitive Sourcing.

Only through the delicate balance of all five Presidential Management Initiatives can an organization achieve true *world class* performance.

In working to achieve *world-class* status, the Department emphasizes the importance of leadership, accountability, excellence, people, trust and integrity, and improving the work environment. In addition, as the principal custodian of the revenue collected and debt issued on behalf of the Federal Government, the Department strives to demonstrate fiscal stewardship of each congressionally authorized dollar by linking investments with specific, measurable results.

Presidential Management Initiative 1: *Strategic Management of Human Capital*

Treasury's most valuable and strategic asset is its employees, who are responsible for carrying out the Department's vast array of duties which affect the lives of every American citizen. Without employees, the Department would be unable to meet the obligations placed on it by the American public. I have reemphasized the importance of my employees and have made every effort to ensure that each employee is (1) used to their full potential, (2) working in a safe and positive environment, and (3) providing value-added work to the organization.

I have emphasized that organizations known for excellence are built on a foundation of dignity and respect for its employees. The Department is focused on evaluating its work and processes so that each and every employee feels that their work is meaningful and contributes to the mission and objectives of the organization. In addition, because job satisfaction is a number one priority for many employees, I am dedicated to creating a work culture of performance, challenge, meaning, and dignity, while providing employees with flexibility to balance their work and personal lives. Examples of this flexibility include tele-work and flexiplace programs, alternative work schedules, and offering family-sensitive benefits.

In order to implement this Presidential Management Initiative, the Department is continually reassessing its human resource strategies and support systems to strengthen the quality of both its workforce and its management.

In the aftermath of September 11, 2001, an increasing number of Americans have become eager to consider service opportunities in government. It is imperative that the Department exploits this opportunity and is able to recruit the best and brightest. As a result, innovative approaches to recruit high-caliber candidates into mission-critical positions are underway.

A broad variety of private industries have experienced a direct correlation between employee satisfaction and customer satisfaction. Similarly, I believe that high levels of employee satisfaction within the portfolio of Treasury employees will lead to enhanced service provided to its citizens, thus yielding higher customer satisfaction from both stakeholders and service users.

Presidential Management Initiative 2: *Expanded Electronic Government*

In addition to the strategic management of human capital, the use and improvement of information technology will assist the Department in providing solutions to common challenges facing all areas of the Department. The benefits of these improvements will not only improve the effectiveness of Treasury operations, but they will also produce tangible benefits for the American public.

Treasury is currently in the process of reviewing its IT portfolio for adherence to common standards, and updating and maintaining cost-benefit analyses for new and ongoing systems. This will yield an integrated comprehensive enterprise architecture at the Department level that saves money and reduces the cycle time of major products.

For example, the Internal Revenue Service continues to work towards the Congressional goal of having 80% of all tax and information returns filed electronically by 2007. As this method of tax filing becomes more popular, the IRS has reduced processing costs significantly per document, with less input errors and reduced handling time and storage costs as well.

Working with the Internal Revenue Service, the Bureau of Alcohol, Tobacco and Firearms continues to operate systems that electronically capture revenue and allow forms to be electronically submitted for tobacco taxation collection.

In efforts to streamline human resources applications, HR Connect, which is currently operational in six Treasury bureaus, serves as a single, integrated automated environment for human resource operations across all Treasury bureaus. When fully operational, HR Connect will replace the 90+ legacy stand-alone human resources systems that currently exist. HR Connect will provide standardized information and will facilitate results-driven decision-making.

As a highly visible agency, Treasury maintains websites that are among the most frequently accessed, and are therefore tailored to the specific needs of its customer base - citizens, businesses and other government agencies. The following are examples of Treasury bureau websites that were created with the customer in mind, while improving the cost effectiveness of Treasury:

The U.S. Mint offers a large portion of their services, resources and products through the Internet. Recognized as one of the top 30 "e-tailers" in the Nation in FY 2000, the Mint's Web sales exceeded $109 million and their return on investment has reached 20%.

Working closely with the Financial Management Service, Mellon Bank, MasterCard and IBM, the Bureau of Public Debt now sells U.S. Savings Bonds to the public on a 24/7 basis over the Internet. Within the first ten months of its operation, the Savings Bond Connection generated $63 million in bond sales, resulting in a 180% return on investment.

Presidential Management Initiative 3: *Improved Financial Management*

Treasury has the responsibility of principal custodian of the revenue collected and debt issued on behalf of the Federal Government. To improve financial performance and expand electronic government, it is imperative that the Department implement modern financial management systems that are capable of providing timely, accurate and reliable information.

In recognizing that real-time information is much more valuable than information that is five months old, I have challenged each of the bureaus to improve their reporting capabilities by moving to a 3-day, monthly closing of their books by no later than July 3, 2002.

Once all bureaus are implementing a 3-day, monthly close, they will be able to submit better financial data for consolidated reporting to bureau and Department. This will enable bureau and Department management to make results driven decisions, instead of spending the majority of time aggregating the data.

This will also contribute to increased employee job satisfaction by showing employees that the work they do contributes to the overall decision-making process.

Bureaus are also in the process of conducting internal risk assessments focusing on payment controls, determining and investigating those areas that contain the most potential risk for improper payments. These assessments will result in improved operational performance, which will contribute to improved customer service.

Presidential Management Initiative 4: *Budget and Performance Integration*

Integrating performance information into the budget decision-making process allows agencies to more directly focus their resource decisions on strategies and programs that produce desired results. This effort has been evolving and ongoing for the past six years. The following are examples of Departmental improvements in this area:

- Bureaus have submitted performance information along with their budget requests to the Department for several years. The Department is moving to target better use of this information, lining up resources, performance data and metrics to become a more effective decision-making tool for the bureau, the Department, OMB and Congress, as senior officials are better able to make resource decisions based on the performance of programs and initiatives.

- Work continues on presenting bureau measures, which address key activities using balanced, results-oriented performance measures, and on improving the quality of this data.

Presidential Management Initiative 5: *Competitive Sourcing*

Treasury continues its efforts in competitive sourcing, utilizing contractors whenever necessary to meet its goals. Expanded steps are underway with each bureau, to enhance competitive sourcing knowledge sharing, and knowledge management Department-wide so that necessary sourcing competitions can begin as soon as possible.

The Department is committed to evaluating the merits of its internal efforts, by understanding competitive sourcing options – migrating to those outsourced options when it makes sense for the American people based on cost and value, while retaining those specific mission areas that are inherently governmental.

A number of the Department's bureaus rely heavily on the private sector.

- The Bureau of Alcohol, Tobacco and Firearms employs a broad array of contractors to support its mission, and integrates in-house solutions with outsourced vendors. This allows ATF's leadership team to focus on their core deliverables and mission-oriented goals.

- At the Financial Management Service, contractors are involved in 41% of the total management support functions.

- The U.S. Mint contracted out 26% of its operating expenses in FY 2000. These contractors performed not only administrative tasks, but were also responsible for other functions at the Mint such as advertising, public relations, printing, numismatic order processing, telemarketing services, and custodial and facilities management operations. During late FY 2001 and early FY 2002, the U.S. Mint built a strategic plan that ensures its employee focus on those critical areas of performance.
- They have leveraged the actual business execution of their operations using contractors, while their core employee base provides leadership, direction and critical business efforts.

- IRS and the Department will study the possibilities of outsourcing some aspects of the collection process.

Legislative Proposal on Retirement and Health Costs

Mr. Chairman, our budget includes the impact of proposed legislation for the full funding of certain federal employee retirement and health costs. Because Treasury has the third largest agency financial impact with the implementation of this proposal, I'd like to provide the some additional background for the Committee.

The President's FY 2003 Budget corrects a long-standing understatement of the true cost of thousands of government programs.

For some time, the accruing charge of costs associated with the Federal Employee Retirement System (FERS) and Military Retirement System (MRS), and a portion of the old Civil Service Retirement System (CSRS), have been allocated to the affected salary and expense accounts, and the remainder (a portion of CSRS, other small retirement systems, and all civilian and military retiree health benefits) has been charged to central accounts.

The President's Budget presents the amounts associated with shifting this cost from central accounts to affected program accounts, starting in FY 2003, predicated on the enactment of authorization legislation. By shifting this cost to the affected salary and expense accounts, budget choices for program managers and budget decision-makers will not distorted by inaccurate cost information. The proposal does not increase or lower total budget outlays or alter the surplus/deficit, since the higher payments will be offset by receipts in the pension and health funds. This change in treatment of costs is the first in a series of steps that will be taken to ensure that the full annual cost of resources used -- including support services, capital assets and hazardous waste -- is charged properly in the budget presentation.

Conclusion

Mr. Chairman, let me conclude on a personal note. Since becoming Treasury Secretary last year, I have been deeply impressed by the intelligence, professionalism and dedication of the people with whom I have worked, and together, we are working to making this Department a model for management and service to the American people. I hope the Committee shares my confidence in the uses that are being made of taxpayer's funds. In that spirit, I ask that you approve our FY 2003 budget request to support the work of the Treasury Department in fulfilling its wide range of responsibilities in serving the American people. I look forward to working with you, Mr. Chairman, as well as members of the Committee and your staff, to come up with a budget that maximizes Treasury's resources in the best interest of the American people and our country. Thank you again for giving me the opportunity to meet with you and personally present the Department's budget. I am willing to answer any questions the Committee may have concerning the Department's FY 2003 budget.

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.
March 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 $26,000 million to refund an estimated $25,723 million of publicly held 13-week and 26-week Treasury bills maturing March 21, 2002, and to raise new cash of approximately $277 million. Also maturing is an estimated $23,001 million of publicly held 4-week Treasury bills, the disposition of which will be announced March 18, 2002.

The Federal Reserve System holds $11,217 million of the Treasury bills maturing on March 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 March 19, 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 $1,074 million into the 13-week bill and $703 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

0-2000

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED MARCH 21, 2002

March 14, 2002

Offering Amount	$13,000 million	$13,000 million
Public Offering	$13,000 million	$13,000 million
NLP Exclusion Amount	$ 5,200 million	None
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 JZ 5	912795 LB 5
Auction date	March 18, 2002	March 18, 2002
Issue date	March 21, 2002	March 21, 2002
Maturity date	June 20, 2002	September 19, 2002
Original issue date	December 20, 2001	March 21, 2002
Currently outstanding	$20,186 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
March 14, 2002

Contact: Tasia Scolinos
(202) 622-2960

TREASURY ANNOUNCES SIGNING OF MULTILATERAL RECOMMENDATIONS FOR COMBATTING THE BLACK MARKET PESO EXCHANGE SYSTEM

The Treasury Department today announced the signing of a Statement by the Senior Officials of the Black Market Peso Exchange (BMPE) System Multilateral Working Group that recommends short and long term actions to combat the biggest money laundering system in the Western Hemisphere. The officials convened at the Department of the Treasury to formally issue recommendations based on conclusions reached by the BMPE System Multilateral Experts Working Group, comprised of officials from Aruba, Colombia, Panama, Venezuela, and the United States. The Working Group, established in 2000, convened on four occasions to meet with subject matter experts from relevant agencies of their respective governments, as well as Free Trade Zone Administrators and merchants operating in Free Trade Zones.

The BMPE System is a trade-based money laundering system used by drug dealers to launder their illegal proceeds. Typically, peso exchange brokers in Colombia deposit pesos into the Colombian accounts of narcotics traffickers doing business in the United States. The pesos are profitably exchanged for the tainted U.S. dollars. The brokers have U.S. based operatives deposit the U.S. money into U.S. accounts that the brokers then use to purchase U.S. goods for Colombian importers in exchange for pesos. The products are then smuggled into Colombia, often through Panama, Aruba, and Venezuela, in avoidance of taxes.

The Black Market Peso Exchange System Multilateral Working Group was established to combat this black market peso exchange system which is believed by U.S. law enforcement to launder between $3 to $6 billion a year. According to Jimmy Gurulé, Under Secretary for Treasury Enforcement, "Money laundering takes place on a global scale and the Black Market Peso Exchange System, though based in the Western Hemisphere, affects business around the world. U.S. law enforcement have detected BMPE-related transactions occurring throughout the United States, Europe, and Asia."

The short-term recommendations for all countries affected by the BMPE exchange system include conducting public outreach programs for manufacturers, other persons engaged in international commerce, as well as Free Trade Zone Operators and Merchants; more adequate screening, registering, and regulating of merchants engaged in international trade; requiring money changers and exchange offices to report to their supervisory agencies information on suspicious or unusual transactions; and improving communication, coordination, and cooperation among law enforcement, regulatory, and supervisory agencies.

PO-2001

Long-term recommendations include improving the collection, quality, and international exchange of trade data for the purpose of developing a regional Numerically Integrated Profiling System (NIPS) to help promote legitimate trade by developing a more accurate picture of trade flows; conducting economic, social, political, and/or legal studies of the problem of trade-based money laundering; encouraging the development and implementation of an electronic customs filing and reporting system with universally compatible data fields that can be used to track the flow of goods being imported, exported, or transshipped from, to, or through each jurisdiction's customs territory and free trade zones; considering bilateral or multilateral agreements or arrangements to fill existing gaps with regard to the exchange of evidence and information; and having each jurisdiction evaluate its anti-money laundering legislative framework and effectiveness in combating trade-based money laundering.

Signers of the Statement were: Mr. Nilo J.J. Swaen, Minister of Finance, for the Ministry of Finance of Aruba; Mr. Santiago Rojas Arroyo, Director General, National Tax and Customs Directorate for the National Tax and Customs Directorate of the Republic of Colombia (by Mr. Luis Alberto Moreno, Ambassador of Colombia to the United States); Mr. José Miguel Alemán, Minister of Foreign Relations for the Ministry of Foreign Relations of the Republic of Panama (by Mr. Guillermo A. Ford, Ambassador of Panama to the United States); Dr. Mildred Camero, President, The National Commission Against the Illicit Use of Drugs for The National Commission Against the Illicit Use of Drugs of the Bolivarian Republic of Venezuela (by Dr. José Luis Perez Castillo, Director, Anti-Money Laundering Unit; and Mr. Jimmy Gurulé, Under Secretary of the Treasury (Enforcement) for the Department of the Treasury of the United States.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
March 18, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY ISSUES FINAL REGULATIONS ON HEDGING TRANSACTIONS
Provides Certainty for Taxpayers & Closes Down Potential Loophole

Today the Treasury Department issued final tax regulations that relate to hedging transactions. A hedge is a transaction that allows a business to manage risks such as interest rate changes, price changes and currency fluctuations.

"These regulations provide the certainty taxpayers need to engage in legitimate hedging activity that is essential to the running of a business today," stated Mark Weinberger, Treasury Assistant Secretary for Tax Policy. "The regulations also close a loophole that some interpreted to allow taxpayers to avoid current tax on certain investments taxpayers used as hedges."

The regulations list a number of types of transactions as tax hedges, but also provide that certain types of hedges will not be considered tax hedges. For example, the regulations provide that an employer's investment hedging its deferred compensation obligations will not be treated as a tax hedge. Thus, the employer needs to pay tax currently on these investment earnings. Under the old rules, taxpayers had taken the position that the recognition of income from that type of investment could be delayed until the deferred compensation was paid to the employee. This non-hedge treatment will apply also to investments relating to other employee benefits.

"It is improper to use the hedge rules to get full tax deferral on deferred executive compensation," explains Mr. Weinberger. "Congress has set up a mechanism to get favored tax treatment for deferred compensation through qualified plans. It is not appropriate to use the hedging rules as a back door to obtain a favorable treatment for deferred compensation that Congress never intended."

The text of the regulations is attachea.

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PO-2002

[4830-01-p]
DEPARTMENT OF THE TREASURY
Internal Revenue Service
26 CFR Parts 1 and 602
[TD]
RIN 1545-AY02
Hedging Transactions
AGENCY: Internal Revenue Service (IRS), Treasury.
ACTION: Final regulations.
SUMMARY: This document contains final regulations relating to the character of gain or loss from hedging transactions. The regulations reflect changes to the law made by the Ticket to Work and Work Incentives Improvement Act of 1999. The regulations affect businesses entering into hedging transactions.

DATES: Effective Date: These regulations are effective **[INSERT DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER]**.

Applicability Dates: For dates of applicability of these regulations, see the discussion in the Dates of Applicability paragraph in the Supplementary Information portion of the preamble.

FOR FURTHER INFORMATION CONTACT: Elizabeth Handler, (202) 622-3930 or Viva Hammer at (202) 622-0869 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collections of information contained in these final regulations have been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3507(d)) under control number 1545-1480. Some responses to these collections of information are mandatory, and others are required to obtain the benefit of the separate-entity election.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid control number assigned by the Office of Management and Budget.

The estimated annual burden per respondent or recordkeeper varies from .1 to 40 hours, depending on individual circumstances, with an estimated average of 5.9 hours.

Comments concerning the accuracy of this burden estimate and suggestions for reducing this burden should be sent to the **Internal Revenue Service**, Attn: IRS Reports Clearance Officer, W:CAR:MP:FP:S, Washington, DC 20224, and to the **Office of Management and Budget**, Attn: Desk Officer for the Department of the Treasury, Office of Information and Regulatory Affairs, Washington, DC 20503.

Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and tax return information are confidential, as required by 26 U.S.C. 6103.

Background

This document contains amendments to 26 CFR Part 1 under section 1221 of the Internal Revenue Code (Code). Prior to amendment in 1999, section 1221 generally defined a capital asset as property held by the taxpayer other than: (1) Stock in trade or other types of assets includible in inventory; (2) property used in a trade or business that is real property or property subject to depreciation; (3) certain copyrights (or similar property); (4) accounts or notes receivable acquired in the ordinary course of a trade or business; and (5) U.S. government publications.

In 1994, the IRS published in the **Federal Register** (59 FR 36360) final Treasury regulations under section 1221 providing for ordinary character treatment for certain business hedges. The regulations generally apply to transactions that reduce risk with respect to ordinary property, ordinary obligations, and borrowings of the taxpayer and that meet certain identification requirements. (§1.1221-2). In 1996, the IRS published in the **Federal Register** (61 FR 517) final regulations on the character and timing of gain or loss from hedging transactions entered into by members of a consolidated group. In this preamble, the final regulations published in 1994 and 1996 are referred to collectively as the Treasury regulations.

On December 17, 1999, section 1221 was amended by section 532 of the Ticket to Work and Work Incentives Improvement Act of 1999 (113 Stat 1860) to provide ordinary gain or loss treatment for hedging transactions and consumable supplies. Section 1221(a)(7) provides ordinary treatment for hedging transactions that are clearly identified as such before the close of the day on which they were acquired, originated, or entered into.

The statute defines a hedging transaction as a transaction entered into by the taxpayer in the normal course of business primarily to manage risk of interest rate, price changes, or currency fluctuations with respect to ordinary property, ordinary obligations, or borrowings of the taxpayer. Sections

1221(b)(2)(A)(i) and (ii). The statutory definition of hedging transaction also includes transactions to manage such other risks as the Secretary may prescribe in regulations. Section 1221(b)(2)(A)(iii). Further, the statute grants the Secretary the authority to provide regulations to address the treatment of nonidentified or improperly identified hedging transactions, and hedging transactions involving related parties (sections 1221(b)(2)(B) and (b)(3), respectively). The statutory hedging provisions are effective for transactions entered into on or after December 17, 1999. Congress intended that the hedging rules be the exclusive means through which the gains and losses from hedging transactions are treated as ordinary. S. Rep. No. 201, 106th Cong., 1st Sess. 25 (1999).

Section 1221(a)(8) provides that supplies of a type regularly consumed by the taxpayer in the ordinary course of a taxpayer's trade or business are not capital assets. That provision is effective for supplies held or acquired on or after December 17, 1999.

A notice of proposed rulemaking (REG-107047-00, 2001-14 I.R.B. 1002) was published in the **Federal Register** (66 FR 4738) on January 18, 2001. On May 16, 2001, the IRS held a public hearing on the proposed regulations. Written comments responding to the notice of proposed rulemaking were also received. In response to these comments, the proposed regulations were modified and as so modified are adopted as final regulations. The principal changes to the proposed regulations are discussed below.

Explanation of Provisions

Coordination with International Provisions of the Code

The provisions of these regulations generally apply to determine the character of gain or loss from transactions that are also subject to various international provisions of the Code. Paragraph (a)(4) of the regulations, however, provides that the character of gain or loss on section 988 transactions is not determined under these regulations because gain or loss on those transactions is ordinary under section 988(a)(1). In addition, no implication is intended as to what constitutes "risk management" or "managing risk" for purposes of proposed or final regulations under section 482.

Paragraph (a)(4) of the proposed regulations provided that the definition of a hedging transaction under §1.1221-2(b) of the proposed regulations would apply for purposes of certain other international provisions of the Code only to the extent provided in regulations issued under those provisions. Technical changes have been made in the final regulations to eliminate references to proposed regulations as well as Code sections for which the relevant regulations have not been issued in final form. Subsequent regulations will specify the extent to which the rules relating to hedging transactions that are contained in §1.1221-2 will be applicable for purposes of those other regulations and related Code sections.

Risk Management Standard

Several commentators noted that the proposed regulations used risk reduction as the operating standard to implement the risk management definition of hedging introduced by section 1221(b)(2)(A). These commentators found that risk reduction is too narrow a standard to encompass the intent of Congress which defined hedges to include transactions that manage risk of interest rate, price changes or currency fluctuations. They urged the IRS and Treasury to adopt a broader definition of hedging to reflect Congress' intent. With one exception, the commentators did not suggest a definition of risk management.

In response to these comments, the final regulations have been restructured to implement the risk management standard. No definition of risk management is provided, but instead, the rules characterize a variety of classes of transactions as hedging transactions because they manage risk. Risk reducing transactions still qualify as one class of hedging transactions, but there are also others. In addition, specific provision is made for the recognition of additional types of qualifying risk management transactions through published guidance or private letter rulings. Under the final regulations, as under the proposed regulations, transactions entered into for speculative purposes will not qualify as hedging transactions. See S. Rep. No. 201, 106th Cong., 1st Sess. 24 (1999).

Application on the Basis of Separate Business Units

The proposed regulations provided that a taxpayer has risk of a particular type only if it is at risk when all of its operations are considered. That is, risk must exist on a "macro" basis. For this purpose, under the proposed regulations, a taxpayer has to show that hedges of particular assets or liabilities, or groups of assets or liabilities, are reasonably expected to reduce the overall risk of the taxpayer's operations.

Commentators pointed out that this entity-based approach to hedging is no longer uniform business practice. Instead, businesses often conduct risk management on a business unit by business unit basis. In response to these comments, the final regulations permit the determination of whether a transaction manages risk to be made on a business unit basis provided that the business unit is within a single entity or consolidated return group that adopts the single-entity approach. An example was added to the final regulations in which for one taxpayer, the determination of whether hedging activities reduce risk is made at the business unit level. In the example, the conduct of risk management activities within separate business units is undertaken as part of a program to reduce the overall risk of the taxpayer's operations.

Fixed-to-floating Interest Rate Hedges

Paragraph (c)(1) of the proposed regulations recognized that a transaction that economically converts an interest rate or price from a fixed rate or price to a floating rate or price may manage risk. Commentators suggested that the rule in the proposed regulations provides insufficient guidance in that it states only that fixed-to-floating interest rate or price hedges may be hedging transactions. In response to these comments, the regulations have been restructured to separately address interest rate hedges and price hedges.

Commentators suggested that in the case of interest rate conversions, a taxpayer may choose to convert from a floating to a fixed rate to fix the amount payable on the obligation. However, a taxpayer could also elect to convert from a fixed to a floating rate to insure that the value of the liability remained relatively constant. In response to these comments, the final regulations provide that a transaction that converts an interest rate from a fixed rate to a floating rate or from a floating rate to a fixed rate manages risk. With respect to fixed-to-floating price hedges, the final regulations adopt the proposed rules without change.

Transactions Not Entered into Primarily to Manage Risk

Paragraph (c)(3) of the proposed regulations provided that the purchase or sale of certain assets will not qualify as a hedging transaction if the assets are not acquired primarily to manage risk. This rule was illustrated by the example of a taxpayer that has an interest rate risk from a floating rate borrowing and that acquires debt instruments bearing a comparable floating interest rate. Although the taxpayer's interest rate risk from the floating rate borrowing may be reduced by the purchase of the floating rate debt instruments, the proposed regulations provided that the acquisition of the debt instruments is not made primarily to reduce risk and, therefore, is not a hedging transaction.

The IRS and Treasury understand that some employers may invest in assets (such as shares of a mutual fund) that are used as a reference investment for purposes of computing their liability to employees under a nonqualified deferred compensation plan. A question may arise whether such an investment may constitute a hedging transaction and, if so, whether income from the investment may be deferred by the employer until payments of deferred compensation are made to employees. See §1.446-4(b); but compare Albertson's, Inc. v. Commissioner, 42 F.3d 537 (9th Cir. 1994).

The rule in the proposed regulations is based on §1.1221-2(c)(1)(vii). The rule has been restated in the final regulations to refer specifically to investments in debt instruments, equity securities, and annuity contracts so as to provide greater certainty in its application. For this purpose certain transactions in instruments that are not themselves debt instruments may include a debt investment. See, e.g., §1.446-3(g)(4). Further, the final regulations provide that the IRS may identify by future published guidance specified transactions that are determined not to be entered into primarily to manage risk. An example has been added to the final regulations to illustrate that an investment in mutual fund shares in the case described in the preceding paragraph does not qualify as a hedging transaction. A similar example is added with respect to an investment in an annuity contract.

Hedging Risks Other Than Interest Rate or Price Changes, or Currency Fluctuations

Paragraph (c)(8) of the proposed regulations provided that the Commissioner may, by published guidance, provide that hedging transactions include transactions entered into to manage risks other than interest rate or price changes, or currency fluctuations.

The notice of proposed rulemaking solicited comments regarding the expansion of the definition of hedging transactions to include transactions that manage risks other than interest rate or price changes, or currency fluctuations with respect to ordinary property, ordinary obligations or borrowings of the taxpayer. Some comments were received in response to that request. Because the comments described hedging transactions that related to the general operating results of a business (such as gross sales) rather than specific ordinary property, ordinary obligations or borrowings of the taxpayer, the implementation of rules respecting such hedges would present a number of issues not easily dealt with by the rules contained in the final regulations. Thus, the expansion of the scope of operation of the hedging rules is not being proposed at this time, so as not to delay the publication of guidance on the matters that are covered by the final regulations. However, the IRS is continuing to consider whether to expand the definition of hedging transactions to cover hedges of such other risks. The IRS and Treasury invite comments on the types of risks that should be covered, including specific examples of derivative transactions that may be incorporated into future guidance, as well as the appropriate timing of inclusion of gains and losses with respect to such transactions. Send submissions to: CC:ITA:RU (REG-107047-00), room 5226, Internal Revenue Service, POB 7604, Ben Franklin Station, Washington, DC 20044.

"Gap" Hedges

The status of so-called gap hedges was not separately addressed in the proposed regulations and is not covered in the final regulations. Insurance companies, for example, sometimes hedge the gap between their liabilities and the assets that fund them. Under the final regulations, a hedge of those assets would not qualify as a hedging transaction if the assets are capital assets. Whether a gap hedge qualifies as a liability hedge is a question of fact and depends on whether it is more closely associated with the liabilities than with the assets.

Identification Requirement

A rule has been added specifying additional information that must be provided for a transaction that counteracts a hedging transaction.

Dates of Applicability

The regulations generally apply to all transactions entered into on or after [**INSERT DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER**]. However, the IRS will not challenge any transaction entered into on or after December 17, 1999, and before [**INSERT DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER**], that satisfies the provisions of either §1.1221-2 of REG-107047-00, published in the **Federal Register** (66 FR 4738) on January 18, 2001, or the provisions of this final regulation.

Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It is hereby certified that the collection of information in these regulations will not have a significant economic impact on a substantial number of small entities. This certification is based upon the fact that very few small businesses enter into hedging transactions due to their cost and complexity. Further, those small businesses that hedge enter into very few hedging transactions because hedging transactions are costly, complex, and require constant monitoring and a sophisticated understanding of the capital markets. Therefore, a Regulatory Flexibility Analysis under the Regulatory Flexibility Act (5 U.S.C. chapter 6) is not required. Pursuant to section 7805(f) of the Code, the notice of proposed rulemaking preceding these regulations was submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Drafting Information

The principal author of these regulations is Elizabeth Handler, Office of the Associate Chief Counsel (Financial Institutions and Products). However, other personnel from the IRS and Treasury Department participated in their development.

List of Subjects

26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

26 CFR Part 602

_____Reporting and recordkeeping requirements.

Adoption of Amendments to the Regulations

Accordingly, 26 CFR parts 1 and 602 are amended as follows:

PART 1--INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by revising the entry for §1.1221-2 to read as follows:

Authority: 26 U.S.C. 7805 * * *

Section 1.1221-2 also issued under 26 U.S.C. 1221(b)(2)(A)(iii), (b)(2)(B), and (b)(3); 1502 and 6001. * * *

Par. 2. In the list below, for each location indicated in the left column, remove the language in the middle column from that section, and add the language in the right column.

Affected section	Remove	Add
1.446-4(d)(2), first sentence	1.1221-2(e)	1.1221-2(f)
1.446-4(d)(2), last sentence	1.1221-2(e)(2)	1.1221-2(f)(2)
1.446-4(d)(3), first sentence	1.1221-2(e)	1.1221-2(f)
1.446-4(d)(3), last sentence	1.1221-2(a)(4)(i)	1.1221-2(a)(4)
1.446-4(e)(7), first sentence	1.1221-2(c)(2)	1.1221-2(d)(4)
1.446-4(e)(9)(ii), first sentence	1.1221-2(d)(2)	1.1221-2(e)(2)
1.446-4(e)(9)(ii), last sentence	1.1221-2(d)(2)(ii)	1.1221-2(e)(2)(ii)

1.475(b)-1(d)(2)	1.1221-2(e)	1.1221-2(f)
1.954-2(a)(4)(ii)(A), first sentence	1.1221-2(a) through (c)	1.1221-2(a) through (d)
1.954-2(a)(4)(ii)(B), first sentence	1.1221-2(e)	1.1221-2(f)
1.954-2(g)(2)(ii)(B)(2), last sentence	1.1221-2(c)(7)	1.1221-2(c)(3)
1.954-2(g)(3)(i)(B), last sentence	1.1221-2(c)(7)	1.1221-2(c)(3)
1.1256(e)-1(b), first and last sentences	1.1221-2(e)(1)	1.1221-2(f)(1)
1.1256(e)-1(c), first sentence	1.1221-2(e)(1)	1.1221-2(f)(1)
1.1256(e)-1(c), last sentence	paragraph (f)(1)(ii) of §1.1221-2	paragraph (g)(1)(ii) of §1.1221-2

Par. 3. Section 1.1221-2 is revised to read as follows:

§1.1221-2 Hedging transactions.

(a) Treatment of hedging transactions--(1) In general. This section governs the treatment of hedging transactions under section 1221(a)(7). Except as provided in paragraph (g)(2) of this section, the term capital asset does not include property that is part of a hedging transaction (as defined in paragraph (b) of this section).

(2) Short sales and options. This section also governs the character of gain or loss from a short sale or option that is part of a hedging transaction. Except as provided in paragraph (g)(2) of this section, gain or loss on a short sale or option

that is part of a hedging transaction (as defined in paragraph (b) of this section) is ordinary income or loss.

(3) Exclusivity. If a transaction is not a hedging transaction as defined in paragraph (b) of this section, gain or loss from the transaction is not made ordinary on the grounds that property involved in the transaction is a surrogate for a noncapital asset, that the transaction serves as insurance against a business risk, that the transaction serves a hedging function, or that the transaction serves a similar function or purpose.

(4) Coordination with section 988. This section does not apply to determine the character of gain or loss realized on a section 988 transaction as defined in section 988(c)(1) or realized with respect to any qualified fund as defined in section 988(c)(1)(E)(iii).

(b) Hedging transaction defined. Section 1221(b)(2)(A) provides that a hedging transaction is any transaction that a taxpayer enters into in the normal course of the taxpayer's trade or business primarily--

(1) To manage risk of price changes or currency fluctuations with respect to ordinary property (as defined in paragraph (c)(2) of this section) that is held or to be held by the taxpayer;

(2) To manage risk of interest rate or price changes or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, by the taxpayer; or

(3) To manage such other risks as the Secretary may prescribe in regulations (see paragraph (d)(6) of this section).

(c) General rules--(1) Normal course. Solely for purposes of paragraph (b) of this section, if a transaction is entered into in furtherance of a taxpayer's trade or business, the transaction is entered into in the normal course of the taxpayer's trade or business. This rule includes managing risks relating to the expansion of an existing business or the acquisition of a new trade or business.

(2) Ordinary property and obligations. Property is ordinary property to a taxpayer only if a sale or exchange of the property by the taxpayer could not produce capital gain or loss under any circumstances. Thus, for example, property used in a trade or business within the meaning of section 1231(b) (determined without regard to the holding period specified in that section) is not ordinary property. An obligation is an ordinary obligation if performance or termination of the obligation by the taxpayer could not produce capital gain or loss. For purposes of this paragraph (c)(2), the term termination has the same meaning as it does in section 1234A.

(3) Hedging an aggregate risk. The term hedging transaction includes a transaction that manages an aggregate risk of interest rate changes, price changes, and/or currency fluctuations only if all of the risk, or all but a de minimis amount of the risk, is with respect to ordinary property, ordinary obligations, or borrowings.

(4) Managing risk--(i) In general. Whether a transaction manages a taxpayer's risk is determined based on all of the facts and circumstances surrounding the taxpayer's business and the transaction. Whether a transaction manages a taxpayer's risk may be determined on a business unit by business unit basis (for example by treating particular groups of activities, including the assets and liabilities attributable to those activities, as separate business units), provided that the business unit is within a single entity or consolidated return group that adopts the single-entity approach. A taxpayer's hedging strategies and policies as reflected in the taxpayer's minutes or other records are evidence of whether particular transactions were entered into primarily to manage the taxpayer's risk.

(ii) Limitation of risk management transactions to those specifically described. Except as otherwise determined by published guidance or by private letter ruling, a transaction that is not treated as a hedging transaction under paragraph (d) does not manage risk. Moreover, a transaction undertaken for speculative purposes will not be treated as a hedging transaction.

(d) Transactions that manage risk--(1) Risk reduction transactions--(i) In general. A transaction that is entered into to reduce a taxpayer's risk, manages a taxpayer's risk.

(ii) Micro and macro hedges--(A) In general. A taxpayer generally has risk of a particular type only if it is at risk when all of its operations are considered. Nonetheless, a hedge of a particular asset or liability generally will be respected as reducing risk if it reduces the risk attributable to the asset or liability and if it is reasonably expected to reduce the overall risk of the taxpayer's operations. If a taxpayer hedges particular assets or liabilities, or groups of assets or liabilities, and the hedges are undertaken as part of a program that, as a whole, is reasonably expected to reduce the overall risk of the taxpayer's operations, the taxpayer generally does not have to demonstrate that each hedge that was entered into pursuant to the program reduces its overall risk.

(B) Example. The following example illustrates the rules stated in paragraph (d)(1)(ii)(A) of this section:

Example. Corporation X manages its business operations by treating particular groups of activities, including the assets and liabilities attributable to those assets, as separate business units. A separate set of books and records is maintained with respect to the activities, assets and liabilities of separate business unit y. As part of a risk management program that Corporation X reasonably expects to reduce the overall risks of its business operations, Corporation X enters into hedges to reduce the risks of separate business unit y. Corporation X may demonstrate that the hedges reduce risk by taking into account only the activities, assets and liabilities of business unit y.

(iii) Written options. A written option may reduce risk. For example, in appropriate circumstances, a written call option with respect to assets held by a taxpayer or a written put option with respect to assets to be acquired by a taxpayer may be a hedging transaction. See also paragraph (d)(3) of this section.

(iv) Fixed-to-floating price hedges. Under the principles of paragraph (d)(1)(ii)(A) of this section, a transaction that economically converts a price from a fixed price to a floating price may reduce risk. For example, a taxpayer with a fixed cost for its inventory may be at risk if the price at which the inventory can be sold varies with a particular factor. Thus, for such a taxpayer a transaction that converts its fixed price to a floating price may be a hedging transaction.

(2) Interest rate conversions. A transaction that economically converts an interest rate from a fixed rate to a floating rate or that converts an interest rate from a floating rate to a fixed rate manages risk.

(3) Transactions that counteract hedging transactions. If a transaction is entered into primarily to offset all or any part of the risk management effected by one or more hedging transactions, the transaction is a hedging transaction. For example, if a written option is used to reduce or eliminate the risk reduction obtained from another position such as a purchased option, then it may be a hedging transaction.

(4) Recycling. A taxpayer may enter into a hedging transaction by using a position that was a hedge of one asset or liability as a hedge of another asset or liability (recycling).

(5) Transactions not entered into primarily to manage risk--(i) Rule. Except as otherwise determined in published guidance or private letter ruling, the purchase or sale of a debt instrument, an equity security, or an annuity contract is not a hedging transaction even if the transaction limits or

reduces the taxpayer's risk with respect to ordinary property, borrowings, or ordinary obligations. In addition, the Commissioner may determine in published guidance that other transactions are not hedging transactions.

(ii) Examples. The following examples illustrate the rule stated in paragraph (d)(5)(i):

Example 1. Taxpayer borrows money and agrees to pay a floating rate of interest. Taxpayer purchases debt instruments that bear a comparable floating rate. Although taxpayer's interest rate risk from the floating rate borrowing may be reduced by the purchase of the debt instruments, the acquisition of the debt instruments is not a hedging transaction, because the transaction is not entered into primarily to manage the taxpayer's risk.

Example 2. Taxpayer undertakes obligations to pay compensation in the future. The amount of the future compensation payments is adjusted as if amounts were invested in a specified mutual fund and were increased or decreased by the earnings, gains and losses that would result from such an investment. Taxpayer invests funds in the shares of the mutual fund. Although the investment in shares of the mutual fund reduces the taxpayer's risk of fluctuation in the amount of its obligation to employees, the investment was not made primarily to manage the taxpayer's risk. Accordingly, the transaction is not a hedging transaction.

Example 3. Taxpayer provides a nonqualified retirement plan for employees that is structured like a defined contribution plan. Based on a schedule that takes into account an employee's monthly salary and years of service with the taxpayer, the taxpayer makes monthly credits to an account for each employee. Each employee may designate that the account will be treated as if it were used to pay premiums on a variable annuity contract issued by the M insurance company with a value that reflects a specified investment option. M offers a number of investment options for its variable annuity contracts. Taxpayer invests funds in M company variable annuity contracts that parallel the investment options selected by the employees. The investment is not made primarily to manage the taxpayer's risk and is not a hedging transaction.

(6) Hedges of other risks. The Commissioner may, by published guidance, determine that hedging transactions include transactions entered into to manage risks other than interest rate or price changes, or currency fluctuations.

(7) Miscellaneous provision--(i) Extent of risk management. A taxpayer may hedge all or any portion of its risk for all or any part of the period during which it is exposed to the risk.

(ii) Number of transactions. The fact that a taxpayer frequently enters into and terminates positions (even if done on a daily or more frequent basis) is not relevant to whether these transactions are hedging transactions. Thus, for example, a taxpayer hedging the risk associated with an asset or liability may frequently establish and terminate positions that hedge that risk, depending on the extent the taxpayer wishes to be hedged. Similarly, if a taxpayer maintains its level of risk exposure by entering into and terminating a large number of transactions in a single day, its transactions may nonetheless qualify as hedging transactions.

(e) Hedging by members of a consolidated group--(1) General rule: single-entity approach. For purposes of this section, the risk of one member of a consolidated group is treated as the risk of the other members as if all of the members of the group were divisions of a single corporation. For example, if any member of a consolidated group hedges the risk of another member of the group by entering into a transaction with a third party, that transaction may potentially qualify as a hedging transaction. Conversely, intercompany transactions are not hedging transactions because, when considered as transactions between divisions of a single corporation, they do not manage the risk of that single corporation.

(2) Separate-entity election. In lieu of the single-entity approach specified in paragraph (e)(1) of this section, a consolidated group may elect separate-entity treatment of its hedging transactions. If a group makes this separate-entity election, the following rules apply:

(i) Risk of one member not risk of other members. Notwithstanding paragraph (e)(1) of this section, the risk of one member is not treated as the risk of other members.

(ii) Intercompany transactions. An intercompany transaction is a hedging transaction (an intercompany hedging transaction) with respect to a member of a consolidated group if and only if it meets the following requirements--

(A) The position of the member in the intercompany transaction would qualify as a hedging transaction with respect to the member (taking into account paragraph (e)(2)(i) of this section) if the member had entered into the transaction with an unrelated party; and

(B) The position of the other member (the marking member) in the transaction is marked to market under the marking member's method of accounting.

(iii) Treatment of intercompany hedging transactions. An intercompany hedging transaction (that is, a transaction that meets the requirements of paragraphs (e)(2)(ii)(A) and (B) of this section) is subject to the following rules--

(A) The character and timing rules of §1.1502-13 do not apply to the income, deduction, gain, or loss from the intercompany hedging transaction; and

(B) Except as provided in paragraph (g)(3) of this section, the character of the marking member's gain or loss from the transaction is ordinary.

(iv) Making and revoking the election. Unless the Commissioner otherwise prescribes, the election described in this paragraph (e)(2) must be made in a separate statement saying "[Insert Name and Employer Identification Number of Common Parent] HEREBY ELECTS THE APPLICATION OF SECTION 1.1221-2(e)(2) (THE SEPARATE-ENTITY APPROACH)." The statement must also indicate the date as of which the election is to be effective. The election must be signed by the common parent and filed with the group's Federal income tax return for the taxable year that includes the first date for which the election is to apply. The election applies to all transactions entered into on or after the date so indicated. The election may be revoked only with the consent of the Commissioner.

(3) Definitions. For definitions of consolidated group, divisions of a single corporation, group, intercompany transactions, and member, see section 1502 and the regulations thereunder.

(4) Examples. General Facts. In these examples, O and H are members of the same consolidated group. O's business operations give rise to interest rate risk "A," which O wishes to hedge. O enters into an intercompany transaction with H that transfers the risk to H. O's position in the intercompany transaction is "B," and H's position in the transaction is "C." H enters into position "D" with a third party to reduce the interest rate risk it has with respect to its position C. D would be a hedging transaction with respect to risk A if O's risk A were H's risk. The following examples illustrate this paragraph (e):

Example 1. Single-entity treatment--(i) General rule. Under paragraph (e)(1) of this section, O's risk A is treated as H's risk, and therefore D is a hedging transaction with respect to risk A. Thus, the character of D is determined under the rules of this section, and the income, deduction, gain, or loss from D must be accounted for under a method of accounting that satisfies §1.446-4. The intercompany transaction B-C is not a hedging transaction and is taken into account under §1.1502-13.

(ii) Identification. D must be identified as a hedging transaction under paragraph (f)(1) of this section, and A must be identified as the hedged item under paragraph (f)(2) of this section. Under paragraph (f)(5) of this section, the identification of A as the hedged item can be accomplished by identifying the positions in the intercompany transaction as hedges or hedged items, as appropriate. Thus, substantially contemporaneous with entering into D, H may identify C as the hedged item and O may identify B as a hedge and A as the hedged item.

Example 2. _Separate-entity election; counterparty that does not mark to market_. In addition to the _General Facts_ stated above, assume that the group makes a separate-entity election under paragraph (e)(2) of this section. If _H_ does not mark _C_ to market under its method of accounting, then _B_ is not a hedging transaction, and the _B-C_ intercompany transaction is taken into account under the rules of section 1502. _D_ is not a hedging transaction with respect to _A_, but _D_ may be a hedging transaction with respect to _C_ if _C_ is ordinary property or an ordinary obligation and if the other requirements of paragraph (b) of this section are met. If _D_ is not part of a hedging transaction, then _D_ may be part of a straddle for purposes of section 1092.

Example 3. _Separate-entity election; counterparty that marks to market_. The facts are the same as in _Example 2_ above, except that _H_ marks _C_ to market under its method of accounting. Also assume that _B_ would be a hedging transaction with respect to risk _A_ if _O_ had entered into that transaction with an unrelated party. Thus, for _O_, the _B-C_ transaction is an intercompany hedging transaction with respect to _O_'s risk _A_, the character and timing rules of §1.1502-13 do not apply to the _B-C_ transaction, and _H_'s income, deduction, gain, or loss from _C_ is ordinary. However, other attributes of the items from the _B-C_ transaction are determined under §1.1502-13. _D_ is a hedging transaction with respect to _C_ if it meets the requirements of paragraph (b) of this section.

(f) _Identification and recordkeeping_--(1) _Same-day identification of hedging transactions_. Under section 1221(a)(7), a taxpayer that enters into a hedging transaction (including recycling an existing hedging transaction) must clearly identify it as a hedging transaction before the close of the day on which the taxpayer acquired, originated, or entered into the transaction (or recycled the existing hedging transaction).

(2) _Substantially contemporaneous identification of hedged item_--(i) _Content of the identification_. A taxpayer that enters

into a hedging transaction must identify the item, items, or aggregate risk being hedged. Identification of an item being hedged generally involves identifying a transaction that creates risk, and the type of risk that the transaction creates. For example, if a taxpayer is hedging the price risk with respect to its June purchases of corn inventory, the transaction being hedged is the June purchase of corn and the risk is price movements in the market where the taxpayer buys its corn. For additional rules concerning the content of this identification, see paragraph (f)(3) of this section.

(ii) Timing of the identification. The identification required by this paragraph (f)(2) must be made substantially contemporaneously with entering into the hedging transaction. An identification is not substantially contemporaneous if it is made more than 35 days after entering into the hedging transaction.

(3) Identification requirements for certain hedging transactions. In the case of the hedging transactions described in this paragraph (f)(3), the identification under paragraph (f)(2) of this section must include the information specified.

(i) Anticipatory asset hedges. If the hedging transaction relates to the anticipated acquisition of assets by the taxpayer, the identification must include the expected date or dates of acquisition and the amounts expected to be acquired.

(ii) Inventory hedges. If the hedging transaction relates to the purchase or sale of inventory by the taxpayer, the identification is made by specifying the type or class of inventory to which the transaction relates. If the hedging transaction relates to specific purchases or sales, the identification must also include the expected dates of the purchases or sales and the amounts to be purchased or sold.

(iii) Hedges of debt of the taxpayer--(A) Existing debt. If the hedging transaction relates to accruals or payments under an issue of existing debt of the taxpayer, the identification must specify the issue and, if the hedge is for less than the full issue price or the full term of the debt, the amount of the issue price and the term covered by the hedge.

(B) Debt to be issued. If the hedging transaction relates to the expected issuance of debt by the taxpayer or to accruals or payments under debt that is expected to be issued by the taxpayer, the identification must specify the following information: the expected date of issuance of the debt; the expected maturity or maturities; the total expected issue price; and the expected interest provisions. If the hedge is for less than the entire expected issue price of the debt or the full expected term of the debt, the identification must also include the amount or the term being hedged. The identification may indicate a range of dates, terms, and amounts, rather than specific dates, terms, or amounts. For example, a taxpayer might identify a transaction as hedging the yield on an anticipated issuance of fixed rate debt during the second half of its fiscal year, with the anticipated amount of the debt between $75 million and $125 million, and an anticipated term of approximately 20 to 30 years.

(iv) Hedges of aggregate risk--(A) Required identification. If a transaction hedges aggregate risk as described in paragraph (c)(3) of this section, the identification under paragraph (f)(2) of this section must include a description of the risk being hedged and of the hedging program under which the hedging transaction was entered. This requirement may be met by placing in the taxpayer's records a description of the hedging program and by establishing a system under which individual transactions can be identified as being entered into pursuant to the program.

(B) Description of hedging program. A description of a hedging program must include an identification of the type of risk being hedged, a description of the type of items giving rise to the risk being aggregated, and sufficient additional information to demonstrate that the program is designed to reduce aggregate risk of the type identified. If the program contains controls on speculation (for example, position limits), the description of the hedging program must also explain how the controls are established, communicated, and implemented.

(v) Transactions that counteract hedging transactions. If the hedging transaction is described in paragraph (d)(3) of this section, the description of the hedging transaction must include an identification of the risk management transaction that is being offset and the original underlying hedged item.

(4) Manner of identification and records to be retained--(i) Inclusion of identification in tax records. The identification required by this paragraph (f) must be made on, and retained as part of, the taxpayer's books and records.

(ii) Presence of identification must be unambiguous. The presence of an identification for purposes of this paragraph (f) must be unambiguous. The identification of a hedging transaction for financial accounting or regulatory purposes does not satisfy this requirement unless the taxpayer's books and records indicate that the identification is also being made for tax purposes. The taxpayer may indicate that individual hedging transactions, or a class or classes of hedging transactions, that are identified for financial accounting or regulatory purposes are also being identified as hedging transactions for purposes of this section.

(iii) Manner of identification. The taxpayer may separately and explicitly make each identification, or, so long as paragraph (f)(4)(ii) of this section is satisfied, the taxpayer may establish a system pursuant to which the identification is indicated by the type of transaction or by the manner in which the transaction is consummated or recorded. An identification under this system is made at the later of the time that the system is established or the time that the transaction satisfies the terms of the system by being entered, or by being consummated or recorded, in the designated fashion.

(iv) Principles of paragraph (f)(4)(iii) of this section illustrated. Paragraphs (f)(4)(iv)(A) through (C) of this section illustrate the principles of paragraph (f)(4)(iii) of this section and assume that the other requirements of this paragraph (f) are satisfied.

(A) A taxpayer can make an identification by designating a hedging transaction for (or placing it in) an account that has been identified as containing only hedges of a specified item (or of specified items or specified aggregate risk).

(B) A taxpayer can make an identification by including and retaining in its books and records a statement that designates all future transactions in a specified derivative product as hedges of a specified item, items, or aggregate risk.

(C) A taxpayer can make an identification by designating a certain mark, a certain form, or a certain legend as meaning that a transaction is a hedge of a specified item (or of specified items or a specified aggregate risk). Identification can be made by placing the designated mark on a record of the transaction (for example, trading ticket, purchase order, or trade confirmation) or by using the designated form or a record that contains the designated legend.

(5) Identification of hedges involving members of the same consolidated group--(i) General rule: single-entity approach. A member of a consolidated group must satisfy the requirements of this paragraph (f) as if all of the members of the group were divisions of a single corporation. Thus, the member entering into the hedging transaction with a third party must identify the hedging transaction under paragraph (f)(1) of this section. Under paragraph (f)(2) of this section, that member must also identify the item, items, or aggregate risk that is being hedged, even if the item, items, or aggregate risk relates primarily or entirely to other members of the group. If the

members of a group use intercompany transactions to transfer risk within the group, the requirements of paragraph (f)(2) of this section may be met by identifying the intercompany transactions, and the risks hedged by the intercompany transactions, as hedges or hedged items, as appropriate. Because identification of the intercompany transaction as a hedge serves solely to identify the hedged item, the identification is timely if made within the period required by paragraph (f)(2) of this section. For example, if a member transfers risk in an intercompany transaction, it may identify under the rules of this paragraph (f) both its position in that transaction and the item, items, or aggregate risk being hedged. The member that hedges the risk outside the group may identify under the rules of this paragraph (f) both its position with the third party and its position in the intercompany transaction. Paragraph (e)(4) Example 1 of this section illustrates this identification.

(ii) Rule for consolidated groups making the separate-entity election. If a consolidated group makes the separate-entity election under paragraph (e)(2) of this section, each member of the group must satisfy the requirements of this paragraph (f) as though it were not a member of a consolidated group.

(6) Consistency with section 1256(e)(2). Any identification for purposes of section 1256(e)(2) is also an identification for purposes of paragraph (f)(1) of this section.

(g) Effect of identification and non-identification--(1) Transactions identified--(i) In general. If a taxpayer identifies a transaction as a hedging transaction for purposes of paragraph (f)(1) of this section, the identification is binding with respect to gain, whether or not all of the requirements of paragraph (f) of this section are satisfied. Thus, gain from that transaction is ordinary income. If the transaction is not in fact a hedging transaction described in paragraph (b) of this section, however, paragraphs (a)(1) and (2) of this section do not apply and the character of loss is determined without reference to whether the transaction is a surrogate for a noncapital asset, serves as insurance against a business risk, serves a hedging function, or serves a similar function or purpose. Thus, the taxpayer's identification of the transaction as a hedging transaction does not itself make loss from the transaction ordinary.

(ii) Inadvertent identification. Notwithstanding paragraph (g)(1)(i) of this section, if the taxpayer identifies a transaction as a hedging transaction for purposes of paragraph (f) of this section, the character of the gain is determined as if the transaction had not been identified as a hedging transaction if--

(A) The transaction is not a hedging transaction (as defined in paragraph (b) of this section);

(B) The identification of the transaction as a hedging transaction was due to inadvertent error; and

(C) All of the taxpayer's transactions in all open years are being treated on either original or, if necessary, amended returns in a manner consistent with the principles of this section.

(2) Transactions not identified--(i) In general. Except as provided in paragraphs (g)(2)(ii) and (iii) of this section, the absence of an identification that satisfies the requirements of paragraph (f)(1) of this section is binding and establishes that a transaction is not a hedging transaction. Thus, subject to the exceptions, the rules of paragraphs (a)(1) and (2) of this section do not apply, and the character of gain or loss is determined without reference to whether the transaction is a surrogate for a noncapital asset, serves as insurance against a business risk, serves a hedging function, or serves a similar function or purpose.

(ii) Inadvertent error. If a taxpayer does not make an identification that satisfies the requirements of paragraph (f) of this section, the taxpayer may treat gain or loss from the transaction as ordinary income or loss under paragraph (a)(1) or (2) of this section if--

(A) The transaction is a hedging transaction (as defined in paragraph (b) of this section);

(B) The failure to identify the transaction was due to inadvertent error; and

(C) All of the taxpayer's hedging transactions in all open years are being treated on either original or, if necessary, amended returns as provided in paragraphs (a)(1) and (2) of this section.

(iii) Anti-abuse rule. If a taxpayer does not make an identification that satisfies all the requirements of paragraph (f) of this section but the taxpayer has no reasonable grounds for treating the transaction as other than a hedging transaction, then gain from the transaction is ordinary. The reasonableness of the taxpayer's failure to identify a transaction is determined by taking into consideration not only the requirements of paragraph (b) of this section but also the taxpayer's treatment of the transaction for financial accounting or other purposes and the taxpayer's identification of similar transactions as hedging transactions.

(3) Transactions by members of a consolidated group--(i) Single-entity approach. If a consolidated group is under the general rule of paragraph (e)(1) of this section (the single-entity approach), the rules of this paragraph (g) apply only to transactions that are not intercompany transactions.

(ii) Separate-entity election. If a consolidated group has made the election under paragraph (e)(2) of this section, then, in addition to the rules of paragraphs (g)(1) and (2) of this section, the following rules apply:

(A) If an intercompany transaction is identified as a hedging transaction but does not meet the requirements of paragraphs (e)(2)(ii)(A) and (B) of this section, then, notwithstanding any contrary provision in §1.1502-13, each party to the transaction is subject to the rules of paragraph (g)(1) of this section with respect to the transaction as though it had incorrectly identified its position in the transaction as a hedging transaction.

(B) If a transaction meets the requirements of paragraphs (e)(2)(ii) (A) and (B) of this section but the transaction is not identified as a hedging transaction, each party to the transaction is subject to the rules of paragraph (g)(2) of this section. (Because the transaction is an intercompany hedging transaction, the character and timing rules of §1.1502-13 do not apply. See paragraph (e)(2)(iii)(A) of this section.)

(h) Effective date. The rules of this section apply to transactions entered into on or after **[INSERT DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER]**.

Par. 4. Section 1.1256(e)-1 is revised to read as follows:

§1.1256(e)-1 Identification of hedging transactions.

(a) Identification and recordkeeping requirements. Under section 1256(e)(2), a taxpayer that enters into a hedging transaction must identify the transaction as a hedging transaction before the close of the day on which the taxpayer enters into the transaction.

(b) Requirements for identification. The identification of a hedging transaction for purposes of section 1256(e)(2) must satisfy the requirements of §1.1221-2(f)(1). Solely for purposes of section 1256(f)(1), however, an identification that does not satisfy all of the requirements of §1.1221-2(f)(1) is nevertheless treated as an identification under section 1256(e)(2).

(c) Consistency with §1.1221-2. Any identification for purposes of §1.1221-2(f)(1) is also an identification for purposes of this section. If a taxpayer satisfies the requirements of §1.1221-2(f)(1)(ii), the transaction is treated as if it were not identified as a hedging transaction for purposes of section 1256(e)(2).

(d) Effective date. The rules of this section apply to transactions entered into on or after **[INSERT DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER]**.

PART 602--OMB CONTROL NUMBERS UNDER THE PAPERWORK REDUCTION ACT

Par. 5. The authority citation for part 602 continues to read as follows:

Authority: 26 U.S.C. 7805.

Par. 6. In §602.101, paragraph (b) is amended by removing the entries for "1.1221-2," "1.1221-2(d)(2)(iv)," "1.1221-2(e)(5)," "1.1221-2(g)(5)(ii)," "1.1221-2(g)(6)(ii)," "1.1221-2(g)(6)(iii)," and "1.1221-2T(c)" and adding an entry in numerical order to the table to read as follows:

§602.101 OMB Control numbers.

* * * * *

(b) * * *

CFR part or section where identified and described	Current OMB control No.
* * * * *	
1.1221-2	1545-1480

Deputy Commissioner of Internal Revenue.

Approved:

Assistant Secretary of the Treasury.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
March 15, 2002

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Remarks by Julie Myers
Deputy Assistant Secretary for
Money Laundering and Financial Crimes
United States Department of the Treasury Before the
International Regulators Meeting
Boca Raton, Florida

Good afternoon. I am Julie Myers, Deputy Assistant Secretary for Money Laundering and Financial Crimes in the Office of Enforcement of the Department of the Treasury. It is my pleasure to be able to speak with you today about cooperation on money laundering with special regard to the securities industry and I thank those who extended this kind invitation.

There was a time, perhaps not so long ago, when some may have argued that money is nothing more than a medium of exchange, colorless and odorless, like some component of the atmosphere, conducive to life but morally neutral. In the last two decades we have begun to disavow that notion. We have seen criminal proceeds color parts of our own society, painting desolate landscapes of addiction and violence. And, in the early workday hours of September 11th, we saw an unforgettable image of terror - a terror that also required money for its perpetration. These types of monies do, indeed, carry with them a very rank odor, repugnant to law-abiding citizens everywhere, to their commerce, and to their institutions.

Over these same twenty years, we who work in the law enforcement community have come to the realization that an effective response to money laundering must involve more than simply law enforcement. As a threat to the security and integrity of our financial institutions, money laundering deserves a system-wide response and broad cooperation. Law enforcement, in and of itself, can only do so much - chiefly investigating crimes and assisting prosecutions. When it comes to money laundering, the other principal stakeholders in the financial system need to be a part of the solution, to see this not just as a compartmentalized problem for law enforcement, but as a common and mutually assisted effort to make our national and international financial system less vulnerable to the abuses and depredations of criminals.

PO-2003

Fortunately, this wider perspective has been taking hold. From regulators to the financial services industry to the international community, there is a growing understanding of, and concern with, money laundering and financial crime. In the United States, banking regulatory agencies have agreed that their approach to anti-money laundering supervision needs to be risk-focused, with resources concentrated upon those institutions that are most susceptible to money laundering. These agencies have been developing procedures to address high-risk areas such as private banking, payable through accounts, and wire transfer activity. A second generation of bank examination procedures has been set forth and field-tested. Anti-money laundering training modules, using information derived from recent cases, now offer examiners new and timely information derived from the actual experiences of regulatory as well as law enforcement agencies. Banks have been required to implement anti-money laundering control programs for years and now the reach of that requirement is expanding to cover other providers of financial services.

Extending the scope of anti-money laundering programs to the securities industry involves a premise recognized by securities regulators as early as 1998 when the International Organization of Securities Commissions issued its *Objectives and Principles of Securities Regulation*. In those principles there is a specific reference to anti-money laundering controls as an important element of sound securities and futures regulation. We agree, and, to that end, we are now extending our anti-money laundering programs to include the securities and futures industry. We are doing this in close consultation and coordination with U.S. securities and futures regulators. We have also sought the counsel and advice of representatives from the securities and futures industry. We are doing all of this to ensure that the new requirements being imposed will provide the best possible result for law enforcement while at the same time minimizing any unnecessary disruption to the operations of securities and futures industry members.

To say that September 11th re-focused our attention on the problem of money laundering and the related threat of terrorist financing hardly seems to capture the import of that day, but that was certainly one of its many effects. Less than two months after that infamous attack, the Congress of the United States overwhelmingly passed and the President signed what is known as the USA Patriot Act of 2001. Title III of that law, known as the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 (MLAA for short) has a broad array of implications for the financial services industry. It is important that we - law enforcement, regulators as well as the providers of financial services - all understand what these implications are and I would like to highlight some of the more prominent ones this afternoon.

To begin with, the Patriot Act brings a mandatory money laundering control program to the securities industry. One could reasonably ask why, since the securities and futures business is not, usually, a cash business. To answer this question, we need to look at the big picture. Each year, trillions of dollars flow through the securities industry and its firms encompass major global financial institutions. Use of the U.S. financial system to facilitate fraud can taint our vibrant capital markets - the same markets that fuel our economy and hold the savings of our nation's investors. Even before enactment of the Patriot Act, firms faced potential civil and criminal exposure when they were used to launder profits derived from illegal activities.

The large monetary fines and forfeiture provisions that have been part and parcel of pre-existing money laundering laws could seriously impact the financial stability of a securities firm, affecting all those who do business with that firm.

As a matter of best practice, many firms had already concluded that they should protect themselves from being inadvertently drawn into charges of facilitating money laundering. From the perspective of a firm's bottom line this has meant protection against significant monetary penalties as well as avoiding the reputational risk to a firm associated with a criminal element. It has been, and still remains, in the long-term interest of securities and futures firms to preserve the integrity of our securities markets.

Now, section 352 of the Patriot Act requires that all financial institutions, including securities firms, establish anti-money laundering programs by April 24th of this year. Some of the minimum standards for such a program involve: (1) the development of internal policies, procedures and controls; (2) the designation of a compliance officer; (3) an ongoing employee training program; and, (4) an independent audit function to test the program.

Implementation of Section 352 is already underway. For example, the operators of our largest exchanges, the New York Stock Exchange and the National Association of Securities Dealers, have already set out rules requiring brokers to have an anti-money laundering program. The *Preliminary Guidance for Deterring Money Laundering Activity*, that was issued by the Securities Industry Association's Anti-Money Laundering Committee last month, offers sound, fundamental advice on the nature of such a program as the government works to finalize more detailed regulations for this part of the law.

A closely related section of the Patriot Act (section 356), specifically affecting the securities industry, mandates that the Secretary of the Treasury issue a rule to include broker-dealers in our suspicious activity reporting (SAR) system. We are implementing this requirement. In late December, after consultation with the Securities and Exchange Commission and the Federal Reserve, we published proposed regulations requiring broker-dealers to file SARs. The final form of this rule should be ready by July. This same section 356 of the Act also authorizes the Secretary, after consultation with the Commodity Futures Trading Commission (CFTC), to prescribe regulations requiring CFTC-regulated firms to file SARs. Our Deputy Secretary of the Treasury, Ken Dam, has testified to the Congress that we intend to promulgate similar requirements for future commission merchants and we are working with the CFTC on that initiative.

While investment companies have not, to date, been directly covered by Bank Secrecy Act regulations, the broker-dealers that sell the funds are covered. Later this year, we expect a broad inter-agency working group, under section 356, to submit a report concerning regulations that would apply the Bank Secrecy Act to registered investment companies. I understand that the Investment Company Institute, the Managed Funds Association and others have offered their cooperation in extending these provisions to their members and we welcome these offers.

The very products and services of the securities industry - the efficient transfer of funds between accounts, the ability to conduct international transactions, the liquidity of securities - provide opportunities to hide and move criminal proceeds. We are confident of success in implementing anti-money laundering measures with the industry because we are certain that the vast majority of firms desire to fulfill their duties as good corporate citizens. We all know intuitively that it is better to prevent a crime than to punish one. It is in the long-term self-interest of firms to obey the law and conduct business as responsible corporate citizens. Complying with the law often entails costs but it is the right thing to do. Moreover, we are working in a way that is intended to minimize any unnecessary regulatory burden while remaining consistent with our objective of countering money laundering within the securities industry. We believe that implementing these new measures will save firms substantial hardship, suffering and expense in the long term.

Another prominent implication of the Patriot Act is the effect its requirements will have on the international financial community. The growing understanding of and concern with the problem of money laundering, that I referred to earlier, has also been taking hold around the world. Over a century ago, within the United States, we learned the importance of common rules and institutions as commerce between our states took off and America's national economy began to come together. Greater interconnectedness between our states called for common institutions and understandings at the national level to offset the downward pressure on local rules and standards that competition could create. That same historical imperative is now being recognized at a global level. In this vein, the actions taken by the Financial Action Task Force (FATF) to publicly identify jurisdictions with serious deficiencies in their anti-money laundering regimes is a necessary step forward. At the same time, international financial institutions such as the World Bank and the International Monetary Fund are encompassing anti-money laundering concerns within the scope of their respective mandates so that they may play a strong role in fighting abuse and preserving the integrity of the international financial system. The Patriot Act substantially increases the means available to the United States to advance this worldwide effort.

The special measures contained in section 311 of the Patriot Act represent a hallmark provision that offers added tools that can be employed to protect the U.S. financial system from being abused by money launderers operating from or through international financial crime havens. In the past, we had limited choices when it came to defending ourselves. We had only, on the one hand, informational advisories that we could issue to U.S. banks about specific jurisdictions, and, on the other hand, sanctions authorized by the International Emergency Powers Act (IEEPA) which blocked transactions with designated entities in a jurisdiction.

Now, under section 311, the Secretary of the Treasury has available a graduated set of five special measures that can be used to combat money laundering threats from abroad. Domestic financial institutions, including the U.S. operations of foreign financial institutions, comprising also their securities and futures operations, need to comply with the specific measure or measures, if the Secretary determines that a foreign jurisdiction, a foreign financial institution or even a type of international transaction or account constitutes, what is called, a primary money laundering concern.

These measures may extend from simply added reporting to the actual abandonment of accounts and can be required of domestic financial institutions broadly defined.

A final section of the Patriot Act that is already having international reverberations is the provision regarding special due diligence that is contained in section 312. This key section deserves highlighting because it calls for special due diligence on the part of all financial institutions for correspondent accounts and private banking accounts involving foreign persons. Essentially, it requires all financial institutions (again, a term that is broadly defined in the Act) to either establish or enhance due diligence procedures that are able to detect and report money laundering through these accounts for all foreign private banking customers and international correspondent accounts. Additionally, section 312 requires enhanced due diligence by financial institutions for correspondent accounts maintained for offshore banks or for foreign banks that are located in certain designated foreign countries, such as those on the Financial Action Task Force's list of non-cooperative jurisdictions in the fight against money laundering. Some of you may recall that slightly over a year ago - in January of 2001 - the departments of Treasury and State and the federal banking regulators jointly issued *Guidance on Enhanced Scrutiny for Transactions that May Involve the Proceeds of Foreign Official Corruption.* Among other things, section 312 of the Patriot Act basically reaffirms and codifies what was contained in that guidance.

Such an example of reaffirmation in the Patriot Act leads me to an important and concluding point. To anyone who had even casually followed the evolution of the concept of financial crime and ways to combat it over the last twenty years, what the Patriot Act requires of us - regulators, law enforcement and financial services providers - will be less than surprising.

Antecedents for most of the concepts that are in this law can be found in the development of generally accepted international standards, in the deliberations of various Congressional committees, in the archives of legislative reports and proposals and in many of the initiatives undertaken by law enforcement, regulators and industry. In short, what is in the Patriot Act, is, in many respects, the logical continuation of that spreading awareness of money laundering as a threat that demands a response by all who have a stake in our financial system.

Over the last twenty years, it has not been law enforcement's intent to punish or impose greater burdens on America's financial services community but rather to gradually elicit their participation and support in the common effort to ensure the integrity of our financial system. Key to that effort has been our work with the regulators of the various providers of financial services and that same key will unlock a successful implementation of the Patriot Act's many provisions. This Administration's policy on regulation has as its focus, quality regulation, with an emphasis on sound analysis to determine the best solution for all. That general policy applies here as well. Regulators play a critical role in ensuring that any new requirements are thoughtfully crafted and compatible with existing law.

I am encouraged by what we have been able to do together in the past and early and vigorous cooperation between law enforcement and regulators leaves me very optimistic for the future. So far, implementation of this new law is progressing well. Together, we are using existing resources and expertise in the government to develop creative solutions to complex issues. We have about twenty working groups for the different regulatory projects required by the Patriot Act and all concerned regulatory agencies, both inside of Treasury and outside as well, have been generous with their contributions to ensure that we meet the ambitious timeline contained in the Act. We are greatly pleased with the interagency response to getting this job done and in getting it done right.

We are also greatly encouraged by the response of the private sector, industry groups and others. On several key provisions of the law, we have not only received positive comments about the legislation but also helpful insights into implementation issues. I cannot underestimate the important value added to the implementation process when others take time to educate us on their particular industry and its practices and procedures. Any attempt to craft regulations in a vacuum is a foolhardy endeavor and we are particularly thankful for the creative and constructive suggestions from those of you who will be affected by the regulations. Such contributions allow us to identify issues early and discover solutions much more easily.

Most of the work on the various regulations needed to implement the Patriot Act should be completed by year's end and, because all parties are cooperating in this important task, we are confident of meeting our interim milestones.

Although criminals have always tried to work the proceeds of their illegal acts into the legitimate economy, money laundering as a crime in and of itself, is fairly new. Just as we are rapidly developing in our understanding of this crime and its pernicious effects - from financing criminal enterprises, enabling acts of terror and undermining the integrity of our financial system - so too are we developing a more comprehensive and effective response.

Before September 11th, I believed that we - law enforcement, regulators and the providers of financial services - were part of a much larger enterprise, namely, building a worldwide economy that works for all - not simply integrating the wealthiest industrialized states but successfully encompassing the poorer and less advantaged as well. As we go about our task of ensuring the security and integrity of the financial systems that support a new global economy, don't underestimate what we are about here. With success, we can have a world that offers all our children better prospects for development in an increasingly integrated world market. With failure, the alternative is much less promising - a global economy that turns an undifferentiating eye to the sources of capital, to the products of honest versus criminal labor.

Since September 11th, I am even more convinced of the importance of our work. The Patriot Act has accelerated many of the initiatives with which we have already been engaged. It is a concrete and bipartisan manifestation of a political will so memorably stated by President Bush in his speech before a joint session of Congress and the nation last September 20th: "...we will meet violence with patient justice, assured of the rightness of our cause and confident of the victories to come." Thank you very much.

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EMBARGOED UNTIL 12:00 P.M. EST
March 18, 2002

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

BEFORE THE
PITTSBURGH COMMUNITY INVESTMENT GROUP
9TH ANNUAL COMMUNITY BANKING AWARDS LUNCHEON

IMPROVING AND MAINTAINING FINANCIAL WELL-BEING THROUGH EXPANDING ACCESS TO FINANCIAL SERVICES

Good afternoon and thank you for this opportunity to speak before you today about an issue that is of great importance to me, the Treasury Department, and the Bush Administration – expanding consumer access to financial services. Unfortunately, due to his very busy schedule, Secretary O'Neill is unable to be with us today, but he sends his regrets and best wishes to everyone in Pittsburgh.

We should all be proud of the positive developments that have taken place in the consumer financial services market over the last decade. During the last decade, the percentage of Americans who have achieved the dream of home ownership has increased significantly. General credit availability has also increased dramatically, fueled in part by the subprime market, which serves borrowers with past credit problems. Consumer access to financial services has also increased as depository institutions have seriously responded to community concerns over a lack of access to mainstream banking services.

But as everyone in this room knows, our job is not complete. There are still many problems that need to be addressed. Too many Americans still do not have access to financial services or a relationship with a lending institution. Without access to competing financial services providers, many residents of low-income communities are stuck paying high fees and not developing the type of financial relationships that can lead to an improved standard of living. Too many Americans have also fallen victim to unscrupulous lenders in what has come to be known as predatory lending.

PO-2004

One reason that I am especially pleased to be here is that the Pittsburgh Community Reinvestment Group has been described by many as a model nonprofit community development organization. As we have considered these issues, it has become clear to us that the Federal government cannot alone provide all the solutions. The PCRG's model of forming strong relationships between neighborhood groups, financial institutions, and local political leaders, has been very successful and is proof of what can be accomplished if all parties work together. I look forward to learning more about the PCRG's community development efforts here today.

Let me now describe some of the efforts underway at the Treasury Department to improve and maintain the financial well being of all Americans through expanded access to financial services.

Improving Financial Well-Being

First, through our First Accounts program we will be funding initiatives to connect unbanked low- and moderate-income individuals to mainstream financial services. While most Americans have the comfort of keeping their money at insured depository institutions, other Americans – about one in ten families – use financial services of a different sort. They cash checks at a neighborhood storefront and pay bills in cash or with money orders. Simple and convenient perhaps, but often expensive, dangerous, and not economically productive.

Providing greater access to mainstream financial services should have a number of benefits. Greater access should increase safety and security as carrying large amounts of cash is dangerous and keeping cash at home is risky. Greater access should lower the cost of financial transactions, as the costs of financial transactions outside the banking system are relatively 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. Finally, greater access should help to build a promising future, as it is difficult to participate in the mainstream economy without a bank account.

Treasury's First Accounts initiative was launched this past December 27th with a published 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.

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. We hope to accomplish this goal through the development of financial products and services that can serve as replicable models in meeting the financial services needs of unbanked individuals. Under First Accounts, financial institutions are encouraged to create low-cost accounts for unbanked families and to help bring more ATMs to safe places in low-income communities. Additional goals include the provision of financial education to unbanked low- and moderate-income individuals to enhance the sustainability of the new financial relationships.

A wide variety of entities are eligible to apply for the grants – such as community development financial institutions, employers, financial services electronic networks, Indian tribal governments, insured credit unions, insured depository institutions, labor organizations, local governments, nonprofit organizations, and States. Some reasons often cited for individuals remaining unbanked include: a lack of low-cost account products; lack of convenient access; perception of unprofitability; an individual's prior account problems; and customer financial literacy. First Accounts attempts to involve entities that could help to overcome those problems. For example, nonprofit organizations may provide consumer education. Employers may provide convenient access. Banks may demonstrate the profitability of serving previously unbanked customers. And, credit unions might do all of the above – develop a new product, open at a convenient location, demonstrate profitability, and provide financial education.

First Accounts applicants must propose to, at a minimum, provide low-cost electronic, checking, or other types of accounts either directly (if the applicant is an insured depository) or indirectly through one or more insured depository institutions and/or insured credit unions. The NOFA, application, and FAQs (frequently asked questions) are available on our web site, www.treas.gov/firstaccounts. Applications are due March 20th, and I look forward with great enthusiasm to receiving applications for this exciting new program.

Second, we are also interested in learning more about an area that is often overlooked in discussion of the unbanked – the remittance industry. The Inter-American Development Bank estimates that Latin American immigrants living in the United States send an average of $250 to their native countries an average of eight to ten times per year. These remittances have reached a level that surpassed $20 billion last year– about one fifth of total worldwide remittances. If current growth rates are maintained, cumulative remittances could reach $300 billion by 2010.

Although remittance charges have declined in the past two years, they still appear to be relatively high. The average transfer fee and exchange rate commission to send $200 varies from approximately $15 to $26. The cost varies depending on 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 percent 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.

But this is changing. More and more traditional financial institutions and credit unions are recognizing that there is a concrete opportunity to attract a diverse consumer base by offering low cost remittance products. We encourage this participation because one important product banks and credit unions can offer that money transmitters cannot is a federally insured checking or savings account. This can lay the foundation for new customers to save and build assets, establish a banking relationship, and learn about important tools in personal finance. At the same time, the increased competition should result in lower remittance costs. 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.

Third, the Community Development Financial Institutions Fund (CDFI Fund), which is part of my office, administers a new and exciting community development initiative – the New Markets Tax Credit Program. Over the next seven years, the New Markets Tax Credit Program will provide $15 billion in tax credits to spur economic development in low-income urban and rural communities across the country. By offering a tax credit, the New Markets Program encourages private investment in underserved communities in an unprecedented manner. If investors embrace the program, it will be a significant source of fresh patient capital that will help to stimulate new industries and entrepreneurs, to diversify the local economy, and to generate new jobs in low-income communities.

New Markets Tax Credits will be widely available across the United States, in Pennsylvania, and in the Pittsburgh MSA. A remarkable 24,562 census tracts in the United States qualify for the program. That's nearly 40 percent of all census tracts, representing 36 percent of the population, or nearly 91 million people. Here, in the Pittsburgh MSA, our records show that 38 percent of the census tracts qualify for New Markets Tax Credit investments. For Pennsylvania, our records show that 34 percent of census tracts qualify for the program.

Staff has been working diligently to finalize the NOAA (Notice of Availability of Allocations) and the application process, and we anticipate a public release this spring. We encourage you to check the CDFI Fund website on a regular basis for updates regarding the New Markets program (www.cdfifund.com) and for information on becoming a Community Development Entity (CDE). Both for-profit and non-profit CDEs may apply to the Fund for an allocation of tax credits, but only a for-profit CDE is permitted to provide tax credits to its investors in exchange for stock or capital ownership. We are pleased to announce that already 186 organizations have been certified as CDEs, with 9 coming from Pennsylvania and 1 from Pittsburgh.

Maintaining Financial Well Being

Expanding access to financial services through some of the efforts I just described should contribute to improved financial well being among many low- and moderate-income individuals. However, we must also focus on maintaining the financial well being of these individuals by 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. 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. While the Administration has set forth an aggressive program for increasing home ownership opportunities, we also must focus on preserving those opportunities by keeping people in their homes and protecting them from unscrupulous lenders.

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.

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 is taking a new look at improving mortgage disclosures and considering ways to improve accountability within Federal Housing Administration loan programs.

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 and the HMDA regulations will increase the amount of information on subprime lending activities.

Third, the Justice Department and the Federal Trade Commission (FTC) have taken aggressive steps in recent years to crack down on abusive lending. The Justice and FTC have undertaken several high profile cases that could mean broad redress for many consumers. 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.

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 is increasingly building financial literacy programs into its award-making process.

There is a lot of great work being done by community groups and financial institutions to educate consumers about the mortgage process, the financial responsibilities of home ownership, and general principles of consumer finance. We applaud those efforts and hope to continue working with the financial institutions and community 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 encouraging continued debate and discussion about best practices as a means of combating predatory lending. Many key players in the prime and subprime mortgage business have implemented best practices or lending guidelines to address predatory lending. Many of these lending guidelines were developed with active participation of community 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 guidelines 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 encourage wider adoption of best practices throughout the mortgage industry. The dialogue and discussion associated with encouraging broader adoption of best practices would be useful in and of itself as the Administration formulates its views on the contents of potential Federal legislation. Such a dialogue on best practices could also prove useful in efforts to reach agreement on key features of any potential Federal legislation and might provide a helpful model for the efforts of state and local leaders in this area.

Lender best practices could 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. Community groups can play an important role by encouraging their constituents to use lenders with a responsible code of best practices or by warning their constituents about specific abusive lending practices.

I believe that wider adoption of best practices by lenders has the potential to reduce abusive lending practices and to provide real value to consumers. However, in today's mortgage market lenders are only one part of the mortgage process.

In many cases the first contact a consumer makes in the mortgage process is with a mortgage broker. Mortgage brokers serve an important function of providing borrowers with a wide array of loan products and generally increasing credit availability throughout the country.

While the majority of mortgage brokers follow responsible business practices, some abusive lending practices – such as loan flipping – are often linked to brokers. Regulation and licensing of mortgage brokers is done to varying degrees at the state level. State law enforcement and regulatory agencies need to be vigilant in monitoring mortgage brokers and enforcing existing laws, and consideration of new requirements may be necessary to ensure that a few irresponsible brokers do not damage the positive role played by mortgage brokers. However, greater enforcement may not be enough. Mortgage brokers should also consider adopting their own best practices that address their unique relationship with their customers. Lenders should also carefully monitor the performance of mortgage brokers that they do business with to ensure that those brokers are following prescribed lending guidelines and not engaging in abusive lending practices.

Another group of participants in the mortgage process that could contribute to combating predatory lending is the secondary mortgage market. The secondary mortgage market – either through the housing GSEs or Wall Street investment banks – provides a link between capital market funding and mortgage finance to consumers. While clearly these firms do not have a direct relationship to the consumer in the same way as mortgage brokers or lenders, secondary market firms do have a responsibility to ensure that the lenders to whom they provide funding adhere to high standards of professionalism and corporate citizenship. I encourage Wall Street firms, in particular, to undertake development of more formal standards of conduct for the lenders with whom they do business. It is in the reputational as well as financial interest of Wall Street firms to take steps to ensure that the mortgages they securitize are issued in accordance with sound underwriting standards and that the consumers who have received such mortgages have the ability to repay them. The number of lenders adhering to responsible best practices could be expanded significantly if the secondary mortgage market made this issue a high priority.

I would greatly appreciate the thoughts and input of the members of this organization on encouraging adoption 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 Pittsburgh Community Reinvestment Group for inviting me to speak here today.

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EMBARGOED UNTIL 11:30 A.M.
March 18, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $19,000 million to refund an estimated $23,001 million of publicly held 4-week Treasury bills maturing March 21, 2002, and to pay down approximately $4,001 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 $11,217 million of the Treasury bills maturing on March 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.

oOo

Attachment

0-2005

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED MARCH 21, 2002

March 18, 2002

Offering Amount ....$19,000 million
Public Offering ....$19,000 million
NLP Exclusion Amount ....$ 8,400 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 JQ 5
Auction date ....March 19, 2002
Issue date ....March 21, 2002
Maturity date ....April 18, 2002
Original issue date ....October 18, 2001
Currently outstanding ....$33,394 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

'OR IMMEDIATE RELEASE
'arch 18, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	March 21, 2002
Maturity Date:	June 20, 2002
CUSIP Number:	912795JZ5

High Rate: 1.840% Investment Rate 1/: 1.874% Price: 99.535

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 8.41%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 37,993,463	$ 11,428,848
Noncompetitive	1,397,103	1,397,103
FIMA (noncompetitive)	175,000	175,000
SUBTOTAL	39,565,566	13,000,951 2/
Federal Reserve	4,833,885	4,833,885
TOTAL	$ 44,399,451	$ 17,834,836

Median rate 1.820%: 50% of the amount of accepted competitive tenders tendered at or below that rate. Low rate 1.780%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

-to-Cover Ratio = 39,565,566 / 13,000,951 = 3.04

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = $1,176,181,000

PUBLIC DEBT NEWS

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

'OR IMMEDIATE RELEASE
larch 18, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	March 21, 2002
Maturity Date:	September 19, 2002
CUSIP Number:	912795LB5

High Rate: 2.070% Investment Rate 1/: 2.120% Price: 98.954

All noncompetitive and successful competitive bidders were awarded ecurities at the high rate. Tenders at the high discount rate were llotted 74.05%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 26,059,056	$ 12,016,180
Noncompetitive	983,943	983,943
FIMA (noncompetitive)	0	0
SUBTOTAL	27,042,999	13,000,123 2/
Federal Reserve	4,714,582	4,714,582
TOTAL	$ 31,757,581	$ 17,714,705

Median rate 2.055%: 50% of the amount of accepted competitive tenders s tendered at or below that rate. Low rate 2.000%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

d-to-Cover Ratio = 27,042,999 / 13,000,123 = 2.08

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = $765,464,000

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
March 18, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY, IRS CRACK DOWN ON ANOTHER ABUSIVE TAX SHELTER

The Treasury Department and the Internal Revenue Service today issued a Notice to shut down another abusive tax shelter transaction. The shelter involves the use of a loan assumption agreement to claim an inflated basis in assets acquired from another party.

"The Notice is another step in Treasury's efforts to address attempts to evade tax. This Notice warns all taxpayers that engage in the transaction that the IRS intends to challenge the asserted tax benefits," stated Treasury Assistant Secretary for Tax Policy Mark Weinberger.

The Notice informs corporate taxpayers of their obligations to disclose their participation in the transaction and informs promoters of their obligations to register the transaction and keep lists of customers that engage in the transaction.

Description of the transaction in the Notice:

In the type of transaction described in the Notice, a third party ("transferor") borrows money from a lender and uses the proceeds to purchase assets. The transferor sells a portion of the assets to a U.S. taxpayer in consideration for the taxpayer's agreement to become liable on the entire loan. The transferor agrees to pay all interest on the loan, and the taxpayer agrees to pay the principal at maturity. As a matter of economic reality, the taxpayer will bear responsibility for the repayment of the loan only to the extent of the assets it purchased from the transferor. Nevertheless, the taxpayer claims that, as a result of its assumption of liability on the entire loan, the entire principal amount of the loan is included in taxpayer's basis in the conveyed assets. The taxpayer sells the conveyed assets and claims a loss.

The text of the Notice is attached.

Other recent actions taken by the Treasury Department to address specific tax avoidance transactions include the publication of a notice warning taxpayers that the IRS will challenge transactions improperly shifting basis from one party to another, the publication of a notice announcing Treasury's intention to promulgate regulations that prevent the duplication of losses within a consolidated group, and the promulgation of final regulations on hedging transactions that prevent employers from getting full tax deferral on deferred executive compensation.

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PO-2008

Part III - Administrative, Procedural, and Miscellaneous

Tax Avoidance Using Inflated Basis

Notice 2002-21

The Internal Revenue Service and the Treasury Department have become aware of a type of transaction, described below, that is used by taxpayers to generate tax losses. This Notice alerts taxpayers and their representatives that the tax benefits purportedly generated by these transactions are not allowable for federal income tax purposes. This Notice also alerts taxpayers, their representatives, and promoters of these transactions of certain responsibilities that may arise from participating in these transactions.

FACTS

In general, the transaction involves the use of a loan assumption agreement to claim an inflated basis in assets acquired from another party. This inflated basis is claimed as a result of a transfer of assets in which a U.S. taxpayer (Taxpayer) becomes jointly and severally liable on indebtedness of the transferor of the assets (Transferor), with the indebtedness having a stated principal amount substantially in excess of the fair market value of the assets transferred. Transferor may not be subject to U.S. tax or otherwise may be indifferent to the federal income tax consequences of the transaction.

In one variation of the transaction, Transferor borrows money from a lender (Lender) on a long term basis such as 30 years (the "Loan"). The amount borrowed may be in a foreign currency. Interest is payable at regular intervals, and principal is due at maturity. The Loan may permit prepayment. The Loan is made with full recourse to Transferor.

Transferor uses the proceeds to purchase assets (the "Assets"), such as short-term deposits, government bonds, or high-grade corporate debt, which may be denominated in a foreign currency. The Assets serve as collateral for the Loan pursuant to a loan agreement. As each interest payment becomes due, the collateral is used to satisfy such payments. Upon maturity or earlier payment, the Loan is satisfied, by its terms, first from the collateral, and only then against Transferor (or Transferor and any party that has assumed the liability as a joint and several obligor) to satisfy any shortfall.

Pursuant to a separate agreement between Transferor and Taxpayer, Transferor transfers a portion of the Assets to Taxpayer in consideration for Taxpayer's agreement to pay a portion of the Loan and become jointly and severally liable to Lender as a co-obligor on the Loan. The fair market value of the Assets transferred to Taxpayer (the "Conveyed Assets") equals the present value of the Loan's principal payment at maturity, determined by using a market rate of interest. Thus, the fair market value of the Conveyed Assets is substantially less than the Loan's stated principal amount. Taxpayer provides substitute collateral for the Loan, equal in value to the Conveyed Assets. The remainder of the Assets owned by Transferor continue to serve as collateral for the Loan.

Also pursuant to the agreement between Transferor and Taxpayer, Transferor agrees to make all interest payments on the Loan, and Taxpayer agrees to pay the principal due at maturity. The co-obligors and Lender anticipate that the collateral will be substantially (if not entirely) sufficient to repay the Loan.

Taxpayer subsequently disposes of the Conveyed Assets for their fair market value. Taxpayer claims that, as a result of its assumption of joint and several liability on the Loan, the entire principal amount of the Loan is included in Taxpayer's basis in the

Conveyed Assets. As a result, Taxpayer claims a loss for federal income tax purposes in an amount equal to the excess of the stated principal amount of the Loan over the fair market value of the Conveyed Assets. If the Conveyed Assets are nonfunctional currency, Taxpayer claims an ordinary loss.

ANALYSIS

Section 1012 of the Internal Revenue Code provides that the basis of property is equal to the cost of the property. Section 1.1012-1(a) of the Income Tax Regulations defines "cost" to mean the "amount paid" for the property in cash or other property. Under general tax law principles, the amount paid for property generally includes the amount of the seller's liabilities assumed by the buyer. Commissioner v. Oxford Paper Co., 194 F.2d 190 (2d. Cir. 1952). The inclusion of liabilities in basis by a buyer, however, is predicated on the assumption that the liabilities will be paid in full by the buyer. See Commissioner v. Tufts, 461 U.S. 300, 308 (1983), 1983-1 C.B. 120, 123.

In appropriate cases, the courts have rejected attempts to assign an inflated basis to property and have limited the basis of property to its fair market value. For example, the basis of property acquired with the issuance or assumption of recourse indebtedness has been limited to the acquired property's fair market value where "a transaction is not conducted at arm's-length by two economically self-interested parties or where a transaction is based upon 'peculiar circumstances' which influence the purchaser to agree to a price in excess of the property's fair market value." Lemmen v. Commissioner, 77 T.C. 1326, 1348 (1981) (citing Bixby v. Commissioner, 58 T.C. 757, 776 (1972)); Webber v. Commissioner, T.C. Memo. 1983-633, aff'd, 790 F.2d 1463 (9th Cir. 1986). See also Majestic Securities Corp. v. Commissioner, 42 B.T.A. 698, 701 (1940), aff'd, 120 F.2d 12 (8th Cir. 1941) ("The general rule that the price paid is the basis for determining gain or loss on future disposition presupposes a normal business transaction.")

Other cases have limited the portion of an assumed indebtedness that may be taken into account for federal income tax purposes. For example, where two or more persons are liable on the same indebtedness, or hold separate properties subject to the same indebtedness, the amount taken into account for federal income tax purposes by each person generally is based on all the facts and circumstances, including the economic realities of the situation and the parties' expectations as to how the liabilities will be paid. See Maher v. United States, No. 16253-1 (W.D. Mo. 1969) (property was not in substance "subject to" liability where lender was not actually relying on property as collateral); Maher v. Commissioner, 469 F.2d 225 (8th Cir. 1972) (corporation's assumption of primary liability on shareholder's indebtedness becomes taxable dividend only as corporation makes payments as promised); Snowa v. Commissioner, T.C. Memo 1995-336, rev'd on other grounds, 123 F.3d 190 (4th Cir. 1997) (co-obligor's cost of a new residence included only her ratable share of the liability due to state law's right of contribution).

Under the facts and circumstances of the transaction described in this Notice, as a matter of economic reality, the parties will bear responsibility for repayment of the Loan in accordance with their relative ownership of the Assets immediately after the transfer from Transferor to Taxpayer. Accordingly, the Service and the Treasury believe that Taxpayer's basis in the Conveyed Assets is equal to the fair market value of such assets upon their acquisition by Taxpayer. The losses purportedly resulting from the transaction described in this Notice (or substantially similar to the transaction described in this Notice) are not allowable to the extent Taxpayer derives a tax benefit that is attributable to a basis in excess of the fair market value of the Conveyed Assets. The purported tax benefits from these transactions also may be subject to challenge under other provisions of the Code and regulations, including but not limited to § 988 and, in the case of individuals, §§ 165(c)(2) and 465.

In addition, the Service may impose penalties on participants in these transactions or, as applicable, on persons who participate in the promotion or reporting of these transactions, including the accuracy-related penalty under § 6662, the return preparer penalty under § 6694, the promoter penalty under § 6700, and the aiding and abetting penalty under § 6701.

Transactions that are the same as, or substantially similar to, the transaction described in this Notice 2002-xx are identified as "listed transactions" for the purposes of §§ 1.6011-4T(b)(2) of the Temporary Income Tax Regulations and 301.6111-2T(b)(2) of the Temporary Procedure and Administrative Regulations. See also § 301.6112-1T, A-4. It should be noted that, independent of their classification as "listed transactions" for purposes of §§ 1.6011-4T(b)(2) and 301.6111-2T(b)(2), such transactions may already be subject to the tax shelter registration and list maintenance requirements of §§ 6111 and 6112 under the regulations issued in February 2000 (§§ 301.6111-2T and 301.6112-1T, A-4), as well as the regulations issued in 1984 and amended in 1986 (§§ 301.6111-1T and 301.6112-1T, A-3). Persons required to register these tax shelters who have failed to register the shelters may be subject to the penalty under § 6707(a), and to the penalty under § 6708(a) if the requirements of § 6112 are not satisfied.

The Service and the Treasury recognize that some taxpayers may have filed tax returns taking the position that they were entitled to the purported tax benefits of the type of transaction described in this Notice. These taxpayers are advised to take prompt action to file amended returns.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
March 19, 2002

Contact: Public Affairs
(202) 622-2960

MEDIA ADVISORY:
TREASURY AND IRS UNVEIL ENFORCEMENT PROPOSALS TO CURB ABUSIVE TAX AVOIDANCE TRANSACTIONS

Treasury Assistant Secretary for Tax Policy Mark Weinberger and Internal Revenue Service Commissioner Charles O. Rossotti will hold a press briefing on Treasury's Enforcement Proposals to curb abusive tax avoidance transactions at 1:30 p.m. EST on Wednesday, March 20, 2002 in the Treasury Department's Diplomatic Reception Room (Room 3311), 1500 Pennsylvania Avenue, NW.

The Room will be available for pre-set at 12:30 p.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 faxed to (202) 622-1999.

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PO-2009

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:00 P.M. EST
March 19, 2002

Contact: Michele Davis
(202) 622-2920

TREASURY SECRETARY PAUL H. O'NEILL TESTIMONY BEFORE THE SENATE APPROPRIATIONS SUBCOMMITTEE ON FOREIGN OPERATIONS, EXPORT FINANCING AND RELATED PROGRAMS

Chairman Leahy, Ranking Member McConnell, Members of the Subcommittee, thank you for the opportunity to testify today about the President Bush's FY2003 budget request for Treasury's international programs.

Let me begin by underscoring the emphasis that President Bush places on economic development as a central commitment of American foreign policy. The United States should and must be a champion of economic growth and development, particularly in those parts of the world where poverty is most acute. In today's world, in many nations and regions, extreme poverty is widespread and deep and exacts an enormous human toll. If we care about simple human dignity, we must act to help raise living standards for the poorest. As President Bush stated last week in a speech at the Inter-American Development Bank:

> "This growing divide between wealth and poverty, between opportunity and misery, is both a challenge to our compassion and a source of instability. "

The President has called for a new compact for global development, defined by new accountability for both rich and poor nations alike with greater contributions from developed nations linked to greater responsibility from developing nations. The President's proposal recognizes that sound policies have universal application and that development partnerships can only be effective if rooted in a good policy framework. For this reason, the adoption by poor countries of the reforms and policies that make development effective and lasting is integral to the President's proposed new Millennium Challenge Account. The concept underlying the Account is clear, that countries that rule justly, invest in their people, and encourage economic freedom will receive more assistance from the United States.

The Administration looks forward to working closely with the Congress as we move to operationalize the Millennium Challenge Account.

PO-2010

The MDBs are also important instruments in helping us pursue growth and prosperity in the global economy. They serve vital interests of the United States, and are crucial and integral components of our overall foreign assistance effort. U.S. foreign assistance programs, including assistance through multilateral development banks, are important for advancing American foreign policy. The more our assistance aids in economic development, the greater countries' ability to engage in mutually beneficial trade with Americans, the greater the chances for democratic values to take root, and the greater the chances for government and social institutions to develop stability. The crucial importance of laying the foundation for hope and opportunity has only been underscored by recent events. As the President has said, when governments fail to meet the most basic needs of their people, these failed states can become havens for terror.

This year's request totals $1.4 billion. It includes $1.26 billion in funding for our annual commitments to the Multilateral Development Banks (MDBs), $178 million towards clearing our arrears to these institutions over a three-year period, and $10 million for international technical assistance programs.

I take very seriously my responsibility to ensure that U.S. taxpayer resources provided to the MDBs are effective in achieving significant and sustainable improvements in the daily lives of the people living in developing countries. I am convinced that the MDBs can do a better job, and it has been a high priority from the beginning of the Bush Administration to improve their performance. Our message is beginning to take hold, but there is much work to be done to accomplish our objective.

The MDB Growth Agenda

There is 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 required to encourage individual enterprise. These include the rule of law, enforceable contracts, stable and transparent government, and a serious commitment to eliminate corruption. Countries also need to provide individuals with health, knowledge, and the skills they need to participate in and contribute to economic activity. External assistance can only help if the right fundamentals are in place to harness this great human potential.

Job-creating productivity growth is the driving force behind rising per capita income and reduced poverty, and we have been pressing the MDBs to focus on projects and programs that raise productivity. This includes operations that would improve health and education; promote private enterprise; enhance the rule of law, effective public expenditure management, accountability and anti-corruption; and open economies by strengthening trade capacities and investment environments.

As a result of our efforts, productivity and private sector job creation are receiving greater emphasis in the debate on MDB policies within the institutions and among other shareholders. We will continue working actively to ensure they become a hallmark of actual operations.

We are also pressing all the MDBs to measure results. It is not enough to say that the MDBs are increasing funding for education, for example. We also need to know whether that increase is leading to measurable results, such as better reading and writing skills. For the first time, in the current IDA replenishment negotiations, the U.S. will provide supplementary funding conditioned on measurable results in areas crucial to economic growth and poverty reduction. My goal is to ensure that the successes and failures of the past 50 years guide and improve development efforts in the future.

President Bush has also proposed that a higher percentage of the World Bank and other MDB funds for the poorest countries be provided as grants rather than loans. This proposal is an important part of our MDB growth agenda because grants are the best way to help poor countries make productive investments without saddling them with ever-larger debt burdens. It thus also will help avoid the need for future HIPC debt relief. The fact is that investments in crucial social sectors, such as education and health, do not directly or sufficiently generate the revenue needed to service new debt.

I am happy to say that the new IDA-13 and African Development Fund negotiations are likely to have larger shares going to grants, but there is still disagreement on how much. It is important to reach an agreement on grants that will facilitate closure on these important replenishments.

Private sector development is essential for economic development and growth. Without a transparent economic environment based on the rule of law, private investment simply will not happen. Opaque regulatory and legal environments create insurmountable barriers to entry for new firms, which are the lifeblood of a thriving market economy.

We believe the MDBs can do more to promote and develop investment climates that will attract needed private capital. The MDBs could provide practical investment climate assessments, for example. On the basis of such assessments, technical assistance, project finance and small-business loans could be channeled more effectively to countries committed to policy and regulatory changes that will create conditions that sustain robust levels of private-sector investment, productivity growth, and income generation.

The FY 2003 Request

The Administration's FY 2003 budget request of $1,447 million for Treasury's international programs reflects these development priorities, thus projecting U.S. leadership and complementing our efforts to strengthen the effectiveness of the MDBs. Funding of this request also will help enable the MDBs to address critical development issues in key regions of importance to the United States: supporting key countries in the war on terrorism; combating money-laundering and terrorist financing; providing assistance to countries emerging from conflict; and responding to natural disasters.

There are three basic components to this request: annual funding for the MDBs, arrears clearance, and Treasury's bilateral technical assistance program.

1. Annual Funding for the MDBs ($1,259.4 million)

Our request for the MDBs includes $1,259.4 million to fund fully our current annual U.S. commitments. This includes the first payments of our proposed contributions to new replenishments for the International Development Association ($850 million), the African Development Fund ($118 million) and the Global Environment Facility ($107.5 million). Negotiations for all three replenishments are ongoing.

For the International Development Association (IDA), the U.S. is proposing for the first time a results-based financing framework. The U.S. would provide $850 million in FY 2003, $950 million in FY 2004 and $1,050 million in FY 2005, with amounts over $850 million subject to the achievement of measurable results in areas such as health, education and private-sector development, for example. This amounts to a total of $2,850 million, or 18 percent above the U.S. commitment to the last IDA replenishment.

We are also proposing an 18 percent increase in funding for the African Development Fund (AfDF), a total of $354 million over three years. For the GEF, the U.S. is proposing to contribute a total of $430 million over four years.

2. Arrears ($178 million)

The $177.7 million request for arrears would be applied to all MDB arrears on a pro rata basis, and is part of a three-year plan to fully pay U.S. arrears to the institutions, which now total $533 million, including $211 million in arrears to the GEF. Arrears have now risen for the third consecutive year, after declining substantially from 1996 to 1999. It is critical that the U.S. meet its international commitments, and I look forward to working with the Congress to pay down these arrears over the next three years, thus helping to ensure U.S. leadership and credibility on global issues of vital importance to the United States.

3. Technical Assistance ($10 million)

Our request also includes $10 million for Treasury technical assistance programs, which form an important part of our effort to support countries facing economic transition or security issues, and whose governments are committed to fundamental reforms. This compares to $6.5 million in FY 2002 appropriations and $3 million in the budget supplemental for programs specifically designed to combat terrorism. Treasury's technical assistance programs were created in 1990 and 1991 to assist countries in the Former Soviet Union and Central and Eastern Europe. Beginning in FY 1999, a direct Congressional appropriation allowed us to expand the program selectively and effectively. Our FY 2003 request will allow us to continue current programs in countries in Africa, Asia, Central and South America and to expand into other countries committed to sound economic reform policies. We expect to spend a significant amount on anti-terrorist programs. Over half of the traditional programs will be in Sub-Saharan Africa, as has been the case for the past two years. The anti-terrorist programs will be global in scope, with an emphasis on a group of about 20 countries that the Administration has identified as having financial systems vulnerable to misuse by terrorist organizations.

Legislative mandates

There is one final issue that I want to highlight. I am determined to enable the Treasury Department to fulfill its mission to develop and implement our international economic policy. Currently, the Administration is burdened by 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 these institutions would be improved by 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 modifications. 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 reports and requirements.

Conclusion

I will continue to work hard with MDB managements and with other shareholders to ensure vigorous and effective implementation of the U.S. reform agenda. I ask for your support as we work together to ensure that these institutions are more effective in achieving real results that promote economic growth and productivity, improve the living standards of people in developing countries, and advance American interests.

Thank you very much, and I will be pleased to respond to your questions and suggestions.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
FEBRUARY 9, 2002

CONTACT: PUBLIC AFFAIRS
(202) 622-2960

Statement of G-7 Finance Ministers and Central Bank Governors

We met last night and today to discuss the global economy, the importance of fostering development and our ongoing efforts to combat the financing of terrorism.

In October 2001, we released an Action Plan to Combat the Financing of Terrorism. Our commitment to this objective remains resolute and the international community has demonstrated its strong support. While we have made significant progress, further action is required, as set out in the attached annex.

Since we last met, prospects have generally strengthened for resumed expansion in our economies, although risks remain. We remain vigilant and will each continue to take appropriate steps to promote a strong and sustained recovery. We will continue to monitor exchange markets closely and cooperate as appropriate. We welcome the successful introduction of euro notes and coins.

Emerging market economies currently face mixed economic and financial market conditions. They should continue to implement policies conducive to investment and economic growth. We welcome as steps in the right direction recent announcements by Argentine authorities. We encourage them to continue to work closely with the International Monetary Fund (IMF) and the international community on a financially and socially sustainable economic reform program that will enhance prospects for growth and future foreign investment.

Recent events have highlighted the importance of an improved, predictable and fair framework, involving the private sector, to prevent and resolve international financial crises. We are committed to playing a leading role in improving this framework and will review progress at our next meeting. In this regard, we welcome the IMF management's proposal on sovereign debt restructuring as a useful contribution that addresses some of the legal and practical obstacles to timely and orderly debt restructuring.

We recognize the difficult challenges that the world's poorest countries face in reducing poverty and raising living standards. We explored ways to enable all countries to benefit more from greater global economic integration. We will continue to work with other donors to resolve outstanding issues on the 13th replenishment of the International Development Association, in order to ensure that additional resources for development are made available.

We underlined the need for more effective use of development assistance and a commitment to sound policies, good governance and the rule of law by all countries. We had a productive discussion of development policy issues, including possible innovative ways to mobilize additional domestic and external resources, trade and external debt, and look forward to continued discussions at the UN Financing for Development conference in Monterrey in March.

We welcomed Russia's strong growth and significant structural reforms, and encourage further progress in strengthening the financial sector, improving corporate governance and the investment climate, and combating terrorist financing. We agreed on the importance of Russia's early accession to the World Trade Organization (WTO).

PO-2011

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 9, 2002

Contact: Public Affairs
(202) 622-2960

Action Plan: Progress Report on Combating the Financing of Terrorism

G-7 countries have been joined by over 200 other countries and jurisdictions in expressing support for the fight against terrorist financing. Our October 2001 Action Plan to Combat the Financing of Terrorism contributed to this international effort by setting out clear priorities: vigorous application of international sanctions, including the freezing of terrorist assets; rapid development and implementation of international standards; increased information sharing among countries; and enhanced efforts by financial supervisors to guard against the abuse of the financial sector by terrorists.

Significant results have already been achieved. Since September 11, almost 150 countries and jurisdictions have issued orders to freeze terrorist assets, and over $US 100 million has been frozen worldwide. Each G7 country is implementing UN Security Council Resolution 1373 and has signed and is committed to ratifying the UN Convention for the Suppression of the Financing of Terrorism. The Financial Action Task Force (FATF) has agreed to a set of Special Recommendations on Terrorist Financing and is implementing a comprehensive action plan encouraging all countries to adopt them. All G-7 countries have established or are in the process of establishing Financial Intelligence Units (FIUs) that will facilitate the sharing of information on money laundering and terrorist financing. We have also all established mechanisms to share information relating to the tracking of terrorist assets.

Continued success requires even closer cooperation and an intensified commitment. We now set forth the following steps to further advance the global fight against terrorist financing.

To enhance international coordination in the freezing of terrorist assets, we will develop a mutual understanding of the information requirements and the procedures that different countries can use to undertake freezing actions. We will also develop key principles regarding the information to be shared, the procedures for sharing it, and the protection of sensitive information. We will also work with other countries to identify jointly terrorists whose assets would be subject to freezing. We will continue to review our institutional structures to ensure that they facilitate the international flow of information necessary to identify, track, and stop the flow of terrorist funds. In this regard, we support the Egmont Group's work on improved information flow among FIUs.

The G-7 are committed to fully implementing by June 2002 the FATF standards against terrorist financing. We urge all countries to accept the FATF's invitation to take part in a self-assessment and to commit to the rapid implementation of the standards. We look to the FATF, IMF and the World Bank to quickly complete their collaborative work on a framework for assessing compliance with international standards, including all FATF recommendations, against money laundering and terrorist financing. We urge all countries that have not done so by February 1, 2002, to implement the measures set out in the November 2001 Communiqué of the International Monetary and Financial Committee of the IMF, and look forward to the IMF's report to the spring meeting of the Committee on all issues raised by the Communiqué. We urge the Basle Committee on Banking Supervision to review its enhanced customer due diligence standards for banks to ensure that they address terrorist financing, and the Financial Stability Forum to review its role in combating terrorist financing, including in relation to offshore financial centres.

PO-2012

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
March 19, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	March 21, 2002
Maturity Date:	April 18, 2002
CUSIP Number:	912795JQ5

High Rate: 1.780% Investment Rate 1/: 1.801% Price: 99.862

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 75.08%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 33,289,278	$ 18,979,058
Noncompetitive	21,071	21,071
FIMA (noncompetitive)	0	0
SUBTOTAL	33,310,349	19,000,129
Federal Reserve	1,668,961	1,668,961
TOTAL	$ 34,979,310	$ 20,669,090

Median rate 1.760%: 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 = 33,310,349 / 19,000,129 = 1.75

1/ Equivalent coupon-issue yield.

http://www.publicdebt.treas.gov

PO-2013

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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U.S. International Reserve Position 03/21/02

The Treasury Department today released U.S. reserve assets data for the week ending March 15 , 2002. As indicated in this table, U.S. reserve assets totaled $68,266 million on that date, compared to $68,232 million at the end of the prior week.

'n US millions)

Official U.S. Reserve Assets	March 8, 2002			March 15, 2002		
TOTAL	68,232			68,266		
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
. Foreign Currency Reserves [1]						
a. Securities	5,400	10,631	16,031	5,445	9,706	15,150
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	9,128	4,101	13,228	9,208	4,924	14,132
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]			17,165			*17,143*
Special Drawing Rights (SDRs) [2]			10,763			*10,796*
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 SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and leposits 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 ollar terms at the official SDR/dollar exchange rate for the reporting date. The entries in the table above for latest week (shown in italics) eflect any necessary adjustments, including revaluation, by the U.S. Treasury to the prior week's IMF data. The IMF data for the prior week re final.

/ 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 'as $11,045 million.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
March 20, 2002

Contact: Betsy Holahan
202-622-2960

STATEMENT OF PETER R. FISHER
UNDER SECRETARY OF THE TREASURY FOR DOMESTIC FINANCE
BEFORE THE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

Thank you, Chairman Oxley and Ranking Member LaFalce, for the opportunity to testify this morning before your committee on reforming corporate disclosure. The President and Secretary O'Neill are emphatic about the need for change.

I would like to describe first the underlying problems in corporate disclosure and second the President's plan for resolving them.

The Administration wants to work closely with Congress and the Securities and Exchange Commission to achieve the objectives spelled out in the President's 10-point plan. Looking at all the proposals now circulating, while there are still some important unresolved issues, there are also a number of areas of broad agreement. I would like to highlight some of both in my testimony this morning. Let me say at the outset that the bill that most closely parallels the President's plan is the Chairman's and Representative Baker's bill, H.R. 3763, the Corporate and Auditing Accountability, Responsibility, and Transparency Act of 2002.

The underlying problem

The United States enjoys the deepest, most liquid, and most transparent capital markets in the world. Over the past few months, however, we have learned once again not to take the performance of our capital markets for granted. For investors to price risk properly and to allocate capital to the most promising firms, they must have access to reliable information. Nothing could be more important for the long-run health of our economy and for investor protection.

The quality of corporate disclosures has not kept pace with the growing complexity of corporate finance for at least a decade. While our capital markets have been racing along at 100 r.p.m., our accounting and corporate disclosure regime has been crawling along at 10 r.p.m. The gap has just kept widening.

PO-2015

I am particularly pleased to be here today because for almost 10 years I have been watching this gap grow and endeavoring to close it. In 1994, I joined with other G-10 central bankers to try to update bank disclosures to reflect evolving corporate finance and risk management. I did the same in 1999, that time also with banking, securities, and insurance regulators. Both committees came up with good ideas but not much happened. It is exciting for me to have the opportunity to work with Secretary O'Neill and the President on these issues, and to see this Committee and Chairman Pitt focused on the same problems.

What is driving this gap? The true culprit is an ethic in boardrooms and auditing firms that too often equates GAAP compliance with adequate disclosure. This ethic sets the bar too low. It encourages corporate executives to prepare, and auditors to certify, financial statements that may meet the technical requirements of GAAP but fail to provide investors with a realistic picture of a firm's condition. For our corporate disclosure regime to work, a company's CEO and its auditors must be made accountable for disclosing the information that a reasonable investor would find necessary to assess the company's value (excepting competitive secrets).

The President's plan to restore corporate accountability

The President's 10-point plan is guided by three core principles: first, providing better information to investors; second, making corporate officers more accountable; and, third, developing a stronger, more independent accounting and auditing system.

As the President made clear, and as the Securities and Exchange Commission has recently re-affirmed, mere compliance with GAAP is not enough. Each investor should have access to a true and fair picture of the company, in plain English, and should be promptly informed of critical events that affect the condition of the company. By forcing companies to stop hiding behind technical GAAP compliance and demanding additional disclosure – by re-clarifying what satisfies the law – the President's proposals would raise the bar for what constitutes adequate disclosure.

President Bush directed our attention to CEOs because "reform should start at the top." We believe that CEOs should personally vouch for the veracity, timeliness, and fairness of their companies' public disclosures, including their financial statements. If a CEO or other corporate officer is guilty of misconduct that caused financial restatements, the SEC should force him or her to give back any compensation gained thereby. If corporate leaders abuse their power, the SEC should deny them the right to serve as a director or officer of a public company. And corporate leaders should have to tell investors within two days whenever they buy or sell the company's stock for personal gain.

What about catching those guilty of fraud? The President has urged the SEC to step up its enforcement against securities fraud. We think existing legal standards are sufficient for this task. Neither the President nor anyone else on his economic team thinks more private litigation would improve corporate disclosure.

Finally, the President believes that we need a stronger and more independent auditing and accounting system. To do this, we need a new, independent private-sector regulatory board, under the SEC's supervision, to develop standards of professional conduct and competence. In addition, the SEC needs to exercise more effective and broader oversight of FASB to ensure that accounting standards are issued more promptly and are more responsive to the needs of investors.

The efficiency of our capital markets rests in part on investors' relying on the independent judgment of outside auditors. The President is committed to bolstering that independence. He is also committed to doing so in measured ways that avoid perverse or unintended consequences.

A strong defense for investors is an active, informed audit committee, and so the President would urge making audit committees more accountable. The President has proposed that the SEC issue new guidelines for audit committees to use in deciding whether a non-auditing service would compromise an auditor's integrity. Audit committees would also report their choice of auditor directly to the shareholders. And the President encourages the SEC to prohibit outside auditors from providing internal audit services to the same client. This would eliminate the largest obstacle to auditor independence.

The President does not support a statutory mandate to rotate outside auditors. A rigid rule like this would impose unwarranted costs on companies and investors. For an outside auditor, just understanding the intricacies of a client's business – like mortgage-backed securities – can take a long time. So does learning about a company's people, processes, and problems. This deep knowledge is in fact the key to effectively reviewing a company's books. It is also why companies often hire auditors to deliver other services such as tax consulting. A rigid rotation rule would erase that intellectual capital every X years, no matter the circumstances. It might also undermine auditor effectiveness by periodically re-establishing auditor ignorance.

Imagine that to stamp out Medicare fraud, the Federal government required all patients to rotate doctors every few years. While this might reduce the risk of financial abuses in some cases, I think most Americans would think this an excessive intrusion into their own judgment about whom they want for a doctor, and an unjustified impairment of their physicians' ability to care for them. The analogy may be imperfect, but the logic is really the same for mandatory rotation of auditors.

Individual companies are of course free to *choose* to rotate. We hope that companies and their auditors will always aspire to best practices, not just avoid breaking the law. If an audit committee judges that in its company's specific circumstances, rotation makes sense, we would applaud. For the same reasons, we would discourage rigid bans on audit firms providing any non-audit services to the same client. As I noted above, the President does favor the SEC's banning combined internal/outside auditing.

The reform agenda I've just outlined focuses on government's role. We can raise the legal minimums that public companies' senior executives must meet.

But in a society committed to democracy and freedom of choice, government should not be the only source for setting behavioral norms for CEOs. Legal minimums enforced by fines and penalties will only take us so far. Going beyond that – to ever-improving best practices, more efficient financial markets, stricter ethics for our corporate leaders – is a job for the business community itself.

Required legislation

As I canvass the major bills offered here in the House and in the Senate, I am heartened that we will find a number of spots of convergence. We all want to serve the same goals of better corporate disclosure and improved investor protection. And we all know our corporate disclosure regime is the best in the world, even while we strive to improve it.

The thoughtful bill that you, Mr. Chairman, and Representative Baker have offered is the clearest example of the common ground I see. You have called for a public regulatory organization to police the audit profession that closely resembles the President's proposal, as does your call for real-time disclosure of critical events and insider sales. You would press for fuller disclosure beyond GAAP's limits, such as off-balance sheet items and related-party transactions.

I think we will find common ground on where we will need legislation and where new SEC regulations will suffice. The 1933 and 1934 Acts provide the SEC with tremendous power and flexibility to implement the President's reforms, especially given the substantial consensus between his proposals and the major bills in Congress. If the SEC requires additional resources, the President has said he is open to working with Congress to address that need. And we may find there are specific areas – perhaps the need for a self-regulating organization to police the auditing profession – where legislation may be a useful complement to regulatory action.

One area where the SEC will need new legislative authority is to enable it to administratively bar wrongdoers from positions of corporate trust. Under current law, the SEC must first go to court to bar a director or officer guilty of serious misconduct from serving in such a position again in a public company. The President would urge you to empower the SEC to do so through administrative proceedings (preserving a right of appeal to the courts) – a power much like bank regulators have for bank executives.

We look forward to working with this Committee to find common ground and strengthen our capital markets. I am happy to try and answer any questions you may have.

Thank you.

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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

**REMARKS BY
THE HONORABLE SHEILA C. BAIR
ASSISTANT SECRETARY OF THE TREASURY
FOR FINANCIAL INSTITUTIONS**

**BEFORE THE
AMERICAN CONFERENCE INSTITUTE
REINSURANCE: GLOBAL SOLUTIONS AND OPPORTUNITIES CONFERENCE**

TERRORISM RISK INSURANCE

Good afternoon and thank you for inviting me to speak today on an economic issue of great importance to our country – the continued provision of insurance for terrorism risk.

As you know, the Administration has been a strong proponent of a Federal backstop for terrorism insurance. Secretary O'Neill provided an outline of the Administration's proposal in testimony before the House and the Senate last fall. The House passed legislation that would have provided a Federal backstop for terrorism insurance in late November. We worked closely with a number of Senators on terrorism insurance legislation, but unfortunately the Senate did not act before adjourning in December.

Part of the motivation for enacting terrorism insurance legislation last fall was that the majority of reinsurance contracts were coming up for renewal on January 1. Reinsurers had made clear that they were no longer going to cover terrorism risk or that the cost of limited terrorism coverage would be very expensive. Without access to reinsurance coverage, primary insurance companies would be subject to the full exposure of terrorism risk. In response, state insurance commissioners in 47 states (with the exception of New York, California, and Georgia) have permitted terrorism coverage exclusions in commercial lines. While the state-level terrorism coverage exclusion is fairly broad, most states do not allow an exclusion from fire damage following a terrorist attack and all states require terrorism coverage be included in workers' compensation insurance. Mandatory terrorism coverage requirements along with other factors have resulted in some insurers exiting the workers' compensation market.

PO-2016

As January 1 passed without any dramatic disruption in economic activity, it appears that some members of Congress have concluded that the lack of insurance coverage for terrorism is no longer a pressing issue. The Administration disagrees with this assessment and continues to support enactment of a Federal backstop for terrorism insurance.

Documenting the extent of the problem is difficult. Many businesses and property owners are hesitant about highlighting the fact that they have inadequate insurance coverage. But as Treasury Deputy Assistant Secretary Warshawsky and the GAO recently testified, problems in insurance markets are having a negative impact on economic activity. It is clear to us that many commercial property owners and business owners are unable to find coverage for terrorism risk or are paying very high rates for limited coverage. In some instances, the cost of a policy with limited terrorism coverage is reported to be roughly double the cost of a policy without terrorism coverage. We also have heard of cases where separate limited coverage for terrorism risk costs more than twice the premium for insurance coverage for all other risks.

Such widespread dislocations in insurance markets are starting to have an impact on businesses' ability to finance economic activity. Reports to us indicate that financing is limited for new construction and/or acquisition of high-profile properties that are inadequately insured and thought to be at higher risk of terrorist attack. 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.

The impact on existing financial arrangements and structures for financing commercial mortgages 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 that are collateralized by properties having inadequate insurance coverage. They are also in the process of establishing risk criteria that would lead to the downgrading of securities collateralized by properties that are inadequately insured and thought to be at an elevated risk of attack.

The combination of higher insurance costs and higher financing costs associated with inadequate insurance coverage has the real potential to reduce economic activity. These effects will not likely dissipate in near future. More reinsurance treaties will come up for renewal. More primary insurance contracts will come up for renewal. And investors will more seriously evaluate their risk exposure to terrorism if it becomes clear that Congress will not take action.

Lack of Federal action on terrorism insurance, in addition to placing a drag upon our economic recovery, paralyzes private sector initiatives to address terrorism risk. The lack of firm government action, one way or another, is itself costly as insurers, financiers, and businesses wait to see what if any new institutions the government might set up before going forward with new plans to address terrorism risk.

Finally, there is a real concern about the potential costs to the Federal government and the economy in the event of another attack if no backstop is place. Private insurance covered a significant percentage of losses arising from the September 11 attacks in an efficient and timely manner. 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 the recovery.

We must continue to clearly make the case to Congress that Federal inaction on terrorism insurance is causing economic disruptions that need to be addressed now. Perhaps even more importantly, Congress needs to consider the adverse economic consequences that could ensue in the event of a future terrorist event, given the unavailability of terrorism coverage, particularly for properties viewed as potential targets. A federal terrorism insurance program is an essential part of our nation's defenses against this insidious new threat. We stand ready to engage in negotiations with the House and Senate to develop consensus legislation that can be signed into law.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:00 P.M. EST
March 20, 2002

CONTACT: BETSY HOLHAN
202-622-2960

**Statement of
Treasury Assistant Secretary For Financial Markets Brian C. Roseboro
Before the
House Committee on Appropriations
Subcommittee on Treasury, Postal and General Government**

Good afternoon Chairman Istook, Mr. Hoyer, and distinguished members of the Subcommittee. I am pleased to be here today to discuss Treasury's Debt Management approach and direction.

Debt Management

Simply put, the objective of Treasury debt management is to meet the financing needs of the federal government at the lowest cost over time.

However, achieving this straightforward objective is subject to multiple constraints. The dominant constraint that we confront in achieving this objective is that we see the future only imperfectly. We are always making decisions in conditions of uncertainty. As a consequence, debt management necessarily involves three judgments: first, what will be the likely size and duration of our borrowing needs, second, how should we respond if actual needs differ substantially from expectations and, third, what will be the lowest cost means of financing those needs in the future. We cannot escape these three issues. We face them in our weekly financing decisions, in our quarterly refundings, and in our strategic planning.

Further, the Treasury's continuing commitment to a schedule of regular and predictable auctions of marketable bill and note dates is a means, over time, to the end or objective of the lowest cost borrowing. In the short run, however, this commitment serves as a constraint: with regular and predictable auction dates we accept the cost of occasionally borrowing when it is inconvenient or expensive in return for the lower costs, over time, from providing greater certainty to the Treasury market.

PO-2017

Conceptually, there is another constraint. We believe the availability of the full faith and credit of the United States, as a savings vehicle should not be limited only to those who can afford the minimum one-thousand dollar denominations available in our auctions of marketable securities. Thus, we will continue to offer savings bonds even though they are not the most efficient form of borrowing in operational terms. But, again, we will seek to minimize the cost of this constraint on our objective by supporting the Bureau Public Debt's ongoing efforts to improve efficiency.

Balanced Marketing of all Treasury Securities

Successfully achieving our debt management objective requires us to strive to create the broadest possible primary market for all Treasury securities that technology and our imaginations will allow. One critical dimension of creating this broad primary market is a balanced marketing effort for all our securities. The other is the technology that is making the distinctions between wholesale and retail borrowing increasingly arbitrary. We will use technology to move as many investors large and small to directly access our securities over the Internet.

Let me illustrate how we are using balanced marketing by describing a challenge Under Secretary Fisher gave to the Bureau of the Public Debt. He recently challenged Commissioner Zeck to increase direct competitive bidding in our auctions. Currently, most of the dollars bid in our auctions come through a small number of the largest dealers. The dealers bid for their own account and for customers. We are actively seeking new institutional bidders in our auctions by marketing Public Debt's new TAAPSLink Internet site.

Public Debt is well positioned to take up the twin challenges of using technology to move as many investors in all our securities to direct Internet access and market the full range of securities to the public.

The Bureau has a solid track record of innovation in creating direct access for investors. For example, individuals and other holders in our *TreasuryDirect* system have had an Internet or other electronic channel available to them for several years to purchase or reinvest in marketable issues. Individual investors can now buy Series EE and Series I bonds at Public Debt's Savings Bonds Direct website at their pleasure.

At the same time, Public Debt is already shifting its marketing emphasis from a heavy focus on the savings bond component, of our financing mix, to effectively market **all the securities** we offer to the public.

Savings Bonds

I know the Committee is interested in the level of operational resources it takes to operate the savings bond program. I think it worthwhile to make an observation or two about the program.

First, as Treasury's debt manager I have to look at the total cost of borrowing and the total cost of borrowing from any type of security includes administrative costs and more importantly interest costs. When you take both into account, the savings bonds program, though less efficient as a borrowing tool in today's capital markets, actually is a slightly more cost-effective way to borrow, over time, than market borrowing. Savings bonds are part of our borrowing mix, and currently finance $190 billion of our debt. Commissioner Zeck will discuss in greater detail the way we evaluate the costs of the savings bond program.

I would very much like to transform our savings bond program and move it immediately into the future. However, we have the legacy of more than 60 years of issuing savings bonds, which requires a commitment of customer service. "*A promise made is a promise kept*" and we must honor our obligation to the **more than 50 million existing savings bond holders**. This commitment requires a significant administrative infrastructure.

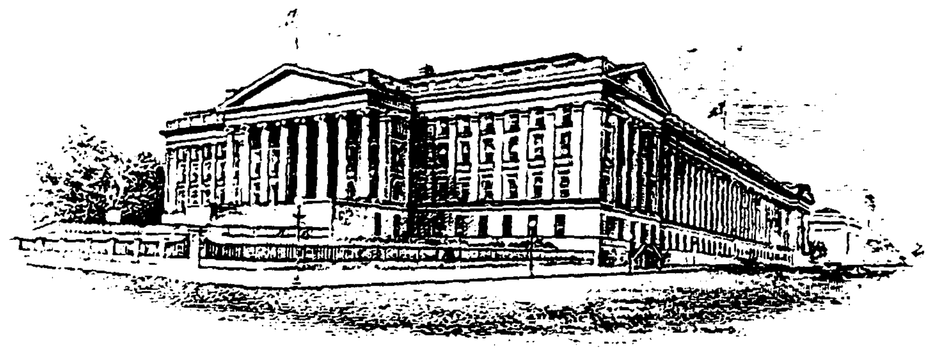
While we may be constrained somewhat by the legacy costs associated with servicing small denomination securities issued in physical form, we are moving new savings bonds into the future. The economies of the Internet are making it not only possible but also desirable to begin offering savings securities in accounts directly with the Treasury rather than issuing millions of paper certificates. Work is now underway to make this a reality, later this year, by offering the Series I bond in a new Internet based system.

Conclusion

To achieve our primary objective of the lowest borrowing costs within the constraints we have, we want to maintain a pattern of regular and predictable issuance of as broad a portfolio of instruments as is consistent with (a) our best projections of likely borrowing requirements and (b) our ability to respond if those projections are not realized, and (c) our current understanding of what will provide the lowest borrowing cost over time.

We will support our primary objective with efforts to move as many investors as we can toward direct electronic access to all Treasury securities and we will continue our ongoing efforts to improve efficiency and reduce costs. Effective, balanced marketing of all our securities is critical to educating the public about the variety and benefits of Treasury securities. Finally, we will keep our promise to millions of investors who rely on the safety and security of Treasuries by continuing to offer the high-quality customer service they expect and deserve.

70-2018



DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

For Immediate Release
March 20, 2002

Contact: Tara Bradshaw
(202) 622-6014

TREASURY'S PLAN TO COMBAT ABUSIVE TAX AVOIDANCE TRANSACTIONS

STATEMENT BY
TREASURY SECRETARY PAUL O'NEILL

STATEMENT BY
INTERNAL REVENUE SERVICE COMMISSIONER CHARLES O. ROSSOTTI

STATEMENT BY
TREASURY ASSISTANT SECRETARY FOR TAX POLICY MARK WEINBERGER

HIGHLIGHTS OF
TREASURY'S PLAN TO COMBAT ABUSIVE TAX AVOIDANCE TRANSACTIONS

COMPLETE PROPOSAL
TREASURY'S PLAN TO COMBAT ABUSIVE TAX AVOIDANCE TRANSACTIONS
(Includes Executive Summary and Penalties Chart)

DEPARTMENT OF THE TREASURY

OFFICE OF PUBLIC AFFAIRS

For Immediate Release
March 20, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY SECRETARY PAUL O'NEILL STATEMENT ON TREASURY'S PLAN TO COMBAT ABUSIVE TAX AVOIDANCE TRANSACTIONS

Today, the Treasury Department is introducing new proposals to combat abusive tax avoidance. These proposals will increase transparency and disclosure of transactions that take advantage of complexities in the tax code. They will better allow the Internal Revenue Service to enforce our tax laws and the Treasury to identify anomalies in the tax law requiring correction.

The complexity of our tax code has created opportunities for abuse. These proposals will help us find and stop unscrupulous promoters who are marketing questionable transactions to taxpayers.

Our tax code is so complex it sometimes seems to be a secret code—a cipher. Even the well-intentioned may run afoul of its baffling provisions. This complexity creates two dangers. The first is that people will simply throw up their hands in frustration instead of paying. But the second and worse danger is that it leads some innovative thinkers to find and exploit loopholes. These tax avoidance strategies deliberately violate the spirit of our laws and are unfair to the vast majority of taxpayers, who do their best to comply with the code.

The search for loopholes diverts creativity and resources away from productive investments in our economy and reduces our economic potential. Taxpayers spend as much as $125 billion each year complying with the tax code. The cost of those lawyers and accountants adds to the price of every product, but they do nothing to make our factories more efficient, our computers faster or our cars more durable.

The 9,500 page tax code, with its endless convolutions, is an abomination unworthy of our society. Is it any surprise that some people run from it? It undermines notions of law of, for, and by the people, because even those who spend a lifetime studying can barely understand it. Certainly ordinary citizens cannot hope to figure it out.

The right way to eliminate abusive tax practices is to simplify the tax code. We are working on long-term and short-term plans to address complexity in the code, eliminating redundant provisions and unintended consequences. In an ideal world, we would throw away the current code and start from scratch. Until that day, we will take steps such as this proposal to do away with transactions that abuse the intent of the code.

-30-

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER

MARCH 20, 2002

STATEMENT OF THE COMMISSIONER OF INTERNAL REVENUE CHARLES O. ROSSOTTI ON CORPORATE TAX SHELTERS

Let me thank and congratulate Secretary O'Neill and Assistant Secretary Weinberger for their leadership in putting together and pushing forward this excellent package.

Boiled down to their essence, these initiatives are about one thing. And that's fairness for the overwhelming majority of America's taxpayers who pay what they owe every year. Nothing undermines the idea of fairness in the tax system more than when it seems that the average taxpayer who has taxes withheld from his or her wages is being forced to pay – while big corporations or very wealthy individuals can use high-priced tax advisors to escape taxes.

We need these new initiatives to identify and keep pace with ever changing exotic tax devices that manipulate highly technical provisions of the tax law in inappropriate ways.

To deal effectively with this problem, we need better disclosure so we can evaluate these devices openly. Disclosure is what helps us distinguish between a legitimate business transaction and one that inappropriately manipulates the code.

I don't think that increased disclosure requirements should be objectionable to most taxpayers. If you have a transaction or device that's acceptable under the law, why isn't it acceptable to disclose it to the IRS for us to examine. If we agree that it is legitimate, that eliminates any further concern. If we don't agree, there are ample mechanisms to resolve disputes over technical issues.

With the help of these initiatives, we believe we will increase the effectiveness in combating the use of abusive tax shelters without unduly burdening taxpayers.

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DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

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TREASURY ASSISTANT SECRETARY FOR TAX POLICY MARK WEINBERGER STATEMENT ON TREASURY'S PLAN TO COMBAT ABUSIVE TAX AVOIDANCE TRANSACTIONS

Thank you all for being here this afternoon. Secretary O'Neill is currently in Mexico, but he joins us in spirit--and in a statement. I would like to thank Commissioner Rossotti for being here today as we announce Treasury's enforcement proposals to curb abusive tax avoidance transactions.

Abusive tax avoidance transactions are not structured for business reasons but instead are structured to take advantage of a complex tax code to obtain tax benefits that Congress did not intend. These transactions must be curbed because they violate Congress' intent, harm the public fisc and erode the public's sense of fairness.

As I said at my confirmation hearing and in several public speeches since, this Administration will continue to seriously examine the issue of abusive tax avoidance transactions and how best to step up enforcement against them. I asked for time to review the results of the first filing season of the new rules put in place in 2000. The results are in. We now have received and reviewed the first year of filings of disclosures. We are disappointed in the number and types of transactions disclosed. Today, we are proposing significant regulatory and legislative changes to enhance enforcement of the law.

The current rules for disclosing, registering, and maintaining customer lists for tax shelter transactions differ dramatically, which creates complexity for some, and opportunity for others. The vast majority of taxpayers and practitioners do their best to comply with the letter and spirit of the laws. Some, however, are actively promoting or engaging in transactions structured to generate tax benefits never intended by Congress. All taxpayers have a stake in the government's success in establishing rules that assist in identifying and addressing these transactions.

Transparency – that is, ensuring that questionable transactions are disclosed and subjected to IRS review – is critical to the Government's ability to identify and immediately address abusive tax avoidance practices.

Our Legislative and Administrative Proposals will change the risk/reward analysis for taxpayers who would enter into questionable transactions and play the audit lottery to avoid paying their fair share of taxes. We are simplifying disclosure rules to eliminate gray areas that have been used to avoid disclosure, and imposing new penalties on promoters and taxpayers for failure to disclose.

Simply put, if a taxpayer is comfortable entering into a transaction, a promoter is comfortable selling it, and an advisor is comfortable blessing it, they all should be comfortable disclosing it to the IRS.

Together, these steps to simplify compliance and raise the cost of noncompliance will provide us with more information about the misuses of our tax code, so that we can work with Congress to correct them. We are deliberately casting a broader net with our legislative and administrative proposals than exists under the current rules.

The Treasury Department's initiative will build upon ongoing Treasury Department and IRS efforts to combat abusive tax practices. Recent actions have focused on both individual and corporate tax avoidance transactions, and on both taxpayers and promoters.

- The IRS announced in December 2001 a limited-time program to encourage disclosure of questionable transactions. A taxpayer who discloses a transaction, and who identifies all promoters of the transaction, will avoid accuracy-related penalties. The taxpayer, however, will still be liable for interest on any underpayment of tax. To date, almost 150 transactions have been disclosed, including many that the IRS already has identified as tax avoidance transactions. Along with this disclosure initiative, the IRS issued penalty guidelines for all tax avoidance transactions that require the full, fair, and consistent consideration of penalties.
- The Treasury Department and the IRS are working closely together to streamline the evaluation of transactions, including the determination of whether a transaction should be identified as a listed (i.e., tax avoidance) transaction for taxpayer disclosure purposes.
- The Treasury Department and the IRS are working to re-deploy additional resources to deal with tax avoidance transactions and have increased their coordination with the Department of Justice.
- The IRS is working actively to obtain transaction and investor information from some 30 promoters of tax avoidance transactions. These efforts have and will continue to include the use of judicial summonses for those promoters who prove reluctant in providing this information.
- The IRS, in coordination with the Department of Justice, is working to shut down the promoters of abusive tax schemes directed primarily at individuals and small businesses. Courts already have issued six injunctions, and a number of additional cases are pending.
- The IRS is investigating a major abusive tax avoidance scheme used by individuals to evade U.S. tax by placing assets in banks located in foreign tax havens. Thousands, and potentially tens of thousands, of individuals are participating in these schemes. Through

judicial summonses, the IRS is working to identify these individuals and is in the process of initiating enforcement action, including audits and criminal actions.

- Treasury and the IRS recently published a notice warning taxpayers that the IRS will challenge transactions using a loan assumption agreement to claim an inflated basis in assets acquired from another party.

- Treasury and the IRS recently published a notice warning taxpayers that the IRS will challenge transactions improperly shifting basis from one party to another.

- Treasury and the IRS recently published a notice announcing Treasury's intention to promulgate regulations that prevent the duplication of losses by a consolidated group.

- Treasury and the IRS recently published final regulations on hedging transactions that prevent employers from deferring tax on income from investments used to fund deferred executive compensation.

- Treasury is actively pursuing, and has had remarkable success in obtaining, tax information exchange agreements with offshore financial centers. These agreements allow us to pursue information on civil and criminal tax evaders even when countries have bank secrecy laws.

Ultimately, to address these abusive tax avoidance transactions, we have to get at the heart of the problem—the complexity of the tax Code. Our complex tax system must be re-evaluated and simplified, so that the opportunities for abusive tax practices that currently exist are eliminated.

Until abusive tax avoidance transactions can be addressed by simplifying the tax Code, the Treasury Department and the IRS will continue to use these simplified and strengthened rules for disclosure, registration and list maintenance to eliminate abusive tax avoidance transactions.

TREASURY PROPOSALS TO CURB ABUSIVE TAX AVOIDANCE TRANSACTIONS

"The complexity of our tax code has created opportunities for abuse. These proposals will help us find and stop unscrupulous promoters who are marketing questionable transactions to taxpayers."
Treasury Secretary Paul O'Neill

THE ABUSIVE TAX AVOIDANCE TRANSACTION PROBLEM: SYMPTOM OF A LARGER PROBLEM

- The vast majority of taxpayers and practitioners do their best to comply with the letter and spirit of the law. Some, however, are actively promoting or engaging in abusive tax avoidance transactions.
- Abusive tax avoidance transactions are not structured for business reasons but instead are structured to take advantage of a complex tax code to obtain tax benefits that Congress did not intend.
- The ability of taxpayers to engage in these kinds of transactions is one more reason why our complex tax system must be re-evaluated and simplified, so that the opportunities for abusive tax practices that currently exist are eliminated.
- These transactions must be curbed because they violate Congress' intent, harm the public fisc and erode the public's sense of fairness.
- To address this problem, the system must include clearer rules, more transparency and stiffer penalties. Together, the initiatives will change the risk/reward ratio for taxpayers who wish to play the audit lottery and fail to follow the law.

THE IMPORTANCE OF TRANSPARENCY AND VIGOROUS ENFORCEMENT

- The current rules for disclosing, registering, and maintaining customer lists for tax shelter transactions differ, which creates complexity. In addition, the disclosure regulations set forth a series of filters and exceptions that taxpayers are parsing to avoid disclosure. As a result, registrations and disclosures to date have been disappointing.
- Transparency – that is, ensuring that questionable transactions are disclosed and subjected to IRS review – is critical to the Government's ability to address abusive tax avoidance practices.
- Clear rules mandating transparency and vigorous enforcement are essential to curbing abusive tax avoidance transactions. Treasury believes that the existing enforcement regime must be expanded and enhanced to ensure transparency.
- This means more than just new rules; it means more action. Treasury and the IRS have intensified enforcement efforts against promoters of abusive tax practices.

NEW BROADER DISCLOSURE REQUIREMENTS AND ENHANCED PENALTIES NEEDED

- Treasury will seek legislation that will impose new penalties and enhance existing penalties for a taxpayer's or promoter's failure to comply with enhanced rules.
- Treasury is undertaking a series of administrative actions that strengthen and improve the rules for disclosing and registering transactions and the maintenance of customer lists for tax avoidance transactions.
- Under these new proposals, Treasury will create a single set of rules, that leaves no room for interpretation, to apply to disclosure, registration, and maintenance of customer lists. A single set of rules should create a better enforcement system that increases the certainty of IRS detection of failure to disclose, failure to register, and failure to maintain customer lists, and thus will deter tax shelter activities.

TREASURY'S LEGISLATIVE PROPOSALS

✓ **Impose a Penalty on the Failure to Disclose Reportable Transactions**
Without a penalty, taxpayers have less incentive to disclose. Significant new penalties will apply to the failure to disclose reportable transactions. No penalty currently exists.

✓ **Increase the Penalty on Promoters for Failure to Register a Reportable Transaction**
A significant penalty should be imposed on a promoter for the failure to register a reportable transaction.

✓ **Require Corporate Taxpayers to Disclose to Shareholders any Penalties for Failing to Disclose "Listed" Transactions or Participating in Undisclosed "Listed" Tax Avoidance Transactions**
Corporate taxpayers should disclose to their shareholders that they have been penalized for failing to disclose or for participating in undisclosed tax avoidance transactions that have been listed by the IRS.

✓ **Increase the Penalty for the Failure to Turn Over Investor Lists in a Timely Fashion**
Legislation is necessary to encourage promoters to respond more quickly to IRS requests for investor lists.

✓ **Permit Injunction Actions against Promoters who Repeatedly Disregard the Registration and List-Maintenance Requirements**
An injunction would place a promoter under court order to abide by the registration and list-maintenance requirements. The promoter then would be in contempt of court if it violated these rules in the future. The threat of an injunction will enable Treasury and the IRS to curb the most egregious behavior by promoters.

✓ **Impose a Penalty for the Failure to Report an Interest in a Foreign Financial Account**
A civil penalty is necessary because many taxpayers are failing to comply with the rules and regulations requiring the reporting of information on the "Report of Foreign Bank and Financial Accounts" (Form TD F 90-22.1).

✓ **Increase the Penalty for Frivolous Return Positions**
Treasury, in its 2003 fiscal year budget, has proposed to increase the penalty for frivolous tax returns from $500 to $5,000. This amendment would further deter individual taxpayers from taking positions that have no basis in law or fact.

✓ **Amend the Promoter Registration Rules**
This will expand the types of transactions promoters will be required to register with the IRS.

✓ **Confirm Treasury and the IRS' Ability to Expand the Number of Promoters and Advisors Required to Register Reportable Transactions and Maintain Investor Lists**
Broadening the list of promoters and advisors required to register transactions and keep lists will help the IRS more easily identify the taxpayers participating in abusive tax avoidance transactions.

✓ **Curb Improper Use of Foreign Tax Credits**
To prevent taxpayers from improperly obtaining foreign tax credits, Treasury will seek legislation that will amend Section 901(k) of the Code to cover income streams other than dividends (which already are covered by the statute) that are subject to foreign withholding taxes.

✓ **Curb Abusive Income-Separation Transactions**
To prevent "income-separation" transactions that are structured to create immediate tax losses or to convert current ordinary income into deferred capital gain, Treasury will seek legislation to prevent the separation for tax purposes of an asset from its income stream.

TREASURY'S ADMINISTRATIVE ACTIONS

✓ **Require Partnerships, S Corporations, Trusts and High-Income Individuals to Disclose Reportable Transactions**
Disclosure should not be limited to corporations—everyone should be required to disclose potentially abusive transactions.

✓ **Centralize the Receipt and Review of Disclosures by Partnerships, S Corporations, Trusts and High-Income Individuals**
This will give the IRS an early warning mechanism to identify potentially abusive transactions. It also facilitates the process of identifying potentially abusive transactions if all the documents are in one location.

✓ **Establish a Consistent Definition of a "Reportable Transaction" for Return Disclosure, Registration and List-Maintenance Purposes**
A single set of rules reduces complexity and should apply on a clear bright line basis that leaves no room for interpretation and is not based on subjective inquiries.

✓ **Clarify the Definition of a Listed Transaction**
Clarifying the definition of a listed transaction will improve disclosure.

✓ **Impose Strict Liability for Failure to Disclose a Reportable Transaction**
To encourage taxpayers to disclose reportable transactions, a strict liability penalty should be imposed on a taxpayer who fails to disclose a reportable transaction and is found liable for an understatement of tax.

✓ **Impose Strict Liability for Failure to Disclose a Position**
A strict liability penalty should be imposed on a taxpayer who fails to disclose that it has disregarded a regulation and is found liable for an understatement of tax.

✓ **Broaden the Range of Persons who Are Required to Register Reportable Transactions and Maintain Lists of Investors**
Broadening the list of promoters and advisors required to register transactions and keep lists will help the IRS more easily identify the taxpayers participating in abusive tax avoidance transactions.

✓ **Establish Standards for Opinions in Circular 230**
Because taxpayers often rely on opinions in deciding whether to participate in a tax avoidance transaction, and because some practitioners are rendering legal opinions that fall short of appropriate minimum standards, it is necessary to clarify the standards for opinions and impose strict standards on promoters who provide opinions to facilitate abusive tax avoidance transactions.

✓ **Provide a Consistent Form for Return Disclosures**
A standard form will ensure that all relevant information is provided to the IRS.

✓ **Establish Procedures for Early Examinations of Potential Tax Avoidance Transactions**
This process will allow the IRS to quickly identify, evaluate, and shut down abusive tax avoidance transactions.

✓ **Target Abusive Tax Avoidance Schemes**
The IRS will re-deploy resources to identify and shut down abusive tax avoidance transactions. Resolution of issues such as capitalization and the R & E credit, which the IRS has indicated consumes nearly 40% of the audit resources in the IRS Large & Mid-Size Business Division, will free up resources for better use—such as targeting abusive tax avoidance schemes.

<u>THE TREASURY DEPARTMENT'S ENFORCEMENT PROPOSALS FOR ABUSIVE TAX AVOIDANCE TRANSACTIONS</u>

EXECUTIVE SUMMARY

The Treasury Department is announcing an initiative that will give the Treasury Department and the IRS the tools needed to combat abusive tax avoidance transactions. The mind-numbing complexity of the Internal Revenue Code underlies these transactions. While the vast majority of taxpayers and their advisors do their best to comply with the law, the Code's multitude of rules creates opportunities for those who would seek to reduce improperly their tax liabilities. Fundamental fairness requires that questionable transactions be disclosed and evaluated so that all taxpayers bear their fair share of taxes.

Transparency – insuring that questionable transactions are disclosed and subject to IRS scrutiny – is at the core of the Treasury Department's initiative. The current enforcement regime, which includes the temporary regulations that were issued in February 2000, provides for the disclosure by taxpayers of potential abusive tax avoidance transactions, and the registration of these transactions and the maintenance of investor lists by promoters. The Treasury Department and the IRS' experience with this current enforcement regime – and especially with the return disclosures filed in fall 2001 – has been disappointing and points to the apparent willingness by taxpayers and promoters to interpret and manipulate the rules to avoid disclosure.

Clearer rules and stiffer penalties are needed to ensure transparency. The Treasury Department's initiative will create a series of clear, mutually-reinforcing rules for disclosure, registration, and list maintenance. These rules will be easier for taxpayers and their advisors to apply, and harder for those who seek to avoid disclosure to manipulate. The Treasury Department also is proposing new and substantial penalties, and significant increases to existing penalties, for those taxpayers and promoters who fail to obey these rules.

The Treasury Department's initiative will build upon ongoing Treasury Department and IRS efforts to combat abusive tax practices. Recent actions have focused on both individual and corporate tax avoidance transactions, and on both taxpayers and promoters.

- The IRS announced in December 2001 a limited-time program to encourage disclosure of questionable transactions. A taxpayer who discloses a transaction, and who identifies all promoters of the transaction, will avoid accuracy-related penalties. The taxpayer, however, will still be liable for interest on any underpayment of tax. To date, almost 150 transactions have been disclosed, including many that the IRS already has identified as tax avoidance transactions. Along with this disclosure initiative, the IRS issued penalty guidelines for all tax avoidance transactions that require the full, fair, and consistent consideration of penalties.

- The Treasury Department and the IRS are working closely together to streamline the evaluation of transactions, including the determination of whether a transaction should be identified as a listed (i.e., tax avoidance) transaction for taxpayer disclosure purposes.
- The Treasury Department and the IRS are working to re-deploy additional resources to deal with tax avoidance transactions and have increased their coordination with the Department of Justice.
- The IRS is working actively to obtain transaction and investor information from some 30 promoters of tax avoidance transactions. These efforts have and will continue to include the use of judicial summonses for those promoters who prove reluctant in providing this information.
- The IRS, in coordination with the Department of Justice, is working to shut down the promoters of abusive tax schemes directed primarily at individuals and small businesses. Courts already have issued six injunctions, and a number of additional cases are pending.
- The IRS is investigating a major abusive tax avoidance scheme used by individuals to evade U.S. tax by placing assets in banks located in foreign tax havens. Thousands, and potentially tens of thousands, of individuals are participating in these schemes. Through judicial summonses, the IRS is working to identify these individuals and is in the process of initiating enforcement action, including audits and criminal actions.
- Treasury and the IRS recently published a notice warning taxpayers that the IRS will challenge transactions using a loan assumption agreement to claim an inflated basis in assets acquired from another party.
- Treasury and the IRS recently published a notice warning taxpayers that the IRS will challenge transactions improperly shifting basis from one party to another.
- Treasury and the IRS recently published a notice announcing Treasury's intention to promulgate regulations that prevent the duplication of losses by a consolidated group.
- Treasury and the IRS recently published final regulations on hedging transactions that prevent employers from deferring tax on income from investments used to fund deferred executive compensation.
- Treasury is actively pursuing, and has had remarkable success in obtaining, tax information exchange agreements with offshore financial centers. These agreements allow us to pursue information on civil and criminal tax evaders even when countries have bank secrecy laws.

The Treasury Department recognizes that more must be done to curb abusive tax practices, and this initiative, by establishing clear rules for transparency and stiff penalties who attempt to avoid scrutiny, will allow the Treasury Department and the IRS to devote more resources to evaluating and addressing questionable transactions.

Administrative Actions - Highlights

- Expand Disclosure – Individuals, partnerships, S corporations, and trusts, in addition to corporations, will be required to disclose questionable transactions. Current rules cover only corporations.
- Expand and Unify the Definition of a Reportable Transaction – Current rules contain different definitions of a transaction for disclosure, registration, and list maintenance. A single, clear definition will be established that will curtail the apparent manipulation of the current rules by come taxpayers and promoters.
- Impose Accuracy-Related Penalties for Reportable Transactions that are not Disclosed – Current rules permit taxpayers to assert as a defense to the accuracy-related penalty that they have received a tax opinion regarding that transaction. Amended regulations will prohibit this defense with respect to undisclosed reportable transactions and will increase the penalty in certain cases. These amended regulations also will address undisclosed transactions that are based on the invalidity of a regulation.
  - If a listed transaction is not disclosed, a strict liability accuracy-related penalty of 25% will be imposed on any underpayment resulting from the transaction regardless of the amount of the understatement. This would be in addition to a new $200,000 penalty for the failure to disclose a listed transaction. Legislative changes would be required for these new and increased penalties. See attached penalty chart.
  - If a non-listed reportable transaction is not disclosed, the existing defenses to any accuracy-related penalty (e.g., reasonable cause, substantial authority) will not be available for any underpayment resulting from the transaction.
  - If a transaction based on the invalidity of a regulation is not disclosed, a strict liability accuracy-related penalty will be imposed on any underpayment resulting from the transaction regardless of the amount of the understatement.
- Broaden the Registration and List-Maintenance Requirements – The persons responsible for registering transactions and maintaining investor lists will be broadened to insure that this information is available to the IRS. The list-maintenance requirements will be mandatory for all material participants in the promotion of a reportable transaction.
- Establish Standards for Legal Opinions– The Treasury Department and the IRS are revising the proposed rules in Circular 230 governing the legal opinions used to market and support tax avoidance transactions.

Legislative Proposals – Highlights

- Impose a Penalty on the Failure to Disclose Reportable Transactions – Significant new penalties will apply to the failure to disclose reportable transactions. No penalty currently exists.
- Increase the Penalty for the Failure to Timely Turn Over Investor Lists – The existing penalty will be significantly enhanced, particularly to address promoters who delay in providing the IRS with required information.
- Require Corporations to Publicly Disclose to Shareholders Penalties for the Failure to Disclose Listed Transactions and Accuracy-Related Penalties Resulting from Listed Transactions that are not Disclosed – Corporations would be required to disclose publicly the payment of a penalty for failure to disclose a listed transaction or an accuracy-related penalty imposed as a result of an undisclosed listed transaction.
- Permit Injunction Actions against Promoters who Repeatedly Disregard the Registration and List-Maintenance Requirements – The Government will be permitted to enjoin the most egregious promoters of abusive tax avoidance transactions, as it is doing currently with promoters of tax scams directed primarily at individuals and small businesses.
- Impose a Penalty for the Failure to Report an Interest in a Foreign Financial Account – A new civil penalty will be imposed on the failure to disclose foreign financial accounts, which often are used in tax avoidance transactions.
- Expand Section 901(k) – Additional restrictions will eliminate any additional efforts to traffic in foreign tax credits.
- Curb Abusive Income-Separation Transactions – New rules will curtail tax avoidance transactions that separate the periodic income stream from an underlying income-producing asset in order to generate an immediate tax loss for one taxpayer and the conversion of current taxable income into deferred capital gain for another.

The Treasury Department's Enforcement Proposals **Penalty Structure for Listed and Unlisted Reportable Transactions**		
	Listed Transactions (strict liability)	**Unlisted Reportable Transactions**
Corporations	<u>Failure to disclose</u>: $200,000 SEC reporting <u>Accuracy-related penalty:</u> Additional 5% of underpayment Deemed negligence/disregard of rules No reasonable cause SEC reporting	<u>Failure to disclose</u>: $50,000 <u>Accuracy-related penalty</u>: No reasonable cause (strict liability if lose and have substantial understatement)
Partnerships, S Corporations, and Trusts	<u>Failure to disclose</u>: $200,000	<u>Failure to disclose</u>: $50,000
Individuals	<u>Failure to disclose</u>: $100,000 <u>Accuracy-related penalty</u>: Additional 5% of underpayment Deemed negligence/disregard of rules No reasonable cause	<u>Failure to disclose</u>: $10,000 <u>Accuracy-related penalty</u>: No reasonable cause (strict liability if lose and have substantial understatement)
Promoters	<u>Failure to register</u>: Greater of 50% of fees or $200,000 (increased to 75% if intentional) <u>Failure to produce investor list</u>: $10,000 per day past 20 business days	<u>Failure to register</u>: $50,000 <u>Failure to produce investor list</u>: $10,000 per day past 20 business days

<u>THE TREASURY DEPARTMENT'S ENFORCEMENT PROPOSALS FOR ABUSIVE TAX AVOIDANCE TRANSACTIONS</u>

The Treasury Department is announcing an initiative that will ensure that the Treasury Department and the IRS have the tools to combat abusive tax avoidance transactions. Fairness requires that the Treasury Department and the IRS identify these transactions (along with the taxpayers who invest in them and the persons who promote them), evaluate the tax positions taken, and take appropriate enforcement actions.

What underlies these transactions is the mind-numbing complexity of the Internal Revenue Code. Its multitude of rules provide the opportunities for those who would seek improperly to reduce their tax liabilities. Rules that provide for nonrecognition of gains and losses, a two-tier tax system, mechanical basis adjustments, rules for allocation of income and losses among partners, crediting of foreign taxes paid – all rules that serve important purposes – are just some of the rules that may be used in these transactions to create unintended tax benefits. These abusive transactions harm the public fisc, erode the public's respect for the tax laws, and consume valuable public and private resources.

Transparency – insuring that questionable transactions are disclosed and subject to IRS review – is critical to the Government's ability to identify and address abusive tax avoidance practices. The Treasury Department believes that clear rules mandating transparency and vigorous enforcement are essential to curbing abusive tax avoidance transactions. If a promoter is comfortable with selling a transaction, a taxpayer is comfortable with entering into that transaction, and a tax practitioner is comfortable with advising that the transaction is proper, then they all should be comfortable with the IRS knowing about and understanding the transaction.

The existing enforcement provisions in the Internal Revenue Code (Code) for tax avoidance transactions, along with the temporary regulations issued in February 2000, are designed to give the Treasury Department and the IRS the opportunity to evaluate questionable transactions at the earliest opportunity. Section 6111 of the Code requires promoters who market transactions to register with the IRS transactions that either will generate a certain level of tax benefit or are corporate tax avoidance transactions that are marketed on a confidential basis. Section 6112 requires that promoters maintain lists of investors in registered transactions as well as other potential tax avoidance transactions. The regulations under Section 6011 require corporate taxpayers to disclose on their tax returns transactions that the IRS has identified as tax avoidance transactions or that have certain characteristics common to tax avoidance transactions.

Since the beginning of this Administration, the Treasury Department has made clear its commitment to curtailing abusive tax practices. The Treasury Department in particular wanted to evaluate the return disclosures from the 2000 corporate filing season, which ended in the fall of 2001, to determine whether the existing enforcement regime is working and, if not, what additional measures are required. This review is complete. The apparent willingness of certain taxpayers and their advisors to parse words in a manner that narrows requirements and expands exceptions has been disappointing.

The Treasury Department's enforcement initiative, which includes both administrative actions and legislative proposals, will significantly enhance the current enforcement regime and curtail the use of abusive tax avoidance transactions. These proposals focus on increased transparency and enhanced penalties. Transparency is central to the Treasury Department and the IRS' ability to evaluate promptly new tax avoidance transactions and to address them quickly. Enhanced penalties are necessary to alter the "risk/reward" analysis taxpayers undertake when entering into these transactions.

The Treasury Department has concluded that a more effective enforcement regime would be created by a web of rules – rules that reinforce each other by requiring the same information about a questionable transaction to be provided to the IRS both by the taxpayers participating in these transactions <u>and</u> by the promoters and their advisors, who also will be required to maintain lists of investors. These rules will allow the IRS to identify taxpayers who fail to disclose based on the promoter's registration of the transaction with the IRS, promoters who fail to register based on a taxpayer's disclosure or based on a taxpayer's audit, and other taxpayers who fail to disclose based on a promoter's investor list.

One of the primary goals of these proposals is certainty. Clearer disclosure rules, without exceptions and perceived loopholes, will be easier for taxpayers and their advisors to apply, harder for taxpayers and their advisors to manipulate, and easier for the IRS to administer and enforce. The Treasury Department's proposals, for example, will broaden and align the rules and regulations for disclosure, registration, and list keeping under Sections 6011, 6111, and 6112 of the Code. The IRS will have multiple sources of information about questionable transactions, including the identity of the participants. Taxpayers and promoters will find avoiding IRS scrutiny of questionable transactions to be difficult.

Taxpayers and promoters also will find avoiding IRS scrutiny to be hazardous. The Treasury Department is proposing enhanced penalties for the failure to disclose and maintain the information required by the IRS to enforce the tax laws. The Treasury Department, for instance, will seek legislation creating a new strict liability penalty for a taxpayer's failure to disclose a listed transaction. This penalty for the first time would sanction taxpayers for failure to obey the disclosure rules. More generally, taxpayers and promoters who disregard the rules for disclosure, registration and list-keeping will face an increased risk of penalties.

2001 Taxpayer Return Disclosures

The corporate returns that were filed during the fall 2001 filing season were the first to be fully covered by the revised disclosure regulations under Section 6011 of the Code. To date, 99 corporate taxpayers have disclosed 272 transactions.

- Only 64 listed transactions were disclosed. Listed transactions are transactions that previously have been identified by the IRS in published guidance as tax avoidance transactions. Based on other information, the Treasury Department and the IRS have reason to believe that a far greater number of listed transactions were undertaken.
- The remaining 208 disclosures were for transactions that satisfy a multi-factor test designed to identify transactions that have at least two of five characteristics common to tax avoidance transactions (the 2-of-5 filter test). Two types of transactions, however, account for 159 of these disclosures. The Treasury Department and the IRS believe that taxpayers and promoters are manipulating the requirements and exceptions to the 2-of-5 filter test to avoid disclosure.

The small amount of disclosure was disappointing. From the information the Treasury Department and the IRS have seen, this disclosure is a small segment of the universe of transactions that should have been disclosed. A number of factors have led to insufficient disclosure, registration, and list-keeping.

First, the rules in Sections 6011, 6111, and 6112 of the Code do not contain a consistent definition of a transaction that must be disclosed and registered, and for which investor lists must be maintained. While this situation is due, in part, to differing statutory requirements, it also reflects the desire, when these rules were drafted, to exclude legitimate business transactions and minimize taxpayer administrative burden. The result, unfortunately, is a set of elegantly constructed, but complicated, rules. The Treasury Department's enforcement initiative will create a single, clear definition of a transaction that must be disclosed and registered, and for which lists must be maintained.

Second, the rules and regulations under Section 6011, 6111, and 6112 contain a number of exceptions intended to ensure that the rules are narrowly tailored. For instance, the disclosure requirements contain an exception for transactions for which there is a generally accepted understanding that the taxpayer's intended tax treatment is properly allowable. Another disclosure exception is for transactions that the IRS has "no reasonable basis" to challenge.

The Treasury Department believes that many taxpayers and promoters have read the exceptions broadly to cover virtually everything and interpreted the filters in the 2-of-5 filter test narrowly to cover virtually nothing. While some interpretations are good faith interpretations of the rules, others are attempts to assure taxpayers that they can engage in tax avoidance transactions without appropriate disclosure. The Treasury

Department's enforcement initiative will eliminate any confusion about the obligation to disclose questionable transactions to the IRS.

Third, the penalties for the failure to comply with the existing enforcement regime may be insufficient to deter efforts to avoid IRS scrutiny. For example, there currently is no penalty on a taxpayer for failure to disclose a transaction subject to the disclosure requirements (although nondisclosure may be a factor in determining if an accuracy-related penalty applies to any underpayment). The Treasury Department's enforcement initiative will create a new and significant penalty on taxpayers who fail to disclose transactions, and will increase significantly the penalty imposed on promoters who delay in providing investor lists to the IRS. Corporations also will be required to disclose publicly to their shareholder penalties that they incur for undisclosed listed transactions. Finally, the Government will be authorized to seek injunctions against promoters who repeatedly disregard the registration and list-keeping rules.

Finally, many taxpayers and promoters believe that they can disregard the rules and avoid detection. As described below, the IRS already is taking steps to increase its detection of tax avoidance transactions, and these proposals will significantly enhance the IRS' ongoing efforts.

Ongoing Efforts to Combat Abusive Tax Avoidance Transactions and Their Promoters

The Treasury Department and the IRS recently have taken a number of important, additional steps to combat abusive tax practices. The Treasury Department and the IRS are committed to making sure that the necessary time, effort, and resources are committed to this important issue.

Taxpayer Initiatives

- Encouraged Voluntary Disclosure – IRS Announcement 2002-2, which was issued last December, gives taxpayers an incentive to disclose questionable transactions and other items that may have resulted in an underpayment. Under the Announcement, if a taxpayer discloses a questionable transaction before April 23, 2002, the IRS will waive the accuracy-related penalty if additional tax ultimately is due. In order to obtain this relief, a taxpayer must disclose all relevant information about the transaction, including the identity of any promoter. The IRS already has received almost 150 disclosures and expects many additional disclosures in the coming weeks. The IRS will use the information it receives to pursue promoters, identify taxpayers that have not disclosed reportable transactions, and evaluate the new types of transactions that are identified.
- Issued Penalty Guidelines – Along with the disclosure initiative, the IRS issued penalty guidelines for tax avoidance transactions, including guidelines for the coordination of penalty consideration with the IRS' Office of Tax Shelter Analysis. These guidelines will ensure that penalties are impartially, fairly, and consistently considered in all tax avoidance transaction cases.

- Evaluated Additional Transactions – The Treasury Department and the IRS recently issued Notice 2002-21, which warns that the IRS will challenge transactions using a loan assumption agreement to claim an inflated basis in assets, Notice 2002-18, which announces the Government's intention to promulgate regulations preventing the duplication of losses by a consolidated group, and Notice 2001-45, which warns that the IRS will challenge transactions improperly shifting basis from one party to another. In addition, the Treasury Department and the IRS recently promulgated final regulations on hedging transactions that prevent employers from deferring tax on income from investments used to fund deferred executive compensation. Other transactions currently are under review. The Treasury Department and the IRS recognize the critical need to expedite the process for reviewing questionable transactions and are working to meet this objective.

- Made Additional Resources Available to Address Abusive Tax Avoidance Transactions – Recent published guidance in areas that have consumed significant IRS audit resources, such as accounting method and timing issues, will allow the IRS to devote more of its audit resources to tax avoidance transactions.

- Developed a Mandatory IDR for LMSB Cases – The IRS' Large and Midsize Business Division (LMSB) has developed an information document request (IDR) that will be used for all LMSB audits beginning in April 2002. This mandatory IDR will request information regarding all listed transactions.

- Increased Coordination with the Department of Justice – In order to coordinate the Government's efforts against abusive tax avoidance practices and conserve resources, the Treasury Department and the IRS have increased their coordination with the Department of Justice on tax avoidance transaction cases.

- Entered into Tax Information Exchange Agreements (TIEAs) - The Treasury Department has mounted a concerted effort to enter into agreements covering the exchange of tax information with significant foreign financial centers where the possibility of hiding income or assets poses a serious problem. Agreements recently have been reached with three key offshore financial centers – the Cayman Islands, Antigua and Barbuda, and The Bahamas.

Promoter Initiatives

The IRS is vigorously pursuing actions against the promoters of corporate and individual tax avoidance transactions. The IRS' objectives are to curb the most egregious promoters, penalize non-compliance, and obtain investor lists that will allow the IRS to target and examine those taxpayers who have engaged in potential tax avoidance transactions.

The IRS has contacted some 30 promoters of tax avoidance transactions in connection with their marketing activities.

- "Soft Letters" – The IRS has requested, through so-called "soft letters," information from these promoters. These letters request investor lists as well as information regarding compliance with the registration requirements under Section 6111. A number of promoters already have provided the IRS with a significant amount of information, including investor lists.

- Summonses – The IRS, in cooperation with the Department of Justice, is using summonses to force reluctant promoters to provide investor lists and other materials related to their promotion of tax avoidance transactions. These summonses already are proving to be a valuable tool, and additional summonses are being prepared. The IRS and the Department of Justice will seek to enforce all summonses in court, if necessary.

- Penalty Audits – The IRS has begun more than a dozen promoter penalty audits and expects to begin additional audits in the coming weeks.

The IRS also has intensified its enforcement efforts against promoters of abusive tax avoidance transactions and scams directed primarily at individuals and small businesses. These schemes include claims that the federal income tax is unconstitutional, claims that individuals are citizens of the States and therefore not subject to federal income tax, claims that U.S. citizens are not subject to U.S. income tax because of Section 861 of the Code (so-called "Zero Tax" schemes), and credit claims for slavery reparations. The Treasury Department believes that these schemes are especially pernicious because the individuals targeted by promoters often have a limited understanding of their legal duties and obligations. Recent and ongoing actions include:

- Injunctions Granted – The Department of Justice has obtained injunctions against six promoters of abusive tax avoidance schemes, including a preliminary injunction that was issued on February 20, 2002.
- Pending Cases – The Department of Justice has filed an additional eight actions against promoters of abusive tax avoidance schemes.
- Future Cases – The IRS has referred a number of additional promoter cases to the Department of Justice in order to initiate legal action against these promoters.

In addition, the IRS is pursuing a major initiative against promoters of abusive offshore trust schemes. These schemes use banks located in offshore financial centers to help U.S. individuals hide income while at the same time allowing these individuals to access their offshore money in the U.S. by using credit cards issued by the offshore banks. The IRS believes that thousands of individuals are using these schemes to evade tax. In addition to an extensive publicity campaign to educate the public about the dangers of these schemes, the IRS is working to shut them down.

- Summonses to Financial Networks – Summonses have been issued to two financial networks to obtain transaction information that will allow the IRS to identify individuals who are using credit cards issued by foreign banks to evade tax.

- Summonses to Vendors – Although information obtained from the financial networks may identify accounts, these schemes are set up so that the financial networks often do not have information identifying specific persons. Summonses will be issued to vendors expected to have identification information for credit card transactions. The IRS expects to identify individuals through these vendor summonses.

- IRS Audits - The IRS will initiate audits of individuals who are identified as participants in these schemes. If an identified individual is already under audit, this information will be provided to the auditor.
- Criminal Prosecution – The IRS and the Department of Justice will initiate, where appropriate, criminal proceedings against individuals who have violated the criminal laws by participating in these schemes.

Aggressive enforcement and continuous taxpayer education will continue to be keys to the Government's efforts to close down the tax schemes being marketed to individuals and small businesses. For the more sophisticated tax avoidance transactions, increased transparency, supported by stiffer penalties, is needed.

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The Treasury Department's enforcement proposals are divided into administrative actions and legislative proposals. These proposals, collectively, will enhance and expand the efforts to combat abusive tax avoidance transactions.

THE TREASURY DEPARTMENT'S ADMINISTRATIVE ACTIONS

1. **Expand the Disclosure Rules to Cover Partnerships, S Corporations, Trusts, and Some Individuals** – The Treasury Department and the IRS will amend the regulations under Section 6011 of the Code to require partnerships, S corporations, trusts and individual taxpayers to disclose "reportable transactions," as described in Administrative Action No. 3, below. This requirement, however, will not affect individuals unless they engage in specifically identified tax avoidance transactions or in other transactions resulting in a significant reduction of tax liability.

   Reason for Proposal: Under current law, only corporate taxpayers are required to disclose reportable transactions on a tax return. The Treasury Department believes that potentially abusive tax avoidance transactions are increasingly being used by high net-worth individuals. Individuals, for example, have used transactions modeled after those described in Notice 2000-44 (the so-called "Son of Boss" transaction) and Notice 2001-45 (basis-shifting transaction) to avoid paying income tax. In addition, potentially abusive transactions by both corporations and individuals often employ partnerships and trusts to achieve unintended tax results. The Treasury Department believes that individuals, partnerships, S corporations, and trusts should be required to disclose questionable transactions. While this will *result in some duplicative reporting, the duplicative reporting will ensure disclosure and also may deter improper transactions.*

2. **Centralize the Receipt and Review of Disclosures by Partnerships, S Corporations, Trusts, and Individuals** – Disclosures of transactions must be submitted as part of a taxpayer's return. The IRS currently requires that copies of corporate taxpayer disclosures be sent to a single location so that the IRS' Office of Tax Shelter Analysis can coordinate their review. This centralized filing requirement for disclosures will be expanded to disclosures required for partnerships, S corporations, trusts, and individuals and will permit the expeditious review of all disclosures.

   Reason for Proposal: The Treasury Department believes that the review of all disclosures, whether by corporations, individuals, partnerships, S corporations, or trusts must be centralized and coordinated. The coordinated review of these disclosures will allow the Treasury Department and the IRS to identify trends and new types of transactions and will ensure the consistent evaluation of disclosed transactions. Moreover, the certainty of review that will result from centralized disclosure should serve to deter improper transactions.

3. **Expand and Unify the Definition of a "Reportable Transaction" for Return Disclosure, Registration and List-Maintenance Purposes** – The Treasury Department and the IRS will amend the regulations under Sections 6011, 6111, and 6112 of the Code to establish a single definition of the types of transactions (reportable transactions) that must be disclosed by taxpayers and registered by promoters, and for which lists of investors must be maintained by promoters.[1]

   The current regulations under Section 6011 require taxpayers to disclose (i) listed transactions (i.e., tax avoidance transactions identified by the IRS in published guidance), subject to a minimum tax effect requirement; and (ii) transactions that satisfy the 2-of-5 filter test, subject to a number of exceptions. The current regulations under Section 6111 requiring registration of confidential corporate tax shelters and the current regulations under Section 6112 requiring list maintenance use different standards than those in the Section 6011 regulations, but each set of regulations has exceptions similar to those in the Section 6011 regulations.

   The IRS' identification of listed transactions under current regulations has played an important role in compelling disclosure of transactions, discouraging future participation in these transactions, and guiding IRS audits in the field. Listed

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[1] Certain legislative changes will be required to allow for the full conformity of the definition of a reportable transaction for purposes of Sections 6011, 6111, and 6112 of the Code. See Legislative Proposal No. 8, below

transactions will remain an important part of the definition of a reportable transaction.

Under new regulations, the 2-of-5 filter test will be replaced by clearer rules that will be easier for taxpayers and their advisors to apply and the IRS to administer. In addition, the minimum tax effect requirement for listed transactions and the exceptions to the 2-of-5 filter test (including exceptions for transactions for which there is a generally accepted understanding that the taxpayer's intended tax treatment is properly allowable, and the exception for transactions that the IRS has "no reasonable basis" to challenge) will be eliminated.

These rules will have the effect of broadening the scope of transactions required to be registered with and reported to the IRS. The IRS will have the ability to issue published guidance to narrow the requirements as appropriate. In addition, the IRS will establish expedited procedures permitting taxpayers (and particularly those taxpayers who enter into multiple transactions of the same type) to seek a determination from the IRS that their transactions are not reportable transactions.

Under this proposal, a reportable transaction will be defined as a transaction (including a series of related transactions) falling into any of the following categories:

- Listed Transactions – Any transaction specifically identified by the IRS in published guidance as a tax avoidance transaction without regard to the size of the tax savings.

- Loss Transactions – Any transaction resulting in, or that is expected to result in, a loss under Section 165 of the Code of at least:

  - For corporate taxpayers – $10 million in any single year, or $20 million in any combination of years.
  - For partnerships and S corporations – $10 million in any combination of years.
  - For trusts – $2 million in any single year or $4 million in any combination of years, whether or not any losses flow through to one or more beneficiaries.
  - For individual taxpayers – $2 million in any single year, or $4 million in any combination of years.

- Transactions with Brief Asset Holding Periods – Any transaction resulting in a tax credit (including a foreign tax credit) if the underlying asset giving rise to the credit was held by the taxpayer for less than 45 days. This definition will be limited to transactions resulting in tax credits exceeding $250,000.

- Significant Book-Tax Differences – Any book-tax difference of at least $10 million, subject to specific exceptions for book-tax differences that are not indicative of potentially abusive tax avoidance practices, such as depreciation, depletion, amortization, bad-debt reserves, state and local taxes, and employee compensation.

- Transactions that are Marketed under Conditions of Confidentiality and that Provide Minimum Tax Benefits – Any transaction promoted under conditions of confidentiality, if the transaction results in, or is expected to result in (i) a reduction in taxable income of an individual, partnership, S corporation, or trust of at least $250,000, or (ii) a reduction in taxable income of any corporate taxpayer of at least $500,000. Conditions of confidentiality do not include the fact that a taxpayer's financial information is subject to restrictions on disclosure.

Under this proposal, this same definition of a reportable transaction will be used to identify those transactions that must be registered by promoters under Section 6111 and for which lists must be maintained pursuant to Section 6112 of the Code. The exceptions to disclosure also will be eliminated for purposes of promoter registration and list maintenance.

The Treasury Department recognizes that this definition of a reportable transaction potentially will cover many transactions that may not be abusive tax avoidance transactions. This definition, however, will enable the Treasury Department and the IRS to accomplish two important objectives. First, this definition will give the Treasury Department and the IRS the information needed to evaluate promptly potentially questionable transactions. Equally important, this definition will allow the Treasury Department and the IRS to identify problems and anomalies with existing rules and regulations for which statutory or regulatory changes should be considered.

> *Reason for Proposal: Taxpayers and promoters are interpreting the requirements in the current rules narrowly and reading the exceptions liberally. The Treasury Department believes that a clear and consistent rule for disclosure, registration, and list-maintenance will ensure that the IRS has more than one source of information about a reportable transaction. The IRS must have the ability to move quickly from a promoter registration to the promoter's investor list in order to identify non-disclosing taxpayers. Similarly, the IRS must be able to move quickly from a taxpayer disclosure of a reportable transaction to a promoter who might have failed to register the transaction, and from the promoter's investor list to non-disclosing taxpayers. This web of disclosure will increase the likelihood that taxpayers who fail to disclose and promoters who fail to register will be identified.*

4. **<u>Clarify the Definition of a Listed Transaction</u>** – Under current law, a "listed transaction" includes any transaction that is the same or "substantially similar" to a transaction identified by the IRS in published guidance as a tax avoidance transaction. The Treasury Department and the IRS will amend the regulations under Section 6011 of the Code to clarify that a listed transaction includes any transaction designed to produce the same or similar type of tax result using the same, or similar, tax strategy. For example, a transaction that relies on Sections 318 and 302 to shift basis from one person to another in a factual situation similar to the one in IRS Notice 2001-45 would be a listed transaction.

   <u>Reason for Proposal</u>: *Some taxpayers and promoters have applied the "substantially similar" standard in an overly narrow manner to avoid disclosure. Some taxpayers and promoters, for example, have made subtle and insignificant changes to a listed transaction in order to claim that their transaction is not subject to disclosure. Others have taken the position that their transaction is not substantially similar to a listed transaction because they have an opinion concluding that the transaction is proper. The Treasury Department believes that these interpretations are improper. The change to the definition of a listed transaction is intended to halt these practices.*

5. **<u>Impose Strict Liability for Accuracy-Related Penalties for Reportable Transactions that are not Disclosed</u>** – Under current law, taxpayers may claim a defense to the accuracy-related penalty, even for an undisclosed reportable transaction resulting in an underpayment, based on an opinion regarding the tax consequences of the transaction. The Treasury Department and the IRS will amend the regulations under Sections 6662 and 6664 of the Code to provide two similar, but distinct, rules for reportable transactions that are not disclosed. These amended regulations generally will provide that the defenses to the penalty under Sections 6662(d)(2)(B) and (C) and 6664(c) are not available in these cases.

   For listed transactions that are not disclosed, the amended regulations will provide that (i) a taxpayer cannot rely on, among other things, an opinion as a defense to the imposition of the accuracy-related penalty under Section 6662 if the transaction results in an underpayment and (ii) that any underpayment resulting from the transaction will be treated as an underpayment attributable to negligence or the disregard of rules or regulations for purposes of Section 6662. In other words, the increased accuracy-related penalty of 25%, in addition to the $200,000 failure to disclose penalty,[2] will apply regardless of the amount of the underpayment.

   For other reportable transactions (<u>i.e.</u>, non-listed transactions) that are not disclosed, the amended regulations will provide that a taxpayer cannot rely on, among other things, an opinion as a defense to the imposition of the accuracy-related penalty

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<u>See</u> Legislative Proposal No. 1, below.

under Section 6662 if the transaction results in an underpayment. Whether any resulting underpayment is attributable to negligence or the disregard of rules or regulations will depend on the facts.

> Reason for Proposal: *The Treasury Department believes that many reportable transactions are not being disclosed. Promoters are advising taxpayers to disregard the disclosure requirements on grounds that an opinion will be sufficient to avoid accuracy-related penalties even if a listed transaction is identified during audit and results in an underpayment. The Treasury Department believes there should not be defenses to the accuracy-related penalties in cases where a reportable transaction is not disclosed. In the case of a listed transaction, there should be strict liability regardless of the amount of the understatement.*

6. **Impose Strict Liability for Accuracy-Related Penalties for Transactions Based on the Invalidity of a Regulation that are not Disclosed** – Some promoters are advising taxpayers to participate in certain tax avoidance transactions based on opinions that conclude that a contrary regulation is invalid. The Treasury Department and the IRS will amend the regulations under Sections 6662 and 6664 of the Code to provide that a taxpayer cannot rely on an opinion as a defense to the imposition of the accuracy-related penalty under Section 6662 for any underpayment attributable to the disregard of rules or regulations if the underlying transaction or item (whether or not a "tax shelter" as defined by Section 6662) was not adequately disclosed. The defenses to the penalty under Sections 6662(d)(2)(B) and 6664(c) would not be available in these cases.

> Reason for Proposal: *Taxpayers and promoters should not be permitted to rely on opinions – rendered for penalty protection – that conclude that one or more regulations are invalid unless the taxpayer discloses that its position is based on the invalidity of a regulation. Although the Treasury Department believes that such opinions currently are insufficient to establish a defense to the penalty, some promoters nevertheless are encouraging participation in (and nondisclosure of) transactions based on such opinions. The Treasury Department believes that this practice is improper for all transactions regardless of whether they are reportable transactions.*

7. **<u>Broaden the Range of Persons who are Required to Register Reportable Transactions and Maintain Lists of Investors</u>** – The Treasury Department and the IRS will amend the regulations under Sections 6111 and 6112 of the Code to clarify that all parties materially involved with a reportable transaction must register a transaction and maintain lists of investors. Material participation will be measured by the fees received, or expected to be received, as a result of the transaction or a series of related transactions (<u>e.g.</u>, fees in excess of $250,000 for corporate transactions, or in excess of $100,000 for individual transactions). In addition, a material participant may include a return preparer if the return preparer or an affiliate was materially involved with the transaction.

   In order to avoid unnecessary burden, the Treasury Department and the IRS will allow otherwise obligated persons to agree to have a single person register a transaction on behalf of a group of promoters and advisors so long as the registration identifies all of the promoters and advisors subject to the agreement. The IRS would not be precluded from imposing a penalty on any obligated party otherwise required to register a transaction if the transaction is not registered. A promoter or advisor always will have the option of registering a transaction on its own. Each promoter or advisor, however, will be required to maintain its own list of investors. Clarifying legislation to coordinate the language in Section 6111 and 6112 may be requested. <u>See</u> Legislative Proposal No. 9, below.

   > *<u>Reason for Proposal</u>: The IRS is dealing with many situations where promoters have not registered transactions or maintained lists of investors. Some promoters, for example, have argued that they are merely "advisors" or "return preparers" (and not an organizer or seller) for a transaction and therefore are not subject to the registration and list-maintenance requirements. In other instances, the promoting parties use or create a separate entity that they claim promotes the transactions. Afterwards, this separate entity ceases doing business, and there is no registration or investor list. The Treasury Department believes that these practices are improper.*

8. **<u>Establish Standards for Opinions in Circular 230</u>** – Circular 230 provides standards and ethical rules for practice before the IRS. In January 2001, the Treasury Department and the IRS issued proposed amendments to Circular 230 that would establish new rules and standards for opinions that are used to support tax avoidance transactions. These amendments reflect Treasury's concern that many of these opinions were being written to promote a transaction without reaching a firm conclusion about the validity of the transaction, were inadequately discussing important legal issues, were reaching inconsistent conclusions on issues, or were based on questionable factual assumptions. The Treasury Department believes that practitioners have a duty to the integrity of the tax system as well to their clients, and in the case of opinions used to promote or support tax avoidance transactions, a high degree of diligence and analysis is appropriate.

The Treasury Department and the IRS are evaluating these proposed amendments in light of the extensive comments received from the major tax professional organizations and will issue revised proposed regulations shortly. In addition, the Treasury Department and the IRS will finalize other proposed amendments to Circular 230 that were issued in January 2001.

> *Reason for Proposal: Taxpayers participating in tax avoidance transactions often rely on opinions by tax professionals that the transactions are legitimate and proper. Many taxpayers will not participate in these transactions without opinions, either as a basis for participating in a transaction or as protection from penalties. Some tax professionals are rendering opinions that fall short of the minimum standards that the Treasury Department believes are appropriate. This proposal will address this problem by establishing minimum standards for these types of opinions.*

9. **Provide a Consistent Form for Return Disclosures** – The IRS will issue a disclosure form, to be submitted by taxpayers as part of their returns and to the IRS' Office of Tax Shelter Analysis, that will clearly identify the information required to be disclosed for reportable transactions. These forms will require taxpayers to disclose information relevant to the IRS' evaluation of a transaction – e.g., a description of the transaction, its participants (including tax-indifferent parties), its principal tax benefits, and the promoter.

> *Reason for Proposal: Although existing rules require that certain information be included as part of a disclosure, the Treasury Department believes that a standard form will ensure that the disclosures are made and that all relevant information is provided to the IRS.*

10. **Establish Procedures for Early Examinations of Potential Tax Avoidance Transactions** – The IRS will establish procedures for the early examination of potential tax avoidance transactions while allowing, if necessary, for the examination of other issues at a later time. This process will allow the IRS to quickly identify, evaluate, and shut down abusive tax avoidance transactions.

> *Reason for Proposal: Although existing rules under Section 7605 of the Code permit the early examination of a particular issue, the Treasury Department and the IRS believe that these procedures should be clarified to emphasize the availability of an early examination of potential tax avoidance transactions. This action will ensure that the IRS will be able to act quickly on disclosures and registrations of reportable transactions, while allowing for the examination of other issues as part of the regular audit process.*

11. **Target Abusive Tax Avoidance Schemes** – The IRS will re-deploy resources to identify and shut down abusive tax avoidance schemes. For example, the IRS' Small Business/Self Employed Division (SBSE) is finalizing the establishment of a centralized organization charged with developing leads on these schemes. As part of this effort, SBSE will establish a dedicated network of at least one examination group/collection group team in each of the 16 SBSE areas to work on abusive tax scheme cases; establish a new executive position to focus solely on abusive tax schemes, money laundering and fraud; implement additional monitoring of the Internet and other media outlets where abusive tax schemes often are advertised; increase efforts to educate the public about why these schemes are illegal; and increase efforts to shut down promoters.

   Reason for Proposal: Many abusive tax avoidance schemes that are targeted at individuals and small businesses are marketed through a number of different mass media outlets. The Treasury Department believes that increased monitoring of these media outlets, as well as increased publicity about the dangers of these schemes, will help curb these tax avoidance schemes.

THE TREASURY DEPARTMENT'S LEGISLATIVE PROPOSALS

1. **Impose a Penalty for the Failure to Disclose Reportable Transactions** – The Treasury Department will seek legislation that would:

   - Impose a penalty on corporate taxpayers for each failure to disclose a listed transaction equal to the sum of (i) $200,000 and (ii) 5% of any underpayment resulting from the listed transaction.
   - Impose a penalty of $50,000 on corporate taxpayers for each failure to disclose a reportable transaction (other than a listed transaction).
   - Impose a penalty of $200,000 on partnerships, S corporations, and trusts for each failure to disclose a listed transaction, and $50,000 for each failure to disclose other reportable transactions.
   - Impose a penalty on individual taxpayers for each failure to disclose a listed transaction equal to the sum of (i) $100,000 and (ii) 5% of any underpayment resulting from the listed transaction.
   - Impose a penalty of $10,000 on individual taxpayers for each failure to disclose a reportable transaction (other than a listed transaction).

   The portion of this proposed penalty that is dependent on the amount of any underpayment will be incorporated as an increase to the existing accuracy-related penalty under Section 6662. The disclosure penalty for listed transactions will not be waivable.

   Reason for Proposal: Although the failure to disclose a transaction is a factor in determining whether an accuracy-related penalty should be imposed, current law does not impose a penalty *for the mere failure to disclose a reportable transaction on a return. The Treasury Department believes that nondisclosure should be subject to a separate sanction because it undermines the IRS' ability to evaluate questionable transactions.*

2. **Require Public Disclosure by Corporate Taxpayers of Penalties for the Failure to Disclose Listed Transactions and Accuracy-Related Penalties Resulting from an Undisclosed Listed Transaction** – The Treasury Department will seek legislation requiring corporate taxpayers to disclose, in their filings with the Securities and Exchange Commission, any penalty for the failure to disclose a listed transaction and any accuracy-related penalty resulting from an undisclosed listed transaction.

   Reason for Proposal: The Treasury Department believes that a corporation should be required to disclose to its shareholders the corporation's participation in a listed transaction if the corporation incurs any penalties as a result of not disclosing the transaction to the IRS.

3. **Expand and Increase the Penalty for a Promoter's Failure to Register a Reportable Transaction** – The Treasury Department will seek legislation that would amend Section 6707 of the Code, which provides for the penalty on promoters for the failure to register a transaction under Section 6111. The amendment would:

   - Impose, for listed transactions, a penalty equal to the greater of 50% of the fees paid to the promoter or $200,000. This penalty would be increased to 75% for the intentional failure to register a transaction or the intentional failure to provide complete or true information as part of a registration.
   - Impose, for the failure to register all other reportable transactions, a penalty of $50,000.

   Reason for Proposal: The Treasury Department believes that a significant penalty should be imposed on the failure to register a reportable transaction.

4. **Increase the Penalty for a Promoter's Failure to Timely Turn Over Investor Lists** – The Treasury Department will seek legislation that would replace the existing penalty in Section 6708 of the Code for a promoter's failure to maintain lists of investors in a reportable transaction. Under the Treasury Department's proposal, the penalty would be changed so that if a promoter fails to provide the IRS with a list of investors within 20 business days after receipt of the IRS' written request, the promoter would be subject to a penalty of $10,000 for each additional business day that the requested information is not provided. This penalty would be imposed for each investor list that a promoter fails to maintain or delays in providing to the IRS. The IRS would have the discretion to extend the deadline or waive all or a portion of the penalty for good cause shown.

Reason for Proposal: Too many promoters are using delaying tactics to avoid turning over investor lists. The Treasury Department believes that the penalty statute must be structured to sanction this type of behavior.

5. **Permit Injunction Actions against Promoters who Repeatedly Disregard the Registration and List-Maintenance Requirements** – The Treasury Department will seek legislation to amend Section 7408 of the Code to allow the Government to enjoin promoters after the repeated disregard of the rules requiring the registration of reportable transactions under Section 6111 of the Code and the maintenance of investor lists under Section 6112 of the Code. An injunction would place a promoter under court order to abide by the registration and list-maintenance requirements. The promoter then would be in contempt of court if it violates these rules in the future.

   Reason for Proposal: One of the persistent problems faced by the Treasury Department and the IRS is the fact that some promoters are ignoring the rules even in the face of penalties. The Treasury Department believes that the threat of an injunction will enable the Treasury Department and the IRS to curb the most egregious behavior by promoters.

6. **Impose a Penalty for the Failure to Report an Interest in a Foreign Financial Account** – The Treasury Department will seek legislation that will impose, in addition to existing criminal penalties, a civil penalty of $5,000 for the failure to comply with the rules and regulations requiring the reporting of information requested on the "Report of Foreign Bank and Financial Accounts" (Form TD F 90-22.1). The IRS would have the ability to waive the penalty, in whole or in part, if the taxpayer paid all U.S. tax due with respect to the taxpayer's foreign accounts and the taxpayer demonstrates that the failure to file this form was due to reasonable cause.

   Reason for Proposal: The Treasury Department believes that many taxpayers are not filing Forms TD F 90-22.1 even though they have an obligation to do so. Because many tax avoidance transactions involve foreign financial accounts, information about a taxpayer's interest in a foreign financial account will enhance the IRS' ability to identify participants in tax avoidance transactions.

7. **Increase the Penalty for Frivolous Return Positions** – The Treasury Department, in its 2003 fiscal year budget, has proposed to increase the penalty for frivolous tax returns from $500 to $5,000. This amendment would further deter individual taxpayers from taking positions that have no basis in law or fact, such as claims that the Federal income tax is unconstitutional and claims for slavery reparations. The

IRS would publish, at least annually, a listing of positions, arguments, requests, and proposals deemed frivolous for purposes of the statute.

> *<u>Reason for Proposal</u>: The IRS has been faced with a significant number of individuals who are filing returns based on frivolous arguments or who are seeking to hinder tax administration by filing returns that are patently incorrect. The IRS must address such frivolous arguments through statutorily mandated procedures, which result in delay and additional administrative burden and expense. The Treasury Department believes that enhanced penalties will deter egregious taxpayer behavior and enable the IRS to utilize its resources more efficiently.*

8. **<u>Permit a Single Definition of a Reportable Transaction for Disclosure, Registration, and List-Maintenance Requirements</u>** – The Treasury Department will seek legislation amending the statutory definition of a transaction that must be registered under Section 6111 of the Code (currently, a "tax shelter" as defined in Section 6111(c) and (d)) using the existing definition under section 6112(b)(2) – <u>i.e.</u>, "any entity, investment plan or arrangement or other plan or arrangement which of a type which the Secretary determines by regulations as having a potential for tax avoidance or evasion." Among other things, this would eliminate the "conditions of confidentiality" requirement in Section 6111(d). In addition, the registration requirements under Section 6111 would be expanded to cover transactions entered into by individuals, partnerships, S corporations, and trusts.

> *<u>Reason for Proposal</u>: This proposal will allow for regulations that will establish a single definition of a "reportable transaction" for purposes of disclosure, registration and list maintenance. <u>See</u> Administrative Action No. 3, above.*

9. **<u>Confirm the Treasury Department and the IRS' Ability to Expand the Number of Persons Required to Register Reportable Transactions and Maintain Investor Lists</u>** – The Treasury Department will seek legislation confirming that the registration requirements under Section 6111 of the Code and the list-maintenance requirements of Section 6112 apply to all organizers and sellers of a reportable transaction, including persons who assist such persons, and confirming the Treasury Department and the IRS' authority to impose conditions on agreements among promoting parties to have only one person (on behalf of a group of promoters) register a reportable transaction and maintain lists of investors. <u>See</u> Administrative Action No. 7, above.

<u>SUBSTANTIVE LAW CHANGES TO CURB ABUSES</u>

1. **<u>Expand Section 901(k)</u>** – The Treasury Department will seek legislation that will amend Section 901(k) of the Code to cover income streams other than dividends (which already are covered by the statute) that are subject to foreign withholding

taxes. Other income streams that may be subject to foreign withholding taxes include interest and royalties. The amendment would require a minimum holding period for the underlying property generating the income and deny foreign tax credits with respect to any withheld foreign taxes if the minimum holding period is not satisfied.

> *Reason for Proposal: The Treasury Department is concerned that the recent appellate decisions in Compaq and IES may cause taxpayers to renew their efforts to trade in foreign tax credits to reduce their U.S. tax liability. While Section 901(k) of the Code already addresses the specific type of transaction at issue in these cases, this section should be expanded to cover other similar transactions.*

2. **Address Income-Separation Transactions** – The Treasury Department will seek legislation to curb "income-separation" transactions that are structured to create immediate tax losses or to convert current ordinary income into deferred capital gain. These transactions are similar to the bond-stripping transactions that were prohibited by Section 1286 of the Code and preferred stock-stripping transactions that were prohibited by Section 305(e).

> *Reason for Proposal: Subsequent to the enactment of Section 1286, which applies only to bonds, and Section 305(e), which applies only to preferred stock, taxpayers have been engaging in essentially identical transactions using similar assets – i.e., assets providing for relatively stable, periodic income and with substantial future value. Although the IRS is pursuing these transactions under existing tax principles, legislation is needed to create a more comprehensive, consistent tax regime.*

In a common form of these types of transactions, a taxpayer acquires shares in a money-market mutual fund, which provide for a periodic income stream and which have a constant redemption value (e.g., $1 per share). The taxpayer separates the right to receive the income stream over a specific period (e.g., 15 years) from the right to the underlying shares at the end of that period. When the future right to the shares is sold, the parties claim that under the technical rules (i) the taxpayer has a large tax loss on the sale of the future right to the shares (this is accomplished through the allocation of the entire tax basis solely to the future right to the shares), and (ii) the buyer, rather than recognizing ordinary income periodically as the future right to the shares increases in value over time, claims that it is entitled to defer income until a future sale, at which time the buyer will claim that its income is capital gain. Other types of assets used in these income-stripping transactions include leases and service contracts.

The Treasury Department will propose legislation that will treat an income-separation transaction as a secured borrowing, not a separation of ownership. Debt characterization will ensure that the parties' ongoing tax treatment from the transaction clearly reflects income.

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 **Contact: Tara Bradshaw**
March 20, 2002

Statement of
Andrew Lyon, Deputy Assistant Secretary for Tax Analysis
United States Department of the Treasury
Before the Committee on Transportation and Infrastructure
Subcommittee on Highways and Transit
United States House of Representatives
Hearing on the Highway Trust Fund
March 20, 2002

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to describe recent trends in actual highway-related excise taxes and discuss the Administration's FY 2003 Budget forecast of excise taxes dedicated to the Highway Account of the Highway Trust Fund.

The Office of Tax Analysis in the Department of the Treasury forecasts most future tax receipts for the President's Budget. These forecasts are made using economic models that are constantly updated to incorporate the most current information on tax collections and reported tax liabilities. The forecast for Fiscal Years 2002 through 2012 incorporates the Administration's economic assumptions formulated for the Budget by the Troika, which consists of the Council of Economic Advisors, the Office of Management and Budget, and the Department of the Treasury.[1] Each of the six dedicated Highway Account excise tax sources are separately forecast: (i) Gasoline, (ii) Gasohol fuels, (iii) Diesel and other fuels, (iv) Retail tax on trucks, (v) Highway-type tires, and (vi) Heavy vehicle use tax. In Table 1, fiscal year receipts for 2000 through 2012 are reported for these six excise tax sources. The 2000 and 2001 figures are actual receipts drawn from the Highway Account Income Statement, while the 2002 through 2012 figures are projections from the President's FY 2003 Budget.[2]

Recent Excise Tax Receipts

There has been a rapid downturn in highway-related excise taxes as the economy weakened over the past year and a half.

[1] The economic assumptions are described in Chapter 2 of the Analytical Perspectives volume of the Fiscal Year 2003 Budget.

[2] The Income Statement for 2001 includes three quarters of actual tax receipts certified by the IRS. Receipts for the last quarter of the year are based on an estimated allocation of total excise tax receipts. Any differences between estimated and actual receipts for the last quarter is adjusted in March and reflected in the Income Statement of the subsequent year.

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Actual tax receipts dedicated to the Highway Account fell $3.4 billion from Fiscal Year 2000 to Fiscal Year 2001, dropping from $30.3 billion to $26.9 billion, an 11.3 percent decline. As shown in Table 1, five of the six receipt sources were lower in 2001 than in 2000. Only taxes on gasohol fuels show an increase.

Although the growth in the tax on gasohol fuels might initially appear to be a bright spot in an otherwise disappointing year, the growth is actually a significant factor in the overall reduction in dedicated Highway Account tax receipts. The increase in taxes on gasohol fuels is evidence of an ongoing substitution of gasohol fuels for gasoline, which may be used interchangeably in cars and light trucks. We anticipate that there will be an increasing use of gasohol fuels, and corresponding reductions in gasoline consumption as States ban the use of MTBE (methyl tertiary-butyl ether) as a fuel additive. Since the Highway Account receives 15.44 cents per gallon of gasoline but only about 8 cents per gallon of gasohol, increases in gasohol use at the expense of gasoline consumption will result in a net reduction in Highway Account receipts. On net, for every billion gallons of gasohol sold in place of gasoline, Highway Account receipts are approximately $78 million lower. Approximately two-thirds of this negative effect on Highway Account receipts from the substitution of gasohol for gasoline is due to the ethanol tax incentive (currently 53 cents per gallon of ethanol, which at a 10 percent blend is 5.3 cents per gallon of gasohol). The remainder is attributable to the fact that the law dedicates a portion of gasohol tax receipts (typically 2.5 cents per gallon) to the General Fund.

The most dramatic declines between FY 2000 and FY 2001, both in percentage terms and in dollars, occurred in excise taxes related to the sales and operations of trucks. The retail tax on trucks, a 12 percent tax on the first retail sale of heavy trucks, buses, truck tractors, and trailers, was down 55.2 percent, a decline of more than $1.8 billion. Tax receipts from the tax on truck tires fell 22.5 percent, and truck use tax receipts fell 33.8 percent. The reductions in retail truck taxes were particularly large because this tax is levied as an ad valorem tax on the first retail sale. During the investment boom of 1998 and 1999, a large volume of new trucks were purchased at premium prices. As the economy weakened, large numbers of these slightly used trucks were placed on the market. This greatly depressed prices and sales in the new heavy truck market, and tax revenues from retail truck taxes declined accordingly.

The first quarterly report to show weakness in total collections was for July through September of 2000. This Highway Trust Fund certification of excise tax receipts was issued in March of 2001.[3] This certification shows a 4.8 percent drop compared with the same quarter in the prior year. The subsequent quarterly certification for October through December 2000, issued in late June, showed a 5.6 percent reduction in receipts compared to the prior year. Based on this weakness, the Mid-Session Review of the FY 2002 Budget reported that Highway Trust Fund revenues would be lower than previously forecast.

[3] The Highway Account Certification is issued by the IRS as the final statement of excise tax collections dedicated to the account. The Certification for a given quarter is issued approximately five and half months after the end of the quarter due to the time required to process the excise tax returns. This report, based on filed excise tax returns, provides the first detail of tax receipts by specific tax item.

New data for the first two quarters of calendar year 2001 have shown further weakness in tax receipts. The certification for January through March of 2001 showed receipts declining 3.5 percent compared with the prior year, and the certification for April through June of 2001 was 5.5 percent lower than the prior year. These two quarterly certifications also reflected accelerating increases in gasohol use as gasohol taxes grew by 25.8 percent and 23.7 percent compared with the same quarters in 2000. This series of weak Highway Account receipt certifications explains why FY 2001 total tax revenues fell to $26.9 billion.[4]

Forecast of Future Excise Tax Receipts

Looking forward, the Administration projects steady growth in highway-related excise tax receipts. Net receipts in FY 2003 are projected to be 6.2 percent higher than FY 2001 and 2.9 percent higher than FY 2002. Average annual growth is forecast to be more than 3 percent per year over the remainder of the budget period. The FY 2003 Budget forecasts a faster long-run growth in receipts than last year's Budget; however, this faster rate of growth is relative to a smaller base, so the forecasted levels are lower than previously projected. In the current budget, the Administration forecasts net Highway Account excise tax receipts to be $28.57 billion in FY 2003.

During the first five years of the forecast period, gallons of gasoline and gasohol fuels are projected to grow at an average of 2.3 percent per year. The consumption of gasohol fuels grows faster than gasoline consumption due to the increasing reliance on ethanol as an oxygenate to meet clean air requirements. Because of the difference in the amount per gallon dedicated to the Highway Account, total gasoline and gasohol receipts grow at about 2 percent per year during the first five years of the forecast, which is slower than the rate of growth of fuel consumption.

The truck related excise tax receipts are projected to grow quickly as the economy recovers. For FY 2003 compared to FY 2001, receipts from the retail tax on trucks are projected to grow 22.1 percent and tire tax receipts are projected to grow by 10.6 percent. Between FY 2003 and FY 2002 receipts from the retail tax on trucks are projected to grow 15.6 percent and tire tax receipts are projected to grow 6.5 percent. This growth reflects the recovery of the heavy truck market and more generally increased investment in equipment. Due to continued weakness in the manufacturing sector of the economy, diesel fuel receipts are forecast to decline slightly between FY 2001 and FY 2002 before resuming growth averaging more than 3.5 percent per year.

In summary, the Administration's forecast of highway-related excise taxes reflects the most recent tax collection and liability data available, and the Administration's economic forecast. The data reflect the weakness in the economy during 2000 and 2001. The forecast for future years is based on the assumption that the economic downturn would end in early 2002 and a strong recovery would be underway later in the year. Recent economic data are consistent with these assumptions and suggest the recovery may already be underway.

Conclusion

I appreciate this opportunity to describe recent trends and present our current forecast to you.

[4] Total Highway Account receipts including fines and penalties were $26.917 billion in FY 2001.

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
March 20, 2002

Contact: Office of Public Affairs
(202) 622-2960

Secretary of the Treasury Paul H. O' Neill
Statement to the Press
Monterrey, Mexico
March 20, 2002

President George W. Bush has called for a new era in international development assistance—an era of accountability and efficacy, as well as generosity. The President has committed our nation to improving living standards worldwide, to giving people the tools and materials they need to build prosperity for their children. Like the President and our fellow Americans, I believe that too many are born into poverty today, without hope for escape. Too many have been left behind, without enough food, or medicine, or education, without even the prospect of progress. And for too long, the developed world has been content to make promises without expecting results. We have bragged about our efforts, without measuring our accomplishments. Now, at last, we will hold accountable rich and poor governments alike, to make a difference, not just a donation.

The President's new compact for global development recognizes that building lasting prosperity requires laying a solid foundation first. Without good government and sound economic policies, our work will sink into the mud of corruption and mismanagement. That is why the President's proposed Millennium Challenge Account encourages recipient governments to rule justly, invest in their people, and advance economic freedom. Countries that demonstrate a commitment to these principles will see the greatest benefit from the Challenge Account.

We know these fundamentals are crucial to achieving sustained economic growth. We know that increases in productivity-- the amount of value that each worker produces -- drive economic growth and per capita income. Economic growth creates better jobs, increased wages, and a higher standard of living for all. Thus, smart development dollars invest in activities that enhance productivity.

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More specifically, we know that successful developing countries have several characteristics in common:

- They encourage private enterprise through market-oriented mechanisms.
- They fight corruption and ensure competent public administration and rule of law.
- They open their economies to trade and investment.
- They invest in human capital such as education and health care.
- And they observe and adopt best practices in business and government from around the world

- Here in Mexico, the PROGRESA program provides a good example of an investment in human capital -- that is, children's education -- that could pay great future dividends in productivity and growth.

The Role of External Assistance

Wealthy nations such as the United States have a responsibility to see that their contributions produce real improvements in the daily lives of people in the poorest countries. Over the last 50 years, bilateral and multilateral aid have delivered relief and disappointment. Relief as we provide food or vaccinations where there are none. But also(that's a little too harsh) disappointment because so many poor countries stay that way, and we too rarely ask why. In fact, the truth is that we don't know how successful aid has been, because we have not consistently measured its results. What we do know is that half the world's people still live on less than $2 a day.

These people are no different in their desire for dignity than those of us born in the developed world. We must do better, and we can do better, to help them achieve their dreams. That means raising expectations, setting standards, and measuring results. We have an obligation to plant our resources where they will yield growth, rather than squandering precious seeds in unfertile soil.

The good news is that we believe we can make a difference, if we work in partnership with the developing world and both sides take responsibility for results. We can make even barren soil fertile. Research has shown that when a country's policies are sound, external assistance can have a significant and positive impact

Let me suggest four priority areas for donor and recipient attention:

<u>First</u>, donors should expand **grants**, instead of loans, and recipients should invest the grants in human capital. People need health, knowledge, and skills if they are to become more productive. But it is unrealistic to imagine that investments in crucial social services such as education, health, clean water and sanitation will directly generate enough revenue to service new debt For investments of this kind, President Bush has proposed that the World Bank and the regional development banks follow the example of bilateral donors and dramatically increase the share of their funding provided as grants to the poorest and least creditworthy countries. Grants

encourage these basic investments without burying developing nations in new debt they may not be able to service.

Second, donor investments should boost productivity in borrowers' economies and **remove economic constraints** to progress. Examples include improving infrastructure and the services needed to create vibrant rural economies, strengthening the regulatory systems necessary to support competitive manufacturing and small and medium enterprises, providing access to seed capital to start new businesses, and helping establish the institutions and expertise needed to benefit from trade and investment flows.

Third, donors should play a larger role in promoting investment climate reform, especially private investment. They should help channel technical assistance and project finance to viable **private sector** projects in developing nations.

Fourth, donors should step up efforts to promote **good governance** and to assist borrowers in managing and monitoring their public expenditures, improving service delivery, and ensuring accountability for public and donor resources.

In an era of profound global change, developing countries still face enormous challenges. The United States is committed to continuing to play a necessary and important role in helping the people in the poorest nations in the world to build self-sustaining economies that will generate ever increasing living standards and ever widening opportunities.

PUBLIC DEBT NEWS

)epartment of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
March 21, 2002

Contact: Office of Financing
202-691-3550

TREASURY'S INFLATION-INDEXED SECURITIES
APRIL 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 April 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 2024. The information is also available on the Internet at Public Debt's website (http://www.publicdebt.treas.gov).

The information for May is expected to be released on April 16, 2002.

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Attachment

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
April 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
April 1 2002	177.10000	1.11781	1.10580	1.09622	1.09497
April 2 2002	177.12333	1.11795	1.10595	1.09637	1.09511
April 3 2002	177.14667	1.11810	1.10610	1.09651	1.09526
April 4 2002	177.17000	1.11825	1.10624	1.09666	1.09540
April 5 2002	177.19333	1.11839	1.10639	1.09680	1.09554
April 6 2002	177.21667	1.11854	1.10653	1.09694	1.09569
April 7 2002	177.24000	1.11869	1.10668	1.09709	1.09583
April 8 2002	177.26333	1.11884	1.10682	1.09723	1.09598
April 9 2002	177.28667	1.11898	1.10697	1.09738	1.09612
April 10 2002	177.31000	1.11913	1.10712	1.09752	1.09627
April 11 2002	177.33333	1.11928	1.10726	1.09767	1.09641
April 12 2002	177.35667	1.11943	1.10741	1.09781	1.09655
April 13 2002	177.38000	1.11957	1.10755	1.09796	1.09670
April 14 2002	177.40333	1.11972	1.10770	1.09810	1.09684
April 15 2002	177.42667	1.11987	1.10784	1.09824	1.09699
April 16 2002	177.45000	1.12001	1.10799	1.09839	1.09713
April 17 2002	177.47333	1.12016	1.10814	1.09853	1.09728
April 18 2002	177.49667	1.12031	1.10828	1.09868	1.09742
April 19 2002	177.52000	1.12046	1.10843	1.09882	1.09756
April 20 2002	177.54333	1.12060	1.10857	1.09897	1.09771
April 21 2002	177.56667	1.12075	1.10872	1.09911	1.09785
April 22 2002	177.59000	1.12090	1.10886	1.09926	1.09800
April 23 2002	177.61333	1.12105	1.10901	1.09940	1.09814
April 24 2002	177.63667	1.12119	1.10916	1.09954	1.09829
April 25 2002	177.66000	1.12134	1.10930	1.09969	1.09843
April 26 2002	177.68333	1.12149	1.10945	1.09983	1.09857
April 27 2002	177.70667	1.12163	1.10959	1.09998	1.09872
April 28 2002	177.73000	1.12178	1.10974	1.10012	1.09886
April 29 2002	177.75333	1.12193	1.10988	1.10027	1.09901
April 30 2002	177.77667	1.12208	1.11003	1.10041	1.09915

CPI-U (NSA) for : December 2001 176.7 January 2002 177.1 February 2002 177.8

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
April 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
April	1	2002	177.10000	1.07988	1.07729	1.05263	1.01755
April	2	2002	177.12333	1.08002	1.07744	1.05277	1.01769
April	3	2002	177.14667	1.08016	1.07758	1.05291	1.01782
April	4	2002	177.17000	1.08030	1.07772	1.05305	1.01795
April	5	2002	177.19333	1.08045	1.07786	1.05319	1.01809
April	6	2002	177.21667	1.08059	1.07800	1.05332	1.01822
April	7	2002	177.24000	1.08073	1.07815	1.05346	1.01836
April	8	2002	177.26333	1.08087	1.07829	1.05360	1.01849
April	9	2002	177.28667	1.08102	1.07843	1.05374	1.01862
April	10	2002	177.31000	1.08116	1.07857	1.05388	1.01876
April	11	2002	177.33333	1.08130	1.07871	1.05402	1.01889
April	12	2002	177.35667	1.08144	1.07886	1.05416	1.01903
April	13	2002	177.38000	1.08159	1.07900	1.05429	1.01916
April	14	2002	177.40333	1.08173	1.07914	1.05443	1.01929
April	15	2002	177.42667	1.08187	1.07928	1.05457	1.01943
April	16	2002	177.45000	1.08201	1.07942	1.05471	1.01956
April	17	2002	177.47333	1.08215	1.07957	1.05485	1.01970
April	18	2002	177.49667	1.08230	1.07971	1.05499	1.01983
April	19	2002	177.52000	1.08244	1.07985	1.05513	1.01997
April	20	2002	177.54333	1.08258	1.07999	1.05527	1.02010
April	21	2002	177.56667	1.08272	1.08013	1.05540	1.02023
April	22	2002	177.59000	1.08287	1.08027	1.05554	1.02037
April	23	2002	177.61333	1.08301	1.08042	1.05568	1.02050
April	24	2002	177.63667	1.08315	1.08056	1.05582	1.02064
April	25	2002	177.66000	1.08329	1.08070	1.05596	1.02077
April	26	2002	177.68333	1.08343	1.08084	1.05610	1.02090
April	27	2002	177.70667	1.08358	1.08098	1.05624	1.02104
April	28	2002	177.73000	1.08372	1.08113	1.05638	1.02117
April	29	2002	177.75333	1.08386	1.08127	1.05651	1.02131
April	30	2002	177.77667	1.08400	1.08141	1.05665	1.02144

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TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
April 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**		
April 1 2002	177.10000	0.99775	0.99738		
April 2 2002	177.12333	0.99788	0.99752		
April 3 2002	177.14667	0.99801	0.99765		
April 4 2002	177.17000	0.99814	0.99778		
April 5 2002	177.19333	0.99827	0.99791		
April 6 2002	177.21667	0.99840	0.99804		
April 7 2002	177.24000	0.99854	0.99817		
April 8 2002	177.26333	0.99867	0.99830		
April 9 2002	177.28667	0.99880	0.99844		
April 10 2002	177.31000	0.99893	0.99857		
April 11 2002	177.33333	0.99906	0.99870		
April 12 2002	177.35667	0.99919	0.99883		
April 13 2002	177.38000	0.99932	0.99896		
April 14 2002	177.40333	0.99946	0.99909		
April 15 2002	177.42667	0.99959	0.99922		
April 16 2002	177.45000	0.99972	0.99936		
April 17 2002	177.47333	0.99985	0.99949		
April 18 2002	177.49667	0.99998	0.99962		
April 19 2002	177.52000	1.00011	0.99975		
April 20 2002	177.54333	1.00024	0.99988		
April 21 2002	177.56667	1.00038	1.00001		
April 22 2002	177.59000	1.00051	1.00014		
April 23 2002	177.61333	1.00064	1.00027		
April 24 2002	177.63667	1.00077	1.00041		
April 25 2002	177.66000	1.00090	1.00054		
April 26 2002	177.68333	1.00103	1.00067		
April 27 2002	177.70667	1.00116	1.00080		
April 28 2002	177.73000	1.00130	1.00093		
April 29 2002	177.75333	1.00143	1.00106		
April 30 2002	177.77667	1.00156	1.00119		

CPI-U (NSA) for : December 2001 176.7 January 2002 177.1 February 2002 177.8

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.
March 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 $23,666 million of publicly held notes maturing March 31, 2002, and to raise new cash of approximately $1,334 million.

In addition to the public holdings, Federal Reserve Banks hold $7,873 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 $789 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

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HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF
2-YEAR NOTES TO BE ISSUED APRIL 1, 2002

March 20, 2002

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

Description of Offering:
Term and type of security .... 2-year notes
Series L-2004
CUSIP number .... 912828 AA 8
Auction date .... March 27, 2002
Issue date .... April 1, 2002
Dated date .... March 31, 2002
Maturity date .... March 31, 2004
Interest rate .... Determined based on the highest accepted competitive bid
Yield .... Determined at auction
Interest payment dates .... September 30 and March 31
Minimum bid amount and multiples $1,000
Accrued interest payable by investor .... Determined at auction
Premium or discount .... Determined at auction

STRIPS Information:
Minimum amount required $1,000
Corpus CUSIP number .... 912820 GX 9
Due date(s) and CUSIP number(s)
for additional TINT(s) .... March 31, 2004 - - 912833 YS 3

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

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EMBARGOED UNTIL DELIVERY
March 21, 2002

Contact: Tara Bradshaw
(202) 622-2014

STATEMENT OF
MARK A WEINBERGER
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
COMMITTEE ON FINANCE
UNITED STATES SENATE

Mr. Chairman, Mr. Grassley and other members of the Committee, thank you for inviting the Treasury Department to testify today on the important issue of abusive tax avoidance transactions. We appreciate the role that your Committee has taken in considering these matters. Through your statements and the release of your staff's draft legislative proposals, you have taken the lead in the public discussion about how best to address abusive tax avoidance transactions.

Abusive tax avoidance transactions are designed to take advantage of the incredible complexity of the tax law to obtain benefits that Congress never intended. Abusive tax avoidance transactions pose a threat to the integrity of our self-assessment tax system by eroding the public's respect for the tax law. They also waste public and private resources and harm the public fisc. As long as the tax law retains its current complexity, promoters will continue to develop these transactions and market them to corporate and individual taxpayers. As Secretary O'Neill has stated, we must simplify the Internal Revenue Code. Its complexity effectively aids and abets those who seek to improperly reduce their taxes. Nevertheless, until we simplify the Code, the Treasury Department and the IRS will continue to vigilantly pursue enforcement of our laws, within the contours of the current system, to address abusive tax avoidance transactions.

As you know, the Treasury Department has been evaluating the effect of the current disclosure regime, particularly the effect of the disclosure regulations issued in February 2000, before initiating a new course of action. We appreciate very much, Mr. Chairman, that the Committee has given us the time to complete our evaluation because what we have learned will result in more effective rules. Constant change is not helpful to tax administration; it makes it harder for taxpayers to comply with the law and harder for the IRS to administer the law. Accordingly, we should act deliberately to change the rules only after appropriate evaluation and analysis.

PO-2026

Treasury's testimony today will highlight the measures that we believe are necessary to address abusive tax avoidance transactions. Our proposals include administrative actions we already are beginning to undertake, as well as legislative proposals. Our administrative and legislative initiatives are similar in many respects to the proposals considered by your staff in the draft legislation they previously prepared.

The goal we all share is to ensure that each taxpayer pays its fair share of tax. We do not wish to interfere with legitimate business tax planning, but we must curb abusive tax practices that take advantage of complex tax laws to obtain unintended tax benefits. This goal can best be achieved through transparency and certainty. Transparency means that questionable transactions are disclosed for the IRS to review. Certainty means that taxpayers and promoters are subject to rules that clearly identify which transactions must be disclosed and registered and which transactions require list maintenance. Certainty also means that taxpayers and promoters cannot avoid detection. Finally, certainty means that rules will be enforced and penalties will be imposed in appropriate circumstances.

The measures we propose will provide transparency and certainty. These measures will create a web of rules that reinforce each other by requiring information reporting to the IRS about a questionable transaction both by the taxpayers participating in the transaction and by the promoters. These disclosure rules will allow the IRS to identify promoters from taxpayer disclosures, and other taxpayers from promoter disclosures. Taxpayers and promoters who fail to provide the required disclosure will be subject to significant penalties.

Treasury believes that if a taxpayer feels comfortable entering into a transaction, if a promoter feels comfortable selling a transaction, and an advisor feels comfortable recommending a transaction, they all should feel comfortable detailing the transaction for the IRS.

Before providing details about our new course of administrative actions and our legislative proposals, I think it would be helpful first to provide a context for our measures by describing the actions that Treasury and the IRS are currently taking to combat abusive tax avoidance transactions, and why we have concluded that more needs to be done. In the final analysis, however, we all must recognize that the complexity of the tax Code is the fundamental reason why taxpayers have the opportunity to engage in abusive transactions, and only by simplifying the entire system will such opportunities be eradicated.

Current Enforcement Status

Treasury and the IRS are working together closely to combat abusive tax practices. Some recent and important steps include a new voluntary disclosure initiative, new penalty guidelines, guidance that shuts down several abusive transactions, improved resource allocation and inter-agency coordination, enhanced tax information exchange agreements with offshore financial centers, and intensified enforcement efforts against the promoters of abusive tax avoidance transactions.

Treasury and the IRS will continue pursuing steps that will enhance the Government's ability to curb abusive tax avoidance transactions.

Disclosure Initiative and New Penalty Guidelines

The IRS recently issued Announcement 2002-2, which provides an incentive for taxpayers to disclose questionable transactions. Under this program, which runs through April 23, 2002, the IRS will waive the accuracy-related penalty if a disclosed transaction results in an underpayment. The taxpayer, however, remains liable for the additional tax and interest. In order to obtain the benefits of the program, the taxpayer must disclose to the IRS all relevant information about the transaction, including the identity of any promoter. Almost 150 transactions already have been disclosed, and the IRS expects many additional disclosures in the coming weeks. The IRS will use the information received to identify promoters and taxpayers who have not disclosed transactions. For example, one recent IRS inquiry of a promoter resulted in a list of 17 investors. All 17 of the investors should have disclosed their participation to the IRS, but only 5 of the investors actually disclosed.

Along with this disclosure initiative, the IRS announced new penalty guidelines that will be used by the IRS' Large and Mid-Size Business Division. These guidelines make clear that penalties are an important tool to encourage voluntary compliance. The new guidelines require IRS agents to consider the appropriateness of penalties for certain transactions and require an agent's decision to assert or not assert penalties to be reviewed by a Director of Field Operations. The guidelines will ensure that penalties are impartially, fairly, and consistently considered in all tax avoidance cases.

Guidance Shutting Down Various Transactions

Treasury and the IRS are continually evaluating transactions that come to the Government's attention. When an abusive tax avoidance transaction is identified, Treasury and the IRS will issue guidance shutting down that transaction. For example, Treasury and the IRS recently published (i) a notice warning taxpayers that the IRS will challenge transactions using a loan assumption agreement to claim an inflated basis in assets acquired from another party (Notice 2002-21), (ii) a notice warning taxpayers that the IRS will challenge transactions improperly shifting basis from one party to another (Notice 2001-45), (iii) a notice announcing Treasury's intention to promulgate regulations that prevent the duplication of losses by a consolidated group (Notice 2002-18), and (iv) final regulations on hedging transactions that prevent employers from deferring tax on income from investments used to fund non-qualified deferred executive compensation (Treasury Regulation Section 1.1221-2). Treasury and the IRS are working to expedite the issuance of additional notices and guidance.

Improved Resource Allocation and Inter-Agency Coordination

Government resources must be used as efficiently and effectively as possible. Treasury has worked with the IRS to issue published guidance in controversial areas (such as research credit, accounting method and timing issues), that have consumed significant IRS examination resources. According to the IRS' Large and Mid-Size Business Division, these areas previously used as much as 40% of large case audit resources across industry groups. That placed an unacceptable burden on both taxpayer and IRS recourses. Treasury and the IRS believe that IRS resources are better used to address other important issues, including abusive tax avoidance transactions. Moreover, taxpayer resources are better allocated to growing their businesses.

The IRS also is working with the Department of Justice to ensure that the Government has a single, coordinated approach to cases in litigation.

Enhanced Tax Information Exchange with Offshore Financial Centers

It is more important than ever not to allow the financial institutions of any country to be used for an illicit purpose, including cheating on taxes. Treasury is working to ensure that the necessary tax information exchange relationships are in place so that no country serves as a safe haven for those who wish to hide income from the IRS. Secretary O'Neill made a commitment last summer to significantly expand our network of tax information exchange agreements, with a particular focus on achieving such agreements for the first time with significant offshore financial centers that have not been interested in cooperating with us on tax matters in the past. Importantly, these civil and criminal tax information exchange agreements will override bank secrecy laws.

Over the past few months the United States has signed important new tax information exchange agreements with the Cayman Islands, Antigua and Barbuda, and The Bahamas. These agreements, with jurisdictions that are major international financial centers located in our own neighborhood, will be an invaluable source of information to the IRS. These were the first agreements signed in nearly a decade.

However, Treasury is not stopping there. We are in ongoing discussions with many other jurisdictions, and we expect to be able to announce additional new agreements very soon. We remain committed to establishing a complete network of tax information exchange relationships as quickly as possible.

Treasury also is continuing to work within the OECD to keep international attention focused on the need for cooperation on information exchange on tax matters. We have been successful in refocusing the OECD project on its core element: the need for countries to be able to obtain specific information from other countries upon request in order to prevent noncompliance with tax laws. Treasury is very pleased that nineteen jurisdictions have committed to improving their transparency and information exchange practices since the refocusing of the OECD project last year. We look forward to continuing to work together with other countries to achieve real advances in this critically important area.

Intensified Enforcement Efforts Against Promoters of Abusive Tax Avoidance Transactions

Some promoters proliferate abusive tax avoidance transactions by developing them and marketing them to a large number of taxpayers. Because these promoters play a role in the existence of abusive tax avoidance transactions, the IRS is taking vigorous actions to curb their activities with respect to both corporations and individuals.

The IRS has contacted 30 promoters of corporate tax avoidance transactions and is working with the Department of Justice to ensure that these promoters provide us with information on questionable transactions, including the identity of the taxpayers who participated in them. The IRS and the Department of Justice are ready to go to court to ensure that promoters comply with the IRS' requests for information. Once the IRS obtains from promoters the identity of participating taxpayers, the IRS will initiate appropriate enforcement action against those taxpayers, including examinations and penalty consideration. The IRS also has opened 14 penalty audits with respect to promoters of corporate tax avoidance transactions.

In addition, the IRS is focusing on promoters of tax schemes that are directed primarily at individuals and small businesses. Although often less sophisticated than corporate tax avoidance transactions, these schemes are equally damaging to the fairness of our tax system. The IRS, working with the Department of Justice, already has obtained 6 injunctions against promoters of these schemes, and 12 other cases have been or soon will be filed. The IRS also is working to stop the use of offshore accounts that allows U.S. residents to hide assets in a tax haven country while using a credit card to spend that money in the United States. The IRS, again in coordination with the Department of Justice, has issued summonses to some of the major credit card networks and plans to issue summonses to certain vendors to identify the thousands of taxpayers who are participating in these schemes.

Treasury's Assessment of the Current Disclosure Regime

The current disclosure regime is a key component in combating abusive tax avoidance transactions. Under the current disclosure regulations, corporate taxpayers are required to disclose certain reportable transactions on their tax returns, and promoters are required to register confidential corporate tax shelters with the IRS and maintain lists of investors. Disclosure allows the IRS to identify potentially abusive transactions early in the process, to evaluate those transactions, to provide guidance on whether those transactions are proper, and, if necessary, to change the regulations or recommend legislative changes to shut down those transactions. Disclosure also helps the IRS identify taxpayers who participate in abusive transactions and promoters who market such transactions. Effective disclosure rules also are important to deter taxpayers from engaging in abusive tax avoidance transactions. A disclosure regime that increases the probability of IRS detection will change the taxpayer's risk/reward analysis and discourage taxpayers from playing the audit lottery.

For the year 2000 corporate returns, which were filed primarily in the fall 2001 filing season, only 272 transactions were disclosed by 99 corporate taxpayers. Treasury and the IRS are disappointed with the small number of disclosures. Treasury and the IRS also are disappointed with promoter compliance with the list maintenance rules. Some promoters are claiming they are not required to maintain investor lists or are refusing to provide the lists to the IRS in a timely manner.

After reviewing the operation of the current rules, Treasury and the IRS have concluded that significant changes to the rules are necessary. Treasury and the IRS have identified which rules are effective and which are ineffective. Based on this analysis, we are proposing changes that build on what has proven effective and alter what has proven ineffective.

The primary feature of an effective regime is certainty - certainty that transactions will be identified, certainty that the rules will be enforced, and certainty that applicable penalties will be imposed. Regardless of how artful or conceptually perfect the rules in the Code and the regulations are drafted, if they are not enforced – and especially if the tax community perceives that they are not being enforced – they will prove ineffective. The current rules do not provide the necessary certainty.

The current rules do not provide certainty in part because of their complexity. This complexity arises because the disclosure, registration, and list maintenance rules are different from one another and because they are each difficult to apply. For example, under the current rules, a transaction must be disclosed if it satisfies two of five filters, but does not qualify for any one of three exceptions. Some of the exceptions are highly subjective, including the exception if there is a "generally accepted understanding" that the tax benefits are allowable and the exception if there is "no reasonable basis" for the IRS to deny the tax benefits. Taxpayers and promoters are parsing these rules to avoid disclosure. They are interpreting the filters narrowly and reading the exceptions broadly.

In addition, the system must alter the risk/reward analysis for participating in questionable transactions by increasing the cost of not complying with the rules. The current rules do not provide incentives to disclose transactions because they do not impose meaningful penalties on taxpayers and promoters who fail to comply. For example, under the current rules, there are no clear penalties if a taxpayer fails to disclose a reportable transaction.

The existing rules were intended to create a web that would allow the IRS to identify and halt abusive tax avoidance transactions by tracing transactions through the system from promoters to taxpayers and vice versa. The possibility of the IRS finding out about a transaction from alternative sources would increase the "risk" of detection. However, the complexity and subjectivity of the current rules and the lack of meaningful penalties -- essentially, holes in the web -- do not afford certainty of disclosure, identification, or enforcement. Without this certainty, the current disclosure rules do not have the necessary deterrent effect.

Yesterday, Treasury announced an initiative to improve the disclosure and penalty regime through a combination of administrative actions already underway and new legislative proposals. These actions will increase certainty and make the disclosure regime more effective. A detailed description of the proposals is attached to this testimony. We have met with your staffs to provide an overview as well.

Administrative Changes

Many of the administrative actions will simplify and broaden the rules governing taxpayer disclosure and promoter registration and list keeping. For example, Treasury and the IRS intend to provide a single definition of a reportable transaction for purposes of the disclosure, registration, and list maintenance rules. The definition will provide clear, bright line tests that leave no room for interpretation or subjective inquiries. This single definition will allow the IRS to move quickly from a taxpayer's disclosure to a promoter's list of investors to other taxpayers who engaged in the reportable transaction. This will create a more perfect web that deters abusive tax avoidance transactions by increasing the certainty of IRS detection.

The IRS also is developing a new disclosure form that will be centrally filed with the Office of Tax Shelter Analysis. The form will request specific information needed to evaluate whether a transaction is an abusive tax avoidance transaction. The form will greatly help the IRS identify and evaluate transactions for which further action may be needed.

The new rules will deliberately cast a broader net than exists under the current disclosure and registration rules. For example, the initiative will extend the disclosure requirements to partnerships, S corporations, trusts, and certain individuals. In addition, the initiative will apply the disclosure, registration and list maintenance requirements to more transactions. Under the current rules, transactions that the IRS has identified as tax avoidance, or listed, transactions, must be disclosed, and we will keep that rule. We are replacing, however, the 2-of-5 filter test and eliminating the related exceptions in the current rules. In their place, we are creating clear categories designed to require disclosure of the types of transactions we are most concerned about. These include transactions that generate large tax losses, transactions that result in tax credits where the underlying assets are held a brief period of time, transactions that generate significant book-tax differences, and transactions marketed on a confidential basis. We recognize that these rules will require disclosure of many legitimate transactions, and we are eager to work with taxpayers to ensure that these rules are appropriately tailored. Simplicity and clarity, however, will remain our paramount goals.

Treasury and the IRS also will undertake administrative actions to increase penalties on taxpayers who fail to disclose reportable transactions. For example, Treasury and the IRS will amend the regulations to impose a strict liability accuracy-related penalty on taxpayers who do not disclose a listed transaction and who have an underpayment resulting from the transaction.

In addition, the amended regulations will provide that taxpayers cannot rely on a favorable tax opinion as a defense to the imposition of the accuracy-related penalties if the taxpayer did not disclose a reportable transaction or a return position based on the invalidity of a regulation.

Because taxpayers rely on opinions for assurance that transactions are proper and will not be subject to penalties, Treasury and the IRS believe that tax opinions regarding tax avoidance transactions need to be regulated. We are currently taking steps administratively to mandate and enforce standards for opinions used to support tax avoidance transactions.

Legislative Proposals

Treasury's legislative proposals focus on enhanced penalties for taxpayers and promoters who fail to follow the disclosure, registration, and list maintenance rules. For example, Treasury is seeking a new and substantial penalty for taxpayers who fail to disclose reportable transactions. A corporate taxpayer, for instance, would be subject to a penalty of $200,000 for failure to disclose a listed transaction, regardless of whether the tax benefits of the transaction are ultimately sustained on the merits. Further, if the corporate taxpayer fails to disclose and loses on the merits, the taxpayer would be liable for a new strict liability penalty of 25% of its claimed tax savings. Treasury is also seeking legislation requiring public disclosure by corporate taxpayers of penalties for the failure to disclose listed transactions and accuracy-related penalties resulting from an undisclosed listed transaction.

For promoters, Treasury is recommending legislation that would enhance the existing penalties for failure to register a transaction. For example, a promoter who fails to register a listed transaction generally would be subject to a fine of $200,000 or 50% of its fees, whichever is greater.

Because Treasury wants to make sure that promoters identify taxpayers who have invested in reportable transactions, we are seeking an escalating penalty that would increase by $10,000 for each day that a promoter fails to turn over a list of investors requested by the IRS in writing. The IRS is facing too many delay tactics, and this needs to stop.

In addition to the preceding penalty proposals, Treasury believes that other legislative measures should be taken to curb abusive tax avoidance transactions. For example, legislative revisions to Code Section 6111 may be necessary for Treasury and the IRS to create a consistent definition of a reportable transaction for purposes of the disclosure, registration and list maintenance rules.

Treasury also proposes two substantive law changes. The first substantive proposal would amend Section 901(k) of the Code to deal with trading in foreign tax credits.

Under the proposed rule, a minimum holding period for ownership of property would be required before taxpayers could claim tax credits associated with income from the property. The second substantive proposal would add a new provision to deal with a broad range of income stripping transactions. The new provision would address stripping transactions in a manner that would match the tax treatment with the economics of the transactions.

Conclusion

In conclusion, Treasury and the IRS are committed to combating abusive tax avoidance transactions. While the vast majority of taxpayers and their advisors attempt to comply with the letter and spirit of the law, the complexity of the current tax system provides too many opportunities for some taxpayers to participate in transactions that generate tax benefits never intended by Congress. The best way to eliminate these practices is to simplify the tax law and improve transparency so that questionable transactions are disclosed and subject to IRS review. Treasury has set forth a number of administrative and legislative proposals that provide clear and simple rules for disclosure, registration and list maintenance. We also propose new and increased penalties for failure to comply with these rules. Treasury and the IRS are moving forward to implement the administrative actions that can be undertaken without further action by Congress. In addition, we urge Congress to move forward with Treasury's legislative proposals. If enacted, these proposals would improve the effectiveness of the disclosure, registration and list maintenance rules, thereby changing the risk/reward analysis for taxpayers who otherwise might play the audit lottery to avoid paying their fair share of taxes.

Thank you again, Mr. Chairman, for the opportunity to speak today. The Treasury Department looks forward to working with the Finance Committee on the important task before us. I will gladly answer any questions the Committee may have.

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DEPARTMENT OF THE TREASURY

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or Immediate Release
1arch 21, 2002

Contact: Tony Fratto
(202) 622-2960

STATEMENT OF RANDAL K. QUARLES
NOMINEE FOR ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE COMMITTEE ON FINANCE
UNITED STATES SENATE

Thank you, Mr. Chairman and Members of the Committee, for the opportunity to appear before you today. I n honored that President Bush has nominated me to serve as the Assistant Secretary for International Affairs at the epartment of the Treasury, and I am grateful to have the privilege of your consideration, particularly during such a ısy time of year. With the Committee's indulgence, I would like to introduce the members of my family that are ɜre.

The role of the Assistant Secretary for International Affairs is to advise the Under Secretary for International ffairs and the Secretary of the Treasury on U.S. participation in the international financial system, including ıbjects such as financial regulation, macroeconomic policy, exchange rate policy, trade and investment and our ırticipation in the International Monetary Fund and the World Bank, among other institutions. The Assistant ɜcretary also shares oversight of operations of the Office of International Affairs and represents the Department of e Treasury in various international fora.

If confirmed, I would bring to this role a variety of experiences in both government and the private sector. ost recently, I have been the U.S. Executive Director of the International Monetary Fund, representing the United ates on the Fund's board during a time of stress for the international financial system. Before that, I was –although ised in Utah and a passionate westerner – a practicing Wall Street lawyer for nearly seventeen years, focusing on ternational banking and financial matters. I was privileged, particularly during the last decade, to help some of the orld's premier financial institutions think through their approach to an increasingly integrated financial system and take practical steps to prepare for that integration. I was also privileged to serve at the Treasury Department from 91 to 1993, working with the team that helped propose a modern statutory framework for this ongoing financial tegration - - work that we like to think contributed to the financial modernization legislation enacted into law arly two years ago.

If confirmed, I would hope to approach my role as Assistant Secretary with the benefit of all these periences: the practical wisdom of a good counselor, the policy experience of an enthusiastic public servant and, t least, the common sense I have always found native in those born west of the 100th meridian and raised in the adow of the Wasatch Mountains.

Thank you again Mr. Chairman for the privilege of appearing before this Committee. I would be pleased to swer any questions you and the other members of the Committee may have.

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EMBARGOED UNTIL 2:30 P.M.
March 21, 2002

CONTACT: Office of Financing
202/691-3550

MARCH HOLIDAY SCHEDULE FOR TREASURY'S WEEKLY BILL ANNOUNCEMENT

Due to an early market closing on Thursday, March 28, 2002, Treasury will release its announcement of weekly bills at 12:00 noon that day.

oOo

PO-2028

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 2:30 P.M.
March 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 $24,000 million to refund an estimated $25,796 million of publicly held 13-week and 26-week Treasury bills maturing March 28, 2002, and to pay down approximately $1,796 million. Also maturing is an estimated $23,001 million of publicly held 4-week Treasury bills, the disposition of which will be announced March 25, 2002.

The Federal Reserve System holds $13,196 million of the Treasury bills maturing on March 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 March 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 $987 million into the 13-week bill and $917 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-2029

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED MARCH 28, 2002

March 21, 2002

Offering Amount	$12,000 million	$12,000 million
Public Offering	$12,000 million	$12,000 million
NLP Exclusion Amount	$ 5,200 million	None
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 KA 8	912795 LC 3
Auction date	March 25, 2002	March 25, 2002
Issue date	March 28, 2002	March 28, 2002
Maturity date	June 27, 2002	September 26, 2002
Original issue date	December 27, 2001	March 28, 2002
Currently outstanding	$20,341 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
March 25, 2002

Contact: Public Affairs
(202) 622-2960

MEDIA ADVISORY:
SOCIAL SECURITY AND MEDICARE TRUSTEES REPORT

Secretary of the Treasury and Managing Trustee Paul O'Neill, Secretary of Health and Human Services Tommy Thompson, Secretary of Labor Elaine Chao, Commissioner of the Social Security Administration Jo Anne Barnhart, and the public trustees John Palmer and Thomas Saving will hold a press briefing on the Social Security and Medicare Trustees Reports at 4:15 p.m. EST on Tuesday, March 26, 2002 in the Treasury Department's Diplomatic Reception Room (Room 3311), 1500 Pennsylvania Avenue, NW.

The Room will be available for pre-set at 3:15 p.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 faxed to (202) 622-1999.

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PO-2030

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EMBARGOED UNTIL 1:15 P.M. EST
March 25, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

REMARKS OF
UNDER SECRETARY OF THE TREASURY PETER R. FISHER
TO
THE COUNCIL OF INSTITUTIONAL INVESTORS
WASHINGTON, DC

I am here today as a salesman. I want you to buy Treasury securities to help finance the federal government.

Our product has unique credit characteristics and we could just rely on those as the basis of our marketing effort. But there is a problem I had better admit to you. While I want you to buy my product, as the debt manager I cannot control the quantity that is available for sale - in fact, I can't even make a very good forecast of how much I will have to sell in any given year. Our financing needs are actually just the by-product of decisions Congress and the President make about spending and taxes and the growth rate of the economy.

Because of the variance in our financing needs from year-to-year, and even month-to-month, we work hard to be regular and predictable in our issuance pattern to make it easier for you to keep a little space in your portfolios for Treasury securities. But we want our product to be more than just another good credit that is available on a regular schedule.

We spend a fair amount of time trying to gauge how to sustain the liquidity of secondary market trading, principally by ensuring an adequate supply at each maturity. Going forward, we will be spending more of our time trying to gauge how to improve our auctions in order to encourage you to participate directly. We want the primary market for Treasury securities to be as broad and as deep as possible. We want more asset managers bidding directly in our auctions because we are confident that, over the long term, broader participation will help lower our costs.

We need your advice on how we can make direct auction participation more attractive to institutional investors. We also need your help to see if we can make our newest product - inflation-indexed securities - more successful, both for investors and for Treasury.

PO-2031

Debt Management: the Clarity of a Single Objective

First, let me clarify the objective of federal debt management and the constraints within which we operate.

Our objective is to meet the financing needs of the federal government at the lowest cost over time.

Our most significant constraint is that we see the future only imperfectly. As a consequence, we constantly work to forecast our likely borrowing needs, to anticipate how we should alter our borrowing pattern when the future does not fit our forecast, and to anticipate what will prove to be the lowest cost means of financing in the future.

For the debt manager, promoting efficient capital markets is not an independent objective but, rather, a means to the end of lowest cost financing over time. In the short run, the need to sustain efficient capital markets can appear to act as a constraint on our objective of lowest cost financing. But we permit this short-run tradeoff only if we think it is in the service of achieving the lowest cost in the long run - "over time".

For this reason, the Treasury's continuing commitment to a schedule of regular and predictable auction dates is a means, over time, to the end of the lowest cost borrowing. In the short run, however, this commitment serves as a constraint: with regular and predictable auction dates we accept the cost of occasionally borrowing when it is inconvenient or expensive in return for the lower costs, over time, from providing greater certainty to the Treasury market.

Similarly, we limit awards in our auction to 35 percent of the publicly-available total, even though at times this means we issue debt at slightly higher yield than would be the case without the limit. The long term benefit to the Treasury of maintaining a broad distribution of our securities through the auction process outweighs the short term costs.

There is a separate discussion we could have about the optimal level of government debt for the efficient functioning of our capital markets and our economy. But in our system of government, this is a political debate about the proper amount of borrowing needed to operate the federal government and to sustain our economy. This policy debate needs to take place away from the explanation of the debt manager's activities, away from the effort to explain how we manage the variance in the federal government's borrowing needs as we receive them, day by day.

Expanding Participation in Treasury Auctions

Given our commitment to auctions as the means of selling Treasury securities, one of the most direct ways we can try to lower our costs, in the long run, is to increase the number of bidders, to try to make our primary market as broad and as deep as possible.

Single-price Auctions

Since 1992, the Treasury has worked to open up the primary market for Treasury securities in order to serve the needs of end-users such as yourselves. The move to single-price auctions, which began in 1992 and was completed in 1998, was intended to make direct bidding more attractive to a wider number of potential bidders. By reducing the risk of awards at sub-market yields (the "winners curse"), single-price auctions have allowed a broader range of investors to participate in our auctions with confidence.

Consistently Brief Auction Processing

Earlier this year, we announced our objective to reduce auction turnaround times in order to reduce the risks for auction participants and to reduce our borrowing costs. We 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.

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. 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.

We have made considerable progress. In 1995 the average release time was 45 minutes. By 2000 average release times had been reduced to 27 minutes. Over recent months we released several auction results in less than 5 minutes. But we can do better.

To achieve the lowest borrowing costs and make direct participation in our auctions attractive to you, we must make the period of time between the auction close and the public release of results *consistently brief*. So our ultimate objective is a two-minute release with a variance of no more than 30 seconds on either side. At present, we are aiming to release auction results in six minutes, plus or minus 60 seconds.

Facilitating Participation with Better Technology

Over the coming months, we will be introducing an updated version of our automated auction system, which will streamline the process of submitting bids and lead to faster processing and dissemination of auction results. Looking somewhat farther ahead, we are planning additional improvements that will make it easier for institutions to bid directly in our auctions. Our intention is to achieve what I call "point and click" eligibility.

We see a time when a bidder can come to our web site, give us identifying information, get the concurrence of the financial institution which will guarantee payment, and receive access to our auction system all within a day or so. No paper, no embossed seals, no fuss, just a few simple steps all handled securely and electronically.

Inflation Indexed Securities

We also need your help on how we can improve upon our efforts to sell our 10-year inflation-indexed note. Both we at the Treasury and you in the investment community may need to work a little harder to make these instruments live up to their potential.

So far, against our objective of lowest cost financing over time, inflation-indexed securities appear to be "challenged". Over the five years we have been issuing inflation indexed securities, some estimates suggest that it has been a more expensive form of borrowing than the comparable nominal security and the prospective inflation-rate at which we would "break-even" is below most forecasts.

But we need to be careful not to judge these instruments in the short-run. Recent demand for both short-dated inflation-indexed notes and for new issues has been stronger. This supports my view that we should only pass judgment on the cost-effectiveness of these instruments after they have at least worked their way through an entire interest rate cycle. Ten years of data, perhaps more, may provide the right vantage point from which to assess their performance.

We also may need to take a broader view of how we should judge their performance. Nothing can be as important to risk management as diversification. Indexed-notes represent a completely different asset class which helps diversify our portfolio of liabilities. Perhaps portfolio strategists and asset managers could give a little more thought to the benefits of the inflation and the deflation protection afforded by our 10-year indexed note. Unlike our nominal rate offerings, these instruments provide a symmetric protection that may be worth paying a little something for.

Both dealers and the Treasury's Borrowing Advisory Committee have suggested that there may be ways for us to enhance the attractiveness of our indexed notes, including more frequent auctions, a shorter when-issued trading period, and different issue sizes. We also want to hear from you. Your portfolio managers will determine whether the inflation-indexed securities succeed as a separate asset class.

We also want to hear from you about any ideas that you may have about how we should structure or market our debt. Assistant Secretary for Financial Markets Brian Roseboro, Deputy Assistant Secretary Tim Bitsberger, and staff from the Bureau of the Public Debt have been spending time meeting with many of you in the investment community, in particular to promote direct auction participation, but also to get your feedback.

I hope that you will reach out to them. We have also established an email address at Treasury for your suggestions and comments. The address is debt.management@do.treas.gov.

Secretary O'Neill likes to remind us that our real goal is to make excellence a habit. To do this, we need to strive for continuous improvement in how we manage the government's debt. You can help us. Over the next five years our focus will be on encouraging direct investor participation in our auctions and on developing the market for inflation indexed notes. Every gain that we make will serve both investors and taxpayers. Thank you - in advance - for your help.

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
March 25, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY STATEMENT ON OFFSHORE CREDIT CARD SCHEMES

Today the Internal Revenue Service announced a number of actions that have been taken to combat tax-evasion schemes involving credit cards issued by offshore banks—including issuing John Doe summonses to major credit card companies.

"The Treasury Department and the Internal Revenue Service are committed to combating tax evasion. I applaud the steps taken by the IRS in cracking down on the illegal use of offshore bank accounts to hide U.S. taxable income," stated Treasury Assistant Secretary for Tax Policy Mark Weinberger.

"This stepped up enforcement coupled with the Legislative and Administrative proposals the Treasury and IRS released last week demonstrates the Administration's commitment to pursue individuals and businesses who attempt to evade paying their tax," Weinberger stated.

One of the proposals would add a civil penalty, to the criminal penalties that may apply, for the failure to file the "Report of Foreign Bank and Financial Accounts" (Form TD 90-22.1), which provides information about a taxpayer's interest in a foreign financial account.

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EMBARGOED UNTIL 11:30 A.M.
March 25, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $19,000 million to refund an estimated $23,001 million of publicly held 4-week Treasury bills maturing March 28, 2002, and to pay down approximately $4,001 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 $13,196 million of the Treasury bills maturing on March 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.

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Attachment

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HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED MARCH 28, 2002

March 25, 2002

Offering Amount ....$19,000 million
Public Offering ....$19,000 million
NLP Exclusion Amount ....$ 9,400 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 JR 3
Auction date ....March 26, 2002
Issue date ....March 28, 2002
Maturity date ....April 25, 2002
Original issue date ....October 25, 2001
Currently outstanding ....$36,577 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
March 25, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	March 28, 2002
Maturity Date:	June 27, 2002
CUSIP Number:	912795KA8

High Rate: 1.820% Investment Rate 1/: 1.854% Price: 99.540

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 26.71%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 30,636,710	$ 10,371,625
Noncompetitive	1,414,416	1,414,416
FIMA (noncompetitive)	214,000	214,000
SUBTOTAL	32,265,126	12,000,041 2/
Federal Reserve	5,150,733	5,150,733
TOTAL	$ 37,415,859	$ 17,150,774

Median rate 1.800%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.780%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 32,265,126 / 12,000,041 = 2.69

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,134,997,000

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

FOR IMMEDIATE RELEASE
March 25, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	March 28, 2002
Maturity Date:	September 26, 2002
CUSIP Number:	912795LC3

High Rate: 2.110% Investment Rate 1/: 2.163% Price: 98.933

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 12.60%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 32,314,288	$ 10,267,538
Noncompetitive	1,212,479	1,212,479
FIMA (noncompetitive)	520,000	520,000
SUBTOTAL	34,046,767	12,000,017 2/
Federal Reserve	4,737,077	4,737,077
TOTAL	$ 38,783,844	$ 16,737,094

Median rate 2.080%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.810%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 34,046,767 / 12,000,017 = 2.84

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $986,603,000

http://www.publicdebt.treas.gov

PO-2035

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FOR IMMEDIATE RELEASE
March 26, 2002

Contact: Tara Bradshaw
(202) 622-2014

O' NEILL ANNOUNCES WEINBERGER PLANS TO LEAVE TREASURY

Treasury Secretary Paul O'Neill today announced that Mark Weinberger, Assistant Secretary of the Treasury for Tax Policy, plans to leave government service in mid-April.

Treasury Secretary Paul O'Neill made the following comments:

I am extremely appreciative of the sacrifices Mark has made to head our tax policy efforts in one of the most prolific times in the tax area in memory. With four young children at home, he now deserves to spend some much-needed quality time with them and his wife Nancy.

Mark's policy sense and technical expertise have been invaluable to Treasury. His management style and drive for results is refreshing.

Mark joined Treasury's Office of Tax Policy with three goals in mind-to pass the Presidents tax bill, build a world-class team in the Office of Tax Policy and improve the guidance process. He met those goals and had several other impressive accomplishments as well.

Mark played a critical role in the enactment of the President's tax plan last year, the largest tax cut in decades. His close collaboration with the IRS ensured that our unprecedented decision to send out nearly 100 million advance refund checks last summer went off without a hitch.

Mark has brought a sense of real world management experiences to the department that has had a significant impact on the updating and improvement of the IRS guidance process. Mark's shop, working with the IRS, has delivered a number of meaningful guidance projects aimed at reducing controversies, simplifying taxpayer compliance and freeing up IRS resources.

Mark also worked tirelessly in the international area, updating and expanding our treaty networks and negotiating our first tax information exchange agreements in over a decade.

After September 11th, Mark worked closely with the IRS to ensure that those affected by the terrorist attacks didn't have to worry about meeting their tax deadlines when more pressing matters deserved attention. More than a dozen guidance items were issued at record speed to help those taxpayers in need. He also worked with Congress to pass the Victims Tax Relief Bill.

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*U S Government Printing Office 1998 - 619-559

Mark worked with Capitol Hill lawmakers as they considered the Administration's)osals on retirement security, national energy policy, charitable giving and economic ıulus.

Mark has made an exceptional contribution to the Office of Tax Policy and the Treasury ıartment as a whole.

The President and I are grateful for his public service, as should be all American)ayers.

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PUBLIC DEBT NEWS

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FOR IMMEDIATE RELEASE
March 26, 2002

Contact: Peter Hollenbach
(202) 619-3502

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY FLOODING IN TENNESSEE AND VIRGINIA

The Bureau of Public Debt took action to assist victims of flooding in Tennessee and Virginia 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 Tennessee and Virginia affected by the floods. These procedures will remain in effect through the end of May 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.

The Tennessee counties involved are: Blount, Hancock, Loudon, Marshall, Robertson and Sevier. The Virginia counties involved are Smyth and Wise. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PD-1048, available at most financial institutions or by writing the Richmond Federal Reserve Bank's Savings Bond Customer Service Department, 701 East Byrd Street, Richmond, Virginia 23219; phone (804) 697-8370. 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, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. 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 • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
March 26, 2002

Contact: Peter Hollenbach
(202) 691-3502

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY FLOODING IN KENTUCKY

The Bureau of Public Debt took action to assist victims of flooding in Kentucky 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 Kentucky affected by the floods. These procedures will remain in effect through the end of May 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.

The Kentucky counties involved are: Bell, Boyd, Carter, Clay, Fayette, Harlan, Knox, Leslie, McCreary, Rowan, and Whitley. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PD-1048, available at most financial institutions or by writing the Pittsburgh Federal Reserve Bank's Savings Bond Customer Service Department, 717 Grant St., Pittsburgh, Pennsylvania 15219; phone (412) 261-7800. 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, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. 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-2038

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EMBARGOED UNTIL 1:00 P.M.
March 26, 2002

Contact: Michele Davis
(202) 622-2960

REMARKS TO THE NATIONAL ASSOCIATION FOR BUSINESS ECONOMISTS

TREASURY SECRETARY PAUL O'NEILL

MARCH 26, 2002

Thank you for inviting me here today to speak on the state of the American economy and the Administration's economic priorities.

I have always been an optimist about the U.S. economy. Sometimes, like last fall, optimism seems like an act of faith. Other times, like today, optimism seems to be the obvious choice.

Our economy slowed sharply in 2000, with GDP growth rate and job growth rate declines beginning mid-year, business capital spending plummeting in late 2000, and accelerating declines in most indicators through mid-2001. By August 2001, however, I believed that we were already on track for a fourth quarter rebound.

Then September 11th happened. Financial markets were shut down for almost a week. Air transportation came to a standstill. Consumer activities froze as families stayed home in front of their televisions, uncertain about the future. As a result, GDP fell an annualized 1.3 percent in the third quarter of 2001.

Even then, I remained optimistic, and that hope now appears justified. In spite of the terrorist attacks, our economy still grew in the fourth quarter, confounding doomsayers. The latest indicators show that our slow period last year was one of the shortest, shallowest downturns on record. There's no denying that the slowdown brought harder times for many Americans, and the President is dedicated to improving economic conditions for everyone. But those who relished the "R" word even this winter, some comparing 2001 to 1929, are going to be happily disappointed.

Based on my personal reading of the numbers and conversations with business people spread around the economy, I believe we are going to see continued improvement throughout 2002. Productivity growth will stay strong, if not always at the 2001 fourth quarter's record-setting rate.

PO-2039

Business spending will revive, as companies gradually restock the inventory pipeline. Consumers will grow more positive, as job-growth accelerates and the war on terrorism progresses. By year-end, I expect we will approach the 3 to 3.5% annual growth rate that the U.S. economy can sustain. And we will begin to see improvements in employment rates.

Why was optimism the right outlook, even in the summer of 2001? Why was the slowdown so short? Several reasons. The most important is that the United States has the most advanced economy in the world. Our economic structure, though not perfect, recognizes that the private sector drives growth. It offers the right incentives for entrepreneurs and business leaders to build prosperity, one job at a time, without undue government interference in the form of excessive taxation or intervention. Our government provides essential rule of law, enforceable contracts, and physical security with minimal corruption, while allowing relative openness to world competition and reasonably flexible labor markets. Our financial markets are the deepest and most liquid in the world, and they provide resilience and shock-absorption for all business sectors. They offer credit for expansions and flexibility in slowdowns, with less of the boom and bust that characterized our early history.

Our laws and our markets treat capital well, so capital from around the world likes to live here, not just visit. As a result, our cost of capital is the lowest in the world on a risk-adjusted basis. That means more entrepreneurs can pursue new ventures, companies can invest in productivity enhancing technology and research and development, and more families can afford homes and cars.

Another key reason for the quick recovery was the extraordinary timing of the President's tax cut last year. Passage of the tax relief plan in May 2001 put $36 billion directly into consumers' hands in the late summer and early fall, when they needed it most. In fact, that was only the beginning of the tax relief benefits. On March 6, USA Today reported on the front page that the tax cuts have already put $74 billion back into the economy since last summer, and average tax refunds were up 12% from the year before. In just the last few weeks the President signed bipartisan legislation enacting tax relief to boost job creation and unemployment benefits to help those displaced by the slowdown get back on their feet and back into productive work.

But tax relief doesn't just put cash back in consumers pockets. At the macro level, tax relief is a structural advantage for our economy. It increases incentives for growth by allowing individuals to keep more of the efforts of their labor. It also allows businesses to allocate more of their resources toward the most rewarding investment opportunities, thereby increasing productivity and growth potential. It's not that government spending does nothing for the economy—for some types of activities, such as the war on terrorism, it is the only option. But the private sector is the true engine of growth in our economy.

And, of course, we have to give credit to my friend Chairman Greenspan and the Federal Reserve. He cut interest rates faster and lower than any time in the past forty years, and that action appears to have succeeded in maintaining credit expansion and liquidity in the economy.

On the fiscal policy side, I know some of you have been grumbling about our expenses this year. It is true that we expect a small deficit for the next few years. The February Congressional Budget Office projections now put the ten-year government budget surplus at $1.6 trillion, down from a projection of $3.4 trillion last August. The August projection included the President's tax cut. The loss of $1.8 trillion in surplus since August is entirely attributable to reduced economic activity, increased spending for the war on terrorism, and "technical changes." In fact, technical changes account for $660 billion of the difference, exposing the fallacy of relying on 10-year point projections in a $10 trillion economy.

Ultimately, our policies cannot revolve around the roulette wheel of this month's projections. No one knows the distant future. What we do know is how to continue to improve the policy environment in our country.

The President put forward a budget this year that does exactly that. He laid out a serious plan to prosecute the war on terrorism and protect our homeland, maintaining fiscal discipline without sacrificing his commitment to education and other national priorities. The war on terrorism and homeland defense are top priorities, because physical security is the foundation on which all prosperity is built. This concept hardly requires elaboration.

We are in the right position. We are returning to economic growth in a safer and more vigilant atmosphere, and that growth will put us back into surplus in Washington. Some in Washington have that formulation backwards. They think surpluses create growth. The budget put forward by the majority in the Senate would increase spending and then raise taxes in the quixotic drive to return to surpluses at all costs. The tax increase is disguised with code words like "trigger" or "circuit breaker" – but it is a tax increase. And that's the last thing our economy needs as it reestablishes forward motion.

The House has passed a budget resolution reflecting the President's priorities. I hope we can move forward on that framework when Congress returns.

Restoring our growth is crucial not just to the lives of all Americans, but also to people in every part of the world. When the US economy grows, we create opportunities for people everywhere. And the President strongly believes we have a responsibility to spread freedom, opportunity and prosperity around the world. That's why he will continue to push for Trade Promotion Authority this summer, 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.

One of the policy initiatives closest to my heart is the President's plan to increase development assistance to poor countries while increasing accountability and effectiveness of all aid dollars. At the U.N. conference on world poverty in Monterrey Mexico last week, which I attended, President Bush committed our nation to improving living standards worldwide, to giving people the tools and materials they need to build prosperity for their children. Like the President, I believe that too many are born into poverty today, without hope for escape. Too many have been left behind, without enough food, or medicine, or education, without even the prospect of progress.

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U.S. International Reserve Position 03/26/02

The Treasury Department today released U.S. reserve assets data for the week ending March 22, 2002. As indicated in this table, U.S. reserve assets totaled $67,808 million on that date, compared to $68,296 million at the end of the prior week.

in US millions)

Official U.S. Reserve Assets	March 15, 2002			March 22, 2002		
TOTAL		68,296			67,808	
Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	5,445	9,706	15,150	5,333	10,032	15,365
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	9,208	4,924	14,132	9,180	4,182	13,362
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]			17,173			*17,195*
Special Drawing Rights (SDRs) [2]			10,796			*10,842*
Gold Stock [3]			11,045			11,044
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.

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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
ﾑarch 26, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	March 28, 2002
Maturity Date:	April 25, 2002
CUSIP Number:	912795JR3

High Rate: 1.770% Investment Rate 1/: 1.801% Price: 99.862

All noncompetitive and successful competitive bidders were awarded ;ecurities at the high rate. Tenders at the high discount rate were ıllotted 92.09%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 43,507,650	$ 18,978,802
Noncompetitive	21,874	21,874
FIMA (noncompetitive)	0	0
SUBTOTAL	43,529,524	19,000,676
Federal Reserve	3,307,895	3,307,895
TOTAL	$ 46,837,419	$ 22,308,571

Median rate 1.760%: 50% of the amount of accepted competitive tenders as tendered at or below that rate. Low rate 1.720%: 5% of the amount : accepted competitive tenders was tendered at or below that rate.

ıd-to-Cover Ratio = 43,529,524 / 19,000,676 = 2.29

' Equivalent coupon-issue yield.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

NOT FOR PUBLICATION
PLANNING PURPOSES ONLY

TO: Members of the Media

FR: Tony Fratto, Director of Public Affairs
U.S. Department of the Treasury

DA: 26 March 2002

RE: Treasury Secretary Paul H. O'Neill's trip to Africa

Many of you have inquired about Secretary O'Neill's visit to Africa scheduled for the last week of May. While we are not prepared at this time to formally announce the trip, I thought it would be useful to meet to describe the unique nature of the trip and discuss certain logistical concerns.

If you are giving consideration to cover this visit, please join us or send a representative from your organization for a **planning briefing on Thursday, March 28, at 10:00AM at the Treasury Department's Diplomatic Reception Room**. We will provide a brief run down on the trip schedule, transportation concerns, immunizations and visa requirements. I especially welcome any advice and suggestions from those who have previously traveled to Africa.

Please RSVP to Sean Miles in the Office of Public Affairs if you can attend this planning meeting. Sean can be reached at 202-622-2960; or via email at sean.miles@do.treas.gov.

NOTE: If you are not a Treasury or White House pass holder you must be cleared into the Treasury Building to attend this meeting. Please email Frances Anderson at frances.anderson@do.treas.gov with your full name, date of birth and social security or passport number no later than Wednesday, March 27 in order the receive security clearance.

Thank you.

PO-2042

*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

For Immediate Release
March 26, 2002

Contact: Tara Bradshaw
(202) 622-2960

TREASURY SECRETARY PAUL O'NEILL REMARKS AT THE MEDICARE AND SOCIAL SECURITY TRUSTEES PRESS CONFERENCE

Today, the Boards of Trustees of the Medicare and Social Security Trust Funds met to complete our annual review of the financial status of the trust funds and to forward the reports to Congress.

Beyond the statistics and actuarial tables, the clear message from the Trustees is that Social Security and Medicare need to be reformed and strengthened at the earliest opportunity. The long-term financing gap for Social Security and Medicare is slightly larger this year than it was projected to be last year. Absent reform, over 15% of GDP—nearly 1 out of every 6 dollars in the economy--will be devoted to these two programs by 2076. The earlier action is taken to address this prospect, the easier it will be to strengthen these essential programs for generations to come.

The projected near-term financial conditions of the Trust Funds have improved slightly since last year's reports, due mainly to assumed additional growth in underlying economic productivity. This reprieve provides little comfort, as the programs continue to face substantial financial challenges in the not-too-distant future that need to be addressed at the earliest opportunity. The longer we wait, the more difficult our choices will be in the future.

Let me talk a bit more about Medicare. I am pleased that the Trustees' have, for the first time, prepared a single report for the Medicare program. The best way to understand the full implications of the financial situation of the Medicare program is to consider its two components (HI and SMI) together.

Medicare's share of GDP is expected to more than triple by 2076. By comparison, projected Medicare income will barely double during that time. Medicare will eventually be larger than Social Security. The financing gap for the Hospital Insurance program is larger than the gap for Social Security, and the HI Trust Fund will become insolvent 11 years sooner than the Social Security Trust Funds. HI tax income will fall short of outlays beginning in 2016, as we projected last year. Adopting new benefits without addressing the underlying cost drivers will only add to Medicare's unsustainable financial problems.

PO-2043

We are facing the potential for extensive program cuts or large infusions of general revenue and substantial increases in beneficiary premiums if we don't act soon to reform the program. I continue to believe that there is tremendous potential for improvements in the health care sector, especially for those who depend on Medicare. The problem of medical errors is just the tip of the iceberg of systemic problems, which, if resolved, could significantly improve the quality of health care and help to reduce costs. Addressing these cost drivers will allow us to modernize the program to include the President's prescription drug plan and better meet seniors' needs.

Turning to Social Security, the primary problem remains – the program is substantially out of long-term balance because of the impending retirement of the baby boomers and increases in longevity. To support Social Security's outlays in 2076 will require more than a 50 percent increase in payroll taxes over today's rates.

We must take action to ensure Social Security is safe and secure for this generation and for future generations. This past fall, the President's Social Security Commission released its final report that showed how personal accounts can be an important part of the solution to strengthening Social Security. We must work now to preserve and protect Social Security, so we keep our commitment to current seniors, and meet the needs of our children and grandchildren.

It is my hope that with the constructive leadership provided by this Administration and Members of Congress we will create the necessary climate to restore long-term health to these programs, and do it very soon.

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

FOR IMMEDIATE RELEASE
March 27, 2002

Contact: Peter Hollenbach
(202) 691-3502

TREASURY AUTHORIZES HUD CALL OF FHA INSURANCE DEBENTURES

The Departments of Treasury and Housing and Urban Development announced the call of all Federal Housing Administration (FHA) insurance fund debentures with an interest rate of 7.125 or higher outstanding as of March 29, 2002. Debentures issued with a debenture lock agreement are not subject to the call. Debentures that have been registered on the books of Bureau of the Public Debt, Department of the Treasury as of March 29, 2002 are considered "outstanding." The date of call for the redemption of approximately $59 million in debentures is July 1, 2002, with the semi-annual interest due on that date paid along with the debenture principal. Notice of the call was published in the Federal Register (67 FR 13790) on March 26, 2002.

Debenture owners of record as of March 29, 2002, will be notified by mail of the call. No transfers in debentures covered by the call will be made on the books of the U.S. Treasury on or after May 15, 2002. Should investors have questions they can contact the Bureau of the Public Debt's Division of Special Investments at (304) 480-5299.

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www.publicdebt.treas.gov

PO-2044

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
March 27, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate:	3 5/8%	Issue Date:	April 01, 2002
Series:	L-2004	Dated Date:	March 31, 2002
CUSIP No:	912828AA8	Maturity Date:	March 31, 2004

High Yield: 3.705% Price: 99.847

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 95.37%. All tenders at lower yields were accepted in full.

Accrued interest of $ 0.09904 per $1,000 must be paid for the period from March 31, 2002 to April 01, 2002.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 47,584,006	$ 23,541,966
Noncompetitive	1,458,100	1,458,100
FIMA (noncompetitive)	0	0
SUBTOTAL	49,042,106	25,000,066 1/
Federal Reserve	7,873,430	7,873,430
TOTAL	$ 56,915,536	$ 32,873,496

Median yield 3.670%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 3.610%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 49,042,106 / 25,000,066 = 1.96

1/ Awards to TREASURY DIRECT = $1,092,154,000

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press 202-622-2960
FFB 202-622-2450

FEDERAL FINANCING BANK March 30, 2002

Kerry Lanham, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of February 2002.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $39.1 billion on February 28, 2002, posting an increase of $1,004.2 million from the level on January 31, 2002. This net change was the result of an increase in holdings of agency debt of $1,060.9 million, and decreases in holdings of agency assets of $55.0 million and in holdings of government-guaranteed loans of $1.7 million. The FFB made 56 disbursements, received 21 prepayments, and refinanced one Rural Utilities Service ("RUS") guaranteed loan during the month of February.

Attached to this release are tables presenting FFB February loan activity and FFB holdings as of February 28, 2002.

PO-2046

FEDERAL FINANCING BANK
FEBRUARY 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
AGENCY DEBT				
U.S. POSTAL SERVICE				
U.S. Postal Service	2/01	$825,000,000.00	2/04/02	1.877% S/
U.S. Postal Service	2/01	$282,500,000.00	2/04/02	1.886% S/
U.S. Postal Service	2/04	$1,210,000,000.00	2/05/02	1.887% S/
U.S. Postal Service	2/04	$199,600,000.00	2/05/02	1.897% S/
U.S. Postal Service	2/05	$800,000,000.00	2/06/02	1.886% S/
U.S. Postal Service	2/05	$273,700,000.00	2/06/02	1.887% S/
U.S. Postal Service	2/06	$590,000,000.00	2/07/02	1.897% S/
U.S. Postal Service	2/06	$257,700,000.00	2/07/02	1.866% S/
U.S. Postal Service	2/07	$475,000,000.00	2/08/02	1.887% S/
U.S. Postal Service	2/07	$175,000,000.00	2/08/02	1.856% S/
U.S. Postal Service	2/08	$315,000,000.00	2/11/02	1.866% S/
U.S. Postal Service	2/08	$213,300,000.00	2/11/02	1.856% S/
U.S. Postal Service	2/11	$85,000,000.00	2/12/02	1.856% S/
U.S. Postal Service	2/11	$267,000,000.00	2/12/02	1.877% S/
U.S. Postal Service	2/12	$88,600,000.00	2/13/02	1.877% S/
U.S. Postal Service	2/15	$480,000,000.00	2/19/02	1.887% S/
U.S. Postal Service	2/15	$319,100,000.00	2/19/02	1.866% S/
U.S. Postal Service	2/19	$860,000,000.00	2/20/02	1.876% S/
U.S. Postal Service	2/19	$216,300,000.00	2/20/02	1.887% S/
U.S. Postal Service	2/20	$575,000,000.00	2/21/02	1.866% S/
U.S. Postal Service	2/20	$244,300,000.00	2/21/02	1.887% S/
U.S. Postal Service	2/21	$300,000,000.00	11/17/08	4.806% S/
U.S. Postal Service	2/21	$300,000,000.00	2/15/05	3.636% S/
U.S. Postal Service	2/21	$200,000,000.00	11/15/06	4.325% S/
U.S. Postal Service	2/21	$200,000,000.00	2/15/12	5.012% S/
U.S. Postal Service	2/21	$200,000,000.00	2/18/31	5.522% S/
U.S. Postal Service	2/22	$175,800,000.00	2/25/02	1.886% S/
GOVERNMENT-GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Atlanta CDC Lab	2/21	$51,573.98	1/30/31	5.537% S/
San Francisco OB	2/21	$254,305.90	8/01/05	3.894% S/
San Francisco OB	2/27	$99,740.84	8/01/05	3.963% S/
DEPARTMENT OF EDUCATION				
Barber-Scotia College	2/11	$244,603.82	3/01/30	5.377% S/
RURAL UTILITIES SERVICE				
Oneida-Madison Elec. #582	2/01	$145,000.00	1/03/34	5.323% Qt
Owen Electric #525	2/01	$2,000,000.00	12/31/02	2.201% Qt
Burt County Public #669	2/04	$200,000,000.00	1/02/35	5.363% Qt

FEDERAL FINANCING BANK
FEBRUARY 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
omanche County Elec. #765	2/05	$1,152,000.00	12/31/35	5.307% Qtr.
olmew-Wayne Elec. #707	2/06	$1,000,000.00	7/02/12	4.880% Qtr.
cLennan County Elec. #675	2/07	$507,000.00	1/02/35	5.241% Qtr.
EA Energy Cooperative #772	2/08	$1,500,000.00	12/31/35	5.363% Qtr.
nited Power Assoc. #432	2/08	$2,927,000.00	12/31/20	4.991% Qtr.
ictory Electric #782	2/08	$1,543,000.00	12/31/35	5.362% Qtr.
lark Energy Coop. #611	2/12	$4,400,000.00	7/01/02	1.794% Qtr.
ast Otter Tele. #435	2/12	$976,844.00	12/31/15	4.897% Qtr.
psala Coop. Tele. #429	2/12	$99,570.00	7/01/02	1.919% Qtr.
ri-State #915	2/13	$7,804,714.79	1/02/24	5.226% Qtr.
imarron Electric #567	2/14	$1,879,000.00	1/03/34	5.422% Qtr.
arien Telephone Co. #719	2/14	$184,000.00	7/01/02	1.797% Qtr.
ew Horizon Elec. #791	2/14	$3,165,000.00	4/02/07	4.388% Qtr.
ental Virginia Elec. #593	2/19	$1,800,000.00	1/03/34	5.302% Qtr.
arnes Elec. #568	2/19	$1,324,000.00	3/31/03	2.294% Qtr.
Central Arkansas #605	2/19	$572,000.00	1/03/34	5.302% Qtr.
urry-Yadkin Elec. #534	2/21	$2,310,000.00	7/01/02	1.788% Qtr.
utler Rural Elec. #578	2/22	$1,252,587.00	1/03/34	5.402% Qtr.
awkeye Tri-County Elec. #643	2/22	$565,800.00	1/02/35	5.292% Qtr.
ankakee Valley Elec. #761	2/22	$600,000.00	12/31/35	5.420% Qtr.
ynches River Elec. #634	2/22	$550,000.00	1/03/06	3.855% Qtr.
kefenoke Rural Elec. #685	2/22	$1,976,000.00	3/31/09	4.661% Qtr.
rundy Electric Coop. #744	2/25	$1,250,000.00	7/01/02	1.790% Qtr.

S/A is a Semiannual rate.
Qtr. is a Quarterly rate.
306C refinancing

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	February 28, 2002	January 31, 2002	Monthly Net Change 2/1/02- 2/28/02	Fiscal Year Net Change 10/1/01- 2/28/02
Agency Debt:				
U.S. Postal Service	$7,750.0	$6,689.1	$1,060.9	-$3,563.0
Subtotal*	$7,750.0	$6,689.1	$1,060.9	-$3,563.0
Agency Assets:				
FmHA-RDIF	$2,200.0	$2,255.0	-$55.0	-$235.0
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*	$10,845.2	$10,900.2	-$55.0	-$235.0
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	$2,057.3	$2,090.9	-$33.7	-$99.4
DoEd-HBCU+	$44.1	$43.9	$0.2	$12.8
DHUD-Community Dev. Block Grant	$6.7	$6.7	$0.0	-$1.1
DHUD-Public Housing Notes	$1,207.3	$1,207.3	$0.0	-$71.4
General Services Administration+	$2,242.4	$2,242.0	$0.4	-$25.6
DOI-Virgin Islands	$11.9	$11.9	$0.0	-$1.2
DON-Ship Lease Financing	$841.2	$841.2	$0.0	-$100.0
Rural Utilities Service	$14,015.5	$13,981.6	$33.9	$416.2
SBA-State/Local Development Cos.	$118.9	$121.5	-$2.6	-$13.1
DOT-Section 511	$3.4	$3.4	$0.0	$0.0
Subtotal*	$20,548.5	$20,550.3	-$1.7	$117.2
Grand total*	$39,143.8	$38,139.6	$1,004.2	-$3,680.8

* 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

FOR IMMEDIATE RELEASE
March 7, 2002

Contact: Public Affairs
(202) 622-2960

SECRETARY O'NEILL'S STATEMENT IN ABU DHABI

Today I thanked the Government of the U.A.E. for its support in Operation Enduring Freedom and the global war against terrorism. U.A.E. action in blocking terrorist accounts and closing down a targeted financial network has been particularly important, and I look forward to continued close cooperation in the future.

The roundtable hosted by Central Bank Governor H.E. Sultan bin Nasser Al Suweidi was extremely useful in understanding the alternative remittance systems, including hawalas, and their vulnerabilities to abuse by those who seek to move money without a trace. Hawalas provide efficient low-cost services to many individuals around the world and is a legitimate means of transferring funds. At the same time, those who fund terror can take advantage of the anonymity and lack of a paper trail in hawala transactions. In that regard, we welcome the broad international efforts to reexamine regulatory policies and practices for hawalas and other alternative remittance systems, and we very much appreciate that willingness to explore new efforts to improve transparency and record-keeping

Of special note is the leadership displayed by the U.A.E. in inviting to host an international conference on hawalas in early May 2002. This conference presents an important opportunity to stimulate world discussion in regard to the hawala system and the associated vulnerabilities for money laundering and the financing of terrorism. It will also allow countries to learn from each other and to share how different countries have attempted to regulate these alternative systems. We commend the U.A.E. Government for taking on a leadership role in this area and will lend our full support to the initiative.

Additionally, I was please to hear that the Gulf nations are developing a joint initiative to ensure that charities throughout the world are not abused by terrorists. We are all committed to safeguarding the sanctity of charitable giving, and we look forward to joining in that effort. The U.S. also welcomes the U.A.E.'s commitment to participate in the terrorist financing self-assessment project of the Financial Action Task Force (FATF), of which the Gulf Cooperation Council is an active member.

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PO-2047

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 12:00 NOON
March 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 $22,000 million to refund an estimated $25,258 million of publicly held 13-week and 26-week Treasury bills maturing April 4, 2002, and to pay down approximately $3,258 million. Also maturing is an estimated $21,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced April 1, 2002.

The Federal Reserve System holds $11,158 million of the Treasury bills maturing on April 4, 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 April 2, 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 $1,059 million into the 13-week bill and $675 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-2048

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED APRIL 4, 2002

March 28, 2002

Offering Amount	$11,000 million	$11,000 million
Public Offering	$11,000 million	$11,000 million
NLP Exclusion Amount	$ 6,100 million	None
Description of Offering:		
Term and type of security	92-day bill	182-day bill
CUSIP number	912795 KQ 3	912795 LD 1
Auction date	April 1, 2002	April 1, 2002
Issue date	April 4, 2002	April 4, 2002
Maturity date	July 5, 2002	October 3, 2002
Original issue date	January 3, 2002	April 4, 2002
Currently outstanding	$22,737 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

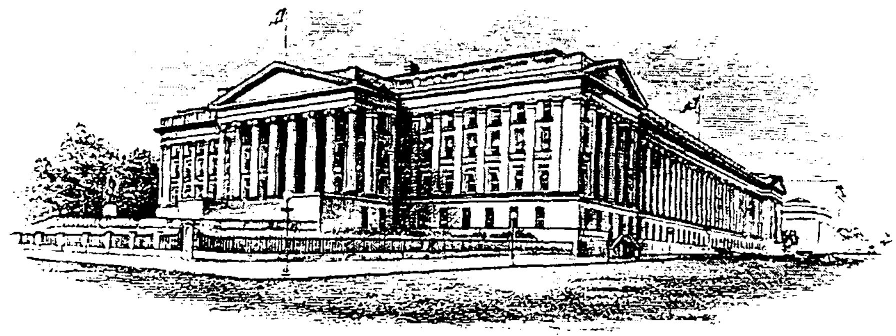
Maximum Award .... 35% of public offering

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
OFFICE OF PUBLIC AFFAIRS

FOR IMMEDIATE RELEASE
March 29, 2002

CONTACT: Betsy Holahan (Treasury)
202-622-2960
Trent Duffy (OMB)
202-395-7254

U.S. Government Releases FY 2001 Financial Report
Importance of Financial Reporting Highlighted

The Department of the Treasury and the Office of Management and Budget (OMB) today released the FY 2001 Financial Report of the U.S. Government, containing the government's consolidated financial statements.

The Financial Report discloses the full extent of the assets, liabilities, costs and commitments that result from the government's operations. These include the disposition of more than $2 trillion in revenue and $1.9 trillion in outlays, as well as the government's extensive stewardship responsibilities and commitments (e.g, the Social Security program).

The report presents financial information that the annual budget, which is presented largely on a cash basis, does not include, providing a more complete depiction of the government's finances. The financial statements of the Federal Government are presented on an accrual basis in accordance with Generally Accepted Accounting Principles.

"This year's report, in particular the disclosure of actuarial changes, is an important step in our efforts to provide a more transparent picture of the government's financial operations and position." said Treasury Under Secretary for Domestic Finance Peter R. Fisher.

For example, a new law requiring expanded military retiree health benefits was enacted last year, increasing the government's liability for post-retirement health benefits by almost $300 billion. This caused the liability for federal employee (civilian and military) pension and other post retirement benefits to exceed the federal debt held by the public as the government's largest liability. The effect of this law and other actuarial changes are also the principal reasons the Financial Report shows the government with an FY 2001 deficit of $514.8 billion, compared with the budget's FY 2001 $127 billion operating surplus.

PO-1049

.e General Accounting Office was unable to express an opinion on the reliability of this year's .tements primarily as a result of financial management weaknesses at the Department of :fense and the inability to track transactions among government entities. To address these and ıer weaknesses, the President's Management Agenda includes a major initiative to improve ıancial management. The Administration has taken a number of steps, including accelerating : delivery of audited statements, implementing quarterly and comparative reporting, and :egrating performance and financial information, that are designed to achieve the goals of curate and timely financial information.

Ve are not satisfied with publication of this report six months after the end of the fiscal year," id OMB Controller Mark Everson. "To better align our practices with those in the private ctor, we are accelerating the deadline for financial reporting so that by FY 2004 we will oduce a consolidated government report on December 15, in time for the Administration and ıngress to use the information to make budgetary decisions."

addition to its efforts to improve financial management in the Executive Branch, the President s provided Congress with draft legislation, the Managerial Flexibility Act, to strengthen .dgeting for full program costs by funding the employer's share of the annual cost of all federal nsions and retiree health benefits from the salary and expense accounts of the agencies where ıployees work.

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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.
April 1, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $19,000 million to refund an estimated $21,000 million of publicly held 4-week Treasury bills maturing April 4, 2002, and to pay down approximately $2,000 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 $11,158 million of the Treasury bills maturing on April 4, 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-2050

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

April 1, 2002

Offering Amount	$19,000 million
Public Offering	$19,000 million
NLP Exclusion Amount	$ 9,900 million

Description of Offering:

Term and type of security	28-day bill
CUSIP number	912795 JS 1
Auction date	April 2, 2002
Issue date	April 4, 2002
Maturity date	May 2, 2002
Original issue date	November 1, 2001
Currently outstanding	$38,910 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
April 01, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	92-Day Bill
Issue Date:	April 04, 2002
Maturity Date:	July 05, 2002
CUSIP Number:	912795KQ3

High Rate: 1.790% Investment Rate 1/: 1.821% Price: 99.543

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 43.32%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 26,148,075	$ 9,351,339
Noncompetitive	1,423,812	1,423,812
FIMA (noncompetitive)	225,000	225,000
SUBTOTAL	27,796,887	11,000,151 2/
Federal Reserve	5,086,085	5,086,085
TOTAL	$ 32,882,972	$ 16,086,236

Median rate 1.770%: 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 = 27,796,887 / 11,000,151 = 2.53

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,165,855,000

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
April 01, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	April 04, 2002
Maturity Date:	October 03, 2002
CUSIP Number:	912795LD1

High Rate: 2.110% Investment Rate 1/: 2.163% Price: 98.933

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 10.77%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 26,486,350	$ 9,975,205
Noncompetitive	949,906	949,906
FIMA (noncompetitive)	75,000	75,000
SUBTOTAL	27,511,256	11,000,111 2/
Federal Reserve	4,020,350	4,020,350
TOTAL	$ 31,531,606	$ 15,020,461

Median rate 2.090%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 2.030%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 27,511,256 / 11,000,111 = 2.50

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $746,479,000

http://www.publicdebt.treas.gov

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 9:30 A.M. EST
April 2, 2002

CONTACT: Betsy Holahan
202-622-2960

STATEMENT OF TREASURY ASSISTANT SECRETARY FOR FINANCIAL MARKETS BRIAN ROSEBORO ON THE DEBT LIMIT

In order to finance a number of regularly scheduled federal payment obligations, this morning we announced two auctions for cash management bills: today for $23 billion, and tomorrow for $23 billion.

Absent other actions, this borrowing would put the Treasury above the current statutory debt ceiling of $5.950 trillion. Therefore, this morning Secretary O'Neill announced that beginning on April 4, 2002 and ending on or about April 18, 2002, actions are needed to prevent the government from hitting the debt limit.

As you know, we have forecast for months that, barring Congressional action, we would reach the debt ceiling this spring. During the first half of April, the government must make several monthly benefit payments, such as Social Security ($30 billion), Medicare/Medicaid ($18 billion), and civilian and military payroll ($6.4 billion). We also expect to pay $20 billion in individual tax refunds. We are using the two cash management bills to bridge us until the tax receipts due April 15.

Treasury has taken all prudent steps to avoid reaching the statutory debt limit, including reducing the size of our regular bill auctions and drawing down available cash. Because Congress has not raised the statutory debt limit, the Secretary must now exercise the Treasury's legal authority to suspend investments in the Government Securities Investment Fund (G-Fund) for a brief period. Secretary Rubin took a similar step in 1995.

This action will not affect G-Fund beneficiaries. The G-Fund will be restored with interest as soon as there is room under the debt ceiling to do so (i.e., after April 15). Congress could restore the G-Fund more quickly by raising the debt ceiling.

PO-2053

The April 15 tax inflows will only postpone our breaching the debt ceiling for a few months. At some point this summer, our projected borrowing needs will exceed the limited flexibility that G-Fund suspension and similar strategies provide. We will be able to make a more precise estimate after we have analyzed the tax receipts, at the end of April.

We continue to work with the Congress to enact a permanent increase in the debt limit the Administration has requested.

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Note: This letter went to Senate and House Leadership, as well as the Chair and Ranking Member of the following committees: Sen. Banking, Sen. Govt. Affairs, Sen. Budget, Sen. Finance, House Financial Services, House Govt. Reform, House Budget and House Ways and Means.

April 2, 2002

The Honorable Dennis Hastert
Speaker of the House
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

Since December, I have written Congress three times requesting an increase in the statutory debt limit. Unfortunately, the debt limit has not yet been raised.

I regret that I must inform Congress that, pursuant to 5 U.S.C. § 8438(h)(2), it is my determination that by reason of the public debt limit I will be unable to fully comply with the requirements of 5 U.S.C. § 8438(e), beginning on April 4, 2002 and ending on or about April 18, 2002. This statute provides for the investment of the Government Securities Investment Fund ("G-Fund") of the Federal Employees Retirement System in special interest-bearing Treasury securities; it also grants the Secretary of the Treasury explicit authority to suspend this G-Fund investment to avoid breaching the statutory debt limit. Such a suspension action was taken in 1995 by then-Treasury Secretary Rubin.

G-Fund beneficiaries are fully protected and will suffer no adverse consequences from this action. The statute ensures that once the Secretary of the Treasury can make the G-Fund whole without exceeding the public debt limit, he is to do so. Under the governing law in this case, the G-Fund will receive complete restoration of all funds temporarily affected by this necessary action, including full and automatic restoration of any interest that would have been credited to the Fund. In short, the result on the G-Fund and its beneficiaries will be the same as if this temporary action had never taken place.

I know that you share the President's and my commitment to maintaining the full faith and credit of the U.S. government, especially at this critical time. Together we must continue working to enact an increase in the statutory debt limit as quickly as possible to avoid any negative repercussions at home or abroad.

Sincerely,

Paul H. O'Neill

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Embargoed Until 9:30 AM EST
April 2, 2002

Contact: Betsy Holahan
202-622-2960

Fact Sheet on Today's Action on the Debt Limit

Current situation:

- The current statutory debt limit is $5,950 billion. The debt outstanding subject to limit on April 1 was $5,928 billion. The debt subject to limit includes "Debt Held by the Public" (57%) and "Intra-governmental Holdings of Debt" (43%). Civil service, military retirement and Social Security account for 75% of Intra-governmental Holdings.

- Beginning on April 4, 2002 and ending on or about April 18, 2002, actions are needed to prevent the government from hitting the debt limit.

- During the first week of April, recurring monthly federal benefit payments and other disbursements will exceed collections by $45 - 50 billion. Monthly recurring benefit payments totaling more than $45 billion will be made for programs such as Social Security ($27 billion), Medicare, and civilian and military payroll and retirement. Tax refunds ($10 billion) and other disbursements are expected to total more than $35 billion. Tax receipts from individuals and corporations are only expected to total about $35 billion.

Necessary Action:

- Each year, Treasury faces seasonal cash shortages in early April in advance of tax receipts in mid-April. Treasury needs to issue short-term cash management bills (CMBs) to bridge this period. There is insufficient room under the current debt limit to issue the needed CMBs.

- To ensure payment of the tax refunds and recurring benefits this week, the Secretary must draw on his statutory authority to avoid hitting the debt limit.

PO-2055

- The Secretary has today notified in writing the Congress and the Executive Director of the Federal Retirement Thrift Investment Board of his intention to suspend investments of securities in the Government Securities Investment Fund (G-Fund) beginning on April 4 and ending on or about April 18, 2002. The G-Fund is part of the Federal Employee Retirement System (FERS).

- As of April 1, the G-Fund has investments of $40 billion in overnight non-marketable Treasury securities. Other FERS funds are invested in corporate bonds, S&P 500 equities, small cap equities, and foreign equities.

- Beginning on April 4, 2002 and ending on or about April 18, 2002, Treasury will exchange between $5 - 35 billion of the $40 billion in non-marketable Treasury securities in the G-Fund for the same amount of credit balances. Consequently, debt subject to limit will be reduced by the same amount.

- Congress has provided the specific authority to use in this situation; it was similarly used by the previous Administration.

- G-Fund beneficiaries are fully protected and will experience no adverse consequences from this action. The Secretary will recredit the G-Fund once the Treasury can do so without exceeding the public debt limit (on or about April 18^{th}). Any interest that was not credited during that period will be immediately credited to the Fund. Congressional action to raise the debt ceiling would allow the Secretary to do this sooner.

- The result on the G-Fund and its beneficiaries will be the same as if this temporary action had never taken place.

History:

- During the debt-ceiling impasse in 1985, Treasury was unable to follow its normal trust fund investment and redemption policies and procedures. Treasury suspended investment of certain trust fund receipts and redeemed some Treasury securities issued to one trust fund earlier than normal to pay fund benefits.

- In 1986, the Congress provided the Secretary of the Treasury with statutory authority to exchange securities in the G-Fund to prevent exceeding the debt ceiling. The statutory reference is 5 U.S.C. 8438(h)(2).

- On Nov. 15, 1995, then Treasury Secretary Rubin exchanged about $18 billion of the approximately $21.6 billion of Treasury securities held in the G-Fund for the same amount of credit balances to prevent exceeding the debt limit.

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DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL DELIVERY
April 2, 2002

Contact: Tony Fratto
(202) 622-2960

SOVEREIGN DEBT RESTRUCTURING: A U.S. PERSPECTIVE

REMARKS BY JOHN B. TAYLOR
UNDER SECRETARY OF TREASURY FOR INTERNATIONAL AFFAIRS

AT THE CONFERENCE
"SOVEREIGN DEBT WORKOUTS: HOPES AND HAZARDS?"
INSTITUTE FOR INTERNATIONAL ECONOMICS
WASHINGTON, D.C.

Thank you for giving me the opportunity to speak here today. I would like to use the opportunity to discuss U.S. policy regarding the process of sovereign debt restructuring in emerging markets.

It is clear that reform of this process is long overdue. There has been much useful study and discussion since the mid-1990s when problems with the process became apparent, including the 1996 Rey Report of the G-10, numerous G-7 statements since then, and most recently the stimulating discussion of several reform options by the International Monetary Fund. But the time for study and discussion of options should be ending. The time for action is here.

The truth is that many emerging markets have not performed well in recent years. Investment flows going through these markets have declined sharply; net private capital flows dropped from an average of $154 billion per year from 1992 through 1997 to $50 billion per year from 1998 through 2000. Even if you ignore the high years of 1995 and 1996, there has been a sharp reduction. There have been too many crises, which have discouraged capital flows and damaged the affected economies. Clearly we would like to see fewer crises. We would like to see a sustained recovery of investment in the emerging markets along with lower interest rates. Ultimately we would like to see the poor developing economies become truly emerging market economies.

Currently there is a great deal of uncertainty surrounding the sovereign debt restructuring process. When it becomes apparent that a country's sovereign debt situation is unsustainable and a restructuring is in order, many difficult questions arise about what will happen next. What will the debtor government do and when?

PO-2056

How will the discussion with the creditors be structured? How will the private sector espond? Will holdout creditors upset the whole process? If a restructuring is chosen, how lon vill it take? Will the restructuring lead to a sustainable situation? Will creditors be treated quitably and fairly? This uncertainty complicates decision-making for everyone—the private ector, the official sector, and the sovereign government itself.

A more predictable sovereign debt restructuring process for countries that reach insustainable debt positions would help reduce this uncertainty. It would thereby lead to better, nore timely decisions, reducing the likelihood of crises occurring and mitigating crises that do ccur. Ideally sovereign debt restructurings would never have to take place, because ideally ountries would never get into unsustainable debt situations. But we have a long way to go efore we get to that ideal. The aim of reforming the sovereign debt restructuring process is not o reduce the incentives that sovereign governments have to pay their debts in full and on time. hose incentives—primarily the benefit of continued access to capital at reasonable interest ates—will remain. Rather the aim is to reduce the uncertainty that now surrounds estructurings.

Actually implementing a reform of the debt restructuring process will require a great dea f financial diplomacy. There are many participants in emerging markets with many different conomic and political interests and points of views. Practicality is essential. People have to inderstand clearly how the reformed process will work and why it will work better than the urrent process.

uidelines for a Decentralized, Market-Oriented Approach

In our view, the most practical and broadly acceptable reform would be to have sovereig orrowers and their creditors put a package of new clauses into their debt contracts. The clauses vould describe as precisely as possible what happens when a country decides it has to restructur s debt. In this way the contracts would create a more orderly and predictable workout process. uch clauses represent a decentralized, market-oriented approach to reform because both the ontracts and the workout process described by the contracts are determined by the borrowers nd lenders on their own terms.

What should these new clauses look like? In decentralized fashion, many of the details vould be determined by the borrowers and lenders as new bonds are issued, but the legal emplates should conform to several essential guidelines.

First, there should be a majority action clause. Currently, the clauses in many bonds equire the consent of 100 percent of bondholders to change the financial terms. Thus, a small ninority can prevent a restructuring that the majority of bondholders feel is in their best interests n contrast, majority action clauses allow a super majority—bondholders holding, for example, 5 percent rather than 100 percent of the principal—to agree to a restructuring. The decision of his super majority is binding on the minority.

Thus, a majority action clause would prevent a small minority from delaying or otherwi disrupting an agreement and would thereby add predictability to the restructuring process.

Majority action clauses are now in sovereign bonds issued under U.K. law. However, sovereign bonds issued under New York law generally and by tradition have no such clauses. There is no legal reason why such clauses could not be included.

Second, there should be a clause describing the process through which debtors and creditors come together in the event of a restructuring. This clause would specify how the creditors would be represented and what data the debtor must provide to the creditors' representative and within what period of time. The representative would be able to negotiate with the debtor, and thus have more than simply administrative responsibilities such as accounting for and distributing payments. The representative, rather than individual bondholders, would have the power to initiate litigation, but would have to act with the instructions of a certain fraction of bondholders.

Third, there should be a clause describing how the sovereign would initiate the restructuring. It may take a period of time—perhaps several weeks—for creditors to come together to get the relevant information, choose a representative, and decide how to proceed wit the debtor. Thus, there is a need for a "cooling off" period—between the date when the sovereign notifies its creditors that it wants to restructure and the date that the representative is chosen—setting a fixed limit of, say, 60 days. During this period a temporary suspension or deferral of payments might be necessary, and the possibility of such a suspension or deferral should be incorporated in the clause along with appropriate penalties. During this limited cooling off period, bondholders would be prevented from initiating litigation.

Implementation

What is required to make this reform happen? First, we need to work together with emerging market countries, the official sector, and market participants to get agreement that this approach is the most practical way to proceed at the current time. I hope that we can move expeditiously towards such an agreement. Second, there may be a need to develop some incentives to encourage borrowers and lenders to incorporate such terms in their debt contracts.

Recent empirical work comparing bonds issued under New York, U.K., and other jurisdictions suggests that existing differences in clauses may have only a small impact on the attractiveness of such bonds to individual borrowers. Nevertheless, it may be necessary to overcome a perception on the part of borrowers that omitting such clauses would cut a few basis points from the interest rate on sovereign debt. There are two possibilities. First, the official sector could require that these clauses be used by any country that has, or is seeking, an IMF program. Second, the official sector could provide some financial enhancement, such as slightly lower charges on IMF borrowing for countries that include these clauses in their debt. Such an enhancement would be especially useful to encourage borrowers to swap existing debt for debt with the new clauses.

Of course, this decentralized contract-based approach is not the only option that has bee proposed for reforming the sovereign debt restructuring process. Indeed, among the options recently presented by the IMF is a more centralized approach in which the IMF articles would l amended and the IMF or some newly created entity could step in and impose its decisions on tl process. These alternative options call for a larger role for the IMF or the newly created agenc than the more decentralized and market-oriented approach.

A number of questions can be raised about the decentralized approach, especially when considering alternatives. What is the scope of the debt treated by the new clauses? There is no reason to restrict the scope of such clauses to bonded debt. It would be appropriate, for exampl to include such clauses in bank debt along with bonded debt; indeed such clauses are already incorporated in many syndicated bank loans. Another question concerns aggregation of all the different bond issues and the different types of debt. In our view, it is most practical to incorporate the majority action and other clauses into debt on an issue-by-issue or loan-by-loan basis, letting any inconsistencies caused by different types of issues or jurisdictions be handled an arbitration process for which the contracts could provide.

Part Of An Overall Strategy

This proposal for reform of the sovereign debt restructuring process should viewed as ar integral part of our broader strategy toward emerging markets.

That strategy starts with crisis prevention. Individual countries and the IMF must carefully monitor and transparently report on economic conditions; when economic trends appear unsustainable the tough decisions must be made before the crisis occurs. The reformed restructuring process should help policy makers make those tough decisions in a timely manner

Limiting official sector support when countries reach unsustainable debt situations is als a key element of our emerging markets strategy. Large official sector support packages for countries with unsustainable debts effectively bail out private investors holding high-yield debt instruments. It is becoming clearer that official sector support in such cases is being limited to a significant degree. Some have argued that additional numerical access limits should be placed on individual countries, but the most effective and credible way to limit official sector support in such situations is to reduce the incentives to provide such support. In this respect, sovereign del restructuring reform will go a long way to help limit official sector support in such cases. The uncertainty that currently exists leads to pressures for large support packages. Reducing this uncertainty will reduce such pressures.

Trying to keep contagion low and emphasizing that our decisions are not based on unfounded claims of contagion is another essential part of our strategy. Early last year, we examined the contagion issue carefully. We commented on the fact that market participants were paying more attention to economic fundamentals, differentiating between countries and events.

We noted that these changes should reduce contagion, and, in fact, contagion has com down significantly during the past year even in the face of the terrible economic situation in Argentina. To the extent that the decentralized approach to sovereign debt reform enables market participants to more accurately predict official actions, it will focus even more attentio on fundamentals. This too will help with the contagion problem.

Conclusion

I began this talk by stressing the need to move expeditiously to reform the process of sovereign debt restructuring in emerging markets. I have now outlined the key elements of a workable, decentralized, market-oriented approach to reform, which includes:

- A package of new collective action clauses.
- Guidelines for borrowers and lenders as they set the detailed terms of these clauses.
- Incentives—including financial incentives—to encourage countries to adopt such claus

I hope that we can now concentrate on the implementation of this kind of reform in the weeks and months ahead. I look forward to working with all of you on this important initiativ

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
April 2, 2002

Contact: Public Affairs
(202) 622-2960

MEDIA ADVISORY:
UNITED STATES AND BRITISH VIRGIN ISLANDS WILL SIGN TAX INFORMATION EXCHANGE AGREEMENT ON WEDNESDAY

Treasury Secretary Paul H. O'Neill will hold the United States-British Virgin Islands tax information exchange agreement signing ceremony at 3:30 p.m. EST on Wednesday, April 3, 2002 in the Treasury Department's Diplomatic Reception Room (Room 3311), 1500 Pennsylvania Avenue, NW. Treasury Secretary O'Neill, United Kingdom Ambassador Sir Christopher Meyer and British Virgin Island Governor Frank Savage will be signing the tax information exchange agreement.

The Room will be available for pre-set at 2:30 p.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 faxed to (202) 622-1999.

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FOR IMMEDIATE RELEASE
April 2, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Treasury Extends Public Comment Period on Information-Sharing Study

The Treasury Department today announced the extension of the public comment period from April 1, 2002 to May 1, 2002, for the Study of Information Sharing Practices Among Financial Institutions and Their Affiliates. This study was required by Section 508 of the Gramm-Leach-Bliley Act of 1999.

The extension notice has been sent to the Federal Register for publication and is expected to be published in the next several days.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 9:00 A.M.
April 2, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS CASH MANAGEMENT BILLS

The Treasury will auction approximately $23,000 million of 19-day and $23,000 million of 12-day Treasury cash management bills.

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

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.

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%.

NOTE: Beginning with these offerings, competitive bids in all cash management bill auctions must be expressed as a discount rate with three decimals in increments of .005%, e.g., 7.100%, 7.105%.

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-2060

HIGHLIGHTS OF TREASURY OFFERINGS OF CASH MANAGEMENT BILLS

April 2, 2002

Offering Amount	$23,000 million	$23,000 million
Public Offering	$23,000 million	$23,000 million
Description of Offering:		
Term and type of security	19-day bill	12-day bill
CUSIP number	912795 KK 6	912795 KL 4
Auction date	April 2, 2002	April 3, 2002
Issue date	April 3, 2002	April 4, 2002
Maturity date	April 22, 2002	April 16, 2002
Original issue date	April 3, 2002	April 4, 2002
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.

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
April 02, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 19-DAY BILLS

Term:	19-Day Bill
Issue Date:	April 03, 2002
Maturity Date:	April 22, 2002
CUSIP Number:	912795KK6

High Rate: 1.780% Investment Rate 1/: 1.807% Price: 99.906

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 73.32%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 59,320,000	$ 23,000,410
Noncompetitive	0	0
FIMA (noncompetitive)	0	0
SUBTOTAL	59,320,000	23,000,410
Federal Reserve	0	0
TOTAL	$ 59,320,000	$ 23,000,410

Median rate 1.770%: 50% of the amount of accepted competitive tenders as tendered at or below that rate. Low rate 1.740%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

d-to-Cover Ratio = 59,320,000 / 23,000,410 = 2.58

Equivalent coupon-issue yield.

http://www.publicdebt.treas.gov

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

FOR IMMEDIATE RELEASE
April 02, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	April 04, 2002
Maturity Date:	May 02, 2002
CUSIP Number:	912795JS1

High Rate: 1.750% 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 89.51%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 40,113,000	$ 18,967,852
Noncompetitive	32,294	32,294
FIMA (noncompetitive)	0	0
SUBTOTAL	40,145,294	19,000,146
Federal Reserve	2,051,341	2,051,341
TOTAL	$ 42,196,635	$ 21,051,487

Median rate 1.735%: 50% of the amount of accepted competitive tenders 'as tendered at or below that rate. Low rate 1.700%: 5% of the amount ·f accepted competitive tenders was tendered at or below that rate.

id-to-Cover Ratio = 40,145,294 / 19,000,146 = 2.11

/ Equivalent coupon-issue yield.

http://www.publicdebt.treas.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

For Immediate Release
April 3, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY SECRETARY O'NEILL SIGNING CEREMONY STATEMENT

UNITED STATES AND UNITED KINGDOM SIGN AGREEMENT TO EXCHANGE TAX INFORMATION WITH RESPECT TO THE BRITISH VIRGIN ISLANDS

Today Treasury Secretary Paul O'Neill signed a new agreement with the United Kingdom, including the British Virgin Islands, that will allow for exchange of information on tax matters between the United States and the British Virgin Islands. The agreement was signed by Treasury Secretary Paul O'Neill, United Kingdom Ambassador Sir Christopher Meyer and British Virgin Island Governor Frank Savage.

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 United Kingdom and the British Virgin Islands, especially the Governor of the British Virgin Islands, Mr. Frank Savage, and the British Ambassador to the United States, Sir Christopher Meyer. I also want to extend a very warm welcome to Mr. Robert Mathavious and Mr. Michael Riegels of the Financial Services Commission of the British Virgin Islands.

The British Virgin Islands is one of the largest financial centers in the Caribbean and is widely recognized as a leader in its region. The United States and the British Virgin Islands already have a close and cooperative relationship on law enforcement matters under our mutual legal assistance treaty. In these troubled times, cooperation between countries is more important than ever before. As we all know, the funds associated with illicit activities, including terrorism, money laundering, and tax evasion, now move almost effortlessly across national boundaries. As a result, nations that are committed to thwarting these activities must be prepared to work together.

With today's signing of a tax information exchange agreement, the British Virgin Islands is once again demonstrating its commitment to cooperating with the United States on law enforcement matters.

PO-2063

As I have said on numerous occasions, we have an obligation to enforce our tax laws because failing to do so undermines the confidence of honest taxpayers in the fairness of our tax system. One of the keys to enforcement of our tax laws is access to needed information.

Several months ago I made a public commitment, in Congressional testimony, to expanding our network of tax information exchange relationships. We have already made significant progress in that regard, and today's signing is another major step forward.

I would like to take this opportunity to thank the Government of the British Virgin Islands for coming here today and demonstrating its leadership, its commitment to upholding international standards, and its insistence that its financial institutions are not to be used to further illicit activities of any kind.

I hope that the British Virgin Islands' cooperation with the United States in developing this tax information exchange agreement will serve as an example to other financial centers in the region and around the world. I look forward to convening here again in the coming weeks to announce additional agreements with other countries.

We have already signed tax information exchange agreements with the Cayman Islands, The Bahamas, and Antigua and Barbuda. The agreements signed in the past year are the first tax information exchange agreements that have been signed since 1992. We are gratified with the progress that has been made with the OECD project—more than 20 countries have committed to entering into agreements providing for transparency and tax information exchange.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
April 4, 2002

Contact: Rob Nichols
(202) 622-2020

Deputy Treasury Secretary Kenneth W. Dam
Remarks to the Office of the General Counsel Annual Meeting
Thursday, April 4, 2002

I would like to begin my remarks today with a quote from Alexander Hamilton, our first Treasury Secretary, and a lawyer. In a 1778 letter to New York Governor George Clinton, Hamilton wrote:

"However important it is to give form and efficiency to your interior constitutions and police; it is infinitely more important to have a wise general council."

He continued, "You should not beggar the councils of the United States..." No wonder Treasury now employs around 1,800 counselors!

Of course, I have taken Hamilton's words out of context. He was referring to the Continental Congress as the "general council," spelled "C-I-L." He did not mean the term in the sense of a lawyer, as much as I would like to represent that he was speaking of an early predecessor to our colleague David Aufhauser.

Secretary O'Neill has called on all of the 160,000 men and women of the Treasury to make this a world-class organization. Central to that goal is working toward enhancing our productivity — giving taxpayers more and better services with less money spent. Our lawyers have special responsibilities for helping — and risks of hindering — that progress.

Our customers, the taxpayers of the United States, deserve world-class service for their dollars. Question: Are we providing it to them? Or to ask a question from Secretary O'Neill's results-oriented philosophy, how we do we know if we are providing world class service?

Are we close to that goal and getting closer, or are we moving in the wrong direction? We need criteria to measure our progress.

PO-2064

Allow me to propose a standard we might consider as we contemplate the meaning 'world-class" for Treasury: How do we compare to governments in other nations of the wo

Let me offer some context. One of President Bush's most important foreign policy initiatives this year is his "New Compact for Development," a plan to improve economic conditions in less developed nations.

The new compact increases accountability for rich and poor nations alike, linking g contributions from developed nations to greater responsibility by developing nations.

In March, the President announced the compact at the Inter-American Development Bank, and the President and Secretary O'Neill expanded on the policy at the U.N. Conferer Financing for Development in Monterrey, Mexico.

At the IDB, the President stated that "good government is an essential condition of development.... Countries that live by these three broad standards -- ruling justly, investing their people, and encouraging economic freedom -- will receive more aid from America."

He also directed Secretary O'Neill "to reach out to the world community, to develo of clear and concrete and objective criteria for measuring progress. And... [to] apply these criteria rigorously and fairly."

If we are to apply rigorously and fairly the criteria that we at Treasury are responsib developing, we must apply them to ourselves as well. Is our government, is our departmen are the legal functions within our department ruling justly, investing in our people, and encouraging economic freedom? Are we doing what we can to improve productivity?

We are, after all, the U.S. Treasury, one of the principal economic policy and law enforcement organizations of the United States government. We have considerable influen these matters.

Put another way, if we applied to our own Millennium Challenge Account, would w qualify for a grant? An interesting question, I think.

(And, by the way, if Congress does not act to raise the federal debt ceiling, perhaps pertinent one.)

We are still in the early stages of defining the criteria for the new development assi policy, so in truth, we cannot yet apply them rigorously. But I find the speculation worthw In order to pursue the line of inquiry, I looked at several of the many indices that measure governance, corruption, human rights, and rule of law in the developed and developing wo So, how do we stack up?

One useful volume is the 2001-2002 *Global Competitiveness Report* from Harvard's Center for International Development. It uses the 2001 World Economic Forum Executive Opinion Survey results to compare 75 nations on the basis of 140 economic and governmental measures.

At first glance, the results are satisfying. The United States is ranked second in the world, after Finland, for both of the aggregate indices, "growth competitiveness" and "current competitiveness." But although we do well overall, there are a few disappointments in the detailed listings. There are a large number of measures in which we are not in the top quintile of rankings, and in a few cases, we are not even in the top half of all countries.

Within the categories for public sector performance and rule of law, we do relatively well. For example, we appear in the top decile with regard to protections for real and intellectual property rights, minimal administrative burdens for new firms, effectiveness of financial regulation and supervision, and perceived presence of tax evasion.

On the other hand, we are not in the top 20-percent of nations ranked for some rather important governance categories, including the business costs of corruption in government (state and local, I hope), perceived favoritism in the decisions of public officials, presence of organized crime, and the extent of distortive government subsidies.

But the most surprising result lies in one of the very few measures in which we fall below even the median for the countries surveyed. We are below the halfway mark for the perception of competence of public officials versus our private sector counterparts. Singapore ranks first. Finland is 15th. Nicaragua is 37th. The United States is 41st out of 75 nations.

The survey is highly subjective, of course, and it relies on a poll of 4,600 business leaders, not a general sample of the citizenry. Furthermore, inter-country comparisons of the subjective data are arguably meaningless in many cases. There are countless caveats. Nonetheless, we should heed the results.

Why does the perception of our relative competence seem to differ so much from the perception of the relative results of our performance? Our performance is far from perfect, of course — we should be aiming for number one in every category, not merely top quartile or quintile.

But I suspect we would qualify for our Millennium Challenge Grant, or a World Bank loan, if we needed it — that is, we would qualify so long as we didn't send a public official to fill out the loan application! Or so it would seem.

Part of the perceived competence gap is, without a doubt, the extraordinarily high regard that exists for the American private sector, especially within the business community of the world. Of the eighteen categories in which we score first among all countries, most describe the flexibility and competitiveness of American businesses and business infrastructure, such as financial market and technological sophistication, venture capital availability, firm-level innovation, and customer service orientation.

Compared to the lightning speed and service of American businesses it is not surprising that our government can only suffer in a zero-sum comparison.

But that is of limited comfort to those of us who have spent large parts of our careers working to understand and improve government processes. And it cuts to the core of Secretary O'Neill's vision for this Department.

Just as we focus on enhancing infrastructure and productivity in the developing world with our Millennium Challenge grants, we must also bring these principles to bear on our own public sector performance. We must deliver value to the American people, not just effort.

Many economic observers, O'Neill and Greenspan among them, have said that private productivity growth is at the root of the nearly relentless U.S. economic expansion of the past decade.

How can we import that spirit of innovation into the public sector? How can we give taxpayers more value for less money? Businesses do it every day, year after year — surely it is not out of our reach.

How can we, in particular, as Treasury lawyers, enable our bureaus to work faster, more efficiently, and more effectively?

Unfortunately, lawyers are often viewed as the naysayers, indiscriminately applying the brakes on change, regardless of its merits.

As one California Attorney General said, "An incompetent attorney can delay a trial months or years. A competent attorney can delay one even longer."

But we can also use our detailed knowledge of the rules to enable innovation. For example, when Alexander Hamilton sought to create the first Bank of the United States, he used his legal training to argue its constitutionality, and he succeeded.

At Treasury we have seen both success and failure in advocating a legal agenda for progress. The Patriot Act passed expeditiously, and we have been quick to take advantage of it in the service of the American people. On the other hand, tax simplification proposals and indeed some tax regulations have been tied up – within the legal system -- for years.

These are questions for all of us to consider, especially, in Alexander Hamilton's phrase, the "wise general councils" among us.

Thank you.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
April 4, 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 $20,000 million to refund an estimated $22,634 million of publicly held 13-week and 26-week Treasury bills maturing April 11, 2002, and to pay down approximately $2,634 million. Also maturing is an estimated $23,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced April 8, 2002.

The Federal Reserve System holds $10,303 million of the Treasury bills maturing on April 11, 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 April 9, 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 $1,132 million into the 13-week bill and $930 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-2065

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED APRIL 11, 2002

April 4, 2002

Offering Amount	$10,000 million	$10,000 million
Public Offering	$10,000 million	$10,000 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 KR 1	912795 LE 9
Auction date	April 8, 2002	April 8, 2002
Issue date	April 11, 2002	April 11, 2002
Maturity date	July 11, 2002	October 10, 2002
Original issue date	January 10, 2002	April 11, 2002
Currently outstanding	$18,891 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 daylight saving time on auction day

Competitive tenders .... Prior to 1:00 p.m. eastern daylight saving 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.

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
April 03, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 12-DAY BILLS

Term:	12-Day Bill
Issue Date:	April 04, 2002
Maturity Date:	April 16, 2002
CUSIP Number:	912795KL4

High Rate: 1.780% Investment Rate 1/: 1.796% Price: 99.941

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 15.96%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 76,750,000	$ 23,000,440
Noncompetitive	0	0
FIMA (noncompetitive)	0	0
SUBTOTAL	76,750,000	23,000,440
Federal Reserve	0	0
TOTAL	$ 76,750,000	$ 23,000,440

Median rate 1.765%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.740%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 76,750,000 / 23,000,440 = 3.34

1/ Equivalent coupon-issue yield.

PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
April 4, 2002

Contact: Peter Hollenbach
(202) 691-3502

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR MARCH 2002

The Bureau of the Public Debt announced activity for the month of March 2002, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$2,060,876,051
Held in Unstripped Form	$1,892,490,528
Held in Stripped Form	$168,385,523
Reconstituted in March	$10,272,351

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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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Sunday, April 7, 2002

Contact: Rob Nichols
(202) 622-2010

DEPUTY TREASURY SECRETARY KENNETH W. DAM REMARKS TO THE TRILATERAL COMMISSION "GLOBALISM AND REGIONALISM IN THE POST-DOHA MULTILATERAL TRADING SYSTEM" SUNDAY, APRIL 7, 2002

[Introduction. Chair: Peter Sutherland]
I appreciate this opportunity to speak to the members of the Trilateral Commission today, and to share the stage with such a distinguished panel.

The relationship between multilateral, regional, and bilateral trade agreements has long been a professional interest of mine. It is also an important subject for my colleagues in the Bush Administration.

Let me say, first off, that if anyone here feared that this Administration would turn its back on multilateralism and the World Trade Organization, those skeptics were clearly mistaken.

On Thursday of this past week, President Bush made a major statement calling on the United States Senate to bring Trade Promotion Authority to the Senate floor by April 22. This statement may not have gotten all the attention it deserved, with the media spotlight on his decision earlier in the same day to send Secretary Powell to the Middle East. But it was unequivocal.

The President said, "I believe strongly in trade. I believe not only is trade in my nation's interests, I think trade is in the interest of those nations who struggle with poverty, and that desire a route out of poverty." He hailed our recent work to advance the Doha round, and the success of WTO countries represented here in bringing both China and Taiwan into the WTO last year.

PO-2068

He also noted that some 250 preferential trade agreements exists in the world today. The United States is a party to only three of these 150, considerably short of the European Union's 31 or even Mexico's 10. And he expressed our desire to reassert America's leadership on trade.

We view Trade Promotion Authority – the ability for the executive branch to negotiate the details of trade agreements and then submit them to Congress for approval in a simple up-or-down vote as an essential legislative component of our free trade strategy. TPA would allow us to elevate our trade negotiations above the din of interest groups that might otherwise render the process ineffectual.

All of us here agree, I am sure, on the importance of advancing global free trade. The debate is on the best means to achieve our goal. This administration advocates a pragmatic, multidimensional approach.

Simply put, this approach suggests that we move forward however we can, whenever we can.

I personally would concede to Director Mike Moore that the universal, multilateral approach would be best in an ideal world. The proliferation of bilateral and regional deals today sometimes makes import-export administration so complex that few entities, public or private, can manage it effectively. The complexity is a tax in itself.

I am inclined to agree with my friend, Professor Jagdish Bhagwati, that the present system has come to resemble a "spaghetti bowl." Also, because of the relationship between domestic interest groups and the trade negotiation process, trade diversion all too often prevails over trade creation in regional and bilateral arrangements. We hope that Trade Promotion Authority in the United States will diminish that effect because it will make it much more difficult for domestic interest groups to carve out exceptions in their own protectionist interest.

Nonetheless, I believe regional and bilateral agreements, despite their shortcomings, are more of a building block than a stumbling block toward global agreements.

There are two main reasons for this conclusion.

First, regional agreements can create a competition toward trade liberalization that extends far beyond the individual agreements themselves. Many developing nations that are leery of diving head first into the global pool are quite eager to get their feet wet with a free trade agreement with the United States. They don't want to be left behind.

As nations open to the idea of freer trade, regionally and bilaterally, they become more amenable to the global approach as well. They warm to the idea of freer trade as they see the benefits from more limited arrangements.

Second, and perhaps most tangibly, free trade agreements induce growth stimulating changes in developing economies that may in themselves outweigh the costs of trade diversion, or even the benefits of trade creation. In particular, regional agreements encourage private investment into economies that are a party to the agreement.

This is not only because investors benefit from increased trade, but it is also because free trade agreements generally go hand-in-hand with improved macroeconomic policies. Moreover, they lock-in the policy improvements.

The Mexican economy since NAFTA is a wonderful example of this effect. Mexico is now an investment-grade country, with the growing employment and incomes that entails. NAFTA helped to make Mexico a capital-friendly place, and capital responded.

Mexico also demonstrates that global and regional trade agreements often build on each other, rather than excluding each other as some fear. Mexico did not even join GATT until 1986. It joined NAFTA and the OECD in 1994, and is now party to about ten preferential agreements. There is every reason to believe that Mexico will be more friendly toward the Doha round than it would have been if there had never been a NAFTA.

The policy environment benefits of free trade agreements parallel and amplify the Bush Administration's international aid policy, which we call the New Compact for Development. We want aid dollars to support policy improvements in developing countries that stimulate domestic private enterprise investment. We believe free trade agreements advance the same cause. Indeed, trade talks can open the doors to talks on more extensive economic reforms, as they did in NAFTA.

In particular, I personally believe that freer trade in financial services and related financial services sector reforms offer macroeconomic benefits for stability and growth in developing nations. As a Treasury Department official, I plan to place special emphasis on pursuing liberalization on this front this year.

Regardless of whether we obtain Trade Promotion Authority from the Congress later this month, this administration intends to advance free trade worldwide, through every means available. In the coming year, this may include several new bilateral agreements as well as the ongoing discussions for expanding free trade in our own hemisphere.

Certainly it will include strong support for the Doha round and close engagement with the WTO. But we will keep every option on the table.

Some will argue that it is optimistic to suggest that regional trade agreements and bilateral agreements are building blocks toward global trade advancement. But it is also realistic to suggest that they are sometimes the only means available for progress on the free trade agenda.

I look forward to discussing and perhaps debating these ideas with all of you.

Thank you.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
April 8, 2002

Contact: Tasia Scolinos
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Treasury Signs License Unblocking Frozen Afghan Assets

Today the Treasury Department signed licenses unblocking the assets of three Afghan entities that had been frozen under Executive Order 13129 to prevent their use by the Taliban. The licenses, signed by Richard Newcomb, Director of Treasury's Office of Foreign Assets Control, released $16.8 million in assets belonging to Pashtany Tejaraty Bank, Afghan National Credit and Finance and Halmund-Arghandab Construction Company. The licenses were issued after consultations with the new Afghan Interim Authority (AIA) to determine that the entities were free from Taliban control.

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.

"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."

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PO-2069

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 11:30 A.M.
April 8, 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 $23,000 million of publicly held 4-week Treasury bills maturing April 11, 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 $10,303 million of the Treasury bills maturing on April 11, 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-2070

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED APRIL 11, 2002

April 8, 2002

Offering Amount ....$14,000 million
Public Offering ....$14,000 million
NLP Exclusion Amount ....$10,600 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 JT 9
Auction date ....April 9, 2002
Issue date ....April 11, 2002
Maturity date ....May 9, 2002
Original issue date ....November 8, 2001
Currently outstanding ....$41,256 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 daylight saving time on auction day
Competitive tenders:
Prior to 1:00 p.m. eastern daylight saving 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
April 08, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	April 11, 2002
Maturity Date:	July 11, 2002
CUSIP Number:	912795KR1

High Rate: 1.710% Investment Rate 1/: 1.740% Price: 99.568

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 98.34%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 28,488,161	$ 8,155,711
Noncompetitive	1,505,322	1,505,322
FIMA (noncompetitive)	339,000	339,000
SUBTOTAL	30,332,483	10,000,033 2/
Federal Reserve	3,642,382	3,642,382
TOTAL	$ 33,974,865	$ 13,642,415

Median rate 1.695%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.690%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 30,332,483 / 10,000,033 = 3.03

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,231,352,000

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
April 08, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	April 11, 2002
Maturity Date:	October 10, 2002
CUSIP Number:	912795LE9

High Rate: 1.975% Investment Rate 1/: 2.022% Price: 99.002

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 30.00%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 25,435,300	$ 8,760,300
Noncompetitive	1,239,996	1,239,996
FIMA (noncompetitive)	0	0
SUBTOTAL	26,675,296	10,000,296 2/
Federal Reserve	3,821,260	3,821,260
TOTAL	$ 30,496,556	$ 13,821,556

Median rate 1.960%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.940%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 26,675,296 / 10,000,296 = 2.67

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,005,354,000

http://www.publicdebt.treas.gov

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
April 8, 2002

Contact: Tasia Scolinos
(202) 622-2960

Media Advisory

Photo Opportunity and Brief Remarks

WHAT: Treasury Under Secretary for Enforcement Jimmy Gurulé will accept a torch from the Salt Lake City Olympic Committee on behalf of the Treasury Law Enforcement bureaus. Representatives from ATF, Customs, IRS Criminal Investigations and the Secret Service will also be present for the presentation of the torch given in recognition of the countless hours the bureaus invested in securing the Salt Lake City 2002 Winter Olympic Games.

WHEN: Tuesday, April 9, 2002
2:00 p.m.

WHERE: The Treasury Department
1500 Pennsylvania Avenue
The Diplomatic Room, 3rd Floor

CLEARANCE: If you are not a Treasury or White House pass holder, You must be cleared into the Treasury Building to attend. Please email Frances Anderson at frances.anderson@do.treas.gov or call 202-622-2960 with you full name, date of birth and social security number to receive security clearance.

PO-2073

*U S Government Printing Office 1998 - 619-559

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FOR IMMEDIATE RELEASE
April 8, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Statement of Treasury Secretary Paul O'Neill on Need for Terrorism Risk Insurance

"There is a real and immediate need for Congress to act on terrorism insurance legislation. The terrorist attacks on September 11 have caused many insurance companies to limit or drop terrorist risk coverage from their property and casualty coverage - a move that leaves the majority of American businesses extremely vulnerable. This dynamic in turn threatens American jobs and will wreak havoc on the entire economy in the case of future attacks.

"I join the President in continuing to urge Congress to take the necessary steps to address this issue. We cannot stand by as the lack of terrorism risk insurance becomes a significant drain on the American economy. 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."

Attached is a list of examples of companies and organizations facing terrorism insurance difficulties.

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Examples of Terrorism Insurance Difficulties

Prior to January 1^{st} 2002, **Gwinnett County, GA**, in Atlanta's metropolitan area paid approximately $349,000 for $1.8 billion of property-casualty insurance, including $300 million of terrorism coverage. At renewal, Gwinnett secured only $500 million in property-casualty insurance for the county's jail, police headquarters, sewage treatment plants, government center, and other municipal buildings from its primary carrier, and only $1 million of terrorism insurance coverage. Additionally, the county's premiums climbed to $502,000 per year. Gwinnett County then went out and purchased a $50 million terrorism insurance policy from Lloyds of London for $390,000.

After discussions with over 40 different insurance companies for general liability coverage, the **U.S. Olympic Committee** (USOC) received quotes from only two companies just days before the Salt Lake City Games were to begin. Both quotes excluded terrorism coverage. The day before the Olympic Winter Games began, the USOC secured a minimal amount of terrorism risk coverage – 5 percent of its expiring general liability limit, for the full price of the broader coverage – a 20-fold increase in cost per dollar of coverage. The USOC is currently negotiating a policy for 3 U.S. Olympic training sites, for an April 16 renewal. So far, it has received 5 quotes for insurance coverage, but none of them includes terrorism coverage.

The **Metropolitan Transportation Authority for New York City** was able to obtain only $150 million in terrorism coverage for its tunnels, bridges, and subways worth over $1.5 billion.

Terrorism insurance coverage for the **Mall of America** was finally re-obtained in late March. For the real estate company, which owns the Mall and many other trophy properties, certain coverage limits are now $1/100^{th}$ of what they were prior to January 1^{st}. At times terrorism coverage costs more than 10 times what all risk coverage had cost prior to January 1^{st}. The company is prohibited from revealing the exact price terms.

The LeFrak Organization, owner of a **new large office building in Jersey City**, New Jersey, experienced difficulty obtaining mortgage financing because of the high cost of terror coverage. Self-insurance was not an option since all of LeFrak's lenders, including the securitization market, required terrorism insurance. After an extensive search, LeFrak was able to obtain terrorism coverage. But this came at a substantially higher cost – $400,000 for standard property-casualty coverage and another $400,000 for terrorism insurance. Prior to 9/11, the entire cost of the coverage for this building, including terrorism coverage, was $60,000.

The **Golden Gate Bridge** in San Francisco has lost its terrorism risk coverage. For its non-terrorism coverage, premiums recently rose from $500,000 to $1.1 million and coverage was reduced from $125 million to $25 million. The Golden Gate Bridge District's CFO is contemplating toll increases to pay for the premium hikes.

The United Jewish Appeal-Federation of Jewish Philanthropies of New York sponsors **hospitals, major medical teaching centers, nursing homes,** and many other facilities throughout New York State. None of these institutions has been able to obtain terrorism risk insurance.

The **Newark Museum's** fine arts insurance premium recently doubled, increasing from $21,000 to $42,500. According to the Museum's insurance agent, this increase was primarily due to concerns about potential terrorism, exacerbated by the institution's proximity to New York City.

The Hyatt Corporation has purchased a site for a **new office building in downtown Chicago** at a cost of roughly $400 million. The company is now trying to obtain financing for this project but is being told that nobody will make loans without insurance for terrorism, yet adequate terrorism insurance is unavailable. As a result, construction on the project has not been able to begin. The project will lead to the creation of 2500 jobs -- if the Hyatt Corporation can get insurance and proceed with the project.

Amtrak was unable to obtain terrorism coverage when its $500 million property insurance policy came up for renewal on December 1st. Terrorism coverage of that magnitude was not available, and the amount of terrorism coverage that was available was priced so high that it was beyond consideration. Amtrak believes that only limited amounts of terrorism coverage are available today, and that limited coverage is at extremely high rates.

Major hotel companies, including such well-known brands as Embassy Suites, Hilton, Holiday Inn, Hyatt, Marriott, Sheraton, Westin and others, have lost or will soon lose within the next 60 days terrorism coverage under their property insurance programs. These companies are finding that whatever replacement terrorism insurance coverage is available is inadequate to meet their insurance needs. These companies employ millions of Americans, including people working in the hotels, building the hotels and all the other indirect jobs that are required to support hotel properties.

The **Cleveland Municipal School District** has been notified that there will be an exclusion for terrorist risk when its policy comes up for renewal in July. The School District is concerned that not only will it be losing coverage for terrorism risk, but that the language of the exclusion is written very broadly.

The **Wisconsin Energy Corporation** has been informed by its insurer that coverage will no longer be available for acts of terrorism when its policy comes up for renewal in July. In seeking to fill this void, the company has found only very limited, and extremely expensive, coverage available from other insurance companies. With this limited coverage, the company's non-nuclear power plants would be grossly underinsured for the potential risk.

In a recent insurance renewal, **Baylor University** was able to get only half the coverage for twice the price, and its terrorism risk coverage was even more limited. Last year, Baylor's coverage was $1 billion, including terrorism coverage, for a $500,000 premium. This year, they have several separate policies totaling $600 million in coverage, and the premium has risen to $1 million. The terrorism coverage is only $60 million.

The State of Florida is requiring all insurance policies for homeowners and small businesses to include terror coverage. But the availability of such insurance is in jeopardy because the insurance companies cannot obtain reinsurance on **coastal commercial properties in Florida**.

A **prominent Las Vegas developer** has been unable to obtain financing for a $2 billion project due to lack of insurance; once financing is obtained, the project will provide 16,000 jobs.

The **National Football League** and individual teams and stadiums have experienced difficulty acquiring terrorism coverage. The Miami Dolphins and New York Giants have joined the ranks of other teams around the country that have lost terrorism coverage in the wake of the 9/11 attacks. Many teams and stadiums are faced with the choice of going "bare" or paying the exorbitant prices being charged by insurers for minimal coverage.

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EMBARGOED UNTIL 10 A.M. EST
April 9, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

STATEMENT OF DONALD V. HAMMOND
FISCAL ASSISTANT SECRETARY
DEPARTMENT OF THE TREASURY

BEFORE THE HOUSE GOVERNMENT REFORM SUBCOMMITTEE ON GOVERNMENT EFFICIENCY, FINANCIAL MANAGEMENT AND INTERGOVERNMENTAL RELATIONS

FY 2001 FINANCIAL REPORT OF THE UNITED STATES GOVERNMENT

Mr. Chairman and members of the Subcommittee, I am pleased to have the opportunity to appear before you today to discuss the Financial Report of the United States Government. This is my fourth appearance before your subcommittee on reporting the government's financial results and while we continue to make progress, the government still has a considerable distance to go before the quality of its financial reporting will be equal to what the taxpayers deserve. At times this process has been frustrating but I am optimistic that we will achieve our objective. Your tireless pursuit of sound government financial management has been an important element of our continued improvement.

Treasury shares your commitment to improving the state of federal financial management and in particular reporting financial information that is timely, reliable and most importantly useful. As explained more fully in the testimony of OMB Controller Mark Everson, one of the five government-wide initiatives in the President's Management Agenda addresses improved financial performance. One component of this agenda item is the acceleration of the timing of agency and government-wide financial reporting. OMB has established a deadline of November 15, 2004 for agencies to submit their fiscal 2004 audited financial statements and December 15, 2004 for the government-wide financial statements. In support of this endeavor, the Chief Financial Officers Council has created a Financial Statement Acceleration Committee, which I chair. The committee has set out to identify existing agency best practices for expedited preparation and issuance of audited financial statements as well as barriers to timely preparation.

PO-2075

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

This information will be essential to making changes across government in the way that we process financial information. Accelerated reporting will finally allow adequate time to have the financial statements considered in the budget process, and in time for decision-makers to fully consider financial performance in the management of their programs.

Financial Results

The Fiscal Year 2001 Financial Report was issued on March 29th - on time for the 5th consecutive year. The report showed a financial loss of $514.8 billion, compared with the budget's FY 2001 $127 billion surplus. The primary components of the difference between the budget and accrual numbers are increases in the liability for military health liabilities of $388.6 billion, and an increase in the liability for veterans disability of $115.2 billion, both of which are recognized as costs in FY01. As a result, for the first time, the liability for Federal employee (civilian and military) pension and other post retirement benefits ($3.36 trillion) exceeds the Federal debt held by the public ($3.32 trillion). Further, the report includes an update on the latest financial projections from the Social Security Trustees' Report, released on March 26, about the Social Security and Medicare programs.

I highlight these items because they provide outstanding examples of the type of unique information contained in the Financial Report and point out the importance of disclosing these results. Similar to the private sector, the financial statements of the Federal government are presented on an accrual basis in accordance with generally accepted accounting principles (GAAP). In the case of the Federal government, GAAP is developed by the Federal Accounting Standards Advisory Board. The Financial Report presents a complete and integrated picture of the government's assets, liabilities, cash flows and costs. The report also discloses the Government's extensive stewardship responsibilities and commitments. As mentioned above, a new law requiring expanded military retiree health benefits was enacted that resulted in an increase in the government's liability for post retirement health benefits by almost $300 billion. These benefits are payable in the future but the obligation to pay them has already been made. Only the accrual-based Financial Report presents this government-wide consolidated information in context to the public, providing a more transparent picture of the Government's financial operations and position.

Progress Made

Treasury is committed to producing accurate and useful governmentwide financial statements. Reflecting this commitment, the following changes were made to improve its usefulness and better disclose the government's activities to the Congress and the public. This year, for the first time, the report presented comparative financial statements displaying the current and prior years. This format facilitates financial analyses and highlights trends that may be of importance to analysts of the government's activity. In addition, we have added two new financial statements. The Reconciliation of Net Operating Revenue/(Cost) to the Budget Surplus explains the differences between the accrual-based loss and the budget surplus. These differences are generally due to liabilities or future payments being recorded in the current year's financial statements, while the budget does not record these amounts until the payment is made.

The Disposition of the Budget Surplus explains how the excess cash collected over cash payments made was used (for example, the amount of the budget surplus that was used to reduce the debt held by the public). In addition, we have begun reporting costs by agency rather than function. This is consistent with the new Presidential budget presentation and will provide a better basis for program performance analysis. It also is more understandable by the public. These changes were made possible through the dedicated efforts of the staff of the Financial Management Service and Treasury's accounting policy office.

GAO Opinion and Material Weaknesses

The General Accounting Office (GAO) has again given a disclaimer of opinion, but also acknowledges that progress is being made in addressing the impediments to an opinion on the Financial Report. Across the agencies, specific progress was noted. For example, the Department of Agriculture and certain other key agencies made significant improvements in estimating the cost of the government's lending programs and the net loan amounts expected to be collected. Additionally, two agencies that did not receive unqualified opinions from their auditors last year were able to do so this year. However, the serious financial management and systems problems at the Department of Defense remain a huge obstacle in overcoming the impediments to reaching an opinion on the government-wide report. Defense has evidenced a serious commitment to improving the financial situation with Secretary Rumsfeld publicly stating that effective financial management reform is one of his top priorities.

With respect to those material weaknesses that are unique to the Financial Report, Treasury is actively working with OMB and the agencies to remove them as impediments to achieving an opinion on the Financial Report. One such weakness relates to the preparation of the consolidated financial statements, and the need to establish consistency between the agency financial statements and the compiled information used for the consolidated financial statements. Treasury, in consultation with OMB and GAO, is developing and implementing a new system and procedures to prepare the consolidated financial statements that will directly link information from the agencies' financial statements to amounts reported in the consolidated financial statements and to facilitate the reconciliation of net position. This new process will involve compiling information from agency submissions taken directly from their financial statements and associated "closing packages," with these closing packages containing the data necessary to prepare the report. In some cases, the data will be audited as part of the audit of the agencies' financial statements. In other cases, auditors at the agency level will provide audit assurance through the application of agreed-upon procedures. In addition, a thorough review of the standard general ledger (SGL) is in process that will verify that the SGL contains all of the accounts necessary to facilitate the reconciliation of net position, especially between intragovernmental and public activities.

This year for the first time, FMS staff did a complete analysis of the balance sheet numbers reported by the agencies and those reported in the statements. This work involved a detailed comparison and crosswalk of the information agencies reported on their financial statements to the data they provided independently to FMS for the preparation of the Financial Report.

In a very encouraging sign, the analysis indicates that no line item differs by more than $270 million and total assets of $926 billion and total liabilities of $7.4 trillion differ by $143 million and $369 million respectively. These differences are a significant improvement from earlier years, indicate consistency of the balance sheet information and reflect the marked improvement in the quality of the information.

Another area of recurring material weakness relates to intragovernmental activity and balances. The government currently lacks clearly articulated business rules to ensure that agencies record transactions with each other consistently and correctly. This makes it difficult for agencies to reconcile balances with each other, resulting in inconsistent information being reported to Treasury. These inconsistencies can result in total government assets, liabilities, revenues, and expenses being misstated and raise concerns about their reliability. The problem is a data problem as pointed out by GAO in its audit report. Beginning with Fiscal Year 2001, OMB and Treasury required agency chief financial officers to report on the extent and results of intragovernmental activity and balances reconciliation efforts. The inspectors general reviewed these reports and communicated the results of their reviews to OMB, Treasury, and GAO. A substantial number of the CFO Act agencies did not fully perform the required reconciliations for Fiscal Year 2001 citing reasons such as (1) trading partners not providing needed data, (2) limitations and incompatibility of agency and trading partner systems, and (3) human resources issues.

OMB has initiatives underway to address this data quality problem. Additionally, business rules are currently being developed that will standardize the recording of agency transactions with each other. Meanwhile, as part of the development of the preparation process, Treasury is implementing a methodology that will effectively eliminate intragovernmental activity. However, until the underlying data is accurate, there will continue to be potential problems with the presentation of the government's activity.

Future Directions

The Treasury Department continues to develop a governmentwide accounting system that will greatly improve the agencies' access to data, reduce redundant data reporting, and eliminate reconciliations between the cash amounts shown on agency and Treasury books. The redesigned system will be Internet-based and will be implemented in a modular, phased approach over the next several years. The necessary accounting information will be captured at the initiation of the business transaction instead of after the funds have left the Government, as is presently the case. In addition, Treasury will provide an account statement so that agencies will know their fund balances on a daily basis.

Treasury's Financial Management Service continues to improve our SGL based reporting systems. Using the Federal Financial Management Improvement Act of 1996 as a base, these systems strive to collect data needed by OMB and GAO directly from agency accounting systems. Just as manufacturers reject components that do not meet specifications, our new reporting systems reject reports that do not meet specifications of the U.S. Standard General Ledger.

As agencies move toward SGL compliant accounting systems, the reports continue to improve. The SGL and the full implementation of the SGL is a critical part of Treasury's goal to make financial data more accessible, more available, more accurate, and more useful for management decision-making.

Conclusion

Improving financial management and accountability is a top priority for Treasury and we are taking a lead role. We will work closely with OMB and program agencies to raise the bar in financial management improvements. As I mentioned earlier in my testimony, Treasury, OMB, and GAO have reevaluated the process we use to prepare the government-wide financial statements. Our goals include accelerating the time frames for issuing year-end audited financial statements and moving toward the preparation of quarterly statements by program agencies. We will also consider new ideas such as audit committees and the use of pro forma financial statements with budget submissions. These changes will require the commitment and support of management throughout the Federal Government. It is reasonable to expect such support since improved financial performance is part of the President's Management Agenda.

Success will be achieved when we reliably and accurately report on the distinctly different financial activities of many agencies of Government as if they were one entity and do so in a time frame and a manner that is truly useful. We look forward to working together with all affected parties to reach that end.

Thank you, Mr. Chairman. This concludes my formal remarks and I would be happy to respond to questions.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Release Upon Delivery
April 17, 2002

Contact: Public Affairs
(202) 622-2960

TREASURY SECRETARY PAUL H. O'NEILL TESTIMONY BEFORE THE HOUSE APPROPRIATIONS COMMITTEE SUBCOMMITTEE ON TREASURY, POSTAL SERVICE AND GENERAL GOVERNMENT

Mr. Chairman, Congressman Hoyer, and members of the Committee, I appreciate this opportunity to discuss Treasury's FY 2003 budget request.

As you know, Treasury plays a crucial role in the core functions of government, and serves as tax administrator, revenue collector, law enforcer, financial manager, as well as leading policymaker for tax policy, banking policy and international and domestic economic policy.

For FY 2003, we are proposing a performance budget that will enable Treasury to continue to provide the American public with both the service and program reliability it expects and deserves. I have challenged each of my bureaus to carefully examine their operations to achieve improved effectiveness in business practices. I expect that Treasury can realize reasonable savings from this type of review through reviewing programmatic efforts on a continual basis and reducing or removing those producing little or no value.

Our budget request totals $16.654 billion for all operations. Taking into account the offset from the proposed $250 million dedicated toward Customs commercial operations, our program level totals $16.903 billion, compared to $16.5 billion appropriated in FY 2002, and $14.8 billion in FY 2001.

Mr. Chairman, the budget request includes the impact of proposed legislation for retirement and health costs for federal employees and I will speak to that proposal later in my statement. However, I do want to note that the budget presents for the Committee the comparative information on this proposal for prior fiscal years, in order to not materially affect the real changes being proposed and reviewed by the Committee for FY 2003.

We have provided the Committee with a detailed breakdown and justification for Treasury's FY 2003 budget request. I would like to take the opportunity today to highlight four important areas of focus for FY 2003.

PO-2076

Treasury's FY 2003 budget recognizes the importance of, and provides adequate and appropriate funding for, the following:

a. *Protecting our Nation from Terrorists and Terrorist Activity*
b. *Stewarding Change through Technological Improvement*
c. *Improving Customer Service & Compliance at the Internal Revenue Service*
d. *Achieving the President's Management Agenda*

FIRST, in light of the recent events concerning terrorism in the U. S., I would like to discuss Treasury's role in **protecting our Nation from terrorists and terrorist activity**.

The tragic events of September 11, 2001 sparked a nationwide effort to prevent and combat terrorism. Treasury has been at the forefront of these efforts with all of its law enforcement bureaus participating in counter-terrorism functions, including internal bureau and agency security and ensuring the continuity of operations. We bear the responsibility of protecting the Nation on three fronts:

(a) *At its borders;*
(b) *In the banks; and*
(c) *At home.*

In FY 2002, Treasury received $683 million in additional counter-terrorism funding through the Emergency Supplemental. In the proposed FY 2003 budget, the follow-on costs associated with the funding provided in FY 2002 have been estimated in the amount of $518 million.

Our nation's first line of defense against terrorists and terrorist activity is the security of our borders.

Following the attacks of September 11th, the border threat level was raised from Alert Level 4 (normal operations) to the highest level, Alert Level 1 (Code Red). The **United States Customs Service**, our Nation's first line of defense at 301 ports of entry into the Nation, has made the fight against terrorism its number one priority. In response to this heightened state of alert, Customs has hired additional personnel to staff our borders and seaports, and has engaged members of the National Guard to increase security around our Nation's borders.

Customs received almost $400 million in new FY 2002 appropriations for addressing homeland security matters (in addition to $65 million provided through separate presidential releases). Of this amount, $235 million is being used for a combination of personnel and new equipment in ports of entry on the northern border and at critical seaports, along with selected investments on the southern land border.

Customs has set out an expenditure plan for this funding for Congressional review that responds to both short and long-term security concerns. The recurring cost of labor-intensive efforts will be coupled with technology investments that will increase efficiencies and enhance the level and degree of scrutiny for various ports of entry.

The FY 2003 proposal for the U.S. Customs Service includes $365 million to fund counter-terrorism efforts in the second year, continuing to focus principally on Northern Border and Marine Port security efforts, but also addressing other areas of vulnerability, such as: international money laundering, security infrastructure, southwest border staffing, and funding for backup commercial recovery facilities. Ports of Entry (POE) have been identified as potential entry points for terrorists as well as the most likely avenue for them to introduce implements of terror into the country. The danger this presents has become a focus for the FY 2003 request.

In FY 2003, Customs will add 626 new positions, in addition to the 1,075 positions allocated in FY 2002, to vulnerable locations on the northern and southern land borders, and in seaports with the highest volume of containerized cargo. They will counter the terrorist threat while facilitating legitimate trade and travel.

The FY 2003 request also includes a large complement of inspection and targeting technology (including a modest research component), a further expansion of the Advance Passenger Information System (APIS) to real-time processing capability, and technology to expedite the passage of goods imported by highly trusted entities.

Finally, low volume Ports of Entry would be protected through "hardening" measures including physical barriers, sensors and monitoring devices to prevent and detect unauthorized crossings. Customs serves as the lead agency for Operations Green Quest and Shield America. These multi-agency task forces are dedicated to: (1) identifying, disrupting, and dismantling terrorist financing sources and systems, and (2) ensuring that munitions and sensitive U.S. technologies are not unlawfully exported into the hands of terrorists. The FY 2003 budget supports and maintains these critical task forces.

Equally important with protecting our Nation's borders is deterring the terrorists from being able to finance their operations.

Treasury's **Financial Crimes Enforcement Network (FinCEN)**, along with the **Office of Foreign Assets Control (OFAC)**, lead the Nation's war against global terrorism financing.

In his November 7th address at Treasury, President Bush proclaimed that *"the first strike in the war against terror targeted the terrorists' financial support."* Following the attacks, FinCEN and OFAC were able to identify and stymie numerous supporters of the Al Qaida and other terrorist organizations by freezing $34 million in terrorist assets and working with allies overseas to freeze over $70 million. Funding levels proposed for FY 2003 will better enable FinCEN to sustain and maintain these activities.

The Foreign Terrorist Asset Tracking Center (FTAT) was in the process of being organized and staffed when the terrorist attacks of September 11th occurred.

In fact, the Financial Crimes Enforcement Network (FinCEN) had already been staffed for the purpose of providing analytical support to the interagency FTAT and was supplying the product of that staffing to the Office of Foreign Assets Control (OFAC). Immediately following the attacks, the Treasury Department helped to accelerate the development of the interagency FTAT by establishing a temporary operational presence within the secure environment of FinCEN. The unit quickly began to serve as an analytical center for combating the problem of terrorist financing.

Section 906 of the USA Patriot Act requires that the Director of the CIA, the Attorney General and the Secretary of the Treasury jointly file a report on the "feasibility and desirability" of reconfiguring FTAT. I reviewed this matter along with other senior government officials, including the Principals Committee of the National Security Council. Based on that review, a decision was made to move and reconfigure FTAT to ensure it was fully integrated into the ongoing terrorist financing activities of other agencies. Let me assure this Subcommittee that Treasury will continue its leadership role in FTAT and in the broader efforts to disrupt and dismantle terrorist financing.

While leading protection efforts on the borders and in the banks, Treasury has also placed an increased emphasis on security within the Nation in the protection of our Nation's leaders, foreign dignitaries and, ultimately, our Nation's freedom. The United States Secret Service, Bureau of Alcohol, Tobacco and Firearms, and Federal Law Enforcement Training Center are at the forefront of these efforts.

The **United States Secret Service** is the only federal government entity charged with the challenging mission of protecting the President and foreign dignitaries. In response to increasing homeland security threats, the Secret Service has been assigned new protectees and has seen significant workload increases in its protective functions. The FY 2003 budget provides funding to enable the Secret Service to meet its protective requirements, including funding for travel, overtime, and follow-on costs associated with Special Agents and Uniformed Division Officers hired in FY 2002.

Around the world, firearms and explosives are the most frequent tools of terrorist attacks. The **Bureau of Alcohol, Tobacco and Firearms** is charged with enforcing Federal laws relating to commerce in, and the criminal misuse of, firearms and explosives, and ATF's authority and technical expertise is an integral component in fighting the Nation's war against terrorism. Through the awareness that terrorists need funds to operate, ATF has found that illegal commerce in alcohol and tobacco products serve as attractive and lucrative sources for generating funds for illegal activities.

As new law enforcement officials are being recruited and hired to fulfill the various positions critical to the Nation's war on terrorism, training for these individuals to perform their duties in a safe and highly proficient manner has become an immediate necessity. The **Federal Law Enforcement Training Center (FLETC)** serves as the Federal government's leading provider of law enforcement training. FLETC currently provides training for 74 Federal Partner Organizations, and also for state, local and international law enforcement organizations on a reimbursable basis.

Training is provided in the most cost-effective manner by taking advantage of economies of scale available only from a consolidated law enforcement training organization. The FY 2003 request provides funding to maintain current levels prior to the September 11th terrorist attacks, while also providing additional funding to support the training of new agents hired as a result of the attacks.

SECOND, the FY 2003 budget is Treasury's continuing commitment to **stewarding change through technological improvement**. This effort entails modernizing two of Treasury's mission-critical technological systems.

The budget continues critical support for the **Internal Revenue Service's** computer modernization efforts. The IRS is committed to providing excellent customer service and takes pride in the integrity of their systems. As a result, they are continually making improvements in operations efficiency and performance by adopting best business practices and state-of-the-art technology.

The IRS is replacing its antiquated computer system with an information technology capacity that is appropriate for the new century. Modernizing the agency's technology will enable it to deliver on its pledge to provide better customer service for all.

The Business Systems Modernization effort was begun not just to keep up with modern systems, but also because it was a necessity due to the fundamentally deficient nature of the IRS' core data systems. The Master File system, on which all taxpayer accounts reside, is based on outdated 1960s technology.

It is important, if the agency is to provide quick and reliable service to its customers, to continue the ongoing shift to modern standards of technology by adopting a new architecture. This multi-year endeavor is providing IRS with the technological tools and revamped business processes needed to deliver first class customer service to American taxpayers and to ensure that compliance programs are administered efficiently and fairly.

As this is the project's fourth year, much has been achieved, but the process is still incomplete. FY 2002 and FY 2003 are key transition years for IRS Modernization efforts, as the foundation of our Nation's tax system is being replaced, building a bridge to providing interactive and improved customer service.

The Department's FY 2003 budget provides $450 million for the continuation of effort in re-engineering business processes and developing new business systems to replace their antiquated and obsolete system. This amount is $58 million above the FY 2002 enacted level of $392 million, and $378 million above the FY 2001 enacted level of $72 million.

The budget also continues important investments initiated for the **United States Customs Service** modernization effort. Illegitimate trade and contraband trafficking have been of the utmost concern to the Department, the Administration, the Congress and the American public.

This concern was heightened due to the tragic events of September 11th, and increased pressure has been placed on the Customs Service to inspect all cargo entering and exiting the United States.

The strains on the Customs Service are growing increasingly severe every day. Since the Customs Modernization Act was passed, the value of exports has grown by 36 percent while the value of imports has risen by 51 percent. The agency is required to cope with this sharp rise in input and export volumes with the same outdated trade system it had when the Act was passed in 1993.

Customs is not alone in having to work with antiquated technology. We believe we are on the right track in our efforts to modernize IRS technology and we have learned a great deal from this experience. Given the critical role of Customs in handling enormous volumes of goods and in combating drug and other types of trafficking, it is important that they are equipped with the best tools available to fulfill these goals.

In FY 2003, the Customs Service expects to process 27 million formal trade entries. Customs is dedicated to replacing the outdated and unreliable Automated Commercial System (ACS) with the Automated Commercial Environment (ACE). The replacement system will enable Customs to adopt a paperless, account-based process for importers. FY 2003 marks the third year of funding for this modernization effort.

Besides trade facilitation and compliance, ACE will play an integral role, in conjunction with other targeting and inspection tools, in assisting Customs with the evaluation of high-risk cargo for possible contraband as it passes the Nation's borders.

The Department's FY 2003 proposal provides for: (1) additional investments in the automation modernization program to further develop and migrate to the Automated Commercial Environment ($307.5 million), as well as continued funding for a government-wide trade data interface through the International Trade Data System ($5.4 million); and (2) sufficient funding to maintain the existing Automated Commercial System while modernization efforts are underway.

THIRD, our FY 2003 budget request addresses the **improvement of customer service and compliance at the Internal Revenue Service**. This has been of significant concern to the Committee and the Department, and the Internal Revenue Service has been making great strides for improvement in this area.

To achieve its mission of "providing America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all," the IRS has realized that organizational improvements and increased employee satisfaction lead to improved customer satisfaction. As a result, strategic objectives focus not only on the taxpayer, but also on the improvement of the bureau as a whole.

Under the leadership of Commissioner Rossotti, the IRS has already made impressive progress towards providing a more responsive and effective service to its customers. But there is still more to accomplish. An inefficient tax system imposes costs on all. The longer it takes to implement improvements, the greater the cost to the consumer and the economy.

The IRS is well down the road towards modernizing its organizational structure and computer systems. The IRS has no intention of returning to its peak employment, recognizing that real productivity has made the agency more effective and efficient. However, modest staffing increases, along with improvements from systems modernization, are needed to provide the best service in both compliance and customer service areas.

This is the ideal moment to re-engineer the agency to serve all Americans by providing the most effective, up-to-date service possible. We must not allow this opportunity to pass us by.

During its strategic planning and budget process, the IRS identified $260 million in requirements to improve processing, customer service and compliance across its organization as part of its tax administration responsibilities. Using a combination of strategic redeployment of staff and identification of labor savings programs, the IRS has been able to internally redirect $158 million from existing resources to focus on customer service, compliance and workload requirements.

The FY 2003 request seeks additional funding for the remaining requirement of $102 million needed to meet this mission-critical goal. The request supports efforts that are already underway to improve customer service and compliance operations. Re-engineering and Quality Improvement projects and programs are focusing on redesigning internal processes, policies and procedures. These additional resources, in addition to the redirected resources discussed earlier, will be realized by the American taxpayer through the following improvements:

- Providing additional assistance and forms, schedules and new return types to its e-file website in order to meet the Congressional goal of having 80% of all returns filed electronically;
- Through effective implementation of the e-file and e-services programs, the IRS will save more than 500 FTE to be redirected to assist in achieving other parts of this initiative;
- Hiring of lower-cost employees to handle the submission processing growth anticipated increase from new tax returns filed, reducing the number of high cost employees needed for compliance during filing season;
- Increasing the level of telephone service to taxpayers with respect to tax law inquiries; and
- Providing almost instant access to return at Customer service sites, assisting staff in providing top-quality customer service to business taxpayers.

The FOURTH, and overriding area of focus for this year's request, addresses Treasury's role in becoming a **results-driven organization**, consistent with the **President's Management Reform Agenda**.

Although it may referred to as the President's Management Agenda, the concept of the agenda is very similar to the types of results this Committee is concerned with.

The Agenda's five areas of emphasis are:

- Strategic Management of Human Capital;
- Expanded Electronic Government;
- Improved Financial Performance;
- Budget and Performance Integration; and
- Competitive Sourcing.

Only through the delicate balance of all five Presidential Management Initiatives can an organization achieve true *world class* performance.

In working to achieve *world-class* status, the Department emphasizes the importance of leadership, accountability, excellence, people, trust and integrity, and improving the work environment. In addition, as the principal custodian of the revenue collected and debt issued on behalf of the Federal Government, the Department strives to demonstrate fiscal stewardship of each congressionally authorized dollar by linking investments with specific, measurable results.

Presidential Management Initiative 1: ***Strategic Management of Human Capital***

Treasury's most valuable and strategic asset is its employees, who are responsible for carrying out the Department's vast array of duties which affect the lives of every American citizen. Without the dedication and diligence of its employees, the Department would be unable to meet the obligations placed on it by the American public. I have reemphasized the importance of my employees and have made every effort to ensure that each employee is (1) used to their full potential, (2) working in a safe and positive environment, and (3) providing value-added work to the organization.

I have emphasized that organizations known for excellence are built on a foundation of dignity and respect for its employees. The Department is focused on evaluating its work and processes so that each and every employee feels that their work is meaningful and contributes to the mission and objectives of the organization. In addition, because job satisfaction is a number one priority for many employees, I am dedicated to creating a work culture of performance, challenge, meaning, and dignity, while providing employees with flexibility to balance their work and personal lives. Examples of this flexibility include tele-work and flexiplace programs, alternative work schedules, and offering family-sensitive benefits.

In order to implement this Presidential Management Initiative, the Department is continually reassessing its human resource strategies and support systems to strengthen the quality of both its workforce and its management.

In the aftermath of September 11, 2001, an increasing number of Americans have become eager to consider service opportunities in government. It is imperative that the Department exploits this opportunity and is able to recruit the best and brightest.

As a result, innovative approaches to recruit high-caliber candidates into mission-critical positions are underway.

A broad variety of private industries have experienced a direct correlation between employee satisfaction and customer satisfaction. Similarly, I believe that high levels of employee satisfaction within the portfolio of Treasury employees will lead to enhanced service provided to its citizens, thus yielding higher customer satisfaction from both stakeholders and service users.

Presidential Management Initiative 2: ***Expanded Electronic Government***

In addition to the strategic management of human capital, the use and improvement of information technology will assist the Department in providing solutions to common challenges facing all areas of the Department. The benefits of these improvements will not only improve the effectiveness of Treasury operations, but they will also produce tangible benefits for the American public.

Treasury is currently in the process of reviewing its IT portfolio for adherence to common standards, and updating and maintaining cost-benefit analyses for new and ongoing systems. This will yield an integrated comprehensive enterprise architecture at the Department level that saves money and reduces the cycle time of major products.

For example, the Internal Revenue Service continues to work towards the Congressional goal of having 80% of all tax and information returns filed electronically by 2007. As this method of tax filing has become more popular, the IRS has reduced processing costs significantly per document, with less input errors and reduced handling time and storage costs as well.

Working with the Internal Revenue Service, the Bureau of Alcohol, Tobacco and Firearms continues to operate systems that electronically capture revenue and allow forms to be electronically submitted for tobacco taxation collection.

In efforts to streamline human resources applications, HR Connect, which is currently operational in six Treasury bureaus, serves as a single, integrated automated environment for human resource operations across all Treasury bureaus. When fully operational, HR Connect will replace the 90+ legacy stand-alone human resources systems that currently exist. HR Connect will ultimately provide standardized information that will facilitate results-driven decision-making.

As a highly visible agency, Treasury maintains websites that are among the most frequently accessed, and are therefore tailored to the specific needs of its customer base - citizens, businesses and other government agencies. The following are examples of Treasury bureau websites that were created with the customer in mind, while improving the cost effectiveness of Treasury:

The U.S. Mint offers a large portion of their services, resources and products through the Internet. Recognized as one of the top 30 "e-tailers" in the Nation in FY 2000, the Mint's Web sales exceeded $109 million and their return on investment has reached 20%.

The Bureau of the Public Debt offers a variety of services to investors on its website. Customers holding Treasury bills and notes in the Bureau's *TreasuryDirect* system can purchase securities and reinvest their holdings at the site, or by using a touch-tone telephone. Also, Public Debt teamed up with our Financial Management Service to offer savings bonds to the public on a 24/7 basis. The Savings Bonds Direct website has generated more than $700 million in sales since it went live in November 1999.

Presidential Management Initiative 3: ***Improved Financial Management***

Treasury has the responsibility of principal custodian of the revenue collected and debt issued on behalf of the Federal Government. To improve financial performance and expand electronic government, it is imperative that the Department implement modern financial management systems that are capable of providing timely, accurate and reliable information.

In recognizing that real-time information is much more valuable than information that is five months old, I have challenged each of the bureaus to improve their reporting capabilities by moving to a 3-day, monthly closing of their books by no later than July 3, 2002.

Once all bureaus are implementing a 3-day, monthly close, they will be able to submit better financial data for consolidated reporting. This will enable bureau and Department management to make results-driven decisions, instead of spending a majority of their time aggregating the data. This will also contribute to increased employee job satisfaction by showing employees that the work they do contributes to the overall decision-making process.

Bureaus are also in the process of conducting internal risk assessments focusing on payment controls, determining and investigating those areas that contain the most potential risk for improper payments. These assessments will result in improved operational performance, which will contribute to improved customer service.

<u>Presidential Management Initiative 4</u>: *Budget and Performance Integration*

Integrating performance information into the budget decision-making process allows agencies to more directly focus their resource decisions on strategies and programs that produce desired results. This effort has been evolving and ongoing for the past six years. The following are examples of Departmental improvements in this area:

- Bureaus have submitted performance information along with their budget requests to the Department for several years. The Department is moving to target better use of this information, lining up resources, performance data and metrics to become a more effective decision-making tool for the bureau, the Department, OMB and Congress, as senior officials are better able to make resource decisions based on the performance of programs and initiatives.

- Work continues on presenting bureau measures, which address key activities using balanced, results-oriented performance measures, and on improving the quality of this data.

<u>Presidential Management Initiative 5:</u> *Competitive Sourcing*

Treasury continues its efforts in competitive sourcing, utilizing contractors whenever necessary to meet its goals. Expanded steps are underway with each bureau, to enhance competitive sourcing knowledge sharing and knowledge management Department-wide so that necessary sourcing competitions can begin as soon as possible.

The Department is committed to evaluating the merits of its internal efforts, by understanding competitive sourcing options – migrating to those outsourced options when it makes sense for the American people based on cost and value, while retaining those specific mission areas that are inherently governmental.

A number of the Department's bureaus rely heavily on the private sector.

- The Bureau of Alcohol, Tobacco and Firearms employs a broad array of contractors to support its mission, and integrates in-house solutions with outsourced vendors. This allows ATF's leadership team to focus on their core deliverables and mission-oriented goals.

- At the Financial Management Service, contractors are involved in 41% of the total management support functions.

- The U.S. Mint contracted out 26% of its operating expenses in FY 2000. These contractors performed not only administrative tasks, but were also responsible for other functions at the Mint such as advertising, public relations, printing, numismatic order processing, telemarketing services, and custodial and facilities management operations.

- During late FY 2001 and early FY 2002, the U.S. Mint built a strategic plan that ensures its employees focus on those critical areas of performance. They have leveraged the actual business execution of their operations using contractors, while their core employee base provides leadership, direction and critical business efforts.

- IRS and the Department will study the possibilities of outsourcing some aspects of the collection process.

Legislative Proposal on Retirement and Health Costs

Mr. Chairman, our budget includes the impact of proposed legislation for the full funding of certain federal employee retirement and health costs. Because Treasury has the third largest agency financial impact with the implementation of this proposal, I'd like to provide additional background for the Committee.

The President's FY 2003 Budget corrects a long-standing understatement of the true cost of thousands of government programs.

For some time, the accruing charge of costs associated with the Federal Employee Retirement System (FERS) and Military Retirement System (MRS), and a portion of the old Civil Service Retirement System (CSRS), have been allocated to the affected salary and expense accounts, and the remainder (a portion of CSRS, other small retirement systems, and all civilian and military retiree health benefits) has been charged to central accounts.

The President's Budget presents the amounts associated with shifting this cost from central accounts to affected program accounts, starting in FY 2003, predicated on the enactment of authorization legislation. By shifting this cost to the affected salary and expense accounts, budget choices for program managers and budget decision-makers will not distorted by inaccurate cost information. The proposal does not increase or lower total budget outlays or alter the surplus/deficit, since the higher payments will be offset by receipts in the pension and health funds. This change in treatment of costs is the first in a series of steps that will be taken to ensure that the full annual cost of resources used -- including support services, capital assets and hazardous waste -- is charged properly in the budget presentation.

Conclusion

Mr. Chairman, let me conclude on a personal note. Since becoming Treasury Secretary last year, I have been deeply impressed by the intelligence, professionalism and dedication of the people with whom I have worked, and together, we are working to make this Department a model for management and service to the American people. I hope the Committee shares my confidence in the uses that are being made of taxpayer's funds. In that spirit, I ask that you approve our FY 2003 budget request to support the work of the Treasury Department in fulfilling its wide range of responsibilities in serving the American people. I look forward to working with you, Mr. Chairman, as well as members of the Committee and your staff, to come up with a budget that maximizes Treasury's resources in the best interest of the American people and our country.

Thank you again for giving me the opportunity to meet with you and personally present the Department's budget. I am willing to answer any questions the Committee may have concerning the Department's FY 2003 budget.

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 04/01/02

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $67,695 million at the end of the latest week, compared to $67,740 million at the end of the prior week.

ı US millions)

Official U.S. Reserve Assets		March 22, 2002			March 29, 2002	
TOTAL			67,740			67,695
Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	5,333	10,032	15,365	5,296	10,045	15,341
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	9,180	4,182	13,362	9,107	4,188	13,295
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
MF Reserve Position [2]			17,173			*17,174*
;pecial Drawing Rights (SDRs) [2]			10,796			*10,842*
;old Stock [3]			11,045			11,044
)ther Reserve Assets			0			0

Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account)MA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and)osits 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 ar terms at the official SDR/dollar exchange rate for the reporting date. The entries in the table above for latest week (shown in italics) ect any necessary adjustments, including revaluation, by the U.S. Treasury to the prior week's IMF data. The IMF data for the prior week final.

;old stock is valued monthly at $42.2222 per fine troy ounce.

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U.S. International Reserve Position 04/08/02

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $67,834 million at the end of the latest week, compared to $67,696 million at the end of the prior week.

n US millions)

Official U.S. Reserve Assets	March 29, 2002			April 5, 2002		
TOTAL			67,696			67,834
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
Foreign Currency Reserves [1]						
a. Securities	5,296	10,045	15,341	5,359	10,119	15,478
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	9,107	4,188	13,295	9,206	4,219	13,425
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]			17,174			*17,078*
Special Drawing Rights (SDRs) [2]			10,842			*10,809*
Gold Stock [3]			11,044			11,044
Other Reserve Assets			0			0

Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account OMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and posits 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 llar terms at the official SDR/dollar exchange rate for the reporting date. The entries in the table above for latest week (shown in italics) lect any necessary adjustments, including revaluation, by the U.S. Treasury to the prior week's IMF data. The IMF data for the prior week final.

Gold stock is valued monthly at $42.2222 per fine troy ounce.

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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
April 09, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	April 11, 2002
Maturity Date:	May 09, 2002
CUSIP Number:	912795JT9

High Rate: 1.680% Investment Rate 1/: 1.710% Price: 99.869

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 60.18%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 33,405,680	$ 13,971,210
Noncompetitive	28,901	28,901
FIMA (noncompetitive)	0	0
SUBTOTAL	33,434,581	14,000,111
Federal Reserve	2,839,075	2,839,075
TOTAL	$ 36,273,656	$ 16,839,186

Median rate 1.660%: 50% of the amount of accepted competitive tenders as tendered at or below that rate. Low rate 1.620%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

.d-to-Cover Ratio = 33,434,581 / 14,000,111 = 2.39

' Equivalent coupon-issue yield.

http://www.publicdebt.treas.gov

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 9:00 A.M.
April 9, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS CASH MANAGEMENT BILLS

The Treasury will auction approximately $16,000 million of 4-day Treasury cash management bills to be issued April 11, 2002.

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

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 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

?0-2080

HIGHLIGHTS OF TREASURY OFFERING
OF 4-DAY CASH MANAGEMENT BILLS

April 9, 2002

ıffering Amount ....$16,000 million
ublic Offering ....$16,000 million

escription of Offering:
erm and type of security ....4-day Cash Management Bill
USIP number ....912795 KM 2
uction date ....April 10, 2002
ssue date ....April 11, 2002
aturity date ....April 15, 2002
riginal issue date ....April 11, 2002
urrently outstanding .... ---
inimum bid amount and multiples $1,000

ıbmission of Bids:
ɔncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.
ɔreign 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.
mpetitive 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 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.

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

ceipt of Tenders:
ıcompetitive tenders:
Prior to 12:00 noon eastern daylight saving time on auction day
ıpetitive tenders:
Prior to 1:00 p.m. eastern daylight saving time on auction day

ment Terms: By charge to a funds account at a Federal Reserve Bank 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
10 April 2002

Contact Tony Fratto
202-622-2960

STATEMENT OF UNDER SECRETARY JOHN B. TAYLOR ON THE UNITED STATES - RUSSIA BANKING DIALOGUE MOSCOW, RUSSIA

I have come to Russia to help advance the economic side of our strategic relations as part of the preparation for the Summit in Moscow next month. A central aim of our work on economic issues is strengthening the environment for private investment in Russia and building investment and trade ties between our two countries.

I have met with government officials, the new central bank governor, Duma members, investors, small businesses, students, teachers, and bankers. My particular focus on this trip has been the objective of expanding access to capital to a much broader range of Russian people and businesses, especially small businesses. In particular, Russia needs a vigorous, sound banking sector that turns its savings into investment and jobs. That is a goal both President Bush and President Putin set for us at the Summit in Crawford, Texas. And it is a critical goal for raising living standards all over this country.

From my discussions, including with Chairman Ignatiev, I sense that this goal has become a real focus of reform. The people I met with want a banking system that people can trust and that lends according to sound business principles. They also want a banking sector that is largely private and competitive, the key to providing good service to depositors, borrowers and the economy as a whole. In the context of these discussions we also consulted in our shared interest in drying up the sources of terrorist finance. Both Chairman Ignatiev and First Deputy Finance Minister Zubcov are committed to this effort.

I had instructive discussions with representatives of the EBRD Russia Small Business Fund, the most successful lenders to small businesses in the country. To date, the RSBF has made 79,000 loans in 27 regions across this country. The United States strongly supports this fund and has just pledged additional financing to it so that it can maintain its rapid expansion.

Among my most important meetings were those with the private sector leaders of the U.S.-Russia Banking Dialogue. This dialogue was launched at the urging of the two Presidents at Crawford. Its work is driven and shaped by the private sector participants. They have produced a draft report of specific, concrete reform recommendations that build on and extend the government's banking reform strategy.

PO-2081

The report includes particular recommendations on facilitating lending to small business. As bankers and as business people that need banks, their advice is authoritative. The report is a valuable and timely document. I expect it will be made public and highlighted at the time of the Summit next month.

The Banking Dialogue represents exactly the kind of cooperative, results-oriented, and private sector-focused effort that both President Bush and President Putin want to form the basis of the new unique and growing relationship between our two countries.

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
April 10, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-DAY BILLS

Term:	4-Day Bill
Issue Date:	April 11, 2002
Maturity Date:	April 15, 2002
CUSIP Number:	912795KM2

High Rate: 1.710% Investment Rate 1/: 1.734% Price: 99.981

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 1.12%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 50,470,000	$ 16,000,200
Noncompetitive	0	0
FIMA (noncompetitive)	0	0
SUBTOTAL	50,470,000	16,000,200
Federal Reserve	0	0
TOTAL	$ 50,470,000	$ 16,000,200

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 = 50,470,000 / 16,000,200 = 3.15

1/ Equivalent coupon-issue yield.

http://www.publicdebt.treas.gov

PO-2082

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
April 11, 2002

Contact: Rob Nichols
202-622-2910

STATEMENT OF DEPUTY TREASURY SECRETARY KENNETH W. DAM ON THE NEED FOR TRADE PROMOTION AUTHORITY

"One week ago, President Bush made a major statement calling on the United States Senate to bring Trade Promotion Authority (TPA) to the Senate floor by April 22. This statement may not have gotten all the attention it deserved, with the media spotlight on his decision earlier in the same day to send Secretary Powell to the Middle East. But it was unequivocal.

"The President said, 'I believe strongly in trade. I believe not only is trade in my nation's interests, I think trade is in the interest of those nations who struggle with poverty, and that desire a route out of poverty.' He hailed our recent work to advance the Doha round, and the success of WTO countries represented here in bringing both China and Taiwan into the WTO last year.

"He also noted that some 150 preferential trade agreements exist in the world today. The United States is a party to only three of these 150, considerably short of the European Union's 31 or even Mexico's 10. And he expressed our desire to reassert America's leadership on trade.

"We view Trade Promotion Authority - the ability for the executive branch to negotiate the details of trade agreements and then submit them to Congress for approval in a simple up-or-down vote as an essential legislative component of our free trade strategy.

"This administration intends to advance free trade worldwide, through every means available."

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PO-2083

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.
April 11, 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 $20,000 million to refund an estimated $24,134 million of publicly held 13-week and 26-week Treasury bills maturing April 18, 2002, and to pay down approximately $4,134 million. Also maturing is an estimated $19,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced April 15, 2002.

The Federal Reserve System holds $10,929 million of the Treasury bills maturing on April 18, 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 April 16, 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 $984 million into the 13-week bill and $576 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-2084

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED APRIL 18, 2002

April 11, 2002

Offering Amount	$10,000 million	$10,000 million
Public Offering	$10,000 million	$10,000 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 KS 9	912795 LF 6
Auction date	April 15, 2002	April 15, 2002
Issue date	April 18, 2002	April 18, 2002
Maturity date	July 18, 2002	October 17, 2002
Original issue date	January 17, 2002	April 18, 2002
Currently outstanding	$17,643 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 daylight saving time on auction day

Competitive tenders ....Prior to 1:00 p.m. eastern daylight saving 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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April 12, 2002
For Immediate Release

Contact: Tara Bradshaw
(202) 622-2014

TREASURY HELPS SMALL BUSINESSES USE THE CASH METHOD OF ACCOUNTING

Today the Treasury Department announced that more small businesses will be able to use the cash method of accounting. Revenue Procedure 2002-28 finalizes the previously announced guidelines to allow certain taxpayers with average annual gross receipts of $10 million or less to use the cash method if they meet certain requirements.

On March 19, 2002, President Bush called on Treasury to finalize these rules in short order when he unveiled his Plan for Small Businesses.

"This is great news for small business taxpayers," stated Mark Weinberger, Treasury Assistant Secretary for Tax Policy. "We are simplifying the bookkeeping requirements for small businesses. These rules will save small businesses time and money and will reduce controversy with the IRS."

Generally, under the cash method, a business reports income and deducts expenses when the related payments occur. Under an accrual method, a business generally reports income when it has a right to receive payment and deducts expenses when it has a fixed and determinable liability for them.

These rules will be most beneficial to service providers that also sell related products or provide goods incident to the performance of services.

The text of Revenue Procedure 2002-28 is attached.

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PO-2085

Part III

Administrative, Procedural, and Miscellaneous

26 CFR 601.204: Changes in accounting periods and methods of accounting.
(Also Part 1 §§, 162, 263A, 446, 447, 448, 460, 471, 481, 1001; 1.162-3, 1.263A-1, 1.446-1, 1.448-1T, 1.460-1, 1.471-1, 1.481-1, 1.481-4, 1.1001-1.)

Rev. Proc. 2002-28

SECTION 1. PURPOSE

In order to reduce the administrative and tax compliance burdens on certain small business taxpayers and to minimize disputes between the Internal Revenue Service and small business taxpayers regarding the requirement to use an accrual method of accounting (accrual method) under § 446 of the Internal Revenue Code because of the requirement to account for inventories under § 471, this revenue procedure provides that the Commissioner of Internal Revenue will exercise his discretion to except a qualifying small business taxpayer (as defined in section 5.01 of this revenue procedure) from the requirements to use an accrual method of accounting under § 446 and to account for inventories under § 471. This revenue procedure also provides the procedures by which a qualifying small business taxpayer may obtain automatic consent to change to the cash receipts and disbursements method of accounting (cash method) and/or to a method of accounting for inventoriable items as materials and supplies that are not incidental under § 1.162-3 of the Income Tax Regulations.

SECTION 2. BACKGROUND

.01 Section 446(a) provides that taxable income must be determined under the method of accounting on the basis of which the taxpayer regularly computes its income in keeping its books.

.02 Section 446(c) generally allows a taxpayer to select the method of accounting it will use to compute its taxable income. A taxpayer is entitled to adopt any one of the permissible methods for each separate trade or business, including the cash method or an accrual method, subject to certain restrictions. For example, § 446(b) provides that the selected method must clearly reflect income. In addition, § 1.446-1(c)(2)(i) requires that a taxpayer use an accrual method with regard to purchases and sales of merchandise whenever § 471 requires the taxpayer to account for inventories, unless otherwise authorized by the Commissioner under § 1.446-1(c)(2)(ii). Under § 1.446-1(c)(2)(ii), the Commissioner has the authority to permit a taxpayer to use a method of accounting that clearly reflects income even though the method is not specifically authorized by the regulations.

.03 Section 447 generally requires the taxable income from farming of a C corporation engaged in the trade or business of farming, or a partnership engaged in the trade or business of farming with a C corporation partner, to be determined using an accrual method, unless the C corporation meets the $1,000,000 ($25,000,000 for family corporations) gross receipts test.

.04 Section 448 generally prohibits the use of the cash method by a C corporation (other than a farming business and a qualified personal service corporation) and a partnership with a C corporation partner (other than a farming business and a qualified personal service corporation), unless the C corporation or partnership with a C corporation partner meets a $5,000,000 gross receipts test. Section 448 also prohibits tax shelters from using the cash method.

.05 The cash method generally requires an item of income to be included in income when actually or constructively received and permits a deduction for an expense when paid. Section 1.446-1(c)(1)(i). Other provisions of the Code or regulations applicable to cash method taxpayers may change these general rules, including, for example, § 263 (requiring the capitalization of expenses paid out for a new building or for permanent improvements or betterments made to increase the value of any property or estate, or for restoring property or making good the exhaustion of property for which an allowance is or has been made); § 263A (requiring capitalization of direct and allocable indirect costs of real or tangible personal property produced by a taxpayer or real or personal property that is acquired by a taxpayer for resale); § 460 (requiring the use of the percentage-of-completion method for certain long-term contracts); and § 475 (requiring dealers in securities to mark securities to market).

.06 Section 471 provides that whenever, in the opinion of the Secretary, the use of inventories is necessary to clearly determine the income of the taxpayer, inventories must be taken by the taxpayer. Section 1.471-1 generally requires a taxpayer to account for inventories when the production, purchase, or sale of merchandise is an income-producing factor in the taxpayer's business.

.07 Section 1.162-3 requires taxpayers carrying materials and supplies (other than incidental materials and supplies) on hand to deduct the cost of materials and supplies only in the amount that they are actually consumed and used in operations during the taxable year. In the case of incidental materials and supplies on hand for which no record of consumption is kept or of which physical inventories at the beginning and end of the year are not taken, taxpayers may include in their expenses and deduct from gross income the total cost of such incidental supplies and materials as were purchased during the taxable year for which the return is made, provided the taxable income is clearly reflected by this method.

.08 Section 263A generally requires direct costs and an allocable portion of indirect costs of certain property produced or acquired for resale by a taxpayer to be included in inventory costs, in the case of property that is inventory, or to be capitalized, in the case of other property. However, resellers with gross receipts of $10,000,000 or less are not required to capitalize costs under § 263A, and certain producers with $200,000 or less of indirect costs are not required to capitalize certain costs under § 263A. See §§ 263A(b)(2)(B) and 1.263A-2(b)(3)(iv).

.09 Sections 446(e) and 1.446-1(e) state that, except as otherwise provided, a taxpayer must secure the consent of the Commissioner before changing a method of accounting for federal income tax purposes. Section 1.446-1(e)(3)(ii) authorizes the Commissioner to prescribe administrative procedures setting forth the limitations, terms, and conditions deemed necessary to permit a taxpayer to obtain consent to change a method of accounting in accordance with § 446(e).

.10 Section 481(a) requires those adjustments necessary to prevent amounts from being duplicated or omitted to be taken into account when the taxpayer's taxable income is determined under a method of accounting different from the method used to determine taxable income for the preceding taxable year.

SECTION 3. SCOPE

.01 *Applicability.* This revenue procedure applies to a qualifying small business taxpayer as defined in section 5.01.

.02 *Taxpayers Not within the Scope of this Revenue Procedure.*

Notwithstanding section 3.01 of this revenue procedure, this revenue procedure does not apply to a farming business (within the meaning of § 263A(e)(4)) of a qualifying small business taxpayer. If a qualifying small business taxpayer is engaged in the trade or business of farming, this revenue procedure may apply to the taxpayer's non-farming trades or businesses, if any. A taxpayer engaged in the trade or business of farming generally is allowed to use the cash method for any farming business, unless the taxpayer is required to use an accrual method under § 447 or is prohibited from using the cash method under § 448.

SECTION 4. QUALIFYING SMALL BUSINESS TAXPAYER EXCEPTION

.01 Pursuant to his discretion under §§ 446 and 471, and to simplify the record keeping requirements of a qualifying small business taxpayer, the Commissioner, as a matter of administrative convenience, will allow a qualifying small business taxpayer to use the cash method as described in this revenue procedure for a trade or business described in this section 4.01 (eligible trade or business).

(1) A qualifying small business taxpayer may use the cash method as described in this revenue procedure for all of its trades or businesses if the taxpayer satisfies any one of the following three tests and did not previously change (and was not previously required to have changed) from the cash method to an accrual method for any trade or business as a result of becoming ineligible to use the cash method under this revenue procedure.

(a) The taxpayer reasonably determines that its principal business activity (as defined in section 5.04, below) is described in a North American Industry Classification System ("NAICS") code other than one of the ineligible codes listed below. The ineligible NAICS codes are as follows:

(i) mining activities within the meaning of NAICS codes 211 and 212;

(ii) manufacturing within the meaning of NAICS codes 31 - 33;

(iii) wholesale trade within the meaning of NAICS code 42;

(iv) retail trade within the meaning of NAICS codes 44 and 45; and,

(v) information industries within the meaning of NAICS codes 5111 and 5122.

Information regarding the NAICS codes can be found at www.census.gov. Visitors to the site should select "Subjects A to Z," followed by "N," and then should select "North American Industry Classification System." Taxpayers also may find a partial list of NAICS codes, described as "Principal Business Activity Codes," in the instructions to their tax return forms.

(b) Notwithstanding that a taxpayer's principal business activity is described in one of the ineligible NAICS codes listed above in section 4.01(1)(a), the taxpayer reasonably determines that its principal business activity is the provision of services, including the provision of property incident to those services.

(c) Notwithstanding that a taxpayer's principal business activity is described in one of the ineligible NAICS codes listed above in section 4.01(1)(a), the taxpayer reasonably determines that its principal business activity is the fabrication or modification of tangible personal property upon demand in accordance with customer design or specifications. For purposes of this rule, tangible personal property is not fabricated or modified in accordance with customer design or specifications if the customer merely chooses among pre-selected options (such as size, color, or materials) offered by the taxpayer or if the taxpayer must make only minor modifications to its basic design to meet the customer's specifications. Moreover, a taxpayer that manufacturers an item in quantities for a customer is not treated as fabricating or modifying tangible personal property in accordance with customer design or specifications.

(2) Under current law, a taxpayer with two or more trades or businesses that has a trade or business that is permitted to use the cash method may use such method for such trade or business. Therefore, notwithstanding that a taxpayer's principal business activity is not described above in section 4.01(1) and thus the taxpayer can not use the cash method for all of its trades or businesses, a taxpayer may use the cash method with respect to any separate and distinct trade or business if the principal business activity of the trade or business is not described

in an ineligible NAICS code in section 4.01(1)(a)(i) through (v) or is described in either section 4.01(1)(b) or section 4.01(1)(c). No trade or business will be considered separate and distinct unless a complete and separable set of books and records is kept for such trade or business. See § 1.446-1(d)(2).

.02 A taxpayer who satisfies the qualifying small business taxpayer exception described in section 4.01 and chooses not to use an overall accrual method with inventories being accounted for under § 471 has the following three options for an eligible trade or business under this revenue procedure:

(1) The taxpayer can use the overall cash method and account for inventories under § 471;

(2) The taxpayer can use an overall accrual method and account for inventoriable items, as defined in section 5.09 below, in the same manner as materials and supplies that are not incidental under § 1.162-3 (see sections 4.04 and 4.05 below); or

(3) The taxpayer can use the overall cash method and account for inventoriable items in the same manner as materials and supplies that are not incidental under § 1.162-3 (see sections 4.04 and 4.05 below).

.03 Notwithstanding § 1001 and the regulations thereunder, qualifying small business taxpayers that use the cash method for an eligible trade or business under section 4.01 of this revenue procedure shall include amounts attributable to "open accounts receivable" (as defined in section 5.10) in income as such amounts are actually or constructively received. However, § 1001 may be applicable to other transactions.

.04 Qualifying small business taxpayers that are permitted to use the cash method for an eligible trade or business under section 4.01 of this revenue procedure and that do not want to account for inventories under § 471 must treat all inventoriable items in such trade or business in the same manner as materials and supplies that are not incidental under § 1.162-3. For purposes of this revenue procedure, taxpayers are not required to apply § 263A to inventoriable items that are treated as materials and supplies that are not incidental. Items that would be accounted for as incidental materials and supplies for purposes of § 1.162-3 may still be accounted for in that manner. Whether an item is purchased for resale or use (and thus accounted for as a non-incidental material and supply) or is purchased to provide to customers incident to services (and thus may be accounted for as either an incidental or a non-incidental material and supply depending on the facts and circumstances) must be determined under general tax principles.

.05 Under § 1.162-3, materials and supplies that are not incidental are deductible only in the year in which they are actually consumed and used in the taxpayer's business. For purposes of this revenue procedure, inventoriable items that are treated as materials and supplies that are not incidental are consumed and used in the year the qualifying small business taxpayer provides the items to a customer. Thus, the cost of such inventoriable items are deductible only in that year, or in the year in which the taxpayer actually pays for the goods, whichever is later. A qualifying small business taxpayer may determine the amount of the allowable deduction for non-incidental materials and supplies by using either a specific identification method, a first in, first out (FIFO) method, or an average cost method, provided that method is used consistently. See § 1.471-2(d). A taxpayer may not use the last in, first out (LIFO) method described in § 472 and the regulations thereunder to determine the amount of the allowable deduction for non-incidental materials and supplies.

.06 The method of accounting used by a qualifying small business taxpayer for financial accounting ("book") purposes will not affect the taxpayer's eligibility under this revenue procedure to use the cash method or the method of accounting for inventoriable items as non-incidental materials and supplies under § 1.162-3. However, taxpayers must still comply with the requirements under § 446(a) and the regulations thereunder to maintain adequate books and records, which may include a reconciliation of any differences between such books and records and their return. See § 1.446-1(a)(4).

SECTION 5. DEFINITIONS

.01 *Qualifying Small Business Taxpayer.* A qualifying small business taxpayer is any taxpayer with "average annual gross receipts" of $10,000,000 or less that is not prohibited from using the cash method under § 448.

.02 *Average Annual Gross Receipts.* A taxpayer has average annual gross receipts of $10,000,000 or less if, for each prior taxable year ending on or after December 31, 2000, the taxpayer's average annual gross receipts for the three taxable-year period ending with the applicable prior taxable year do not exceed $10,000,000. If a taxpayer has not been in existence for three prior taxable years, the taxpayer must determine its average annual gross receipts for the number of years (including short taxable years) that the taxpayer has been in existence. See § 448(c)(3)(A).

.03 *Business Activity.* A taxpayer may use any reasonable method of applying the relevant facts and circumstances to determine what is a business activity. For example, for some taxpayers, the provision of services, the sale of goods, and the production of goods each will be treated as a different business activity. However, if a taxpayer sells or produces goods incident to the performance of services, the different activities may be treated as one business activity – the provision of services.

.04 *Principal Business Activity.* A principal business activity is determined by the sources of gross receipts. Under sections 4.01(1)(a), (b), and (c), a taxpayer must apply the tests in this section to all the taxpayer's trades or businesses in the aggregate. Under section 4.01(2), a taxpayer must apply the tests in such section separately to each trade or business for which the taxpayer keeps a complete and separable set of books and records. A taxpayer may use either of the following tests to determine the principal business activity of the taxpayer or of the taxpayer's trades or businesses.

(1) *Principal business activity prior year test.* Under the principal business activity prior year test, the principal business activity is the activity from which the largest percentage of gross receipts was derived during the prior taxable year (even if this amount is less than 50 percent of the aggregate gross receipts of the taxpayer or the trade or business). If a taxpayer or a trade or business is in its first taxable year, the principal business activity is the activity from which the largest percentage of gross receipts is derived for that taxable year.

(2) *Principal business activity three-year average test.* Under the principal business activity three-year average test, the principal business activity is the activity from which the largest percentage of average annual gross receipts was derived over the three taxable-year period ending with the prior taxable year. If a taxpayer or a trade or business has not been in existence for three prior taxable years, the taxpayer must determine average annual gross receipts for the number of years (including short taxable years) that the taxpayer or the trade or business has been in existence. See § 448(c)(3)(A).

.05 *Gross Receipts.* Gross receipts is defined consistent with § 1.448-1T(f)(2)(iv) of the Temporary Income Tax Regulations. Thus, gross receipts for a taxable year equal all receipts that must be recognized under the method of accounting actually used by the taxpayer for that taxable year for federal income tax purposes. For example, gross receipts include total sales (net of returns and allowances), all amounts received from services, interest, dividends, and rents. However, gross receipts do not include amounts received by the taxpayer with respect to sales tax or other similar state and local taxes if, under the applicable state or local law, the tax is legally imposed on the purchaser of the good or service, and the taxpayer merely collects and remits the tax to the taxing authority. See also § 448(c)(3)(C).

.06 *Aggregation of Gross Receipts.* For purposes of computing gross receipts under section 5.02, all taxpayers treated as a single employer under subsection (a) or (b) of § 52 or subsection (m) or (o) of § 414 (or that would be treated as a single employer under these sections if the taxpayers had employees) will be treated as a single taxpayer. However, when transactions occur between taxpayers that are treated as a single taxpayer by the previous sentence, gross receipts arising from these transactions will not be treated as gross receipts for purposes of the average annual gross receipts limitation. See §§ 448(c)(2) and 1.448-1T(f)(2)(ii).

.07 *Treatment of Short Taxable Years.* In the case of a short taxable year, a taxpayer's gross receipts must be annualized by multiplying the gross receipts for the short taxable year by 12 and then dividing the result by the number of months in the short taxable year. See §§ 448(c)(3)(B) and 1.448-1T(f)(2)(iii).

.08 *Treatment of Predecessors.* Any reference to a taxpayer in this section 5 includes a reference to any predecessor of that taxpayer. See § 448(c)(3)(D).

.09 *Inventoriable Item Defined.* An inventoriable item is any item either purchased for resale to customers or used as a raw material in producing finished goods.

.10 *Open Accounts Receivable Defined.* For purposes of this revenue procedure, open accounts receivable is defined as any receivable due in full in 120 days or less.

SECTION 6. EXAMPLES

For purposes of the following examples, assume that:

(1) the taxpayers use the calendar year;

(2) the taxpayers are not prohibited from using the cash method under § 448 (except *Example 4)*; and

(3) the taxpayers satisfy the average annual gross receipts test of section 5.02 of this revenue procedure (except *Examples 2* and *3*).

Example 1 -- Principal Business Activity Not an Ineligible NAICS Code. Taxpayer is a graphic design firm. Taxpayer plans, designs, and manages the production of visual communications that convey specific messages or concepts. Taxpayer's activities include the design of printed materials, packaging, advertising, signage systems, and corporate identification (logos). Taxpayer reasonably determines that its principal business activity is described in NAICS code 541430 (graphic design services), which is not one of the ineligible NAICS codes listed in section 4.01(1)(a)(i) - (v) of this revenue procedure. Taxpayer may use the cash method for its graphic design business.

Example 2 -- Satisfaction of the Average Annual Gross Receipts Test. Taxpayer is a plumbing contractor that installs plumbing fixtures in customers' homes and businesses. Taxpayer reasonably determines that its principal business activity is construction, which is described in NAICS code 23. Taxpayer's gross receipts at the end of the three preceding taxable years are:

	Gross receipts
1998:	$ 6,000,000
1999:	9,000,000
2000:	12,000,000

Taxpayer's average annual gross receipts for the three taxable-year period ending in the 2000 taxable year are $9,000,000 (($6,000,000 + $9,000,000 + $12,000,000) / 3 = $9,000,000). Taxpayer may use the cash method for all its trades or businesses pursuant to this revenue procedure for its 2001 taxable year because its average annual gross receipts for each prior taxable year ending on or after December 31, 2000, is $10,000,000 or less and its principal business activity is not described in the ineligible NAICS codes listed in section 4.01(1)(a)(i) - (v).

Example 3 -- Failure of the Average Annual Gross Receipts Test. Same as *Example 2*, except that Taxpayer's gross receipts in 2001 equal $15,000,000. Taxpayer's average annual gross receipts for the three taxable-year period ending in the 2001 taxable year are $12,000,000 (($9,000,000 + $12,000,000 + $15,000,000 /3) = $12,000,000). Taxpayer is not a qualifying small business taxpayer for purposes of this revenue procedure for its 2002 taxable year or any subsequent year because its average annual gross receipts for each prior taxable year ending on or after December 31, 2000, is not $10,000,000 or less.

Example 4 -- Inability to Use this Revenue Procedure When § 448 Applies. Same as *Example 2*, except that Taxpayer is a C corporation. Because Taxpayer's average annual gross receipts for the previous three years ($9,000,000) exceed $5,000,000, Taxpayer is prohibited from using the cash method under § 448. Consequently, Taxpayer is not eligible to use the cash method under this revenue procedure. The same result would apply under § 448 if, instead of being a C corporation, Taxpayer were a tax shelter (regardless of Taxpayer's average annual gross receipts) or Taxpayer were a partnership with a C corporation as a partner.

Example 5 -- Principal Business Activity Prior Year Test. Taxpayer is a plumbing contractor that installs plumbing fixtures in customers' homes and businesses. Taxpayer also has a store that sells plumbing equipment to homeowners and other plumbers who visit the store. During its prior taxable year, Taxpayer derived 60 percent of its total receipts from plumbing installation (including amounts charged for parts and fixtures used in installation) and 40 percent of its total receipts from the sale of plumbing equipment through its store. Under the principal business activity prior year test, Taxpayer reasonably determines that its principal business activity is plumbing installation, which is a construction activity described in NAICS code 23. Because Taxpayer's principal business activity – plumbing installation – is not described in the ineligible NAICS codes listed in section 4.01(1)(a)(i)-(v), Taxpayer may use the cash method for both business activities (plumbing installation and retail sales).

Example 6 -- Principal Business Activity Three-Year Average Test. Same as *Example 5*, except that for the prior taxable year, Taxpayer derived 40 percent of its total receipts from plumbing installation (including amounts charged for parts and fixtures used in installation) and 60 percent of its total receipts from the sale of plumbing equipment through its store. Under the principal business activity prior year test, Taxpayer's principal business activity is retail, which is described in an ineligible NAICS code. Thus, Taxpayer is not eligible to use the cash method for all of its trades or businesses under the principal business activity prior year test. However. Taxpayer may still be eligible to use the cash method for all of its trades or businesses under section 4.01(1) of this revenue procedure if Taxpayer reasonably determines that its principal business activity is plumbing installation under the principal business activity three-year average test. Taxpayer's gross receipts for the prior three taxable years are as follows:

	2000	1999	1998	3 Year Average
Plumbing installation	$2,000,000	$6,000,000	$4,000,000	$4,000,000
Retail sale of equipment	$3,000,000	$2,000,000	$4,000,000	$3,000,000
Total	$5,000,000	$8,000,000	$8,000,000	$7,000,000

The approximate percentage of Taxpayer's average annual gross receipts for the prior three taxable years is 57 percent ($4,000,000/$7,000,000 total average gross receipts) for plumbing installation and 43 percent ($3,000,000/$7,000,000) for the retail sale of plumbing equipment through its store. Thus, Taxpayer reasonably determines that its principal business activity is plumbing installation under the principal business activity three-year average test. Because Taxpayer's principal business activity – plumbing installation – is not described in the ineligible NAICS codes listed in section 4.01(1)(a)(i)-(v), Taxpayer may use the cash method for both business activities (plumbing and retail sales).

Example 7 -- Application of Section 4.01(2) Where Taxpayer Is Ineligible to Use the Cash Method Under Section 4.01(1). Same as *Examples 5* and *6*, except that Taxpayer's principal business activity is retail sales under both the principal business activity prior year test and the principal business activity three-year average test. Taxpayer is not eligible to use the cash method for all of its trades or businesses under section 4.01(1) because Taxpayer's principal business activity (retail sales) is described in an ineligible NAICS code under section 4.01(1)(a)(iv) and is neither the provision of services under section 4.01(1)(b) nor the fabrication or modification of tangible personal property under section 4.01(1)(c). Taxpayer. however. maintains its retail sales and plumbing installation activities as separate and distinct businesses with a complete and separable set of books and records for each business. Under section 4.01(2) of the revenue procedure, Taxpayer may use the cash method for its separate plumbing installation business notwithstanding that its principal business activity (retail sales) is ineligible under section 4.01(1)(a) - (c).

Example 8 -- A Principal Business Activity Can Account for Less Than 50 Percent of Gross Receipts. Taxpayer has four activities, Activities A through D. During the prior taxable year, Taxpayer derived 35 percent of its gross receipts from Activity A, 25 percent from Activity B, 20 percent from Activity C, and 20 percent from Activity D. Under the principal business activity prior year test, Activity A would be Taxpayer's principal business activity because it represents the largest percentage of gross receipts. Similarly, if the percentages of Taxpayer's average annual gross receipts for the prior three taxable years were 35 percent from Activity A, 25 percent from Activity B, 20 percent from Activity C, and 20 percent from Activity D, under the principal business activity three-year average test, Activity A would be Taxpayer's principal business activity because it represents the largest percentage of average annual gross receipts.

Example 9 -- Taxpayer Does Not Satisfy the NAICS Code Exception in Section 4.01(1)(a), the Service Exception in Section 4.01(1)(b), or the Custom Manufacturing Exception in Section 4.01(1)(c). Taxpayer sells refrigerators. As part of the sale price, Taxpayer delivers the refrigerator to the customer and confirms that the refrigerator is functioning properly at the customer's site. Taxpayer's principal business activity is described in the ineligible NAICS code 44. Moreover, Taxpayer's principal business activity is not the provision of services under section 4.01(1)(b). Taxpayer does not provide refrigerators incident to the performance of services. Rather, Taxpayer performs certain services (delivery and confirmation of functionality) incident to the sale of refrigerators. In addition, Taxpayer does not fabricate or modify tangible personal property under section 4.01(1)(c). Taxpayer may not use the cash method under this revenue procedure.

Example 10 -- Taxpayer Does Not Satisfy the NAICS Code Exception in Section 4.01(1)(a), the Service Exception in Section 4.01(1)(b), or the Custom Manufacturing Exception in Section 4.01(1)(c). Taxpayer is a sofa manufacturer that only produces sofas upon receipt of a customer order. Customers are allowed to pick among 150 different fabrics offered by the Taxpayer or to provide their own fabric, which the Taxpayer will use to finish the customer's sofa. Taxpayer's principal business activity is described in the ineligible NAICS code 33. Taxpayer does not provide sofas incident to the performance of services for purposes of section 4.01(1)(b). Rather, Taxpayer performs certain services (upholstering) incident to the sale of sofas. Taxpayer also does not fabricate or modify tangible personal property for purposes of section 4.01(1)(c) because customers merely choose among pre-selected options offered by Taxpayer and Taxpayer only makes minor modifications to the basic design of its sofa. Taxpayer may not use the cash method under this revenue procedure.

Example 11 -- Taxpayer Does Not Satisfy the NAICS Code Exception in Section 4.01(1)(a), the Service Exception in Section 4.01(1)(b) or the Custom Manufacturing Exception in Section 4.01(1)(c). Taxpayer is a publisher who produces and sells high school and college yearbooks. Taxpayer's principal business activity is described in the ineligible NAICS code 5111 (newspaper, periodical, book, and database publishers). Taxpayer is not providing a service for purposes of section 4.01(1)(b) because Taxpayer's principal business activity is the production of yearbooks for customers. In addition, Taxpayer is not a custom manufacturer for purposes of section 4.01(1)(c) because Taxpayer, although it produces yearbooks to the detailed specifications of schools, is producing yearbooks in quantities. As such, Taxpayer may not use the cash method under this revenue procedure.

Example 12 -- Taxpayer Creating Prototype Does Not Satisfy the NAICS Code Exception in Section 4.01(1)(a) but Does Satisfy the Custom Manufacturing Exception in Section 4.01(1)(c). Taxpayer makes tools based entirely on specific designs and specifications provided to it by customers. Taxpayer produces the customer's prototype and gives the prototype to the customer for production. Taxpayer's principal business activity is described in the ineligible NAICS code 33. However, Taxpayer's principal business activity is the fabrication of tangible personal property upon demand in accordance with customer design or specifications for purposes of section 4.01(1)(c). Taxpayer may use the cash method under this revenue procedure (subject to the potential application of § 460).

Example 13 -- Taxpayer Producing Quantities of Prototype Does Not Satisfy the Custom Manufacturing Exception in Section 4.01(1)(c). Same as *Example 12*, except that instead of producing the customer's prototype and giving the prototype to the customer for further production, Taxpayer is also the producer of the customer's goods using the prototype. Taxpayer's principal business activity would not fall under the custom manufacturer exception of section 4.01(1)(c).

Example 14 -- Application of Accounts Receivable 120-Day Rule in Section 4.03. Taxpayer is eligible to use the cash method under this revenue procedure. Taxpayer chooses to use the cash method and to account for inventoriable items as non-incidental materials and supplies under § 1.162-3. In December 2001, Taxpayer transfers property to a customer in exchange for an open accounts receivable (due in full in 120 days or less). In February 2002, the customer satisfies the accounts receivable when it pays cash to Taxpayer. As provided by section 4.03 of this revenue procedure, Taxpayer would not include any amount attributable to the accounts receivable in income in 2001. Rather, Taxpayer would include the full amount of the accounts receivable in income in 2002 when it actually receives the cash payment from the customer.

Example 15 -- Timing of Deduction for Inventoriable Items Treated as Non-Incidental Materials and Supplies Under § 1.162-3 - Construction. Taxpayer is a roofing contractor that is eligible to use the cash method under this revenue procedure. Taxpayer chooses to use the cash method and to account for inventoriable items as non-incidental materials and supplies under § 1.162-3. Taxpayer enters into a contract with a homeowner in December 2001 to replace the homeowner's roof. Taxpayer purchases roofing shingles from a local supplier and has them delivered to the homeowner's residence. Taxpayer pays the supplier $5,000 for the shingles upon their delivery later that month. Taxpayer replaces the homeowner's roof in December 2001, and gives the homeowner a bill for $15,000 at that time. Taxpayer receives a check from the homeowner in January 2002. The shingles are non-incidental materials and supplies. The cost of the shingles is deductible in the year Taxpayer uses and consumes the shingles or actually pays for the shingles, whichever is later. In this case, Taxpayer both pays for the shingles and uses the shingles (by providing the shingles to the customer in connection with the performance of roofing services) in 2001. Thus, Taxpayer deducts the $5,000 cost of the shingles on its 2001 federal income tax return. Taxpayer includes the $15,000 in income in 2002 when it receives the check from the homeowner.

Example 16 -- Timing of Deduction for Inventoriable Items Treated as Non-Incidental Materials and Supplies Under § 1.162-3 - Construction. Same as in *Example 15*, except that Taxpayer does not replace the roof until January 2002 and is not paid until March 2002. Because the shingles are not used until 2002, their cost can only be deducted on Taxpayer's 2002 federal income tax return notwithstanding that Taxpayer paid for the shingles in 2001. Thus, on its 2002 return, Taxpayer must report $15,000 of income and $5,000 of deductions.

Example 17 -- Timing of Deduction for Non-Inventoriable Items - Speculative Home Sales. Taxpayer is eligible to use the cash method as described in this revenue procedure. Taxpayer is a speculative builder of houses that are built on land it owns. In 2001, Taxpayer builds a house using various items such as lumber, piping, and metal fixtures that it had paid for in 2000. In 2002, Taxpayer sells the house to a buyer. Because the house is real property held for sale by Taxpayer, the house and the material used to build the house are not inventoriable items under this revenue procedure. Thus, Taxpayer may not account for the items used to build the house as non-incidental materials and supplies under § 1.162-3. Rather, Taxpayer must capitalize the costs of the lumber, piping, metal fixtures and other goods used by Taxpayer to build the house under § 263. Upon the sale of the house in 2002, the costs capitalized by Taxpayer will be offset against the house sales price to determine Taxpayer's gain or loss from the sale.

Example 18 -- Timing of Deduction for Inventoriable Items Treated as Non-Incidental Materials and Supplies Under § 1.162-3 - Construction. Same as in *Example 17*, except that (1) Taxpayer builds houses on land its customers own, and (2) the houses are built in three months with payment due at completion. Because Taxpayer does not own the house, the lumber, piping, metal fixtures and other goods used by Taxpayer in the provision of construction services are inventoriable items, not real property held for sale. Taxpayer elects to treat the goods used to build the house as non-incidental materials and supplies under § 1.162-3. Taxpayer must deduct the cost of the lumber, piping, metal fixtures and other non-incidental materials and supplies that are used by it to build the house in 2001 (the year those items were used by Taxpayer to build the house) notwithstanding that Taxpayer had paid for the items in 2000. Taxpayer will report income it receives from its customer as the income is actually or constructively received.

Example 19 -- Timing of Deduction for Inventoriable Items Treated as Non-Incidental Materials and Supplies Under § 1.162-3 - Reseller. Taxpayer is a veterinarian that also sells pet supplies from its clinic. Taxpayer reasonably determines that its principal business activity is veterinary services, which is not described in one of the ineligible NAICS codes in section 4.01(1)(a)(i)-(v). Consequently, Taxpayer is eligible to use the cash method for all its business activities (veterinary services and retail sales). For both business activities, Taxpayer chooses to use the cash method and to account for inventoriable items (such as pet food) as non-incidental materials and supplies under § 1.162-3. In December of 2001, Taxpayer purchases and pays for pet food to be resold from its clinic. Taxpayer sells the pet food from its clinic (and receives cash payment from the customer) in 2002. Because the pet food is not provided to customers until 2002, its cost can not be deducted until 2002.

Example 20 -- Timing of Deduction for Inventoriable Items Treated as Non-Incidental Materials and Supplies Under § 1.162-3 - Manufacturer. Taxpayer is a landscape designer that also manufacturers lawn ornaments. Taxpayer does not manufacture lawn ornaments pursuant to customer contracts. Taxpayer reasonably determines that its principal business activity is landscape design, which is not described in an ineligible NAICS code under section 4.01(1)(a)(i)-(v). Consequently, Taxpayer is eligible to use the cash method for all its business activities (landscape design and lawn ornament manufacturing). For both business activities, Taxpayer chooses to use the cash method and to account for inventoriable items (such as raw materials) as non-incidental materials and supplies under § 1.162-3. In 2001, Taxpayer purchases and pays for raw materials to be used in its manufacturing business and uses the raw materials to produce lawn ornaments. During 2002, Taxpayer sells the lawn ornaments to customers. Because the lawn ornaments are not provided to customers until 2002, the cost of the raw materials used to produce the lawn ornaments can not be deducted until 2002.

Example 21 -- Application of Long Term Contract Rules - § 460 Applicable. Taxpayer is a specialty tool and die manufacturer. Taxpayer receives a request from a large automobile manufacturer to design and produce a custom-made die that the customer will use in its manufacturing operation. The contract to manufacture the die is entered into in December 2001 but is not completed until May 2002. Because it satisfies the requirements of section 4.01(1)(c) of this revenue procedure, Taxpayer is eligible to use the overall cash method of accounting. Notwithstanding the Taxpayer's eligibility to use the overall cash method, however, because the contract to manufacture the custom-made die requires the production of a "unique item" and will not be completed in the year it is entered into, it is a "long term contract" for purposes of § 460, and the income and expense relating to that contract must be accounted for under the percentage-of-completion method of accounting described in § 460 and the underlying regulations.

Example 22 -- Application of Long Term Contract Rules - § 460 Not Applicable. Taxpayer is a residential home builder that specializes in modest single family homes whose construction period averages six months. Taxpayer uses an overall accrual method of accounting, and although it is not required to do so, Taxpayer has elected to use the percentage-of-completion method of accounting, as described in § 1.460-4(b), in accounting for its home construction activities. Because its principal business activity is not described in an ineligible NAICS code described in section 4.01(1)(a), Taxpayer may elect the overall cash method described in this revenue procedure. Further, because its home construction activity is not required to be accounted for using the percentage-of-completion method described in § 460, Taxpayer is eligible (but not required) to change its method of accounting for that activity to the cash method.

Example 23 -- Taxpayer Satisfies the NAICS Code Provision in Section 4.01(1)(a). Taxpayer is a licensed medical clinic that provides specialized chemotherapy treatment to cancer patients. The medication provided to patients accounts for 26 percent of Taxpayer's average annual gross receipts. Taxpayer does not sell the medications separately from its provision of services, selects the medications to be used in a particular session based on its own professional skill and judgment, and does not maintain medications for more than two weeks. Because the provision of medical services (NAICS code 62) represents Taxpayer's principal business activity, Taxpayer qualifies to use the cash method under section 4.01(1)(a) for all of its trades or businesses. Even if the cost of the chemotherapy medications represented Taxpayer's principal source of gross receipts, Taxpayer nonetheless would qualify to use the cash method under section 4.01(1)(a) of this revenue procedure, because its principal business activity would still be providing medical services, with goods being provided only incident to the provision of those services. See *Osteopathic Medical Oncology and Hematology, P.C. v. Commissioner*, 113 T.C. 376 (1999), *acq*. AOD 2000-05, 2000-23 I.R.B. 1149.

Example 24 -- Change in Principal Business Activity. Taxpayer owns a hardware store and a small appliance repair business. Following the issuance of this revenue procedure, Taxpayer reasonably determined that its principal business activity was its appliance repair business, which is not described in an ineligible NAICS code under section 4.01(1)(a)(i)-(v). Consequently, Taxpayer was eligible to use the cash method under this revenue procedure for both its business activities (appliance repair and retail sales). Over time, Taxpayer's hardware store began to generate a larger portion of Taxpayer's gross receipts than its repair business. In 2005, Taxpayer's retail business became its principal business activity. Because retail trade is described in ineligible NAICS code 44, starting in 2006, Taxpayer is no longer eligible to use the cash method for all its trades or businesses under section 4.01(1). Accordingly, Taxpayer must change to an accrual method for its retail business. If Taxpayer maintains a complete and separable set of books and records in 2006 for its repair business, Taxpayer may continue to use the cash method for its repair business under section 4.01(2). If Taxpayer does not maintain a complete and separable set of books and records in 2006 for its repair business, Taxpayer also must change to an accrual method for its repair business -- however, in any subsequent taxable year that Taxpayer maintains complete and separable books and records for its repair business, Taxpayer will be eligible under section 4.01(2) to change to the cash method for its repair business.

Example 25 -- Change in Principal Business Activity. Same as *Example 24*, except that Taxpayer's repair business again becomes its principal business activity in 2009. Taxpayer is no longer eligible to use the cash method for its retail business under section 4.01(1). For section 4.01(1) to apply, Taxpayer must not have previously changed (or have been previously required to change) from the cash method to an accrual method for any trade or business as a result of becoming ineligible to use the cash method under this revenue procedure. Because Taxpayer was required to change to an accrual method for its retail business in 2006 as a result of becoming ineligible to use the cash method under this revenue procedure, Taxpayer is not eligible to rely on section 4.01(1) for 2006 or any subsequent taxable year.

Example 26 -- Change in Principal Business Activity. Same as *Example 24*, except that following the issuance of this revenue procedure, Taxpayer's principal business activity was retail sales and Taxpayer used an accrual method for both businesses (retail and repair). Over time, Taxpayer's repair business began to generate a larger portion of Taxpayer's gross receipts than its retail business. In 2007, Taxpayer's repair business became its principal business activity. Starting in taxable year 2008, Taxpayer is eligible under section 4.01(1) to use the cash method for all its trades and businesses because Taxpayer did not change (and was not required to have changed) from the cash method to an accrual method for any trade or business as a result of becoming ineligible to use the cash method for that trade or business under this revenue procedure, and Taxpayer's principal business activity is no longer described in an ineligible NAICS code under section 4.01(1)(a)(i)-(v).

SECTION 7. CHANGE IN ACCOUNTING METHOD

.01 *In General.* Any change in a taxpayer's method of accounting pursuant to this revenue procedure is a change in method of accounting to which the provisions of §§ 446 and 481 and the regulations thereunder apply.

.02 *Automatic Change for Taxpayers within the Scope of this Revenue Procedure.*

(1) *Automatic change to the cash method.* A qualifying small business taxpayer that wants to use the cash method as described in this revenue procedure for an eligible trade or business must follow the automatic change in accounting method provisions of Rev. Proc. 2002-9, 2002-3 I.R.B. 327 (or its successor), as modified by Rev. Proc. 2002-19, 2002-13 I.R.B. 696 and Announcement 2002-17, 2002-8 I.R.B. 561, with the following modifications:

(a) The scope limitations in section 4.02 of Rev. Proc. 2002-9 do not apply. However, if the taxpayer is under examination, before an appeals office, or before a federal court with respect to any income tax issue, see section 6.02(9) of Rev. Proc. 2002-9 for additional filing requirements.

(b) Taxpayers filing Form 3115, Application for Change in Accounting Method, for a change in method of accounting under this revenue procedure must complete all applicable parts of the form but need not complete Part II of Schedule A of Form 3115. Specifically, Part II of Form 3115, line 17 (regarding information on gross receipts in previous years) and Part III of

Form 3115 (regarding the § 481(a) adjustment) must be completed. Taxpayers should write "Filed under Rev. Proc. 2002-28" at the top of their Form 3115.

(c) A taxpayer making a change under section 7.02 of this revenue procedure for its first taxable year ending on or after December 31, 2001, that, on or before May 6, 2002, files or filed its original federal income tax return for such year, is not required to comply with the filing requirement in section 6.02(3)(a) of Rev. Proc. 2002-9, provided the taxpayer complies with the following filing requirement. The taxpayer must complete and file a Form 3115 in duplicate. The original must be attached to the taxpayer's amended federal income tax return for the taxpayer's first taxable year ending on or after December 31, 2001. This amended return must be filed no later than September 16, 2002. A copy of the Form 3115 must be filed with the national office (see section 6.02(6) of Rev. Proc. 2002-9 for the address) no later than when the taxpayer's amended return is filed.

(2) *Automatic change to § 1.162-3.* A qualifying small business taxpayer that does not want to account for inventories under § 471 must make any necessary change from the taxpayer's inventory method (and, if applicable, from the method of capitalizing costs under § 263A) to treat inventoriable items in the same manner as materials and supplies that are not incidental under § 1.162-3. For purposes of such a change, the rules of section 7.02(1) of this revenue procedure apply.

(3) *Other automatic changes.* An automatic change in method under this revenue procedure would also include any other change in method of accounting that is eligible to be made under this revenue procedure in conjunction with either or both of the above changes in this section 7.02 (such as a change from a long-term contract method that is not required to be used by § 460). For purposes of such a change, the rules of section 7.02(1) of this revenue procedure apply.

(4) *Single Form 3115.* Any combination of changes under this revenue procedure may be included in the same Form 3115 to be filed by the taxpayer.

.03 *Section 481(a) Adjustment.*

(1) *Determining the net amount.* The net amount of the § 481(a) adjustment computed under this revenue procedure must take into account both increases and decreases in the applicable

account balances such as accounts receivable, accounts payable, and inventory. For example, the § 481(a) adjustment may include the difference resulting from changing from taking inventory accounts under § 471 to treating the inventoriable items as materials and supplies that are not incidental under § 1.162-3.

(2) *Multiple adjustments.* In the event that a taxpayer is taking into account a § 481(a) adjustment from another accounting method change in addition to the § 481(a) adjustment required by this revenue procedure, the § 481(a) adjustments would be taken into account separately. For example, a taxpayer that changed from the cash method to an accrual method in 1999 and was required to take its § 481(a) adjustment into account over four years would continue to take into account that adjustment over the appropriate four years even though the taxpayer changes back to the cash method in 2001 and has an additional § 481(a) adjustment required by this revenue procedure.

(3) *Section 481(a) adjustment period.* As provided in section 2 of Rev. Proc. 2002-19, the period for negative § 481(a) adjustments is one year, and the period for positive § 481(a) adjustments is four years.

.04 *Taxpayers Not within the Scope of this Revenue Procedure.*

(1) A taxpayer that ceases to qualify for the qualifying small business taxpayer exception described in section 4 of this revenue procedure for a trade or business and that otherwise is required to use an accrual method for that trade or business must change to an accrual method (and, if applicable an inventory method that complies with §§ 263A and 471) for that trade or business using either the automatic change in accounting method provisions of section 5.01 of the APPENDIX to Rev. Proc. 2002-9, if applicable, as modified by Rev. Proc. 2002-19 or the advance consent provisions of Rev. Proc. 97-27, 1997-1 C.B. 679 (or its successor), as modified by Rev. Proc. 2002-19.

(2) No inference is intended regarding whether a taxpayer that does not satisfy the qualifying small business taxpayer exception in section 4 is otherwise permitted to use the cash method. Taxpayers who do not qualify to change to the cash method under this revenue procedure may still request permission to change to the cash method under Rev. Proc. 97-27, as modified. See also Rev. Proc. 2001-10, 2001-2 I.R.B. 272.

SECTION 8. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2002-9 is modified and amplified to include this automatic change in sections 5 and 9 of the APPENDIX. Notice 2002-14, 2002-8 I.R.B. 548, is modified and superseded.

SECTION 9. EFFECTIVE DATE

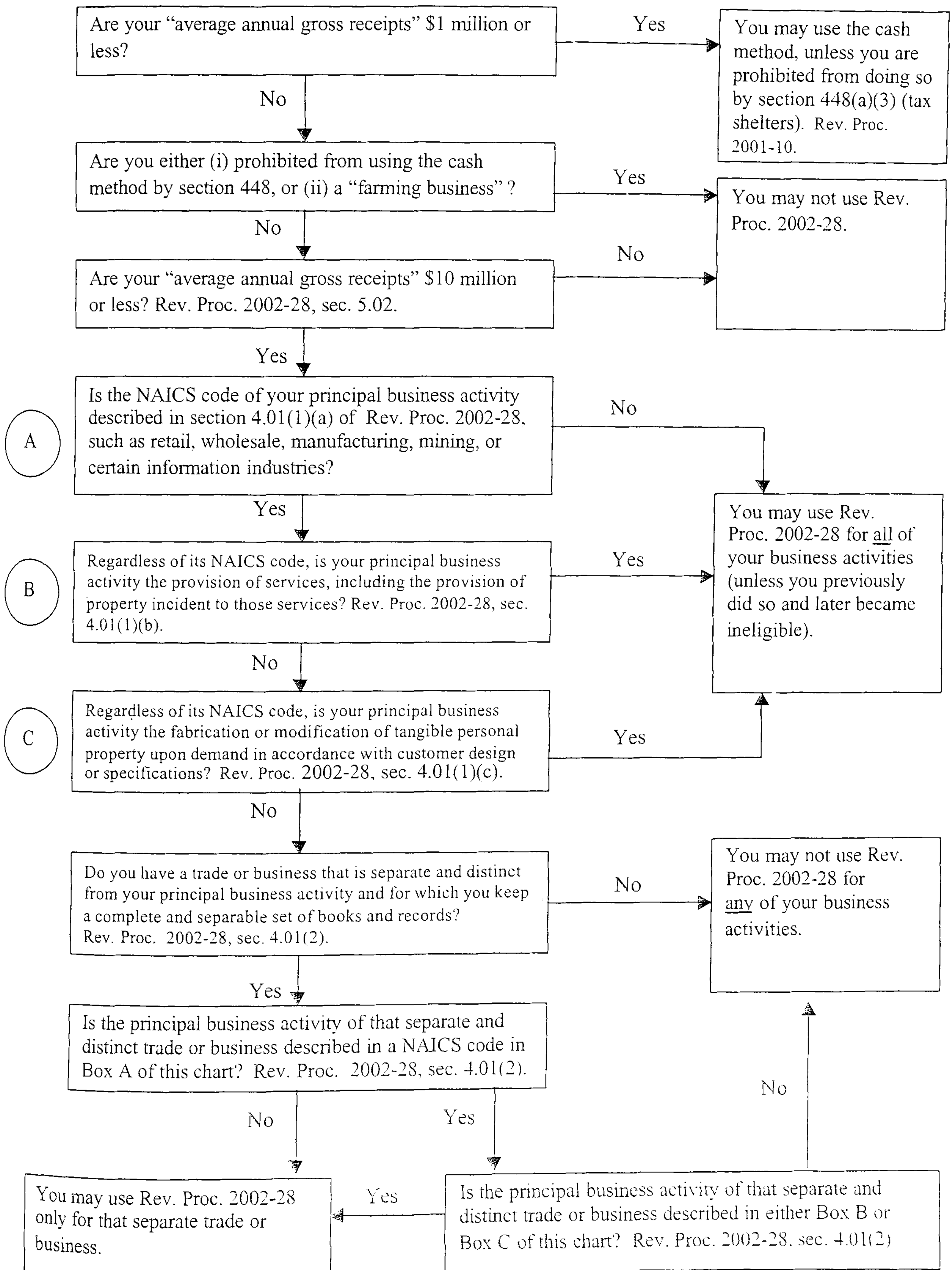
This revenue procedure is effective for taxable years ending on or after December 31, 2001. However, the Service will not challenge a taxpayer's use of the cash method under § 446 or a taxpayer's failure to account for inventories under § 471 for a trade or business in an earlier year if the taxpayer, for that year, would have been a qualifying small business taxpayer as described in section 5.01 of this revenue procedure and would have been eligible to use the cash method in such year under section 4 of this revenue procedure if this revenue procedure had been applicable to that taxable year.

DRAFTING INFORMATION

The principal author of this revenue procedure is W. Thomas McElroy, Jr., of the Office of Associate Chief Counsel (Income Tax and Accounting). For further information regarding this revenue procedure, contact Mr. McElroy at (202) 622-4970 (not a toll-free call).

APPENDIX

APPLICATION OF REV. PROC. 2002-28



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April 15, 2002

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**REMARKS BY
THE HONORABLE SHEILA C. BAIR
ASSISTANT SECRETARY OF THE TREASURY FOR FINANCIAL INSTITUTIONS**

**BEFORE THE
NATIONAL ASSOCIATION OF MORTGAGE BROKERS
LEGISLATIVE CONFERENCE**

PREDATORY LENDING: ENCOURAGING RESPONSIBLE BEHAVIOR IN THE MORTGAGE INDUSTRY

Good morning and thank you for this opportunity to speak before you today about 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 home ownership 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.

Mortgage brokers have played an important role in expanding credit availability and they will continue to do so in the future. Mortgage brokers provide borrowers with an important service by making a wide array of loan products available. Mortgage brokers also have the ability – through a lower cost structure – to make their services available to residents of communities that have been overlooked by traditional financial institutions.

While clearly much has been done to improve home ownership opportunities and expand access to credit, we must also focus on preserving those opportunities by keeping people in their homes and protecting them from unscrupulous mortgage market participants. A key component of that goal is eliminating what has come to be known as predatory lending.

PO-2086

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. In the most egregious cases, loans have been made with little or no regard for a borrower's ability to repay, and borrowers have engaged in multiple refinance transactions that provide 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 credit providers will not be easily replaced by government programs or through the activities of other lending institutions.

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 is taking a new look at improving mortgage disclosures and considering ways to improve accountability within Federal Housing Administration loan programs. Improved mortgage disclosures could help to combat predatory lending by providing better information to borrowers on the cost of a loan. I understand that this is an important issue to mortgage brokers, and I trust that you have made your views known to HUD.

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 and the HMDA regulations will increase the amount of information on subprime lending activities.

Third, the Justice Department and the Federal Trade Commission have taken aggressive steps in recent years to crack down on abusive lending through several high profile cases that could mean broad redress for many consumers. 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 to educate consumers about the mortgage process, the financial responsibilities of home ownership, and general principles of consumer finance. Educational resources provided through the private sector – such as Mortgage 101 on the National Association of Mortgage Brokers website – provide consumers the ability to better understand the mortgage process and choices that they have regarding their mortgage. We applaud those efforts and hope to continue working with financial institutions, mortgage market participants, 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 encouraging continued debate, discussion, and implementation of best practices as a means of combating predatory lending.

Best practices could help consumers navigate the complex mortgage financing process by giving them some assurance that the mortgage market participant 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 and many homeowners do not fully understand the documents they sign at closing if they bother to read them at all. Community groups can also play an important role by encouraging their constituents to deal with mortgage market participants that adhere to a responsible code of best practices.

All components of the mortgage market – brokers, lenders, and secondary market institutions – have a role to play in combating predatory lending.

Many prime and subprime mortgage lenders have implemented best practices or lending guidelines to address predatory lending. Many of these lending guidelines were developed with active participation of community 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 guidelines 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 encourage wider adoption of best practices throughout the mortgage industry.

I believe that wider adoption of best practices by lenders has the potential to reduce abusive lending practices and to provide real value to consumers. However, in today's mortgage market lenders are only one part of the mortgage process.

In many cases the first contact a consumer makes in the mortgage process is with a mortgage broker. As I noted at the outset, mortgage brokers have played and will continue to play an important role in expanding access to credit. While the majority of mortgage brokers follow responsible business practices, some abusive lending practices – such as loan flipping – are often linked to brokers. It is in your best interest and in our interest, and most importantly in consumers' best interest, that mortgage brokers take steps to eliminate bad actors from your industry.

As you all know, lenders are not alone in adopting best practices to combat predatory lending. The National Association of Mortgage Brokers has also developed a code of ethics and best business practices guidelines. We appreciate the willingness of the National Association of Mortgage Brokers to participate with us in seeking to expand and strengthen best practices for the mortgage industry.

Is there more that mortgage brokers can do to combat predatory lending? One weakness appears to be that regulation and licensing of mortgage brokers is done very inconsistently at the state level. Some states have no or minimal licensing requirements and state law enforcement agencies often lack resources to enforce existing laws. It is clearly in the interest of this organization to work toward eliminating the irresponsible brokers that detract from the positive role played by mortgage brokers. I would urge your organization to play a pro-active role in improving the licensing requirements at the state level as a way toward eliminating irresponsible brokers.

Another group of participants in the mortgage process that could contribute to combating predatory lending is the secondary mortgage market. The secondary mortgage market – either through the housing GSEs or Wall Street investment banks – provides a link between capital market funding and mortgage finance to consumers. While clearly these firms do not have a direct relationship to the consumer in the same way as mortgage brokers or lenders, secondary market firms do have a responsibility to ensure that the lenders to whom they provide funding adhere to high standards of professionalism and corporate citizenship.

I encourage Wall Street firms, in particular, to undertake development of more formal standards of conduct for the lenders with whom they do business. It is in the reputational as well as financial interest of Wall Street firms to take steps to ensure that the mortgages they securitize are issued in accordance with sound underwriting standards and that the consumers who have received such mortgages have the ability to repay them. The number of lenders adhering to responsible best practices could be expanded significantly if the secondary mortgage market made this issue a high priority.

I would greatly appreciate the thoughts and input of the members of this organization on encouraging adoption 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 Mortgage Brokers for inviting me to speak here today.

-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 11:30 A.M.
April 15, 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 $19,000 million of publicly held 4-week Treasury bills maturing April 18, 2002, and to pay down approximately $5,000 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 $10,929 million of the Treasury bills maturing on April 18, 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-2087

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED APRIL 18, 2002

April 15, 2002

Offering Amount ....$14,000 million
Public Offering ....$14,000 million
NLP Exclusion Amount ....$10,900 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 JU 6
Auction date ....April 16, 2002
Issue date ....April 18, 2002
Maturity date ....May 16, 2002
Original issue date ....November 15, 2001
Currently outstanding ....$42,884 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 daylight saving time on auction day
Competitive tenders:
Prior to 1:00 p.m. eastern daylight saving time on auction day

Payment Terms: By charge to a funds account at a Federal Reserve Bank 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
April 15, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY RELEASES FIRST IN SERIES OF TAX SIMPLIFICATION PROPOSALS
First Release Proposes Single Definition of Child

Secretary Paul O'Neill today announced a Treasury proposal for a single definition of child in the tax code, as the first of several proposals to simplify the U.S. income tax code. Secretary O'Neill said, "The tax code is an abomination. It runs unnecessarily to thousands of pages. Many Americans hire tax preparers because they cannot understand the forms and instructions and they are afraid of being punished if they make a mistake. We can take immediate steps to restore some common sense to the tax code and make it simpler and more fair."

The Internal Revenue Code is extraordinarily complex. This complexity imposes a high cost and burden on taxpayers as they try to comply with the myriad tax provisions. Many taxpayers and businesses face significant challenges in understanding the tax laws, keeping required records, and filling out numerous complicated and detailed tax forms which often require working through lengthy, difficult to understand instructions and cumbersome calculations.

"Our tax code is so complicated, we've made it nearly impossible for even the Internal Revenue Service to understand," O'Neill stated.

"This burden is too great," O'Neill continued. "Estimates of how much taxpayers spend complying with the tax code range from $70 billion to $125 billion a year, and include literally millions of hours. Consider the example of senior citizens who have some modest retirement savings. Right now, they are prohibited from using the simplest tax forms and are forced instead to use much more complicated forms and wade through much more complicated instructions. They shouldn't have to bear that extra burden at this point in their life. Rather, we should make the process as simple as possible for them.

"This tax code also hurts the economy and strains our society's moral fabric. It imposes costs on taxpayers in terms of time and money spent complying with the code that they could better spend in other ways. Certainly, small business owners would rather invest in their businesses than pay tax preparers, and parents would rather spend a sunny Saturday playing with their children than filling out tax forms.

PO-2088

"One of the unseen consequences of our tax code's complexity is the sense it leaves with taxpayers that the system is unfair and that others pay less tax because of special advantages. When most taxpayers believe that others aren't paying their fair share, compliance with our voluntary tax system begins to fall off – a dangerous proposition for a democracy.

"Simplifying the tax code will reduce taxpayer burden by making it easier for taxpayers to understand and comply with the law, and will increase the sense of fairness -- that everyone is being treated the same."

Why Simplify?

We support tax simplification proposals that meet these essential principles:

Fairness. Americans want to know that the person down the street or across town is paying his or her fair share. Most agree that the poor shouldn't pay much at all, but those who are able should not get a free ride on the backs of honest taxpayers. Fairness does not mean punishing success, but it does mean that everyone must pay their fair share.

Simplicity. Taxpayers would rather not need tax specialists to prepare their taxes. But today even non-affluent taxpayers need help because the system is so complicated. Many Americans are also concerned they are missing deductions to which they are entitled because the system is so complex.

Clarity. People want to understand their tax obligations and know exactly what they owe. The tax code and the tax burden should be clear to the taxpayer, without the need for extra help.

Ease. The tax code costs too much to comply with and too much to administer. This burden is a drag on the economy and costs jobs. We need a tax code that is simpler, easier to understand, and less costly.

Simplifying the tax code pursues these principles by:

- Reducing taxpayer compliance costs and paperwork.
- Reducing IRS administrative costs.
- Reducing tax distortions that impair economic growth.
- Improving the readability, predictability, objectivity, and transparency of the law.
- Reducing the need for interactions between taxpayers and the IRS to resolve disputes.
- Improving taxpayers' compliance with and confidence in the tax system.
- Eliminating outdated provisions or rules.

Monumental Task

We have before us a monumental task. There are many examples of unnecessary complexity in the tax code. One of the most egregious complexities is that the current Internal Revenue Code provides five major tax benefits relating to children and each has a different definition of a qualifying child. We address this problem with our proposal described below for a uniform definition of a qualifying child.

Inconsistent definitions are just one source of complexity, however. Another is the sheer complexity of some of the calculations taxpayers are required to make. Often taxpayers must refer to secondary schedules that, in turn, refer to various worksheets or publications to perform basic calculations such as to determine whether they qualify for a particular tax benefit or are subject to a phase-out or limitation. Sometimes, taxpayers must choose among a confusing array of options such as when saving for retirement or higher education.

High Costs on Taxpayers

Tax complexity imposes high compliance costs on taxpayers. Some compliance costs arise out of the very nature of an income tax and its need to measure people's income. Other compliance costs are due to the use of the income tax to achieve various social and economic policies. The process of recording and calculating on tax forms is only one dimension of complexity and taxpayer burden. Another is the record-keeping that must occur throughout the year in many cases. Collecting receipts and maintaining files are certainly not beyond the abilities of the vast majority of taxpayers. But the amount of such activity, along with the other dimensions of tax complexity, reach onerous levels few taxpayers find acceptable. Thus, tax complexity may also diminish taxpayer compliance. As National Taxpayer Advocate Nina Olson recently remarked: "We are creating an environment in which even the most compliant taxpayer may wonder: Why bother?"

Who Pays? We do. In both visible and hidden ways

Tax complexity also raises the cost of administering the tax system, and taxpayers pick up the tab. IRS must devote additional resources to provide help for taxpayers, develop regulations, and audit and otherwise correct mistakes in taxpayers' returns. These additional costs are paid for by taxpayers. Many taxpayers must resort to assistance from lawyers, accountants, and other services just to wade through the morass of the tax code. Complexity also erodes the ability of the Internal Revenue Service to enforce the tax laws by focusing on real problem areas, and leaving honest taxpayers alone.

Americans pay in other ways, as well. Every business and employer, large or small, must bear the cost of tax code compliance – the paperwork, the accounting bills, and the lawyer's fees. And the products we all buy might be cheaper, better, or more plentiful if the compliance costs could be reduced.

Drag on the Economy

In addition to the direct costs associated with tax complexity, namely the compliance and administrative costs, tax complexity imposes a substantial drag on the economy in other ways. For example, as tax complexity increases, taxpayers are less likely to predict accurately the tax consequences of their decisions. An inability to predict tax consequences confidently leads to a greater sense of uncertainty about those decisions. This uncertainty can affect important business and family decisions, such as buying a home or car, hiring a new worker, or saving for retirement or for education.

Next Steps

The federal income tax is a machine that generates revenue to pay for the activities of the federal government. Like any machine, the income tax requires regular maintenance, upgrading, and an occasional overhaul. Simplification is part of this ongoing process. The result of tax simplification will be a tax system that is fairer, easier to comply with and administer, easier to understand and predict, and less burdensome on taxpayers, the IRS, and the economy in general.

Starting today, we will begin releasing a series of proposals to simplify the tax code. These proposals will first focus on individuals and subsequent proposals will focus on businesses.

Proposals on the Tax Treatment of Families and Children

The first group of proposals will address the tax treatment of families and children. Topics will include:

- Uniform definition of a qualifying child,
- Determining taxpayers' filing status (e.g., head of household),
- Earned Income Tax Credit, and
- Taxation of dependents.

Uniform Definition of a Qualifying Child

Today we are releasing the first proposal in this group, concerning a unified definition of a child. This proposal is included as an attachment to this document. There are in the tax code today five major provisions that provide tax relief to families with children, and there are five different definitions of a qualifying child.

The five provisions are:

- the dependent exemption,
- the definition associated with Head of Household filing status,

- the Child Tax Credit,
- the Dependent Care Tax Credit, and
- the Earned Income Tax Credit.

To see how this can confuse a taxpayer, consider the example of a shared household. Now it is possible for three different family members, who live together for a full year, to claim the same child for at least four different tax benefits:

- The grandmother who provides more than half the costs of maintaining the home in which the child resides could claim head of household filing status;
- The child's aunt who provides over half the child's support and cares for the child as her own may claim the dependency exemption and the child tax credit; and
- The child's mother may claim the EITC.

Yet, none of these women may claim the child and dependent care tax credit, even if they work and pay for the care of the child. To claim that credit, one taxpayer must both support the child and maintain the household in which she and the child reside. Under the proposal, the child's mother (or if the family prefers, the grandmother or aunt) could claim all four tax benefits.

Conclusion

Secretary O'Neill concluded, "The tax code should not scare law-abiding and hard-working citizens when they sign their tax return. Our tax code is still an abomination. It is not worthy of our free society. By beginning to undo unnecessary complexities, we can take the first steps to a better, simpler tax code. We need to start now."

Attached is the Treasury Department's proposal for a uniform definition of a qualifying child.

Proposal for Uniform Definition of a Qualifying Child

Department of the Treasury
April 2002

UNIFORM DEFINITION OF A QUALIFYING CHILD

Current Law

The tax code provides assistance to families with children through the dependent exemption, head-of-household filing status, child tax credit, child and dependent care tax credit, and earned income tax credit (EITC). However, each of these provisions has a unique definition of eligible child. These are described below.

Dependent Exemption: To qualify as a dependent, an individual must satisfy five tests. First, he or she must either be a qualifying relative or meet certain residency requirements. Qualifying relatives include the taxpayer's (1) son or daughter or a descendant of either (e.g., grandchildren, great-grandchildren); (2) stepson or stepdaughter; (3) sibling or stepsibling; (4) parent or ancestor of parent (e.g., grandparent, great-grandparent); (5) stepparent; (6) son or daughter of a sibling; (7) a parent's sibling; or (8) father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law. If the individual is not a qualifying relative, the taxpayer's home must be his or her principal place of abode for the full tax year, and the individual must be a member of the taxpayer's household.[1]

Second, the individual must also receive more than half of his or her support from the taxpayer.[2] Third, he or she must be a citizen or resident of the United States or a resident of a contiguous country (Canada or Mexico). Fourth, if the individual is married, he or she cannot file a joint tax return with his or her spouse, except to receive a refund of withheld taxes. Fifth, a taxpayer cannot claim a dependent if the dependent's gross income exceeds the exemption amount ($3,000 in 2002). This test does not apply if the dependent is the taxpayer's child (son, daughter, stepson, stepdaughter, or foster child) and is under the age of 19 at the close of the calendar year (under 24 if a full-time student). A foster child is defined to mean an individual for whom the taxpayer "cares for as the taxpayer's own child." A foster child must reside with the taxpayer for the entire year.

Special rules apply to more complicated family situations. For example, in the event of divorce or separation, the custodial parent is generally entitled to the dependent exemption if the parents, in combination, provide over half the support of the child. To qualify as the custodial parent, the taxpayer must reside with his or her child for over half the year. The noncustodial parent may claim the exemption only if the custodial parent provides him or her with a written waiver to be attached to the tax return.

There are other circumstances, in addition to divorce or separation, when more than one taxpayer helps support an individual. If each taxpayer provides less than half of the person's support, but in combination, they provide over half of the person's support, then one of the taxpayers can claim the dependent exemption if three additional tests are met. First, the taxpayer meets all the requirements, other than support, for claiming the person as a dependent. Second, the taxpayer contributes over ten percent of the person's support. Third, each of the other taxpayers who

[1] A taxpayer or another individual may still be considered to be a member of the household despite a temporary absence due to special circumstances, such as illness, education, work, military service, or vacation.

[2] Public assistance payments are taken into account as support payments made by a government entity.

provide at least ten percent of the person's support signs a waiver, which the taxpayer claiming the exemption then attaches to his or her tax return.

An exemption is not allowed for any dependent unless a taxpayer identification number for the dependent is included on the taxpayer's tax return.

Head of Household Filing Status: Unmarried taxpayers may be considered heads of households if they maintain as their home a household that constitutes for more than half of the tax year the principal place of abode for (1) unmarried sons, daughters, stepchildren, or descendants of the taxpayers' sons or daughters; (2) married sons, daughters, stepchildren, or descendants of the taxpayers' sons or daughters, who the taxpayers can claim as dependents; or (3) relatives whom they can claim as dependents (as defined above). Unmarried taxpayers may also claim head of household filing status if they maintain a separate household for dependent parents for the tax year.

Child Tax Credit: Taxpayers can claim the child tax credit for qualifying individuals who meet three tests, in addition to the five tests that qualify them as dependents. The qualifying individual must be under the age of 17. Further, the child must be the taxpayer's son, daughter, grandchild, sibling, niece, nephew, or foster child. Stepchildren, stepsiblings, *and* their descendants are also qualifying children. If the child is the taxpayer's sibling, niece or nephew, the taxpayer must care for the child as if the child were his or her own child. Finally, the child must be a citizen or resident of the United States (that is, the contiguous country rule, which applies to the dependent exemption, does not pertain to the child tax credit).

The definition of foster child for the child tax credit differs from that used for dependents. As under the definition of a dependent, a foster child is an individual for whom the taxpayer "cares for as the taxpayer's own child" and who resides with the taxpayer for the entire year. However, the foster child must also be a child placed with the taxpayer by an authorized placement agency.

Tax Benefits Related to Child Care: Taxpayers may be eligible for the child and dependent care tax credit and the exclusion for employer-provided child care if they provide over half the costs of maintaining a home in which they and a qualifying individual reside. Qualifying individuals include dependents (as defined above) under the age of 13. Custodial parents may also claim children under the age of 13 whom they would be entitled to claim as dependents if they had not waived the exemption to the noncustodial parents. Qualifying individuals can also include dependents (of any age) or spouses who are physically or mentally incapable of caring for themselves.

To qualify for the CDCTC, a taxpayer must maintain the household in which the taxpayer and the qualifying individual reside. The household maintenance test applies to both married and unmarried filers. A taxpayer must provide over half the cost of maintaining the household for the period during the year in which he or she resides in the home with the qualifying individual.

Earned Income Tax Credit (EITC): A child is a qualifying child if the following three requirements are met: (1) the child must be the taxpayer's son, daughter, grandchild, sibling, niece, nephew, or foster child; (2) the child must generally reside with the taxpayer in the same principle place of abode in the United States for over half the year; and (3) the child must be under the age of 19 (or under 24 if a full-time student). Stepchildren, stepsiblings, *and* their descendants are also qualifying children. If the child is the taxpayer's sibling, niece or nephew, the taxpayer must care for the child as if the child were his or her own child. The definition of foster child is the same as under the child tax credit, except that the residency test is over six months rather than twelve months.

If more than one taxpayer claims the same child for purposes of the EITC, the following rules apply. If each claimant satisfies the age, relationship, and residence tests with respect to the same child, only the taxpayer with the highest adjusted gross income (AGI) can claim the child. However, the parent's claim supercedes the claims of other taxpayers, regardless of the outcome of the AGI tiebreaker test. If both parents file separate returns claiming the child, then the parent who resides with the child the longest is deemed entitled to the EITC. In the event that both parents reside with the child for the same amount of time, then the parent with the highest AGI is entitled to the credit.

Both the taxpayer (including his or her spouse, if married) and qualifying child must have a social security number that is valid for employment in the United States (that is, they are U.S. citizens, permanent residents, or have certain types of temporary visas that allow them to work in the United States).

Reasons for Change

Taxpayers with children may receive a number of tax benefits to help offset the costs of raising a family. In tax year 2003, there will be over 52 million taxpayers with children. Of these, 49 million taxpayers will claim child dependents, while millions will claim one or more other child-related tax benefits.

Tax Year 2003

Child-Related Tax Benefit	Number of Returns (millions)
Dependent Exemption	52.5
With Child	49.4
Head of Household Filing Status	24.4
With Child	22.4
Child Tax Credit	30.8
Child and Dependent Care Tax Credit	6.1
Earned Income Tax Credit	19.8
With Child	16.5

In many cases, taxpayers will claim more than one of these benefits. For example, 30.8 million taxpayers will claim both child dependent exemptions and the child tax credit, 16.3 million taxpayers will claim both child dependent exemptions and the EITC, and 10.6 million taxpayers will claim all three. Over a million taxpayers will claim all five of the child-related tax benefits.

But to obtain these benefits, taxpayers must wade through pages of bewildering rules and instructions because each provision defines an eligible "child" differently. For example, to claim the dependent exemption and the child tax credit, a taxpayer must demonstrate that he or she provides most of the support of the child. To claim the EITC, the taxpayer must demonstrate that he or she resides with the child for a specified period of time. Having different definitions for as simple a concept as one's child may confuse taxpayers and lead to erroneous claims of one or more child-related tax benefits. As a recent EITC compliance study found, nearly one in five children claimed as dependents and EITC qualifying children in 1999 were disallowed for one, but not both, tax benefits.

Taxpayer confusion and errors may also be linked to some of the criteria used to determine eligibility for the child-related tax benefits. A 1993 General Accounting Office study found that in 1988, taxpayers erroneously claimed exemptions for an estimated nine million dependents.[3] Nearly three-quarters of erroneous claims were attributable to taxpayers' failure to meet the dependent support test. Among those who did not meet the support test, taxpayers did not provide financial support for 57 percent of the claimed dependents. In the remaining cases, taxpayers lacked adequate records to demonstrate that they had met the support test. Replacing the support test, which is difficult to understand and to administer in the absence of an intrusive audit, with a uniform residency test would reduce both compliance and administrative costs.

Proposal

Uniform definition of qualifying child

A uniform definition of qualifying child would be adopted for purposes of determining eligibility for the dependency exemption, the child tax credit, the child and dependent care tax credit, head of household filing status, and the EITC. A qualifying child would have to meet the following three tests:

- Relationship – The child must be the taxpayer's son, daughter, stepchild, sibling, stepsibling, or a descendant of such individuals. Foster children placed with the taxpayer by authorized placement agencies would satisfy the relationship test. If the child is the taxpayer's sibling or stepsibling or a descendant of any such individual, the taxpayer must care for the child as if the child were his or her own child.

- Residence – The child must live with the taxpayer in the same principal place of abode in the United States for over half the year. Military personnel on extended active duty outside the United States would be considered to be residing in the United States. As under current law, the taxpayer and child are considered to live together even if one or both are temporarily absent due to special circumstances such as illness, education, business, vacation, or military service.

- Age – The child must be under the age of 19, a full-time student if over age 18 and under age 24, or totally and permanently disabled. However, as under current law, qualifying children

[3] United State General Accounting Office. Tax Administration: Erroneous Dependent and Filing Status Claims. Report GAO/GGD-93-60, March 1993.

(who are not disabled) must be under age 13 for purposes of the child and dependent care tax credit and under 17 (whether or not disabled) to qualify for the child tax credit.

Neither the support nor gross income tests would apply to qualifying children who meet the relationship, residence, and age tests. In addition, taxpayers would no longer be required to meet a household maintenance test when claiming the child and dependent care tax credit.

If more than one taxpayer claims the same qualifying child, then the following tiebreaker rules would apply:

- If only one of the claimants is the child's parent, then he or she would receive the tax benefit.

- If the child's parents do not file a joint return and both claim the child on separate returns, then the tax benefit would accrue to the parent with whom the child resides the longest. If both parents reside with the child for the same length of time, then the benefit would accrue to the parent with the highest adjusted gross income.

- If the child's parents do not claim the child, then the tax benefit would accrue to the claimant with the highest adjusted gross income.

Custodial parents generally could not release the claim to a dependent exemption to a noncustodial parent. However, if there is a child support instrument between the parents that applies to the dependent and that is in effect as of the date of the announcement of a legislative proposal, then current law will pertain. That is, in such cases, a custodial parent could release the claim to a dependent exemption (and, by extension, the child tax credit) to the noncustodial parent.[4]

Taxpayers could continue to claim individuals who do not meet the proposed relationship, residency, or age tests as dependents if they meet the requirements under current law (with the exception of the rules governing divorced parents). Thus, taxpayers would still be able to claim parents as dependents if they meet the support and gross income tests. As under current law, taxpayers would also be able to claim a distantly related or unrelated child as a dependent if the child resides in the taxpayer's home for the full year and meets the current law dependency tests. Further, such children would still not qualify the taxpayer for the child tax credit or the EITC unless placed in the home by a state agency. However, if more than one taxpayer claims a child as a dependent, then the proposed residency-based tests would supercede current law.

Taxpayers would be required to provide a valid taxpayer identification number for each qualifying child. An EITC qualifying child, however, would be required to have a social security

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[4] Current law specifies that noncustodial parents cannot claim the dependent exemption for a child without receiving a waiver from the child's custodial parent. However, according to the National Taxpayer Advocate's FY 2001 Annual Report to Congress (Publication 2104, December 31, 2001) the courts in 35 states have held that they have the authority to allocate the dependency exemption between spouses who are before them in a divorce or custody case. Current law may need to be clarified in order to ensure that family courts are correctly interpreting Congressional intent regarding the release of the dependency exemption by the custodial parent.

number that is valid for employment in the United States (that is, they are U.S. citizens, permanent residents, or have certain types of temporary visas).

Discussion:

By harmonizing the definition of qualifying child across five related tax benefits, the proposal would reduce both compliance and administrative burdens. By eliminating sources of taxpayer confusion and replacing the complicated support test with a simpler residency requirement, the proposal may also reduce erroneous claims of child-related tax benefits. Eliminating the support test would permit some parents who are making the transition from welfare to work to claim exemptions for their qualifying children as well as the child tax credit. Under current law, they may not be eligible to claim their child as a dependent, even though they work, if they received substantial government assistance before they entered the workforce.

The proposal would more closely conform the rules for dependent children to those used for EITC qualifying children. Under current law, taxpayers may be confused by the different definitions of eligible children.[5] Further, the taxpayer would no longer be required to demonstrate, and retain the records to prove, that he or she provides over half the support of the child. A uniform definition of qualifying child would reduce IRS administrative costs as well. Currently, the IRS must ask taxpayers undergoing an audit to supply one set of documents to confirm that they support the child they claim as a dependent and another set of documents to prove that they reside with the same child in order to qualify for the EITC. Under the proposal, the IRS would request only documentation of residency.

The proposal would also clarify who may claim the child for tax benefits in extended families and other complicated living arrangements. Under current law, it is possible for three different family members, who live together for a full year, to claim the same child for at least four different tax benefits:

- The grandmother who provides more than half the costs of maintaining the home in which the child resides could claim head of household filing status;
- The child's aunt who provides over half the child's support and cares for the child as her own may claim the dependency exemption and the child tax credit; and
- The child's mother may claim the EITC.

Yet, none of these women may claim the child and dependent care tax credit, even if they work and pay for the care of the child. To claim that credit, one taxpayer must both support the child and maintain the household in which she and the child reside. Under the proposal, the child's mother (or if the family prefers, the grandmother or aunt) could claim all four tax benefits.

[5] For example, the custodial parent who waives the dependent exemption to the child's noncustodial parent may not understand that he or she still qualifies for the EITC. Or a parent who claims the EITC may erroneously believe he or she can also claim the dependent exemption for the child even though most of the child's support comes from government assistance programs. Under the proposal, the taxpayer would be able to claim the same child for all child-related tax benefits.

Another source of complexity arises from the household maintenance test that is applicable to the child and dependent care tax credit. Under current law, single taxpayers are required to meet two separate household maintenance tests for head of household filing status and for the CDCTC. Married couples are generally not required to meet a household maintenance test, except to claim the CDCTC. Eliminating the household maintenance test for the child and dependent care tax credit would reduce record-keeping for both single and married workers with children. It would also expand eligibility for the credit to taxpayers who do not maintain the home in which they and their child live but who also incur child care expenses in order to work. For example, a young working mother who lives with her parents could qualify for the credit under the proposal if she pays for child care, regardless of whether she maintains the home in which she, her parents, and her child reside.

Summary of Simplification Gains: Over 52 million taxpayers would benefit from simplifying the definition of qualifying child for the five related child tax benefits. The proposal would reduce taxpayer confusion over differing definitions of qualifying children. It would also reduce record-keeping burdens, as taxpayers would no longer have to demonstrate that they support their children. Further, the proposal could result in the elimination of the six-line Schedule EIC and the page of instructions that accompanies it. Many taxpayers would no longer have to bother reading the four pages of instructions in Publication 501 that explain the support tests or complete the 22-line worksheet to calculate their share of a child's support.

Under the proposal, the IRS would also receive additional information on the tax return to verify head of household filing status. Under current law, taxpayers are not required to provide the taxpayer identification number (TIN) of children who qualify them for head of household filing status but not for a dependent exemption. Under the proposal, all qualifying children – for purposes of the five child-related tax benefits – would be required to have a TIN.

Comparison of Key Provisions Relating to Qualifying Children under Current Law and the Proposal

	Current Law					Proposal
	Dependency Exemption	Head of Household Filing Status	Child Tax Credit	Child and Dependent Care Tax Credit	Earned Income Tax Credit	
1. Relationship test						
Sons, daughters, grandchildren	Yes	Yes	Yes	Yes	Yes	Yes
Brothers, sisters, nieces, nephews	Yes	Yes, if qualifies as a dependent	Yes, if qualifies as a dependent and taxpayer cares for child as his or her own	Same as dependency exemption	Yes, if taxpayer cares for child as his or her own	Yes, if taxpayer cares for child as his or her own
Foster children (which may include relatives and unrelated children)	Any child may be treated as own child if lives with taxpayer for entire year and the taxpayer cares for the child as his or her own	Yes, if qualifies as a dependent	Yes, if lives with taxpayer for entire year, is placed by an authorized placement agency, and taxpayer cares for the child as his or her own	Same as dependency exemption	Yes, if lives with taxpayer for over half the year, is placed by an authorized placement agency, and taxpayer cares for the child as his or her own	Yes, if lives with taxpayer for over half the year and is placed by an authorized placement agency
2. Age limit	Under 19 or under 24 if full-time student	No age limit for unmarried sons, daughters, grandchildren, and stepchildren. Otherwise, same as dependency exemption.	Under 17	Under 13 (no age limit for disabled dependent)	Same as dependency exemption, but no age limit for disabled children	Under 19, under 24 if full-time student, and no age limit for disabled children (however, under 17 for child tax credit and under 13 for child and dependent care tax credit)
3. Gross income limit	Individual cannot be claimed as a dependent if earns more than the exemption amount, except if son, daughter, stepson, stepdaughter, or foster child under age limit	No limit for unmarried sons, daughters, grandchildren, and stepchildren regardless of age; otherwise, same as dependency exemption	Same as dependency exemption	Same as dependency exemption	No limit	No limit
4. Residency requirements	Certain related children do not have to live with the taxpayer, otherwise entire year	Child must live with the taxpayer for over one half of the year	Same as dependency exemption	Child must live with the taxpayer for the period during which the expenses were incurred	Child must live with taxpayer for over one half of the year	Child must live with the taxpayer for over one half of the year
5. Support test	Taxpayer must provide over one half of the child's support.	No support test for unmarried sons, daughters, grandchildren, and stepchildren; otherwise, same as dependency exemption	Same as dependency exemption	Same as dependency exemption	None	None
6. Household maintenance test	None	Taxpayer must provide over one half of the costs of maintaining the household	None	Taxpayer must provide over one half of the costs of maintaining the household for the period during which child lived with taxpayer	None	None

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
April 15, 2002 10 AM

Contact: Tara Bradshaw
(202) 622-2014

STATEMENT OF SECRETARY PAUL O'NEILL IN GRAND RAPIDS, MICHIGAN, ANNOUNCING TREASURY PROPOSAL FOR A SINGLE DEFINITION OF CHILD IN THE TAX CODE:

Today is tax day – how many of you spent the weekend closeted up with your tax forms and a calculator? Or did you just give up and pay someone else to do it, out of sheer confusion?

Our tax code is an abomination. It's 9,500 pages of confusion and complexity. That complexity is costly – to taxpayers, to our economy, and to public confidence in the fairness of the system. We've got to fix the tax code so that it's simple, clear, and fair. Americans deserve to have a code that's understandable and treats everyone the same.

Today we are taking one small step to begin to address the headaches our tax code creates for working Americans. Did you know the tax code has five different definitions of child? Next year, there will be over 52 million taxpayers with children. They shouldn't have to sort out whether their child meets the appropriate definition to be counted as a dependent, and then have to examine an entirely separate definition to see if they can claim the child tax credit. And yet that's what our current law requires. Today we are proposing to fix this headache, and create one tax code definition of a child, so you can spend less time pulling your hair out over your tax forms, and more time enjoying your kids.

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PO-2089

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
April 15, 2002

Contact: Tara Bradshaw
(202) 622-2014

ADDRESS BY TREASURY SECRETARY PAUL O'NEILL TO THE ECONOMIC CLUB OF GRAND RAPIDS

It's April 15, do you know where your tax return is?

Hopefully, for your sake, it's in the mail, and the headaches are behind you. But if you haven't filed yet, no need to rush from lunch -- the main post office here on Michigan Street is open until midnight tonight.

I do have some good news today. Because of the President's tax relief plan enacted last summer, working Americans are keeping more of what they earned last year, and will keep even more of it this year. And small business owners will find it less difficult to invest and create new jobs.

But clearly, we have more work to do. Even after the President's tax relief, total tax receipts in 2002 are expected to be over 19 percent of GDP, compared to an average of 18 percent over the last fifty years. Not only is the government's tax take at a record high, but taxpayers pay the additional burden of complying with a tax code so complex that it is an abomination.

As Treasury Secretary, I have to oversee the administration of this tax code and the IRS employees who face the impossible task of sorting through the paperwork and the complexities of 9,500 pages of tax law. We have got to simplify the system, for the sake of every taxpayer and for the sanity of these IRS employees who are just trying to do their jobs.

I'd like to talk about what this Administration has done to bring the tax system under control, including the President's historic tax relief program, and our goals for further reforms. I'd also like to talk about Treasury's plans for tax code simplification, and improved enforcement measures, to ensure that all taxpayers get fair treatment. Finally, I will make some remarks on the state of our economy – the source of all our tax revenue.

TAX RELIEF

Last year's tax relief plan was a great achievement for the President and, I believe, for our economy.

PO-2090

Consider what we achieved. The refund checks last summer and fall distributed $36 billion to American consumers when we needed it the most, at the nadir of the slowdown. We immediately cut the 15 percent income tax bracket to 10 percent, benefiting every worker who pays income taxes. As the full package phases in over the next few years, all the tax rates will fall. Over the next 10 years, the child credit will double, up to $1,000 per child and the marriage penalty will be dramatically reduced. The death tax will be completely abolished.

All told, 104 million individuals and families will get an average tax cut of about $1,040.

We didn't stop there. Last month the President signed into law new tax incentives for companies to invest in new plants and equipment, to speed the economy's return to strong growth. I think business investment will be a key reinforcement for continuing economic recovery. The Job Creation Act was designed specifically to encourage investments, especially from smaller businesses.

I know all this sounds good on tax day. It is good. But there's a catch -- a money-back guarantee for the government. Last year's tax relief provisions expire in 2011. We need your support in urging Congress to eliminate the "sunset" provision on tax relief. Uncertainty stemming from the sunset clause will undermine investment, so the earlier we act on this, the better. We would like to see Congress make the tax relief permanent this year.

TAX SIMPLIFICATION

High tax rates aren't the only burden on investment and job creation in our economy. The compliance burden also is a drain on our economy and undermines public faith in government. Taxpayers spend as much as $125 billion each year, or about 1% of GDP, just trying to comply with the tax code. That doesn't include the $9.4 billion they spend to pay for the IRS to administer the code. The complexities in the tax code divert resources into unproductive compliance costs – employing lawyers and accountants instead of productive engineers and innovators. My apologies to lawyers and accountants in the audience – I'm sure you're all very nice people. But our economy would be better off if we could simplify the tax code and retrain you all as engineers!

Simplification is easier said than done. Somebody had a reason for each word that's been inserted into the 9,500 pages of the tax code. The tax code wasn't born from immaculate conception.

At Treasury, we are conducting a comprehensive review of the tax laws and their complexities, trying to find fixes for some of the biggest headaches.

We are releasing the first of these reports today – focusing on the confusing definitions of child in the tax code. 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. But don't be so sure.

That youngster at your dinner table has to fit into one definition to be counted as a dependent, and has to meet a whole different definition for you to take the child tax credit. Try to claim the child and dependent care tax credit, and you have to first make sure that youngster fits yet another definition of child in the tax code.

In tax year 2003, there will be over 52 million taxpayers with children. The child credit, the child care credit, the Earned Income Tax Credit and other provisions are there to help these taxpayers by reducing their tax burden. Why should we make it so difficult for taxpayers with children to receive these benefits that clearly the Congress intended?

Today we are proposing to harmonize the definition of child – to save parents the headaches of wading through technical definitions and to reduce the number of mistakes that taxpayers and the IRS then have to sort through and correct.

In the coming weeks, we'll be releasing additional proposals to simplify the tax code, both for individuals and for businesses. Businesses spend countless hours battling the IRS over timing of deductions -- not whether or not a cost is deductible, just whether the deduction should be taken this year or next. As with most regulations, the burden falls disproportionately on smaller business owners, who can't afford a whole tax department to muddle through these questions.

The American people deserve a better system. I hope that by publishing detailed descriptions of these complexities, we can begin a cooperative effort with the Congress to undo some of these knots.

TAX ENFORCEMENT

I should also add that as we reduce the tax burden on our economy, and simplify the code, we are taking new steps to make sure that all taxpayers are paying their fair share. There is no excuse for cheating your fellow citizens. Unfortunately, there are unscrupulous promoters out there who take advantage of tax complexities and loopholes, marketing questionable transactions to taxpayers.

We have already started introducing proposals to combat this kind of abusive tax avoidance, strategies that deliberately violate the spirit of our laws. These transactions are unfair to the vast majority of taxpayers, who do their best to comply with the code, even with its difficulties.

THE ECONOMY

I want to switch gears now and talk about how our economy is doing.

I have always been an optimist about the U.S. economy. Sometimes, like last fall, optimism seems like an act of faith. Other times, like today, optimism seems to be the obvious choice.

I hardly have to tell this crowd that our economy slowed sharply in 2000, with GDP growth rate and job growth rate declines beginning mid-year, business capital spending plummeting in late 2000, and accelerating declines in most indicators through mid-2001. By August 2001, however, I believed that we were already on track for a fourth quarter rebound.

Then September 11th happened. Financial markets were shut down for almost a week. Air transportation came to a standstill. Consumer activities froze as families stayed home in front of their televisions, uncertain about the future. As a result, GDP fell an annualized 1.3 percent in the third quarter of 2001.

Even then, I remained optimistic, and that hope now appears justified. In spite of the terrorist attacks, our economy still grew in the fourth quarter, confounding doomsayers. The latest indicators show that our slow period last year was one of the shortest, shallowest downturns on record.

Based on my own reading of the numbers and conversations with business people spread around the economy, I believe we are going to see continued improvement throughout 2002. Productivity growth will stay strong, if not always at the 2001 fourth quarter's record-setting rate. Business spending will revive, as companies gradually restock the inventory pipeline and invest in those high return projects that have been on hold. Consumers will continue to play their key role and by year-end, I expect we will approach the 3 to 3.5% annual growth rate that the U.S. economy can sustain.

Why was the slowdown so short? Several reasons. The most important is that the United States has the most advanced and flexible economy in the world. Employers took immediate steps to turn things around, and the result was an eye-popping 5.2% productivity growth in the fourth quarter of last year. Add in the effects of the President's well-timed tax cut, and my friend Alan Greenspan's actions at the Federal Reserve, and you see why our economy is poised to return to robust growth.

Thank you.

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PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
April 16, 2002

Contact: Office of Financing
202-691-3550

**TREASURY'S INFLATION-INDEXED SECURITIES
MAY 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 May 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 2091. The information is also available on the Internet at Public Debt's website (http://www.publicdebt.treas.gov).

The information for June is expected to be released on May 15, 2002.

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Attachment

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
May 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
May 1 2002	177.80000	1.12222	1.11018	1.10056	1.09930
May 2 2002	177.83226	1.12243	1.11038	1.10075	1.09949
May 3 2002	177.86452	1.12263	1.11058	1.10095	1.09969
May 4 2002	177.89677	1.12283	1.11078	1.10115	1.09989
May 5 2002	177.92903	1.12304	1.11098	1.10135	1.10009
May 6 2002	177.96129	1.12324	1.11118	1.10155	1.10029
May 7 2002	177.99355	1.12345	1.11138	1.10175	1.10049
May 8 2002	178.02581	1.12365	1.11159	1.10195	1.10069
May 9 2002	178.05806	1.12385	1.11179	1.10215	1.10089
May 10 2002	178.09032	1.12406	1.11199	1.10235	1.10109
May 11 2002	178.12258	1.12426	1.11219	1.10255	1.10129
May 12 2002	178.15484	1.12446	1.11239	1.10275	1.10149
May 13 2002	178.18710	1.12467	1.11259	1.10295	1.10169
May 14 2002	178.21935	1.12487	1.11279	1.10315	1.10189
May 15 2002	178.25161	1.12507	1.11300	1.10335	1.10209
May 16 2002	178.28387	1.12528	1.11320	1.10355	1.10229
May 17 2002	178.31613	1.12548	1.11340	1.10375	1.10249
May 18 2002	178.34839	1.12568	1.11360	1.10395	1.10269
May 19 2002	178.38065	1.12589	1.11380	1.10415	1.10289
May 20 2002	178.41290	1.12609	1.11400	1.10435	1.10308
May 21 2002	178.44516	1.12630	1.11420	1.10455	1.10328
May 22 2002	178.47742	1.12650	1.11441	1.10475	1.10348
May 23 2002	178.50968	1.12670	1.11461	1.10495	1.10368
May 24 2002	178.54194	1.12691	1.11481	1.10515	1.10388
May 25 2002	178.57419	1.12711	1.11501	1.10535	1.10408
May 26 2002	178.60645	1.12731	1.11521	1.10555	1.10428
May 27 2002	178.63871	1.12752	1.11541	1.10575	1.10448
May 28 2002	178.67097	1.12772	1.11561	1.10595	1.10468
May 29 2002	178.70323	1.12792	1.11582	1.10615	1.10488
May 30 2002	178.73548	1.12813	1.11602	1.10635	1.10508
May 31 2002	178.76774	1.12833	1.11622	1.10655	1.10528

CPI-U (NSA) for : January 2002 177.1 February 2002 177.8 March 2002 178.8

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
May 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**
May 1 2002	177.80000	1.08415	1.08155	1.05679	1.02157
May 2 2002	177.83226	1.08434	1.08175	1.05698	1.02176
May 3 2002	177.86452	1.08454	1.08194	1.05717	1.02194
May 4 2002	177.89677	1.08474	1.08214	1.05737	1.02213
May 5 2002	177.92903	1.08493	1.08234	1.05756	1.02232
May 6 2002	177.96129	1.08513	1.08253	1.05775	1.02250
May 7 2002	177.99355	1.08533	1.08273	1.05794	1.02269
May 8 2002	178.02581	1.08552	1.08293	1.05813	1.02287
May 9 2002	178.05806	1.08572	1.08312	1.05833	1.02306
May 10 2002	178.09032	1.08592	1.08332	1.05852	1.02324
May 11 2002	178.12258	1.08611	1.08351	1.05871	1.02343
May 12 2002	178.15484	1.08631	1.08371	1.05890	1.02361
May 13 2002	178.18710	1.08651	1.08391	1.05909	1.02380
May 14 2002	178.21935	1.08670	1.08410	1.05928	1.02398
May 15 2002	178.25161	1.08690	1.08430	1.05948	1.02417
May 16 2002	178.28387	1.08710	1.08450	1.05967	1.02435
May 17 2002	178.31613	1.08729	1.08469	1.05986	1.02454
May 18 2002	178.34839	1.08749	1.08489	1.06005	1.02472
May 19 2002	178.38065	1.08769	1.08508	1.06024	1.02491
May 20 2002	178.41290	1.08788	1.08528	1.06043	1.02510
May 21 2002	178.44516	1.08808	1.08548	1.06063	1.02528
May 22 2002	178.47742	1.08828	1.08567	1.06082	1.02547
May 23 2002	178.50968	1.08847	1.08587	1.06101	1.02565
May 24 2002	178.54194	1.08867	1.08607	1.06120	1.02584
May 25 2002	178.57419	1.08887	1.08626	1.06139	1.02602
May 26 2002	178.60645	1.08906	1.08646	1.06158	1.02621
May 27 2002	178.63871	1.08926	1.08665	1.06178	1.02639
May 28 2002	178.67097	1.08946	1.08685	1.06197	1.02658
May 29 2002	178.70323	1.08965	1.08705	1.06216	1.02676
May 30 2002	178.73548	1.08985	1.08724	1.06235	1.02695
May 31 2002	178.76774	1.09005	1.08744	1.06254	1.02713

CPI-U (NSA) for : January 2002 177.1 February 2002 177.8 March 2002 178.8

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
May 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**		
May 1 2002	177.80000	1.00169	1.00133		
May 2 2002	177.83226	1.00187	1.00151		
May 3 2002	177.86452	1.00205	1.00169		
May 4 2002	177.89677	1.00224	1.00187		
May 5 2002	177.92903	1.00242	1.00205		
May 6 2002	177.96129	1.00260	1.00223		
May 7 2002	177.99355	1.00278	1.00242		
May 8 2002	178.02581	1.00296	1.00260		
May 9 2002	178.05806	1.00314	1.00278		
May 10 2002	178.09032	1.00333	1.00296		
May 11 2002	178.12258	1.00351	1.00314		
May 12 2002	178.15484	1.00369	1.00332		
May 13 2002	178.18710	1.00387	1.00351		
May 14 2002	178.21935	1.00405	1.00369		
May 15 2002	178.25161	1.00423	1.00387		
May 16 2002	178.28387	1.00442	1.00405		
May 17 2002	178.31613	1.00460	1.00423		
May 18 2002	178.34839	1.00478	1.00441		
May 19 2002	178.38065	1.00496	1.00460		
May 20 2002	178.41290	1.00514	1.00478		
May 21 2002	178.44516	1.00532	1.00496		
May 22 2002	178.47742	1.00551	1.00514		
May 23 2002	178.50968	1.00569	1.00532		
May 24 2002	178.54194	1.00587	1.00550		
May 25 2002	178.57419	1.00605	1.00569		
May 26 2002	178.60645	1.00623	1.00587		
May 27 2002	178.63871	1.00642	1.00605		
May 28 2002	178.67097	1.00660	1.00623		
May 29 2002	178.70323	1.00678	1.00641		
May 30 2002	178.73548	1.00696	1.00659		
May 31 2002	178.76774	1.00714	1.00678		

CPI-U (NSA) for : January 2002 177.1 February 2002 177.8 March 2002 178.8

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
April 15, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	April 18, 2002
Maturity Date:	July 18, 2002
CUSIP Number:	912795KS9

High Rate: 1.680% Investment Rate 1/: 1.712% Price: 99.575

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 99.26%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 25,852,004	$ 8,395,729
Noncompetitive	1,339,413	1,339,413
FIMA (noncompetitive)	265,000	265,000
SUBTOTAL	27,456,417	10,000,142 2/
Federal Reserve	4,219,599	4,219,599
TOTAL	$ 31,676,016	$ 14,219,741

Median rate 1.675%: 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 = 27,456,417 / 10,000,142 = 2.75

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,083,476,000

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

FOR IMMEDIATE RELEASE
April 15, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	April 18, 2002
Maturity Date:	October 17, 2002
CUSIP Number:	912795LF6

High Rate: 1.905% Investment Rate 1/: 1.950% Price: 99.037

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 54.94%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 23,643,750	$ 9,062,956
Noncompetitive	887,092	887,092
FIMA (noncompetitive)	50,000	50,000
SUBTOTAL	24,580,842	10,000,048 2/
Federal Reserve	3,898,839	3,898,839
TOTAL	$ 28,479,681	$ 13,898,887

Median rate 1.880%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.830%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 24,580,842 / 10,000,048 = 2.46

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $643,421,000

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TREASURY NEWS

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EMBARGOED UNTIL 10:30 A.M. EST
Tuesday, April 16, 2002

Contact: Tasia Scolinos
(202) 622-2960

Statement of Treasury Secretary Paul O'Neill
Customs-Trade Partnership Against Terrorism (C-TPAT)
Detroit, Michigan

Good afternoon. Thank you Commissioner Bonner, Governor Engler, and Governor Ridge. And Jack, it's great to be here with you today.

Since the attacks of September 11th we've insisted on a new level of security at our nation's borders to protect our homeland. And we created a new challenge for our economy - to adopt new security measures without reducing the productivity of American companies. I'm glad to be here today to commend the Customs Service and its private sector partners for rising to that challenge.

Over the past few decades, a key source of productivity growth in our economy has been our increasingly more efficient global supply chain management. American companies have pioneered rapid movement of goods and components around the globe, cutting their costs, increasing their responsiveness to shifts in demand, and making their inventories more flexible. Corporate confidence in the international supply chain is an obscure reality that most American consumers take for granted - but it underpins the low prices and high quality we have come to expect.

The Customs Trade Partnership Against Terrorism, C-TPAT, took the lead in developing new methods and procedures to improve both security and efficiency at our borders. This partnership is yet another example of the resilience and innovation that make the US economy the world leader and make me an optimist about our economic future.

You have already heard how the system works. C-TPAT businesses commit to pursuing the very best practices in supply chain security. They work with the Customs Service, and with their own suppliers, to design and implement secure procedures. In exchange, Customs assures them of faster, less costly import processing.

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Rather than just accept the conventional wisdom that there is an unavoidable trade off between efficiency and security, this new endeavor is an improvement in both. When we are at our best - both in government and in the private sector - we can accomplish anything we set our mind to. Let me congratulate the seven charter members here today for matching their sense of responsibility with their spirit of innovation to create C-TPAT. They have blazed a trail that we can expect many more American businesses and their suppliers to follow.

Thank you.

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EMBARGOED UNTIL DELIVERY
April 16, 2002

Contact: Tony Fratto
(202) 622-2960

Statement by John B. Taylor
Under Secretary of Treasury for International Affairs

before the

Subcommittee on Western Hemisphere, Peace Corps, Narcotics and Terrorism
of the Committee on Foreign Relations
United States Senate

Chairman Dodd, Ranking Member Chafee, members of the subcommittee, thank you for the opportunity to testify on relations between the United States and Mexico. As you requested I will focus on the Bush Administration's efforts to improve the performance and effectiveness of the North American Development Bank (NADBank) and its sister institution, the Border Environment Cooperation Commission (BECC).

In Monterrey, Mexico, last month, Presidents Bush and Fox announced a set of reforms to strengthen these institutions' ability to serve the people of the United States-Mexico border region. Today, I would like to discuss these reforms in some detail and elaborate on why they will make these institutions more effective.

I would note at the outset that these reforms should be viewed in the context of the Administration's broader initiative to improve the effectiveness the international financial institutions and to increase the value they deliver for the U.S. taxpayer. I look forward to working with the Congress on our broader international financial institution reform agenda, as well as on the reform proposals I will discuss with you today.

NADBank and BECC: Origins and Experience

The United States and Mexico established NADBank and BECC in 1993 for the purpose of helping border communities cope with the existing shortfall of environmental infrastructure and potential environmental pressures relating to the North American Free Trade Agreement in the US-Mexico border region. The two institutions perform separate, but related functions in furtherance of their common mission.

PO-2095

*U S Government Printing Office 1998 - 619-559

NADBank's role is to arrange financing for environmental infrastructure projects certified by BECC. BECC works with states and local communities to develop such projects for certification.

During its seven years of operation, BECC has certified 57 projects, with a total construction cost of $1.2 billion. During this same period, NADBank has committed $353 million in Environmental Protection Agency (EPA) grant funds for 37 of these projects.

Notwithstanding this activity, the institutions' overall performance has been inadequate and unsatisfactory. NADBank to date has approved only $23.5 million and disbursed only $11 million in loans to projects, despite having $405 million in authorized paid-in capital and a total lending capacity of $2.7 billion.

Experience has demonstrated that the NADBank-BECC structure does not work efficiently. Closely related work is conducted by two separate organizations under the governance of two separate executive boards. The results of this arrangement have included duplication of effort, increased transaction costs, and frequent misunderstandings. Many project sponsors and other stakeholders claim that the BECC-NADBank project approval process is overly complex, too time-consuming and duplicative, particularly (but not only) for small projects and those with private-sector sponsors. Especially frustrating for border state governments has been the overlap among federal, state, local and NADBank/BECC regulatory and environmental review requirements.

The Reform Initiative

President Bush has recognized the need for serious reform. He and President Fox of Mexico, who had also proposed reforms, discussed the subject on several occasions and, in September 2001, they agreed that "immediate measures were needed to strengthen the performance of the North American Development Bank (NADBank), and its sister Border Environment Cooperation Commission (BECC), to identify and fund environmental infrastructure projects on the border." They called for a binational working group to consult with key stakeholders and to develop joint recommendations on strengthening the institutions.

Members of the binational working group undertook broad consultations with state governments, local governments, national legislatures, non-governmental organizations and the public in the region. In the United States, the Treasury Department, the Environmental Protection Agency, and the State Department led the outreach efforts. An issues paper was distributed, including via internet, to Congressional staff, state and local governments, and the general public. Public hearings and meetings were held with state and local officials and Congressional staff. Comments received were seriously considered in developing the recommendations that were eventually endorsed by Presidents Bush and Fox in Monterrey last month.

The key recommendations are as follows:

Financial Instruments: To provide a greater level of financial flexibility so that its capital can be used more effectively, the governments have agreed to increase NADBank's ability to extend affordable financing. This will include doubling the size of NADBank's Low Interest Rate Lending Facility, from the $50 million level set in November 2000 to $100 million, and making $50 million of the Bank's paid-in capital available for grant financing.

Geographic Scope and Financial Differentiation: To expand the capacity of both institutions to address important binational environmental needs, the geographic scope for BECC/NADBank operations in Mexico will be expanded from 100 km to 300 km from the border. The geographic limit in the United States will remain unchanged at 100 km from the border.

To ensure that both institutions continue to focus on the priority environmental needs of the immediate border region, this geographic expansion will be coupled with a system of financial differentiation. Specifically, grant financing will be provided to the poorest communities located within the current border region of 100 km in both countries, and up to 25% of low interest rate lending may be made available for projects located between 100 km and 200 km in Mexico. Projects located between 200 km and 300 km in Mexico would be allowed to borrow at standard NADBank interest rates and receive normal technical assistance.

Private Sector: To expand the tools available for financing projects that, among other things, prevent and mitigate industrial pollution, conserve water, improve air quality, and recycle and reuse wastes, a more concerted effort will be made to certify and finance private sector environmental projects.

Organizational Structure and Process: To improve functional coordination and operational efficiency between BECC and NADBank, the two boards of directors will be replaced by a single board. The new board will have representation from the federal governments, the border states, and the public. In addition, a comprehensive "business process review" will be initiated to identify ways to improve the overall project design, certification and implementation process.

Support for Sectoral Reforms: Sectoral reforms aimed at enhancing the bankability of environmental infrastructure projects will be leveraged and supported both through technical assistance and policy reform conditionalities attached to project financing.

It is also important to note that the Presidents agreed that BECC and NADBank will remain focused on addressing environmental needs in the border region. The institutions will also continue to implement the agreement reached in November 2000 to expand the institutions' environmental mandate into areas including water conservation, air quality, and renewable energy, in addition to the original focus on clean water, the treatment of wastewater, and the handling of solid waste.

Improved Performance with the Reform Initiative

We believe that these reforms will improve the performance of both institutions in several ways:

First, the financial reforms will make NADBank financing more affordable and thus promote an increase in the Bank's project financing activities. The NADBank experience has demonstrated that its original financial framework is unsuited to the financing of environmental infrastructure in a region characterized by high rates of poverty and fundamental structural problems in the utility sector.

Second, the geographic expansion will give NADBank more opportunities to use its capital resources and thus address a greater scope of important environmental issues that affect communities on both sides of the border. For instance, NADBank will now be in a better position to undertake projects in Mexico that improve water use efficiency over a broader geographic area, thereby increasing water supply in shared rivers.

Third, NADBank and BECC should be able to work more effectively with the private sector on projects that will make economic development in the region more environmentally sustainable, which is a win-win proposition for both the environment and economic growth.

Fourth, a single Board of Directors should improve coordination and accountability in NADBank and BECC and will provide unified, consistent policy guidance to the management of both institutions. The Board will have the capacity to enforce the imperative that the management and staff of the two organizations must work together as a team if their common mission is to be achieved. Membership on the Board will reflect a broad range of interests and, for the first time, non-Federal board members will have a role in the decision-making processes of both institutions

Implementation of the Reforms

Implementing the agreed reforms will require great commitment by both governments. I am pleased that implementation efforts are already underway. EPA, State and Treasury have begun planning a time line for implementation, and have initiated discussions with their Mexican counterparts to this end. Important steps include the launching of the business process review, drafting amendments to the BECC-NADBank Charter, and submitting the necessary legislation to the two countries' respective legislatures.

As we proceed, we will continue to consult widely with stakeholders and interested parties. As these implementation efforts get underway, we will emphasize that management at both institutions continue to work hard to process new and existing project proposals to serve the urgent environmental needs of border communities. We will urge them, in the spirit of the reforms, to intensify their efforts to work together in a cooperative and collaborative manner.

Before I conclude, let me note one extremely important point. It is imperative that the Senate act on President Bush's call to begin consideration of Trade Promotion Authority (TPA) by April 22.

TPA will help complete both the Free Trade Area of the Americas and our broader multilateral trade agenda. Of particular importance to this Subcommittee is the renewal and expansion of the Andean Trade Preference Act (ATPA) that will likely be joined with TPA. A critical fact that is not well understood is that after ATPA expired, duties on products that would have qualified if not for the expiration of the program were deferred for ninety days. That deferral expires on May 16, at which time all of the duties deferred over those 90 days will be due. The Treasury Department estimates that duties were deferred on 50 percent of the trade that would have been duty-free under the program. It will bring serious duress to U.S. businesses and our Andean partners if all of those duties have to be paid on May 16. And without question, TPA will be a great confidence-builder for the U.S. and the global economy. For all of these reasons I urge the Senate to expeditiously consider TPA.

To sum up, I appreciate the opportunity to discuss NADBank reform and the U.S. Mexico relationship with you today. We intend to submit a legislative proposal to Congress soon and look forward to working closely with you as we proceed to make these reforms a reality. I welcome your views, suggestions, and your questions. Thank you very much.

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TREASURY NEWS

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For Immediate Release
April 16, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY FINALIZES AND FURTHER SIMPLIFIES RETIREMENT PLAN DISTRIBUTION RULES

Today, the Treasury Department continued the job of simplifying the minimum distribution rules for IRA holders and retirement plan participants over age 70½. Treasury and the IRS have finalized the required minimum distribution rules proposed in January of 2001. The 2001 proposed regulations were extremely well received by employers, retirees, and plan administrators alike. In addition to finalizing those rules, today's regulations make numerous improvements in response to public comments.

"This is truly good news for the retirement system," stated William Sweetnam, Treasury Department Benefits Tax Counsel. "These rules make it simple for older Americans and their families to determine their annual required minimum distributions and greatly reduce the compliance burden for qualified plan administrators. The final rules also satisfy our obligation under the Economic Growth and Tax Relief Reconciliation Act of 2001 to modify the life expectancy tables to reflect current life expectancy."

In addition to finalizing the minimum distribution rules, temporary and proposed regulations are being issued to provide guidelines for distributions that will be made from annuities. By issuing these guidelines as temporary and proposed regulations, taxpayers will have the same chance to comment as they had on the simplification of the rules for individual accounts.

In order to assist older Americans in meeting their minimum distribution obligations, the rules include a reporting requirement for IRA trustees. As described in a notice being issued in conjunction with the new guidance, beginning in 2003, IRA trustees will be required to report the amount of the required distribution to IRA owners or offer to calculate the amount for the owner.

Treasury and the IRS have made the rules as flexible as possible for 2002. For this year, taxpayers may use the new rules, the 2001 proposed rules, or the 1987 proposed rules to determine their required minimum distributions.

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FOR IMMEDIATE RELEASE
April 16, 2002

Contact: Public Affairs
(202) 622-2960

MEDIA ADVISORY:
UNITED STATES AND KINGDOM OF THE NETHERLANDS WILL SIGN TAX INFORMATION EXCHANGE AGREEMENT WITH RESPECT TO THE NETHERLANDS ANTILLES ON WEDNESDAY

Treasury Secretary Paul H. O'Neill will hold the United States-Netherlands Antilles tax information exchange agreement signing ceremony at 3:30 p.m. EST on Wednesday, April 17, 2002 in the Treasury Department's Diplomatic Reception Room (Room 3311), 1500 Pennsylvania Avenue, NW. Treasury Secretary O'Neill and Prime Minister of the Netherlands Antilles Miguel Pourier will be signing the tax information exchange agreement.

The Room will be available for pre-set at 2:30 p.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 faxed to (202) 622-1999.

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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
April 16, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	April 18, 2002
Maturity Date:	May 16, 2002
CUSIP Number:	912795JU6

High Rate: 1.690% Investment Rate 1/: 1.710% Price: 99.869

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 29.68%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 32,083,954	$ 13,977,714
Noncompetitive	22,568	22,568
FIMA (noncompetitive)	0	0
SUBTOTAL	32,106,522	14,000,282
Federal Reserve	2,810,177	2,810,177
TOTAL	$ 34,916,699	$ 16,810,459

Median rate 1.670%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.640%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 32,106,522 / 14,000,282 = 2.29

1/ Equivalent coupon-issue yield.

http://www.publicdebt.treas.gov

PO-2098

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Embargoed Until 1:00 p.m. EDT
April 17, 2002

Contact: Tasia Scolinos
(202) 622-2960

UNDER SECRETARY FOR ENFORCEMENT JIMMY GURULÉ TESTIMONY BEFORE THE SENATE APPROPRIATIONS COMMITTEE SUBCOMMITTEE ON TREASURY AND GENERAL GOVERNMENT

Chairman Dorgan, Ranking Member Campbell, 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. It is indeed an honor to appear before you this week 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 afternoon are Bradley A. Buckles, Director of the Bureau of Alcohol, Tobacco and Firearms (ATF), James F. Sloan, Director of the Financial Crimes Enforcement Network (FinCEN), Brian L. Stafford, Director of the United States Secret Service (USSS), and Paul Hackenberry, Acting Director of the Federal Law Enforcement Training Center (FLETC). Tomorrow, I will be joined by Robert C. Bonner, Commissioner of the United States Customs Service (Customs).

I am pleased to note that this week's hearings are the first time this Subcommittee will hear from five, rather than four, Treasury Enforcement bureaus, since FinCEN recently was authorized as a bureau within Treasury Enforcement with enactment of the USA PATRIOT Act. I take this opportunity to thank the members of this Subcommittee for your support of this provision and the many new tools which the USA PATRIOT Act provided to the Treasury Department to fight terrorism and dismantle and disrupt terrorist financing.

The President's FY 2003 budget seeks a program level of $5.497 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 11th 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.

PO-2099

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

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.

In response to the terrorist attacks of September 11th, Congress provided essential FY 2002 emergency appropriations of $674.1 million to the Treasury Enforcement bureaus: approximately $428.6 million to Customs; $141.5 million to the Secret Service; $31.4 million to ATF; $31.5 million to FLETC; and $1.7 million to FinCEN. 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.

Over the next two days, the Subcommittee will hear from the Treasury Enforcement Bureau Directors regarding their respective bureaus' new initiatives and programs. 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 due, in large part, to the support that this Subcommittee and the Congress have provided us both before and in the aftermath of September 11th.

We have all been deeply affected by the horrific acts of that day. 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." 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, the Federal Bureau of Investigation (FBI), State Department, the intelligence community and the Defense Department. Specific examples of our close cooperation include joint activities in the September 11th 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 U.S. Government'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[1], narcotics traffickers, and money launderers.

Disrupting and Dismantling Terrorist Financing

Since September 11th, 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 192 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 made 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-terrorism 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.

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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.

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 will recall, the Foreign Terrorist Asset Tracking Center (FTAT) was in the process of being organized and staffed when the terrorist attacks of September 11th occurred. In fact, the Financial Crimes Enforcement Network (FinCEN) had already been staffed for the purpose of providing analytical support to the interagency FTAT and was supplying the product of that staffing to the Office of Foreign Assets Control (OFAC). Immediately following the attacks, the Treasury Department helped to accelerate the development of the interagency FTAT by establishing a temporary operational presence within the secure environment of FinCEN. The unit quickly began to serve as an analytical center for combating the problem of terrorist financing.

Section 906 of the USA PATRIOT Act requires that the Director of the CIA, the Attorney General and the Secretary of the Treasury jointly file a report on the "feasibility and desirability" of reconfiguring FTAT. This matter was reviewed by senior government officials, including the Principals Committee of the National Security Council. Based on that review, a decision was made to move and reconfigure FTAT to ensure it was fully integrated into the ongoing terrorist financing activities of other agencies. Treasury will continue its support of FTAT and its broader efforts to disrupt and dismantle terrorist financing.

Blocking Assets

One of the higher profile results of OFAC analysis 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[2] operation, with locations in the United States and in 40 countries, that was used to finance and support terrorists around the world.[3] 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.

[2] A hawaladar is an entity that engages in hawala transactions.
[3] 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.

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.

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.

Joint Designations

On March 11th, on the six month anniversary of the September 11th attacks, the Treasury Department, joined by the Saudi government, took a new step in the war on terrorist financing by making its first joint designation of a financial supporter of terrorism. Prior to that date, Treasury received significant cooperation from other countries in blocking accounts of those named by the United States, and our European allies have made designations of their own. The joint blocking action on March 11th is especially significant for it is a sign of the growing strength of the anti-terror coalition and marks a new level of international coordination and cooperation.

Treasury and the Saudi government blocked the accounts of the Somalia and Bosnia-Herzegovina branches of the Saudi Arabia-based Al-Haramain Islamic Foundation. While the Saudi headquarters for this private charitable entity is dedicated to promoting Islamic teachings, Treasury and our Saudi Arabian allies determined that those specific branches of Al-Haramain have been engaged in supporting terrorist activities and terrorist organizations such as al-Qaeda, AIAI (al-Itihaad al-Islamiya), and others.

Last month, Treasury Secretary O'Neill visited the Persian Gulf region, where he had the opportunity to meet with King Fahd and Crown Prince Abdullah, others in the Saudi government, and the leadership in Bahrain, Kuwait and the UAE. Throughout the region, the Secretary encountered a clear understanding that the September 11th attacks were not only an attack on the United States, but were an attack on the civilized world. These governments' leaders assured Secretary O'Neill that they, like others in the world, are doing what they can to cut off terrorists' access to funds, wherever those funds are found.

This action also highlights the special need to safeguard charities, so that well-intentioned donors can be assured that their donations will be used only for their intended good purposes, and not for acts of terrorism.

During his trip to the Gulf, Secretary O'Neill underscored that misusing charity funds to support terrorism harms the people who gave the donation, harms the people who should have received it and is dangerous to us all. The Treasury Department is committed to finding those organizations that use charities to fund terrorists or terrorist acts, exposing them, and shutting them down.

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 Enforcement 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 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 12 arrests, 4 indictments, the seizure of nearly $4 million, and bulk cash seizures -- cash smuggling -- of over $11 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 OFAC. 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, FinCEN, the FBI, 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 Egmont Group -- 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.

The Treasury Department, in conjunction with the Departments of Justice and State, hosted an Extraordinary Plenary session of the Financial Action Task Force in Washington, D.C., at the end of October 2001 to address terrorist financing. This meeting was immediately followed by a meeting of the Egmont Group to discuss information sharing and terrorism. At the plenary session, FATF established eight Special Recommendations regarding terrorist financing which represent an important step to establishing a global regime to cut terrorists off from the international financial system.

These new Recommendations were endorsed by countries throughout the world at a special FATF Forum on Terrorist Financing held in February and attended by over 55 jurisdictions. Moving forward, FATF, with the strong support of the U.S., is now leading a global effort to bring all countries in compliance with these new standards. The U.S. has recently completed a self-assessment questionnaire against these standards, which is posted on the Treasury web site. In June, FATF will begin to consider a process with respect to countries that are not cooperating in the international effort against terrorist financing.

While countering terrorist financing is a Treasury Enforcement priority, we are also committed to preventing terrorist acts on 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.

U.S. Secret Service

The U.S. Secret Service protects the Nation's top leaders, combats financial fraud, protects the integrity of the financial systems against cyberattacks, and leads the effort to ensure the safety of thousands of citizens participating in designated National Special Security Events (NSSEs). We have seen the stellar work of the Secret Service in providing security for two recent NSSEs – the Super Bowl and the Winter 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.

U.S. Customs Service

The U.S. 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 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 Deputy Prime 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.

A similar Smart Border Accord is now in place for the U.S.-Mexico border. On March 22, 2002, President Bush and President Fox announced in Monterrey, Mexico, a 22-point agreement to build a smart border for the 21st century between our two countries. In their joint announcement, President Bush stated, "President Fox and I are determined to make our shared border modern, efficient, and secure. The Smart Border Declaration our countries have just signed will move us toward this important goal. Our common border must be closed to drugs and terrorists, and open to trade and legitimate travel." The U.S. Customs Service and the Treasury Department will play a key role in implementing this important Smart Border Accord.

Bureau of Alcohol, Tobacco and Firearms

The President's budget 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 also played a significant role in the security of the Winter Olympics. For several years, ATF 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.

Federal Law Enforcement Training Center

The Federal Law Enforcement Training Center, known as FLETC, conducts the training for the vast majority of the Federal Government's law enforcement personnel. FLETC is projecting the greatest increase in training requirements in its history as it responds in full measure to the September 11th attacks.

In the days following September 11th, 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.

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.

FinCEN

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 its new responsibilities under the USA PATRIOT Act of 2001.

Immediately after the tragedy of September 11th, FinCEN redirected approximately 30 percent of its resources to the initial investigation of the terrorist attacks.

Those efforts included: establishing a 24-hour operation center to enhance liaison with the FBI Counter-terrorism Center; establishing a telephone hotline for financial institutions to report suspicious activity; facilitating a multi-agency effort using their specialized tools and secure facility; and developing valuable investigation referrals and financial lead information by redirecting 100 percent of its intelligence liaison office to that effort.

On November 7, 2001, President Bush, Treasury Secretary O'Neill, Secretary of State Powell and Attorney General Ashcroft visited the FinCEN offices where the President thanked all of the FinCEN employees for their work on the front lines in the war against terrorist financing. At that time, the President stated: "We put the world's financial institutions on notice: if you do business with terrorists, if you support them or sponsor them, you will not do business with the United States of America." FinCEN plays a critical role in this effort and will continue to provide this invaluable service to our Nation.

IRS Criminal Investigation

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 11th, 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 USA PATRIOT Act, such as the provision that terminated the relationship between U.S. financial institutions and shell banks.

The Office of Enforcement is overseeing the progress and development of the six High Intensity Money Laundering and Related 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. I am confident the HIFCAs will play a significant role in our anti-money laundering efforts.

At this point, I take the opportunity to highlight for the Subcommittee the recent success of Operation Wire Cutter, a 2 ½-year joint DEA/Customs 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, 2002, 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 El Dorado Task Force, operating out of the office of the U.S. Customs Service Special-Agent-in-Charge in New York, played an important role in this law enforcement operation.

The Multinational Black Market Peso Exchange (BMPE) 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. Last month a joint statement was issued 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 closely 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.

Reducing Firearms Violence

One of the top priorities of the Bush Administration is to make a lasting reduction in the gun crime rate in America. Last May the President announced Project Safe Neighborhoods, a comprehensive approach that targets violent offenders and crime guns.

Project Safe Neighborhoods has been implemented by U.S. Attorneys across the country, working in partnership with communities and state and local law enforcement. The strategy has five components: 1) Partnership/Coordination; 2) Strategic Planning; 3) Training; 4) Community Outreach and Public Awareness; and 5) Accountability. Stronger relationships among Federal prosecutors and agents with their state and local counterparts has strengthened their ability to identify, investigate and prosecute gun violence.

The Treasury Department, through its Bureau of Alcohol, Tobacco and Firearms, plays an integral role in implementing Project Safe Neighborhoods through its Integrated Violence Reduction Strategy (IVRS). The strategy provided additional resources to ATF to add new agents, inspectors and support staff to enhance its enforcement and investigation of firearms violations and efforts to reduce violent crime.

Under IVRS/Project Safe Neighborhoods, ATF has a broader impact in target cities by educating police departments about the effectiveness of crime gun tracing and firearms trafficking. ATF supports Project Safe Neighborhoods through the excellent work of its National Tracing Center, which performs traces of crime guns, and its Youth Crime Gun Interdiction Initiative.

Countering Narcotics

One of Treasury Enforcement's highest priorities is reducing the supply of dangerous drugs entering the United States. It is also one of our most difficult challenges. We are confronted by well-financed criminal organizations that adapt quickly to every advance we make in the detection of illegal drugs. Moreover, interdiction is only one piece of a comprehensive drug control strategy that includes eradication of drug production abroad, sanctions against drug kingpins, investigation and disruption of trafficking activities within the United States, treatment of drug users, and, as mentioned above, combating money launderers.

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 a comprehensive and balanced response to that 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 support of Plan Colombia is an integral part of the U.S. Government's programs aimed at strengthening the justice sector and financial infrastructure throughout Colombia. The Emergency Supplemental provided funding to the State Department under the provisions of the Foreign Assistance Act, by which State transfers authority to Treasury and its components for 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 the Subcommittee's 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

The United States is the world's largest exporting and importing country, and the volume of both exports and imports is growing rapidly. Over the five-year period from 1994 to 1999, the dollar value of exports increased by over a third (about 36 percent). During the same period the dollar value of imports increased by more than half (about 51 percent). These increases translate into increased workload for the Customs Service.

Our trade with other nations is vital to our economic strength and our standard of living, and we want to do everything we can to ensure that the movement of trade across our borders is as expeditious as possible. At the same time, however, we recognize our responsibility to assure Congress and the American public that laws enacted to protect public health and safety, as well as other interests, are being effectively enforced at the border.

Treasury Enforcement's 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 11th, their advice focused on trade facilitation. After September 11th, I requested COAC's input on border security and the role the private sector can play in increasing cargo security. Utilization of the group's expertise provides a unique opportunity to examine synergies between enhanced cargo security and the private sector concern that the smooth flow of trade not be impeded unnecessarily due to increased security concerns.

The COAC produced an excellent report in January with 60 recommendations. Many of these have already been implemented, and others are under close examination by Customs and Treasury officials. Three COAC members also have 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 Secretary O'Neill's goal of Treasury becoming a results-driven world class 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 status and become an organization that is performance-driven with specific, measurable results linked to investment of resources. In working towards this goal, the Department emphasizes the importance of leadership, accountability, integrity, improving the work environment, and giving employees the tools they need to do their jobs with excellence.

Enforcement Organization

The Office of the Under Secretary for 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 11th environment. In coordination with the Treasury Department's leadership, we have implemented 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 11th 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 roles 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 11th, 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, Treasury's law enforcement bureaus support two other Treasury strategic goals through the following 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 example, 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, the 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, disrupting and dismantling 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.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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U.S. International Reserve Position 4/17/02

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $67,907 million at the end of the latest week, compared to $68,035 million at the end of the prior week.

In US millions)

. Official U.S. Reserve Assets		April 5, 2002			April 12, 2002		
	TOTAL		**68,035**			**67,907**	
. Foreign Currency Reserves [1]		Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities		5,359	10,119	15,478	5,263	10,092	15,354
Of which, issuer headquartered in the U.S.				0			0
b. Total deposits with:							
b.i. Other central banks and BIS		9,206	4,219	13,425	9,197	4,207	13,404
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]				17,239			*17,249*
Special Drawing Rights (SDRs) [2]				10,849			*10,856*
Gold Stock [3]				11,044			11,044
Other Reserve Assets				0			0

/ 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 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 ollar terms at the official SDR/dollar exchange rate for the reporting date. The entries in the table above for latest week (shown in italics) eflect any necessary adjustments, including revaluation, by the U.S. Treasury to the prior week's IMF data. The IMF data for the prior week re final.

' Gold stock is valued monthly at $42.2222 per fine troy ounce.

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For Immediate Release
Wednesday, April 17, 2002

Contact: Rob Nichols
202-622-2910

Deputy Treasury Secretary Kenneth W. Dam
Remarks for the Tax Foundation
Annual Federal Tax, Budget and Legislative Policy Seminar
Washington, DC

Good afternoon.

I am quite pleased to speak to you this afternoon. The Tax Foundation is an important forum, especially for the Treasury, which has a profound interest in the quality of our income tax rules and procedures.

I want to talk to you about the three main components of President Bush's tax policy:
- tax relief, or reduction;
- tax code simplification; and
- tax law enforcement.

I will discuss each of these, with my emphasis on our new simplification proposals.

First, tax relief.

I don't have to remind this audience how important the President's historic tax program is. The June 2001 Economic Growth and Tax Relief Act put $36 billion of tax refunds into the hands of consumers last summer and fall – just when we needed it the most, at the nadir of the slowdown. It cut the 15 percent income tax bracket to 10 percent, benefiting every worker who pays income taxes. As the full package phases in over the next few years, all marginal tax rates will fall – this is the first, across-the-board tax cut since the World War II. Further, over the next 10 years, the child credit will double, up to $1,000 per child, and the marriage penalty will be dramatically reduced. The death tax will be completely abolished.

All told, 104 million individuals and families will get an average tax cut of about $1,040.

This year, we reduced taxes further. Last month, the President signed into law new tax incentives for companies to invest in new plants and equipment, to speed the economy's return to strong growth.

PO-3001

This historic reduction in taxes is important because of what it means for our economy. It increases incentives for growth by allowing individuals to keep more of the fruits of their labor. It also allows businesses to allocate more of their resources toward the most rewarding investment opportunities, thereby increasing productivity and growth potential.

As you know, this tax reduction is only temporary. After ten years, the high rates, the estate tax, and the marriage penalty will spring to life, Lazarus-like. As the President said on Monday, in Cedar Rapids, that doesn't make sense. 80% of businesses in this country pay taxes at the individual rates. How can a family business plan for the future, how can it make investments in productivity-increasing technology, when it doesn't know what its tax rates will be 10 years from now? We should make the tax relief permanent.

Tax complexity imposes high compliance costs on taxpayers. Some compliance costs arise out of the very nature of an income tax and its need to measure people's income. Other compliance costs are due to the use of the income tax to achieve various social and economic policies. The process of recording and calculating on tax forms is only one dimension of complexity and taxpayer burden. Another is the record-keeping that must occur throughout the year in many cases. Collecting receipts and maintaining files are certainly not beyond the abilities of the vast majority of taxpayers. But the amount of such activity, along with the other dimensions of tax complexity, reach onerous levels few taxpayers find acceptable. Thus, tax complexity threatens to diminish taxpayer compliance.

Tax complexity also raises the cost of administering the tax system, and taxpayers pick up the tab. The IRS must devote additional resources to provide help for taxpayers, develop regulations, and audit and otherwise correct mistakes in taxpayers' returns. These additional costs are paid for by taxpayers. Many taxpayers must resort to assistance from lawyers, accountants, and other services just to wade through the morass of the tax code. Assuming that it is OK for the well-to-do, how is it justified for the poor, such as those who cannot wade through the 52 page instruction booklet for the byzantine earned income tax credit. Complexity also erodes the ability of the IRS to enforce the tax laws by focusing on real problem areas, and leaving honest taxpayers alone.

Americans pay in other ways, as well. Every business and employer, large or small, must bear the cost of tax code compliance – the paperwork, the accounting bills, and the lawyer's fees. And the products we all buy might well be cheaper, better, or more plentiful if the compliance costs could be reduced.

In addition to the direct costs associated with tax complexity, namely the compliance and administrative costs, tax complexity imposes a substantial drag on the economy in other ways. For example, as tax complexity increases, taxpayers are less likely to predict accurately the tax consequences of their decisions. An inability to predict tax consequences confidently leads to a greater sense of uncertainty about those decisions. This uncertainty can affect important business and family decisions, such as buying a home or car, hiring a new worker, or saving for retirement or for education.

For these reasons, we support tax simplification proposals that meet four essential principles:

Fairness. Americans want to know that the person down the street or across town is paying his or her fair share.

Simplicity. Average taxpayers should not find it necessary to hire a tax preparer. Nor should they miss deductions and credits because they don't know about them or because they are too complicated, with all the phase-out rules, to evaluate.

Clarity. People want to understand their tax obligations and know exactly what they owe. The tax code and the tax burden should be clear to the taxpayer, without the need for extra help.

Ease. The tax code costs too much to comply with and too much to administer. This burden is a drag on the economy and costs jobs. We need a tax code that is simpler, easier to understand, and less costly.

To simplify the tax code means to:
- Reduce taxpayer compliance costs and paperwork.
- Reduce IRS administrative costs.
- Reduce tax distortions that impair economic growth.
- Improve the readability, predictability, objectivity, and transparency of the law.
- Reduce the need for interactions between taxpayers and the IRS to resolve disputes.
- Improve taxpayers' compliance with and confidence in the tax system.
- Eliminate outdated provisions or rules.

This week, we began releasing a series of proposals to simplify the tax code. These proposals will first focus on individuals. Subsequent proposals will focus on businesses.

The first group of proposals will address the tax treatment of families and children. Topics will include:
- Uniform definition of a qualifying child,
- Determining taxpayers' filing status (e.g., head of household),
- Earned Income Tax Credit, and
- Taxation of dependents.

The first proposal, which we released earlier this week, concerns a unified definition of "child." In the current Code, there are five major provisions that provide tax relief to families with children, and there are five different definitions of a qualifying child.

The five provisions are:
- the dependent exemption,
- the definition associated with Head of Household filing status,
- the Child Tax Credit,
- the Dependent Care Tax Credit, and
- the Earned Income Tax Credit.

To see how complexity and conceptual redundancy can confuse a taxpayer, consider the example of a shared household. Now it is possible for three different family members, who live together for a full year, to claim the same child for at least four different tax benefits:

- The grandmother who provides more than half the costs of maintaining the home in which the child resides could claim head of household filing status;
- The child's aunt who provides over half the child's support and cares for the child as her own may claim the dependency exemption and the child tax credit; and
- The child's mother may claim the EITC.

Yet, none of these women may claim the child and dependent care tax credit, even if they work and pay for the care of the child. To claim that credit, one taxpayer must both support the child and maintain the household in which she and the child reside. Under our proposal, the child's mother (or if the family prefers, the grandmother or aunt) could claim all four tax benefits.

In the coming weeks, we'll be releasing additional proposals to simplify the tax code, both for individuals and for businesses. Businesses spend countless hours battling the IRS over timing of deductions -- not whether or not a cost is deductible, just whether the deduction can be taken this year or next. As with most regulations, the burden falls disproportionately on smaller business owners, who can't afford a whole tax department to muddle through these questions.

As we reduce the tax burden on our economy, and simplify the code, we are taking new steps to make sure that all taxpayers are paying their fair share.

We have already started introducing proposals to combat abusive tax avoidance, strategies that deliberately violate the spirit of our laws. These transactions are unfair to the vast majority of taxpayers, who do their best to comply with the code, even with its difficulties.

Tax policy is a high priority for this Administration, and for the United States Treasury in particular. We hope to bring to the United States taxpayers the kind of tax rate, tax code, and enforcement fairness that they deserve.

Thank you.

-30-

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
April 17, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Statement of Treasury Assistant Secretary for Financial Markets Brian Roseboro on the Debt Limit

G-Fund beneficiaries made whole

On April 4, in order to protect the full faith and credit of the United States, Treasury was required to use measures that Congress provided specifically to keep outstanding Treasury debt within the statutory debt limit. These actions were necessary because Congress has not yet enacted legislation to raise the debt ceiling above the current $5,950 billion.

As Secretary O'Neill informed Congress on April 2, the Treasury would use its statutory authority on April 4 to suspend investments in the Government Securities Investment Fund (the "G-Fund"), just as Secretary Rubin did in 1995. This period was estimated to extend from April 4 to about April 18. The Secretary emphasized that this action would not affect G-Fund beneficiaries.

Yesterday, April 16, with new revenues, the Treasury was able to fully restore the G-Fund, including full credit for all foregone interest. From the perspective of G-Fund beneficiaries, it is as if nothing happened.

Permanent $750 billion increase needed soon

The Federal Government will confront the debt ceiling again this summer, unless Congress raises the debt ceiling beforehand. On June 28, for instance, the Treasury must pay about $65 billion in interest to the Social Security trust fund. Current projections estimate reaching it again in the second half of June. A revised estimate will be made in early May, after analyzing the April tax receipts.

This summer, similar stop-gap measures will not be sufficient to avoid reaching the debt limit. We hope that Congress will enact the $750 billion permanent increase as soon as possible, and we will continue to work with Congress to achieve that goal. We will also work to maintain our regular and predictable auction calendar.

PO-3002 -30-

LETTER FROM SECRETARY O'NEILL TO CONGRESS ON THE DEBT LIMIT

The Honorable Max Baucus
Chairman
Committee of Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I wrote on April 2 to inform Congress that, in order to protect the full faith and credit of the United States government, by reason of the public debt limit I would be unable to fully comply with the requirements of 5 U.S.C. § 8438(e), beginning on April 4, 2002 and ending on or about April 18. The statute grants the Secretary of the Treasury explicit authority to suspend investment in the Government Securities Investment Fund ("G-Fund") to avoid breaching the statutory debt limit.

As the April 2 letter noted, "G-Fund beneficiaries are fully protected and will suffer no adverse consequences from this action. The statute ensures that once the Secretary of the Treasury can make the G-Fund whole without exceeding the public debt limit, he is to do so. Under the governing law in this case, the G-Fund will receive complete restoration of all funds temporarily affected by this necessary action, including full and automatic restoration of any interest that would have been credited to the Fund."

Today, I am writing to notify you that recent revenues have enabled the Treasury to fully restore the G- Fund as required by law. The G-Fund and its beneficiaries are now in the same financial position as if investments had never been suspended, including a full credit for interest owed. Please find enclosed a report of G-Fund status and operations in accordance with statutory requirements.

The need to raise the debt ceiling has only been postponed. Current projections estimate reaching it again in the second half of June. A revised estimate will be made in early May, after analyzing the April tax receipts.

This summer, similar stopgap measures will not be sufficient to avoid reaching the debt limit. Therefore, I urge you to enact the President's request for a $750 billion permanent increase in the debt ceiling as soon as possible.

Sincerely,

Paul H. O'Neill

Enclosure

PO-3003

Report on the Operation and Status of the Government Securities Investment Fund April 4 to April 16, 2002 Pursuant to 5 U.S.C. § 8438(h)

April 17, 2002

On April 4, 2002, Treasury's outstanding debt reached the statutory limit of $5,950 billion. In order to protect the full faith and credit of the United States, the Secretary of the Treasury from April 4 employed statutory authority to suspend investment in the Government Securities Investment Fund (G-Fund) of the Federal Employees' Retirement System. On April 16, 2002, additional revenues enabled the Treasury to reduce the debt subject to limit to below $5,950 billion, and rendered further suspensions unnecessary.

Legal authority. Section 8438(g)(1) of Title 5, United States Code, empowers the Secretary of the Treasury to "suspend the issuance of additional amounts of obligations of the United States [in this fund], if such issuances could not be made without causing the public debt of the United States to exceed the public debt limit." The statute defines the period of this suspension as a "debt issuance suspension period." § 8438(g)(6)(B).

Reporting requirement. Section 8438(h) requires submission of a report to Congress on the operation and status of the G-Fund during this period. The report is to be made "as soon as possible after the expiration of such period, but not later than 30 days after the first business day after the expiration of such period." § 8438(h)(2). This document fulfills the requirement of U.S.C. § 8438(h). A copy is being concurrently transmitted to the Executive Director of the Federal Retirement Thrift Investment Board.

Restoration requirement. Section 8438(g) requires the Secretary, immediately upon expiration of such a period, to make the G-Fund whole. Treasury must issue obligations sufficient to ensure that the G-Fund's portfolio replicates what it would have been upon the expiration of the period, as if the suspension had not occurred. § 8438(g)(3). Treasury must also pay the G-Fund for the interest that the G-Fund would have earned. § 8438(g)(4).

Status and operations. Throughout this period, a fraction of the G-Fund's holdings could not be re-invested without exceeding the debt limit. Treasury has now replicated the portfolio the G-Fund would have held but for the suspension; and has paid the G-Fund $27,696,703.42 for interest it would have earned, accounting for receipts and withdrawals.

The following table details the daily and cumulative amounts of G-Fund principal and interest that were suspended and restored:

	Principal		Interest	
	Daily (Suspension) or Restoration	Cumulative (Suspension)	Daily (Suspension) or Restoration	Cumulative (Suspension)
April 4, 2002	($13,694,786,000)	($13,694,786,000)	($2,139,810)	($2,139,810)
April 5, 2002	($25,066,000)	($13,719,852,000)	($6,432,184)	($8,571,994)
April 8, 2002	($958,733,000)	($14,678,585,000)	($2,294,868)	($10,866,862)
April 9, 2002	$233,252,000	($14,445,333,000)	($2,258,781)	($13,125,644)
April 10, 2002	$1,741,598,000	($12,703,735,000)	($1,987,010)	($15,112,653)
April 11, 2002	($5,983,197,000)	($18,686,932,000)	($2,922,195)	($18,034,848)
April 12, 2002	$188,474,000	($18,498,458,000)	($8,679,606)	($26,714,454)
April 15, 2002	$12,238,775,000	($6,259,683,000)	($982,250)	($27,696,703)
April 16, 2002	$6,259,683,000	**$0**	$27,696,703	**$0**

With restoration on April 16 of $6,259,683,000 in principal and $27,696,703 in interest, the G-Fund was fully restored to the condition it would have been in had there not been a suspension.

Sincerely,

Brian C. Roseboro
Assistant Secretary of the Treasury for Financial Markets

* Interest calculated on principal and on prior due interest.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

April 17, 2002
PO-3003

LETTER FROM SECRETARY O'NEILL TO CONGRESS ON THE DEBT LIMIT

The Honorable Max Baucus
Chairman
Committee of Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I wrote on April 2 to inform Congress that, in order to protect the full faith and credit of the United States government, by reason of the public debt limit I would be unable to fully comply with the requirements of 5 U.S.C. § 8438(e), beginning on April 4, 2002 and ending on or about April 18. The statute grants the Secretary of the Treasury explicit authority to suspend investment in the Government Securities Investment Fund ("G-Fund") to avoid breaching the statutory debt limit.

As the April 2 letter noted, "G-Fund beneficiaries are fully protected and will suffer no adverse consequences from this action. The statute ensures that once the Secretary of the Treasury can make the G-Fund whole without exceeding the public debt limit, he is to do so. Under the governing law in this case, the G-Fund will receive complete restoration of all funds temporarily affected by this necessary action, including full and automatic restoration of any interest that would have been credited to the Fund."

Today, I am writing to notify you that recent revenues have enabled the Treasury to fully restore the G- Fund as required by law. The G-Fund and its beneficiaries are now in the same financial position as if investments had never been suspended, including a full credit for interest owed. Please find enclosed a report of G-Fund status and operations in accordance with statutory requirements.

The need to raise the debt ceiling has only been postponed. Current projections estimate reaching it again in the second half of June. A revised estimate will be made in early May, after analyzing the April tax receipts.

This summer, similar stopgap measures will not be sufficient to avoid reaching the debt limit. Therefore, I urge you to enact the President's request for a $750 billion permanent increase in the debt ceiling as soon as possible.

Sincerely,

Paul H. O'Neill

Enclosure

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.
April 17, 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 $24,218 million of publicly held notes maturing April 30, 2002, and to raise new cash of approximately $782 million.

In addition to the public holdings, Federal Reserve Banks hold $7,648 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 $743 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-3004

LIGHTS OF TREASURY OFFERING TO THE PUBLIC OF
2-YEAR NOTES TO BE ISSUED APRIL 30, 2002

April 17, 2002

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

Description of Offering:

Term and type of security	2-year notes
Series	M-2004
CUSIP number	912828 AB 6
Auction date	April 24, 2002
Issue date	April 30, 2002
Dated date	April 30, 2002
Maturity date	April 30, 2004
Interest rate	Determined based on the highest accepted competitive bid
Yield	Determined at auction
Interest payment dates	October 31 and April 30
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 GY 7
Due date(s) and CUSIP number(s) for additional TINT(s)	April 30, 2004 - - 912833 YT 1

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 daylight saving time on auction day.

Competitive tenders:

Prior to 1:00 p.m. eastern daylight saving 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

EMBARGOED UNTIL 9:00 A.M.
April 17, 2002

PUBLIC CONTACT: Office of Financing
202-691-3550
MEDIA CONTACT: Office of Public Affairs
202-622-2960

TREASURY ANNOUNCES DEBT BUYBACK OPERATION

On April 18, 2002, the Treasury will buy back up to $750 million par of its outstanding fixed-principal issues that mature between February 2015 and November 2018 and $250 million par of its outstanding inflation-indexed issues that mature between April 2028 and April 2032. Treasury reserves the right to accept less than the announced amount.

This debt buyback (redemption) operation will be conducted by Treasury's Fiscal Agent, the Federal Reserve Bank of New York, using its Open Market operations system. Only institutions that the Federal Reserve Bank of New York has approved to conduct Open Market transactions may submit offers on behalf of themselves and their customers. Offers at the highest accepted price for a particular issue may be accepted on a prorated basis, rounded up to the next $100,000. As a result of this rounding, the Treasury may buy back an amount slightly larger than the one announced above.

Note: On the settlement date, securities should be delivered to the Federal Reserve Bank of New York using the following delivery address: ABA Number 021089482 US TREAS BUYBACK/6000.

This debt buyback operation is governed by the terms and conditions set forth in 31 CFR Part 375 and this announcement.

The debt buyback operation regulations are available on the Bureau of the Public Debt's website at www.publicdebt.treas.gov.

Details about the operation and each of the eligible issues are given in the attached highlights.

oOo

Attachment

0-3005

HIGHLIGHTS OF TREASURY DEBT BUYBACK OPERATION

April 17, 2002

Par amount of fixed-principal
issues to be bought back .... Up to $750 million
Par amount of inflation-indexed
issues to be bought back .... Up to $250 million
Operation date .... April 18, 2002
Operation close time .... 11:00 a.m. eastern daylight saving time
Settlement date .... April 22, 2002
Minimum par offer amount $100,000
Multiples of par $100,000
Format for offers ..... Expressed in terms of price per $100 of par with three decimals. The first two decimals represent fractional 32nds of a dollar. The third decimal represents eighths of a 32nd of a dollar, and must be a 0, 2, 4, or 6.
Delivery instructions .... ABA Number 021089482 US TREAS BUYBACK/6000

Treasury issues eligible for debt buyback operation (in millions):

Coupon Rate (%)	Maturity Date	CUSIP Number	Par Amount Outstanding**	Par Amount Privately Held**	Par Amount Held as STRIPS***
11.250	02/15/2015	912810 DP 0	10,783	8,937	2,180
10.625	08/15/2015	912810 DS 4	4,024	2,857	926
9.875	11/15/2015	912810 DT 2	5,585	4,578	2,243
9.250	02/15/2016	912810 DV 7	5,502	4,465	116
7.250	05/15/2016	912810 DW 5	18,824	17,724	131
7.500	11/15/2016	912810 DX 3	18,824	17,073	1,427
8.750	05/15/2017	912810 DY 1	15,619	12,864	7,482
8.875	08/15/2017	912810 DZ 8	11,208	9,150	3,807
9.125	05/15/2018	912810 EA 2	6,797	5,557	3,677
9.000	11/15/2018	912810 EB 0	7,174	6,121	3,816
3.625	04/15/2028	912810 FD 5*	16,808	14,370	5
3.875	04/15/2029	912810 FH 6*	19,722	17,364	125
3.375	04/15/2032	912810 FQ 6*	5,012	4,856	0
		Total	145,882	125,916	25,935

* Inflation-indexed issue
** Par amounts are as of April 16, 2002.
*** Par amounts are as of April 15, 2002.

The difference between the par amount outstanding and the par amount privately held is the par amount of those issues held by the Federal Reserve System.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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TREASURY SECRETARY PAUL O'NEILL
SPRING MEETINGS SCHEDULE

FOR PLANNING PURPOSES ONLY
Contact Tony Fratto at 202-622-2960.

* PLEASE SEE NOTES FOLLOWING SCHEDULE.

Friday, April 19, 2002

7:00 PM

Working Dinner with G7 Finance Ministers and Central Bank Governors
Treasury Department
Diplomatic Reception Room
*PHOTO SPRAY AT TOP

Saturday, April 20, 2002

8:00 - 11:45 AM

G7 Finance Ministers and Central Bank Governors Meeting
Treasury Department
The Cash Room
*PHOTO SPRAY AT TOP

9:30 – 9:45AM

G7 Finance Ministers and Central Bank Governors
Group Photos
Treasury Department
The Bell Entrance steps
East Executive Drive
*Rain Site: Diplomatic Reception Room

006 11:45 AM – 12:15 PM

Secretary Paul O'Neill
Post-G7 Press Conference
Office of Thrift Supervision
17th & G Streets, NW
Washington, DC

12:30 – 5:00 PM

Secretary Paul O'Neill
IMFC Meetings
International Monetary Fund

Sunday, April 21, 2002

9:00 AM – 12:30 PM

Secretary Paul O'Neill
Development Committee Meeting
World Bank

NOTES:

Many bilateral meetings will take place on Friday. Upon request, the bilaterals will be open for photo pool only at the top. Please contact Sean Miles at 202-622-2960 or email at publicaffairs@do.treas.gov to arrange for access.

Access to the Bell Entrances on East Executive Drive for the group photos on Saturday requires a Treasury or White House pass. If you are not a current pass holder, please call 202-622-2960 or email with full name, date of birth, and social security number for access to East Executive Drive on Saturday. Please arrive early to allow time for security check; photo equipment will be swept. NO ACCESS WILL BE GRANTED WITHOUT A PASS OR PRIOR CLEARANCE.

You must register for the Post-G7 Press Conference. If you are not a current Treasury or White House pass holder, please call or email Treasury Public Affairs to register for the Post-G7 Press Conference.

The Post-G7 Press conference will be a LIVE event. Please call Frances Anderson to arrange for parking.

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
April 17, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY SECRETARY O'NEILL'S SIGNING CEREMONY STATEMENT

UNITED STATES AND KINGDOM OF THE NETHERLANDS SIGN AGREEMENT TO EXCHANGE TAX INFORMATION WITH RESPECT TO THE NETHERLANDS ANTILLES

Today Treasury Secretary Paul O'Neill signed a new agreement with the Kingdom of the Netherlands that will allow for exchange of information on tax matters between the United States and the Netherlands Antilles. The agreement was signed by Treasury Secretary Paul O'Neill and the Prime Minister of the Netherlands Antilles, Miguel Pourier.

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 Kingdom of the Netherlands, particularly Prime Minister Pourier of the Netherlands Antilles.

The United States and the Netherlands Antilles have for many years had a close and cooperative relationship on law enforcement matters. We greatly value this cooperation, particularly now as we work to ensure that no safe haven exists anywhere in the world for the funds associated with illicit activities, including terrorism, money laundering, and tax evasion.

I have spoken on numerous occasions 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. Access to needed information is vital to our efforts to ensure enforcement of our laws.

The tax information exchange agreement we are signing today exemplifies our close and long-standing relationship with the Netherlands Antilles. When we last modified our tax treaty relationship in 1996, we made a formal commitment to continue discussing issues of double taxation arising between our two countries and, if necessary to avoid double taxation, to enter into tax treaty negotiations. We will proceed within 12 months with that treaty dialogue to consider the recent changes to the Netherlands Antilles tax law.

PO-3007

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

This new tax information exchange agreement is an important development. I want to thank Prime Minister Pourier for his participation in this signing ceremony and for demonstrating that the Netherlands Antilles and the United States share a common goal of upholding international standards and ensuring that our financial institutions are not used to further illicit activities of any kind.

As many of you know, several months ago I made a public commitment, in Congressional testimony, to expanding our network of tax information exchange relationships. The agreement we are signing today, together with our recent agreements with the Cayman Islands, Antigua and Barbuda, The Bahamas, and the British Virgin Islands, demonstrates the depth of our commitment. We will continue to work vigorously to improve our tax information exchange relationships, and I look forward to gathering here again in the coming weeks to announce additional agreements with other countries.

-30-

The text of the Agreement

ARTICLE 1

OBJECT AND SCOPE OF THE AGREEMENT

1. The Contracting States shall assist each other to assure the accurate assessment and collection of taxes, to prevent fiscal fraud and evasion, and to develop improved information sources for tax matters. The Contracting States shall provide assistance through exchange of information authorized pursuant to Article 4 and such related measures as may be agreed upon by the competent authorities pursuant to Article 5.

2. Information shall be exchanged to fulfill the purpose of this Agreement without regard to whether the person to whom the information relates is, or whether the information is held by, a resident or national of a Contracting State, provided that the information is present within the territory, or in the possession or control of a person subject to the jurisdiction, of the requested State.

3. As regards the Kingdom of the Netherlands, this Agreement shall apply only to the Netherlands Antilles.

ARTICLE 2

TAXES COVERED BY THE AGREEMENT

1. This Agreement shall apply to the following taxes imposed by or on behalf of a Contracting State:

a) in the case of the United States of America, all federal taxes;

b) in the case of the Netherlands Antilles, the following taxes: the income tax (inkomstenbelasting), the wages tax (loonbelasting), the profit tax (winstbelasting) and the surtaxes on the income and profit taxes (hereinafter referred to as "Netherlands Antilles taxes").

2. This Agreement shall apply also to any identical or substantially similar taxes imposed after the date of signature of the Agreement in addition to or in place of the existing taxes. The competent authority of each Contracting State shall notify the other of changes in laws which may affect the obligations of that State pursuant to this Agreement.

3. This Agreement shall not apply to the extent that an action or proceeding concerning taxes covered by this Agreement is barred by the applicant State's statute of limitations.

4. This Agreement shall not apply to taxes imposed by states, municipalities or other political subdivisions, or possessions of a Contracting State.

ARTICLE 3

DEFINITIONS

1. In this Agreement, unless otherwise defined:

a) The term "competent authority" means:

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

(ii) in the case of the Netherlands Antilles, the Minister of Finance or his authorized representative;

b) The term "Contracting State" means the United States or the Kingdom of the Netherlands in respect of the Netherlands Antilles as the context requires;

c) The term "national" means:

(i) in the case of the United States, any United States citizen and any legal person, partnership, corporation, trust, estate, association, or other entity deriving its status as such from the laws in force in the United States; and

(ii) in the case of the Netherlands Antilles, an individual who has Dutch nationality and who would be eligible to vote in the Netherlands Antilles if he were of age and present in the Netherlands Antilles, provided however, if an individual is not present in the Netherlands Antilles, he must have either been born in the Netherlands Antilles or have been resident thereof for at least five years;

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

e) The term "tax" means any tax to which the Agreement applies;

f) The term "information" means any fact or statement, in any form whatever, that may be relevant or material to tax administration and enforcement, including (but not limited to):

(i) testimony of an individual; and

(ii) documents, records or tangible property of a person or Contracting State;

g) The terms "applicant State" and "requested State" mean, respectively, the Contracting State applying for or receiving information and the Contracting State providing or requested to provide such information;

h) For purposes of determining the geographical area within which jurisdiction to compel production of information may be exercised, the term "United States" means the United States of America, including Puerto Rico, the Virgin Islands, Guam, and any other United States possession or territory;

i) For purposes of determining the geographical area within which jurisdiction to compel production of information may be exercised, the term "Netherlands Antilles" means that part of the Kingdom of the Netherlands that is situated in the Caribbean area and consisting of the Island Territories of Bonaire, Curacao, Saba, St. Eustatius and St. Maarten (Dutch part).

2. Any term not defined in this Agreement, unless the context otherwise requires or the competent authorities agree to a common meaning pursuant to the provisions of Article 5, shall have the meaning which it has under the laws of the Contracting State relating to the taxes which are the subject of this Agreement.

ARTICLE 4

EXCHANGE OF INFORMATION

1. The competent authorities of the Contracting States shall exchange information to administer and enforce the domestic laws of the Contracting States concerning taxes covered by this Agreement, including information to effect the determination, assessment, and collection of tax, the recovery and enforcement of tax claims, or the investigation or prosecution of tax crimes or crimes involving the contravention of tax administration.

2. The competent authority of the requested State shall provide information upon request by the competent authority of the applicant State for the purposes referred to in

paragraph 1. If the information available in the tax files of the requested State is not sufficient to enable compliance with the request, that State shall take all relevant measures, including compulsory measures, to provide the applicant State with the information requested.

a) The requested State shall have the authority to:

(i) examine any books, papers, records, or other tangible property which may be relevant or material to such inquiry;

(ii) question any person having knowledge or in possession, custody or control of information which may be relevant or material to such inquiry;

(iii) compel any person having knowledge or in possession, custody or control of information which may be relevant or material to such inquiry to appear at a stated time and place and testify under oath and produce books, papers, records, or other tangible property;

(iv) take such testimony of any individual under oath.

b) Privileges under the laws or practices of the applicant State shall not apply in the execution of a request but shall be preserved for resolution by the applicant State.

3. The requested State shall provide information requested pursuant to the provisions of this Article regardless of whether the requested State needs such information for purposes of its own taxes. Moreover, if specifically requested by the competent authority of the applicant State, the requested State shall:

a) specify the time and place for the taking of testimony or the production of books, papers, records, and other tangible property;

b) place the individual giving testimony or producing books, papers, records and other tangible property under oath;

c) permit the presence of individuals designated by the competent authority of the applicant State as being involved in or affected by execution of the request, including an accused, counsel for the accused, individuals charged with the administration and enforcement of domestic laws of the applicant State covered by this Agreement, and a commissioner or magistrate present for the purpose of rendering evidentiary rulings or determining issues of privilege under the laws of the applicant State;

d) provide individuals permitted to be present with an opportunity to question, directly or through the executing authority, the individual giving testimony or producing books, papers, records and other tangible property;

e) secure original and unedited books, papers, and records, and other tangible property;

f) secure or produce true and correct copies of original and unedited books, papers and records;

g) determine the authenticity of books, papers, records and other tangible property produced;

h) examine the individual producing books, papers, records and other tangible property regarding the purpose for which and the manner in which the item produced is or was maintained;

i) permit the competent authority of the applicant State to provide written questions to which the individual producing books, papers, records and other tangible property is to respond regarding the item produced;

j) perform any other act not in violation of the laws or at variance with the administrative practice of the requested State;

k) certify either that procedures requested by the competent authority of the applicant State were followed or that the procedures requested could not be followed, with an explanation of the deviation and the reason therefor.

4. The provisions of the preceding paragraphs shall not be construed so as to impose on a Contracting State the obligation:

a) to carry out administrative measures at variance with the laws and administrative practice of that State or of the other Contracting State;

b) to supply particular items of information which are not obtainable under the laws or in the normal course of the administration of that State or of the other Contracting State;

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

d) to supply information, the disclosure of which would be contrary to public policy;

e) to supply information requested by the applicant State to administer or enforce a provision of the tax law of the applicant State, or any requirement connected therewith, which discriminates against a national of the requested State. A provision of tax law, or connected requirement, will be considered to be discriminatory against a national of the requested State if it is more burdensome with respect to a national of the requested State than with respect to a national of the applicant State in the same circumstances. For purposes of the preceding sentence, a national of the applicant State who is subject to tax on worldwide income is not in the same circumstances as a national of the requested State who is not subject to tax on worldwide income. The provisions of this subparagraph shall not be construed so as to prevent the exchange of information with respect to the taxes imposed by the United States on branch profits or on the premium income of nonresident insurers or foreign insurance companies or any similar such taxes imposed by the Netherlands Antilles in the future;

f) notwithstanding subparagraphs (a) though (e) of this paragraph, the requested State shall have the authority to obtain and provide, through its competent authority, information held by financial institutions, nominees, or persons acting in agency or fiduciary capacity (not including information that would reveal confidential communications between a client and an attorney, solicitor or other legal representative where the client seeks legal advice), or information respecting ownership interests in a person.

5. Except as provided in paragraph 4, the provisions of the preceding paragraphs shall be construed so as to impose on a Contracting State the obligation to use all legal means and its best efforts to execute a request. A Contracting State may, in its discretion, take measures to obtain and transmit to the other State information which, pursuant to paragraph 4, it has no obligation to transmit.

6. The competent authority of the requested State shall allow representatives of the applicant State to enter the requested State to interview individuals and examine books and records with the consent of the individuals contacted.

7. Any information received by a Contracting State shall be treated as secret in the same manner as information obtained under the domestic laws of that State and shall be disclosed only to individuals or authorities (including judicial and administrative bodies) involved in the determination, assessment, collection, and 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, the taxes which are the subject of this Agreement, or the oversight of the above. Such individuals or authorities shall use the information only for such purposes. These individuals or authorities may disclose the information in public court proceedings or in judicial decisions.

ARTICLE 5

MUTUAL AGREEMENT PROCEDURE

1. The competent authorities of the Contracting States shall agree to implement a program to carry out the purposes of this Agreement. This program may include, in addition to exchanges specified in Article 4, other measures to improve tax compliance, such as exchanges of technical know-how, development of new audit techniques, identification of new areas of non-compliance, and joint studies of non-compliance areas.

2. The competent authorities of the Contracting States shall endeavor to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of this

Agreement. In particular, the competent authorities may agree to a common meaning of a term, and may determine when costs are extraordinary for purposes of Article 6.

3. The competent authorities of the Contracting States may communicate with each other directly for the purposes of reaching an agreement under this Article.

ARTICLE 6

COSTS

Unless the competent authorities of the Contracting States otherwise agree, ordinary costs incurred in providing assistance shall be borne by the requested State and extraordinary costs incurred in providing assistance shall be borne by the applicant State.

ARTICLE 7

IMPLEMENTATION

A Contracting State shall enact such legislation as may be necessary to effectuate this Agreement.

ARTICLE 8

ENTRY INTO FORCE

This Agreement shall enter into force upon an exchange of notes between the Contracting States confirming that each has completed the necessary internal domestic procedures to bring the Agreement into force; provided, however, that this Agreement shall not enter into force before January 1, 2004.

ARTICLE 9

TERMINATION

This Agreement shall remain in force until terminated by one of the Contracting States. Either Contracting State may terminate the Agreement at any time after the Agreement enters into force provided that at least three months prior notice of termination has been given through diplomatic channels.

DONE at Washington, in duplicate, this 17th day of April, 2002.

For the Government of the United States of America:	For the Government of the Kingdom of the Netherlands in respect of the Netherlands Antilles:

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
April 18, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY STATEMENT ON THE SUCCESS OF THE OECD HARMFUL TAX PRACTICES PROJECT

28 Jurisdictions Commit to Improve Information Exchange and Transparency

Today, the Organization for Economic Cooperation and Development (OECD) issued its list of "uncooperative" tax haven jurisdictions. This list consists of those jurisdictions included on the OECD list of tax haven jurisdictions published in June 2000 that have not yet made commitments to improve their tax information exchange and transparency practices.

Of the 35 jurisdictions on the original tax haven list, only 7 have not made commitments to these principles and therefore are included on the list of uncooperative tax havens.

"I am glad to see that our efforts last spring to refocus the OECD project on information exchange and transparency has led to these results. I applaud these countries for coming forward to make a commitment to improve their tax information exchange and transparency policies," Treasury Secretary Paul O'Neill stated.

"In addition to refocusing the OECD Project, last summer, I made a commitment to obtain bilateral Tax Information Exchange Agreements with the countries on the original OECD list. We are making substantial progress. So far, we have signed five TIEAs, and I hope to announce more shortly."

Twenty-eight of the jurisdictions on the original list of tax haven countries have made commitments to the project (and six other jurisdictions made advance commitments and therefore were not considered for inclusion on the original list.) Twenty-four of these jurisdictions committed to the project after it was refocused. All of the countries with which the United States has recently signed Tax Information Exchange Agreements-- the Cayman Islands, Antigua and Barbuda, The Bahamas, the British Virgin Islands and the Netherlands Antilles -- have made commitments to improve their tax information exchange and transparency policies.

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DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 3:00 P.M. EDT
Wednesday, April 18, 2002

Contact: Public Affairs
(202) 622-2960

Treasury Secretary Paul H. O'Neill
Keynote Address on "Globalization: Spreading the Benefits"
Washington International Trade Center

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 multinational 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 countries.

When I left at the end of the year 2000, 140,000 people worked for Alcoa at 350 locations in 36 countries. I mention this to establish the basis for my assertion that I know something about job creation, and about the ways of life and work in many places around the globe.

Traveling the world over the last quarter-century, I saw an important truth -- 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 the 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 capacity to create a high standard of living.

That makes me an advocate for increasing the ties that bring our world closer together – a process too often labeled with the pejorative term "globalization." That's a term that seems to have several very different definitions. Is it simply the spread of production to all parts of the world?

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Or do we mean with that term something sinister – a spread of foreign culture that overwhelms local tradition, exploits local resources and in the process damages the environment? In my view, when globalization means spreading the production system for goods and services around the world, it is a force for good, giving millions of people new opportunities to learn, to participate and to prosper.

Maybe we need a new word for this process of spreading opportunity.
When people in all corners of the world can participate in world-class production processes and learn the ideas of democracy, free speech, and entrepreneurship in the process, this spread of production is a force for good.

Of course, development in poor nations cannot rest on the presence of large international companies. It takes a thriving domestic market environment to make the leap to self-sustaining increases in prosperity. The presence of large companies can provide experiences that translate into domestic entrepreneurship, if the conditions set by the governments allow a thriving private sector.

Too often, those conditions for success do not exist – not because the multinational company isn't doing enough and not because the local people aren't smart enough, but because government policies prevent citizens from reaching their human potential.

Where competition and rule of law do not exist and corruption is rampant, living standards lag what is possible. The impact can't be overstated. Look across the globe today and the disparity of living standards among the world's people is so large as to be practically incomprehensible.

Why is it, if all people everywhere have the capacity to create a good life, that so many billions of people live today with little hope of the good life we know is possible? I believe this is the question for us and our time.

We in the wealthier nations of the world have been talking about development for a long time. We may not have all the answers, but we do know some basic things. The rule of law and enforceable contracts is crucial to the development of a healthy private sector. Competition is vital to creating vibrant growth. And corruption must be minimal.

Yet even as we know these things, and talk about them, we don't always act to do something about them. We must get the incentives right, to help developing nations see their way to implementing these policies that will allow their citizens to participate in the world of opportunities.

The spring meeting of the G-7 Finance Ministers and Central Bank Governors begins here in Washington tomorrow, so today is an excellent occasion to connect my philosophical framework with some of the key issues we are bound to discuss regarding globalization and development.

There are three main areas of discussion in development policy circles right now: (1) the role of free trade; (2) the best ways to reduce international financial crises, including through sovereign debt restructuring reform; and (3) the role of, and best practices for, external development aid. I know these are all issues for the Bush School panel today.

Let me discuss each of these.

THE ROLE OF TRADE

Most of us agree, I suspect, with President Bush's strong belief that expanding trade is in the interest of all nations and provides a route out of poverty. We are firmly committed to advancing free trade. We hope that the Senate will pass Trade Promotion Authority for the President next week, so that we can move forward on our trade objectives.

As for how to move forward, we want to advance freer trade however we can, whenever we can. We prefer multilateralism, but not to the exclusion of regional and bilateral arrangements.

As nations open to the idea of freer trade, regionally and bilaterally, they become more amenable to the global approach as well. They warm to the idea of freer trade as they see the benefits from more limited arrangements.

I believe our open borders are what forced the US economy in the late 1970s and 1980s to transform from sluggish and inefficient to world-leading. We saw the success of the Japanese, and we were shaken out of our comfortable lives. We had to become more productive and innovative, just to keep up. But we didn't just keep up – we responded to the challenge of global competition and became the world's most productive, vibrant economy – the envy of the world.

Opening markets in emerging and developing economies to trade will have the same stimulating effect on them, giving entrepreneurs the incentive of competition and the opportunity of world markets to push them to try new ideas and succeed.

Regional and bilateral trade agreements induce growth stimulating changes in developing economies that may in themselves outweigh even the benefits of trade creation, as private investment accumulates and as governments realize greater incentives to pursue market-friendly macroeconomic policies.

The Mexican economy since NAFTA is a wonderful example of this effect. Since 1993, annual trade with Mexico has increased from $81.5 billion to $232.9 billion in 2001, helping fuel economic growth. Mexico is now an investment-grade country with record inflows of foreign investment. NAFTA helped to make Mexico a capital-friendly place, and capital responded.

On a microeconomic level, freer trade in each sector of the economy creates just the kind of competitive pressure that encourage managers to optimize productivity.

The innovations that managers make under competition also directly benefit consumers through better products and services at lower costs. This increased productivity means higher wages, better living standards and higher economic growth.

For instance, in 1993 the Indian government removed licensing requirements for the automotive assembly industry and lifted a ban on foreign direct investment, which led many foreign firms to enter the market. As a result, labor productivity soared 256% and output increased by 280%. The increased demand by Indian consumers in response to these efficiency gains was so strong that employment in the sector grew by 11%.

CRISIS PREVENTION AND RESOLUTION

These are success stories. The best prescription for crisis prevention is for every nation to set and move toward the right objective – investment grade sovereign debt.
But those of us who believe in the promise of freer trade and private investment for economic growth understand that crises can happen along the way.

We are working closely with our counterparts in the international community to enhance our ability to prevent financial crises. This includes promoting higher quality, more transparent economic data to help markets make better decisions, as well as strengthening International Monetary Fund analysis of economic vulnerabilities that could lead to future crises. It also means continuing to increase transparency at the IMF itself.

We also need to be clear that official resources are limited and that multiple, large-scale official financing packages will not be feasible or desirable in the future. It is important in this context to limit the extent of official sector lending, and to be wary of exceptions.

At the same time, we need to be better prepared when crises do occur. The uncertainty surrounding prospective defaults has substantially reduced private capital flows in recent years.

The uncertainty of the sovereign debt restructuring process today makes crises more likely than they should be. With less capital pursuing these opportunities, the available capital is more expensive. We need to improve predictability in the emerging markets.

We need to find mechanisms to help restore private capital flows on the most competitive possible terms to emerging market countries in order to unleash their private sector development potential, and their ability to take advantage of globalization.
That is why we have called for long-overdue reform of the sovereign debt restructuring process.

We would like to begin with a decentralized, market-oriented approach. This approach advocates that creditors and borrowers incorporate new clauses into their sovereign debt contracts, such as a majority action clause, an engagement clause, and an initiation clause. These provisions would provide the basis for collective action and create a roadmap for restructuring the debt, if it became necessary.

We can begin to implement this approach right away, and it could immediately improve predictability. While approaches similar to this have been discussed in the past, I am sure that this time there will be results; in part because we are exploring ways the official sector can support its implementation in the markets, and also because we've never been more committed to making something happen.

I support work by the IMF on approaches to sovereign debt restructuring that may require changes in legislation. Since these changes would take time, this work should not delay the expeditious implementation of the market-based approach.

Regardless of the exact balance of private sector and official sector measures in a sovereign debt restructuring framework, we need to make sure we include creditors and debtors themselves in the dialogue. We need all involved parties to buy into the new system, if it is to succeed. I am confident that it will.

THE ROLE OF EXTERNAL DEVELOPMENT AID

Finally, let me discuss what we are doing with international development aid.

Development aid is a crucial tool for helping poor nations achieve self-sustaining growth and gains in living standards. And yet, it has not been used with great success in the past. We've spent billions and billions of dollars, yet some poor nations are actually worse off than they were 50 years ago.

Over the last 50 years, bilateral and multilateral aid have delivered relief and disappointment. Relief as we provide food or vaccines where there are none. But also disappointment, because so many poor countries stay that way, and we too rarely ask why. Wealthy nations such as the United States have a responsibility to see that their contributions produce real improvements in the daily lives of people in the poorest countries.

President Bush has made it a priority to get the incentives right in our development assistance programs. His 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. Our goal is to make aid dollars more effective, so that they contribute to economic growth.

Last summer, the President called on the World Bank and other multilateral development banks to increase the use of grants rather than loans for crucial social sector projects like health, education, and clean water in the poorest nations in the world. Grants support these basic investments without burying developing nations in new debt they may not be able to service.

We are, today, forgiving debt in many of the poorest nations. Why would we turn around and build up their debt all over again? These nations have to pay back loans by taking resources from citizens who earn less than a dollar a day.

It's far more humane to provide grants for specific projects, and then hold grant recipients accountable for using the money to achieve results.

Now, regarding the grants versus loans debate in the IDA-13 and African Development Fund negotiations, progress has been disappointing thus far. Although the United States has shown a high degree of flexibility on the overall proportion of aid that should go as grants, there remain staunch advocates for preserving the practices of the past fifty years, who continue to encourage developing nations to take on loans from the multilateral development banks.

I think the grant opponents do not understand the first principles of capital markets. They certainly have not learned a lesson from the current experience of having to write off loans for the heavily indebted poor countries.

We have said that we are open to an income approach and a sector-based approach for setting overall grant amounts, both of which are considerable compromises from the President's original proposal to make grants half of all new aid. This issue should be closed.

Last month, the President expanded our vision for international development with the "New Compact for Development," which increases core US development assistance by 50 percent over the next three years, and directs our aid to nations that have established a foundation of good governance and sound economic policies, where aid is more likely to translate into real improvement in people's lives.

We have an obligation to plant our resources where they will yield growth, rather than squandering precious seeds in unfertile soil.

By tying our aid flows to sound government policies, we increase the incentives for governments to pursue the policies that are good for their people's economic future – governing justly, expanding economic freedom and investing in people. And if a government makes changes in order to qualify for our assistance, those changes will improve the returns on all the other aid the nation is already receiving.

We know that successful developing countries have several characteristics in common:

- They encourage private enterprise through market-oriented mechanisms.
- They fight corruption and ensure competent public administration and rule of law.
- They open their economies to trade and investment.
- They invest in human capital such as education and health care.
- And they observe and adopt best practices in business and government from around the world.

Our aid has to encourage these kinds of policies.

The next step in this new initiative is to develop the right standards for measuring the impact of our development assistance dollars. We intend to work with our partners in the international community to do this.

We believe we can make a difference, if we work in partnership with the developing world, and if both sides take responsibility for results.

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.

This is an exciting time for those of us who relish the challenge of unleashing human potential around the world. We are making progress on many fronts – expanding trade, improving the predictability of international capital markets, and using development assistance to improve the policy environment in the poorest nations.

With the right government policies, we can accelerate the spread of private sector production around the world. We can create vibrant, self-sustaining local economies and a rising standard of living for people everywhere. We can unleash the human potential -- and we will not be satisfied with anything less.

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For Immediate Release
April 18, 2002

Contact: Tara Bradshaw
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TREASURY SECRETARY PAUL O'NEILL STATEMENT ON HOUSE PASSAGE OF BILL TO MAKE THE TAX CUT PERMANENT

"I applaud the House for voting to prevent the largest tax increase in history in 2011, and making sure that death will cease to be a taxable event, the child credit will increase, the marriage penalty will be reduced, and retirement and education savings options will be expanded. I hope the Senate acts quickly to provide millions of hard-working Americans with the permanent tax relief they deserve," stated Treasury Secretary Paul O'Neill.

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PO-3010

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 4:00 PM EDT
April 18, 2002

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Remarks by Tony T. Brown, Director
Community Development Financial Institutions Fund (CDFI)
to the
2nd Bi-Annual National Inner-City Economic Summit
Bonaventure Hotel, Los Angeles, CA

Good afternoon and thank you for the invitation to address the National Inner City Economic Summit. John Bryant, you, the directors and employees of Operation HOPE are to be commended for the comprehensive manner in which you are addressing inner-city economic development.

What an excellent idea – to bring together 500 leaders in business, government and community-based organizations to focus on successful strategies for promoting economic empowerment in America's urban, inner city and underserved communities. We are not here to talk about the problems. We are here, instead, to find answers, to get results and to share and report on best practices.

It gives me great pleasure to be here representing the Department of the Treasury with the nation's Treasurer, Rosario Marin. Treasurer Marin, I have spent a major portion of my career writing checks as a former banker. Now I marvel to know that your signature is etched in our nation's currency.

I am also honored to be sharing this podium with Secretary Paige from the Department of Education. Secretary Paige has demonstrated great innovation and dedication throughout his years in education. We look forward to your remarks.

PO-3011

President Bush often reminds people that the great strength in America is not in our governments. The great strength in America is in the hearts and souls of citizens all around our country. The great strength in America is embodied in those who work, such as you, in community-based institutions across the country.

I am honored to be here today as your speaker and to update you on President Bush's agenda for America – all of America.

In preparing for my remarks, I took time to review the Economic Report from the first Economic Summit. And, I agree, that access to capital continues to be one of the greatest challenges facing inner city renewal efforts.

I have spent 20 years in banking. Ten of these years have been in community development in the state of Florida. I know the importance of capital access. I empathize with minority entrepreneurs who have vision and expertise in a particular field and are willing to take risk but can't seem to overcome a financial institutions requirement for equity or collateral, including second or third potential sources for loan repayment.

My heart aches when I see Americans living in poverty, buildings boarded up and homes dilapidated. This is America. No one should feel despair or disenfranchised. America is still the land of opportunity.

Without a doubt, there is currently a tremendous need for investment of capital in low-income urban and rural communities.

This is why in 1994 Congress created the Community Development Financial Institutions Fund or CDFI Fund, as a bipartisan initiative. The CDFI Fund invests in community development lenders who in turn provide capital and services to underserved people and communities.

CDFIs are specialized financial institutions that work in market niches that have not been adequately served by traditional lenders. Donna Gambrell of the FDIC will speak after me and share her insights about regulatory compliance for banks and thrifts.

Our vision at the Fund is to have an America in which all people have access to credit, capital, and affordable financial services.

We are serious about this commitment and our desire to be one of your major collaborators in tapping the economic potential of our inner cities. Here's how we can help:

We pursue our mission three ways – first, we help create and expand community development financial institutions; second, we provide financial incentives to regulated banks and thrifts to increase their lending and services in target distressed areas; and lastly, we will be introducing the New Markets Tax Credit Program this Spring to help increase the flow of private capital in low income areas. Please allow me to explain each of these strategies in more detail.

Since 1996, investments in certified CDFIs have been the cornerstone of our program. The Fund has made over 1,200 awards for $530 million to financial institutions dedicated to community development.

In California, the Fund has awarded just over $53 million. In the Los Angeles area, we have made $5.7 million in awards.

The organizations we support are able to lend in ways that are more flexible or innovative than regulated financial institutions. We have certified 565 financial institutions as CDFIs across the country. Thirty-five of these organizations have been certified in California and eight of California's certified CDFIs are Los Angeles based. The organizations we certify at the Department of Treasury are engaged in a variety of activities:

- 46% engage in micro-enterprise or small business lending, and operate business loan funds
- 31% of the groups are involved in affordable housing or community facility financing
- 16% are community development credit unions
- 4% manage community development venture capital funds
- 3% are part of bank holding companies or multi-banks CDCs.

Our second strategy is to provide incentives for regulated banks and thrifts to invest in CDFIs and to increase their lending and financial services in distressed communities. We do this through the Bank Enterprise Award (BEA) Program that recognizes the key role played by traditional financial institutions in community development.

In the first six rounds of the BEA Program, the Fund awarded over $182 million to 386 banks and thrifts. To date, banks and thrifts receiving awards have provided $959 million in financial support or technical assistance directly to CDFIs, and $2.5 billion to distressed communities in the form of direct loans, investments and services.

California-based institutions have received over $28 million in BEA Program awards. Our records show that the banks and thrifts participating in the BEA program operate some of the nation's leading CRA programs, as nearly one-third of the roughly 390 financial institutions participating in the BEA Program have received outstanding ratings under the Community Reinvestment Act.

Our third strategy involves the use of tax credits to increase the flow of private capital in low-income areas. This opportunity was recognized in your first Economic Summit where participants stated that the inner city represented a tremendous market opportunity. We agree!

On December 21, 2000, the Community Renewal Tax Relief Act of 2000 was signed into law. This law created the New Markets Tax Credit Program, which will help to spur up to $15 billion of private investment capital into distressed urban and rural communities across the country. By making an equity investment in an eligible "community development entity" (CDE), individual and corporate investors can receive a New Markets Tax Credit worth 39 percent of the amount invested over the seven-year life of the credit.

By offering a tax credit, the New Markets Program encourages private investment in underserved communities in an unprecedented manner. If investors embrace the program, it will be a significant source of new capital that will help to stimulate new industries and entrepreneurs, and to generate new jobs in low-income communities.

Let me put a face on the NMTC program for you. As stated earlier, it is a tax credit program designed to spur $15 billion in investments in low-income communities. A remarkable 24,562 census tracts in the United States qualify for NMTCs. That's nearly 40 percent of all census tracts, representing 36 percent of the population, or nearly 91 million people.

In California, 34% of your state's 5,858 census tracts qualify as low income and meet our eligibility requirements for NMTCs. In the Los Angeles MSA, 37% of the census tracts qualify for the New Markets Tax Credit Program (607 tracks qualify out of 1,652).

The NMTC program is designed so that organizations like Operation HOPE can be empowered with the cash to make a difference. Here, let me explain how NMTC will work:

- An organization may apply to the CDFI Fund to become certified as a CDE. To qualify as a CDE, the entity must have a mission of community development and demonstrate accountability to the low-income communities served;

- The CDE applies for an allocation of NMTCs;

- If the CDE is awarded an allocation of tax credits, it may offer them to its equity investors;

- Investors can receive NMTCs worth 39% of the invested amount over the seven-year life of the credit. Investors may not redeem their investment in the CDE prior to the conclusion of the seven-year period;

- The CDE must use substantially all of the proceeds from these investments to make Qualified Low-Income Community Investments (QLICIs). QLICIs include:

    - Loans and investments in support of commercial real estate development in low-income communities;
    - Loans and investments to businesses operating in low-income communities;
    - Loans and investments to other CDEs;
    - The purchase of loans made by other CDEs to businesses operating in low-income communities; and
    - The provision of counseling to businesses operating in low-income communities.

We expect to allocate up to $2.5 billion in such equity in calendar year 2002. The NMTC staff has been working diligently to finalize the NOAA (Notice of Allocation Availability) and the application process. We anticipate release to the public no later than May 31st.

We encourage you to check out our website on a regular basis for updates regarding the NMTC (www.cdfifund.gov).

We need the NMTC Program to be the impetus to increase the flow of private capital into low-income communities. Direct subsidies from the Federal government alone will not do it.

Let me speak for a moment to the bankers and corporations in the house.

We are asking the investment community to step up in a bold way. Our low-income communities are in need of your capital. Like many of you, I was anxious to ride the stock market wave of the "dot-coms" and the "tele-coms." Now, we have an opportunity today to bring in a new era of opportunity: that of the low-com. These low-income communities are in desperate need of investments in capital and job opportunities.

In less than seven years time, when we look back, we hope to say that the NMTC Program put significant amounts of private sector capital to work in the areas where it was needed most. We know that you too share this vision.

The market opportunity in our nation's inner cities is tremendous. I recall growing up in the projects of Cincinnati. A city that experienced racial disturbances last year similar to the reasons why people rioted in South Central LA 10 years ago (accused police of harassing blacks).

I learned community development from the best – my grandmother: a hard working lady who only sought the best for her family. There was no CRA. No special loan programs, just the desire to put a decent roof over the heads of her children and grandchildren. My grandmother found value in properties neglected. She would fix them up, live in them for a couple of years and then re-sell.

My grandmother had no goal to get out of the ghetto. She loved her community and knew that she could play a small role in cleaning it up and providing a safe and loving environment to raise her children.

As a teenager, I couldn't wait to learn to drive because my grandmother and great aunt would have to take a bus to get to the nearest grocery store as the riots in the 60's resulted in the closure of our community's nearest grocery store. Many stores, major retail chains closed after the 60's riots and never returned.

We would catch the bus to the grocery store and pay the bootleg cabby cash to bring us home. What's a bootleg cabby? In some areas they are called jitneys – individuals with cars transporting people to make a living. They will go where no cab or public transportation will go.

Yes, I learned to drive and through God's divinity, I grew up safely in the projects, moved from one low income area to another, became a senior vice president for one of the nation's largest banks, and finally, was named by the President of the United States to run the nation's community development fund. And now, by the grace of God, I am given the opportunity to help drive billions of dollars into our nation's underserved and distressed communities – Isn't God good?

We know that together, with all of you in this room, that we can make the CDFI Fund one of the nation's most successful Federal programs. Our proof will be in the lives of the people we serve and the communities we enrich.

Thank you for inviting me to speak. We look forward to working with you and improving the quality of life for our nation's low-income communities.

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For Immediate Release
Contact Tony Fratto at 202-622-2960.

G7 Meetings Update

The Group of Seven Finance Ministers and Central Bank Governors will meet in the U.S. Department of the Treasury on Friday, April 19 and Saturday, April 20, 2002.

Finance Ministers and Central Bank Governors will hold a working dinner at the Treasury Department's Cash Room during Friday evening. An opportunity for a photo spray will be available at 7:00 PM. This will be the only media opportunity of the evening.[1]

On Saturday, Finance Ministers and Central Bank Governors will convene for G7 meetings. At 9:30 AM there will be an opportunity for group photos at the Bell Entrance of the Treasury located on East Executive Drive.[2] Still and video photographers should arrive no later than 8:45 AM to allow for an equipment sweep.

A post-G7 press conference hosted by Treasury Secretary Paul O'Neill will take place on Saturday, April 20 at 11:45 AM at the Office of Thrift Supervision Amphitheater located at 17th and G Street, NW. Members of the media with current White House or Treasury passes or IMF/WB credentials are welcome to attend.[3]

The post-G7 press conference will be a live event.

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[1] Still and Video photographers should contact Frances Anderson or Sean Miles at 202-622-2960 to arrange for access.

[2] Access to East Executive Drive is limited to those with current White House or Treasury press passes. If are not a current pass holder, please contact Frances Anderson at 202-622-2960 by close of business on Friday, April 19; provide your full name, date of birth and social security number to receive clearance. A security clearance is mandatory.

[3] Contact Frances Anderson at 202-622-2960 if you are not a current pass holder or you do not have IMF/WB credentials.

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

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MEDIA ADVISORY

ESTABLISHMENT OF U.S. - PAKISTAN JOINT ECONOMIC FORUM

PHOTO OPPORTUNITY

For planning purposes only

Contact Tony Fratto at 202-622-2960.

On Friday, April 19, 2002, Mr. Shaukat Aziz, Minister of Finance and Economic Affairs of the Islamic Republic of Pakistan, and Mr. Paul H. O'Neill, Secretary of the United States Department of the Treasury, will establish the Pakistan-U.S. Joint Economic Forum. Secretary O'Neill and Minister Aziz will sign a memorandum of understanding that will establish the Forum. The Forum will facilitate more regular consultations on economic and financial issues of shared interest to the Ministry of Finance and Economic Affairs and the Department of the Treasury.

Although reporters are welcome to attend, this is a photo opportunity event only; no sound will be provided. Remarks are not planned.

Embargoed copies of a joint statement and the memorandum of understanding will be available in the Treasury Press Room prior to the event.

Friday, April 19, 2002
2:30-2:40 PM

Photo Opportunity; no sound; no planned remarks.

Establishment of U.S - Pakistan Joint Economic Forum
Signing of Memorandum of Understanding
Paul H. O'Neill, U.S. Secretary of the Treasury
Shaukat Aziz, Minister of Finance and Economic Affairs, Islamic Republic of Pakistan

PO-3013

The Treasury Department
Diplomatic Reception Room
Washington, DC

Access to the Treasury Building is limited to members of the media with current Treasury or White House press identification. Those without appropriate identification should contact the Office of Public Affairs at 202-622-2960 and provide full name, date of birth, and social security number or passport number for clearance into the building.

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For immediate release--
April 19, 2002

Contact: Tasia Scolinos

DESIGNATION OF 10 TERRORIST FINANCIERS

FACT SHEET

"Today we block the finances of an assortment of terrorists involved in financing and carrying out bombings, kidnappings and murder. We will continue to expose and shut down these thugs wherever we find them."

Treasury Secretary Paul O'Neill

Today the Department of Treasury designated nine individuals and one organization, all linked to al Qaida and Usama bin Laden, under President Bush's Executive Order 13224 and took blocking action against them. Today's action will block all assets these entities have in the United States and prohibits any financial interaction between U.S. persons and these entities and individuals. Including today's designation, the Department of Treasury has blocked the assets of 202 entities and individuals. 161 countries have joined us in issuing blocking orders against these groups and individuals and $104 million has been frozen worldwide. $34 million of that has been blocked domestically in the United States with the remaining $70 million blocked by our international partners.

1. THE AID ORGANIZATION OF THE ULEMA

When President Bush initiated the financial war on terrorism in September 2001, the al Rashid Trust was among the first organizations named as a financial facilitator of terrorists. The organization changed its name to The Aid Organization of the Ulema (AOU) and remains active. The AOU is headquartered in Pakistan, and continues to operate offices there. They have been raising funds for the Taliban since 1999. This designation captures the re-named office and identifies additional locations of other branch offices in Pakistan.

PO-3014

2. NASREDDIN, Ahmed Idris

Ahmed Idris Nasreddin provides direct support for Youssef Nada and Bank Al Taqwa, both of which were designated as terrorist financiers by the Department of Treasury on November 7, 2001. On the same date, Treasury named four additional individuals as terrorist financers connected to al Taqwa: Zeinab Mansour-Fattouh, Mohamed Mansour, Albert Friedrich Armand Huber, and Ali Ghaleb Himmat. The al Taqwa group has long acted as financial advisers to al Qaida, with offices in Switzerland, Liechtenstein, Italy and the Caribbean. Ahmed Idris Nasreddin and Youssef Nada are both founders and directors of Bank Al Taqwa. Usama bin Laden and his al-Qaida organization received financial assistance from Youssef Nada. Al Taqwa provides investment advice and cash transfer mechanisms for al Qaida and other radical Islamic groups.

3. ES SAYED, Abdelkadir Mahmoud

An order for preventive detention of Es Sayed, an Egyptian national, has been issued in absentia by the prosecutor's office in Milan, Italy. He has been indicted for participation in a criminal conspiracy to traffic in arms, explosives, chemical weapons, identity papers, and for aiding illegal immigration. Es Sayed is considered to be the organizer of alQaida's Milan cell. Numerous wiretaps have been collected by investigators in the past months which show that Es Sayed was in contact with the leadership of al Qaida. In one of the conversations, he says that he had been sent to Milan to reorganize the "Muslim brothers" who were hit by the investigations starting in the early 1990s. Es Sayed was convicted in Egypt for the massacre at Luxor in which 58 foreign tourists were killed.

4. AL-FAWAZ, Khalid

Khalid Al-Fawaz was indicted in the United States for conspiring to bomb the U.S. embassies in Kenya and Tanzania. The United States is seeking his extradition from the United Kingdom. Al Fawaz was sent to London by Usama bin Laden in1994, where he set up an office to serve as a conduit among various al Qaida cells.

5. AL-MASRI, Abu Hamza

Abu Hamza al-Masri identifies himself as the Legal Officer for the Islamic Army of Aden, the terrorist organization that claimed credit for the bombing of the USS Cole in Yemen. The President designated the Islamic Army of Aden as a financier of terrorism when he launched the financial war on terrorism on September 24, 2001. In written statements, Hamza seeks support and backing for *jihad* against the Yemeni regime and the return to Islamic law. The Islamic Army of Aden has taken responsibility for the kidnapping of foreigners, including the kidnapping of 16 tourists in December of 1998, that resulted in the killing of three Britons and one Australian. In interviews, Hamza has endorsed the killing of non-Muslim tourists visiting Muslim countries.

INDIVIDUALS LINKED TO SALAFIST GROUP FOR CALL AND COMBAT

The following four individuals are members of an al Qaida cell operating in Italy that carried out logistical tasks in collaboration with similar groups active in Germany, the United Kingdom, and Algeria. The cell is part of the Salafist Group for Call and Combat, an Algerian terrorist organization that continues to terrorize North Africa. The President designated the Salafist Group for Call and Combat as a financier of terrorism when he launched the financial war on terrorism on September 24, 2001. The Salafist Group for Call and Combat was designated by the State Department as a Foreign Terrorist Organization on March 27, 2002.

6. AOUADI, Mohamed Ben Belgacem

Aouadi, a Tunisian national, has been convicted in Italy and is serving a five-year term in prison for being part of a group involved in trafficking of arms and explosives. He acted as a liaison with the Algerian-Spanish cell of al Qaida and was the man who procured the false documents for other al Qaida cell members.

7. BOUCHOUCHA, Mokhtar

Bouchoucha, a Tunisian national, has been convicted in Italy and is serving a five-year term in prison for being part of a group involved in trafficking of arms and explosives.

8. CHARAABI, Tarek

Charaabi, a Tunisian national, has been convicted in Italy and is serving a four-year term in prison for being part of a group involved in trafficking of arms and explosives.

9. ESSID, Sami Ben Khemais

Essid has been convicted in Italy and is serving a five-year term in prison for being part of a group involved in trafficking of arms and explosives.

10. BEN HENI, Lased

Ben Heni, a Libyan national, served as a liaison between the al Qaida cell in Italy, led by Ben Khemais, and the cell in Frankfurt that was dismantled in December 2000, before it was able to carry out an attack in Strasbourg. He has been indicted for participation in a criminal conspiracy to traffic in arms, explosives, chemical weapons, and identity papers, and for aiding illegal immigration. He was arrested in Germany in October and then extradited to Italy. At the time of his arrest, he bragged that he had been trained in the same camps frequented by Usama bin Laden.

TREASURY NEWS

FROM THE OFFICE OF PUBLIC AFFAIRS

FOR IMMEDIATE RELEASE
April 20, 2002
PO-3015

Action Plan
April 20, 2002

We, the G-7 Finance Ministers and Central Bank Governors, have today adopted an integrated Action Plan to increase predictability and reduce uncertainty about official policy actions in the emerging markets. The Action Plan is part of an overall endeavor whereby the sovereign debt of all countries would ultimately be investment grade, a rating that every country could eventually achieve with the right policies. The Action Plan would help prevent financial crises and better resolve them when they occur, thereby creating the conditions for sustained growth of private investment in emerging markets and helping raise living standards of the people in emerging market countries. We pledge to work together to carry out this Action Plan. The plan comprises the following elements that are complementary and reinforce each other.

We will work with emerging market countries and their creditors to implement a market-oriented approach to the sovereign debt restructuring process in which new contingency clauses would be incorporated into debt contracts. These new clauses should describe as precisely as possible what would happen in the event of a sovereign debt restructuring. The clauses should include super-majority decision-making by creditors; a process by which a sovereign would initiate a restructuring or rescheduling - including a cooling-off, or standstill, period; and a description of how creditors would engage with borrowers. Within these parameters, we will work with borrowers and creditors to make the clauses as effective as possible, examining such issues as aggregation, new private lending, and treatment of existing debt. We will also work with the International Monetary Fund on incentives for countries with IMF programs to adopt such clauses.

With this market-oriented approach to the sovereign debt restructuring process, we are prepared to limit official sector lending to normal access levels except when circumstances justify an exception. It is becoming clearer that official sector support is being limited. Limiting official sector lending and developing private sector lending are essential parts of our Action Plan.

We will work with the IMF to improve the quality, transparency, and predictability of official decision-making as a key means of crisis prevention. Specific actions include a more pre-emptive analysis of debt sustainability using market-based measures of credit-worthiness, a consideration of a greater degree of independence between the surveillance or analysis role and the lending role at the IMF, and a clarification of the lending into arrears policy of the IMF.

We support further work by the IMF on proposed approaches to sovereign debt restructuring that may require new international treaties, changes in national legislation, or amendments of the Articles of Agreement of the IMF. Since these changes would take time, this work should not delay the expeditious implementation of the approach described above; indeed, this work is complementary.

We emphasize that this Action Plan should increase the incentives for governments to pay their debts in full and on time. These incentives, which include the benefit of continued market access at reasonable interest rates, should remain.

TREASURY NEWS

FROM THE OFFICE OF PUBLIC AFFAIRS

FOR IMMEDIATE RELEASE
April 20, 2002
PO-3016

Statement of G-7 Finance Ministers and Central Bank Governors April 20, 2002

We met last night and today with prospects for the global economy more positive than a few months ago. This is in part a tribute to strengthened international cooperation. We discussed the global economy, international efforts to combat the financing of terrorism, approaches to financial crises, and the importance of more effective development assistance.

We remain strongly committed to combating the financing of terrorism and we take note of the progress made in implementing our previous Action Plans. As a further and positive step forward in the war on terrorist financing, the G-7 Finance Ministers announced today the first G-7 joint designation of terrorist entities and the associated freezing of assets in the G-7 countries; the Ministers encourage other countries to freeze these assets as well. We again urge all countries to participate in the FATF self-assessment and to implement quickly the FATF recommendations against terrorist financing. We look forward to the report of the IMF on the efforts it and its member countries are making to combat the financing of terrorism. We urge the IMF and World Bank to begin conducting their financial sector assessments, incorporating reports on compliance with anti-money laundering and terrorism financing standards based on FATF recommendations. We are working to ensure that legitimate institutions, organizations, and networks are not misused by terrorists and their supporters.

Economic recovery from the slowdown is underway, supported by appropriate and proactive macroeconomic policies that were in part a response to the tragic events of September 11, but downside risks remain, including those arising from oil markets. Each of us has an ongoing responsibility to implement sound macroeconomic policies and structural reforms to sustain recovery and support strengthened productivity growth in our economies. We welcome the work programs of the Financial Stability Forum and International Accounting Standards Board responding to financial and related vulnerabilities. We look forward to the FSF report by September. We will continue to monitor exchange markets closely and cooperate as appropriate. We welcomed Russia's continued strong economic growth, progress in implementing key reforms, and work toward WTO accession.

Many emerging markets and developing economies are also now showing clear signs of recovery, building on improved economic policies. Better availability and clarity of information furnished to markets have enabled market participants better to assess and differentiate across economies the fundamental causes of market developments. The situation in Argentina is of serious concern. Reforms of the fiscal framework encompassing the provinces, establishing a monetary anchor, and improving the bankruptcy and economic subversion laws will all help to restore investment and growth, thereby raising the living standards of the Argentine people. We thus support the IMF and the work it is doing with Argentina.

In February, we committed ourselves to making the crisis management framework more predictable and fair. Today, we announced an Action Plan to improve stability, growth, and potential living standards in emerging markets. Rapid progress in the weeks and months ahead is essential. We will review progress at our next meeting.

We affirmed our strong commitment to advancing development and combating poverty in the poorest nations including by linking greater contributions by developed nations to the adoption of good economic policies by developing countries. We recognize that official development assistance and private financing yield better results when used in a good policy environment and in support of sound policies such as good governance, human capital investment, and private sector development. These are the essential ingredients for raising productivity growth and reducing poverty in developing nations. We are committed to increasing the effectiveness of bilateral and multilateral development assistance, and to continuously monitoring and measuring its results. We also stressed the importance of continued trade liberalization, particularly in support of improving the effective participation of the poorest countries in the multilateral trading system.

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For immediate release –
April 20, 2002

Contact: Public Affairs
(202) 622-2960

Statement by Secretary O'Neill following the Spring meeting of the G7 Finance Ministers

It was a pleasure to host my G-7 colleagues here in Washington last night and this morning. I enjoyed our candid and productive discussions.

I am pleased to announce that yesterday, the G-7 nations for the first time jointly designated a list of individuals and an entity as financiers of terrorists, terrorist organizations and those who support them and blocked their assets. I want to thank my G7 colleagues for their close collaboration on these efforts. This marks an important step in our international efforts to increase information sharing and coordinate our counter terrorist financing efforts.

The unity with which the international community has tackled that goal is a message to the terrorists that our resolve is strong. The United States is extremely pleased to work with other nations to help ensure effective enforcement of UN Security Council resolutions. The United States is committed to providing needed technical assistance to continue our worldwide progress in severing links that terrorists use to finance their activities. There is still much to be done and we agreed this weekend to continue working to ensure that legitimate institutions, such as charities, NGOs, and hawala systems, are not misused by terrorists and their supporters.

We were all pleased to observe the economic recovery now taking hold in our economies. At the same time, we are mindful of downside risks that remain and remain committed to pursuing polices aimed at sustaining recovery and strengthening productivity growth. We also noted clear signs of recovery in emerging market economies. Argentina is still a key concern, however, and we urge the Argentine authorities to work closely with the IMF to put a comprehensive reform plan into place.

We also discussed the key priorities of crisis prevention and crisis resolution. First and most important, we all want to move from reacting to crises with repair efforts to a world in which all nations have investment grade sovereign debt. Even in that world, we would have occasional problems, and we need a predictable process for responding. We are releasing today an action plan to increase predictability and reduce uncertainty about official policy actions in the emerging markets – thereby creating the conditions for a sustained recovery of private investment in emerging markets. We will work together with emerging market countries and their creditors to incorporate new contingency clauses into debt contracts, while also continuing to explore with the IMF more sweeping, statutory steps to sovereign debt restructuring.

PO-3017

We are all dedicated to advancing development and combating poverty in the poorest nations. We reiterated our commitment to increasing the effectiveness of bilateral and multilateral development assistance, and to continuously monitoring and measuring its results. We also discussed the important issue of IDA grants and the need to come to a sensible resolution that supports effective development as soon as possible.

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FOR IMMEDIATE RELEASE
Saturday, April 20, 2002

Contact: Public Affairs
(202) 622-2960

STATEMENT OF TREASURY SECRETARY PAUL H. O'NEILL AT THE INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE MEETING April 20, 2002

Today we meet amid a global economic climate much improved since our last meeting in November. We have much to be thankful for, including our solidarity in combating the scourge of terrorist financing and the clear recovery now underway in the world economy, led by the United States.

Combating Terrorist Financing

Our principal focus at our last meeting was to begin a process to eliminate the flow of funds that finance global terror. The unity with which the international community has tackled that goal in the intervening months is heartening. Such efforts have brought significant progress to date in severing links that terrorists use to finance their activities. But there is much to be done.

Since September 11, the United States and other countries have taken action to block the resources of many individuals and organizations aiding and abetting terror. Yesterday, the G-7 nations for the first time jointly designated a list of individuals and an entity as financiers of terrorists, terrorist organizations and those who support them and will block their assets. This effort will be continued in the future to increase the joint effectiveness of our actions. The United States is extremely pleased to work with other concerned nations to help ensure that enforcement of UN Security Council resolutions is coordinated effectively. This is an important effort that has been very helpful in addressing the scourge of terrorists, terrorist organizations and those who support them around the world.

The IMF and World Bank are not law enforcement agencies, but protecting the integrity of the international financial system is among their foremost tasks. Thus, within the confines of their mandates, they have a crucial role to play in the fight against terrorist financing and in anti-money laundering work around the globe. The United States commends the IMF and the World Bank for developing an enhanced anti-money laundering and combating financing of terrorism (AML/CFT) assessment methodology.

PO-3018

We believe this is a good step forward toward the essential goal of developing a unified, comprehensive and integrated approach to assessing the FATF Recommendations on terrorist financing and anti-money laundering. While there is more to be done before reaching a final agreement, we are near the finish line – and I hope we can complete this work immediately. In addition, the institutions should also enhance their analytical work on alternative payment and remittance systems, including hawala and non-regulated financial systems more generally.

Promoting Global Growth

In the United States, positive indicators are piling up, and growth projections for this year continue to be revised upward. Last December, the IMF projected that U.S. growth in 2002 would be on the order of 0.7 percent; the projection now is 2.3 percent. While some risks remain, consumer spending and reduced inventory liquidation are on track to keep growth strong in the near term, and other sectors such as capital investment should provide extra support later in the year.

North America is leading the global economy into recovery, after what turned out to be a very mild downturn. But it is up to all of us to pursue policies – macroeconomic and structural – that will speed the upturn and sustain growth over the long term. More than one engine is needed for the global economy. We cannot be complacent, since downside risks remain. In particular, we need to keep a close watch on the oil market situation.

Toward a More Effective IMF

Increasing economic growth and reducing instability are fundamental challenges for us all, and the IMF plays a key role in achieving these goals. Given the importance of these objectives, we simply must do our best to equip the IMF to be effective in carrying out its work.

The United States welcomes ongoing efforts to enhance crisis prevention at the IMF. Greater focus on its areas of expertise and higher standards for Fund programs are also key to ensuring that IMF advice is heeded – and that it builds credibility as a successful instrument of growth and stability. Yet no matter how good the IMF's analysis and policy advice are, their impact will be limited if they do not serve to inform the public and markets. We look forward to further progress on transparency in coming months.

Many have pointed out that no matter how hard we all work at preventing crises, we must be prepared to manage crises that may nonetheless occur. Tremendously important discussions are underway on enhancing mechanisms for addressing sovereign payment difficulties. We welcome the efforts by the IMF and many others to lay out new ideas and approaches. As we explore these proposals, I think it is important to move ahead with practical steps that can be taken now to improve predictability and to provide for more orderly restructurings should the need arise. This is why we have proposed that debtors and creditors include in their contracts a comprehensive package of new clauses that would help describe what would happen in the event of a restructuring.

We believe that moving now to insert such clauses in foreign currency sovereign debt is in the interests of the international community as a whole and that incentives encouraging debtors and creditors to do so should be explored. This could serve to complement, rather than supersede, any further work on ways to improve the sovereign debt restructuring process.

The difficulties faced by the poorest countries have been a key focus of the international community this year, including at the Monterrey conference. In keeping with the strong U.S. commitment to working with these countries, President Bush has proposed a substantial increase in U.S. assistance for countries that rule justly, invest in their people, and encourage economic freedom. The IMF has an important role to play in helping countries establish a strong macroeconomic policy framework that provides the basis for increasing productivity and achieving sustained, private sector-led growth.

The last five months have been marked by strong cooperation and a coming together of international efforts on fundamentally important issues. We look forward to continuing in this spirit as we work together in the IMF in the months ahead.

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EMBARGOED UNTIL 2:00 P.M. SUNDAY, APRIL 21, 2002
CONTACT: PUBLIC AFFAIRS (202) 622-2960

STATEMENT OF TREASURY SECRETARY PAUL H. O'NEILL AT THE DEVELOPMENT COMMITTEE MEETING
April 21, 2002

President Bush believes that the United States should and must be a champion of economic growth and development, particularly in those parts of the world where poverty is most acute. The President has called for a new compact for global development, defined by new accountability for both rich and poor nations alike with greater contributions from developed nations linked to greater responsibility from developing nations. The President's proposal recognizes that sound policies have universal application and that development partnerships with borrowers can only be effective if rooted in a good policy framework. For this reason, the adoption by poor countries of the reforms and policies that make development effective and lasting is integral to the President's proposed new Millennium Challenge Account.

The concept underlying the Account is clear, that countries that rule justly, invest in their people, and encourage economic freedom will receive more U.S. assistance. Secretary of State Powell and I are exploring ideas for a set of clear, concrete and objective criteria to measure progress in these three areas. We encourage you to share with us the results of your own development experience on the most credible indicators for measuring performance.

Measurable Results: The international community has a responsibility to see that the resources it provides make a meaningful improvement in the daily lives of the people in the poorest countries. Unfortunately, this is an area where donors have a long history of being derelict in their responsibilities. No one can be satisfied with the results of the last fifty years of development assistance. It is an area where we can – and must – do a better job.

Aid must be used wisely as part of sound management practices that are well targeted, well coordinated, and rigorous in measuring results. It is important that a solid partnership exist with client countries on priority reforms to drive growth and poverty reduction, while underscoring the need to measure the impact of and accountability for those reforms. Measurable results and policies that increase economic growth should be the hallmark of World Bank operations.

PO-3019

The Bank's paper on development effectiveness provides a strong reminder of how closely aid effectiveness is linked to country commitment and the quality of their policies and institutions. Unfortunately, the paper provides little guidance on what works and what does not work in generating jobs and the productivity-led growth needed to reduce poverty. We also still need a more informed process for correlating project inputs with outputs, and we strongly encourage the efforts being initiated by IDA in this area. We want to see an enhanced results-oriented focus permeate all levels of operations, with progress tracked against a set of key objectives by investment, by country, and by lending institution.

Grants: We would like to see substantially increased use of grants for basic education and health, HIV/AIDs and other infectious diseases, and water and sanitation projects in the poorest countries. The United States has shown a high degree of flexibility on the overall proportion of IDA that should be provided as grants. This reflects our desire for a timely agreement that will provide IDA with a secure policy and financial basis to increase the effectiveness of its assistance. We are convinced that commensurate flexibility by all donors will eventually lead to a satisfactory conclusion of the IDA-13 replenishment that all donors seek.

Leave No Child Behind: Education has high value for the poor who must rely on their own human capital skills to generate income to escape poverty. The benefits of education in poor countries, particularly when girls and women are fully included, transform societies in multiple ways. We reaffirm our strong support for countries that demonstrate a sustained political commitment to quality education for all children, youth and adults. This commitment will promote higher living standards and democratic societies and provides the long-term foundation for countries to benefit from globalization. It is crucial that countries devote adequate budgetary resources to education and adopt needed policy and institutional changes. The use of resources must be monitored to ensure that they translate into actual learning outcomes and results. We believe the World Bank and other donors should be prepared to significantly increase funding for basic education in those countries with strong policy and financial commitment to this sector. Bank plans to "fast-track" universal primary completion in some ten countries is a welcome first step as long as countries are selected on the basis of credible performance and donor efforts are well coordinated.

Anti-Money Laundering Action Plan and Fighting Terrorist Financing: Strengthening financial systems' and institutions' ability to combat money laundering and terrorist financing is essential for financial stability and therefore for sustainable economic growth and poverty reduction, particularly in countries where capacity is weak. Protecting the integrity of the IFIs and taking steps to prevent terrorists from abusing financial systems to support their activities should be a very high priority for the international community, including the Bank and Fund, and should be reflected accordingly in the priority that these institutions ascribe in their country strategies and resource allocations.

HIPC: The ultimate success of HIPC will be determined by the extent to which debt relief contributes to economic growth and human development. Priorities in this area for HIPC countries should be on high quality development strategies that increase productivity and the effective use of freed resources. Donors also need to address the projected financing gap for the HIPC program.

TREASURY NEWS

FROM THE OFFICE OF PUBLIC AFFAIRS

FOR IMMEDIATE RELEASE
April 19, 2002
PO-3020

Memorandum of Understanding Concerning the Pakistan-United States Joint Economic Forum

The Pakistan Ministry of Finance and Economic Affairs and the United States Department of the Treasury hereby establish the Pakistan-U.S. Joint Economic Forum (the Forum) to facilitate more regular consultations on economic issues of mutual interest to the Ministry of Finance and Economic Affairs and the Department of the Treasury.

The establishment of the Forum is a reflection of a shared desire to reinforce bilateral economic relations and promote better mutual understanding of economic and financial issues. The Forum will be an important vehicle for the exchange of ideas on important economic and financial policy matters.

Discussions under the Forum will focus on macroeconomic and financial issues of mutual interest. In this context, the participants in the Forum will exchange views on global, regional and bilateral economic and financial developments.

The Pakistan Minister of Finance and Economic Affairs and the United States Secretary of the Treasury, or their designees, will co-chair the Forum. Officials of the central banks of both the United States and Pakistan will be invited to participate in the Forum.

Meetings of the Forum will take place once a year, or as circumstances warrant. Meetings will take place at a convenient location and, where possible, in conjunction with other bilateral or multilateral meetings. Within two years from the date of the signing of this

Memorandum of Understanding, the Pakistan Ministry of Finance and Economic Affairs and the United States Department of the Treasury will consider progress under the Forum and whether it should be continued.

Signed on the 19th of April, 2002, in Washington, D.C.

Shaukat Aziz

Minister of Finance and Economic Affairs

Islamic Republic of Pakistan

Paul H. O'Neill

Secretary of the Treasury

United States of America

TREASURY NEWS

FROM THE OFFICE OF PUBLIC AFFAIRS

FOR IMMEDIATE RELEASE
April 19,2002
PO-3021

Pakistan-United States Joint Economic Forum

Today, Mr. Shaukat Aziz, Minister of Finance and Economic Affairs of the Islamic Republic of Pakistan, and Mr. Paul H. O'Neill, Secretary of the United States Department of the Treasury, established the Pakistan-U.S. Joint Economic Forum (the Forum) to facilitate more regular consultations on economic and financial issues of shared interest to the Ministry of Finance and Economic Affairs and the Department of the Treasury.

The establishment of the Forum is a reflection of a mutual desire to reinforce bilateral economic relations and promote better mutual understanding of economic and financial issues. The Forum will be an important vehicle for the exchange of ideas on important economic and financial policy matters.

In this context, discussions between the Pakistani and U.S. delegations today focused on global and regional economic and financial developments, economic developments in the U.S. and Pakistan, and bilateral economic and financial issues. Participants exchanged views on efforts to increase global economic growth. They also discussed the economic reform program being implemented in Pakistan to support more rapid, broad based and job-creating growth.

The participants agreed that the Forum will help strengthen Pakistan-U.S. cooperation on economic and financial matters. Minister Aziz and Secretary O'Neill noted that the meetings of the Forum will take place once a year, or as circumstances warrant. Meetings will take place at a convenient location and, where possible, in conjunction with other bilateral or multilateral meetings.

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.
April 17, 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 $24,218 million of publicly held notes maturing April 30, 2002, and to raise new cash of approximately $782 million.

In addition to the public holdings, Federal Reserve Banks hold $7,648 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 $743 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-3022

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF
2-YEAR NOTES TO BE ISSUED APRIL 30, 2002

April 17, 2002

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

Description of Offering:
Term and type of security .... 2-year notes
Series M-2004
CUSIP number .... 912828 AB 6
Auction date .... April 24, 2002
Issue date .... April 30, 2002
Dated date .... April 30, 2002
Maturity date .... April 30, 2004
Interest rate .... Determined based on the highest accepted competitive bid
Yield .... Determined at auction
Interest payment dates .... October 31 and April 30
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 GY 7
Due date(s) and CUSIP number(s)
for additional TINT(s) .... April 30, 2004 - - 912833 YT 1

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

EMBARGOED UNTIL 2:30 P.M.
April 18, 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 $22,000 million to refund an estimated $26,898 million of publicly held 13-week and 26-week Treasury bills maturing April 25, 2002, and to pay down approximately $4,898 million. Also maturing is an estimated $19,001 million of publicly held 4-week Treasury bills, the disposition of which will be announced April 22, 2002.

The Federal Reserve System holds $12,987 million of the Treasury bills maturing on April 25, 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 April 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 $1,086 million into the 13-week bill and $924 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-3023

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED APRIL 25, 2002

April 18, 2002

Offering Amount	$11,000 million	$11,000 million
Public Offering	$11,000 million	$11,000 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 KT 7	912795 LG 4
Auction date	April 22, 2002	April 22, 2002
Issue date	April 25, 2002	April 25, 2002
Maturity date	July 25, 2002	October 24, 2002
Original issue date	January 24, 2002	April 25, 2002
Currently outstanding	$17,676 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 daylight saving time on auction day

Competitive tenders ....Prior to 1:00 p.m. eastern daylight saving 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

EMBARGOED UNTIL 9:00 A.M.
April 22, 2002

PUBLIC CONTACT: Office of Financing
202-691-3550
MEDIA CONTACT: Office of Public Affairs
202-622-2960

TREASURY ANNOUNCES DEBT BUYBACK OPERATION

On April 23, 2002, the Treasury will buy back up to $1,500 million par of its outstanding issues that mature between February 2019 and August 2022. Treasury reserves the right to accept less than the announced amount.

This debt buyback (redemption) operation will be conducted by Treasury's Fiscal Agent, the Federal Reserve Bank of New York, using its Open Market operations system. Only institutions that the Federal Reserve Bank of New York has approved to conduct Open Market transactions may submit offers on behalf of themselves and their customers. Offers at the highest accepted price for a particular issue may be accepted on a prorated basis, rounded up to the next $100,000. As a result of this rounding, the Treasury may buy back an amount slightly larger than the one announced above.

Note: On the settlement date, securities should be delivered to the Federal Reserve Bank of New York using the following delivery address: ABA Number 021089482 US TREAS BUYBACK/6000.

This debt buyback operation is governed by the terms and conditions set forth in 31 CFR Part 375 and this announcement.

The debt buyback operation regulations are available on the Bureau of the Public Debt's website at www.publicdebt.treas.gov.

Details about the operation and each of the eligible issues are given in the attached highlights.

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Attachment

PO-3024

HIGHLIGHTS OF TREASURY DEBT BUYBACK OPERATION

April 22, 2002

Par amount to be bought back .... Up to $1,500 million
Operation date .... April 23, 2002
Operation close time .... 11:00 a.m. eastern daylight saving time
Settlement date .... April 25, 2002
Minimum par offer amount $100,000
Multiples of par $100,000
Format for offers ..... Expressed in terms of price per $100 of par with three decimals. The first two decimals represent fractional 32nds of a dollar. The third decimal represents eighths of a 32nd of a dollar, and must be a 0, 2, 4, or 6.
Delivery instructions .... ABA Number 021089482 US TREAS BUYBACK/6000

Treasury issues eligible for debt buyback operation (in millions):

Coupon Rate (%)	Maturity Date	CUSIP Number	Par Amount Outstanding*	Par Amount Privately Held*	Par Amount Held as STRIPS**
8.875	02/15/2019	912810 EC 8	13,320	10,947	6,072
8.125	08/15/2019	912810 ED 6	18,941	16,210	1,062
8.500	02/15/2020	912810 EE 4	9,656	8,170	2,322
8.750	05/15/2020	912810 EF 1	7,707	6,206	4,666
8.750	08/15/2020	912810 EG 9	17,259	14,630	10,675
7.875	02/15/2021	912810 EH 7	10,196	8,666	821
8.125	05/15/2021	912810 EJ 3	10,192	8,574	5,476
8.125	08/15/2021	912810 EK 0	9,926	8,268	2,562
8.000	11/15/2021	912810 EL 8	30,632	26,376	14,705
7.250	08/15/2022	912810 EM 6	10,228	8,719	1,260
		Total	138,057	116,766	49,621

* Par amounts are as of April 19, 2002.
** Par amounts are as of April 18, 2002.

The difference between the par amount outstanding and the par amount privately held is the par amount of those issues held by the Federal Reserve System.

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.
April 22, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $9,000 million to refund an estimated $19,001 million of publicly held 4-week Treasury bills maturing April 25, 2002, and to pay down approximately $10,001 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 $12,987 million of the Treasury bills maturing on April 25, 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-3025

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED APRIL 25, 2002

April 22, 2002

Offering Amount ....$9,000 million
Public Offering ....$9,000 million
NLP Exclusion Amount ....$11,100 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 JV 4
Auction date ....April 23, 2002
Issue date ....April 25, 2002
Maturity date ....May 23, 2002
Original issue date ....November 23, 2001
Currently outstanding ....$43,181 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 daylight saving time on auction day
Competitive tenders:
Prior to 1:00 p.m. eastern daylight saving 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
April 22, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	April 25, 2002
Maturity Date:	October 24, 2002
CUSIP Number:	912795LG4

High Rate: 1.880% Investment Rate 1/: 1.923% Price: 99.050

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 65.09%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 26,123,270	$ 9,659,923
Noncompetitive	1,200,401	1,200,401
FIMA (noncompetitive)	140,000	140,000
SUBTOTAL	27,463,671	11,000,324 2/
Federal Reserve	4,430,121	4,430,121
TOTAL	$ 31,893,792	$ 15,430,445

Median rate 1.870%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.840%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 27,463,671 / 11,000,324 = 2.50

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $995,660,000

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
April 22, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	April 25, 2002
Maturity Date:	July 25, 2002
CUSIP Number:	912795KT7

High Rate: 1.690% Investment Rate 1/: 1.720% Price: 99.573

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 59.48%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 28,172,045	$ 9,354,305
Noncompetitive	1,451,809	1,451,809
FIMA (noncompetitive)	194,000	194,000
SUBTOTAL	29,817,854	11,000,114 2/
Federal Reserve	4,734,006	4,734,006
TOTAL	$ 34,551,860	$ 15,734,120

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 = 29,817,854 / 11,000,114 = 2.71

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,201,128,000

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
Tuesday April 23, 2002

Contact: Public Affairs
(202) 622-2960

TREASURY TO ANNOUNCE SECRETARY O'NEILL TRIP TO AFRICA

Tony Fratto, Treasury Director of Public Affairs, will hold a press briefing at Noon on Tuesday, April 23 to announce Secretary Paul O'Neill's upcoming trip to Africa.

Tony Fratto, Director of Public Affairs
Africa Trip Announcement
Tuesday, April 23, 2002
Noon
Diplomatic Reception Room 3311
The Treasury Building
Washington, DC

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.

PO-3028

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 10 A.M. EDT
April 23, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

TESTIMONY OF PETER FISHER
UNDER SECRETARY FOR DOMESTIC FINANCE
U.S.DEPARTMENT OF THE TREASURY

BEFORE THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

DEPOSIT INSURANCE REFORM

Mr. Chairman, Senator Gramm, and Members of the Committee, I appreciate the opportunity to provide the Administration's views on reform of the deposit insurance system. Chairman Powell and the FDIC staff are to be commended for their valuable contributions to the policy discussion of deposit insurance reform. I am also grateful for the Committee's interest in holding a hearing on this important issue.

Our current deposit insurance system is intended to balance the interests of savers and taxpayers by aiming to protect them both from exposure to bank losses and, thereby, to promote public confidence in the U.S. banking system. Consistent with this objective, the Administration believes that some improvements could be made in the system's operation and fairness. Specifically, the Administration favors reforms that would: (1) reduce the system's pro-cyclical bias by allowing the insurance fund reserve ratio to vary within a range and eliminating triggers that could cause sharp changes in premiums; (2) improve the system's risk diversification by merging the bank and thrift insurance funds; and (3) ensure that institutions appropriately compensate the FDIC for insured deposit growth while also taking into account the past contributions of many institutions to build fund reserves.

While these improvements are worth pursing, there is no sound public policy purpose to be served by an increase in deposit insurance coverage limits. There is no *financial* benefit to savers to be derived from increased coverage limits because individuals can today hold insured deposits, up to the limits, at any number of banks.

PO-3029

The only credible benefit to savers is that of greater *convenience,* but this is of potential use to only that small fraction of the population that has sufficient savings, which they choose to hold in the form of deposits, to have any possible need for coverage in excess of $100,000. Increased coverage limits would provide no benefit to the overwhelming majority of Americans but, as taxpayers, it would expose them to additional risk. Higher coverage limits would mean greater contingent liabilities of the Government and weaker market discipline, exposing the insurance fund and taxpayers to increased risk of loss. Weighing the ephemeral benefits of increased coverage against the significant costs of added risk and the erosion of market discipline, the Administration cannot support an increase in coverage limits, whether directly or by indexing.

My statement will first discuss those reforms that we think would enhance the operation and fairness of the system. I will then review why we do not support coverage limit increases.

Reducing the Pro-cyclical Effects of Deposit Insurance Pricing

Reserves should be allowed to grow when conditions are good to better enable the fund to absorb losses under adverse conditions without sharp increases in premiums. Allowing the reserve ratio to vary within a range would help to reduce the potential pro-cyclical effects of deposit insurance pricing.

The existing designated reserve ratio of 1.25 percent of reserves to insured deposits was historically derived roughly as the average reserve ratio over part of the FDIC's history. As it is based on an average, it is logical to provide for reserve growth above that level when conditions are good (and for reserves to decline below that level when conditions are unfavorable).

We support the FDIC's recommendation that it have authority to adjust the designated reserve ratio periodically within prescribed upper and lower bounds. FDIC should also have greater discretion in determining how quickly it achieves the designated reserve ratio that it selects. This flexibility would help reduce potential pro-cyclical effects by stabilizing industry costs over time and avoiding sharp premium increases when the economy may be under stress. In the context of these reforms, it would also be appropriate to eliminate the current requirement that premiums rise to a minimum of 23 cents per $100 of domestic deposits when the fund is expected to remain below the designated reserve ratio for more than a year.

We are mindful that efforts to achieve a more counter-cyclical policy require that depository institutions build insurance reserves in good times to pre-fund future losses. To do otherwise could leave the fund exposed to years of low reserves following a rash of bank failures in the future and could increase the likelihood of prolonged high premiums (and, at the extreme, taxpayer assistance). Such an outcome would be unwelcome both economically and politically.

Determining the appropriate statutory range for the designated reserve ratio requires striking a balance between the burden of pre-funding future losses and the pro-cyclical burden of replenishing the insurance fund in a downturn. Within the range, the actual designated reserve ratio should always be under study by the FDIC, with public notice and comment concerning any proposed change. A key benefit to giving the FDIC greater flexibility to adjust the designated reserve ratio is that it may better achieve low, stable premiums over time.

Premiums, Assessment Credits, and Rebates

The FDIC currently lacks authority to charge over 90 percent of banks and thrifts any premium for deposit insurance. The insurance funds' existing capacity to absorb losses comes primarily from the high premiums paid by institutions in the first half of the 1990s. Some large financial companies have rapidly increased insured deposits in recent years through their multiple subsidiary depository institutions - without compensating the FDIC. According to FDIC data, insured deposit growth from sweep programs conducted by two of these companies has reduced the Bank Insurance Fund reserve ratio by 4 basis points. In addition, hundreds of other recently chartered banks and thrifts have never paid insurance premiums.

To ensure that institutions appropriately compensate the FDIC for insured deposit growth, Congress should remove the current restrictions on FDIC premium-setting while authorizing the agency to provide assessment credits (i.e., offsets) against future premiums based on each institution's recent history of premium payments. We find reasonable proposals by the FDIC and others that would initially allocate these credits to institutions that contributed to the build-up of insurance reserves in the early-to-mid 1990s. According to FDIC, the credits would allow many of these institutions to continue to pay no premiums for a period of several years under reasonable assumptions about the health of the economy and banking system. On an on-going basis, assessment credits would permit the FDIC to collect proportionally greater payments from institutions with rapid insured deposit growth than from those growing more slowly.

As a tool for managing insurance fund reserve levels, we prefer assessment credits to rebates, which would drain the insurance fund of cash. We would also want to avoid placing a "hard cap" on the fund that would trigger large mandatory cash rebates. Such a cap would conflict with the important objectives of allowing reserve growth under good conditions and smoothing industry payments over time.

We also are sympathetic to the FDIC's request for more flexibility to vary premiums according to the risk that an institution poses to the insurance fund. Ideally, an institution's risk-based premium should account for the riskiness of its assets, the structure of its liabilities, the strength of its capital base and management, and the effect that its failure would have on insurance fund reserves.

The range in premiums should be sufficiently wide to reflect the spectrum of relative financial and managerial soundness among the nation's depository institutions, and thereby to have the desired behavioral effects.

Merging the Bank and Thrift Insurance Funds

We support a merger of the bank (BIF) and thrift (SAIF) insurance funds and we urge the Congress to merge the funds as soon as practicable regardless of whether it chooses to pursue other reforms in the near term. A larger, combined insurance fund would have a greater ability to diversify its risks than either fund separately. It would make sense to merge the funds while the industry is strong and while a merger would not unduly burden either BIF or SAIF members. A merged fund would also prevent the possibility that institutions posing similar risks could pay significantly different premiums for the same FDIC insurance, as was the case in 1995 and 1996. Incentives created by a premium disparity could result in a wasteful expenditure of industry resources in order to avoid higher assessments. Finally, a merger would underscore the fact that BIF and SAIF are already hybrid funds: each one insures the deposits of commercial banks, savings banks, and savings associations. Indeed, commercial banks now account for 43 percent of all SAIF-insured deposits. A merger would simply recognize the commingling of the funds that has already taken place and that is likely to continue.

Deposit Insurance Coverage Limits

While we support the FDIC's efforts to secure the improvements to the deposit insurance system that I have just outlined, we see no sound public policy purpose that would be served by an increase in current or future coverage limits. Consumers do not need an increase in coverage limits and would receive no real financial benefit. An increase in coverage limits would reduce - not enhance - competition among banks in general but would not predictably benefit any particular class or category of banks. Higher coverage limits would mean greater contingent liabilities of the Government and weaker market discipline, exposing the insurance fund and taxpayers to increased risk of loss.

Higher Coverage Limits Would Not Benefit Consumers

Last summer, the Treasury Department testified before a House subcommittee that we "see no evidence that the current limit on deposit insurance coverage is burdensome to consumers." Since then, we have continued to look for such evidence and found none. The vast majority of bankers with whom we have spoken since that time - from institutions of all sizes - have provided no evidence to the contrary. We have received no calls, no letters, from consumers demanding increases in coverage to avoid the inconvenience of having to place deposits in excess of $100,000 at more than one institution.

Increasing the deposit insurance limit would do little - if anything - for most savers. Consumer finance survey data from the Federal Reserve indicate that the median deposit balance is far below the current ceiling. Only approximately three percent of households with deposit accounts held any uninsured deposits, and the median income of these households was approximately double the median income of households with deposits under $100,000.

Ample opportunities already exist for savers with substantial deposits - including retirees and those saving for retirement - to obtain FDIC coverage equal to several times $100,000. Without much difficulty, they may place deposits in several FDIC-insured institutions or establish accounts within the same institution under different legal capacities that qualify for separate coverage (e.g., individual, joint, IRA). Many consumers feel comfortable putting substantial amounts into uninsured but relatively safe money market mutual funds, and there are other low-credit risk investments available for retirement savings or for other purposes. Thus there is no widespread consumer concern about existing coverage limits.

Higher Coverage Limits Would Not Benefit Banks or Promote Competition

Proponents of higher coverage limits have claimed that they are necessary for community banks to remain competitive in attracting funds. Yet there is no evidence that community banks have had trouble attracting deposits under the existing coverage limits. In fact, the Federal Reserve has shown that smaller banks on average have grown more rapidly and experienced higher rates of growth in both insured and uninsured deposits than larger banks over the past several years.

Furthermore, because higher coverage limits would apply to all depository institutions, multi-bank holding companies now offering $200,000 in coverage through two subsidiary banks would be able to offer, for example, $260,000 if the coverage limit was raised to $130,000. Thus these companies could continue offering twice the level of coverage available from a single-bank company. In fact, given the ability of major financial companies to sweep large volumes of funds between uninsured investments and insured deposit accounts in several subsidiary banks, higher coverage limits may improve the competitive position of these companies in deposit-taking vis-à-vis small banks. Therefore, it is hard to see how higher limits could improve community banks' ability to compete with larger banks for deposits.

Competition is essential to keeping banks vital. Banks compete for large deposits by demonstrating the soundness of their balance sheet and operations to such depositors. This competition for funds enhances the entire credit allocation mechanism. In general, raising coverage limits would reduce the amount and rigor of credit judgments by large depositors, thereby weakening the competition for funds and the efficiency of credit allocation.

Indeed, there is no credible evidence that increased coverage limits would serve to promote competition among banks. I believe that one reason the issue of coverage limits has surfaced is precisely because the decline in the real value of the coverage limit over the last two decades has served *to promote* a healthy competitive dynamic among banks in vying for the attention of customers. Continuing the current fixed ceiling on deposit insurance coverage, while permitting individuals to hold insured accounts at more than one institution, provides consumers with the potential benefits of greater total insured deposits if they need them and fosters a competitive discipline on bankers to provide quality services to their customers. Indexation of deposit insurance coverage limits would remove this discipline and only serve to reduce competition from what it otherwise would be.

Not only would higher coverage limits erode competition among banks, at the same time banks would face upward pressure on premiums. By diluting insurance fund reserves, higher coverage limits would mean that more reserves would be necessary just to meet the *existing* designated reserve ratio of 1.25 percent of reserves to insured deposits. Recent FDIC estimates indicate that, for example, raising the general coverage limit to $130,000 and retirement account coverage to double that amount would lower the combined fund reserve ratio initially by 4-5 basis points as existing uninsured deposits convert to insured status. As new deposits are brought into the banking system by the coverage increase, the total drop in the reserve ratio could be 9-10 basis points. Higher coverage limits for municipal deposits would result in an additional decline in the reserve ratio.

Higher Coverage Limits Would Increase Insurance Fund and Taxpayer Risks

Given the lack of potential benefits for consumers or of potential improvement in banking system competition, we cannot justify the increase in the Government's off-balance sheet liabilities that would result from higher deposit insurance coverage limits. These higher contingent liabilities enlarge the exposure of the insurance fund, and ultimately of taxpayers, to potential future losses.

Moreover, increasing the overall coverage limit could weaken market discipline and further increase the level of risk to the FDIC and taxpayers. Proposals for even higher levels of protection of municipal deposits than of other classes of deposits would only exacerbate this problem. Providing substantially higher coverage for municipal deposits would significantly reduce incentives for state and local government treasurers to monitor risks taken with large volumes of public sector deposits. Should the FDIC largely protect these funds, an important source of credit judgment on the lending and investment decisions of local banks would be lost.

Weaker market discipline runs the risk of additional supervisory or regulatory measures that might eventually be necessary to offset the risks to the insurance fund and taxpayers. Because of the absence of identifiable benefits, we would want to avoid actions such as a coverage limit increase that would risk the possibility of greater cost burdens on our banking system.

Funding of Supervision Costs

In considering reform of deposit insurance pricing, it is important to recognize that a significant portion of insurance fund expenditures is not for the resolution of failing institutions, but for the FDIC's supervision of almost 5,500 state-chartered commercial and savings banks. While these state banks pay fees for the fraction of supervision performed by state authorities, they are not charged fees for the significant share of supervision that is performed by the FDIC. (State banks that are supervised by the Federal Reserve are treated in a similar manner.) National banks and savings associations, by contrast, are charged for 100 percent of their supervision, and in addition must subsidize FDIC's costs to supervise state banks through their contributions to the insurance funds (and the fund's earnings on those contributions). This uneven distribution of supervision costs is a real problem that should be addressed. All of the federal and state bank supervisory agencies should continue to have the resources necessary to promote safety and soundness. We look forward to working with Congress and the FDIC Board to devise a solution to this problem.

Conclusion

Let me conclude by re-affirming the Administration's support for several of the deposit insurance recommendations advanced by the FDIC. We believe that these reforms would improve the operation and fairness of the system, and we look forward to working with Congress and the FDIC on their implementation. However, the Administration does not support an increase in deposit insurance coverage limits, whether by raising the limit directly or by indexation.

Thank you for the opportunity to appear before the Committee today.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Tuesday, April 23, 2002

Contact: Public Affairs
(202) 622-2960

MEDIA ADVISORY

Pen and Pad Briefing with Senior Treasury Officials to Discuss Patriot Act Implementation
3:00 p.m. EDT
Treasury Department, Large Conference Room 3327
1500 Pennsylvania Ave. NW
Washington, DC

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.

PO-3030

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press 202-622-2960
FFB 202-622-2450

FEDERAL FINANCING BANK April 30, 2002

Kerry Lanham, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of March 2002.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $38.0 billion on March 31, 2002, posting a decrease of $1,117.0 million from the level on February 28, 2002. This net change was the result of decreases in holdings of agency debt of $800.0 million and in holdings of agency assets of $340.0 million, and an increase in holdings of government-guaranteed loans of $23.0 million. The FFB made 39 disbursements and received 19 prepayments during the month of March.

Attached to this release are tables presenting FFB March loan activity and FFB holdings as of March 31, 2002.

PO-3031

FEDERAL FINANCING BANK
MARCH 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
GENCY DEBT				
U.S. POSTAL SERVICE				
U.S. Postal Service	3/08	$1,000,000.00	3/11/02	1.927% S/A
OVERNMENT-GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
San Francisco OB	3/01	$50,000.00	8/01/05	3.975% S/A
Atlanta CDC Lab	3/18	$218,481.30	1/30/31	5.938% S/A
San Francisco OB	3/21	$554,607.43	8/01/05	4.600% S/A
San Francisco OB	3/25	$49,264.62	8/01/05	4.708% S/A
DEPARTMENT OF EDUCATION				
Barber-Scotia College	3/05	$158,204.89	3/01/30	5.559% S/A
Tuskegee Univ.	3/18	$490,065.79	1/02/32	5.843% S/A
Tuskegee Univ.	3/18	$7,329,663.15	1/02/32	5.843% S/A
Barber-Scotia College	3/27	$177,211.80	3/01/30	5.825% S/A
Barber-Scotia College	3/27	$100,449.76	3/01/30	5.825% S/A
RURAL UTILITIES SERVICE				
Mille Lacs Electric #769	3/01	$600,000.00	12/31/35	5.443% Qtr.
Nueces Electric Coop. #774	3/01	$978,000.00	12/31/35	5.330% Qtr.
Panhandle Rural Elec #572	3/01	$500,000.00	1/03/34	5.424% Qtr.
Whetstone Valley #571	3/01	$316,000.00	1/02/29	5.362% Qtr.
Blue Ridge Elec. Coop. #659	3/06	$7,750,000.00	12/31/29	5.480% Qtr.
Bartlett Elec. #535	3/07	$250,000.00	1/03/34	5.631% Qtr.
Marlboro Elec. #642	3/07	$600,000.00	1/02/35	5.565% Qtr.
Jackson Energy #794	3/08	$4,700,000.00	7/01/02	1.812% Qtr.
Central Florida Elec. #521	3/11	$3,000,000.00	1/03/33	5.758% Qtr.
Garland Light & Power #558	3/11	$330,000.00	1/03/34	5.764% Qtr.
Ravalli #641	3/12	$290,000.00	7/02/12	5.259% Qtr.
Big Horn Rural Elec. #631	3/15	$930,000.00	1/03/34	5.852% Qtr.
Ellerby Telephone #635	3/15	$52,000.00	4/02/12	5.247% Qtr.
Grand Elec. Coop. #546	3/15	$2,454.00	7/01/02	1.889% Qtr.
Piedmont Tel. #566	3/15	$225,446.00	7/01/02	1.889% Qtr.
Wild Rice Elec. #806	3/15	$819,000.00	12/31/35	5.865% Qtr.
Cimarron Electric #567	3/19	$2,177,000.00	1/03/34	5.763% Qtr.
New Horizon Elec. #791	3/19	$4,216,000.00	4/02/07	4.754% Qtr.
Sumter Elec. #735	3/19	$1,000,000.00	12/31/35	5.776% Qtr.
Carroll Elec. #618	3/20	$750,000.00	1/03/34	5.781% Qtr.
Midstate Communications #780	3/20	$1,595,723.00	12/31/18	5.394% Qtr.
Red River Valley #484	3/20	$500,000.00	1/03/33	5.899% Qtr.
[illegible]. Iowa Coop. #807	3/21	$3,000,000.00	12/31/36	5.862% Qtr.
Medina Electric #622	3/21	$1,500,000.00	3/31/04	3.707% Qtr.

FEDERAL FINANCING BANK
MARCH 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
Orange County Elec. #771	3/25	$230,000.00	12/31/35	5.764% Qtr.
Southside Electric #786	3/25	$575,000.00	12/31/35	5.860% Qtr.
Prairie Elec. #696	3/26	$745,000.00	1/02/35	5.851% Qtr.
St. Croix Electric Coop. #801	3/26	$1,000,000.00	12/31/35	5.858% Qtr.
Orcas Power and Light #775	3/29	$980,536.00	12/31/35	5.824% Qtr.

S/A is a Semiannual rate.
Qtr. is a Quarterly rate.

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	March 31, 2002	February 28, 2002	Monthly Net Change 3/1/02- 3/31/02	Fiscal Year Net Change 10/1/01- 3/31/02
Agency Debt:				
U.S. Postal Service	$6,950.0	$7,750.0	-$800.0	-$4,363.0
Subtotal*	$6,950.0	$7,750.0	-$800.0	-$4,363.0
Agency Assets:				
FmHA-RDIF	$1,860.0	$2,200.0	-$340.0	-$575.0
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*	$10,505.2	$10,845.2	-$340.0	-$575.0
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	$2,039.6	$2,057.3	-$17.7	-$117.1
DoEd-HBCU+	$52.2	$44.1	$8.1	$20.8
DHUD-Community Dev. Block Grant	$6.7	$6.7	$0.0	-$1.1
DHUD-Public Housing Notes	$1,207.3	$1,207.3	$0.0	-$71.4
General Services Administration+	$2,238.1	$2,242.4	-$4.3	-$29.9
DOI-Virgin Islands	$11.9	$11.9	$0.0	-$1.2
DON-Ship Lease Financing	$841.2	$841.2	$0.0	-$100.0
Rural Utilities Service	$14,055.1	$14,015.5	$39.6	$455.8
SBA-State/Local Development Cos.	$116.1	$118.9	-$2.7	-$15.8
DOT-Section 511	$3.3	$3.4	$0.0	-$0.1
Subtotal*	$20,571.5	$20,548.5	$23.0	$140.1
Grand total*	$38,026.7	$39,143.8	-$1,117.0	-$4,797.9

* figures may not total due to rounding
\+ does not include capitalized interest

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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OR IMMEDIATE RELEASE
pril 23, 2002

PUBLIC CONTACT: Office of Financing
202-691-3550
MEDIA CONTACT: Office of Public Affairs
202-622-2960

TREASURY DEBT BUYBACK OPERATION RESULTS

Today, Treasury completed a debt buyback (redemption) operation for $1,500 million ır of its outstanding issues. A total of 10 issues maturing between February 2019 and ıgust 2022 were eligible for this operation. The settlement date for this operation will ı April 25, 2002. Summary results of this operation are presented below.

(amounts in millions)

fers Received (Par Amount):	$5,088
fers Accepted (Par Amount):	1,500
tal Price Paid for Issues (Less Accrued Interest):	1,925
mber of Issues Eligible:	
For Operation:	10
For Which Offers were Accepted:	8
ighted Average Yield of all Accepted Offers (%):	5.811
ghted Average Maturity for all Accepted Securities (in years):	18.5

ails for each issue accompany this release.

-3032

TREASURY DEBT BUYBACK OPERATION RESULTS

(amounts in millions, prices in decimals)

Table I

Coupon Rate (%)	Maturity Date	Par Amount Offered	Par Amount Accepted	Highest Accepted Price	Weighted Average Accepted Price
8.875	02/15/2019	590	230	133.078	133.077
8.125	08/15/2019	655	0	N/A	N/A
8.500	02/15/2020	420	180	129.703	129.643
8.750	05/15/2020	305	125	132.718	132.718
8.750	08/15/2020	380	200	132.937	132.937
7.875	02/15/2021	470	120	123.218	123.192
8.125	05/15/2021	580	125	126.281	126.281
8.125	08/15/2021	560	420	126.484	126.423
8.000	11/15/2021	815	0	N/A	N/A
7.250	08/15/2022	313	100	116.687	116.687

Table II

Coupon Rate (%)	Maturity Date	CUSIP Number	Lowest Accepted Yield	Weighted Average Accepted Yield	Par Amount Privately Held*
8.875	02/15/2019	912810EC8	5.773	5.773	10,717
8.125	08/15/2019	912810ED6	N/A	N/A	16,210
8.500	02/15/2020	912810EE4	5.801	5.806	7,990
8.750	05/15/2020	912810EF1	5.802	5.802	6,081
8.750	08/15/2020	912810EG9	5.804	5.804	14,430
7.875	02/15/2021	912810EH7	5.826	5.828	8,546
8.125	05/15/2021	912810EJ3	5.823	5.823	8,449
8.125	08/15/2021	912810EK0	5.822	5.826	7,848
8.000	11/15/2021	912810EL8	N/A	N/A	26,376
7.250	08/15/2022	912810EM6	5.836	5.836	8,619

Total Par Amount Offered: 5,088
Total Par Amount Accepted: 1,500

Note: Due to rounding, details may not add to totals.

*Amount outstanding after operation. Calculated using amounts reported on announcement.

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FOR IMMEDIATE RELEASE
Tuesday, April 23, 2002

Contact: Tony Fratto
(202) 622-2960

TREASURY SECRETARY O'NEILL TO VISIT FOUR AFRICAN NATIONS

On Monday, May 20, 2002, Treasury Secretary Paul O'Neill will travel to four sub-Saharan nations in Africa. The trip will give Secretary O'Neill an opportunity to highlight efforts to enhance the effectiveness of development assistance, the importance of increasing productivity through investment in human capital, and the role of the private sector as an engine for economic growth. The trip includes visits to Ghana, South Africa, Uganda and Ethiopia.

Recently, President Bush announced his Millenium Challenge Account initiative that will provide increased assistance to countries that exhibit stronger governance, implement policies designed to promote greater productivity and a more attractive investment environment, and strengthen their investments in their people. This trip is well timed as we move forward in developing this important initiative.
Above all, this trip will give the Secretary and Treasury staff an opportunity to see first hand conditions in Africa and to listen to those on the front lines of trying to improve the standard of living for many of the world's poorest people.

Secretary O'Neill is very pleased that Bono from U2 will also be in Africa for much of this itinerary. For more information on Bono's plans, please contact Regine Moylett on rmp@easynet.co.uk or phone +44 (0) 20 8969 2600."

Secretary O'Neill will begin his trip with a visit to Ghana, a country that just last year completed the first fully democratic transfer of presidential power to an opposition party in its history. Ghana also plays host to many successful U.S. direct investments, and is a recent recipient of the first stage of debt relief under the HIPC program.

Moving on to South Africa on May 24, Secretary O'Neill will meet with business leaders and financial sector representatives from Africa's largest economy. He hopes to learn how businesses and individuals are dealing with the HIV/AIDS crisis and addressing other development challenges.

PO-3033

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

Uganda has experienced rapid economic growth and significant poverty reduction in recent years and was the first country to receive debt reduction under the HIPC program. While in Uganda on May 27 and 28, Secretary O'Neill will focus on the environment necessary to make development assistance effective and will learn more about the government's successful efforts to limit the spread of HIV/AIDS and to promote universal primary education as keys to development.

Secretary O'Neill's trip will conclude in Ethiopia where he will attend the annual meeting of the African Development Bank, the continent's premier development institution. He will meet with representatives of both the private and public sector on strategies to promote effective development. He also hopes to learn from Ethiopians how they are meeting the challenges of strengthening health and education and improving the environment for private sector development.

Secretary O'Neill will return to Washington on Friday, May 31, 2002.

Members of the media interested in traveling with Secretary O'Neill on this trip should contact Tony Fratto at 202-622-2960 or via email at tony.fratto@do.treas.gov.

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DEPARTMENT OF THE TREASURY

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For Immediate Release
Tuesday, April 23, 2002

Contact: Public Affairs
(202) 622-2960

TREASURY DEPARTMENT USA PATRIOT ACT UPDATE

Today, the Treasury Department announced three developments in the implementation of the USA PATRIOT Act:

New Industries Covered

The Department announced new regulations that will require key financial sector industries to implement programs designed to prevent the services they offer from being used to facilitate money laundering or the financing of terrorism.

These new regulations will expand the number of financial institutions required to have such a program, as required by the USA PATRIOT Act. *(The financial institutions are defined in the Bank Secrecy Act, 31 U.S.C. 5312(a)(2)(A) thru (X), as amended by the Patriot Act).* The Act mandates that all industries defined as financial institutions must have anti money-laundering programs in place by April 24, 2002 unless the Secretary exempts them.

The industries that will have a new obligation to implement an anti-money laundering program as a result of these regulations include: (1) mutual funds; (2) operators of credit card systems; (3) money services businesses, such as money transfer companies and check cashers; (4) securities brokers and dealers registered with the Securities and Exchange Commission; and (5) futures commission merchants and accompanying introducing brokers registered with the Commodity Futures Trading Commission.

These industries, with the exception of broker dealers and futures commission merchants, expected to be covered by these regulations and have ninety days to develop anti-money laundering programs.

PO-3034

Keeping Congress Advised

The Department announced it will provide Congress this week with three reports on a variety of topics. One report analyzes options for improving compliance with the obligation of all U.S. citizens to report their interests in foreign bank accounts. One report addresses difficulties surrounding the ability of domestic financial institutions to identify and verify the identity of foreign nationals seeking to open accounts. And the third report addresses the role of the Internal Revenue Service in the administration of the Bank Secrecy Act.

With these new regulations, Treasury will have issued an unprecedented nine sets of regulations and guidance and three reports to Congress related to money laundering and terrorist financing, affecting the primary industries providing financial services, all in response to passage of the USA PATRIOT Act six months ago.

Studying Some Industry Sectors

The Department is also exercising its authority to defer, for a period of no more than six months, the application of section 352 to the remaining categories of financial institutions under the Bank Secrecy Act to allow Treasury time to study these new industry sectors and develop regulations applicable to them.

The business sectors subject to further study include dealers in precious metals, stones, or jewels; pawnbrokers; loan or finance companies; private bankers; insurance companies; travel agencies; telegraph companies; a business engaged in vehicle sales, including automobiles, airplanes, and boats; persons involved in real estate closings and settlements; investment companies other than mutual funds; and commodity pool operators and commodity trading advisors.

The complexities of requiring anti-money laundering programs for all remaining financial institutions demand that Treasury carefully review each industry before issuing regulations. Many of the remaining financial institutions are small businesses that have never been subject previously to Federal anti-money laundering regulation, and the risks inherent in their operations will vary considerably. Therefore, the program requirements for one industry may not be appropriate for others. With this additional time, Treasury will be able to issue regulations tailored to each industry.

Although Treasury is deferring application of section 352 for a brief period, all such businesses have an existing obligation to file reports of transactions involving cash or currency (Form 8300). Pursuant to another USA PATRIOT Act regulation issued by Treasury in December, such forms were made available to Treasury's Financial Crimes Enforcement Network (FinCEN) for use in the fight against money laundering and terrorist financing. Finally, all financial institutions are encouraged to voluntarily report possible money laundering and terrorist activity to FinCEN by calling its Financial Institutions Hotline (1-866-556-3974).

Treasury has formed additional working groups devoted to each remaining industry sector that will be responsible for drafting regulations tailored to each one. Forthcoming regulations will be issued on a rolling basis as they are completed.

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BILLING CODE 4810-02

DEPARTMENT OF THE TREASURY

31 CFR Part 103

RIN 1506-AA28

Financial Crimes Enforcement Network; Anti-Money Laundering Programs for Operators of a Credit Card System.

AGENCY: Financial Crimes Enforcement Network (FinCEN), Treasury.

ACTION: Interim final rule.

SUMMARY: FinCEN is issuing this interim final rule to define and provide guidance to operators of credit card systems concerning the revised provision in the Bank Secrecy Act that requires them to establish anti-money laundering programs.

DATES: This interim final rule is effective April 24, 2002. Written comments may be submitted to FinCEN on or before [INSERT DATE THAT IS 30 DAYS AFTER PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: Submit comments (preferably an original and four copies) to FinCEN, P.O. Box 39, Vienna, VA 22183, Attn: Section 352 CC Regulations. Comments may also be submitted by electronic mail to regcomments@fincen.treas.gov with the caption in the body of the text, "Attention: Section 352 CC Regulations." Comments may be inspected at FinCEN between 10 a.m. and 4 p.m. in the FinCEN Reading Room in Washington, D.C. Persons wishing to inspect the comments submitted must request an appointment by telephoning (202) 354-6400 (not a toll-free number).

FOR FURTHER INFORMATION CONTACT: Office of the Chief Counsel (FinCEN),

(703) 905-3590; Office of the Assistant General Counsel for Enforcement (Treasury), (202) 622-1927; or the Office of the Assistant General Counsel for Banking & Finance (Treasury), (202) 622-0480 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

I. Background

On October 26, 2001, the President signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001 (Public Law 107-56) (the Act). Title III of the Act makes a number of amendments to the anti-money laundering provisions of the Bank Secrecy Act (BSA), which are codified in subchapter II of chapter 53 of title 31, United States Code. These amendments are intended to make it easier to prevent, detect, and prosecute international money laundering and the financing of terrorism. Section 352(a) of the Act, which becomes effective on April 24, 2002, amended section 5318(h) of the BSA. As amended, section 5318(h)(1) requires every financial institution to establish an anti-money laundering program that includes, at a minimum, (i) the development of internal policies, procedures, and controls; (ii) the designation of a compliance officer; (iii) an ongoing employee training program; and (iv) an independent audit function to test programs. As operators of credit card systems are identified as financial institutions under the BSA, 31 U.S.C. 5312(a)(2)(L), they are subject to the anti-money laundering program requirement. This rule is intended to define an "operator of a credit card system," and to provide guidance to them in complying with the law, tailored to the industry.

A. Credit Card Systems

Credit cards represent the right to purchase goods and services, or in some cases the right to obtain a cash advance, against a line of credit offered by the issuer of the credit card. The

Truth in Lending Act defines a credit card as a "card, plate, coupon book or other credit device existing for the purpose of obtaining money, property, labor, or services on credit."[1] 15 U.S.C. 1602(k). This interim final rule adopts this definition. Also included within this definition is a charge card, that is, a credit card for which the cardholder must pay the monthly balance in full.[2]

The use to which a credit card may be put depends upon the entity issuing or accepting the card.[3] In the case of general purpose credit cards, such those issued by members of the VISA or MasterCard system, the cards are accepted by a variety of merchants worldwide. In the United States, most such cards are issued by banks[4] authorized by the operator of the credit card system to use the particular name and access the associated clearance and settlement system. Such entities are called "issuing institutions." On the other side of the transaction, in order for a particular merchant to accept the credit card, it must have a relationship with a bank or entity that is itself authorized to sign up merchants to accept the credit card for purchases and process such credit card transactions. Entities authorized to accept credit card purchases from merchants are called "acquiring institutions" or "merchant institutions." In all cases, the operator of the credit card system determines which entities may serve as issuing and acquiring institutions (member institutions) and prescribes rules that member institutions must follow.

Other credit cards used in the United States are issued by a particular merchant or vendor and may only be used in connection with purchases made from that merchant or vendor.

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[1] "Credit" is defined as "the right granted by a creditor to a debtor to defer payment of a debt or to incur debt and defer its payment." 15 U.S.C. 1602(e).

[2] Regulations implementing the Truth in Lending Act define a charge card as "a credit card on an account for which no periodic rate is used to compute a finance charge." 12 CFR 226.2(15). This interim final rule likewise adopts this definition.

[3] In its 1997 report entitled, "Payments, Clearance, and Settlement: A Guide to the Systems, Risks and Issues," the General Accounting Office described the use of credit cards generally, as well as the role of operators of a credit card system in the clearance and settlement of transactions. *See* GAO/GGD-97-73 at 108-15 (June 1997) ("the 1997 GAO Report").

[4] For purposes of this preamble, the term "bank" refers to insured depository institutions, including federally and state chartered banks, thrifts, and credit unions.

Examples include department store and oil company credit cards, as well as charge cards issued by individual merchants. Often such cards are issued by a bank on behalf of a particular merchant, but in some cases the merchant itself may issue the card. Merchants, vendors, or banks whose issuance of credit cards is restricted to such circumstances do not fall within the definition of an operator of a credit card system as set forth in this interim final rule.[5] However, if an entity otherwise falls within the definition of an operator of a credit card system under this interim final rule, the fact that the operator may also issue credit cards with particular merchants, or may itself serve as the issuing or acquiring institution, does not remove it from the scope of this interim final rule.

The purpose for distinguishing between general purpose credit cards and merchant cards lies first in the fact that the definition in the BSA refers to "an operator of a ***credit card system***" as a financial institution. We do not view the issuance of a merchant or vendor card as the operation of a credit card system, which is more naturally interpreted to refer to the organizer of a membership or other interrelated group. Second, as discussed more fully below, the significant money laundering or terrorist financing risk associated with the operation of a credit card system sought to be minimized by this interim final rule is the operator's authorization or licensing of issuing or acquiring institutions without conducting appropriate due diligence relating to the money laundering or terrorist financing risk posed by those institutions. A merchant or a vendor that issues its own card does not present that particular risk because it does not perform that function.[6]

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[5] Banks issuing merchant or vendor cards are already subject to anti-money laundering regulation enforced by the bank regulators.

[6] This interim final rule neither considers nor addresses the money laundering or terrorist financing risks associated with issuing institutions. However, this should not be construed to suggest no such risks exist.

With general purpose credit cards, the operator of a credit card system plays a vital role in the authorization, clearance, and settlement of credit card purchases. This role is important to understanding both how the operator of the credit card system can assist in preventing money laundering or terrorist financing, as well as the practical limitations placed on the operator in this regard. Authorization is the process by which the issuer of the credit card approves or rejects a purchase at the time the cardholder seeks to access the line of credit associated with the card. Typically, the merchant swipes the credit card through a terminal that electronically captures the relevant data.[7] Once the merchant keys in the amount of the purchase, that information is transmitted electronically through the operator's system to the issuing bank for approval. If appropriate, the purchase is approved. Once approved, the transaction with the consumer is consummated.

The next step is the clearance process. The merchant submits the credit card payment information to its merchant bank for payment. The merchant bank credits the merchant's account, and submits the purchase information to the operator of the credit card system. The operator then sends the purchase information to the issuing bank for payment.

The final step is the settlement process. The issuing bank transmits the funds owed by virtue of the purchase to the operator of the credit card system. The operator then transmits the funds to the merchant bank in settlement of the debt. In the settlement process, funds are transmitted through traditional payment systems. The issuing bank then bills the cardholder for the transaction in accordance with the credit agreement.

Thus, the operator of the credit card system not only controls which entities may issue or process transactions involving its card, but it also serves as a clearinghouse where debts are

[7] "Electronic Data Capture (EDC) is a point-of-sale terminal that reads the information embedded in the magnetic strip of bank cards. These terminals electronically authorize and capture transaction data, thus eliminating the need

settled and from which payments are made and received. This is the functional definition of an operator of a credit card system. The reality is that there are few operators of credit card systems in the United States, certainly in contrast to the number of issuing and acquiring banks.

In addition, a debit card may at times also be used as a credit card. A debit card generally accesses an existing deposit account at an insured depository institution from which funds are withdrawn upon use of the debit card. Debit cards generally require the use of a personal identification number at the point of sale. Some debit cards can also function as a credit card and some credit card system operators also authorize, clear, and settle debit card transactions. Often such dual use cards are marked with a logo or insignia of the operator of the credit card system. The interim final rule applies to both functions of a dual use card.[8]

B. The Authorization of Acquiring and Issuing Banks

The success of a general purpose credit card depends upon its availability to consumers and the extent to which it is widely accepted by merchants and vendors. The operator of the system is directly responsible for selecting and approving issuing and acquiring institutions to become a part of the system, and setting the rules by which they must abide. In addition, in its role of ensuring that the member institutions continue to abide by the membership rules, the operator of the system indirectly plays a role in selecting and approving other users in the system, including cardholders and merchants. These functions—determining which institutions may serve as issuing or acquiring institutions, and setting and ensuring ongoing compliance with the system's rules and regulations—play a crucial role in determining the extent to which a credit card system may be vulnerable to money laundering or terrorist financing.

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for a paper deposit." The 1997 GAO Report at 108.

[8] While this interim final rule applies to the debit card functions performed by an operator of a credit card system accepting dual use cards, the rule does not apply generally to operators of a debit card system. Treasury intends to

It appears that during the authorization, clearance, and settlement process, cardholder and individual merchant names may not be transmitted through the operator's credit card system.[9] Comprehensive cardholder information is maintained by the issuing institutions. Similarly, information about the merchants that accept the card is maintained by the acquiring institutions. Thus, many important anti-money laundering functions of necessity reside with the issuing and acquiring institutions, and, in the United States, existing anti-money laundering regulations typically govern these institutions. However, the initial and continuing authorization of institutions to issue a credit card and process credit card transactions is within the sole control of the operator of the credit card system.

C. Existing Anti-Fraud Functions Performed by the Operator of a Credit Card System

Incentives exist for the operator of a credit card system to minimize financial losses caused by fraud in connection with the use of its credit card. According to the industry, those incentives encourage operators to scrutinize institutions seeking authorization to become issuers or acquirers to ensure that member institutions themselves do not pose an unreasonable risk of loss, whether through participation in fraud or through their issuing or acquiring functions. This interim final rule seeks to take advantage of those existing practices by increasing the scope of the due diligence conducted by the operator to include the potential for money laundering or terrorist financing.

Operators of credit card systems support the efforts of issuing and acquiring institutions in the detection of fraudulent uses of their credit cards. Some of the methods for identifying irregular and possibly fraudulent transactions are quite sophisticated. For example, operators and

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consider whether operators of debit card systems should likewise be included as financial institutions under the BSA and thus be subject to the anti-money laundering program requirement.

some issuers use computers to flag potentially fraudulent uses of credit cards as the purchases are authorized, cleared, and settled by comparing recent purchases with the cardholder's purchase history as well as known typologies of fraudulent uses. At this time, Treasury does not necessarily intend to require operators of credit card systems, as part of their anti-money laundering program, to use this type of fraud detection capabilities to detect potential money laundering or terrorist financing. The reason is practical—it is not clear that potential money laundering or terrorist financing can be easily identified with the current technology that evaluates transactions passing through the operator's system. However, Treasury hopes to work with operators of credit card systems going forward to develop, where possible, typologies of money laundering or terrorist financing that may be capable of being identified through existing fraud detection mechanisms.[10]

D. Money Laundering and Terrorist Financing Risks Associated with Credit Cards from the Perspective of the Operator of a Credit Card System

Once in the hands of a consumer, a general purpose credit card is designed to facilitate the purchase of goods or services or the securing of cash advances worldwide with minimal delay. But the very attributes that make credit cards attractive to legitimate consumers are the attributes that make them susceptible to potential abuse. The myriad ways in which credit cards may be abused for money laundering or terrorist financing are beyond the scope of this preamble.[11] Instead, the primary focus of this interim final rule is on the risks—and the need to minimize them—associated with the operator authorizing, and maintaining authorization for, issuing and acquiring institutions.

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[9] Operators may well have complete information regarding cardholders and merchants during the authorization and settlement process, *e.g.*, if the operator also serves as an issuer.

[10] FinCEN, in conjunction with the Bank Secrecy Act Advisory Group, publishes an annual SAR Activity Review that discusses typologies revealed in SAR filings.

[11] The GAO is currently drafting a report that will analyze money laundering in the credit card industry.

Absent effective anti-money laundering controls in issuing and acquiring institutions, the use of a credit card may provide a convenient way for money launderers or those financing terrorism to access their tainted funds all over the world. For example, if a foreign bank lacking adequate anti-money laundering controls is authorized to issue a credit card capable of being used in the United States, there exists an increased risk that illicit funds located in the foreign bank may be accessed—and those funds injected into the U.S. financial system—by account holders using the credit card in the United States to make purchases, obtain cash advances, or, if it is a dual use card, use the card as a debit card. The problem is exacerbated by the fact that the operator of the credit card system that clears and settles transactions might not have information about the identity of the cardholder or the source of funds used to pay the debts at the time the transactions are processed.

Under the Act, and even prior to the Act, numerous restrictions and heightened due diligence requirements were placed on U.S. banks and securities brokers and dealers maintaining accounts for certain types of foreign banks and foreign banks located in jurisdictions identified as lacking adequate anti-money laundering controls and supervision. In this way, the Act seeks to eliminate or minimize known risks to the U.S. financial system, even requiring the termination of accounts for certain financial institutions when the risk is deemed too high. Examples of known risks identified by the Act include maintaining "correspondent accounts" for: (1) foreign banks located in jurisdictions identified as lacking basic anti-money laundering controls; (2) foreign shell banks, that is, banks with no physical presence in any jurisdiction; and (3) foreign banks operating under an offshore banking license.[12]

[12] *See* Act sections 312 and 313; *see also* MINORITY STAFF OF THE SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS, 107TH CONG., CORRESPONDENT BANKING: A GATEWAY FOR MONEY LAUNDERING, 14-18 (S. Prt. 2001). Congress defined a "correspondent account" broadly in the Act to include any "account established to receive deposits from, make payments on behalf of a foreign financial institution, or handle other financial

Despite the risks associated with these identified foreign financial institutions, the prohibitions or enhanced due diligence obligations have not been applied directly to operators of credit card systems that may well authorize foreign financial institutions to issue their credit cards and access their systems. But if such foreign banks were authorized to issue credit cards capable of being used in the United States, customers of such banks would have the opportunity to inject illicit funds into the U.S. financial system.

Recent examples confirm the potential for utilizing a credit card system to access in the United States funds located in a foreign financial institutions. The Internal Revenue Service has successfully sought permission to serve "John Doe" subpoenas on MasterCard International, American Express Travel Related Services Co., and VISA International seeking records relating to U.S. citizens with credit, charge, and debit cards issued by banks or other financial institutions located in identified tax havens. According to the IRS, U.S. citizens are using credit, charge, and debit cards to access in the United States funds placed in these foreign banks and financial institutions to avoid U.S. taxes. The tax haven jurisdictions do not disclose account information to the United States for purposes of enforcing U.S. tax laws. If credit cards can be used to access funds located in tax havens to avoid U.S. income tax obligations, credit cards have the potential to be used to access illicit funds located in money laundering havens if banks in those jurisdictions are given permission by the operator of the credit card system to issue the credit cards. The same principle holds true for illicit funds deposited in U.S. financial institutions that issue credit cards. To the extent the issuing institution lacks sufficient anti-money laundering controls, issuance of a credit card would allow easy and seemingly "clean" access to tainted funds.

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transactions related to such institution." Act section 311 (31 U.S.C. 5318A(e)(1)(B)). Treasury is now considering comments received on a previous proposed rule in which the statutory definition was adopted without limitation.

E. The Anti-Money Laundering Program

As the foregoing discussion demonstrates, the anti-money laundering program required by this interim final rule is designed primarily to ensure that operators of credit card systems conduct sufficient due diligence on those banks or other entities that they authorize to be issuing or acquiring institutions. Such due diligence should be performed prior to accepting the institution into the system, and on an on-going basis with a frequency that is commensurate with the risk posed by the particular institution. The anti-money laundering program must also have procedures to minimize the opportunity for money laundering or terrorist financing when identified high-risk institutions are issuing or acquiring institutions. In fulfilling obligations under the interim final rule, it is expected that operators will tailor existing rules and guidelines governing member institutions to minimize the risk of money laundering or terrorist financing. Finally, the program should be risk-based, meaning that resources should be devoted to those areas that pose the greatest risk of money laundering or terrorist financing. This interim final rule is meant to provide guidance to operators on identified risks.

The focus of the rule is on what operators can and do control, and it may be that most are already taking the steps outlined in this rule. The interim final rule is not intended to place the operator of a credit card system in the role of guaranteeing that no issuing or acquiring institutions permit money laundering or terrorist financing through the use of the operator's credit card. To the contrary, while the operator of the credit card system will play an important role in minimizing the risk of abuse by controlling access to the system, perhaps even denying access to institutions posing an unreasonable risk of money laundering or terrorist financing, the operator should not be placed in the role of regulating issuing or acquiring institutions.

See 66 Fed. Reg. 67,460 (Dec. 28, 2001) (implementing sections 313 and 319(b) of the Act).

Finally, in addition to compliance with mandatory regulatory requirements, Treasury and FinCEN encourage operators of credit card systems to have procedures for voluntarily reporting suspected terrorist activity to FinCEN using its Financial Institutions Hotline (1-866-556-3974).

II. Section-by-Section Analysis

A. Section 103.135(a)—Definitions

The definition of an operator of a credit card system is a functional one. It includes any entity that (1) operates a system that clears and settles transactions involving its credit card; and (2) authorizes another entity to serve as an issuing or acquiring institution for the operator's credit card. The credit card must be capable of being used in the United States. An operator may be a bank, a consortium or association of banks, or any other entity performing the functions described. All operators of credit card systems doing business in the United States are covered by the interim final rule.

Issuing and acquiring institutions within such systems need not be located in the United States and may be foreign entities. An issuing institution is any entity authorized by the operator to issue the operator's credit card. An acquiring institution is any entity authorized by the operator to contract with merchants to process transactions involving the operator's credit card. The interim final rule adopts the definition of a credit card found in the Truth in Lending Act, a definition that includes charge cards. Finally, debit cards capable of being used as a credit card are covered by this interim final rule.

B. Section 103.135(b) and (c)—The Required Anti-Money Laundering Program

Section 103.135(b) requires that each operator of a credit card system have an anti-money laundering program reasonably designed to prevent the system from being used to launder money or to finance terrorist activities. The program must be in writing and approved by senior management. The minimum requirements for the anti-money laundering program are set forth in section 103.135(c). Beyond these minimum requirements, however, the anti-money laundering program is designed to give operators of a credit card system flexibility to design their programs to meet the specific risks presented. The steps necessary to guard against an institution, foreign or domestic, issuing or processing transactions involving the credit card in connection with money laundering when the institution does not fall within a high risk category may be minimal if the institution and its anti-money laundering controls are well known to the operator. The fact that a member institution is a foreign bank or entity is not itself determinative of the risk posed.

The minimum standards for the anti-money laundering program set forth in this interim final rule become effective July 24, 2002.

1. Section 103.135(c)(1)—Policies, Procedures and Internal Controls

Section 103.135(c)(1) requires the operator's anti-money laundering program to include policies, procedures and internal controls focused on the process of authorizing and maintaining authorization for issuing and acquiring institutions. This provision will thus involve the operator tailoring existing anti-fraud and risk of loss assessment procedures to ensure that money laundering and terrorist financing risks are taken into account. It will further involve the operator adapting existing licensing or membership agreements to ensure that member banks and entities fulfill their obligations to assist the operator in guarding against money laundering and terrorist financing. Finally, the interim final rule makes clear that this obligation is ongoing. The frequency with which banks or entities are reviewed to ensure compliance with required procedures will depend upon the operator's assessment of the risk posed by the particular bank or entity.

It is anticipated that the type of information to be considered by the operator in evaluating the risks of money laundering or terrorist financing posed by an issuing or acquiring institution will include many of the same factors that bear on whether the institution represents a risk of fraud or insolvency. In addition, the operator must consider information concerning the institutions, the jurisdictions in which they are located or licensed, and any other money laundering or terrorist financing information provided by Treasury, FinCEN, and other U.S. government sources. Information in publicly available sources should be considered as well. In some situations, information relevant to anti-money laundering controls or risks may need to be obtained from the institution itself, *e.g.*, information relating to the institution's anti-money laundering controls. If an operator is unable to obtain sufficient information from existing or potential issuing or acquiring institutions, this must be taken into account in evaluating the overall money laundering or terrorist financing risk.

For the purpose of making the risk assessment required by section 103.135(c)(1)(i), section 103.135(c)(1)(ii) sets forth the presumption that certain categories of foreign banks or other institutions pose an increased, or in some cases an unreasonable, risk of money laundering or terrorist financing. Accordingly, an operator's anti-money laundering program must be designed to ensure that the institutions identified under this paragraph, if they are permitted to serve as issuing or acquiring institutions, have received a thorough assessment of the risk of money laundering or terrorist financing that they pose in connection with the issuance or acceptance of the operator's credit card. Additionally, the anti-money laundering program must also ensure that the operator has taken reasonable steps to minimize the risks associated with such institutions.

Within this collection of high risk institutions, even though there is a presumption of a heightened risk, operators still retain the flexibility to assess the risk posed in each case to determine whether and under what conditions such an institution may serve as an issuing or acquiring institution. Some of the categories of institutions within this paragraph have been effectively cut off from the U.S. financial system, *e.g.*, foreign shell banks that are not regulated affiliates. Given the unreasonable risk that funds located in such financial institutions are derived from the proceeds of illegal activities or directly support terrorism, there is a significantly heightened risk that allowing them to issue a credit card will introduce the illicit funds into the U.S. financial system. In such cases, the steps necessary to guard against money laundering or terrorist financing by such institutions in connection with the operator's credit card will be comprehensive. On the other hand, other institutions within this list may, upon examination, pose a less significant risk of money laundering or terrorist financing. As a result, the reasonable steps to be taken by the operator to guard against money laundering or terrorist financing will be reduced.

As with all issuing and acquiring institutions, the obligation to assess money laundering and terrorist financing risks applies to both prospective and existing issuing or acquiring institutions. However, institutions falling within the categories identified in section 103.135(c)(1)(ii), because they pose greater risks, should be reviewed by the operator with greater frequency.

By identifying certain high risk institutions, we do not intend to imply that no other institutions pose similar risks. To the contrary, it is incumbent upon the operator to ensure that its anti-money laundering program will identify other institutions posing similar risks.

Section 103.135(c)(1)(iii) confirms that operators of a credit card system must ensure the operators' compliance with any applicable provisions of the BSA or the implementing regulations. At this time, the only BSA provision applicable to an operator of a credit card system, with the exception of this interim final rule, is the obligation to report on Form 8300 the receipt of cash or certain monetary instruments totaling more than $10,000 in one transaction or two or more transactions. Given the functions performed by the operator of a credit card system, it seems unlikely that cash or cash equivalents will be received. However, this provision is inserted in the interim final rule in the event future BSA requirements are imposed on operators of credit card systems.

2. Sections 103.135(c)(2)-(4)—The Compliance Officer, Employee Training, and the Independent Assessment

In connection with its anti-money laundering program, the operator of a credit card system must designate a person or persons to be responsible for administering the anti-money laundering program. The person or persons should be competent and knowledgeable regarding BSA requirements and money laundering issues and risks, and be empowered with full responsibility and authority to develop and enforce appropriate policies and procedures. The role of the compliance officer is to ensure that (1) the program is implemented; (2) appropriate due diligence is being conducted on existing and potential issuers and acquirers in accordance with the requirements of this interim final rule; and (3) the program is updated to reflect new directives from Treasury or FinCEN. The compliance officer is also responsible for ensuring that appropriate personnel are trained and educated in accordance with section 103.135(c)(3).

Employee training is an integral part of any anti-money laundering program. Those employees with responsibility under the program must be trained in the requirements of this rule and money laundering risks generally so that "red flags" associated with existing or potential issuing or acquiring institutions can be identified. Such training could be conducted by outside or in-house seminars, and could include computer-based training. The nature, scope, and frequency of the education and training program of the operator will depend upon the functions performed. However, those with obligations under the anti-money laundering program must be sufficiently trained to carry out their responsibilities effectively. Moreover, these employees should receive periodic updates and refreshers regarding the anti-money laundering program.

Finally, the program must provide for an independent audit of the program on a periodic basis to ensure that it complies with this interim final rule and that it functions as designed. Although the interim final rule refers to an audit, the term does not equate with a financial audit and need not be performed by an outside consultant or accountant. The independent audit may be performed by an employee of the operator, so long as the auditor is not the compliance officer or others involved in administering the program. The frequency of the independent audit will depend upon the operator's assessment of the risks posed. The audit should be accompanied by a written assessment or report, and any recommendations resulting from such review should be implemented promptly or reviewed by senior management.

III. Administrative Procedure Act

The provisions of 31 U.S.C. 5318(h)(1), requiring all financial institutions to establish anti-money laundering programs with at least four identified elements, become effective April 24, 2002. This interim rule provides guidance to operators of credit card systems on how to comply with the law in effect on that date and does not impose any obligation on any financial institution that is not required by section 352 of the Act. Accordingly, good cause is found to dispense with notice and public procedure as unnecessary pursuant to 5 U.S.C. 553(b)(B), and to make the provisions of the interim rule effective in less than 30 days pursuant to 5 U.S.C. 553(d)(1) and (3).

VI. Paperwork Reduction Act.

This regulation is being issued without prior notice and public procedure pursuant to the Administrative Procedure Act (5 U.S.C. 553). For this reason, the collection of information contained in this interim final rule has been reviewed under the requirements of the Paperwork Reduction Act (44 U.S.C. 3507(j)) and, pending receipt and evaluation of public comments, approved by the Office of Management and Budget (OMB) under control number 1506-0020. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid control number assigned by OMB.

The collection of information in this interim final rule is in 31 CFR 103.135(b). The information will be used by federal agencies to verify compliance by operators of credit card systems with the provisions of 31 CFR 103.135. The collection of information is mandatory. The likely recordkeepers are businesses.

In accordance with the requirements of the Paperwork Reduction Act of 1995, 44 U.S.C. 3506(c)(2)(A), and its implementing regulations, 5 CFR 1320, the following information concerning the collection of information as required by 31 CFR 103.135(b) is presented to assist those persons wishing to comment on the information collection.

Description of Recordkeepers: Operators of Credit Card Systems, as defined in 31 CFR 103.135(a).

Estimated Number of Recordkeepers: 6.

Estimated Average Annual Burden Hours Per Recordkeeper: The estimated average burden associated with the collection of information in this interim final rule is 1 hour per recordkeeper.

Estimated Total Annual Recordkeeping Burden: 6 hours.

Comments concerning the collection of information should be sent to the Office of Management and Budget, Attn: Alexander T. Hunt, Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 3208, Washington, DC 20503, with copies to FinCEN at Department of the Treasury, Financial Crimes Enforcement Network, Post Office Box 39, Vienna, Virginia, 22183.

FinCEN specifically invites comments on the following subjects: (a) whether the collection of information is necessary for the proper performance of the mission of FinCEN, including whether the information shall have practical utility; (b) the accuracy of FinCEN's estimate of the burden of the collection of information; (c) ways to enhance the quality, utility, and clarity of the information to be collected; (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology; and (e) estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information.

V. Regulatory Flexibility Act

Because no notice of proposed rulemaking is required for this interim final rule, the provisions of the Regulatory Flexibility Act (5 U.S.C. 601 et seq.) do not apply.

VI. Executive Order 12866

This interim final rule is not a "significant regulatory action" as defined in Executive Order 12866. Accordingly, a regulatory assessment is not required.

List of Subjects in 31 CFR Part 103

Banks, banking, Brokers, Counter money laundering, Counter-terrorism, Currency, Foreign banking, Reporting and recordkeeping requirements.

PART 103 – FINANCIAL RECORDKEEPING AND REPORTING OF CURRENCY AND FOREIGN TRANSACTIONS

1. The authority citation for part 103 continues to read as follows:

Authority: 12 U.S.C. 1829b and 1951-1959; 31 U.S.C. 5311-5331; title III, secs. 314, 352, Pub. L. 107-56, 115 Stat. 307.

2. In subpart I, add new §103.135 to read as follows:

§103.135 Anti-money laundering programs for operators of credit card systems.

(a) *Definitions*. For purposes of this section:

(1) *Operator of a credit card system* means any person doing business in the United States that operates a system for clearing and settling transactions in which the operator's credit card, whether acting as a credit or debit card, is used to purchase goods or services or to obtain a cash advance. To fall within this definition, the operator must also have authorized another person (whether located in the United States or not) to be an issuing or acquiring institution for the operator's credit card.

(2) *Issuing institution* means a person authorized by the operator of a credit card system to issue the operator's credit card.

(3) *Acquiring institution* means a person authorized by the operator of a credit card system to contract, directly or indirectly, with merchants or other persons to process transactions, including cash advances, involving the operator's credit card.

(4) *Operator's credit card* means a credit card capable of being used in the United States that:

(i) Has been issued by an issuing institution; and

(ii) Can be used in the operator's credit card system.

(5) *Credit card* has the same meaning as in 15 U.S.C. 1602(k). It includes charge cards as defined in 12 CFR 226.2(15).

(6) *Foreign bank* means any organization that is organized under the laws of a foreign country; engages in the business of banking; is recognized as a bank by the bank supervisory or monetary authority of the country of its organization or the country of its principal banking operations; and receives deposits in the regular course of its business. For purposes of this definition:

(i) The term foreign bank includes a branch of a foreign bank in a territory of the United States, Puerto Rico, Guam, American Samoa, or the U.S. Virgin Islands.

(ii) The term foreign bank does not include:

(A) A U.S. agency or branch of a foreign bank; and

(B) An insured bank organized under the laws of a territory of the United States, Puerto Rico, Guam, American Samoa, or the U.S. Virgin Islands.

(b) *Anti-money laundering program requirement*. Effective July 24, 2002, each operator of a credit card system shall develop and implement a written anti-money laundering program reasonably designed to prevent the operator of a credit card system from being used to facilitate money laundering and the financing of terrorist activities. The program must be approved by senior management. Operators of credit card systems must make their anti-money laundering programs available to the Department of the Treasury or the appropriate Federal regulator for review.

(c) *Minimum requirements*. At a minimum, the program must:

(1) Incorporate policies, procedures, and internal controls designed to ensure the following:

(i) That the operator does not authorize, or maintain authorization for, any person to serve as an issuing or acquiring institution without the operator taking appropriate steps, based upon the operator's money laundering or terrorist financing risk assessment, to guard against that person issuing the operator's credit card or acquiring merchants who accept the operator's credit card in circumstances that facilitate money laundering or the financing of terrorist activities;

(ii) For purposes of making the risk assessment required by paragraph (c)(1)(i) of this section, the following persons are presumed to pose a heightened risk of money laundering or terrorist financing when evaluating whether and under what circumstances to authorize, or to maintain authorization for, any such person to serve as an issuing or acquiring institution:

(A) A foreign shell bank that is not a regulated affiliate, as those terms are defined in 31 CFR 104.10(e) and (j);

(B) A person appearing on the Specially Designated Nationals List issued by Treasury's Office of Foreign Assets Control;

(C) A person located in, or operating under a license issued by, a jurisdiction whose government has been identified by the Department of State as a sponsor of international terrorism under 22 U.S.C. 2371;

(D) A foreign bank operating under an offshore banking license, other than a branch of a foreign bank if such foreign bank has been found by the Board of Governors of the Federal Reserve System under the Bank Holding Company Act (12 U.S.C. 1841, et seq.) or the International Banking Act (12 U.S.C. 3101, et seq.) to be subject to comprehensive supervision or regulation on a consolidated basis by the relevant supervisors in that jurisdiction;

(E) A person located in, or operating under a license issued by, a jurisdiction that has been designated as noncooperative with international anti-money laundering principles or procedures by an intergovernmental group or organization of which the United States is a member, with which designation the United States representative to the group or organization concurs; and

(F) A person located in, or operating under a license issued by, a jurisdiction that has been designated by the Secretary of the Treasury pursuant to 31 U.S.C. 5318A as warranting special measures due to money laundering concerns;

(iii) That the operator is in compliance with all applicable provisions of subchapter II of chapter 53 of title 31, United States Code and this part;

(2) Designate a compliance officer who will be responsible for assuring that:

(i) The anti-money laundering program is implemented effectively;

(ii) The anti-money laundering program is updated as necessary to reflect changes in risk factors or the risk assessment, current requirements of part 103, and further guidance issued by the Department of the Treasury; and

(iii) Appropriate personnel are trained in accordance with paragraph (c)(3) of this section;

(3) Provide for education and training of appropriate personnel concerning their responsibilities under the program; and

(4) Provide for an independent audit to monitor and maintain an adequate program. The scope and frequency of the audit shall be commensurate with the risks posed by the persons authorized to issue or accept the operator's credit card. Such audit may be conducted by an officer or employee of the operator, so long as the reviewer is not the person designated in paragraph (c)(2) of this section or a person involved in the operation of the program.

Dated: ____________________________

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James F. Sloan
Director, Financial Crimes Enforcement Network

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 6:00 P.M. EDT
Tuesday, April 23, 2002

Contact: Public Affairs
(202) 622-2960

Treasury Secretary Paul H. O'Neill
Keynote Address to Jumpstart Coalition for Personal Financial Literacy
Washington, DC

Thank you for inviting me to speak to the Jumpstart Coalition dinner tonight. Your group has done a lot of good work setting standards for financial education and making things happen. Your mission to educate young Americans is my mission, Treasury's mission, and President Bush's mission.

In America today we have unprecedented freedom, and unprecedented opportunity. Nearly everyone -- everyone who has their health -- has the capacity to achieve what they want in life, including financial independence. Every person you know -- from whatever financial background -- wants to be able to afford a comfortable retirement, a nice home, and college education for their children and grandchildren..

Financial independence is a goal all Americans share. Yet many Americans don't know how to become wealth-accumulators. They never learn the basics of personal finance -- the tools necessary to build financial independence for themselves and their families, one dollar at a time. They never learn the value of saving and investing, or about the magic of compound interest, and how a little planning early in life can make a huge difference in later years.

We must work to ensure that all Americans have the knowledge and the tools to build their own financial security. 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.

I'll tell you how I got my first lesson. When I was a boy in Missouri, in my grade school we could buy 10-cent savings stamps, and when we accumulated $18 or $19 worth, we could trade them in for a $25 bond. We collected the stamps in a little booklet. I'd earn a dime carrying someone's groceries, take the dime to school, buy a stamp and glue it into the booklet. I learned about saving and I learned about interest. A $25 bond may not sound like much today, but in Missouri back then you could do a lot with $25, believe me.

PO-3035

We need those lessons in our schools still, if we are to empower a nation of wealth accumulators. In a truly great nation, our schools will teach our children so that every 10-year-old can read and write, and knows enough to be a life-long self-learner even if she never sees the inside of another classroom. As part of that, our schools also need to teach the basic rules of personal finance -- so that life-long learners will also be life-long earners. That is our obligation to our children, so they can prosper in the global economy.

Financial education and financial responsibility must be woven into what we teach our children from the time they are very small. Personal finance needs to be woven into the core curriculum, inextricable, just as responsibility for personal finance is an inextricable part of American life. Teaching children how to balance a checkbook should be part of teaching them how to add and subtract. Teaching children about interest is an easy step from teaching the multiplication tables. And reading lessons can easily incorporate financial education. The possibilities are endless.

You are all well aware of our real-world needs for financial education: Four out of ten Americans say they are living beyond their means. Personal bankruptcies rose 69% in the 1990s. A large number of Americans are not saving enough for retirement, or have not even considered how much they need to save for it. Six in ten Americans have to hire someone else to do their taxes -- well, that's a slightly different problem. No one understands the tax code.

Yet I saw that in Jumpstart's recent personal financial survey, more than half of high school seniors failed in basic financial literacy.

Don't get me wrong. Confusion can be understandable with all the options today. It wasn't long ago that if you wanted to buy something you had two choices: cash or take a hike. Now we've got personal checks, credit and debit cards, and an ATM on every corner. There are dozens of types of mortgages for prospective homebuyers, and some don't even require money down. Cars can be 100% financed, bought or leased. Families can pay for college tuition or retirement with investment returns from stocks, bonds, mutual funds, money markets, CDs, REITS, annuities, and who knows what else.

These choices are good. Most of them represent real value for consumers. Our financial system is the envy of the world. But these choices may be meaningless or worse, dangerous, to the uneducated.

And even as the fruits of financial freedom hang so low on the tree today, some of the fruit is rotten. Some purported investments are frauds. Some alleged tax breaks are scams. Some credit cards and mortgages have usurious rates and hidden fees. The careless and the uninformed can get mired in debt. Education is our best defense against the unscrupulous and the criminal, who would foist their schemes on our citizens.

And education has to start early to be most effective. Financial education needs to be in the primary school and high school curriculum.

I take this subject very seriously, out of my personal interest in education and also because the Treasury has a general responsibility for the health of the American economy, and the economic health of the American people. Our economy is founded on the notion of personal responsibility and personal achievement. If we want people to build the American dream for themselves, we need to give them the tools.

Our goal in government is to ensure that every human being has the opportunity to reach his or her full potential.

Knowing how to balance a checkbook and manage a credit card are skills that contribute to financial stability throughout a lifetime. Whether it's saving to buy a bike when you're a child, saving for a first home when you've just started working, or saving for retirement throughout your working days, at every age, saving now means more comfort -- and more freedom -- later.

I'm especially concerned about financial independence for Americans as they reach retirement age. Our Social Security system is only one part of retirement security. Individual savings -- through 401(k)s, pensions, IRAs, and other tools -- is crucial to the peace of mind that every American wants in retirement. It's far easier to save for a comfortable, dignified old age if you start early. Young people today need to understand how to start saving early for their own retirement, how to take advantage of tax-exempt retirement savings programs, and how to use financial instruments for investment. Congress has created a number of programs to encourage saving for retirement -- but these are meaningless if people don't know about them, and how to use them.

NEW INITIATIVES

As part of our long-term commitment to improve financial education for all Americans, we are establishing a new office at Treasury. The Office of Financial Education will be under the leadership of our Assistant Secretary for Financial Markets, Sheila Bair --whose knowledge and enthusiasm you all know well -- and a new Deputy Assistant Secretary. The Office of Financial Education will develop and implement financial education policy initiatives, and will oversee and coordinate our outreach efforts.

Our Treasurer, Rosario Marin, has also been active in this effort, and has promoted financial literacy since the day she joined us. She has addressed the Treasurers of all 50 states, to engage them in this effort as well. She has devoted her time to reaching out to local officials and community leaders in every corner of the nation, to spread the word that financial education must be a priority for all who hope to prepare our children for economic success.

In the spirit of President Bush's education bill, the "No Child Left Behind Act," the United States Treasury is working with the Department of Education to expand financial education. We will collaborate with the Department of Education to encourage all schools to integrate financial education into their curricula.

Not as a separate discipline, but by exposing students to basic financial and economic principles as they acquire their core reading and math skills.

Treasury and Education will jointly host a series of roundtables with groups representing youth education. The roundtables will include these groups in a frank discussion about the challenges and opportunities for our Departments as we promote in-school financial education.

"Bank on Your Schools," a partnership between schools and financial institutions, will promote financial education in low and moderate income areas. This initiative will encourage financial institutions to open student-run branches in high schools, or give students a chance to work in the institutions themselves. Students will get hands-on experience with what it's like to run a bank or credit union office, and they'll learn about financial issues -- especially the importance of saving and managing your money to earn a return on it.

The lesson is the same now as it was when I was a boy growing up in Missouri. Kids need to know that if they put their money in the bank, it's going to be safe, and it's going to be worth even more in the future.

There is no doubt that the way to make this happen is through establishing partnerships -- with groups like Jumpstart, with schools, with communities, and with the financial industry. We need to muster all of our resources to teach our children about personal finance. Within the federal government, we are planning an interagency working group to coordinate the financial education programs of other government agencies, and to avoid duplicating our efforts.

The initiatives that I have outlined are just the beginning for our new Financial Education office. Improving financial education will require a long-term, multi-faceted effort on our part. We are going to set our goals high, and we are going to measure the results. And I can tell you, we are not going to settle for a passing grade on this assignment -- we want an "A." Every American child should grow up with the tools to be financially independent.

Thank you.

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
April 23, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	April 25, 2002
Maturity Date:	May 23, 2002
CUSIP Number:	912795JV4

High Rate: 1.640% Investment Rate 1/: 1.671% Price: 99.872

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 63.09%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 26,538,750	$ 8,971,896
Noncompetitive	28,272	28,272
FIMA (noncompetitive)	0	0
SUBTOTAL	26,567,022	9,000,168
Federal Reserve	3,822,759	3,822,759
TOTAL	$ 30,389,781	$ 12,822,927

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 = 26,567,022 / 9,000,168 = 2.95

1/ Equivalent coupon-issue yield.

DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
April 24, 2002

CONTACT: BILL LUECHT
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BETSY HOLAHAN
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Tony T. Brown, Director
Community Development Financial Institutions Fund

Before the
Senate Appropriations Subcommittee
on VA, HUD, and Independent Agencies

Hearing on FY 2003 Appropriations

INTRODUCTION

Madam Chair, Senator Bond and Members of the Subcommittee, I appreciate the opportunity to testify before you today on behalf of the Department of Treasury's Community Development Financial Institutions (CDFI) Fund and in support of the President's FY 2003 budget. I am Tony Brown, the new Director of the CDFI Fund. The Secretary of the Treasury selected me as Director in August of last year. I bring a 20-year prior experience in banking to the CDFI Fund with a decade of service in community development where I managed the community development program for the largest financial institution in the State of Florida. Joining me today are Fred Cooper, Deputy Director for Policy and Programs, and Owen Jones, Deputy Director for Management/CFO.

As you know, the CDFI Fund is a wholly owned government corporation within the United States Department of the Treasury. The Fund promotes access to capital and local economic growth by directly investing in and supporting community development financial institutions (CDFIs) that provide loans, investments, financial services and technical assistance to underserved people and economically distressed communities. CDFIs are specialized financial institutions operating in market niches that have not been adequately served by traditional financial institutions. Included in the various types of CDFIs are community development banks, credit unions, business loan funds, housing/facilities loan funds, microenterprise loan funds, and venture capital funds. As of February 15, 2002, the Fund has certified 565 institutions as CDFIs. These CDFIs operate in all 50 states.

PO-3037

As of February 15, 2002, the Fund has certified 565 institutions as CDFIs. These CDFIs operate in all 50 states.

Our vision for the CDFI Fund is to become a leading vehicle and the best practice government agency for financing economic and community development activities in low-income areas to improve the standard of living for Americans living in distressed and underserved communities. Our goal is to help make America a place where all of its people, including those in such communities, have access to affordable credit, capital and financial services so that they too can realize the American dream. We characterize FY 2003 as a transition year where the Fund shifts from an organization seen primarily as a grants-making organization to one that addresses the economic ills of low-income communities through targeted investments and community development finance.

By so doing we will help the Department of Treasury achieve its economic mission of a prosperous and stable America. This ambitious undertaking is explained in this testimony.

My testimony will focus on four key areas: the performance of the CDFI Fund in 2003 and beyond; the President's FY 2003 budget; management and operations; and CDFI Fund programs.

PERFORMANCE OF THE CDFI FUND: 2003 AND BEYOND

Treasury Secretary O'Neill has challenged all employees of the Department to make the Treasury a world-class organization. Additionally, he has instructed the CDFI Fund to develop procedures to provide a meaningful measurement of the impact and results of taxpayer dollars awarded through CDFI Fund programs. In order to successfully work toward the goals set by the Secretary, I have asked CDFI Fund staff to help me establish the CDFI Fund as a leading vehicle for the delivery of community development finance, capital and service activities within the federal government as well as in the nation, so that we have a demonstrable impact on low-income communities. I envision the CDFI Fund becoming an "expert" source in this regard.

As we reported last year, Treasury Secretary O'Neill intends that performance measures of the CDFI Fund and all Treasury activities be more useful and relevant to the decision-making process, and improve the timeliness and accuracy of the information systems that capture and report performance data. To move forward on this commitment, the Secretary has called for a fundamental review within all Treasury bureaus of what we do and why we do it, resulting in a determination of what measures of outputs and outcomes best capture what we are trying to achieve. This points out the need for consistent ways to evaluate the effectiveness of the various incentives for investment in low-income communities so that we have a better understanding of what works and what does not work. The CDFI Fund is committed to working with the Secretary in this important initiative.

Our budget includes $500,000 in additional administrative funding so that we can collect loan-level data to report performance and impact of CDFI activities similar to the administration of the Community Reinvestment Act and the Home Mortgage Disclosure Act.

This initiative will, I believe, enable us to measure the types of impact of our funding that Secretary O'Neill is seeking. The CDFI Fund is working with the community development industry to build a set of performance measures and establish a "performance matrix" for our awardees. This matrix will rate financial stability and community development impact. By using financial and economic factors, we intend to assess how CDFIs improve economic conditions of communities that are underserved by traditional financial institutions.

Our plan is to use this rating system to better manage the CDFI Fund's portfolio of investments and to identify under performing entities and create a compliance "watch list." We believe a significant investment to collect and analyze loan-level data will enhance our ability to report impact in various forms. These initiatives will be incorporated into the CDFI Data Project, making that industry-wide data collection effort even more useful to the CDFI Fund and others interested in CDFIs.

Turning to the impact that CDFI Fund awardees are having in their communities, the CDFI Fund is keenly interested in the issue of impact and how it is measured. The Fund is on the forefront of improving data collection and reporting in the CDFI industry and is one of the founders of the CDFI Data Project (CDP), a collaborative effort of 13 entities -- including the Ford and MacArthur Foundations and the six major CDFI trade associations -- to develop a standardized data collection system for the CDFI industry. The goal of the CDP is to produce comprehensive, high-quality activity and performance data on CDFIs. The CDFI Fund and other CDP participants issued their first collaborative annual survey last spring; selective results for CDFI awardees are described below.

Measuring community development impact has been a challenge to the CDFI Fund and the industry overall. The General Accounting Office (GAO) recognized this in its 1998 report, entitled "CDFI Fund Needs Better Systems to Measure, Monitor, and Evaluate Awardees' Performance." In the next two years, the CDFI Fund increasingly will focus on identifying additional measures of impact. For example, the Fund has begun an initiative to collect loan-level data from CDFIs. This data will show exactly where CDFIs are lending relative to more traditional lenders and thus give us a better idea of the role CDFIs play in filling the gap in affordable financial services. The MacArthur Foundation has embraced this initiative, and the CDP has incorporated loan-level data collection as well as broader impact measurement research into its strategic plan.

Internally, the CDFI Fund is reviewing the way we collect outcome information from our awardees. To date, each awardee's performance goals and measures have been tailored to their specific activities.

While these measures were rich in their uniqueness, the outcomes they measured could not be aggregated across CDFIs because they were not comparable. The CDFI Fund plans to revise its awardee performance goal and measurement system so that it produces standardized information on all CDFIs. To the extent possible, we will incorporate the CDFI Fund's reporting requirements in the annual survey in order to minimize reporting burdens on CDFIs and facilitate data analysis at the Fund.

Finally, the CDFI Fund is beginning to conduct peer analyses in an effort to develop industry performance benchmarks for each type of CDFI. We will use this information to "risk rate" our portfolio of awardees. Once it is tested and proven, we will consider other uses such as incorporating it into our award decision-making process. All of these efforts respond to findings and recommendations in the 1998 GAO report.

It is incumbent upon the CDFI Fund to continually improve its processes and develop a system for accurately measuring the real impact of CDFI Fund dollars in the communities served by our customers.

PRESIDENT'S FY 2003 BUDGET

The President's FY 2003 budget requests $68 million in appropriations for the CDFI Fund. This is the same funding level as requested in last year's Presidential budget. The Administration request should be considered in light of several factors.

First, the proposed budget for the CDFI Fund reflects overall federal budget priorities for increased National Security and Homeland Security.

Second, the FY 2003 budget level of $68 million maintains a basic level of funding to support CDFI Fund programs and assumes significant improvements in how we process applications. To do this we hope to successfully streamline our award approval and disbursement processes. We believe substantial savings in staff time will occur through streamlined efforts. This will enable us to provide the much needed community development capital to qualifying organizations with a quicker disbursement of funds for those organizations who meet all program criteria at the date of application.

Third, the enactment of the Community Renewal Tax Relief Act of 2000 will devote substantial additional resources to new incentives for investment in low-income communities. This includes the New Markets Tax Credit (NMTC) Program, to be administered by the CDFI Fund. The NMTC Program is a new and, we believe, an exciting program for the CDFI Fund. The NMTCs are expected to generate $15 billion in investments in low-income communities over the next seven years. We are working diligently to allocate credits this year and measure their impact in FY 2003, or as quickly as these credits are used, as an incentive to attract equity capital. Although the allocations for NMTCs are expected to be announced in the fall of calendar year 2002, we may not see the effect of the NMTC- leveraged equity investments in low-income communities before calendar year 2004.

Obviously, the first year of this program will be a work in progress since we have a limited sense of the demand or actual appetite of investors for these types of tax credit allocations. The successful implementation of the NMTC Program is one of our highest priorities. The NMTC Program offers us a unique opportunity to measure the increased flow of private capital into low-income communities. Our resources are mobilized to ensure a successful introduction of the NMTC Program this calendar year.

Lastly, we anticipate that approximately $30 million of the proposed FY 2003 budget will be used to fund the Core and Intermediary Components of the CDFI Program and Training Program; approximately $11 million (including the carryover from the prior year) will be made available for the Small and Emerging CDFI Assistance (SECA) and the Native American CDFI Technical Assistance (NACTA) Components of the CDFI Program; and $20 million will be used to fund the Bank Enterprise Award (BEA) Program. The remainder will be used to cover the CDFI Fund's administrative costs, including the costs of administering the NMTC Program.

The CDFI Fund will continue to focus efforts on serving those markets, including rural and Native American communities, that have relatively low levels of CDFI activity and inadequate access to financial services. In these areas, we will continue to conduct workshops (both in-person and via satellite broadcasts) detailing the CDFI certification and funding application processes. We also expect that the SECA Component, the NACTA Component, and the Training Program will be of particular benefit to CDFIs and CDFIs in formation that serve these difficult markets.

MANAGEMENT AND OPERATIONS

The CDFI Fund has implemented effective financial and management controls as verified by our independent auditors (KPMG, LLP). These controls have allowed the CDFI Fund, for the fifth consecutive year, to receive an unqualified (clean) audit opinion. Additionally, this marks the fourth consecutive year that the independent auditors have identified no material weaknesses or reportable conditions. KPMG's opinion affirms the CDFI Fund's Statements of Financial Position, Operations, and Changes in Net Position and Cash Flow are fairly presented. These findings reflect the commitment of the CDFI Fund to sustaining and improving upon its internal controls, operating policy and procedures, and awards management.

The CDFI Fund continues to comply with the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA). The CDFI Fund's system of internal management, accounting and administrative controls are operating effectively.

During my seven months as Director, I have spent a significant amount of time reviewing the internal operations at the CDFI Fund. It is my intention to make necessary changes, which will streamline and make more efficient our processes and procedures. It is my hope that, once implemented, these changes will accomplish four key goals.

First, as mentioned above, we need to reduce the amount of time currently required for our award processes. This includes reducing time used for application reviews, awards obligation and disbursement of funds. Second, our plan will successfully integrate the NMTC Program within our existing operations without significantly increasing the number of new employees above FY 2002 levels. Third, we need to enhance the CDFI Fund's ability to perform research, market and portfolio analysis to measure the availability of financial services in underserved markets and critique the financial and program performance of existing CDFIs. Finally, I want to position the CDFI Fund to be better prepared and anticipate future responsibilities.

CDFI FUND PROGRAMS

The CDFI Fund supports its economic development mission of providing capital to underserved persons and in underserved markets by investing in CDFIs, and by providing incentives for mainstream financial institutions to invest in CDFIs and increase their activities in distressed communities. In addition to three traditional programs (the CDFI Program, the Bank Enterprise Award (BEA) Program, and the Training Program), the CDFI Fund has introduced two new programs. We anticipate these programs will provide additional capital in the markets served by our customers. These new programs are the New Markets Tax Credit (NMTC) Program, described above, and the Native American CDFI Technical Assistance (NACTA) Component of the CDFI Program.

CDFI Program

The CDFI Program provides financial assistance in the form of grants, loans, equity investments or deposits to CDFIs. Since its inception, the CDFI Fund has made over 780 CDFI Program awards totaling $357 million. The CDFI Program is composed of three separate funding components, each attempting to reach a different type of CDFI or market: the Core Component; the Small and Emerging CDFI Assistance (SECA) Component (formerly the Technical Assistance Component); and the NACTA Component.

CDFIs also provide their clients with training and technical assistance that help organizational clients to better manage community development projects and help individual clients to improve their financial decision-making skills and increase their options for accessing credit. This type of borrower education is the foundation for mitigating losses in the CDFI industry overall. In FY 2000, the CDFI Fund's awardees provided business training, financial management education, credit counseling, and homebuyer training to 51,059 individuals and 6,298 non-profits and other organizations.

In addition to financing activities, CDFIs are also depository institutions; 159 of the 553 certified CDFIs are regulated financial institutions (banks, thrifts, and credit unions).

In a survey completed in 2000, 21 depository awardees--primarily low-income designated credit unions and community development banks -- provided 141,440 checking and savings accounts, with $257 million on deposit for an average of $1,815 per account. Each of these institutions has a mission of reaching low-income and underserved populations, and some provide products specifically designed to help low-income individuals build wealth, such as Individual Development Accounts. In all, 985 Individual Development Accounts held savings of $388,545, an average of $395 per low-income account holder.

Finally, CDFI Fund awardees have leveraged significant additional capital. A sample of non-depository CDFIs estimated that they were able to raise an additional $69 million over and above the required 1:1 match due to being a CDFI Fund awardee or certified CDFI, representing an additional $1.48 raised for every CDFI Fund award dollar. This capital has come from banks, foundations, state and local government, and others.[1]

The ***Core Component*** is directed at building the financial capacity of CDFIs by enhancing the capital base. Awardees of the Core Component represent some of the nation's largest loan funds and financial institutions. At the end of FY 2000, 122 Core awardees reported $2 billion in outstanding loans and investments.

For the FY 2001 funding round the CDFI Fund provided 51 Core Component awards totaling $48 million. These 51 awardees are based in 27 states. There are now CDFI Program awardees in 49 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. Of these 51 awardees, 10 have multi-state or national service areas; 38 serve rural markets.

In addition to geographic diversity, the types of CDFIs assisted and the array of loan or investment products provided is broad: 26 provide loans for housing development or ownership; 20 have micro- or small-business loan products; five are credit unions; three are community development bank holding companies; and two are venture capital funds.

Entities selected for Core Component awards typically have business strategies that support economic stabilization or building wealth in low-wealth markets. A few examples include:

- Homeward Inc. of Allison, Iowa, was formed out of a consortium of eight rural electric cooperatives to provide loans for housing development and for economic development activities.

- Home Headquarters of Syracuse, NY helps to stabilize distressed neighborhoods and build assets in Onondaga County through home purchase financing targeted to lower income households.

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[1] Source: CDFI Fund FY 2000 Annual Survey of Core Awardees.

- Kentucky Highlands Investment Corporation is a nonprofit business development firm founded in 1968 to provide venture capital and debt financing to start-up and expanding businesses. In a nine-county region of Appalachia, Kentucky Highlands, through its financial products, has helped to create or retain 7,000 jobs. This means that, on average, 12 percent of the households in this rural nine-county region have a family member employed by a company that Kentucky Highlands assisted. In the local Empowerment Zone, which is located within the nine-county region, this CDFI's impact is even greater: since 1994, Kentucky Highlands helped create or retain 3,086 jobs in the area that is now part of the Empowerment Zone. This translates into an average of 39.7 percent of EZ households with a family member employed by a company that Kentucky Highlands helped.

On September 24, 2001, the CDFI Fund published a Notice of Funds Availability (NOFA) announcing the availability of $36.9 million in Core Component awards for FY 2002. The application deadline was December 11, 2001; we received 136 applications, requesting a total of $198 million.

The ***Intermediary Component*** allows the CDFI Fund to invest in CDFIs through intermediary organizations that support other CDFIs and emerging CDFIs. These intermediary entities, which are also CDFIs, generally provide financial and technical assistance to small and growing CDFIs. Like Core awardees, Intermediary awardees are required to obtain matching funds in comparable form and value to the financial assistance they receive from the CDFI Fund.

Since inception, the CDFI Fund has obligated awards totaling over $20 million to 11 different intermediary institutions. Beginning with the FY 2001 funding round, the Intermediary Component has been announced and evaluated as part of the Core Component and CDFI Intermediaries now compete directly with other Core Program applicants.

The ***Small and Emerging CDFI Assistance (SECA) Component*** was initiated in FY 2001. It replaces the Technical Assistance (TA) Component, which was first introduced in 1998 to build the capacity of CDFIs to serve their target markets---particularly "start-up," young and small institutions. Under the TA Component, the CDFI Fund directed relatively small amounts of funds -- generally $50,000 or less -- to CDFIs that could demonstrate significant potential for generating community development impact, but whose institutional capacity needed to be strengthened in order to fully realize this potential. Some typical uses of TA grants included: computer system upgrades and software acquisition; developing loan underwriting policies and procedures; evaluating current loan products and developing new ones; and training staff. Under the SECA Component, the CDFI Fund has augmented the range of assistance provided under the predecessor TA Component.

In addition to TA grants, eligible applicants can also request Financial Assistance, generally used for enhancing the applicant's lending capital, up to $150,000. Small and emerging CDFIs generally have less than $5 million in assets and have never received Financial Assistance from the CDFI Fund. Requests for Financial Assistance must be matched dollar-for-dollar with other non-Federal funds.

In FY 2001, the Fund provided 70 SECA/TA Component awards totaling $8 million. Of the FY 2001 awardees, 32 (45 percent) are start-ups. We are pleased to report that the SECA Component has been particularly responsive to the needs of community development credit unions: 20 (or almost 30 percent) of the FY 2001 SECA awardees are credit unions. The SECA Component also has proved to have national reach: the 70 SECA awardees are located in 26 states, Washington, D.C., and Puerto Rico. Of these 70 awardees, about half (37) include rural markets within their service areas.

On September 24, 2001, the CDFI Fund published a NOFA announcing the availability of $5.6 million under the SECA Component for FY 2002. A total of 120 applications was received, for $18 million.

SECA Component awardees are serving some of the nation's most economically distressed and hardest to serve markets and are exhibiting important programmatic innovations. The CDFI Fund's SECA Component awards are helping to build the organizational infrastructure to increase the flow of capital in economically distressed areas and to low-wealth populations:

- The Bushwick Federal Credit Union is a recently chartered start-up serving the economically distressed Bushwick neighborhood of Brooklyn, New York. It provides financially literacy to a largely unbanked population. It proposes to use its award to capitalize a micro loan product and to expand its ATM services.

- Nevada Microenterprise Initiative, based in Reno, provides training and financing to lower income entrepreneurs that lack sufficient collateral for conventional financial institutions and proposes to use the award to obtain staff training and to refine its business plan.

- Azteca Community Loan Fund of San Juan, Texas, proposes to build its capacity to help build assets among very low-income people through development services and loans that will increase the rate of homeownership in *colonias* in the south Texas border region.

The Bank Enterprise Award (BEA) Program

The Bank Enterprise Award (BEA) Program is the principal means by which the CDFI Fund achieves its strategic goal of expanding financial service organizations' community development lending and investments through regulated institutions.

The BEA Program recognizes the key role played by mainstream depository institutions in promoting the growth of CDFIs and the revitalization of distressed communities.

The BEA Program provides monetary incentives for banks and thrifts to expand investments in CDFIs and/or to increase lending, investment and service activities in distressed communities. BEA Program awards vary in size, depending upon the type and amount of assistance provided by the bank and the activities being funded through the bank's investments. In general, banks that provide equity investments to CDFIs are likely to receive the largest awards relative to the size of their investments.

Through 2001, 577 BEA Program awards totaling over $182 million have been provided to banks and thrifts. Banks and thrifts receiving BEA Program awards have provided $959 million directly to CDFIs, and $2.5 billion to distressed communities[1] in the form of direct loans, investments and services.

Of the FY 2001 funding round awardees, the CDFI Fund made 139 BEA Program awards totaling $46 million. On September 24, 2001, the CDFI Fund published a NOFA announcing the availability of $16.5 million in BEA Program funds for FY 2002. The application deadline for this NOFA was November 13, 2001.

The CDFI Fund has made BEA Program awards to 386 different institutions since 1996. The average Total Assets of the 386 BEA Program awardees is just under $10 billion. BEA Program awardees range in size from $585 billion in assets to $8 million. BEA Program awardees have an average Return on Assets of 1.1percent and average Tier One Capital of $407 million. The BEA Program award as a percentage of Tier One Capital is less than 3 percent on average. All BEA awardees whose BEA Program award represents more then 10 percent of Tier One Capital are certified CDFIs.

All but two BEA Program awardees have Satisfactory or Outstanding Community Reinvestment Act (CRA) ratings. About one-third have Outstanding CRA ratings and about 60 percent have Satisfactory ratings. The BEA Program awardees with Outstanding CRA ratings have an average size (in terms of assets) of $17 billion, while awardees with Satisfactory Ratings have an average of $6 billion in Total Assets.

A few examples of BEA Program awardees include:

- AmSouth Bank of Birmingham, Alabama received an award of $221,600 for providing $300,000 in grants and $1.6 million in loans to ten CDFIs: Affordable Housing Resources; Community Equity Investments; Enterprise Corporation of the Delta; Florida Community Loan Fund; Local Initiatives Support Corporation; Neighborhood Housing Services; Southern Development Bancorporation; Nashville Housing Fund; Chattanooga Neighborhood Enterprise; Structured Employment Economic Development Corporation; and Technology 2020 Finance

[1] Distressed Community is a defined area that must have a poverty rate of at least 30 percent and an unemployment rate that is at least 1.5 times greater than the national rate.

Corporation. The awardee is a state chartered bank with total assets of $39 billion.

- Providian National Bank of Tilton, New Hampshire, received a BEA Program award of $1,110,000 for making a $7.5 million equity like loan to the National Community Capital Association, a certified CDFI. Providian's investment will help fund the first national childcare facilities fund, which will provide financial assistance to childcare providers and thereby increase the availability of affordable childcare slots for disadvantaged families and communities in New Hampshire and throughout the country. The awardee is a national bank with total assets of $15 billion.

- Since first participating in the BEA Program in 1996, KeyBank, a national bank based in Cleveland, Ohio, has received a total of $2.3 million for providing over $22 million in financial support (including grant, equity-like loans, and loans) to several CDFIs: Cascadia Revolving Loan Fund, Coastal Enterprises, Coastal Ventures Limited Partnership, Coastal Ventures II, LLC, Cincinnati Development Fund, Columbus Growth Fund, Community Capital Development, Capital District Loan Fund, Community Preservation Corporation, Denver Neighborhood Housing Fund, The Enterprise Foundation, Funding Partners for Housing Solutions, the Housing Partnership Development Fund, Growth Finance Corporation of Oxford Hills, Housing Partner Development Fund, Impact Capital, Jubilee Community Loan Fund, Local Initiatives Support Corporation, Mutual Financial Services, NHS of Toledo, Northern Community Investment Corporation, Progressive Neighborhood Federal Credit Union, Rural Opportunities Enterprise, Vermont Community Development Loan Fund, and Western Maine Finance. The awardee is a national bank with total assets of $76 billion.

The Training Program

The Training Program, begun in FY 1999, is aimed at supporting the CDFI Fund's strategic goal of strengthening the organizational capacity and expertise of CDFIs and other Financial Service Organizations. The Training Program provides funds that support the development and delivery of training products to CDFIs and other entities engaged in community development finance. Training is addressed via classroom instruction, web-based distance learning, and other electronic formats. The CDFI Fund is particularly excited about providing the support to help build the electronic teaching capacity of the CDFI industry. Through distance learning, the cost of accessing training is reduced for the CDFIs (elimination of the time and cost of travel) and the ability of CDFIs that are either of limited resources or of remote locations to access training is enhanced.

In FY 2001, the CDFI Fund awarded contracts to four training providers for curriculum development and the delivery of three courses: How to Do a Market Analysis;

How to Prepare Financial Projections; and How to Develop and Operate a Community Development Lending Program. Training has already begun under each of these courses. Through February 2002, there have been 60 offerings of the three courses supported by the Fund. Each class usually serves up to 30 participants. Through February 2002, it is estimated that 1,200 individuals will have participated in Fund-supported training. Of the four training providers, two providers (the National Community Capital Association and the National Federation of Community Development Credit Unions) are CDFI trade associations. Support to their members and others is provided through advisory services, which is now enhanced through these training products. The CDFI Fund has found these trade associations and other contractors to be good partners in helping to build the capacity of CDFIs in serving their communities -- they couple a deep knowledge of the circumstances of the industry with a mission to serve.

New Markets Tax Credit (NMTC) Program

Congress enacted this program in December of 2000 to attract private sector investment in businesses located in low-income communities to improve economic conditions in such communities. Under the NMTC Program, taxpayers will be provided a credit against Federal income taxes for qualified investments made to acquire stock or other equity interests in designated Community Development Entities (CDEs). In turn, substantially all of the proceeds of qualified investments must be used by the CDE to make qualified investments in low-income communities. These qualified low-income community investments include loans to or equity investments in, businesses or CDEs operating in low-income communities. The credit provided to the investor covers a seven-year period. In each of the first three years, the investor receives a credit totaling 5 percent of the total value of the stock or equity interest at the time of purchase. For the final four years, the value of the credit is 6 percent annually.

This calendar year, NMTCs will be allocated annually by the CDFI Fund to for-profit CDEs under a competitive application process. These CDEs in turn will pass the credits to investors (such as banks, corporations, mutual funds, and/or individuals). To qualify for CDE designation by the Fund, an entity must be a domestic corporation or partnership that: (1) has the primary mission of serving, or providing investment capital for low-income communities or low income persons; and (2) maintains accountability to residents of low income communities through representation on a governing or an advisory board.

On April 20, 2001, meeting its statutory mandate, the CDFI Fund issued Guidance relating to the certification of CDEs and the competitive allocation of NMTCs. The Guidance was published in the Federal Register on May 1, 2001 – the same day that the IRS issued an Advanced Notice of Proposed Rule Making (ANPRM) announcing its intention to develop regulations covering all tax-related aspects of the NMTC Program.

Both the Guidance and the ANPRM requested public comments, which were due to the Fund and IRS, respectively, on July 2, 2001. The CDFI Fund received public comments from over 40 different organizations and trade associations.

On December 20, 2001, less than one year after Congress enacted the NMTC Program, the CDFI Fund released application materials enabling organizations to apply to the Fund for designation as CDEs – effectively launching the NMTC Program. The CDFI Fund has fully implemented rules to permit entities to becoming certified CDEs. To date, approximately 211 organizations have been certified as CDEs or currently have CDE applications pending with the CDFI Fund.

The CDFI Fund's objectives for the remainder of the year are to publish an NMTC allocation application, select qualified CDEs to receive an allocation of tax credits, and complete the awards allocation process for 2001/2002 tax credits. The CDFI Fund expects to issue a Notice of Allocation Availability (NOAA) next month announcing the availability of tax credits supporting up to $2.5 billion worth of equity investments in CDEs. The CDFI Fund will review applications from CDEs under a competitive review process, with the goal of finalizing award decisions by the fall of 2002. In this manner, investors making equity investments into eligible CDEs would be able to claim tax credits during this calendar year.

By offering a tax credit, the NMTC Program encourages private investment in underserved communities. If investors embrace the program, it will be a significant source of new capital that could help to stimulate new industries and entrepreneurs, diversify the local economy, and generate new jobs in low-income communities. Our FY 2003 budget requests $ 2.7 million in administrative funds to operate this program. This request accounts for 24 percent of our administrative budget.

Native American CDFI Technical Assistance (NACTA) Component

A second recent initiative at the Fund is focused on Native American communities. This initiative includes the Native American CDFI Technical Assistance (NACTA) Component of the CDFI Program and the Native American CDFI Training Program. The CDFI Fund's FY 2001 and 2002 appropriations bills each include a $5 million set-aside for this effort. The purpose of this initiative is to increase access to capital in Native communities. In response to the set-aside contained in the FY 2001 budget, the Fund issued a Notice of Funds Availability (NOFA) on September 24, 2001, requesting applications under the NACTA Component. Approximately $3.5 million of the $5 million set-aside will be available for this round.

The CDFI Fund has received 46 applications for assistance under the NACTA Component. The applications, which are currently under review, represent 21 states. A second NACTA NOFA will draw from the set-aside contained in the FY 2002 CDFI Fund appropriations.

Funds will be allocated under the NACTA Component through direct grants to Native CDFIs, Tribal organizations, and other financial institutions and organizations serving these communities. It is anticipated that these funds will: (i) enable financial institutions to enhance their capacity to provide access to capital and credit to these communities; and (ii) assist such communities in establishing their own CDFIs.

Another $1.5 million of the set-aside is being used to develop a training program. This training program will be designed to help Native American communities build leadership skills enabling them to create and manage CDFIs.

The need for this new initiative was identified during the workshops organized by the CDFI Fund in conjunction with the development of the Native American Lending Study/Action Plan. This Study examines the key barriers to accessing debt capital and equity investments in Native American communities. Numerous actions that could be taken by Tribes, lenders, and local and national policy makers were identified. These ranged from the adoption of the Uniform Commercial Code by Tribal governments to the capacity-building efforts now underway at the CDFI Fund. The final report was distributed in December 2001 to the House and Senate Committees who hold jurisdiction over the CDFI Fund and Native American issues, as well as to the President.

In developing this study, the CDFI Fund conducted 13 regional workshops across the country and two roundtable meetings. The CDFI Fund also administered a national survey of 860 tribal organizations and 750 financial institutions located near Indian reservations, Alaska Native Villages, and Native Hawaiian Communities. The survey collected data such as barriers to accessing capital, accessibility of bank services and products, availability of technical assistance, industrial sector financing gaps and strength of internal tribal resources and policies. The CDFI Fund also administered an equity investment research project to assess the gap and potential opportunities for Native Americans to access this kind of investment.

Rural Community Assistance

Lastly, the FY 2002 appropriations for the CDFI Fund contained report language requesting an update on rural lending practices as part of the fiscal year 2003 budget submission. Core Component and BEA Program awardees are indeed reaching rural areas. Of 123 surveyed Core awardees, 21 (17 percent) estimated that 100 percent of their activities went to rural areas and an additional 15 (12 percent) estimated that 51 to 99 percent of their activities went to rural areas. Out of 160 surveyed BEA awardees, 11 (7 percent) said that 100 percent of their business activities went to rural areas, and an additional 18 (11 percent) said that 51 to 99 percent of their business went to rural areas. Considering that 22 percent of U.S. households reside in non-metropolitan areas, the percentage of Core awardees that target more than half their activities to rural areas (29 percent) compares favorably, while BEA falls slightly short at 18 percent.

The CDFIs focusing on rural areas tend to be smaller than their urban counterparts and the actual dollar amount that awardees' lend to rural areas is proportionally less than the percent that serve rural areas. An estimated 17 percent ($351 million) of Core Component awardees' lending and 11 percent ($161 million) of BEA awardees' lending went to non-metropolitan counties[2]. The CDFI Fund has identified several options that may increase the flow of CDFI Program and BEA Program awardees' dollars to rural areas. For the BEA Program, the most significant of these would require changes to the Fund's authorizing statute. For example, under the BEA Program, a "distressed area" must have a population of at least 4,000. Distressed areas are composed of census tracts. Many rural census tracts do not have 4,000 people, which in many cases precludes their eligibility as BEA distressed areas. Eliminating the BEA Program population requirement for rural areas would result in more people becoming eligible for consideration under the BEA Program.

In addition, almost all of the new NACTA Component dollars are expected to flow to rural areas: 46 of 47 current NACTA applicants target rural areas.

SUMMARY

Treasury Secretary O'Neill and the Administration have set the bar high for the expected performance from us at Treasury as well as the entire federal government. As you can see, I have laid out a blueprint for the CDFI Fund to enable us to reach goals that will improve and enhance our performance and service to our customers. These goals will hopefully provide an increased efficiency in the use of taxpayer dollars. Our goals are numerous and in some instances, very ambitious. It undoubtedly will require a very focused and conscientious effort by all of us at the CDFI Fund. During my short time at the CDFI Fund, I have developed the utmost confidence in the commitment of our staff toward our customers and the communities that they serve. I am certain that we will all rise to the occasion to meet our goals and do so in a timely and professional manner. I look forward to working with the Members of this Subcommittee towards achieving these goals. Again, I thank you for the opportunity to present my testimony in support of the President's 2003 budget request and look forward to answering any questions you may have for me.

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[2] Core Component awardee dollar amounts were estimated by applying the awardees' estimated percentage of FY 2000 customers located in rural areas to the awardees' total financing closed in FY 2000. BEA Program awardee dollars were estimated by applying the awardees' estimated percentage of total lending in rural areas to the sum of their total community development and service activities, and CDFI support activities during the BEA assessment period.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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TREASURY ISSUES GUIDANCE THAT HELPS CHARITIES WITH CORPORATE SPONSORSHIP PAYMENTS

Today the Treasury and IRS issued final regulations that help charities and other tax-exempt organizations determine the tax treatment of the payments they receive from corporations and other businesses. Qualified sponsorship payments are not taxable.

"Charities and other tax-exempt organizations rely on the support they receive from individuals and corporations. It is important that the organizations know how the money received from corporations and businesses will be taxed. These final regulations explain what qualified sponsorship payments are, and that they are not subject to the unrelated business income tax," stated Pam Olson, Acting Treasury Assistant Secretary for Tax Policy.

Qualified sponsorship payments generally are treated as contributions to the tax-exempt organization. A payment by a business is a "qualified sponsorship payment" only if the business does not expect to receive any substantial return benefit in exchange for making the payment. Mere use or acknowledgement of the business' name or logo in connection with the activities of the tax-exempt organization is not a substantial return benefit. However, if the business receives advertising (or other benefits) in exchange for making a payment, then the payment may be considered payment for the advertising or other benefits. In that case, only the amount of the payment (if any) that exceeds the fair market value of the benefits is a qualified sponsorship payment. For purposes of applying these rules, benefits provided to a sponsor may be disregarded if the aggregate fair market value of the benefits does not exceed 2% of the total payment received from the sponsor.

The final regulations clarify that payments other than qualified sponsorship payments are not automatically subject to unrelated business income tax. Instead, the tax treatment of those payments is determined under existing unrelated business income tax rules.

The text of the final regulations is attached.

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DEPARTMENT OF THE TREASURY

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TREASURY SECRETARY PAUL H. O'NEILL
TESTIMONY BEFORE THE HOUSE APPROPRIATIONS SUBCOMMITTEE ON FOREIGN OPERATIONS, EXPORT FINANCING AND RELATED PROGRAMS

Chairman Kolbe, Ranking Member Lowey, Members of the Subcommittee, thank you for the opportunity to testify today on President Bush's FY2003 budget request for Treasury's international programs.

Let me begin by underscoring the emphasis that President Bush places on economic development as a central commitment of American foreign policy. The United States should and must be a champion of economic growth and development, particularly in those parts of the world where poverty is most acute. In today's world, in many nations and regions, extreme poverty is widespread and deep and exacts an enormous human toll. If we care about simple human dignity, we must act to help raise living standards for the poorest. As President Bush stated last month in a speech at the Inter-American Development Bank:

"This growing divide between wealth and poverty, between opportunity and misery, is both a challenge to our compassion and a source of instability."

The President has called for a new compact for global development, defined by new accountability for rich and poor nations alike with greater contributions from developed nations linked to greater responsibility from developing nations. The President's proposal recognizes that sound policies have universal application and that development partnerships can only be effective if rooted in a good policy framework. For this reason, the adoption by poor countries of the reforms and policies that make development effective and lasting is integral to the President's proposed new Millennium Challenge Account (MCA). The concept underlying the Account is clear, that countries that rule justly, invest in their people, and encourage economic freedom will receive more assistance from the United States.

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These principles are widely shared in the international community. Recently, they were included in the "Monterrey Consensus," which was endorsed by the countries represented at the UN Financing for Development Conference in Mexico. The Chairman and I both attended that conference.

The President's new approach to development gives us an opportunity to show real results for the investment our taxpayers make in foreign assistance. By directing funds from the MCA to countries with a good policy environment, there is greater chance that the funds will be used effectively to promote productivity and growth and reduce poverty. We hope we can count on your support in promoting this new approach and will consult with you in the weeks ahead to come to an agreement on jump-starting the initiative.

The Multilateral Development Banks (MDBs) are also important instruments in helping us pursue growth and prosperity in the global economy. They serve vital interests of the United States, and are crucial and integral components of our overall foreign assistance effort. U.S. foreign assistance programs, including assistance through the MDBs, are important for advancing American foreign policy. The more our assistance aids in economic development, the greater countries' ability to engage in mutually beneficial trade with Americans, the greater the chances for democratic values to take root, and the greater the chances for government and social institutions to develop stability. The crucial importance of laying the foundation for hope and opportunity has only been underscored by September 11. As the President has said, when governments fail to meet the most basic needs of their people, these failed states can become havens for terror.

This year's request totals $1.4 billion. It includes $1.26 billion in funding for our annual commitments to the Multilateral Development Banks, $178 million towards clearing our arrears to these institutions over a three-year period, and $10 million for international technical assistance programs.

I take very seriously my responsibility to ensure that U.S. taxpayer resources provided to the MDBs are effective in achieving significant and sustainable improvements in the daily lives of the people living in developing countries. I am convinced that the MDBs can do a better job, and it has been a high priority from the beginning of the Bush Administration to improve their performance. Our message is beginning to take hold, but there is much work to be done to accomplish our objective.

The MDB Growth Agenda

There is 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 required to encourage individual enterprise. These include the rule of law, enforceable contracts, stable and transparent government, and a serious commitment to eliminate corruption. Countries also need to provide individuals with health, knowledge, and the skills they need to participate in and contribute to economic activity. External assistance can only help if the right fundamentals are in place to harness this great human potential.

Job-creating productivity growth is the driving force behind rising per capita income and reduced poverty, and we have been pressing the MDBs to focus on projects and programs that raise productivity. This includes operations that would improve health and education; promote private enterprise; enhance the rule of law, effective public expenditure management, accountability and anti-corruption; and open economies by strengthening trade capacities and investment environments.

As a result of our efforts, productivity and private sector job creation are receiving greater emphasis in the debate on MDB policies within the institutions and among other shareholders. We will continue working actively to ensure they become a hallmark of actual operations.

We are also pressing all the MDBs to measure results. It is not enough to say that the MDBs are increasing funding for education, for example. We also need to know whether that increase is leading to measurable results, such as better reading and writing skills. For the first time, in the current IDA replenishment negotiations, the U.S. will provide supplementary funding conditioned on measurable results in areas crucial to economic growth and poverty reduction. My goal is to ensure that the successes and failures of the past 50 years guide and improve development efforts in the future.

President Bush has also proposed that a higher percentage of the World Bank and other MDB funds for the poorest countries be provided as grants rather than loans. This proposal is an important part of our MDB growth agenda because grants are the best way to help poor countries make productive investments without saddling them with ever-larger debt burdens. It thus also will help avoid the need for future HIPC debt relief. The fact is that investments in crucial social sectors, such as education and health, do not directly or sufficiently generate the revenue needed to service new debt.

I am happy to say that the new IDA-13 and African Development Fund negotiations are likely to have larger shares going to grants, but there is still disagreement on how much. It is important to reach an agreement on grants that will facilitate closure on these important replenishments.

Private sector development is essential for economic development and growth. Without a transparent economic environment based on the rule of law, private investment simply will not happen. Opaque regulatory and legal environments create insurmountable barriers to entry for new firms, which are the lifeblood of a thriving market economy.

We believe the MDBs can do more to promote and develop investment climates that will attract needed private capital. The MDBs could provide practical investment climate assessments, for example. On the basis of such assessments, technical assistance, project finance and small-business loans could be channeled more effectively to countries committed to policy and regulatory changes that will create conditions that sustain robust levels of private-sector investment, productivity growth, and income generation.

The FY 2003 Request

The Administration's FY 2003 budget request of $1,447 million for Treasury's international programs reflects these development priorities, thus projecting U.S. leadership and complementing our efforts to strengthen the effectiveness of the MDBs. Funding of this request also will help enable the MDBs to address critical development issues in key regions of importance to the United States: supporting key countries in the war on terrorism; combating money-laundering and terrorist financing; providing assistance to countries emerging from conflict; and responding to natural disasters.

There are three basic components to this request: annual funding for the MDBs, arrears clearance, and Treasury's bilateral technical assistance program.

1. <u>Annual Funding for the MDBs ($1,259.4 million)</u>

Our request for the MDBs includes $1,259.4 million to fund fully our current annual U.S. commitments. This includes the first payments of our proposed contributions to new replenishments for the International Development Association ($850 million), the African Development Fund ($118 million) and the Global Environment Facility ($107.5 million). Negotiations for all three replenishments are ongoing.

As previously mentioned, for the International Development Association (IDA), the U.S. is proposing for the first time a results-based financing framework. The U.S. would provide $850 million in FY 2003, $950 million in FY 2004 and $1,050 million in FY 2005, with amounts over $850 million subject to the achievement of measurable results in areas such as health, education and private-sector development, for example. This amounts to a total of $2,850 million, or 18 percent above the U.S. commitment to the last IDA replenishment.

We are also proposing an 18 percent increase in funding for the African Development Fund (AfDF), a total of $354 million over three years. For the Global Environment Facility (GEF), the U.S. is proposing to contribute a total of $430 million over four years.

2. <u>Arrears ($178 million)</u>

The $177.7 million request for arrears would be applied to all MDB arrears on a pro rata basis, and is part of a three-year plan to fully pay U.S. arrears to the institutions, which now total $533 million, including $211 million in arrears to the GEF. Arrears have now risen for the third consecutive year, after declining substantially from 1996 to 1999. It is critical that the U.S. meet its international commitments, and I look forward to working with the Congress to pay down these arrears over the next three years, thus helping to ensure U.S. leadership and credibility on global issues of vital importance to the United States.

3. <u>Technical Assistance ($10 million)</u>

Our request also includes $10 million for Treasury technical assistance programs, which form an important part of our effort to support countries facing economic transition or security issues, and whose governments are committed to fundamental reforms. This compares to $6.5 million in FY 2002 appropriations and $3 million in the Emergency Response Fund (ERF) for programs specifically designed to combat terrorism. Treasury's technical assistance programs were created in 1990 and 1991 to assist countries in the Former Soviet Union and Central and Eastern Europe. Beginning in FY 1999, a direct Congressional appropriation allowed us to expand the program selectively and effectively. Our FY 2003 request will allow us to continue current programs in countries in Africa, Asia, Central and South America and to expand into other countries committed to sound economic reform policies. We expect to spend a significant amount on anti-terrorist programs. Over half of the traditional programs will be in Sub-Saharan Africa, as has been the case for the past two years. The anti-terrorist programs will be global in scope, with an emphasis on a group of about 20 countries that the Administration has identified as having financial systems vulnerable to misuse by terrorist organizations.

Trade Promotion Authority

I would be remiss in testifying on international issues if I did not raise Trade Promotion Authority (TPA). I applaud the House of Representatives for approving Trade Promotion Authority (TPA), and the Senate Finance Committee for its strong bipartisan vote in favor of TPA legislation. It is now imperative that the full Senate acts quickly so the Congress can approve a final version of TPA and send it to the President for his signature. This would provide a great service to our economy. Passage of TPA will substantially enhance our ability to complete the Free Trade Area of the Americas, other free trade agreements, and our broader multilateral trade agenda. And without question, TPA will be a great confidence builder for the U.S. and global economy.

Also of particular importance on our trade agenda is the renewal and expansion of the Andean Trade Preference Act (ATPA) -- a program that encourages a shift away from the production of illegal narcotics and toward legitimate products, and that gives Andean governments the tools to fight narco-terrorism. A critical fact that is not well understood is that after ATPA expired, duties on products that would have qualified if not for the expiration of the program were deferred for ninety days. That deferral expires on May 16, at which time all of the duties deferred over those 90 days will be due. The Treasury Department estimates that duties were deferred on 50 percent of the trade that would have been duty-free under the program. It will bring serious duress to U.S. businesses and our Andean partners if all of those duties have to be paid on May 16.

Legislative Mandates

There is one final issue that I want to highlight. I am determined to enable the Treasury Department to fulfill its mission to develop and implement our international economic policy. Currently, the Administration is burdened by 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 these institutions would be improved by 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 modifications. 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 reports and requirements.

Conclusion

I will continue to work hard with MDB managements and with other shareholders to ensure vigorous and effective implementation of the U.S. reform agenda. I ask for your support as we work together to ensure that these institutions are more effective in achieving real results that promote economic growth and productivity, improve the living standards of people in developing countries, and advance American interests.

Thank you very much, and I will be pleased to respond to your questions and suggestions.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 9:00 A.M.
April 24, 2002

PUBLIC CONTACT: Office of Financing
202-691-3550
MEDIA CONTACT: Office of Public Affairs
202-622-2960

TREASURY ANNOUNCES DEBT BUYBACK OPERATION

On April 25, 2002, the Treasury will buy back up to $1,500 million par of its outstanding issues that mature between November 2022 and November 2027. Treasury reserves the right to accept less than the announced amount.

This debt buyback (redemption) operation will be conducted by Treasury's Fiscal Agent, the Federal Reserve Bank of New York, using its Open Market operations system. Only institutions that the Federal Reserve Bank of New York has approved to conduct Open Market transactions may submit offers on behalf of themselves and their customers. Offers at the highest accepted price for a particular issue may be accepted on a prorated basis, rounded up to the next $100,000. As a result of this rounding, the Treasury may buy back an amount slightly larger than the one announced above.

Note: On the settlement date, securities should be delivered to the Federal Reserve Bank of New York using the following delivery address: ABA Number 021089482 US TREAS BUYBACK/6000.

This debt buyback operation is governed by the terms and conditions set forth in 31 CFR Part 375 and this announcement.

The debt buyback operation regulations are available on the Bureau of the Public Debt's website at www.publicdebt.treas.gov.

Details about the operation and each of the eligible issues are given in the attached highlights.

oOo

Attachment

PO-3040

HIGHLIGHTS OF TREASURY DEBT BUYBACK OPERATION

April 24, 2002

Par amount to be bought back ...Up to $1,500 million
Operation date ....April 25, 2002
Operation close time ....11:00 a.m. eastern daylight saving time
Settlement date ....April 29, 2002
Minimum par offer amount $100,000
Multiples of par $100,000
Format for offers ..... Expressed in terms of price per $100 of par with three decimals. The first two decimals represent fractional 32nds of a dollar. The third decimal represents eighths of a 32nd of a dollar, and must be a 0, 2, 4, or 6.
Delivery instructions ....ABA Number 021089482 US TREAS BUYBACK/6000

Treasury issues eligible for debt buyback operation (in millions):

Coupon Rate (%)	Maturity Date	CUSIP Number	Par Amount Outstanding*	Par Amount Privately Held*	Par Amount Held as STRIPS**
7.625	11/15/2022	912810 EN 4	7,424	5,823	4,240
7.125	02/15/2023	912810 EP 9	16,152	13,517	5,808
6.250	08/15/2023	912810 EQ 7	22,659	21,050	3,407
7.500	11/15/2024	912810 ES 3	9,704	8,089	5,987
7.625	02/15/2025	912810 ET 1	10,019	8,426	5,732
6.875	08/15/2025	912810 EV 6	11,267	9,468	3,310
6.000	02/15/2026	912810 EW 4	12,838	11,674	1,218
6.750	08/15/2026	912810 EX 2	9,000	7,386	2,727
6.500	11/15/2026	912810 EY 0	10,870	9,146	5,570
6.625	02/15/2027	912810 EZ 7	9,602	8,117	3,287
6.375	08/15/2027	912810 FA 1	9,357	7,717	2,036
6.125	11/15/2027	912810 FB 9	22,021	18,673	10,330
		Total	150,913	129,086	53,652

* Par amounts are as of April 23, 2002.
** Par amounts are as of April 22, 2002.

The difference between the par amount outstanding and the par amount privately held is the par amount of those issues held by the Federal Reserve System.

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
April 24, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate:	3 3/8%	Issue Date:	April 30, 2002
Series:	M-2004	Dated Date:	April 30, 2002
CUSIP No:	912828AB6	Maturity Date:	April 30, 2004

High Yield: 3.375% Price: 100.000

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 53.87%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 48,606,442	$ 23,658,537
Noncompetitive	1,341,470	1,341,470
FIMA (noncompetitive)	0	0
SUBTOTAL	49,947,912	25,000,007 1/
Federal Reserve	7,648,150	7,648,150
TOTAL	$ 57,596,062	$ 32,648,157

Median yield 3.350%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 3.330%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 49,947,912 / 25,000,007 = 2.00

1/ Awards to TREASURY DIRECT = $1,025,941,000

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 1:00 PM
April 25, 2002

Contact: Public Affairs
(202) 622-2960

TREASURY SECRETARY PAUL H. O'NEILL
REMARKS TO THE BOND MARKET ASSOCIATION
NEW YORK CITY

Good afternoon. Thank you for welcoming me again to the Bond Market Association. I have a lot of respect for the people in this room. When we were attacked on September 11, nearly our entire economy shut down. Most Americans stayed home watching the news and trying to absorb the shock of it all. You didn't have that breathing room. You had to regroup quickly and figure out how to reopen the bond market and maintain liquidity in our financial system.

I think before that, some people had the illusion that capital markets run themselves. But I think America saw that the markets don't run themselves. People run the markets, as they run every organization. And it's an honor for me to be back here with those people today. I appreciate your work.

THE ECONOMY

Members of the Bond Market Association certainly understand that the financial markets do not operate in a vacuum. They are an integral part of US economy, the most flexible and resilient economy in the world.

In fact, I am convinced that our capital markets were an important reason the recession the NBER says began last March was one of the mildest on record.

Let me elaborate. As the economy began to slow, long-term government bond yields fell, reaching near-record lows in the weeks following September 11th. Mortgage rates followed, and this triggered a surge in refinancing which put ten of billions of dollars back in household pockets. These refinancings cushioned consumption spending and helped offset the investment spending contraction which began in 2000, and which helped push the economy into recession in the first place.

PO-3042

Of course, other factors also played an important role in dampening the downturn, including the timely enactment of the President's tax package last June, which put $36 billion into consumer hands right at the nadir of the slowdown, and the reduction in short term interest rates engineered by the Federal Reserve throughout the year. The flexibility of our labor markets also contributed to a smaller decline in employment than occurs in most recessions.

However, let me emphasize that President Bush and I will not be satisfied until unemployment falls again, and America is fully employing its labor force.

Based on my personal reading of the numbers and conversations with business people around the country, I believe we are going to see continued improvement in the economy throughout 2002. Productivity growth will stay strong, if not always at the 2001 fourth quarter rate. During the first half of the year, inventory rebuilding should give the economy a significant boost. As we move into the second half of the year, business investment spending, aided by sensible changes to the tax code in the March Job Creation Act, should revive to a pace more consistent with our growth potential, if a somewhat slower pace than we saw in the late 1990s. We expect the economy to grow somewhat faster than potential -- as does the CBO -- over the next several years, which should reduce unemployment.

In Washington, and I suspect on Wall Street, we pay very close attention to the daily, weekly, and monthly data we get on the economy. I am optimistic about our economy's potential for robust, sustainable average growth, but I recognize, as I am sure you do, that the rate of growth is bound to vary at times.

FINANCIAL CRISIS PREVENTION AND RESOLUTION

Flexible, innovative financial markets are clearly a bulwark of the US economy and our businesses, and the markets helped us weather our slowdown.

The US government also has a great advantage in the capital markets. The markets for US sovereign debt are so deep, the US government can finance its debt at the lowest cost in the world. Investors everywhere view the United States as the safest place on earth for their money. The low cost of capital in the United States, for businesses and the government, has been a key ingredient in our economic growth.

The rate of return on US Treasury debt is the yardstick by which the investment climates in other nations are measured. When we talk about other nations' sovereign debt trading at so many basis points above US treasuries, those basis points are a measure of the perceived risk of investing in that economy.

I believe all nations around the world should strive to achieve investment-grade sovereign debt. That goal would focus them on reducing risk for investors, which translates into advancing the rule of law, enforcing contracts, eliminating corruption, and investing in human capital. In other words, making the same kinds of improvements that will help their citizens, and empower domestic private enterprise.

In an ideal world, every nation would have investment grade sovereign debt. The market would judge each nation's investment climate as healthy. Capital would flow into these countries and they would flourish -- not because they were receiving capital, but because they knew what to do with it, how to put it to work.

Last year, official development assistance to all countries from all sources totaled $53.7 billion. At the same time, there was almost $47 billion of foreign direct investment into China alone. This gives you some idea of how private capital can dwarf official assistance when it is welcomed. Of course, everyone thinks they welcome capital -- but it's all talk unless they provide a fair, risk-adjusted return.

Even in this ideal world, an investment grade world, problems would no doubt arise. We would still need remedies for nations that have trouble servicing their sovereign debt.

This past weekend, the G-7 finance ministers met in Washington, and we found unprecedented unity on the need to develop a predictable process for restructuring debt. We released a plan to create a continuum of steps that would occur when a nation can no longer service its debt.

This continuum would begin by establishing a limit on official sector lending, in effect, shutting the loan window once a nation has reached the upper limit on IMF lending. In the past, I've opposed this idea of a firm limit, because we had nowhere for countries to turn once the window was closed to them. Crisis would simply lead to chaos. But now we are moving forward to establish an orderly process nations can pursue.

As a first step in this process, we agreed to work together with emerging market countries and their creditors to incorporate new clauses into debt contracts – clauses that would specify the action to be taken in the event a restructuring were necessary. The second part of that process is to pursue the IMF's notion of a statutory mechanism for sovereign debt restructuring.

I believe we, the seven largest economies, took an enormous step forward this weekend by agreeing on one action plan. That act alone creates a sense of momentum on an issue that has frustrated many of us for years, and yet has languished without a consensus to drive change. We need to build on this momentum. The IMF will continue to develop a plan for the official sector approach, which will take some time because of the IMF rules. I will be encouraging them every step of the way.

But we will also begin to implement the market-oriented, decentralized aspect of the plan right away, to capitalize on the consensus among the G-7 nations. Creditors and borrowers can begin immediately to incorporate contingent clauses into their sovereign debt contracts, such as a majority action clause, an engagement clause, and an initiation clause.

Regardless of the exact balance of private sector and official sector measures in the sovereign debt restructuring framework, I want to make sure we include creditors and debtors themselves in the dialogue. We need all involved parties to buy into the new system, if it is to succeed.

That's where we need your help. The Bond Market Association could do a lot to speed adoption of the kinds of crisis-preventive clauses we are talking about. I'm sure you all appreciate the advantages of our market-oriented, decentralized approach as well. We want to work with you on this. How can we raise the investment ratings for emerging market debt? How can we best persuade the markets to incorporate these clauses into debt agreements? We want your input.

I think these moves are important because emerging markets need private capital to support domestic private enterprise and raise living standards for their people.

The uncertainty of the sovereign debt restructuring process today has made crises more likely than they should be. With less capital pursuing emerging market opportunities, the available capital is more expensive, and the efforts that it funds become fewer, and less likely to succeed.

We are trying to find mechanisms to restore private capital flows on the most competitive terms to emerging market countries, in order to unleash their private sector development potential, and permit them to take advantage of globalization.

I think we are making great progress toward that goal, and with your help, we can do even better. The success of our efforts to improve living standards around the world depend upon it.

Again, thanks for inviting me to New York today. And keep up the good work.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
April 25, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Remarks of Brian C. Roseboro
Treasury Assistant Secretary for Financial Markets
SEC Financial Reporting Conference
London

Thank you for giving me this opportunity to speak about President Bush's plan for improving corporate disclosure.

I want to communicate three points today: what the real problem is in the U.S. capital markets that demands reform, what the President has proposed to fix it, and how we can measure results.

First, let me try to frame the problem. The headlines of the moment are concentrated on allegations of egregious conduct. However distressing this conduct may have been, I will suggest that the real need for reform lies elsewhere and is subtler. It is a slipping ethic of boardroom responsibility and accountability in some of the corporate world.

Next I'll explain how the President's plan would restore that responsibility and accountability, and what the President's plan would imply for issuers, outside advisers, and investors. The President's plan focuses on the work for Washington – for the Securities and Exchange Commission and Congress – in particular, defining and enforcing the minimum disclosure standards that issuers must meet, and reinforcing the independence of outside auditors. But the real work must fall to the private sector, not just in complying with those minimum standards, but in setting best practices.

Last, I'll ask how we can measure success. In the short-term, success means government activity, as the SEC sharpens its enforcement and Congress empowers the SEC with targeted new authority. Over the longer-term, the measure of success must be results. Are issuers more fully fulfilling their disclosure obligations – by informing investors more accurately, fairly, and quickly?

PO-3043

A deteriorating ethic of accountability and responsibility

Let's go back to what triggered all this attention: the collapse of Enron. Of course, the SEC, Justice Department, and multiple Congressional committees have investigations underway, and I can't comment on the specifics of the Enron matter – especially since the Treasury Department is not privy to any of the details. At a minimum we can now say, however, that something criminal occurred, because one person has pled guilty to obstruction of justice.

And for precisely that reason, I want to suggest that, as a matter of policy, Enron is not the best place to start. Nor are the other high-profile instances in which corporate leaders allegedly defrauded investors or otherwise may have broken the law. These are serious crimes if true. The allegations have certainly built a consensus for the SEC to sharpen its enforcement.

But the headlines threaten to distract from the real problem. You and I know that flagrant wrong-doing of the type alleged is quite rare. It is especially rare in the U.S. capital markets, which remain the deepest, most liquid, and most transparent in the world. Whatever imperfections the U.S. corporate disclosure regime may have, it's still far and away the most rigorous that you can find.

The real problem at which the President has taken aim is less striking, but perhaps even more pressing. It is a deterioration of responsibility and accountability in some of professional and corporate America, namely in meeting corporations' core disclosure obligation. "America is ushering in a responsibility era," the President said in announcing his plan. "And this new culture must include a renewed sense of corporate responsibility."

This deterioration has fostered an ethic equating Generally Accepted Accounting Principles (GAAP) compliance with adequate disclosure. This ethic sets the bar too low. Companies must provide investors with the information a reasonable investor would find necessary to assess the company's value, without compromising competitive secrets. As the SEC has re-affirmed, GAAP compliance is not enough.

That core disclosure obligation has sometimes been lost in a financial reporting culture that strives for legalistic compliance with encyclopedic rules. While bankers, accountants, and corporate executives have worked tirelessly to refine corporate finance techniques, disclosure practices have fallen far behind – allowing some firms to conceal the true risks that investors face. To some extent, this deterioration has been a perverse outcome of well-intentioned efforts by investors to hold corporate management accountable. Unfortunately, these investor and analyst pressures have focused excessively on short-term corporate earnings, not long-term performance. Under this pressure, less scrupulous CEOs have too often tapped accounting and financing devices whose sole purpose is to inflate short-term earnings.

That is the real problem – not naked fraud, for which our securities regulators are adequately equipped, but more respectable-sounding explanations for misrepresenting or coloring a company's true financial condition. For the sake of the efficiency of our capital markets, for the sake of investor protection, we must restore the ethic of responsibility to corporate leaders and their outside advisers. As the President said at the State of the Union address in January, our disclosure regime must hold corporate leaders "to the highest standards of conduct."

The President's 10-point plan: restoring an ethic of boardroom responsibility

On March 7, the President outlined his plan for restoring this ethic of boardroom responsibility.[1] I will review the highlights of the plan, and try to articulate what it would entail for issuers and their outside advisers.

I've already touched on the first: better information for investors. The goal is to raise the bar on what constitutes adequate disclosure by preventing companies from hiding behind technical GAAP compliance. Each investor should have access to a true and fair picture of the company, in plain English. For issuers and outside advisers, this means taking a crucial mental step while preparing financial reports: to step back and ask, "Do these disclosures, taken as a whole, provide investors with the information in our control that a reasonable investor would find necessary to assess the company's true risks and financial condition?" If the answer is no, the statements most likely will not pass muster.

Almost 200 years have passed since the London Rothschilds mythically illustrated the value of communications speed, when carrier pigeons and couriers relayed Napoleon's defeat at Waterloo. Our disclosure scheme, with its strict adherence to quarterly results and annual wrap-ups, sometimes seems more than a little rooted in Nathan Rothschild's time. The President's plan would modernize the delivery of financial information. In particular, the President has called on the SEC to expand the list of significant events requiring prompt disclosure between reporting periods. The President has also called for faster disclosures of insiders' transactions. Today as much as 40 days can pass before investors learn of corporate leaders' open-market sales or purchases, or as much as a year for transactions with the company. In the future, the President called for requiring corporate leaders to tell investors within two days whenever they buy or sell the company's stock for personal gain.

How can we make sure that companies actually deliver this better information? President Bush directed our attention to CEOs by noting that "reform should start at the top." We believe that CEOs should personally vouch for the veracity, timeliness, and fairness of their companies' public disclosures, including financial statements. The point is to make each CEO actively assess to the best of his or her knowledge whether the financial reports he or she is signing meet the company's disclosure obligation.

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[1] The President's plan and his speeches are at http://www.whitehouse.gov/infocus/corporateresponsibility/.

This proposal is really just cribbing from the best practices that leading CEOs set today, with an eye to the long-term value of their investors' holdings.

If a CEO or other corporate officer is guilty of misconduct that caused financial restatements, the SEC should force him or her to give back any compensation gained thereby. If corporate leaders abuse their power, the SEC should deny them the right to serve as a director or officer of a public company, whether for a period or permanently. The SEC currently lacks this power to do so without a court order; the President has called on Congress to create it, while preserving the right of judicial appeal.

Last, the President believes we need a stronger and more independent auditing and accounting system. The efficiency of our capital markets depends on the independent judgment of outside auditors. Recent events have suggested that we can do better. The President is committed to bolstering that independence, and to holding auditors to the highest standards of conduct – but in ways that avoid unintended consequences. The centerpiece of this effort will be a new, independent private-sector regulatory board, under the SEC's supervision, to develop and enforce standards of professional conduct and competence.

A strong defense for investors is an active, informed audit committee, and so the President proposes making audit committees more accountable. The President has proposed that the SEC issue new guidelines for audit committees to use in deciding whether a non-auditing service would compromise an auditor's integrity. Audit committees would also report their choice of auditor directly to the shareholders. And the President supports prohibiting outside auditors from providing internal audit services to the same client. This would eliminate the largest obstacle to auditor independence.

Earlier I noted that GAAP does not define the limit of disclosure obligations. Investors and issuers alike will want companies to meet their full obligations in as transparent, clear, and comparable a fashion as possible. One place the Financial Accounting and Standards Board (FASB) can help is by patching the holes in accounting rules that have yawned open for too long – like revenue recognition or off-balance sheet items. The President has called on the SEC to exercise more effective and broader oversight of FASB to ensure that accounting standards are issued more promptly and are more responsive to the needs of investors.

The President's plan focuses on government's role in defining and enforcing corporations' disclosure obligations. Government can hold people to minimum standards – the floor of legal behavior. But in a society that prizes individual freedom and initiative-taking, this responsibility cannot fall solely on the government. Penalties and censures can only take us so far. As Federal Reserve Chairman Alan Greenspan recently said, "Rules cannot substitute for character."

It falls instead to corporate executives and the professionals who advise them to take us beyond these minimum standards to best practices.

Now is a good time for financial and auditing professionals in particular to remind themselves of the aspirational nature of their calling. Our General Counsel at the Treasury likes to say, "It is the duty of a professional not just to say what a client can do, but what a client should do." As we learn from the Andersen and Enron imbroglio, I hope that other financial professionals will take heed of that advice.

I've spoken mainly about what the producers of financial information – companies – must do. Yet there's one last group that has a responsibility here to ensure adequate disclosure beyond minimum, government-mandated standards: the consumers of financial information, namely investors and financial analysts. Too many investors and financial analysts have been asleep at the switch. They are now awakening, and stock prices are beginning to reflect a premium for clear financial disclosures. Investors and analysts must keep pressing for better disclosures, however, if they – and we as a society – are to reap the benefits of ever more efficient capital markets.

Measuring success: first government activity, then capital markets results

I've tried to identify the central problem that demands fixing, this subtle deterioration in responsibility and accountability in corporate boardrooms. I've outlined how the President's plan would reverse that trend by raising the bar for adequate disclosure, tightening responsibilities and sanctions for corporate leaders, and bolstering the independence of outside auditors and the responsibilities of audit committees. And I've stressed that this package of reforms cannot do the job alone – that you in the private sector, whether you are an issuer, an outside professional, or an investor, must pick up with best practices where we in government's minimum standards must stop.

Let me close by observing a management imperative on which the President is exceptionally keen: deliver results. And as any manager knows, the first step in achieving results is to define what success would mean.

In the coming months, we should look to whether the government has acted. First, has Congress sent the President a bill consistent with his plan, and in particular, one that offers the SEC the targeted authority it does not have today? The good news is that Congress is taking the right first steps. Yesterday House Financial Services Chairman Michael Oxley and Capital Markets Sub-Committee Chairman Richard Baker led a good bill, a bill the Administration supports, to resounding victory on the House floor. Now it is the Senate's turn to act. And second, has the SEC used its extensive powers to improve transparency and integrity in the capital markets? We are encouraged that that the answer will be yes, as the SEC vigorously pursues the initiatives that Chairman Harvey Pitt has spearheaded.

Success over the long-term is not as easy to define. Success does not mean the end of bankruptcies.

A corporate bankruptcy is not pretty, but most often it is a sign that capitalism's energies are alive – that capitalists have denied a failing enterprise more capital. Nor does success mean the end to rapid ups and downs in stock prices, so long as investor perceptions about companies' business prospects shift just as rapidly. And unfortunately success also does not mean the end of fraud. The President's plan and the SEC's disclosure and enforcement initiatives should mean fewer frauds, plus catching them earlier. But we'll never get rid of every cheat.

One could weigh success by whether the Justice Department gets more convictions or the SEC wins more civil suits. Yet that too would be misleading. A good disclosure regime cannot be premised on ever-mounting law enforcement actions.

The best measure may flow straight from our goal: delivering the information that investors need. We know a company's disclosures have been poor when we discover later on that it has been unforthcoming or misleading about its financial condition (putting aside honest errors). The stock price swiftly reacts, almost always falling. So perhaps the right way to gauge our success is to track how often these post hoc financial disclosures move stock prices. The financial economists will have to take it from here.

Thank you for your attention.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
Thursday, April 25, 2002

Contact: Tony Fratto
(202) 622-2960

Statement of Secretary O'Neill Regarding the Agreeement between the Government of Argentina and the Provincial Governors announced on April 24, 2002

"I am pleased to see that the president of Argentina and all the provincial governors have stated their intent to take serious actions. This is a welcome expression of a spirit of national cooperation. We want to see them succeed in implementing the actions in the time frames indicated. We encourage the government to move forward in close contact with the International Monetary Fund."

-30-

PO-3044

*U S Government Printing Office 1998 - 619-559

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FOR IMMEDIATE RELEASE
April 25, 2002

PUBLIC CONTACT: Office of Financing
202-691-3550
MEDIA CONTACT: Office of Public Affairs
202-622-2960

TREASURY DEBT BUYBACK OPERATION RESULTS

Today, Treasury completed a debt buyback (redemption) operation for $1,500 million par of its outstanding issues. A total of 12 issues maturing between November 2022 and November 2027 were eligible for this operation. The settlement date for this operation will be April 29, 2002. Summary results of this operation are presented below.

(amounts in millions)

Offers Received (Par Amount):	$5,186
Offers Accepted (Par Amount):	1,500
Total Price Paid for Issues (Less Accrued Interest):	1,761
Number of Issues Eligible:	
For Operation:	12
For Which Offers were Accepted:	8
Weighted Average Yield of all Accepted Offers (%):	5.760
Weighted Average Maturity for all Accepted Securities (in years):	22.9

Details for each issue accompany this release.

PO-3045

April 25, 2002

TREASURY DEBT BUYBACK OPERATION RESULTS

(amounts in millions, prices in decimals)

Table I

Coupon Rate (%)	Maturity Date	Par Amount Offered	Par Amount Accepted	Highest Accepted Price	Weighted Average Accepted Price
7.625	11/15/2022	210	0	N/A	N/A
7.125	02/15/2023	620	370	116.531	116.523
6.250	08/15/2023	439	0	N/A	N/A
7.500	11/15/2024	160	100	121.812	121.812
7.625	02/15/2025	695	510	123.546	123.507
6.875	08/15/2025	410	80	114.109	114.084
6.000	02/15/2026	410	0	N/A	N/A
6.750	08/15/2026	354	190	112.781	112.765
6.500	11/15/2026	455	10	109.515	109.515
6.625	02/15/2027	490	80	111.250	111.232
6.375	08/15/2027	490	160	108.078	108.031
6.125	11/15/2027	453	0	N/A	N/A

Table II

Coupon Rate (%)	Maturity Date	CUSIP Number	Lowest Accepted Yield	Weighted Average Accepted Yield	Par Amount Privately Held*
7.625	11/15/2022	912810EN4	N/A	N/A	5,823
7.125	02/15/2023	912810EP9	5.751	5.752	13,147
6.250	08/15/2023	912810EQ7	N/A	N/A	21,050
7.500	11/15/2024	912810ES3	5.760	5.760	7,989
7.625	02/15/2025	912810ET1	5.756	5.759	7,916
6.875	08/15/2025	912810EV6	5.766	5.768	9,388
6.000	02/15/2026	912810EW4	N/A	N/A	11,674
6.750	08/15/2026	912810EX2	5.765	5.766	7,196
6.500	11/15/2026	912810EY0	5.770	5.770	9,136
6.625	02/15/2027	912810EZ7	5.766	5.767	8,037
6.375	08/15/2027	912810FA1	5.764	5.767	7,557
6.125	11/15/2027	912810FB9	N/A	N/A	18,673

Total Par Amount Offered: 5,186

Total Par Amount Accepted: 1,500

Note: Due to rounding, details may not add to totals.

*Amount outstanding after operation. Calculated using amounts reported on announcement.

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
Friday, April 26, 2002

Contact: Public Affairs
(202) 622-2960

MEDIA ADVISORY

What: Under Secretary for Enforcement Jimmy Gurulé will address the Latino Coalition in a salute to law enforcement. Under Secretary Gurulé oversees the Bureau of Alcohol, Tobacco and Firearms, the U.S. Customs Service, the U.S. Secret Service, the Financial Crimes Enforcement Network, the Federal Law Enforcement Training Center and the Office of Foreign Assets Control. Post September 11th he has overseen the day to day operations of the Treasury Department's fight against terrorist financing. He will be discussing the role of the Treasury Department in the war on terrorist financing and some of the challenges presented in stopping the money flow.

Where: Red Rock Chateau
17521 Santiago Canyon Road
Silverado, California

When: Saturday, April 27th at 5:30 p.m.

Interviews: Under Secretary Gurulé will be available to talk with reporters after the speech about terrorist financing and other issues related to his portfolio.

Contact: Please contact Mario Rodriguez at (949) 498-2515 to get cleared in for this event.

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PO-3046

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
April 25, 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 $28,392 million of publicly held 13-week and 26-week Treasury bills maturing May 2, 2002, and to pay down approximately $2,392 million. Also maturing is an estimated $19,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced April 29, 2002.

The Federal Reserve System holds $12,570 million of the Treasury bills maturing on May 2, 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 April 30, 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 $1,157 million into the 13-week bill and $730 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-3047

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED MAY 2, 2002

April 25, 2002

Offering Amount	$13,000 million	$13,000 million
Public Offering	$13,000 million	$13,000 million
NLP Exclusion Amount	$ 4,800 million	None
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 KU 4	912795 LH 2
Auction date	April 29, 2002	April 29, 2002
Issue date	May 2, 2002	May 2, 2002
Maturity date	August 1, 2002	October 31, 2002
Original issue date	January 31, 2002	May 2, 2002
Currently outstanding	$19,135 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 daylight saving time on auction day

Competitive tenders ....Prior to 1:00 p.m. eastern daylight saving 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
April 26, 2002

Contact: **Rob Nichols**
202-622-2910

Joint U.S.-Sweden Statement on Terrorist Financing following a meeting between Treasury Secretary Paul O'Neill and Swedish Foreign Minister, Anna LindE

We had a useful and productive meeting.

We agreed that stopping the financing of terrorist organizations and enforcement of UN sanctions is an absolutely essential, non-military tool in the battle against global terror.

We agreed that the tools to advance the financial fight on terrorism should be reviewed and improved to sharpen our effectiveness and protect the legal rights of individuals.

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PO-3048

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
April 29, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY EXPANDS TAXPAYER ADVOCACY PANEL TO ALL 50 STATES

Applications now being Accepted
Deadline to Apply is May 20

Today the Treasury Department announced that the Taxpayer Advocacy Panel (TAP), aimed at making the Internal Revenue Service (IRS) better aware of taxpayer interests, is being significantly expanded from 10 to all 50 states. TAP members will identify customer service issues that should be addressed and provide critical taxpayer input on IRS initiatives.

"My goal is for the IRS to provide world-class service to the taxpayers. One of the most vital things we can do is listen better to citizens' concerns and suggestions. By expanding the Taxpayer Advocacy Panel to all 50 states, we are taking an important step to ensure that taxpayers from every corner of the country will have their voices heard," stated Treasury Secretary Paul O'Neill. "After all, we work for them, and not the other way around."

The TAP program will work directly with the National Taxpayer Advocate's Office to identify and work on issues identified by the Taxpayer Advocacy Panel. The National Taxpayer Advocate is the taxpayers' representative within the IRS and reports directly to the Commissioner of Internal Revenue and to Congress through an annual report.

"We look forward to working with taxpayers in improving the customer-service focus of the IRS," stated Nina Olson, National Taxpayer Advocate. "Working with taxpayers directly will help us identify issues that may not be on the IRS radar screen. We can also hear their concerns about issues the IRS is already addressing."

Taxpayer Advocacy Panel (TAP) members will:

- Get direct input from taxpayers about their experiences with the IRS.
- Identify and prioritize issues of greatest concern to taxpayers.
- Make recommendations to the IRS and Treasury on customer-service issues.
- Work with the IRS to help taxpayers address key issues and concerns.
- Report annually to Treasury and the National Taxpayer Advocate.

PO-3049

To qualify as a TAP member, applicants must be U.S. citizens, be able to make a significant time commitment to the panel, and meet certain other eligibility requirements. Further details and the application are available at *www.improveirs.org* or by calling 1-866-602-2223. Applications can be mailed to:

TAP Recruitment Office
7771 West Oakland Park Blvd.
Suite 225
Sunrise, FL 33351

Applications must be received by the TAP Recruitment Office by May 20, 2002.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 11:30 A.M.
April 29, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $16,000 million to refund an estimated $19,000 million of publicly held 4-week Treasury bills maturing May 2, 2002, and to pay down 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 $12,570 million of the Treasury bills maturing on May 2, 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-3050

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED MAY 2, 2002

April 29, 2002

Offering Amount ....$16,000 million
Public Offering ....$16,000 million
NLP Exclusion Amount ....$10,800 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 JW 2
Auction date ....April 30, 2002
Issue date ....May 2, 2002
Maturity date ....May 30, 2002
Original issue date ....November 29, 2001
Currently outstanding ....$43,769 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 daylight saving time on auction day
Competitive tenders:
Prior to 1:00 p.m. eastern daylight saving time on auction day

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

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 3:00 P.M.
April 29, 2002

CONTACT: Betsy Holahan
(202) 622-2960

TREASURY ANNOUNCES MARKET FINANCING ESTIMATES

The Treasury Department announced today that it expects to borrow \$1 billion in marketable debt during the April - June 2002 quarter and to target a cash balance of \$45 billion on June 30. In the quarterly announcement on January 28, Treasury announced that it expected to pay down \$89 billion in marketable debt and to target an end-of-quarter cash balance of \$60 billion. Based on current projections, the stimulus package enacted in March accounts for one-fourth of the increase in borrowing. The remaining change is due primarily to lower-than-expected 2001 tax receipts received in April and early May.

Treasury also announced that it expects to borrow \$55 billion in marketable debt during the July – September 2002 quarter and to target a cash balance of \$50 billion on September 30.

During the January – March 2002 quarter, Treasury borrowed \$53 billion in marketable debt and ended with a cash balance of \$14 billion on March 31. No buybacks were conducted during this quarter. On January 28, Treasury announced that it expected to borrow \$60 billion in marketable debt and to target an end-of-quarter cash balance of \$20 billion. The lower cash balance provided assurance that Treasury would stay beneath the statutory debt limit in late-March.

Additional financing details relating to Treasury's Quarterly Refunding will be released at 9:00 A.M. on Wednesday, May 1.

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PO-3051

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR RELEASE UPON DELIVERY
Tuesday, April 30, 2002

Contact: Public Affairs
(202) 622-2960

MINUTES OF THE MEETING OF THE TREASURY BORROWING ADVISORY COMMITTEE OF THE BOND MARKET ASSOCIATION
April 30, 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 Mr White and Mr. Rosenberg. 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. Richard Clarida, Assistant Secretary for Economic Policy, summarized the current state of the U.S. economy (statement attached). Fred Pietrangeli, a senior economist for the Office of Market Finance, presented the chart show, updating Treasury borrowing estimates, and debt statistics.

The public meeting ended at 9:25 a.m.

The Committee reconvened in closed session at the Madison Hotel at 12:05 p.m. All members were present except Mr. White and Mr. Rosenberg. The Chairman read the charge, which is also attached.

The Committee began by discussing the question regarding the smoothing of Treasury cash balances through the buyback of shorter-dated Treasury securities or by conducting term repos when cash balances are high. The Committee noted that TT&L capacity is limited by the amount of collateral that banks are willing to set aside. The consensus view was that buying short-dated bills or executing term repos was an appropriate means of managing cash volatility when cash balances were high.

PO-3052

Next the committee turned its attention to the question regarding the decline in the average maturity of the debt and appropriate composition of outstanding debt and new issuance. The committee began with a discussion regarding the difficulty of quantifying the duration of the Federal government's assets, as well as the cost-benefit tradeoffs between short-term borrowing and rollover risk.

The committee noted that, historically, average length has generally remained within a range of between 4-1/2 years to 6 years, and that this range has served Treasury well. The committee suggested that in times of surplus and/or low inflation forecasts, that it perhaps would be prudent for Treasury to let the average maturity move toward the lower end of this band. By contrast, in times of deficits, greater forecast uncertainty, and /or forecasts of rising inflation, it would be appropriate for Treasury to take steps to move the average length toward the upper end of the range.

Regarding the composition of the quarterly refunding, by a unanimous vote, the Committee recommended a $20 billion issue of a 5-year note and a reopening of the 4-7/8 percent 10-year notes of 2/15/12 in an amount of $11 billion. In addition, the Committee recommended that a new TIIS be included in the quarterly refunding cycle. Members felt that including TIIS in the refunding auctions would further enhance the TIIS product by raising the visibility of the instrument. It would also work to Treasury's benefit because the underwriting markets are most liquid during quarterly refundings and the presence of TIIS in the refunding auctions could spur crossover buying by new, non-traditional TIIS investors. Members stated that TIIS should be offered every quarter at the refunding, with a minimum initial size of $4 billion and a reopened size of $3 billion.

Discussion ensued among committee members concerning the regular reopening policy with regard to the 5-year note and 10-year notes. The Committee recommended that the regular reopenings of 5-year note be discontinued at this time. Noting the tightness in financing markets, members felt that the minimum size for new 5-year note offerings should be $20-22 billion. The Committee felt that the size of 5-year note offerings could be gradually increased if needed but they did not suggest an upper limit. The regular reopening of the 10-year should continue.

Looking at the remainder of the April-June quarter, the Committee recommended that the 2-year notes remain at $25 billion, and that weekly bills be increased from the $26 billion level to the $32 billion level starting in mid May. (See attached table.) They recommended that 4-week bills be increased from $16 billion to a peak of $22 billion by mid-May, and then back down to the $14 billion range by the end of June. The Committee had a brief discussion about the composition of financing for the July-September quarter. Recommendations for the July-September quarter are also in an attached table.

Finally, the Committee discussed the question of increased volatility in credit markets and the implications for Treasuries.

The Committee noted that increased volatility had both a secular component, such as increased optionality on corporate and mortgage debt, as well as cyclical component, e.g., the interest rate cycle and issuance volume. Members noted the increasing trend in credit market volatility over the recent past, but stated that the level of volatility was well below past volatility peaks and that the trend should not be viewed as an indication of a structural change. The Committee observed that Treasury securities are the primary vehicle for hedging other credit market instruments and that Treasury securities were being heavily used to transfer risk. Members noted that the large increase in daily trading volume in Treasury securities was a manifestation that the markets that use Treasuries for hedging and other uses were growing faster than Treasury issuance.

The meeting adjourned at 1:20 p.m.

The Committee reconvened at the Madison Hotel at 6:05 p.m. All members were present exept Mr. White and Mr. Rosenberg. The Chairman presented the Committee report to the Assistant Secretary for Financial Markets, Brian 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 6:15 p.m.

Paul F. Malvey
Director
Office of Market Finance
April 30, 2002

Certified by:

James R. Capra, Chairman
Treasury Borrowing Advisory Committee
of The Bond Market Association
April 30, 2002

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR RELEASE UPON DELIVERY
Tuesday, April 30, 2002

Contact: Public Affairs
(202-622-2960

**REPORT TO THE SECRETARY OF THE TREASURY
FROM THE
TREASURY BORROWING ADVISORY COMMITTEE
OF THE
BOND MARKET ASSOCIATION
April 30, 2002**

Dear Mr. Secretary:

Since the Committee's last meeting on January 30, the Commerce Department has issued releases for GDP for the fourth quarter of 2001 and the first quarter of 2002 showing real growth of 1.4% and 5.8% respectively. These surprisingly strong reports were accompanied by reports of subdued, in fact, slightly declining inflation. Nevertheless, doubts persist over the strength and sustainability of the expansion. Pessimists cite temporary factors, such as auto financing incentives, unseasonably warm weather, and accelerated issuance of tax refunds for the robust consumer demand and residential construction over the two quarters. Concerns include the lack of response yet in business fixed investment and employment, recent increases in crude oil prices and weak stock and bond markets. Optimists believe that the continued stimulus of fiscal policy, still low short-term interest rates, and a slight decline in the dollar will combine to produce a solid and self-sustaining expansion over the coming quarters.

Interest rates have risen in Treasury coupons since our last meeting. The change represents the net result of a very sharp sell off in March, as strong data on the fourth and first quarters created a wave of optimism about the economy, and a strong rally in April as doubts about the sustainability of the expansion and geopolitical tensions began to surface. On balance, 2-year note yields are about 20 basis points higher than on January 30, while 5-year and 10-year note yields are about 10 basis points higher. The rate on 3-month bills is unchanged.

PO-3053

In other credit markets, spreads to Treasuries have been mixed. Spreads on corporate Baa credits have widened somewhat, high yield spreads have narrowed considerably, and Aa spreads are roughly unchanged. Spreads on mortgage-backed securities have narrowed.

An important financial market development over the past three months has been an intensifying focus on issues of accounting [illegible] financial disclosure, triggered by several high profile bankruptcies. A rally in the equity market in March triggered by upbeat news on the economy was subsequently undermined by renewed concerns over financial disclosure and concerns over the sustainability of recent improvements in profitability. As a result, equity market averages are mixed relative to January 30. The S&P 500 is down 3.3 percent, while the Dow Jones Industrial Average is up 1.9 percent, and the NASDAQ Composite is down 11.8 percent.

Another important development since January 30 has been a sharp deterioration in the short-term budget outlook and the Treasury's financing requirements. Tax receipts in April have been approximately 30 percent lower than those received last year. This result together with the enactment of the legislation extending unemployment benefits and cutting certain business taxes has led the Treasury to alter its second quarter borrowing requirements from an $89 billion paydown with a target for the cash balance on June 30 of $60 billion to a $1 billion borrowing with a $45 billion cash balance target for June 30. Most economists now believe the budget deficit for fiscal year 2002 will turn out to be between $80 billion and $100 billion.

Composition of Financing for the Second and Third Quarters

The Treasury asked for the Committee's recommendation on the composition of 5- and 10-year notes to refund $9 billion of privately held bonds maturing on May 15, the composition of Treasury marketable financing for the remainder of the April-June quarter, including cash management bills if necessary, and the composition of Treasury marketable financing for the July-August quarter.

The Committee recommends a new $20 billion five-year note due May 15, 2007, an $11 billion reopening of the 10-year note due February 15, 2012, and a new $4 billion inflation index security (IIS) due May 15, 2012. For the remainder of the April-June and the July-September quarters, the Committee's recommended financing is contained in the attached tables. Several features of the recommendations for the April-June quarter, however, are worthy of note.

Most Committee members felt that in light of likely increases in medium-term budget deficit projections, probably extending into 2004, the Treasury should end the automatic reopenings policy for the 5-year note. This would allow for larger quarterly issuance in the sector without lumping maturities or creating reopened issues too large and cumbersome for the markets. Most Committee members felt that $20 billion should represent the minimum auction size for the 5-year but expressed no opinion on auction maximums as long as sizes are increased gradually over time. For some time the Committee has held the view that the reopening policy on the 5-year note presents some problems because of the reduced effectiveness of the issue as a hedging vehicle in the second half of its term as the current coupon. It should be noted that the Committee does not believe that ending the automatic reopening policy for the 5-year precludes discretionary reopenings by the Treasury in the future. The change suggested by the Committee is consistent with its prior recommendation of potential changes that the Treasury could make if the budget outlook were to deteriorate.

In addition, while a few Committee members felt that Treasury should announce their intentions relative to the 10-year note reopening policy, the majority felt that given the same budget forecasts, it would be premature to announce any changes to 10-year note issuing policy. This would leave Treasury more flexibility going forward should the budget numbers improve as expected.

The Committee also reaffirmed its view that Treasury should move IIS auctions to the refunding period. Smoothing the new issue process by spreading issuance more uniformly throughout the year and moving auctions to more frequent and effective dates would attract broader client participation. This would mean more attractive pricing for the Treasury. Moving the auction to the refunding week would also solidify market perception of inflation indexed securities as a permanent feature of the Treasury's funding process. Market liquidity and focus is at a maximum at the time of the quarterly refunding. The Committee recommends that the Treasury auction two new issues and two reopenings yearly on the Thursday of the refunding week.

Finally, the Committee then revisited its previous contention that monthly two-year issuance be capped at $25 billion. While some members felt that increased bid to cover ratios in recent auctions might warrant larger two-year auction sizes, the majority believed that not enough data existed to make the case that auction sizes could be increased without risking Treasury's stated issuing goals, and 2-year issuance should remain at current levels until more data became available.

Average Maturity of the Debt

In Treasury's chart presentation, the chart of the average maturity of the privately held marketable debt was shown to have turned lower in the year 2000 and now stands at 5 years 9 months. Under current financing schedules, this trend will continue so that by the end of 2002 the average maturity will have fallen to under 5-1/2 years. The Treasury asked for the Committee's views on what factors regarding the composition of outstanding debt and new debt issuance should be considered in the formulation of debt management policy. The Committee first noted that the average maturity of the debt has fluctuated between four and six years for forty of the past fifty years. The current numbers all well within those ranges. Members felt that the Treasury's long-range expectations for the federal budget should be an important component in the composition and maturity of the debt. However, because of the inherent economic and political uncertainties in long-range budget projections, these should not be the sole or, according to some, even the most important factor in decisions about the debt. Some Committee members expressed the opinion that under most circumstances, the most important consideration for the Treasury is to be able to easily raise money to fund the government and to be able to do so under any and all circumstances, regardless of the business cycle. While it may be temporarily less expensive for the Treasury to raise all of its funds in very short maturities, rollover risk related to the business cycle and even to foreign participation in the U.S. market suggests that in the long run such a policy could actually increase direct and indirect costs. Another consideration that was important to Committee members, even most important to some members, is the use of Treasuries for risk transference, that is hedging, from other markets like corporates and mortgages. These markets have been growing rapidly in recent years. It was noted that while the amount of Treasury coupons has contracted in recent years, the volume of trading in Treasuries has actually increased because of the use of Treasuries for risk transference. Members believe that providing new liquid debt in maturities where hedging requirements are the greatest not only helps the functioning of these markets but over the long run reduces the cost of debt to the Treasury. By and large, members expressed the view that changes in the average maturity of the debt within the broad ranges of four to six years are not critical in and of themselves to Treasury debt management.

Occasionally, situations arise where it may be important to change the trend movement in the average maturity. For example, a few years ago when officials became increasingly convinced that budget surpluses were going to grow quickly so that all the debt would be paid down by 2011, a rising average maturity of the debt did not appear consistent with the expectations and goals of the Treasury. As of now, the average maturity has turned down and the date of a potential paydown of the debt has been pushed further into the future. Consequently, Committee members expressed the belief that other factors such as maintaining a variety of maturities to protect against rollover risks throughout the business cycle and providing securities that are available for risk transference purposes are now more important considerations when deciding on the composition and maturities of debt financing.

Cash Management Alternatives

Since August 2001, the issuance of 4-week bills has helped to smooth the fluctuations in the Treasury's cash balances. The Treasury asked the Committee for its opinion on two other cash management alternatives, namely the buyback of short-dated securities and the execution of term repurchase agreements. As background, the Committee noted that in several months during the year, the Treasury cash balance swings are intra-monthly events with balances being low in part of the month and rising to very high levels in other parts, especially after tax dates. With the capacity of tax and loan accounts being limited to about $55 billion and 4-week bills being an inefficient means of dealing with such an intra-monthly problem, Committee members believe that both buybacks of short-dated debt and term repos are appropriate tools to address these cash balance fluctuations. Members do not believe that the actions are justified primarily by the very slight increase in interest earnings on the cash balances relative to the interest received on tax and loan balances but more by the need for additional alternatives as limits on these balances become binding. Members assumed that the conduct of term repos could be coordinated with the Federal Reserve which conducts similar operations from time to time.

Volatility

In response to Treasury's question regarding the existence of increased volatility as an ongoing feature in credit markets and the implications for various asset classes, the Committee noted that certain aspects of increased volatility were cyclical and others secular. Cyclical causes included economic uncertainty and low interest rates, as they interact with hedging adjustments. Increased mortgage concentration, convexity risk and corporate issuance as well as the accompanying growth in the derivatives market are more secular in nature. Most felt that volatility extremes witnessed last fall resulted from a confluence of many diverse events and probably would not be repeated in the near future. However, increased volatility for any given level of interest rates is probably a permanent feature of the markets because of secular trends in the mortgage and corporate markets.

Finally, most Committee members viewed Treasury's securities as the risk transfer vehicle of choice despite negative supply trends in recent years. Over time they felt the status should be a benefit to Treasury and, under certain circumstances, might affect the size and maturities of new debt issuance.

Respectfully submitted,

James Capra
Chairman

Timothy Jay
Vice Chairman

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	03/28	04/01	04/04	19.00 A	11.00 A	11.00 A	46.3	-5.26	0.00
3&6 MONTH BILLS	04/04	04/08	04/11	14.00 A	10.00 A	10.00 A	45.6	-11.63	0.00
	04/11	04/15	04/18	14.00 A	10.00 A	10.00 A	43.1	-9.13	0.00
	04/18	04/22	04/25	9.00 A	11.00 A	11.00 A	45.9	-14.90	0.00
	04/25	04/29	05/02	16.00 A	13.00 A	13.00 A	47.4	-5.39	0.00
	05/02	05/06	05/09	16.00	14.00	14.00	44.9	-0.92	0.00
	05/09	05/13	05/16	20.00	15.00	15.00	46.0	4.00	0.00
	05/16	05/20	05/23	22.00	15.00	15.00	41.0	11.00	0.00
	05/23	05/27	05/30	22.00	16.00	16.00	47.0	7.00	0.00
	05/28	06/03	06/06	20.00	16.00	16.00	46.0	6.00	0.00
	06/06	06/10	06/13	18.00	16.00	16.00	49.0	1.00	0.00
	06/13	06/17	06/20	14.00	16.00	16.00	50.0	-4.00	0.00
	06/20	06/24	06/27	14.00	16.00	16.00	49.0	-3.00	0.00
					179.00		601.24	-25.23	0.00
CASH MANAGEMENT BILLS									
19-Day Bill	04/02	04/02	04/03		23.00 A		23.00	0.00	
Matures 4/22									
12-Day Bill	04/02	04/03	04/04		23.00 A		23.00	0.00	
Matures 4/16									
4-Day Bill	04/09	04/10	04/11		16.00 A		16.00	0.00	
Matures 4/15									
BUYBACKS									
	04/17	04/18	04/22					-1.00	
Maturity Range	Feb '15 - Nov '18 and Apr '28 - Apr '32 (TIPS) Average Maturity 17.5 Years								
	04/22	04/23	04/25					-1.50	
Maturity Range	Feb '19 - Aug '22 Average maturity 18.5 Years								
	04/24	04/25	04/29					-1.50	
Maturity Range	Nov '22 - Nov '27 Average maturity 22.7 Years								
COUPONS						CHANGE IN SIZE			
2-Year Note	03/20	03/27	04/01		25.00 A		23.7	1.32	0.00
2-Year Note	04/17	04/24	04/30		25.00 A		24.2	0.78	0.00
5-Year Note	05/01	05/07	05/15		20.00	+4.00			
10-Year Note (R)	05/01	05/08	05/15	35.00	11.00	-2.00	9.4	25.58	0.00
10-year TIPS	05/01	05/09	05/15		4.00	+4.00			
2-Year Note	05/22	05/29	05/31		25.00		22.2	2.79	0.00
					110.00		79.53	30.47	0.00

R=Reopening
A = Announced

Treasury announced a Q2 borrowing need of $1 billion on 4/29/02.

NET CASH RAISED THIS QUARTER:	5.24
NET FED ROLLOVER:	0.00
MARKETABLE BORROWING:	5.24
BUYBACKS:	-4.00
TOTAL NET BORROWING:	1.24

U.S. TREASURY FINANCING SCHEDULE FOR 3RD 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
3&6 MONTH BILLS	06/27	07/01	07/05	14.00	16.00	16.00	48.7	-2.65	0.00
	07/04	07/08	07/11	14.00	16.00	16.00	42.0	4.00	0.00
	07/11	07/15	07/18	14.00	16.00	16.00	37.0	9.00	0.00
	07/18	07/22	07/25	14.00	16.00	16.00	38.0	8.00	0.00
	07/25	07/29	08/01	14.00	16.00	16.00	41.0	5.00	0.00
	08/01	08/05	08/08	14.00	16.00	16.00	41.9	4.08	0.00
	08/08	08/12	08/15	19.00	16.00	16.00	43.0	8.00	0.00
	08/15	08/19	08/22	19.00	16.00	16.00	42.0	9.00	0.00
	08/22	08/26	08/29	23.00	16.00	16.00	44.0	11.00	0.00
	08/27	09/03	09/05	18.00	16.00	15.00	43.0	7.00	0.00
	09/05	09/09	09/12	13.00	16.00	16.00	48.0	-3.00	0.00
	09/12	09/16	09/19	9.00	16.00	16.00	48.0	-7.00	0.00
	09/19	09/23	09/26	9.00	14.00	14.00	51.0	-14.00	0.00
					206.00		567.58	38.42	0.00
COUPONS						CHANGE IN SIZE			
2-Year Note	06/19	06/26	07/01		25.00		20.7	4.27	0.00
2-Year Note	07/17	07/24	07/31		25.00		21.7	3.31	0.00
5-Year Note	07/31	08/06	08/15		22.00	+2.00			
10-Year Note	07/31	08/07	08/15	35.00	13.00	+2.00	19.5	18.48	0.00
10-Year TIPS (R)	07/31	08/09	08/15		3.00	+3.00			
2-Year Note	08/21	08/28	09/03		25.00		21.5	3.55	0.00
2-Year Note	09/18	09/25	09/30		25.00		20.6	4.40	0.00
					138.00		121.66	16.34	0.00

R=Reopening
A = Announced

Treasury announced a Q3 borrowing need of $55 billion on 4/29/02

- **NET CASH RAISED THIS QUARTER:** 54.76
- **NET FED ROLLOVER:** -0.12
- **MARKETABLE BORROWING:** 54.64
- **BUYBACKS:** 0.00
- **TOTAL NET BORROWING:** 54.64

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

May 1, 2002
PO-3054

Assistant Secretary for Financial Markets Brian C. Roseboro
May 2002 Quarterly Refunding Statement

The Department of the Treasury announced its quarterly refunding needs and related financing changes today. In determining these financing needs and considering changes to improve the financing process, we strive to obtain the lowest cost of financing over time for the American taxpayer. We believe the best way to meet this objective is to issue debt in a regular and predictable pattern, provide transparency in our decision-making process, and seek continuous improvements in the auction process. The decisions announced today reflect our efforts to meet this objective.

We are offering $33 billion of notes to refund approximately $9 billion of privately held bonds maturing on May 15, raising approximately $24 billion. The securities are:

1. A new 5-year note in the amount of $22 billion, maturing May 15, 2007.
2. A re-opening of the 10-year note first issued in February 2002, in the amount of $11 billion, maturing February 15, 2012.

These securities will be auctioned on a yield basis at 1:00 p.m. Eastern time on Tuesday, May 7, and Wednesday, May 8, respectively. The balance of our financing requirements will be met through 10-year IIS, 2-year note and bill offerings.

Bill Issuance

Over the last quarter, inaction on the debt ceiling led us to scale back issuance of 4-week bills. As a result, we issued larger and more frequent cash management bills than we would have otherwise. In the coming quarter, we may need to issue an off-cycle cash management bill due to a combination of seasonal cash swings in early June and concerns over the debt limit.

Re-opening Policy

Beginning with the new 5-year note announced today, we are discontinuing our regular re-opening policy for this security. Going forward, our policy will be to auction a new 5-year note each quarter unless financing needs or market conditions require a re-opening.

This policy will have the benefit of smoothing the maturity distribution of our issuance and will allow for slightly larger issuance sizes. We expect this policy to enhance secondary market liquidity for Treasury securities.

At this time, we are making no changes to the current policy of regular re-openings for 10-year notes.

Buyback Operations

We will not be conducting buybacks this quarter due to lower-than-expected tax receipts.

Inflation-Indexed Securities

In our last quarterly refunding announcement, we solicited comments from the public on enhancing the attractiveness of the Treasury inflation-indexed security (TIIS) market. The comments that we received have been valuable and largely supportive of the current structure of the program. Today, we announce the following changes to the program:

- Beginning in July, we will reduce the when-issued (WI) period for TIIS auctions. The 10-year TIIS note will be announced on July 8, be auctioned on July 10 and settle on July 15.
- The 10-year TIIS to be auctioned in July will be re-opened twice after the initial auction, in October and January.
- We will continue to seek ways to promote investor interest in the inflation-indexed market. As the world's largest issuer of inflation-indexed securities, we will encourage the inclusion of TIIS in investor portfolios and bond fund indices. We will also encourage academics and financial analysts to continue their research into the TIIS market.

Policy Issues Under Discussion

We are exploring ways to reduce the costs associated with short-term fluctuations in cash balances. Treasury has already undertaken a trial of a Term Investment Option for cash balances held in Treasury's Tax and Loan accounts. Other possible changes include the use of term repurchase agreements and the outright purchase of short-dated bills and coupons. Either change would have no long-term effect on debt outstanding, but would improve management of cash balances and would be consistent with our objective of minimizing borrowing costs over time. Comments on these or other ways of reducing the cost of cash balances are welcome.

We have released an Advance Notice of Proposed Rulemaking (ANPR) on application of the 35 percent rule and Net Long Position (NLP) calculations (see http://www.publicdebt.treas.gov/gsr/gsruocam.htm). In the formal comment period, we seek suggestions on alternatives that would meet the twin goals of making auctions more operationally efficient and safeguarding the objective of the NLP rule.

We also seek comments on changes to the regular re-opening policy for 10-year notes.

Comments and suggestions on these subjects or others relating to debt management can be sent to debt.management@do.treas.gov.

Auction Performance Reporting and New Target

To track our progress in shortening auction times, we released auction performance statistics for the first time as part of the chart package released Monday, April 29, 2002. We intend to expand the auction performance reporting as part of each quarterly refunding.

We are also moving our target for auction release times from six minutes to five minutes, effective May 7. We will continue to identify and explain deviations of more than +/- 60 seconds.

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
April 29, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	May 02, 2002
Maturity Date:	August 01, 2002
CUSIP Number:	912795KU4

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 99.28%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 25,966,767	$ 11,231,427
Noncompetitive	1,538,766	1,538,766
FIMA (noncompetitive)	230,000	230,000
SUBTOTAL	27,735,533	13,000,193 2/
Federal Reserve	5,501,561	5,501,561
TOTAL	$ 33,237,094	$ 18,501,754

Median rate 1.720%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.690%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 27,735,533 / 13,000,193 = 2.13

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,273,815,000

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
April 29, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	May 02, 2002
Maturity Date:	October 31, 2002
CUSIP Number:	912795LH2

High Rate: 1.880% Investment Rate 1/: 1.923% Price: 99.050

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 65.20%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 26,786,469	$ 11,650,669
Noncompetitive	1,004,594	1,004,594
FIMA (noncompetitive)	345,000	345,000
SUBTOTAL	28,136,063	13,000,263 2/
Federal Reserve	5,249,480	5,249,480
TOTAL	$ 33,385,543	$ 18,249,743

Median rate 1.870%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.840%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 28,136,063 / 13,000,263 = 2.16

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $798,587,000

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

Text as Prepared for Delivery
April 30, 2002

Contact: Betsy Holahan
(202) 622-2960

**ASSISTANT SECRETARY
RICHARD CLARIDA
REMARKS TO THE TREASURY BORROWING ADVISORY COMMITTEE
OF THE BOND MARKET ASSOCIATION**

Three months ago, a strong rebound in the economy in the first quarter seemed unlikely. The economy appeared to be moving gradually onto a recovery path but most forecasts projected a sluggish first half of this year. A payback from the auto-related surge in consumer spending in the fourth quarter was thought to be a virtual certainty, and final sales were expected to contract. Most forecasts postponed robust growth until mid-year.

Instead, the economy appears to be sprinting out of the tenth post-World War II recession. The Bureau of Economic Analysis reported last week that real GDP grew at a 5.8 percent annual rate in the first quarter – a marked improvement over growth of less than 1 percent expected by the consensus forecast at the beginning of the year. A slowdown in the rate of inventory liquidation added 3 percentage points to real growth. But consumption and residential investment – sectors thought last year to have little room for further gains – also contributed another 3 percentage points to growth. A further lift was provided by Federal defense spending and by spending of State and local governments. Offsetting part of the strength in this broadly favorable report were a fifth straight decline in business fixed investment and a surge in imports.

Few forecasters are now looking for the economy to sag again in the immediate future, and it appears that the recession is behind us. Barring unusual events, the past recession will have been alone among those in the postwar history to result in only one quarter of real GDP decline and that loss will amount to a narrow 0.3 percent – far less than the 2.2 percent average.

This leaves us with the question: Why was this downturn less severe than others? Certainly macroeconomic policy made an important contribution. The Federal Reserve began to ease monetary policy two months before the NBER-designated recession began and continued to lower short-term rates throughout the summer and fall. The President signed his tax cut package into law in June, putting $40 billion back into consumer pockets in the second half of 2001 and lowering future marginal tax rates. Thus, both monetary and fiscal policies were well timed to cushion the depth and shorten the duration of the recession.

PO-3057

Good policy timing is only one part of the answer, however. The efficiency of our capital markets also played an important role in limiting the depth and apparent duration of the recession. For example, as the economy weakened in 2001, long term bond yields and mortgage interest rates fell, especially after September 11th, to near record lows. This set off a wave of mortgage refinancing which, by some estimates, put close to $80 billion in homeowners' pockets. The flexibility of our labor markets was also essential, especially the extent to which employers could better match hours worked with the demand for final output. Even though the 1.9-percentage point rise in unemployment in 2001 was less than in any previous downturn, the Administration is very concerned about the rise in unemployment that did occur. That is why it was important in March for the Congress to pass and for the President to sign legislation that provides incentives for firms to invest, which should give the economy a boost needed to bring down the unemployment rate later in the year.

Economists will evaluate the relative contributions of these factors on improved economic performance for some time. But the aggregate effect of all these contributions can be clearly seen in the behavior of productivity. Productivity typically declines in recessions. Yet growth of nonfarm productivity of labor over the four quarters of last year was a very respectable 2.0 percent, capped by a 5.2 percent jump in the fourth quarter. An even larger gain is likely in the first quarter. Output in the nonfarm sector surged at a 6-1/2 percent annual rate, while workhours appear to have declined, suggesting the likelihood that productivity growth will exceed 6-1/2 percent.

Looking ahead, it seems unlikely that we will repeat the first-quarter GDP surge in the coming months. Instead, like most private forecasters, we expect a more moderate, but sustainable rate of GDP growth. Inventory rebuilding is likely to contribute less to overall growth, while business investment is likely to contribute more. Although fixed business investment fell in the first quarter, there has been a decided slowing in the investment downdraft. Even more encouraging are the recent survey results from the National Association for Business Economics, showing that 48 percent of respondents expect capital spending in their own companies to be rising over the next 12 months, and only 18 percent expect capital budgets to shrink. As the expansion gains steam, we expect the unemployment rate to fall.

On the inflation front, we are looking for a continued favorable performance in the near future – one of the benefits of strong productivity growth. Of course, we have recently been reminded that oil price increases can have an effect on the economy, but the consensus is that all but the most severe shocks would not be large enough to derail activity. Overall the fundamentals in the economy appear to be very sound and set the stage for continued expansion.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 10:00 A.M. EDT
April 30, 2002

Contact: Public Affairs
(202) 622-2960

Treasury Secretary Paul H. O'Neill
Testimony before the Senate Appropriations Committee

Good morning, Chairman Byrd, Senator Stevens, and distinguished members of the Committee. It is my pleasure to appear before you to discuss the Homeland Security missions of the Treasury Department.

We all know that the world has changed since terrorists attacked us on September 11th. That change is very evident at the United States Treasury Department, where we are center-stage for some of the toughest challenges facing our country.

The tragic events of September 11th sparked an incredible increase in the nationwide efforts to prevent and combat terrorism. Treasury has been at the forefront of these efforts with our law enforcement bureaus and offices participating in the war on terrorism at home and abroad. We bear the responsibility of protecting the Nation on three fronts: at our borders; in the world of finance; and here at home.

Our Nation's first line of defense against terrorists and terrorist activity is the security of our borders.

Before I address some of the specific measures that we have taken at our borders, I would like to describe two new initiatives that highlight the approach I believe that the government should take as we strive to protect the Nation from future terrorist attacks.

Since the attacks of September 11th we have insisted on a new level of security at our Nation's borders to protect our homeland. And we created a new challenge for our economy -- to adopt new security measures without reducing the productivity of American companies.

The first border initiative I would like to describe was unveiled on April 16th, when I joined Governor Ridge, Customs Commissioner Bonner, and Governor Engler at the Ambassador Bridge in Detroit to launch the Customs Trade Partnership Against Terrorism, referred to as C-TPAT. Under this program, C-TPAT businesses commit to pursuing the very best practices in supply chain security. They work with the Customs Service, and with their own suppliers, to design and implement secure procedures. In exchange, Customs assures them of much faster, and thus, less costly import processing.

PO-3058

It is the threat to global security and the break from conventional wisdom that gave birth to the second initiative I would like to describe, the Container Security Initiative (CSI). The CSI would secure an indispensable, but vulnerable, link in the chain of global trade: the oceangoing sea container. Ensuring the security of the maritime trade system is essential, given that approximately 90% of the world's cargo moves by container. This initiative consists of four core elements. These are: (1) establishing criteria to identify high-risk containers; (2) pre-screening those containers identified as high-risk before they leave the port of origin; (3) using technology to quickly pre-screen high-risk containers; and (4) developing and using smart and secure containers. Customs has already rolled this initiative out at three Canadian seaports and they are actively engaging other large overseas seaports, and working with the foreign governments within which those large international ports are located, to cooperatively develop a program to implement the four key elements of the CSI.

These are two examples of what we mean by "smart" borders. Rather than just accepting the conventional wisdom that, without a vast influx of new resources, there is an unavoidable trade-off between efficiency and security, these new endeavors are an improvement in both. When we are at our best -- both in government and in the private sector -- we can accomplish anything we set our mind to.

With those examples of where I believe we should be going, I would now like to inform the Committee of where we have already been since September 11th. Following the attacks of September 11th, the border threat level was raised from Alert Level 4 (normal operations) to the highest level, Alert Level 1 (Code Red). The United States Customs Service, our Nation's first line of defense at 301 ports of entry into the Nation, has made the fight against terrorism its number one priority. In response to this heightened state of alert, Customs has hired additional personnel to staff our borders and seaports, and has engaged members of the National Guard to increase security around our Nation's borders.

In FY 2002 appropriations Customs received almost $400 million for addressing specific homeland security matters (in addition to $65 million provided through separate Presidential releases). Of this amount, $235 million is being used for a combination of personnel and new equipment in ports of entry on the northern border and at critical seaports, along with selected investments on the southern land border.

Customs has set out an expenditure plan for this funding for Congressional review that responds to both short and long-term security concerns. The recurring cost of labor-intensive efforts will be coupled with technology investments that will increase efficiencies and enhance the level and degree of scrutiny for various ports of entry.

The FY 2003 proposal for the U.S. Customs Service includes $365 million not only to continue its increased focus on Northern Border and Marine Port security efforts, but also to address other areas of vulnerability, such as: international money laundering; security infrastructure; southwest border staffing; and funding for backup commercial recovery facilities. Ports of entry have been identified as potential entry points for terrorists as well as the most likely avenue for them to introduce implements of terror into the country. The danger this presents has become a focus for the FY 2003 request.

In FY 2003, Customs will add 626 new positions, in addition to the 1,075 positions allocated in FY 2002, to vulnerable locations on the northern and southern land borders, and in seaports with the highest volume of containerized cargo. They will counter the terrorist threat while facilitating legitimate trade and travel.

The FY 2003 request also includes a large complement of inspection and targeting technology (including a modest research component), a further expansion of the Advance Passenger Information System (APIS) to real-time processing capability, and technology to expedite the passage of goods imported by highly trusted entities.

Finally, low volume Ports of Entry would be protected through "hardening" measures including physical barriers, sensors and monitoring devices to prevent and detect unauthorized crossings. Customs serves as the lead agency for Operations Green Quest and Shield America. These multi-agency task forces are dedicated to identifying, disrupting, and dismantling terrorist financing sources and systems and ensuring that munitions and sensitive U.S. technologies are not unlawfully exported into the hands of terrorists. The FY 2003 budget supports and maintains these critical task forces.

Equally important with protecting our Nation's borders is stopping the terrorists from being able to finance their operations.

Treasury has mustered forces from across its offices, agencies, and bureaus to fulfill its mandate to lead the war against global terrorist financing. Alongside Treasury's Financial Crimes Enforcement Network (FinCEN) and Office of Foreign Assets Control (OFAC), staff from the Offices of International Affairs, Enforcement, and the General Counsel have all been deeply engaged in disrupting and destroying the networks that finance terrorism.

In his November 7th address at Treasury, President Bush proclaimed that "the first strike in the war against terror targeted the terrorists' financial support." Following the attacks, FinCEN and OFAC were able to identify and stymie numerous supporters of the Al Qaida and other terrorist organizations by freezing $34 million in terrorist assets and working with allies overseas to freeze over $70 million. Funding levels proposed for FY 2003 will better enable FinCEN to sustain and maintain these activities.

Our efforts to block the assets of terrorist financiers and supporters have truly become an international endeavor. As part of these efforts, a Terrorist Finance Task Force has been created by the Office of International Affairs that coordinates our outreach to other countries and jurisdictions and monitors their progress in combating the financing of terrorism. One of the more visible results of these efforts was accomplished on April 19th, when the G-7 Finance Ministers joined in Washington and jointly designated nine individuals and one entity as terrorist supporters or financiers related to al-Qaeda. As part of our overall strategy to maintain the international momentum in our battle against terrorist financing, I have made critical trips to Europe and the Persian Gulf to discuss the importance of coordinated action in this arena. The Treasury Department will continue to work with our international partners in the war against terrorist financing.

While leading protection efforts on the borders and in the banks, Treasury has also placed an increased emphasis on security within the Nation in the protection of our Nation's leaders, foreign dignitaries and, ultimately, our Nation's freedom. The United States Secret Service, Bureau of Alcohol, Tobacco and Firearms, and Federal Law Enforcement Training Center are at the forefront of these efforts.

The United States Secret Service is the only Federal government entity charged with the challenging mission of protecting the President, Vice President, and foreign heads of state. In response to increasing homeland security threats, the Secret Service has been assigned new protectees and has seen significant workload increases in its protective functions. The FY 2003 budget provides funding to enable the Secret Service to meet its protective requirements, including funding for travel, overtime, and follow-on costs associated with Special Agents and Uniformed Division Officers hired in FY 2002.

Around the world, firearms and explosives are the most frequent tools of terrorist attacks. The Bureau of Alcohol, Tobacco and Firearms is charged with enforcing Federal laws relating to commerce in, and the criminal misuse of, firearms and explosives, and ATF's authority and technical expertise are integral components in fighting the Nation's war against terrorism. Through the awareness that terrorists need funds to operate, ATF has found that illegal commerce in alcohol and tobacco products serve as attractive and lucrative sources for generating funds for illegal activities.

As new law enforcement officials are being recruited and hired to fill the various positions critical to the Nation's war on terrorism, training for these individuals to perform their duties in a safe and highly proficient manner has become an immediate necessity. The Federal Law Enforcement Training Center (FLETC) serves as the Federal government's leading provider of law enforcement training. FLETC currently provides training for 74 Federal Partner Organizations, and also for state, local and international law enforcement organizations on a reimbursable basis. Training is provided in the most cost-effective manner by taking advantage of economies of scale available only from a consolidated law enforcement training organization. The FY 2003 request provides funding to maintain current levels prior to the September 11th terrorist attacks, while also providing additional funding to support the training of new agents hired as a result of the attacks.

In conclusion, Mr. Chairman, I would like to take this opportunity to recognize the incredible efforts of the men and women of the Treasury Department since September 11th. We all know that computer systems do not lead excellence. Dollars do not lead excellence. People lead excellence. While the Treasury Department still has some ways to go before we achieve true excellence, with breakthroughs like those I witnessed in Detroit on April 16th, I am confident that the people of the Treasury Department will be ready to lead the way.

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NEW POLICIES FOR ECONOMIC DEVELOPMENT
REMARKS BY
JOHN B. TAYLOR
UNDER SECRETARY FOR INTERNATIONAL AFFAIRS
UNITED STATES TREASURY
AT THE
ANNUAL BANK CONFERENCE ON
DEVELOPMENT ECONOMICS
WORLD BANK
WASHINGTON, DC
NEW POLICIES FOR ECONOMIC DEVELOPMENT

Thank you for inviting me to speak here today. I'd like to use this opportunity to talk about the Bush Administration's economic development agenda. It is a big agenda designed to help people around the world exit from extreme poverty. It stresses new quantitative methods to achieve good economic policy and good economic results. It includes substantial increases in development funding for the first time in many years. And it applies new ideas in economic development—including many of the ideas coming out of this conference series.

Before describing some of the specific policies, I first want to define the problem we are trying to solve. I then want to discuss in simple, straight-forward terms the economic principles that logically and empirically lead to the specific policies. In doing so I will draw on economic development research completed in the last dozen years. I'll be illustrating some of these points with slides that can be found on the U.S. Treasury web site.

The Problem

The problem that we are all trying to deal with, of course, is that many people and many countries around the world are still very poor. Despite remarkable economic progress in many parts of the world, over 1.3 billion people live on less than $1 a day, and half the world's population lives on less than $2 a day. As the color-coded maps on the World Bank web site illustrate, many of the poorest countries are in Sub-Saharan Africa, Central Asia, and Central America.

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The Goal of Productivity Growth

The first question is why are these countries so poor? Low productivity is the proximate answer. Productivity is the amount of goods and services that a worker produces per unit of time with the skills and tools available. If there are many high productivity jobs in a country, then the country is rich. If there are only a few high productivity jobs in a country, then the country is poor. If you want to reduce the number of poor countries—to make the all the colors on those World Banks maps the same color as the United States and Europe—then you have no choice but to increase productivity in poor countries. And the higher the rate of productivity growth, the faster those colors will change. Simply put, the ticket out of poverty is higher productivity jobs.

This is why Secretary O'Neill has argued that program and loan decisions by the World Bank and the other Multilateral Development Banks should focus on raising productivity. It is important to note that when the International Development Association (IDA) was first proposed by the Eisenhower administration in 1959 higher productivity was the key goal. In the words of the very first article of IDA's Articles of Agreement, "The purposes of the Association are to promote economic development, increase productivity and thus raise standards of living in the less-developed areas of the world....The Association shall be guided in all its decisions by the provisions of this Article." Unfortunately, I've seen too few examples where increasing productivity has been the key goal for IDA decisions in recent years. Let's follow the provisions of the IDA articles or else amend them.

Let me say a few more words about goals. The Millennium Development Goals are a very useful set of objectives. But there is something missing from these goals as stated: the goal of higher productivity growth. What might such a goal look like? As I'll discuss in a few minutes, we should expect that countries with lower productivity than the United States should have a productivity growth rate higher than the United States. But we could be more specific, stating that the greater the productivity gap between a country and the United States the greater should be the productivity growth rate in that country. In fact, we could be even more specific by stating numerical goals for productivity growth. For example, empirical studies indicate that a reasonable annual productivity growth rate goal for a country with productivity 1/5 that of the United States is 3 percentage points greater than the productivity growth rate of the United States. For a country with 1/10th the productivity of the United States, a reasonable goal would be 5 percentage points greater productivity growth than the United States. And extrapolating, for a country with 1/100th of U.S. productivity, perhaps a goal of 9 percentage points greater growth than the United States could be set.

These are ambitious goals. But seriously addressing global poverty demands nothing less. And make no mistake, raising productivity growth is the only way of achieving substantial and sustained reductions in poverty.

Empirical studies confirm this. Higher growth increases the income per capita of the lowest quintile by about the same amount as the other quintiles.

Impediments to Catching Up

If low productivity is the proximate cause of poverty, then we need to answer another question: why is productivity so low in so many areas of the world? According to basic economic growth theory, productivity depends on two things: capital per worker and the level of technology. If there are no impediments to the flow and accumulation of capital and technology, then countries or areas that are behind in productivity should have a higher productivity growth rate. Capital will flow to where it is in short supply relative to labor and, with more capital, higher productivity jobs can be created. Similarly technology can spread through education and training—perhaps through on-the-job training via foreign investment, or education via the Internet. For these reasons, poor areas or countries should be catching up to rich areas or countries.

There is evidence for such "catch up" when there are few impediments to the use and accumulation of capital (including human capital) and technology. For example, an examination of the productivity growth rates in states in the United States shows that states that were relatively poor in the late 19^{th} century, such as Texas and Florida, grew more rapidly in the 20^{th} century than richer states such as New York or California. Similar evidence of catch up exists in the OECD countries. Among the countries that were founding members of the OECD in the 1960s, lower productivity countries have grown more rapidly than higher productivity countries.

Unfortunately there is little evidence of such catch up in the world as a whole. While some countries that were very poor in the 1960s have grown more rapidly than the rich countries, many other poor countries have grown more slowly. Why has there not been more catch up? Is economic growth theory wrong? Many answers have been given to these difficult questions—indeed the questions have been on the minds of development economists for years. But more and more evidence has been accumulating that the laws of economics have not been repealed, but rather that there are significant impediments—in the broadest sense—to investment and the adoption of technology that are holding countries and people back.

One can group these impediments into three areas. First, *poor governance*—the lack of rule of law or enforceable contracts and the prevalence of corruption creates disincentives to invest, to start up new firms, and to expand existing firms with high-productivity jobs. This has a negative impact on capital formation and entrepreneurial activity. Second, *poor education*, which impedes the development of human capital. Workers without adequate education do not have the skills to take on high-productivity jobs or to adopt new technologies to increase the productivity of the jobs they do have. Third, *too many restrictions on economic transactions*, which prevent people from trading goods and services or adopting new technologies. Lack of openness to trade, state monopolies, and excessive regulation are all examples of restrictions that reduce incentives for innovation and investment needed to boost productivity.

The Specific Policies

With these ideas and facts as background, let me now discuss the Bush Administration's new economic development agenda.

First, the agenda calls for a much greater emphasis than in the past on policies that reduce the impediments to higher productivity growth. Countries that follow good economic policies are to receive more aid, and the actual results of the aid are to be quantitatively measured.

Second, the agenda calls for an increase in funding for economic development. President Bush has proposed an 18 percent increase in the U.S. contribution to the African Development Fund and to IDA. He has called for a larger fraction of IDA assistance to the poorest countries to be provided in the form of grants rather than loans. And he has called for the creation a Millennium Challenge Account, a new separate account for development assistance.

The Millennium Challenge Account

Consider first the Millennium Challenge Account. This account will be funded by increases in the budget beginning in fiscal year 2004. The account is designed to increase to $5 billion a year starting in 2006 – which is a 50 percent increase over and above the approximately $10 billion in existing U.S. development assistance. The idea behind the Millennium Challenge Account is to channel aid to those poor countries that have good economic policies that increase economic growth and reduce poverty. To access the account, developing countries must demonstrate strong commitments in three policy areas: (1) "ruling justly"—upholding the rule of law, rooting out corruption, protecting human rights and political freedoms; (2) "investing in people"—education and health care; and (3) "encouraging economic freedom"—open markets, sound fiscal and monetary policies, appropriate regulatory environments, and support for private enterprise. Note that these are exactly the three policy areas I mentioned above when listing the impediments to economic growth.

President Bush has assigned Secretary O'Neill and Secretary Powell the task of developing the objective criteria for measuring countries' policies in these areas, and we are hard at work on this task now. We are using empirical research on economic growth over the last 10 years and performing our own research. We place a premium on simplicity and robustness. We want something that can be easily understood.

Indeed, President Bush has asked us to reach out to the world community in the process of developing these indicators. The people in this room have a great deal to contribute to this process – your ideas are welcome!

Results-Based IDA Replenishments.

As I mentioned, the President's budget proposes a significant increase in the U.S. contribution to IDA-13. Under President Bush's proposal, funding would be 18 percent higher than the IDA-11 and IDA-12 replenishments in the 1990s. The proposal incorporates an $850 million contribution in the first year, $950 million in the second year, and $1,050 million in the third year. However, the increases in the last two years are explicitly linked to improvements in IDA's performance in areas such as combating disease and improving education.

Linking the size of the IDA replenishment to results is a new idea. I am glad to say that it appears to be having a good impact on other areas of the World Bank. Already we are hearing more about a greater focus on measurable results in the World Bank's operations.

IDA Grants

As many of you know, President Bush has proposed converting part of IDA loans to results-based grants. IDA loans have highly favorable terms. Yet the burden of repayment on some of the poorest countries has meant that the international community has to forgive many of these loans. The objective of the U.S. grants proposal is to prevent such problems, with all its disruptive consequences for economic growth, from ever occurring again. We want to "stop the debt."

A recent study by the U.S. General Accounting Office demonstrates that grants promote debt sustainability better than 100 percent debt forgiveness of old IFI debt. And consistent with the Millennium Challenge Account and results-based IDA replenishment proposals, grants can be tied to performance measures, such as test scores in basic skills.

Conclusion

Conferences like this one provide a forum for sharing what we know and—just as important—what we do not know about economic development. Today I have tried to describe how recent advances in research on economic growth have informed the Bush Administration's policies on foreign assistance.

But there is still much that we do not know about economic growth and development. For example, while studies demonstrate that aid is most effective when provided to countries with good policies, there is more work to be done on what *kinds* of assistance are most effective in promoting productivity growth in poor countries.

If we are going to achieve the productivity growth goals I suggested in this talk, we are going to need more ideas. I look forward to benefiting from the research and insights of ABCDE conferences in the years ahead.

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STATEMENT OF PAMELA F. OLSON
ACTING ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON SELECT REVENUE MEASURES
COMMITTEE ON WAYS AND MEANS

Mr. Chairman, Mr. McNulty, and Members of the Subcommittee:

I appreciate the opportunity to discuss with you today the Administration's proposed tax incentives for improving the environment. I would like to start by thanking the Subcommittee for holding a hearing on this important issue. I also commend Ms. Dunn, Ms. Johnson, Mr. Neal, Mr. Portman, and Mr. Weller of this committee, as well as Mr. Blumenauer and Mr. Isakson, for their thoughtful comments and for their leadership in introducing legislation to encourage responsible stewardship of America's land. This is a goal the President shares.

Reflecting the President's firm commitment to conservation and the environment, the President's Budget for FY 2003 includes a number of proposals that will encourage land conservation and preservation.

The budget includes the following initiatives for environmental conservation and stewardship: (1) over $910 million to fully fund the Land and Water Conservation Fund to support natural resource conservation and outdoor recreation, including $200 million for State grants -- this proposal recognizes that Federal land acquisition is not the only way to conserve land and other natural resources, and allows funds to be used for conservation easements; (2) $665 million for the National Park Service to address the park maintenance backlog; (3) $67.5 million for Natural Resource Challenge, a science-based initiative to strengthen natural resource management throughout the National Park System; (4) $376 million for wildlife protection and public use opportunities at our National Wildlife Refuges; (5) $100 million for a new Cooperative Conservation Initiative to protect and conserve the environment by awarding challenge grants to landowners, environmental groups, land-user groups, communities and State and local governments; (6) $50 million for the Landowner Incentive Program, which provides funds to States, tribes and territories to make cost-sharing grants for the protection of habitat for endangered, threatened or other at-risk species on private or tribal lands;

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(7) $70 million for the Forest Legacy program to protect against the loss of forests from development; (8) $10 million for the Private Stewardship grant program to provide technical and financial assistance to landowners engaged in local, private and voluntary conservation efforts for the benefit of Federally listed or other imperiled species; and (9) $200 million -- twice the FY 2002 level of funding -- for the Environmental Protection Agency's brownfields program, $171 million of which is for grants to States and local communities.

The Budget proposes making the brownfields tax incentive permanent. Under current law, this incentive is scheduled to expire on December 31, 2003. The revenue cost of a permanent extension is estimated to be $1.1 billion over five years. The Administration also proposes to provide an exclusion for 50 percent of the gain when land (or an interest in land or water) is sold for conservation purposes. The proposal would apply to land sales after December 31, 2003, and its revenue cost is estimated to be $328 million over five years.

The President's Budget includes other proposals that will benefit the environment. These proposals are part of an overall environmental policy aimed at encouraging economic growth in ways that protect the environment. In February, the President announced the Clear Skies Initiative to cut power plant emissions of the three worst air pollutants -- nitrogen oxides, sulfur dioxide, and mercury -- by 70 percent. This initiative will improve air quality using a proven, market-based, cap-and-trade approach. The Budget also provides $4.5 billion for activities related to global climate change, including the first year of funding for a five-year, $5.0 billion commitment to tax incentives to encourage energy efficiency, reduce greenhouse gas emissions and develop renewable energy sources.

Thanks in large part to the leadership shown by the Ways and Means Committee, many of the Administration's tax proposals have been enacted or are included in legislation that the House passed last summer. We look forward to working with this Subcommittee as it considers the remainder of the Administration's environmental initiatives.

The remainder of my testimony will provide a more detailed discussion of the Administration's tax proposals.

LAND-RELATED INCENTIVES

Current law tax incentives for land conservation

As the Chairman noted in announcing this hearing, the Internal Revenue Code currently includes a number of incentives to encourage responsible stewardship of the land. They include the deductibility of brownfields remediation costs, special rules for qualified conservation contributions, an estate tax exclusion for qualified conservation easements, an exclusion for certain conservation cost-sharing payments, and rules permitting the issuance of tax-exempt bonds for land conservation and preservation purposes.

<u>Brownfields remediation costs</u>

A brownfield site is real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant. Because lenders, investors, and developers fear the high and uncertain costs of cleanup, they avoid developing contaminated sites. Blighted areas of brownfields hinder the redevelopment of affected communities and create safety and health risks for residents. The obstacles in cleaning these sites, such as regulatory barriers, lack of private investment, and contamination and remediation issues, are being addressed through a wide range of Federal programs, including the tax incentive for brownfields remediation.

To encourage the cleanup of contaminated sites, the brownfields tax incentive permits the current deduction of certain environmental remediation costs. Environmental remediation costs qualify for current deduction if the expenditures would otherwise be capitalized (generally costs incurred to clean up land and groundwater that increase the value of the property) and are paid or incurred in connection with the abatement or control of hazardous substances at a qualified contaminated site. A qualified contaminated site generally is any property (1) that is held for use in a trade or business, for the production of income, or as inventory; (2) at or on which there has been a release, threat of release, or disposal of a hazardous substance; and (3) that is certified by the appropriate State environmental agency as to the release, threat of release, or disposal of a hazardous substance. Sites that are identified on the national priorities list under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) do not qualify as qualified contaminated sites. The brownfields tax incentive applies to expenditures paid or incurred before January 1, 2004.

Qualified conservation contributions

To encourage charitable donations, tax law provides a charitable contribution deduction not only for outright gifts but also in certain cases where the property is sold to a charity for less than its fair market value (that is, a "bargain sale"). In general, however, a charitable deduction is not allowed for income, estate, or gift tax purposes for a contribution of less than the donor's entire interest in property. There is an exception, however, for qualified conservation contributions.

A qualified conservation contribution is a contribution of a qualified real property interest to a governmental unit or public charity exclusively for any of the following conservation purposes: (1) the preservation of land areas for outdoor recreation by, or for the education of, the general public; (2) the protection of a relatively natural habitat of fish, wildlife, or plants, or similar ecosystem; (3) the preservation of open space (including farmland and forest land) where such preservation is (i) for the scenic enjoyment of the general public or (ii) pursuant to a clearly delineated Federal, State, or local governmental conservation policy; or (4) the preservation of an historically important land area or a certified historic structure. A real property interest is qualified for this purpose only if it is (1) the donor's entire interest other than a retained interest in subsurface oil, gas, or other minerals and the right of access to such minerals, (2) a remainder interest, or (3) a perpetual restriction on the use that can be made of the property.

Estate tax exclusion for qualified conservation easements

For Federal estate tax purposes, up to 40 percent of the value of land subject to a qualified conservation easement may be excluded from a decedent's estate at the election of the executor. The maximum exclusion permitted for qualified conservation easements is $500,000. In addition, if the value of the conservation easement is less than 30 percent of the value of the land (determined without regard to the value of the easement and reduced by the value of any retained development right), the exclusion percentage is reduced by two percentage points for each percentage point (or fraction thereof) by which the value of the qualified conservation easement is less than 30 percent of the value of the land.

A qualified conservation easement must meet the following requirements: (1) the land must be located within the U.S. or a possession of the U.S.; (2) the land must have been owned by the decedent or a member of the decedent's family at all times during the three-year period ending on the date of the decedent's death; and (3) a qualified conservation contribution of a qualified real property interest (see above) must have been granted by the decedent, a member of the decedent's family, the executor of the decedent's estate, or the trustee of a trust holding the land no later than the date of the executor's election. For this purpose, preservation of a historically important land area or a certified historic structure does not qualify as a conservation purpose. In addition, the qualified real property interest must include a prohibition on more than a de minimis use for a commercial recreational activity.

Property financed with acquisition indebtedness is eligible for the exclusion only to the extent of the net equity in the property, and the exclusion does not extend to the value of any development rights retained by the decedent or donor. To the extent the value of the land acquired at death is excluded from the decedent's estate under the qualified conservation easement rule, the land will receive a carryover rather than a stepped-up basis.

Cost-sharing payments

To further conservation, Federal and State governments implement a number of programs to share in taxpayers' costs of making improvements to land. These costs do not normally improve the income-producing capacity of the property.

To encourage participation in these programs, taxpayers may exclude certain payments received under these programs from their gross income. To qualify for exclusion, the payments must be made primarily for the purpose of conserving soil and water resources, protecting or restoring the environment, improving forests, or providing a habitat for wildlife and may not increase substantially the annual income derived from the property. Taxpayers claiming the exclusion may not increase the basis of the improved property by the excluded amount and may not claim any deduction or credit for any expenditure associated with the excluded payment.

Tax-exempt bonds

States and local governments may issue tax-exempt bonds for land conservation and preservation purposes so long as:

(1) no more than ten percent of the bond proceeds is used by private entities in a trade or business if payments or security associated with that use are available to pay principal or interest on the bonds; and (2) no more than five percent of the bond proceeds is loaned to private businesses or individuals. If these private activity requirements are not met, tax-exempt private activity bonds may nonetheless be issued, subject to per-State volume limits, for the following land conservation and preservation purposes: water, sewage, solid waste disposal, and hazardous waste facilities; and redevelopment infrastructure in blighted areas if the bonds are supported by incremental property taxes.

Administration budget proposals

The President's Budget for FY 2003 includes two proposals to improve upon these tax incentives and further encourage the restoration and preservation of America's land.

Brownfields remediation costs

The Administration believes that encouraging environmental remediation is an important national goal. The brownfields provision encourages the cleanup of contaminated brownfields, thereby enabling them to be brought into productive use in the economy and mitigating potential harms to public health. The current-law incentive was made temporary to encourage faster cleanup of brownfields. Experience has shown, however, that many taxpayers are unable to take advantage of the incentive because environmental remediation often extends over a number of years. For that reason, the President's budget proposed a permanent extension of the brownfields tax incentive. Extending the special treatment accorded to brownfields on a permanent basis would remove doubt among taxpayers as to the future deductibility of remediation expenditures and would promote the goal of encouraging environmental remediation. The Administration's brownfields proposal was introduced by Mr. Coyne and Mr. Weller as H.R. 1439.

The revenue cost of the proposal is estimated to be $1.1 billion over FY 2003-2007. Treasury estimates that the proposal, at a $300 million annual cost, will leverage approximately $2 billion per year in private investment and will return 4,000 brownfields per year to productive use.

Conservation sales

Some landowners may want their land to be protected for conservation purposes but cannot afford simply to donate either the land or an easement on the land, especially if the land is the landowner's primary salable asset. By adding an incentive for sales to qualified conservation groups, the President's Budget complements the existing provisions that encourage charitable donations. This proposal would encourage the sale of appreciated, environmentally sensitive land and land rights to qualified conservation groups, thus achieving conservation goals through voluntary sales of property, rather than imposing government regulation on land use. The proposal would achieve this goal by strengthening the ability of conservation groups to compete with other potential buyers of appreciated, environmentally sensitive land.

Under the Administration proposal, when land (or an interest in land or water) is voluntarily sold for conservation purposes (as defined below), only 50 percent of any capital gain would be included in the seller's income. The 50-percent exclusion is based on what the gain would have been without taking improvements into account (that is, the taxpayer may exclude 50 percent of the excess of (a) the purchase price allocable to the property other than improvements, over (b) the basis allocable to the property other than improvements). To be eligible for the partial exclusion, the sale must be to a qualified conservation organization. A qualified conservation organization is either a governmental unit or a charity that is a qualified organization under section 170(h)(3) and that is organized and operated primarily for conservation purposes. Conservation purposes are the preservation of land areas for outdoor recreation by, or the education of, the general public; the protection of a relatively natural habitat of fish, wildlife, or plants, or similar ecosystem; or the preservation of open space where the preservation is for the scenic enjoyment of the general public or pursuant to a clearly delineated Federal, State, or local governmental conservation policy.

The buyer must provide a written statement representing that it is a qualified conservation organization and that it intends to hold the property exclusively for conservation purposes and not to transfer it for valuable consideration other than to a qualified conservation organization in a transaction that would qualify for this 50 percent exclusion if the buyer/transferor were taxable. The partial exclusion would not be available for sales pursuant to a condemnation order but would apply to any gain recognized in a sale that is made in response to the threat or imminence of such an order. If the property sold is less than the taxpayer's entire interest in the property, it must satisfy requirements like those applicable to qualified conservation contributions under section 170(h). In addition, the taxpayer or a member of the taxpayer's family must have owned the property sold for the three years immediately preceding the date of the sale.

Similar proposals were introduced by Mr. Kolbe as H.R. 960 and by Mr. Portman (with a number of cosponsors) as H.R. 2290.

The provision would be effective for sales taking place on or after January 1, 2004. The revenue cost of the proposal is estimated to be $328 million over FY 2003-2007.

ENERGY-RELATED INCENTIVES

Current law tax incentives for energy efficiency and alternative fuels

Tax incentives currently provide an important element of support for energy-efficiency improvements and increased use of renewable and alternative fuels. Current incentives are estimated to total approximately $800 million for fiscal years 2003 through 2007. They include a tax credit for electric vehicles and expensing for clean-fuel vehicles, a tax credit for the production of electricity from wind or biomass, a tax credit for certain solar energy property, and an exclusion from gross income for certain energy conservation subsidies provided by public utilities to their customers.

Electric and clean-fuel vehicles and clean-fuel vehicle refueling property

A 10-percent tax credit is provided for the cost of a qualified electric vehicle, up to a maximum credit of $4,000. A qualified electric vehicle is a motor vehicle that is powered primarily by an electric motor drawing current from rechargeable batteries, fuel cells, or other portable sources of electric current, the original use of which commences with the taxpayer, and that is acquired for use by the taxpayer and not for resale. The full amount of the credit is available for purchases prior to 2004. The credit begins to phase down in 2004 and does not apply to vehicles placed in service after 2006.

Certain costs of qualified clean-fuel vehicles and clean-fuel vehicle refueling property may be deducted when such property is placed in service. Qualified electric vehicles do not qualify for the clean-fuel vehicle deduction. The deduction begins to phase down in 2004 and does not apply to property placed in service after 2006.

Energy from wind or biomass

A 1.5-cent-per-kilowatt-hour tax credit is provided for electricity produced from wind, "closed-loop" biomass (organic material from a plant that is planted exclusively for purposes of being used at a qualified facility to produce electricity), and poultry waste. The electricity must be sold to an unrelated person and the credit is limited to the first 10 years of production. The credit applies only to facilities placed in service before January 1, 2004. The credit amount is indexed for inflation after 1992.

Solar and geothermal energy

A 10-percent investment tax credit is provided to businesses for qualifying equipment that (1) uses solar energy to generate electricity, to heat or cool or provide hot water for use in a structure, or to provide solar process heat or (2) is used to produce, distribute, or use energy derived from a geothermal deposit.

Ethanol and renewable source methanol

An income tax credit and an excise tax exemption are provided for ethanol and renewable source methanol used as a fuel. In general, the income tax credit is 53 cents per gallon for ethanol and 60 cents per gallon for renewable source methanol. As an alternative to the income tax credit, gasohol blenders may claim an equivalent gasoline tax exemption for ethanol and renewable source methanol that is blended into qualifying gasohol.

The income tax credit expires on December 31, 2007, and the excise tax exemption expires on September 30, 2007. In addition, the ethanol credit and exemption are each reduced by 1 cent per gallon in 2003 and by an additional 1 cent per gallon in 2005. Neither the credit nor the exemption applies during any period in which motor fuel taxes dedicated to the Highway Trust Fund are limited to 4.3 cents per gallon. Under current law, the motor fuel tax dedicated to the Highway Trust Fund will be limited to 4.3 cents per gallon beginning on October 1, 2005.

Energy conservation subsidies

Subsidies provided by public utilities to their customers for the purchase or installation of energy conservation measures are excluded from the customers' gross income. An energy conservation measure is any installation or modification primarily designed to reduce consumption of electricity or natural gas or to improve the management of energy demand with respect to a dwelling unit.

Administration budget proposals

The Administration's budget for FY 2003 proposes a number of tax incentives for renewable energy and more efficient energy use. The budget also proposes to modify the tax treatment of nuclear decommissioning funds. The Administration's budget proposals are described below.[1]

Electricity from wind and biomass

The President's Budget proposed to extend the credit for electricity produced from wind and biomass for three years to facilities placed in service before January 1, 2005. This proposal has since been enacted, in part, by the Economic Security and Worker Assistance Act of 2002, which provides a two-year extension of the credit. In addition, the President's Budget proposes to expand eligible biomass sources to include certain biomass from forest-related resources, agricultural sources, and other specified sources. Special rules would apply to biomass facilities placed in service before January 1, 2002. Electricity produced at such facilities from newly eligible sources would be eligible for the credit only from January 1, 2002, through December 31, 2004. The credit for such electricity would be computed at a rate equal to 60 percent of the generally applicable rate. Electricity produced from newly eligible biomass co-fired in coal plants would also be eligible for the credit only from January 1, 2002, through December 31, 2004. The credit for such electricity would be computed at a rate equal to 30 percent of the generally applicable rate.

Residential solar energy systems

The President's Budget proposes a new tax credit for individuals who purchase solar energy equipment used to generate electricity (photovoltaic equipment) or heat water (solar water heating equipment) for use in a dwelling unit that the individual uses as a residence. The credit would be available only for equipment used exclusively for purposes other than heating swimming pools. The proposed credit would be equal to 15 percent of the cost of the equipment and its installation. The credit would be nonrefundable and an individual would be allowed a lifetime maximum credit of $2,000 per residence for photovoltaic equipment and $2,000 per residence for solar water heating equipment. The credit would apply only to solar water heating equipment placed in service after December 31, 2001, and before January 1, 2006, and to photovoltaic systems placed in service after December 31, 2001, and before January 1, 2008.

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[1] For a more detailed description, see *General Explanations of the Administration's Fiscal Year 2003 Revenue Proposals*, Department of the Treasury, February 2002.

Fuel from landfill methane

The President's Budget proposes to extend the section 29 credit for fuel produced from landfill methane produced at a facility (or portion of a facility) that is placed in service after December 31, 2001. Fuel produced at such facilities would be eligible for the credit through December 31, 2010. The proposal would also expand the credit by permitting the credit for fuel used by the taxpayer to produce electricity. The credit for fuel produced at landfills subject to EPA's 1996 New Source Performance Standards/Emissions Guidelines would be limited to two-thirds of the otherwise applicable amount. In the case of landfills with facilities that currently qualify for the section 29 credit, this limitation would not apply until after 2007.

Ethanol and renewable source methanol

The President's Budget proposes to extend the income tax credit and excise tax exemption for ethanol and renewable source methanol through December 31, 2010. The current law rule providing that neither the credit nor the exemption applies during any period in which motor fuel taxes dedicated to the Highway Trust Fund are limited to 4.3 cents per gallon would be retained. As under current law, the credit and the exemption would each be reduced by 1 cent per gallon in 2003 and by an additional 1 cent per gallon in 2005.

Hybrid and fuel cell vehicles

The President's Budget proposes to provide temporary tax credits for certain hybrid and fuel cell vehicles.

A credit of $250 to $4,000 would be available for purchases of qualifying hybrid vehicles after December 31, 2001, and before January 1, 2008. A hybrid vehicle is a vehicle that draws propulsion from both an on-board internal combustion or heat engine using combustible fuel and an on-board rechargeable energy storage system. To qualify for the minimum credit, a hybrid vehicle would be required to derive at least 5 percent of its maximum available power from the rechargeable energy storage system.

Larger credits would be available for vehicles that derive larger percentages of power from the rechargeable energy storage system and for vehicles that meet specified fuel economy standards.

A credit of $1,000 to $8,000 would be available for the purchase of qualifying fuel cell vehicles after December 31, 2001, and before January 1, 2008. A fuel cell vehicle is a motor vehicle propelled by power derived from one or more cells that convert chemical energy directly into electricity by combining oxygen with on-board hydrogen (including hydrogen produced from on-board fuel that requires reformation before use). To qualify for the minimum credit, a fuel cell vehicle would be required to meet a minimum fuel economy standard for its weight class. Larger credits would be available for vehicles that achieve higher fuel economy standards.

Combined heat and power systems

To encourage more efficient energy usage, the President's Budget proposes to provide a 10-percent investment credit for qualifying combined heat and power (CHP) systems. CHP systems are used to produce electricity (and/or mechanical power) and usable heat from the same primary energy source. To qualify for the credit, a system would be required to produce at least 20 percent of its total useful energy in the form of thermal energy and at least 20 percent in the form of electrical and/or mechanical power and would also be required to satisfy an energy efficiency standard. The credit would apply to CHP equipment placed in service after December 31, 2001, and before January 1, 2007.

Nuclear decommissioning funds

The President's Budget proposes to repeal the current law provision that limits deductible contributions to a nuclear decommissioning fund to the amount included in the taxpayer's cost of service for ratemaking purposes. Thus, unregulated taxpayers would be allowed a deduction for amounts contributed to a qualified nuclear decommissioning fund. The Administration also proposes to permit funding of all decommissioning costs (including pre-1984 costs) through qualified nuclear decommissioning funds. Contributions to fund pre-1984 costs would be deductible except to the extent a deduction (other than under the qualified fund rules) or an exclusion from income has been previously allowed with respect to those costs. The Administration's proposal would clarify that any transfer of a qualified nuclear decommissioning fund in connection with the transfer of the power plant with which it is associated would be nontaxable and no gain or loss will be recognized by the transferor or transferee as a result of the transfer. In addition, the proposal would permit taxpayers to make deductible contributions to a qualified fund after the end of the nuclear power plant's estimated useful life and would provide that nuclear decommissioning costs are deductible when paid.

SAFE Act

The Administration is pleased that the House, following the lead of this Committee, has passed H.R. 4, the Securing America's Future Energy Act of 2001. The Administration said, when the House was considering H.R. 4, that it was an important step in ensuring the Nation's energy security. We should also note that the inclusion in H.R. 4 of incentives from the President's budget to encourage conservation, energy efficiency, and the use of renewable and alternative energy sources advances vital elements of the Administration's environmental initiatives.

CONCLUSION

Mr. Chairman, we believe that the Administration's proposed tax initiatives represent sound policy that can produce significant environmental benefits for decades to come. While this concludes my prepared testimony. I will be pleased to answer any questions you or other members of the Subcommittee may have.

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
April 30, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	May 02, 2002
Maturity Date:	May 30, 2002
CUSIP Number:	912795JW2

High Rate: 1.735% Investment Rate 1/: 1.762% Price: 99.865

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 39.71%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 39,365,600	$ 15,974,510
Noncompetitive	25,495	25,495
FIMA (noncompetitive)	0	0
SUBTOTAL	39,391,095	16,000,005
Federal Reserve	1,818,734	1,818,734
TOTAL	$ 41,209,829	$ 17,818,739

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 = 39,391,095 / 16,000,005 = 2.46

1/ Equivalent coupon-issue yield.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 9:45 A.M. EDT
Wednesday, May 1, 2002

Contact: Michele Davis
(202) 622-2960

TESTIMONY OF TREASURY SECRETARY PAUL H. O'NEILL BEFORE THE SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

Chairman Sarbanes, ranking member Gramm, members of the Banking Committee, I thank you for this opportunity to appear before you this morning to discuss our international economic policy.

The April 2002 Report reviews global economic developments in the second half of 2001. This interval and the most recent months encompass a turbulent period in which the events of September 11 and their aftermath shook the U.S. and world economies, and a period when the underlying strength in the U.S. economy showed itself forcefully, leading the world back to recovery. I have said before that creating economic growth and jobs in the U.S. economy is our overriding concern and that getting our economic policies right at home is one of the best contributions we can make to global economic growth.

Increasing economic growth and reducing economic instability are vital interests of the United States. For this reason, I would like to touch on several of the Administration's broad policy initiatives for facilitating growth and stability.

Reducing Barriers to International Trade

The global economic slowdown, from which we are recovering, brings into sharp focus the importance of international trade. Total U.S. trade in goods and services amounts to about one quarter of GDP. It now touches almost all parts of our economy and is a vital ingredient in its health, creating millions of jobs that pay above-average wages.

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.

PO-3062

An FTAA, when combined with existing free trade agreements, and bilateral FTAs with Chile and Singapore, will fully open market access overseas for nearly 50 percent of U.S. exports.

Treasury has a special interest in promoting further liberalization of trade in financial services. The growth potential in many countries is being held back by a lack of deep and liquid capital markets. The swift removal of barriers in key markets will help strengthen financial systems internationally. It will also mean more American jobs in a sector with above-average wages.

In sum, both to help bolster growth and create new export and job opportunities for America, it is vital for the Senate to pass, and the Congress to expeditiously enact, Trade Promotion Authority.

Reform of the International Monetary Fund

The primary role of the International Monetary Fund is to foster conditions in the international economic and financial system that support growth. First and foremost, the IMF must seek to prevent crises that undermine and reverse growth. The IMF is making progress in enhancing crisis prevention, including through increased transparency. For example, nearly all countries borrowing from the IMF now release the details of their reform programs, but more steps are needed to release information and encourage policy-makers to take quick action to avert potential crises. Indeed, no matter how good the IMF's analysis and policy advice are, their impact will be limited if they do not serve to inform the public and markets. We look forward to further progress on transparency in coming months.

To help prevent financial crises and better resolve them when they occur, we are working with others in the official sector to implement a market-oriented approach to the sovereign debt restructuring process. This contractual approach would incorporate new clauses, which would describe as precisely as possible what would happen in the event of a sovereign debt restructuring process, into debt contracts. We have proposed three clauses: super-majority decision-making by creditors; a process by which a sovereign would initiate a restructuring or rescheduling - including a cooling-off, or standstill, period; and a description of how creditors would engage with borrowers. While we believe it is important to move forward with this contractual approach as expeditiously as possible, we also support continued work on the IMF's statutory approach to sovereign debt restructuring. We believe the two approaches are complementary.

Reform of the Multilateral Development Banks:

Rising productivity is the driving force behind increases in economic growth and rising per capita income. The multilateral development banks (MDBs) can deliver better results by being rigorously selective in their lending, focusing their activities on a discrete set of high-impact, productivity-enhancing activities that diversify the sources of growth, foster competitive and open markets, promote accountable governance, raise human productivity, and expand access of the poor to physical infrastructure, new productive technologies and social services.

Education and private sector development in particular need to feature more prominently as a critical element in lifting people out of poverty.

Private capital flows now dwarf official development assistance; the challenge is to deploy development assistance in areas where we know it will unleash the entrepreneurial and creative capacities of people living in the poorest countries and encourage individual investment. Investment climate reforms and capacity-building at the government and enterprise level should be at the front and center of development policies. 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. Delivering results means insisting on rigorous quantifiable measures of each aid project and accountability from each aid institution's impact in improving living standards. An incentive structure must exist where performance will be rewarded and non-performance will not. The U.S. has proposed such a structure for the IDA-13 replenishment in which the U.S. base-case annual contribution to IDA can be increased if specified input and output triggers are met in priority growth and poverty-reduction areas such as private sector development, primary education and health.

President Bush 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. 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. Grants are the best way to help poor countries make such productive investments without saddling them with ever-larger debt burdens.

Millennium Challenge Account

Effective assistance means delivering against a set of priority objectives that is measurable. It requires a solid partnership between donors and client countries on priority reforms that drive growth and poverty reduction, while underscoring the need to measure the impact and accountability of those reforms.

On March 14, President Bush outlined a major new vision for development based on the shared interests of developed nations alike in peace, security, and prosperity.

The President's compact for global development proposes a truly historic, shared commitment to stop the cycle of poverty in the developing world and is defined by a new partnership between developed and developing countries to achieve measurable development results.

The compact creates a separate development assistance account called the Millennium Challenge Account. It will be funded by substantial increases over and above the approximately $10 billion in existing U.S. development assistance (better known as Official Development Assistance or ODA).

To take advantage of Millennium Challenge Account funds, developing countries must be committed to sound policies that promote growth and development, including the need to fight poverty. We will channel these funds only to developing countries that demonstrate a strong commitment to:

- governing justly (e.g., rule of law, anti-corruption measures, upholding human rights)
- investing in people (e.g., investment in education and healthcare)
- economic freedom (e.g., more open markets, sustainable budget policies, strong support for development, policies promoting enterprise).

Experience has shown that policies that are effective in promoting these goals underpin successful growth, productivity increases, and poverty reduction. Further, these goals are mutually reinforcing.

Over the coming months we will be asking for ideas from our development partners – donors, developing countries, academics, NGOs – on developing a set of clear, concrete and objective criteria for measuring progress in these areas.

Combating Financing of Terrorism

Depriving terrorists of financial resources is critical to the war on terrorism. The President has directed me to take all measures necessary to pursue this goal.

On 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 202 individuals and entities. To date, all but a handful of countries have committed to join this effort. There are now 161 countries and jurisdictions that 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.

On April 19, I announced with my counterparts from the Group of Seven an unprecedented joint listing of terrorist targets. In March, the U.S. and Saudi Arabia designated jointly the Bosnia and Somalia offices of the Saudi-based charity Al-Haramain. These joint designations mark a new level of coordination in the fight against international terrorism.

Cooperation 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.

The United States has bilateral income tax treaties with approximately 60 countries. The purpose of those treaties is 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 are working to update and modernize existing tax treaties and to expand our treaty network.

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. This can be done more efficiently, given the increasingly global nature of economic activities, with the cooperation of other countries. Currently, we have effective tax information exchange arrangements with many of the world's financial centers. We are working to extend and deepen this network.

International Economic Conditions

I would like to turn now to global economic conditions.

As you know, the U.S. economy began slowing in the summer of 2000 and this weakness extended through the first half of 2001. Then, the terrorist attacks of September 11 set off disruptions that quickly swept through our economy. The events battered consumption as consumers stayed at home, and with our passenger transport system significantly impacted, many associated industries such as tourism and hotels were badly hit. Activity fell at a 1.3% annual rate in the third quarter.

Prior to September 11, I had been optimistic about the prospects for U.S. recovery. My optimism now appears to have been well justified. The fourth quarter showed a healthy rebound at a 1.7% annual rate. Economic indicators for 2002 already paint a hopeful picture of an economy bouncing back. I believe that the data will show in the final analysis that last year's downturn in real GDP will be the shortest, shallowest on record.

Why was the optimistic view well founded? Even before September 11, the economy appeared to be moving forward at a slow, but positive rate. The inventory overhang was being reduced.

The Administration and Congress had responded with timely relief action. The tax rebates and rate cuts from the Economic Growth and Tax Relief Reconciliation Act of 2001 had put money in people's pockets and increased incentives in the economy to work, save and invest. The Federal Reserve had aggressively lowered interest rates and energy prices were then coming down.

Most importantly, the fundamental strengths of our economic system remain well intact – the American people are hard working; our markets are the most flexible and dynamic in the world; and our macroeconomic policies are sound. Our economy is the most advanced in the world because our economic structures are predicated on the recognition that the private sector drives growth, and that the role of government is to provide a framework that promotes competition and encourages individual decision making. This has produced, among other things, financial markets that are the deepest and most liquid in the world.

The confluence of these factors is reflected in the remarkable productivity growth of our economy. Unlike in past recessions, productivity continued to rise last year and posted an extraordinary 5.2% gain at an annual rate in the fourth quarter. Meanwhile, trend productivity growth remains around 2-1/2%, sharply higher than the 1-1/2 percent trend rate from 1973 through 1995, keeping inflation pressures well at bay.

I am convinced that the United States has regained its economic footing. In fact, the figures released just last week showed real GDP rising at an exceptionally strong 5.8% annual rate. This performance is a testimony to the inherent resilience of our economy that over the past six months has continually surprised on the upside.

So far, I have focussed on the United States. The world economy, while beginning to recover from the recent slowdown, is still in the early stage of recovery. Last year, global growth was highly anemic, at roughly 2-1/2%. Prospects for 2002 are somewhat better but strong growth may not be fully visible until the second half of the year.

Before becoming the Secretary of the Treasury, I had the pleasure of gaining a special appreciation for the strength of the Japanese economy and its people. Over the last decade, however, Japan's economic performance has been well below its potential. The resulting cost has been high not only for Japan, but also for the world economy. Restoring strong Japanese growth is one of the keys to unlocking strong global growth.

President Bush has expressed support for Prime Minister Koizumi's commitment to reform. The United States also shares his view that it is important for Japan to increase price competition through deregulation and structural reform and to vigorously tackle its banking sector problems. We in the United States learned from the S&L crisis the importance of comprehensively addressing banking sector problems and returning distressed assets to private hands by selling loan claims and underlying collateral rapidly in the market.

We also learned that these reforms can take place only in a supportive macroeconomic environment. For the last seven years, except for 1997 in response to a one-time tax increase, Japan's economy has been mired in deflation. Last March, the Bank of Japan committed to expand the money supply until the CPI was either stable or increased slightly on a year on year basis. Since then, a welcome and sharp expansion in monetary aggregates has indeed taken place. So far, however, deflation remains entrenched.

The Euro-zone recorded its best growth in a decade in 2000. Going into 2001, there was substantial optimism that the foundations for sustained growth were well in place. But despite these expectations, Euro-zone growth slowed markedly and was negative in the fourth quarter. While Europe too was affected by the events of September 11, Europe's slowdown in 2001 underscored the fact that the interactions and transmission mechanisms among our economies run deep and extend well beyond the realm of trade.

The Euro-zone is poised to begin growing anew. However, the consensus outlook is that the recovery will lag and be slower than the U.S. upturn. That said, it is in many respects difficult to speak about the Euro-area as a single entity. Indeed, there are many successful pockets of reform, such as Ireland, Spain, and the Netherlands. But European policy-makers recognize the need more generally to implement tax reforms within the context of efforts aimed at achieving medium-term fiscal stability and to undertake structural reforms targeted especially at increasing employment and raising potential growth.

On April 19-20, I hosted a meeting of the G-7 Finance Ministers and Central Bank Governors. We recognized that a recovery is already underway in our economies, influenced by macroeconomic policies put in place last year. Nonetheless, while confident about our collective prospects, we also agreed that downside risks remain, especially those arising from oil markets. In this spirit, we agreed that each of our countries has a responsibility to implement sound macroeconomic policies and structural reforms to sustain recovery and support strengthened productivity growth in our own economies and in the global economy.

The U.S. current account deficit was around 1 1/2% of GDP in the mid-1990s. It rose to 4 1/2% in 2000 before falling, during last year's global slowdown, to just over 4% in 2001. We have all heard the view that this is a threat to America's economic fortunes and global financial stability. I believe this view ignores forces that are working in the market. The current account represents the gap between domestic savings and investment and has grown in the face of a productivity-fed U.S. investment boom for the past decade. It is financed by international capital inflows that have risen over this period due to strong foreign interest in investing in the United States.

In the last two years, these capital inflows were sustained despite a slowing of U.S. economic activity, a fall in U.S. interest rates, and a decline in equity prices. This is a clear demonstration that foreigners regard investment in the United States as continuing to offer extremely attractive rates of return. These inflows are attracted by the long term soundness and relative strength of our economy's fundamentals: our underlying productivity growth, our low inflation and sound macroeconomic policies, our flexible labor markets, and our financial markets which are the deepest and most liquid of any in the world. As I often say, these investments in our economy's future are not a gift. They are made because of the prospect of a sound return.

Emerging market and developing economies also felt the effects of the slowdown in the major economies in 2001, and their prospects were also set back by the uncertainties stemming from the events of September 11. However, I am hopeful that their prospects will brighten over the course of this year. The truth is that many emerging markets have not performed well in recent years and investment flows going to these markets have declined sharply. On the positive side, though, many emerging market economies are now better able to withstand external shocks, having reduced short-term external liabilities and built up reserves. Many countries, such as Brazil, Indonesia and South Korea, have moved to more flexible exchange rates regimes, which allow their exchange rates to absorb the brunt of external shocks. I think there is a much greater appreciation throughout these countries on the need to run sound policies. And there has been very little contagion from recent events in Argentina.

I would also like to submit for the record the Report to Congress on International Economic and Exchange Rate Policies as mandated by Section 3004 of the Omnibus Trade and Competitiveness Act of 1988.

In conclusion, I thank you again for this opportunity to testify before you. I would be delighted to take any questions you might have.

DEPARTMENT OF THE TREASURY

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For Immediate Release
Tuesday, April 30, 2002

Contact: Robert Nichols
(202) 622-2910

DEPUTY U.S. TREASURY SECRETARY KENNETH DAM ANNOUNCES TRIP TO ASIA

Deputy Secretary Dam will travel to Malaysia, China and South Korea May 4-14, 2002.

During his trip Dam will discuss financial sector reform, growth and openness. In high-level discussions with a wide array of senior government officials and private sector political, financial and economic experts, Dam will raise the importance of greater openness to trade in financial services and will promote its impact on economic growth and stability in those markets that embrace it.

Dam will also represent the United States at the Asian Development Bank meeting in China.

This is Dam's second trip to Asia in six months. In December 2001, Dam traveled to Japan to discuss a range of steps supportive of strong economic growth and collaborative efforts to stop terrorist financing.

Assistant Secretary for Economic Policy Richard Clarida will join other treasury officials in accompanying Dam.

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FOR IMMEDIATE RELEASE
April 30, 2002

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ATSB Board Names Daniel G. Montgomery as New Executive Director; Joseph P. Adams, Jr. Will Continue to Serve Board as Consultant

WASHINGTON, DC -- The Air Transportation Stabilization Board (ATSB), authorized by Congress to issue Federal loan guarantees to air carriers that suffered losses due to terrorist attacks on September 11, 2001, has named Daniel G. Montgomery as its Executive Director.

Mr. Montgomery is replacing Joseph P. Adams, Jr., who will return to Brera Capital Partners, a New York City-based investment firm from which he was on leave. Mr. Adams will continue to act as a consultant to the Board, advising on airline industry matters.

Mr. Montgomery has been a Managing Director with the ATSB since March 11. Prior to joining the ATSB, he served as a Managing Director in the loan structuring and syndications group of Banc of America Securities, the investment banking and brokerage arm of Bank of America. During his 11 years with Bank of America, he focused on leveraged finance and corporate restructurings. A 1987 graduate of Georgetown University, Mr. Montgomery earned an M.B.A. from the University of Texas in 1991.

The Chairman of the ATSB, Federal Reserve Board Governor Edward M. Gramlich, said "We are delighted that Dan Montgomery has agreed to take over as Executive Director. He brings significant expertise to the Board and will play a vital role in completing the Board's work."

Governor Gramlich also said, "I want to express the Board's gratitude to Joe Adams for his invaluable contributions at a critical time to the ATSB and the nation's airline industry and for his tireless work in establishing an effective organization on which the Board can continue to rely in fulfilling its important mission."

PO-3064

The ATSB, established as part of the Air Transportation Safety and System Stabilization Act signed into law September 22, consists of designees of Federal Reserve Board Chairman Alan Greenspan, Treasury Secretary Paul O'Neill and Transportation Secretary Norman Mineta. The designees are Federal Reserve Board Governor Edward M. Gramlich, Treasury Under Secretary for Domestic Finance Peter R. Fisher and Department of Transportation General Counsel Kirk K. Van Tine. David Walker, Comptroller General of the United States, is a non-voting member of the Board.

Additional information about the ATSB is available on its web site, www.treas.gov/atsb.

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