Department of the Treasury

PRESS RELEASES

The following numbers were not used:
3142, 3190
The following numbers are not available:
3097, 3194
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 9:00 A.M. EDT
May 1, 2002

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TREASURY STATEMENT ON THE DEBT CEILING

This morning the Treasury issued its quarterly refunding statement, reflecting revised projections of the government's borrowing needs for the remainder of the 2002 fiscal year. Under these projections, debt subject to limit is expected to reach the statutory ceiling of $5,950 billion in mid-May and will remain above the current debt ceiling thereafter.

If the statutory debt ceiling has not been raised by mid-May, the Treasury will have to begin to use a number of stopgap devices to manage debt subject to limit which have been previously utilized under established legal authority.

On current projections, this additional limited borrowing capacity would only be adequate to meet the government's needs until the latter half of June, when regularly scheduled payments to the Social Security and other government trust funds will require the Treasury to borrow beyond this additional, limited capacity.

The Treasury will continue to work with Congress to enact the President's request for a permanent $750 billion increase in the debt ceiling. The Treasury will strive to maintain its regular auction calendar while meeting the financing needs of the federal government.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
Wednesday, May 1, 2002

Contact: Tasia Scolinos
(202) 622-2960

TESTIMONY OF KENNETH LAWSON
ASSISTANT SECRETARY
OFFICE OF ENFORCEMENT
U.S. DEPARTMENT OF THE TREASURY
THE SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS AND INTERNATIONAL RELATIONS
"RIGHTSIZING THE US PRESENCE ABROAD"

Mr. Chairman and distinguished members of the Subcommittee, thank you for this opportunity to describe the Department of the Treasury's strategy and procedures used to coordinate the placement of overseas personnel with the Department of State.

The Office of Enforcement along with the Office of International Affairs, at Main Treasury, and several key bureaus of the Treasury Department, have had an international presence for more than fifty years. Each office has a direct strategic, supportive or crucial enforcement role in implementing US Government policy, yet an ongoing review of positions abroad is vital for security, cost and policy reasons. Moreover, this is a timely subject given our country's ongoing efforts to combat the global scourge of terrorism, both at home and abroad. The demands on our resources abroad are expanding and the need to coordinate the Treasury Department's efforts to protect our homeland with the Department of State and other departments and agencies is essential. Our ability to share information, work directly with foreign counterparts, and the ability to react quickly to changing trends is essential not only for our battle against terrorism but for other critical missions such as controlling transnational criminal behavior, promoting U.S. interests in foreign markets, and providing essential technical assistance and training to our counterparts overseas.

Mr. Chairman, allow me then to address the issues you raised in your invitation letter. I will offer you background on Treasury's overseas presence as well as a brief description of how our efforts and strategies are coordinated with the Department of State.

BACKGROUND ON OVERSEAS PRESENCE

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

- Support the establishment and consolidation of democracies; and
- Uphold rights.

Our efforts abroad, therefore, and our strategic placement of personnel are guided by these objectives. Though we have continued to focus on all of these missions, the critical and global nature of the terrorist threat the United States is facing and the seminal role that the Treasury Department and its Bureaus play in these efforts have required that we emphasize our Enforcement efforts abroad with respect to attacking all aspects of terrorism.

Mission Performance Planning

Treasury's overseas staffs contribute directly to their respective embassy annual work plans, called Mission Performance Plans (MPPs). Treasury officials here in Washington receive and review these plans and provide the State Department, other Federal agencies, and the embassies with recommendations on program performance and resource levels.

Embassy Construction

Treasury officials meet routinely with State Department program and overseas buildings operations staff to ensure that Treasury presence at posts where major construction is planned is appropriate and sized right to accomplish Treasury's missions.

Reporting on Treasury Presence Overseas

The Department of the Treasury reports annually to the State Department on the number of staff positions, by Treasury component (bureau, office), by embassy/consulate, with proposed changes for the next three years.

Chief of Mission and Agency Approval: Treasury Presence Overseas

The Department of the Treasury follows the interagency clearance process to secure the approval of the U.S. Ambassador (officially called the Chief of Mission). Treasury submits detailed justification for all proposed overseas staffing changes, additions or subtractions, to the Chief of Mission, with a copy to the Department of State. State officials also provide to the Chief of Mission and to the Department of the Treasury, its views on the necessity of overseas staffing changes proposed by Treasury.

TREASURY OVERSEAS PRESENCE

The increasing demands on the Treasury regarding homeland security, terrorist financing, and international financial markets requires a vibrant overseas Treasury presence.

It is important to note that this total includes Americans posted abroad, local hires, foreign national and personal contractors. The breakdown of Treasury personnel abroad as reported to OMB is as follows:

- Departmental Offices, including technical assistance, personnel total 112 persons;
- The Customs Service accounts for a total of 369 persons abroad;
- The U.S. Secret Service has a total of 93 persons abroad;
- The Bureaus of Alcohol, Tobacco, and Firearms accounts for 5 persons abroad
- The Internal Revenue Service, both civil and criminal divisions, has 58 persons abroad; and
- The Office of Comptroller of Currency (OCC) has 4 bank examiners stationed in London.

Challenges After September 11th: Actions and Increased Workload Internationally

After the horrific attacks of September 11, 2001, the nation focused its attention on the global terrorist threat presented by al-Qaida and other related groups. For the Treasury Department this meant increasing security at the borders and in cyberspace, devising aggressive efforts to better screen outbound and inbound passengers and cargo, and attacking terrorist financing at the operational and systemic level.

Terrorist Financing

As you are aware, Mr. Chairman, on September 24, 2001, President Bush stated, "We will direct every resource at our command to win the war against terrorists, every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence. We will starve the terrorists of funding." The President directed the Department of the Treasury to lead the nation's war against terrorist financing -- to identify, disrupt, and dismantle global terrorist financing networks.

Treasury, in close partnership with the State Department, the Defense Department, the Department of Justice, the Federal Bureau of Investigation, the intelligence community, and many other parts of the federal government, has been dealing with terrorist financing on multiple levels since September 11th. We have concentrated much of our efforts and resources on identifying, tracing, and blocking terrorist-related assets. In this endeavor, we have collected the financial expertise, information, and authorities that are unique to the Treasury Department to attack terrorist financing on all fronts. We have also engaged the world, in bilateral and multilateral fora, to ensure international cooperation in our anti-terrorist campaign. All of these efforts have required continued international cooperation and coordination at the operational, financial, and structural levels. Allow me to highlight briefly the efforts the Treasury Department has taken to date to tackle the global problem of terrorist financing.

In furtherance of this mandate, the President issued Executive Order (E.O.) 13224 on September 24, 2001, which grants the Secretary of the Treasury, in consultation with the Attorney General and the Secretary of State, the authority to block the assets of individuals who support or finance terrorist groups. To date, the United States has designated 202 entities and individuals as terrorists or terrorist supporters under this Executive Order and frozen approximately $34 million in assets. Internationally, 161 countries/jurisdictions have blocking orders in force and over $70 million in terrorist assets have been blocked internationally. A portion of the amount linked to the Taliban has recently been unblocked for use by the new Afghan Interim Authority.

The international scope of this effort is exemplified best in two recent designations. On April 19, 2002, the G-7 Finance Ministers jointly designated 9 individuals and 1 entity as terrorists or supporters related to al-Qaida. This was the first joint list created and affected multilaterally. Prior to that designation, the United States and the Kingdom of Saudi Arabia took a historic step on March 11, 2002, by jointly designating the Bosnian and Somali branches of the Saudi-based charity, al Haramain.

These blocking actions internationally are complemented by our work to ensure that the international financial system is not corrupted by those who would use funds to support terrorist groups. We have worked closely with the U.N. Counter-terrorism Committee, the G-7, G-8, G-20, regional groups like the European Union, the Asia Pacific Economic Community (APEC), and the Association of Southeast Asian Nations (ASEAN) (as well as the international financial institutions and regional banks) to confront the systemic and regulatory issues to secure the international financial system and to promote changes in nation's laws to facilitate the battle against terrorist financing.

The prime example of this work comes from our leadership in the Financial Action Task Force (FATF) on Money Laundering, which is now committed to the fight against terrorist financing. At the October 2001 Special Plenary in Washington, D.C., FATF issued 8 Special Recommendations regarding terrorist financing that are quickly becoming the international standard by which countries should address terrorist financing. In addition, the leadership of the Financial Crimes Enforcement Network (FinCEN) in the Egmont Group of Financial Intelligence Units (FIUs) to create expedited ways of sharing information has important in following the money trail.

The work on these fronts is complemented by the Treasury's commitment to provide training and technical assistance to our counterparts abroad in law enforcement and finance ministries and central banks to ensure that they have the means to attack terrorist financing. This is an important component of our long-term strategy since we must help countries meet the demands of the international community and give them the tools to combat terrorist financing in a way that will benefit the entire global community.

Expanded Efforts Internationally

As noted, our fight against terrorist financing is a global effort. As a result, we have engaged in increased activities abroad that are critical to our mission.

Operation Green Quest

October 25, 2001, Treasury created Operation Green Quest ("Green Quest"), a new multi-agency financial enforcement initiative intended "to augment existing counter-terrorist efforts by bringing the full scope of the government's financial expertise to bear against systems, individuals, and organizations that serve as sources of terrorist funding." In conjunction with OFAC, Green Quest is aimed at identifying, freezing and seizing the accounts and assets of terrorist organizations that pose a threat to the United States and to all nations of the world. This task force is led by the Customs Service, and includes the Internal Revenue Service, the Secret Service, the Bureau of Alcohol Tobacco and Firearms (ATF), Treasury's Office of Foreign Asset Control (OFAC), Financial Crimes Enforcement Network (FinCEN), the Postal Inspection Service, the Federal Bureau of Investigation (FBI), the Department of Justice, and the Naval Criminal Investigative Service (NCIS). Green Quest brings together the extensive financial expertise of the Treasury Bureaus along with the exceptional experience of our partner agencies and departments to focus on terrorist financing.

Green Quest has complemented the work of OFAC in identifying terrorist networks at home and abroad, and it has served as an investigative arm in aid of blocking actions. Green Quest's work has led to 12 arrests, 6 indictments, the seizure of nearly $4.4 million, and bulk cash seizures-cash smuggling-of over $12.5 million.

Much of the work being conducted by Green Quest, along with the FBI and other government agencies, has concentrated on international collaboration. Green Quest agents have traveled abroad to follow leads, exploit documents recovered, and provide assistance to foreign governments. In this effort, Green Quest has made full use of overseas Customs Attachés and other international assets to investigate suspect networks and to gather information for its own use and the use of OFAC. Green Quest's work, in combination with the work of OFAC, serves as a seminal part of our international enforcement efforts.

Office of Foreign Asset Control (OFAC)

The President's September 23rd Executive Order greatly expanded the ability of OFAC to block the assets of all property and interests in property, in the United States or within the possession or control of a U.S. person, of foreign individuals and entities determined by the President to have engaged in, threatened or supported grave acts of terrorism against the United States or U.S. nationals. The powers derived from this Executive Order have formed the heart of the U.S. efforts to block terrorist-related assets domestically and internationally. As a result of the need to effect blocking efforts internationally, OFAC has engaged in numerous overseas missions to discuss relevant compliance issues with allies abroad. For example, OFAC currently has an analyst serving in Riyadh to help with the ongoing cooperation on the financial front with the Kingdom of Saudi Arabia.

Task Force on Terrorist Financing

After September 11th, the Treasury established a task force to work with countries and monitor their efforts to track and block terrorists' financial assets. This task force is composed of international economists and financial analysts from International Affairs and Enforcement's Office of Foreign Asset Control. Treasury enlisted support from ministries of finance and central banks around the world to assist efforts to immobilize and/or confiscate the financial assets of terrorist organizations and deny such organizations use of the international banking system.

Certain countries crucial to this effort have expressed the desire to cooperate more fully with the United States, but they do not possess the investigative apparatus to identify financial assets belonging to terrorist organizations, nor do they have the legal framework necessary to freeze the bank accounts of these organizations. As a result, $3 million in Emergency Response Funds were made available to Treasury's Office of International Affairs to assist foreign governments, primarily their finance ministries and central banks, in combating terrorist financing. Most of the current funding is being used to train staff of foreign governments (anti-terrorism, financial investigations, money laundering) in country, using short -term advisors. Treasury has already placed a resident advisor in Kabul, Afghanistan to monitor aid donations and expenditures by the Afghan Finance Ministry.

Economic and Financial Analysis Overseas

Treasury financial attaches play a critical role in the development of US international economic policy by deepening our understanding of macroeconomic and financial market developments and policies and their potential implications for U.S. national interests. Financial attaches develop extensive contacts with finance ministries, foreign regulatory authorities, central banks, and financial market participants that offer a unique view of market developments in their respective countries. This unique perspective lends itself to a more thorough understanding of potential policy implications and a more rapid translation of new U.S. policy on the ground, a critical capability given today's rapidly changing market conditions.

Financial Crime is Global

The Treasury is using its assets abroad to deal not only with terrorist financing and terrorism generally but also to deal with transnational crime, which often forms a nexus with terrorist groups. The following is a synopsis of the work being done abroad and the overarching strategies of the Treasury Bureaus charged with protecting the U.S. financial system and trade.

United States Secret Service

As you know, Mr. Chairman, the Secret Service's investigative roots began with its creation in 1865 to suppress counterfeiting. In addition to the demands of the Secret Service's protective mission, the Secret Service continues to provide the nation with a very productive and efficient investigative program. The thrust of the Secret Service's investigative efforts and authority is to protect our currency and financial and banking systems from criminal acts or from attacks used as tools component of our homeland security. The financial infrastructure and confidence in that infrastructure is critical. Furthermore, as the association between terrorist activities/funding and transnational identity fraud, financial institution fraud and counterfeiting becomes more apparent, the role of the Secret Service's investigative resources and expertise will have long reaching benefits that will directly impact homeland security on all fronts.

The Secret Service is extremely active in cooperative investigations with foreign law enforcement authorities regarding the counterfeiting of U.S. currency, and has extraterritorial jurisdiction to prosecute foreign counterfeiters in the United States under Title 18 USC 470. The Service is the sole U.S. law enforcement agency responsible for protecting our nation's currency. There is no concurrent or overlapping jurisdiction regarding U.S. currency in this area. Our 18 current Foreign Post of Duty with 46 authorized agents and 93 total authorized positions, and our presence at INTERPOL, have established liaison and enhanced coordination of investigative efforts with foreign law enforcement, and as a result the Secret Service has been increasingly successful in suppressing the counterfeiting of U.S. currency overseas and protecting our nation's financial systems.

Where permanent assignments are not available, the Secret Service relies on temporary overseas assignments to satisfy the requests for participation in overseas financial crimes and counterfeit task forces. Within the last two years alone, our work through temporary assignments in Lagos, Bucharest and Frankfurt has resulted in the opening of permanent offices. The temporary duty concept allows us to conduct a survey in a specific area to determine if the cost of opening a field office in that country is warranted.

A Recurring Temporary Assignment (RTA) allows for the establishment of relationships within the law enforcement and embassy communities. This is especially important if the Service realizes a need to commit assets on a long-term basis (2+ years), be it by long-term RTA or establishment of a permanent Foreign Post of Duty (FPD). The relationships that were established during the cooperative period serve to forge the framework for embassy and host governmental approval for the formal establishment of an office.

The continued "dollarization" of foreign economies has resulted in an increase in the number of countries that utilize the U.S. dollar as the base of their financial operating system. The darker side of the "dollarization" process has already been observed in the countries that are contiguous with Colombia, as the counterfeiters have spread across the borders and into those nations.

The Secret Service's presence in that area of the world has primarily been one confined to providing anti-counterfeiting training and staffing RTA (e.g., Bogotá). We believe that this effort has been successful in maintaining a controlling hand over rising levels of problems to date, but that a greater effort will be required in the near future as other nations "dollarize". In addition to the regional expansion of counterfeit-related activities, there are international counterfeiting concerns affiliated with "dollarization," as can be seen in Spain with a rise in the importation of counterfeit U.S. currency from South America.

It must be stated that the new Foreign Post of Duty would bring to bear Secret Service assets to contend with other core USSS investigative responsibilities. Today, electronic payment systems are the new lifeblood of international business, and they too are subject to compromise and counterfeiting, more frequently through the use of computers and computer technology. The Secret Service anticipates additional investigative and enforcement responsibilities in the area of alternative money or electronic cash, also referred to as e-cash. The Financial Crimes Division attempts to forecast vulnerabilities in these emerging payment systems that will be exploited by criminal elements, such as al Qaida, on a global scale. The Service, through its current complement of Foreign Posts of Duty, continues to interface with financial industries and law enforcement, domestically and abroad, in pursuit of our criminal enforcement responsibilities and our proactive risk analysis based programs.

These financial crimes can range in complexity and severity from a fraudulent credit card transaction at a retail store located anywhere in the world, to a bank fraud scheme spanning three continents, to an intrusion into a computer system perpetrated by a suspect thousands of miles away, to an intricate system of terrorists laundering fraudulently obtained assets that will be utilized to fund terrorist attacks globally. Secret Service
personnel assigned overseas continue to work with foreign law enforcement to develop strategies to combat the attacks against their financial institutions.

It must be stated that as the global economy continues to expand, so must this agency's approach and global presence. Based upon these facts, the Secret Service is proposing to increase our current complement of 18 Foreign Posts of Duty. Due to the nature of the process by which Foreign Posts of Duty are formally approved and established, it is difficult to firmly present the names of the specific locales at which the Secret Service wishes to open new offices within this document relative to international anti-counterfeiting efforts.

The Secret Service seeks to continue its strategic global expansion toward the goals of extending its core investigative reach and presenting bilaterally coordinated timely responses in the arena of transnational crime, with a primary focus on international counterfeiting. An adjunct goal that is realized from this expansion abroad is better fulfillment of the agency's protective responsibilities.

This expansion effort follows a time-tested approach that the Secret Service has sought to adhere to when addressing global criminal concerns by expanding its overseas presence, as is outlined in the President's 1998 International Crime Control Strategy. The combination of an infusion of investigative training to regional law enforcement populations and strategic placement of Recurring Temporary investigative Assignments is a fiscally responsible manner by which to assess whether regionally specific concerns will require a short or long-term (2+ years) control commitment. The insertion of International Investigative Seminars training and the strategic placement of Recurring Temporary Assignments Task Forces afford the Secret Service a period of time during which to observe regional situations on several fronts, to include local law enforcement capabilities and existing levels of criminal activities. The level of host country assistance provided directly impacts the success rates of Recurring Temporary Assignments. In the field of international counterfeiting, the Secret Service would seek to work hand-in-hand with its host country vetted International Anti-Counterfeiting Forces (IACF)

The Secret Service's Office of Investigations believes that this three-tiered approach to combating crimes against the United States' financial system is a fiscally responsible approach, and the Department of Treasury's Office of Enforcement has viewed it favorably. There are significant benefits to be derived from the realization of the three-tiered approach. For example, the expansion of our International Investigative Seminars will facilitate the Service's educational and training campaign amongst foreign law enforcement authorities, which allows for a realistic assessment of criminal trends and resource allocation needs.

The use of Recurring Temporary Assignments has been very successful in the arena of financial crimes (e.g. the City of London Initiative and the Lagos, Nigeria Task Force) and counterfeiting (Bogotá, Colombia and Sofia, Bulgaria). RTA led to the decisions to enhance the agent pool at the London Resident Office by one (1) additional agent, formally establish the Lagos Resident Office, enhance the agent pool at the Bogotá Resident Office by one (1) additional agent and pursue the formal establishment of the Bucharest, Romania Resident Office. The Service is able to remain fiscally non-committal while addressing global criminal concerns. In addition, the domestic investigative mission reaps the benefits of increased investigative intelligence collection. The Foreign Posts of Duty have a chance to evaluate potential candidates for future service at their posts. The agency benefits from these relationships not only during the performance of its investigative mission but also during the performance of its protective mission abroad.[1]

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[1] A determination is made during the Recurring Temporary Assignments period concerning the level of commitment this Service should make to a regional concern. If it is believed that the problem has been brought under control, or even eradicated, the resources will be either sustained at a reasonable level or discontinued and reapportioned to other global trouble spots. If the problem is seen as being formidable enough to have a permanent Secret Service presence in place, as was the case in Lagos, Bogotá and Bucharest, then formal steps will be taken to establish an office based upon the relationships that have already been fostered.

The Secret Service's permanent presence in key posts abroad allow for improved coordination in the area of counterfeiting, fraud, security and intelligence as well as the ability of the U.S. government to assist our foreign counterparts in building their own legal and enforcement mechanisms to confront these issues themselves. As the nature of crime, including terrorism and terrorist financing, becomes more international in nature, it will be essential for the Secret Service to work closely with key counterparts abroad to achieve its mission. Whether it is the threat of counterfeiting related to "dollarization" or the threat of cyber attacks on our financial system, the Secret Service's strategic presence abroad is essential. This need for an expanded global presence will be coordinated closely with the State Department to ensure that the Secret Service's mission can be completed.

U.S. Customs Service

The role of the U.S. Customs Service in protecting our homeland has become more acute since September 11th. As a result, Customs is seeking to increase its international presence in a targeted way in order to support its key enforcement missions, such as investigating terrorist financing and preventing the illegal export of weapons of mass destruction (WMD).

The Customs Service is seeking to establish or enhance its presence in key financial and shipping centers around the world. The strategic aims of this increased international presence would be to deny and disrupt financial support for terrorist organizations and to identify and intercept terrorist materials moving within the international cargo stream. An enhanced overseas presence would directly support Operation Green Quest and Operation Shield America, which is the innovative program established by Customs to track and prevent the shipment of the implements of weapons of mass destruction (MDWs). Moreover, an enhanced presence in Mexico and Canada would support Customs' border security initiatives with each country, which is critical for establishing smart border security and homeland defense.

Furthermore, the Customs Service has been tasked and funded by Congress to increase its efforts overseas to support initiatives in Forced Child Labor, Intellectual Property Rights, and the Northern Border.

As part of Customs' strategic plan, the additional investigators and analysts overseas would be primarily investigating financial matters that relate to Customs violations and matters linked to terrorist activities or organizations. Such violations would include money laundering, export violations (including munitions list items, WMD, and their delivery systems and dual-use technology), commercial fraud, smuggling, and any other illegal activity within the import/export arena that is utilized in support of international terrorism.

Additional investigators, inspectors and analysts would also support Customs' foreign efforts to identify and interdict the materials that terrorist organizations and rogue states require to accomplish their aims. With the assistance of our foreign counterparts, overseas personnel would evaluate cargo traffic, analyze cargo manifests, review export documentation, monitor transshipped items, and assist in prescreening cargo/containers.

Customs' overseas presence is essential to its mission on all fronts to protect the United States, especially with respect to terrorism-related matters.

Customs' Overseas Expansion Priorities

Customs is actively seeking to establish or enhance its presence in key international financial centers in addition to those overseas ports that are responsible for the majority of container cargo that enters the commerce of the United States and to fulfill the congressionally-mandated responsibilities in FCL, IPR, and Northern Border Initiative.

Bureau of Alcohol, Tobacco and Firearms

The Bureau of Alcohol, Tobacco, and Firearms (ATF) plays an important role in the regulation of firearms and explosives as well as tobacco and alcohol. Though its overseas presence is not significant in numbers, the ATF's mission and presence bears mentioning because of its fundamental importance to overall U.S. security.

Overseas Mission and Staffing Analysis

The ATF is the premier agency in the United States entrusted with enforcing federal firearm and explosive laws. In this capacity, ATF has developed a high level of practical and technical expertise in crime gun tracing and analysis, ballistics identification, and post–blast investigations. The U.S. Department of State has thus recognized and utilized ATF expertise abroad on numerous occasions.

Through its regulatory and enforcement authorities derived from the Gun Control Act of 1968, the National Firearms Act, the Arms Export Control Act, and the Explosives Control Act, ATF seeks to neutralize the illicit movement of firearms, explosives, and ammunition, and to deny their access to international narcotics dealers, terrorists, and other violent criminals. ATF's International Traffic in Arms (ITAR) initiative was formalized as a Bureau-wide program in 1974 and is an aggressive enforcement effort designed to combat the illegal movement of U.S.-sourced firearms, explosives, and ammunition in international traffic. Through enforcement and compliance of the statutes mandated by law, ATF seeks to neutralize the trafficking of these commodities from the United States, which are used throughout the world to commit acts of terrorism and political violence, to subvert restrictions imposed by other nations on their residents, and to further narcotics-related activities and violent crime.[2]

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[2] The ATF Alcohol and Tobacco Diversion Program focuses on the illegal distribution of alcohol and cigarettes in the United States and other countries. Organized criminal

The success of the ITAR program depends heavily on ATF's ability to post personnel in overseas assignments. Working alongside the host government, ATF personnel assist in the identification of recovered crime guns that have a nexus to the U.S. and then trace these weapons in order to identify the organizations responsible for the illicit trafficking of arms. Joint investigations further assist in the sharing of intelligence between agencies and the development of leads, both in foreign and domestic cases. The ability to be located in foreign posts to coordinate efforts that affect this progress ultimately leads to stemming the flow of firearms in international traffic.

Overseas Mission and Current Presence

ATF initially established country offices in Colombia, Mexico, and Canada because these countries were identified as having been severely impacted by the illegal trafficking of U.S.-sourced firearms. On site, the agents are able to provide investigative and technical assistance with regards to this problem, however, they also regularly deliver training to the host government in firearms identification, tracing procedures, trafficking investigation techniques, and other related topics.

As a result of civil unrest and insurgent activity, both Colombia and Mexico have experienced a significant increase in explosives incidents in the past year. The ATF agents posted in these countries have been frequently used to provide technical assistance to the Embassy, and especially the host government, in explosives identification and in post-blast investigative procedures.

Additionally, the ATF personnel in the Canada Country Office have concentrated much of their efforts assisting the Canadian Government in combating the diversion or smuggling of U.S.-produced alcohol and cigarettes into Canada. The taxes on alcohol and cigarettes are generally considerably higher in Canada than in the United States. Consequently, during the 1990s, the Canadian Government lost billions of dollars in tax revenues, much of which was earmarked to finance the Canadian National Health system. Moreover, alcohol and tobacco smuggling and the organized criminal groups associated with this activity became a major Canadian criminal concern.

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groups purchase cigarettes and alcohol either, without paying taxes, or in low tax jurisdictions, and divert or smuggle these commodities into high tax jurisdictions. These groups then illegally distribute the alcohol or cigarettes depriving countries of substantial amounts of excise and income taxes and often launder the proceeds to promote the smuggling activity or to finance other criminal activities. Additionally, criminal groups smuggle alcohol or cigarettes into the United States depriving the United States of tax revenue. In the past several years, ATF has successfully prosecuted alcohol and tobacco diversion schemes involving U.S-produced alcohol and cigarettes, which were diverted to Canada, Russia, Georgia, Belgium, Mexico and several other countries. Additionally, ATF contraband cigarette trafficking investigations in conjunction with the FBI have established that certain Middle Eastern terrorist groups have used the proceed of illegal cigarette trafficking to finance their activities. The assignment of ATF personnel overseas will enable ATF to continue to combat international alcohol and tobacco-related crime.

Recently, ATF enforcement efforts have helped control this problem.

In 1990, ATF established its first overseas post at the U.S. Embassy in Bogotá, Colombia. The Colombia Country Office (CCO) is currently staffed by a Country Attaché (CA) and an Assistant Country Attaché (ACA). There is also one Foreign Service National (FSN) and a shared Administrative Assistant (contract employee who also works for Customs.)

In 1992, our Mexico Country Office (MCO) was established at the U.S. Embassy in Mexico City, Mexico. The MCO is currently staffed by one CA, one ACA, and two FSNs. In 1997, ATF established a permanent office at the U.S. Embassy in Ottawa, Canada. Current staffing consists of a CA and Administrative Assistant (contract through State) in Ottawa, and an ACA at the Consulate in Vancouver. There is also one vacancy for a contracted Administrative Assistant in Vancouver. An NSDD-38 request has been forwarded to State at the request of the Royal Canadian Mounted Police (RCMP) and with the support of the U.S. Ambassador for an additional FTE (Inspector) to be located at RCMP Headquarters.

Review of Overseas Operations and Staffing Levels

ATF receives weekly activity reports and extensive annual reports from each of the country offices. These reports detail the mission, efforts, accomplishments, and planned action by each Country Office and are reviewed by the highest level of ATF management. In addition to this internal oversight, there is regular communication between the Deputy Chiefs of Mission and ATF personnel regarding the continued productivity of the liaison mission.

Future Staffing Needs

ATF has a minimal staff abroad, and current manpower and other resource considerations only allow for overseas assignments by ATF in countries capable of supporting full-time positions.

Internal Revenue Service – Criminal Investigations Division

The Internal Revenue Service- Criminal Investigation Division (IRS-CI) is charged with enforcing the nation's tax laws and has been playing a critical role in Operation Green Quest as it lends its expertise in the tax arena, especially with respect to charities, to the counter-terrorist financing fight. Based upon an assessment conducted in 2001 of its workload overseas, IRS-CI is considering two changes in the number and placement of its agents assigned overseas.

Changes to Overseas Presence Based on Trends

The assessment in 2001 determined that the workload in the Europe/Africa Region, which includes the Middle East and the former Soviet Union Bloc countries, was too substantial for one CI Attaché to handle.

In the 5 years since the initial placement of a CI Attaché in Frankfurt, Germany, the number of requests for assistance involving countries located in this region had increased approximately 400%. In addition, the Attaché has been spending substantial more time assisting in training initiatives being conducted in this region, including the ILEA in Hungary and Botswana. Since the completion of the assessment, IRS-CI resources needed in this area have further increased significantly as a result of CI's focus on terrorist financing. Using the criteria recommended by the "Rightsizing" Working Group, it was determined that the best location to add a second Attaché to be responsible for the Europe/Africa Region is London, England. The factors that weighed in this decision are as follows:

- Requests for Assistance by CI special agents to the United Kingdom in 2001 are approximately 40 percent for the region.
- Requests for Assistance by CI special agents to the United Kingdom in 2001 are approximately three times higher than any other country in the region.
- These statistics are primary the result of London's being the financial capital of Europe.
- Contacts with representatives of the United Kingdom's Law Enforcement Agencies determined that there was a very strong desire to work with IRS-CI on joint initiatives.
- Contacts with US Law Enforcement personnel assigned to the London Embassy determined that placement of an IRS-CI Attaché at that embassy would not result in an overlapping of missions, and endorsed our presence at the embassy.
- London provides excellent transportation links with both the other countries in the region and the US.

The second change the 2001 Worldwide Assessment recommended was moving the CI Attaché that is responsible for the Caribbean Basin Region from the US Embassy in Mexico City to an Embassy in the Caribbean. In March 2000, CI placed a second Attaché in Mexico City. This placement of the second Attaché afforded the opportunity for one Attaché to be primarily responsible for the countries located in the Caribbean basin. This dedication of resources to the Caribbean has resulted in a tremendous growth in the workload as new and better relationships have been developed with the law enforcement agencies of the 22 countries located in the area. Specifically, the number of requests for assistance involving countries in this region has increased by over 400 percent during the period 2000 to 2002. We expect that the workload will continue to increase as additional Tax Exchange Agreements are signed and go into effect over the next two years and as countries in the region continue to strengthen the anti-money laundering regimes.

However, the past two years have demonstrated that to have the CI Attaché operate from Mexico City to handle the Caribbean is not cost-effective and wastes a significant amount of time in traveling back and forth to the region (all travel must be made through Miami from Mexico City to go to the region).

As a result of this recommendation, CI has just initiated a follow-up assessment to determine the best site in the Caribbean Basin to relocate the Attaché. Results of this assessment should be available by the end of FY 2002.

IRS-CI, like the other Treasury Bureaus, has reassessed trends related to its jurisdictional responsibilities and demands abroad and is adapting its overseas requirements accordingly. This flexible approach allows Treasury and the State Department to work closely to ensure that the Bureaus' missions are fulfilled.

Internal Revenue Service – Civil Division

The Internal Revenue Service (IRS) works closely with its foreign counterparts on tax treaties and other tax-related matters. The IRS currently has 46 positions in 7 regional offices overseas, including Berlin, London, Mexico City, Paris, Rome, Singapore, and Tokyo. IRS has reduced its overseas presence significantly from 1985 when it had 83 positions in 15 regional offices overseas. IRS tax attaches and staff interact with foreign governments on tax treaty and other tax issues and with business and tax practitioner communities. Under bilateral tax treaties, tax attaches are delegated signature authority for certain tax treaty exchange of information programs between governments. These overseas tax offices also identify emerging tax and tax compliance issues. Moreover, these offices also provide customer service to U.S. citizens residing abroad and to foreign individuals who have a tax liability to the US. In addition, IRS provides direct assistance to selected foreign governments to help improve their own tax administration. This past year, IRS had 4 personal services contractor (PSC) staff in Trinidad and Tobago and in Tanzania providing technical assistance.

Office of the Comptroller of the Currency

Because of its important role in bank regulation, the Office of the Comptroller of the Currency (OCC) has 4 bank examiners assigned to the U.S. Embassy in London. This is a critical presence because London is a major banking and commercial center.

Regional Development Banks, US Executive Directors and Their Offices

The Office of International Affairs currently is responsible for 10 positions at regional development banks as follows: 2 positions at the European Bank for Reconstruction and Development in London, 3 positions at the African Development Bank in Abidjan, and 5 positions at the Asian Development Bank in Manila. The Secretary of the Treasury is the U.S. Governor on the Board of Governors at these three regional development banks.

Day-to-day policy, fiduciary and administrative oversight is delegated to the banks' Board of Directors. As a member of the Board of Directors, the U.S. Executive Director (a Presidential appointee with Senate confirmation) represents the U.S. Government.

The Asian Development Bank and European Bank for Reconstruction and Development and the US Executive Director position are currently vacant and an alternate is currently representing the United States. Treasury professional staffs are assigned to the U.S. Executive Director offices as advisors and assistants. Costs of the U.S. Executive Director, Alternate Executive Director (Asian Development Bank) and technical advisors/assistants are paid either directly or reimbursed by the regional development banks. Treasury also reimburses the State Department for two support staff at the US Embassy, Manila.

Treasury Financial Attaches

Treasury financial attaches play a critical role in the development of US international economic policy. Financial attaches develop extensive contacts with finance ministries, foreign regulatory authorities, central banks, and financial market participants that offer a unique view of market developments. This unique perspective lends itself to a more thorough understanding of potential policy implications and a more rapid translation of new U.S. policy on the ground, a critical capability given today's rapidly changing market conditions.

The Office of International Affairs currently has 6 financial attaches and 13 analytical/ support staff, including foreign nationals, at U.S. embassies in Tokyo, Moscow, Mexico City, and Rome (Southeast Europe region), at the U.S. Mission to the Organization for Economic Cooperation and Development (OECD) in Paris, and at the U.S. Consulate General, Frankfurt (European Union region). The U.S. Ambassador and the State Department have approved Treasury opening a financial attaché office in Beijing, China. Opening this new post is subject to resource allocation. International Affairs has recently proposed to close its financial attaché office in Mexico City and open an office in Buenos Aires.

Over the past decade, International Affairs has scaled back its overseas presence. In 1990, International Affairs had 12 financial attaches and 25 analytical/support staff at 12 U.S. embassies/missions overseas. Treasury financial attaches collect, report, interpret and forecast macroeconomic and financial developments and policies on assigned foreign countries. Department of Treasury personnel assigned abroad report on foreign economic, financial and monetary matters, to help keep U.S. government decision-makers fully informed on such matters. In addition, International Affairs is a user of economic and financial information supplied by all U.S. embassies and consulates.

Treasury Technical Assistance

The Office of International Affairs provides technical assistance to foreign countries in five core areas: budget policy and management; financial institutions policy and regulation; government debt issuance and management; enforcement policy and administration; and tax policy and administration.

The placement of Treasury advisors is closely coordinated through several offices and bureaus at the State Department, including the Regional Coordinator for Assistance to Countries of the former Soviet Union, Eastern and Central Europe, the Bureau of International Narcotics and Law, the newly created Counter Terrorism Office and the relevant regional bureaus. Treasury's Office of Technical Assistance also coordinates work and assignments with Treasury's Office of Enforcement.

Treasury currently has 45 long term or resident advisors, primarily personal services contractors, and 35 support staff in 22 countries. In addition, short term, or intermittent, advisors are provided to foreign countries on temporary duty assignments, for highly specialized assistance. The level and scope of all assistance efforts are negotiated with host countries and advisors work at host government, primarily finance ministry, facilities and thus do not require Embassy office space.

Funding for technical assistance comes primarily from the Freedom Support and Support for Eastern European Democracy (SEED) Acts, augmented by additional AID program funds and a direct Congressional appropriation to Treasury, knowns as the Treasury International Affairs Technical Assistance (TIATA) program. Treasury has closed assistance efforts as foreign countries have instituted structural and economic reform. For example, Treasury has completed assistance efforts in the Czech Republic, Slovakia, Poland, Latvia, and Lithuania and no longer has advisors stationed in these countries. In addition, projects under the US-Saudi Arabia Joint Economic Commission, that was fully financed by Saudi Arabia, were closed in 2000, after 25 years of successful assistance efforts in Saudi Arabia, eliminating the need to station over 40 U.S. employees in Riyadh and Jeddah.

The Treasury Department has been flexible in its allocation of resources abroad. Where needs no longer exist, for either enforcement or non-enforcement personnel, the Treasury has been willing to reallocate those resources to areas where such personnel are needed. This will continue to be the way the Treasury operates since we are dedicated to the efficient use of resources abroad. We look forward to continued cooperation with the State Department on this front.

REGIONALIZATION

The Department of the Treasury's law enforcement bureaus, as well as the non-enforcement offices, have traditionally practiced the concept of regionalization in varying degrees – the practice by which a region is covered by personnel stationed in one overseas post. The concept has proved beneficial in certain locations or regions of the world given the assessed needs and trends related to our overseas.

As noted above, Mr. Chairman, Treasury and its law enforcement bureaus have on occasion closed a foreign office and moved to other countries when they felt the opportunity to do so would produce a more effective and efficient work product. We are committed to this approach by assessing the needs abroad.

In the post September 11th world, we are required to reassess our needs – to deal most specifically with the terrorist threat on several levels as well as to confront the increasing threat of transnational criminal behavior. We will continue to work closely with the State Department, as well as our other sister agencies and departments, to ensure that the U.S. government's resources are used effectively and efficiently abroad.

CONCLUSION

Mr. Chairman, this concludes my formal testimony. I would be pleased to answer any questions that you, or members of the Committee, may have regarding Treasury's procedures, goals and mission abroad.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
May 1, 2002

Contact: Betsy Holahan
202-622-2960

Treasury Department Awards "First Accounts" Grants to 15 Proposals
Projects Will Assist 35,400 Unbanked Americans

The Treasury Department today announced that it will award "First Accounts" grants totaling \$8.35 million to 15 projects designed to help unbanked Americans open accounts at insured financial depository institutions.

"We were very pleased at the large number of high-quality and innovative proposals we received," said Assistant Secretary for Financial Institutions Sheila C. Bair. "Our hope is that these projects will serve as models for others in their efforts to reach the one in ten American households that are unbanked."

Grant recipients include nonprofit organizations, insured depository institutions, insured credit unions, a community development financial institution, a faith-based organization and a foundation. The 15 awardees, selected from among 231 applications from 38 states, have pledged that insured bank accounts will be opened by 35,400 unbanked people in 25 states, including California, Colorado, District of Columbia, Georgia, Idaho, Iowa, Illinois, Kentucky, Maryland, Michigan, Montana, New Jersey, New York, Nevada, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Texas, Utah, Virginia, Washington, Wisconsin, and Wyoming.

The awardees will implement projects that provide financial literacy training, connect individuals to insured accounts, develop low- or no-cost products and services, and increase access to financial services through installation of automated teller machines. The projects focus on a wide variety of unbanked people, including youths, new entrants to the workforce, recent immigrants, residents of low-income communities, residents in rural areas, native Americans living on reservations, public housing residents and families using child care facilities.

The First Accounts program seeks to move a maximum number of unbanked low- and moderate-income individuals to a banked status with an insured depository institution through the development of financial products and services that can serve as replicable models in other communities without the need for ongoing public subsidies.

Attached is brief list of the awardees.

PO-3067

Additional information the First Accounts program and the 15 grants can be found at www.treas.gov/firstaccounts.

-30-

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FOR IMMEDIATE RELEASE
Friday, April 26, 2002

Contact: Tony Fratto
(202) 622-2960

**INTRODUCTORY REMARKS
BY
JOHN B. TAYLOR
UNDER SECRETARY FOR INTERNATIONAL AFFAIRS
UNITED STATES TREASURY
AT THE
ISLAMIC FINANCE 101 SEMINAR
HELD AT THE U.S. TREASURY DEPARTMENT
WASHINGTON, DC**

Welcome to Islamic Finance 101! As the Under Secretary for International Affairs at the Department of Treasury, I want to thank you all for joining us at this seminar on the fundamentals of Islamic Finance.

Today's event is a result of a collaborative effort between the Treasury Department and the Harvard Islamic Finance Information Program (HIFIP). HIFIP helped us design this program and enabled us to invite prominent Islamic financial experts to speak today. We truly appreciate HIFIP's assistance in making this event possible.

We are very grateful that this diverse panel is here today to share their knowledge with us. They have joined us from great distances – travelling from Bahrain, Houston, Boston, and New York to share their expertise with us. Though I'm saving the introductions of our speakers to Thomas Mullins, Executive Director of HIFIP and Associate Director of the Center for Middle Eastern Studies at Harvard University, I do want to say that our speakers have impressive backgrounds.

I'm particularly pleased to be at this event, surrounded by a number of academics, it brings me back to my days Stanford University where I was a professor for many years.

Treasury's Office of International Affairs implements the U.S. government's international finance and economic development policies and develops U.S. policy towards the World Bank and IMF.

PO-3068

We have had a growing interest Islamic finance because of its rapid growth and significant presence in many partners of the United States such as Bahrain, Egypt, Indonesia, Kuwait, Malaysia and Pakistan.

Following the events of September 11, President Bush made a top priority of combating the financing of terrorism. Lawful and legitimate institutions such as conventional banks, Islamic banks, money transfer services, hawalas and charities must not be abused by terrorists. We are working with the international community to ensure just that. We need to understand how these legitimate institutions operate so that we can help strengthen them and prevent terrorists from abusing these institutions. From my exposure so far, I've observed that the economic principles of Islamic finance and conventional finance are the same, though the structure of Islamic financial transactions can be different.

Today's seminar was inspired by a roundtable that Secretary O'Neill attended last month in Bahrain. At the roundtable, hosted by Citibank Bahrain's Islamic Investment Bank, the participants described the philosophy behind Islamic finance; they went into the nitty-gritty of an Islamic financial transaction; and they discussed the accounting and supervisory issues related to Islamic banking. I'm pleased that one of the speakers from that roundtable has joined us on today's panel Dr. Rifaat Abdel Karim, the head of the Accounting and Auditing Organization for Islamic Financial Institutions. We left the roundtable with a sense of what Islamic finance really is - the Secretary wanted to make sure that we hosted a similar event in the United States to "demystify" Islamic banking for our colleagues in Washington who may not have exposure to this topic.

I thought you might also be interested to know about the increasing international effort being made to understand Islamic finance. We recently held a meeting of G-7 Finance Ministers and invited other world leaders to participate. At this meeting, the Central Bank Governor of Malaysia, Dr. Zeti Akhtar Aziz gave us an informative short presentation on Islamic finance and led us in a discussion.

I hope that today we will have an open dialogue about Islamic finance end encourage you to feel free to ask questions and make comments. We have a wide array of audience members including commercial bankers, investors, banking regulators, economists, policymakers, Congressional staffers, researchers, lawyers, consultants as well as Islamic banking practitioners. I look forward to hearing the questions that you pose during the Q & A session as I expect that they will reflect your wide-ranging experiences and interests.

Thank you all again and let me turn this over to Tom Mullins.

DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL 12:30 P.M.
May 2, 2002

Contact: Public Affairs
(202) 622-2960

Treasury Secretary Paul H. O'Neill
"Can Japan's Ailing Banking System be Cured?"
Remarks to the Japan Society
New York City

I am a Japan fan. In my private sector experience, I developed the highest respect for Japanese industry's ability to rise to the challenge of world competition, and to challenge the rest of us to do the same. Japanese companies like Sony and Toyota, among others, defined the notion of world-class manufacturing, offering the world's consumers value-priced, better products year after year, and daring companies around the world to do the same.

In many ways, it was Japan's challenge that forced the U.S. economy to shake off its malaise of the late 70s and early 80s, and become what it is today. The fact that American companies rose to that challenge, and greatly improved their own productivity and quality is in no small way due to the competition that they faced from their Japanese counterparts.

Japanese workers, too, are among the most diligent and productive in the world, and they rightly feel great pride for their country's economic accomplishments in the past half-century.

But the past decade has been difficult for all of us who believe in the potential of the Japanese economy. After decades of world-leading growth, Japan's GDP grew by an average of just one percent annually over the past ten years. Unemployment has been rising, deflation has cast a long shadow on consumption and investment, and banks and corporations are heaped with bad and doubtful debt.

With such potential, and historic accomplishment, why has Japan performed so poorly over the past decade? More importantly, how can Japan return to growth? The costs of underperformance are high, both for Japan and for the rest of the world. Japan's citizens miss out on higher living standards and Japanese young people are frozen out of the job market. The rest of the world lacks a dynamic Japanese market for its goods and services.

In fact, if Japan's economy had grown over the past ten years at its full potential of, say, 3% annually, real GDP would have been more than 20% larger in 2001 -- that's a difference of nearly $900 billion alone. And over the past decade, growing below potential has cost Japan a total of nearly $5 trillion in lost income or almost $40,000 in foregone income per person. That lost income translates not just into lower living standards, but also into $760 billion less investment to support future growth.

There are three areas for action in Japan that would restore growth:

1) Ending deflation;
2) Overcoming financial sector problems; and
3) Deregulating and opening the economy to competition.

I believe the last one is the most important, but I'll address them in the order I've listed them.

For the last seven years, Japan has been mired in deflation, as the broadest measure of prices, the GDP deflator, has fallen by nearly 1% annually.

The phenomenon of deflation is corroding Japan's economy, multiplying the burdens faced by debtors, while discouraging investment and consumption. Japan has to end expectations of persistent deflation for the economy to recover and grow.

Last March, the Bank of Japan committed to expand the money supply until inflation was at least zero. Since then, the BOJ has sharply expanded the growth rate of base money. But the growth rate of broader money supply has not changed much, and deflation remains entrenched.

While sustained monetary expansion is an important step for addressing Japan's economic woes, the expansion of base money has not produced an expansion in bank lending.

Why are banks not lending? It is not because of a lack of liquidity. Rather, anemic lending reflects deep weakness in the balance sheets of the Japanese banks and the corporate sector.

An important role of financial institutions is to allocate capital between savers and investors by pricing credit fairly and accurately. A healthy financial sector supplies funds to companies that can put the money to the best use for their level of risk.

That has not been happening in Japan. There is plenty of capital there, but too much of it continues to prop up old investments gone bad, instead of going after better opportunities and fueling growth. Some banks are stuck in so many old, bad loans, they are afraid to take any new risks, even in promising areas, further stunting the economy.

By some estimates, as much as a quarter of all bank loans in Japan are in or near bankruptcy.

Many of these loans are described as "non-performing." Non-performing means "non-productive." Loans that are not performing are not producing for the Japanese economy, or at least, they are not producing enough to justify their existence.

Bank lending is supposed to be an instrument for growth, not a life support machine.

If Japan's financial markets were functioning properly, companies that cannot pay their debts would restructure, or if necessary, liquidate, so that their capital assets could go toward more productive opportunities.

Financial institutions have to make tough choices on their non-performing loans, and start making new loans, priced appropriately for the level of risk. For example, banks should offer the cheapest credit to the world-beating export companies, which also get financing from the international markets. They should offer higher priced credit for entrepreneurs and well-founded start-ups, which are riskier than some established firms, but offer promise for future growth and new industries. And they should impose the highest rates on credit to unproductive and highly-indebted firms that have no real plans for restructuring.

Because too much investment is going to low-return uses, investment productivity has foundered. Japan's business capital stock increased more rapidly than any other major industrial country over the past ten years, but it did not produce much growth.

Look at this another way: GDP in Japan is less than half GDP in the United States, but business capital stock in Japan is roughly equal to that in the United States. Therefore, U.S. fixed investment is on average twice as productive as Japan's.

Investment resources in Japan aren't going where they can be most productive. In too many cases good money is going after bad.

The new generation of bank managers and corporate leaders should put the failing companies out of their misery, and not waste the hard-earned savings of Japanese workers. It is better to do it now, when there is still some value to salvage, than to wait until the desperate, bitter, bankrupt end.

There is plenty of advice out there on how to resolve the bad loans and clean up the bank balance sheets. Everything that can be said, has been said.

The Japanese government has the right idea creating the Financial Services Agency and strengthening the Resolution and Collection Corporation. I am convinced that Prime Minister Koizumi's agenda is the right path. Now they have to make it happen.

Just as the U.S. and other countries in the past twenty years have had to deal with painful banking crises, and came out the better for it, Japan has to deal with its own. I am confident it will. The time for half-measures and postponement has passed. It has to be done, and the quicker, the better.

The finance problems in Japan are a reflection of problems in the real economy. Non-performing loans are symptomatic of bad investment choices. So even as Japan starts freeing its capital from the prison of bad loans, the private sector has to start identifying and moving capital into the real opportunities, those where investment will enhance productivity and produce a superior return. Moving capital and other assets out of low-return, low-productivity industries into activities that generate higher returns is the key to raising economic performance.

Making sure that high-growth opportunities exist, and that firms exploit them to the fullest, is necessary for any economy to achieve its full potential, and is of special importance to Japan.

There is no question that Japanese firms respond when the right conditions exist. Japan's export-oriented companies -- Toyota, Canon, and many others -- are among the most competitive in the world. They are constantly innovating and adjusting to the competitive landscape in other countries, and consumers, employees and shareholders worldwide are better for it.

Industries in which Japan's most successful firms operate share two characteristics. First, they cannot be controlled by domestic regulation -- there is no way to limit entry, set prices, or enforce restrictive standards -- because they are worldwide markets. Second, there is no way to shield firms from competition in these industries. Faced with competition, these firms rise to their best.

Unfortunately, too much of Japanese domestic industry is cocooned in a web of regulations and trade barriers.

Eliminating regulatory barriers and introducing competition throughout the Japanese economy entails thousands of smaller, highly important decisions in trade, regulatory, and fiscal policies. It is not my place or the place of the U.S. government to lecture the Japanese government on how to proceed -- these are decisions for the Japanese people.

The process is not painless. Increased price competition through deregulation and structural reform requires adjustments and some dislocation. But it also creates opportunities, encouraging new entry by both domestic and foreign firms, increasing employment, and renewing economic growth.

Prime Minister Koizumi has acknowledged that structural reform "with no sacred cows" is necessary for economic recovery and strong, sustained growth. He deserves our support.

Another revolution that Prime Minister Koizumi can take much credit for is emphasizing the role of private activity in producing growth, and de-emphasizing public expenditure as life support for the economy.

The Prime Minister has already outlined steps to cut back inefficient public works expenditures and to abolish or privatize Japan's public corporations.

He has also made it clear that Japan will need to reduce its budget deficit substantially in order to stabilize Japan's spiraling public debt. The Council on Economic and Fiscal Policy has begun this process, and I hope that budget planning and implementation will carry it through.

The adjustments required by cutting deficits can also be eased by assuring that fiscal choices provide the maximum benefits to private activity. Cutting taxes, particularly those that discourage private activity and investment, coupled with reducing expenditures, can generate higher growth and fiscal balance.

I have referred a number of times to the importance of international competition. International trade provides an environment where firms can compete with the best and rise to their best. But trade among nations also flourishes because we have agreed on governing rules for actions and responses.

An agreed-upon dispute settlement system is critical to maintaining a trade-friendly environment. Unilateral trade actions outside the WTO dispute settlement procedures set a bad precedent for the world trading system.

The U.S. spent nine months conducting and reviewing a safeguard investigation on steel, in accord with international trade rules. Any nation that has a complaint with this action should use the agreed WTO dispute resolution process to seek redress.

Earlier, I described the vast difference between Japan's economic potential, and the recent course it has taken. In 1991, Japan's economy was nearly nine times the size of China's, and three-fifths the size of the U.S. But if the trends of the past decade continue for Japan and the U.S., and if China grows at the 7% annual rate most analysts project, in 25 years the Japanese economy will be less than one-fourth the size of the United States, and only four-fifths the size of China.

If that day comes, our successors won't even debate these topics. Japan will no longer be a engine for the world economy, it will be a boxcar.

That scenario should not happen. Japan has to rejoin us, at full speed, as a leader in the global economy. If Japan grows by 3 percent annually over the next 25 years, in 2027 Japan's economy will be about 40 percent of the size of the United States, and 33 percent larger than China's. This should be the target. The leading economies in the world need to grow at their full potential, for the benefit of their own people and, more broadly, for the benefit of people everywhere.

The people of Japan have the capacity to make their own future and return to growth. Not by fleeing from the competitive world economy, but by embracing it and showing their true potential, as they have before. I believe they will, not only because I am an optimist about Japan, but because the stakes are too great to fail.

Thank you.

-30-

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FOR IMMEDIATE RELEASE
May 3, 2002

Contact: Rob Nichols
(202) 622-2960

US-EU Designation of Terrorist Financiers Fact Sheet
May 3, 2002

Statement by Treasury Secretary Paul O'Neill

Today the US and the EU announce that we have taken joint blocking action on a list of terrorists and their supporters.

The EU list - made up of 18 terrorists and terrorist groups - includes such egregious organizations as Al-Gama'a al-Islamiyya, a radical Islamic organization that launched a wave of terrorist attacks against tourist sites in Egypt, such as the killing of 58 foreign tourists at Luxor in November 1997. Also included in today's action were two extremist groups that have terrorized Turkey for decades and the Shining Path, the militant Maoist terrorist group that has plagued Peru since the 1980s.

The United States has taken action against eight of these groups previously, and we are very pleased to join the EU to act against eight more today.

Today's coordinated blocking action is the result of close cooperation with our European allies -- a collaboration that symbolizes an extremely important chapter in the financial war against terrorism.

The United States wholeheartedly welcomes this international cooperation. It is our hope that other governments and multilateral bodies will continue to take the lead in identifying terrorists and their supporters, so that together the civilized world can shut down their organizations and eradicate their sources of support.

PO-3070

History of Coordinated International Actions against Terrorist Financing

In December 2001, the EU designated 42 terrorist entities and organizations, including extremist groups who threaten peace in Europe. The United States was pleased to follow the EU's lead and designate six entities not already subject to Executive Order 13224. As part of the initiative lead by the EU, we thereafter designated 21 individuals pursuant to Executive Order 13224, who assist in, sponsor, or provide financial or other services to or in support of acts of terrorism in Europe. On March 11, 2002, the United States and the Kingdom of Saudi Arabia jointly blocked the assets of two overseas branches of a Saudi-based charity. On April 19th, the G-7 countries took the first multilateral joint action by designating nine terrorists and terrorist financiers and one entity that support al-Qaida. With today's action, we have taken yet another step, along with our European partners, in our quest to dismantle all groups that sponsor acts of terror in every part of the world.

Today's action

Today's action will block all assets the eight entities listed below have in the United States and prohibits any financial interaction between U.S. persons and these entities and individuals.

These individuals and this organization the US designated today have acted for or on behalf of ETA, also known as the Basque Fatherland and Liberty.

Today's designation is particularly timely, as ETA is the prime suspect in two powerful car bombings that exploded in Madrid Wednesday, May 1, 2002. Unidentified callers, claiming to be spokesmen for ETA warned a radical Basque newspaper and ambulance services in Madrid of the location of the bombs.

The United States Department of State previously designated ETA as a "foreign terrorist organization," our government's gravest categorization.

ETA, established in 1959, seeks the creation of an independent state comprising the Basque regions of both Spain and France. ETA's first victim was a police chief, killed in June 1968, and its terrorist campaign has continued since then. Since then the group has engaged in an intense campaign of bombing and shooting directed mainly at political and security force targets. ETA has killed over 800 people and carried out about 1600 terrorist attacks since it was formed.

The simultaneous blocking of the assets of these individuals and entity by the US and the EU demonstrates the broad international commitment to choke off the sources of financing for terrorist acts.

One Organization

The organization, Askatasuna, is an ETA front whose actions are controlled by ETA to complement and support ETA militants. Askatasuna acts as a conduit for communications between imprisoned ETA members and the ETA leadership and provides funds to imprisoned ETA activists.

Seven Individuals

These seven individuals are being designated for their support and activities on behalf of ETA. Arrest warrants in Spain on charges of terrorism based have been issued against all seven of them:

> Ivan Apaolaza Sancho, D.N.I. 44.129.178, joined the "K. Madrid" cell of ETA in 1999. Active participant in various terrorist actions, including placing several car bombs in Madrid.
>
> Ismael Berasategui Escudero, D.N.I. 15.379.555, is a member of the "K. Behorburu" cell of ETA. He has participated in numerous terrorist acts, including placing a car bomb in Malaga's Airport, placing a car bomb outside Cala Font Hotel in Salou, Tarragona, and placing a car bomb in a terminal of Barajas's Airport in Madrid.
>
> Lexuri Gallastegui Sodupe, D.N.I. 16.047.113, joined the "K. Madrid" cell of ETA in 2000. She has taken an active role in collecting information on politicians, judges and other officials for future terror attacks. Sodupe is the second woman to be placed on the terrorist financing executive order.
>
> Gorka Palacios Alday, D.N.I. 30.654.356, joined the "K. Madrid" cell of ETA in 1999 and has participated in various terrorist acts including placing several car bombs in Madrid.
>
> Asier Quintana Zorrozua, D.N.I. 30.609.430, joined the "K. Madrid" cell of ETA in 2000 and has participated in various terrorist acts including several car bombings in Madrid.
>
> Juan Luis Rubenach Roig, D.N.I. 18.197.545, participated with the "K. Madrid" cell of ETA since 1999 in various terrorist acts, including placing several car bombs in Madrid.
>
> Manex Zubiaga Bravo, D.N.I. 16.064.664, joined the "K. Madrid" cell of ETA in 2001 and has participated in placing a car bomb in Madrid.

Summary of Terrorism Financing War

Including today's designation, the Department of Treasury has blocked the assets of 210 entities and individuals. 161 countries and jurisdictions have taken concrete action to block the assets of these groups and individuals and $116 million has been frozen worldwide. $34 million of that has been blocked domestically in the United States with the remaining $82 million blocked by our international partners.

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

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling $30,000 million to refund an estimated $30,245 million of publicly held 13-week and 26-week Treasury bills maturing May 9, 2002, and to pay down approximately $245 million. Also maturing is an estimated $14,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced May 6, 2002.

The Federal Reserve System holds $13,850 million of the Treasury bills maturing on May 9, 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 May 7, 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 $1,152 million into the 13-week bill and $919 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-3071

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED MAY 9, 2002

May 2, 2002

Offering Amount	$15,000 million	$15,000 million
Public Offering	$15,000 million	$15,000 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 KV 2	912795 LJ 8
Auction date	May 6, 2002	May 6, 2002
Issue date	May 9, 2002	May 9, 2002
Maturity date	August 8, 2002	November 7, 2002
Original issue date	February 7, 2002	May 9, 2002
Currently outstanding	$18,982 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 9:30 A.M. EDT
MAY 6, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

PETER R. FISHER
UNDER SECRETARY OF THE TREASURY FOR DOMESTIC FINANCE
BEFORE
THE COUNCIL OF THE AMERICAS'
32ND ANNUAL WASHINGTON CONFERENCE

THE U.S. ROLE IN HEMISPHERIC RECOVERY

The most important thing that the United States can do for the prosperity of all of the Americas is to return and sustain our economy on a path of steady non-inflationary growth. And nothing could be more predictable than a Treasury official and ex-central banker that wants to talk to you about something so self-evident. But I ask you to look beyond the truism and to see that we are at a turning point.

I want you to see the connection between our 25-year effort to reverse the inflationary mistakes of the 1970s and the volatility in our domestic credit markets in the last few years and the recent decline in "contagion" among emerging markets. I would like you to see much of the recent market turmoil as a transition to a world of more stable real and nominal interest rates and one in which the individual characteristics of both corporate and sovereign borrowers will be better recognized – a world where credit matters.

But first, let me remind you of the history of one country's experience.

The country abandoned its long-maintained currency peg, stunning the foreign exchange market. Lax monetary policy created the conditions for a subsequent acceleration of inflation just as fiscal deficits began to increase, together leading to a second wave of currency turmoil and depreciation. The high interest rates with which the central bank was forced to respond exposed weaknesses in the banking sector and in banking supervision, leading to government bailouts of financial institutions and further volatility in the exchange market.

PO-3072

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

I repeat this brief history of the United States in the 1970s and 1980s both to underscore the common experiences we have had across the hemisphere and to take you back to the extraordinary volatility in our economy – in both real output and in inflation and inflation expectations – that accompanied the great expansion of traded capital markets both here and around the world.

In such an environment, you make or lose money in credit markets by anticipating (or failing to anticipate) the rapid swings in real and nominal interest rates. Anticipating the big macro-economic events becomes relatively more important than the particular circumstances of individual corporate or sovereign borrowers.

Catching the turns from the negative real U.S. interest rates in the late 1970s, to the highly-volatile nominal and real rates of the 1980s, and to the low nominal rates of the early 1990s, proved to be more important for creditors than the finer points of deciding the particular spreads that individual borrowers should pay over comparable U.S. Treasury yields. In that environment, it was good enough for bond traders, investment bankers and credit officers to form a consensus on rough rules of thumb for credit spreads, for both corporate and sovereign debt, as long as you could hang on for the ride as the underlying interest rates gyrated.

In a period of more stable real and nominal interest rates, by definition, it becomes relatively less important to anticipate the changes in underlying rates and, therefore, relatively more important to assess accurately the credit standing of individual borrowers.

In the latter half of the 1990s we moved into such an environment, one of much more stability in real output, in real interest rates and in inflation expectations. Even in the last two years, in the recession and recovery now beginning, we have seen much less volatility in real output and in long-term interest rates than most observers expected. In this environment, bond traders who were once thought to be "masters of the universe" have discovered that credit matters, that it is a little bit less about macro-economics and little bit more about the particular conditions of the borrower.

In international financial circles this is referred to as the question of "sustainability". In the somewhat blunter world of domestic finance, we say that it's about cash flow: it's about whether a borrower can meet its payment obligations.

In the summer of 1998, participants in global capital markets made a collective credit misjudgment. It was widely agreed that Russia was a better credit than Argentina that summer because Russia had missiles. Before that summer was over, it turned out that what mattered was cash flow.

More recently, in our domestic capital markets, we have learned that it is not enough to know what sector a company is in. You also need to know whether there is any real cash flow behind the corporate balance sheet.

The transition to world where credit matters has been an expensive learning process for some. The habits of the 1980s and early 1990s – of tracking indexes and trading off of rule-of-thumb spread relationships – have been hard to shed. Indeed, these habits can only prudently be shed if we keep our economy on the path of stable and sustainable growth and price stability.

A major benefit of our doing so will be greater stability and opportunity for developing economies. A world in which credit matters is a world with less contagion.

I am convinced that the relative lack of contagion from the current tragedy in Argentina, compared with the events in Mexico in 1994, is significantly a consequence of the greater expected stability of the U.S. economy and interest rates and also of our low and stable inflation expectations.

In 1994, financial markets had firmly in mind the then-recent spike in U.S. inflation up to 6 percent and the wide swings that our interest rates and exchange rates went through in the 1980s. While our interest rate markets did experience some heightened volatility late last year, they did so, in part, as they adjusted to the idea that our economy's performance would be much less volatile than had been feared: that real output would vary less than had been expected. Inflation expectations have also remained remarkably stable.

A world of more stable interest rates – and one of less divergence between real and nominal rates – is a world in which all borrowers will be judged on their own circumstances and not on the basis of the index that they are in or the language that they speak.

If at this important turning point we can get our economy back on a path of steady non-inflationary growth, and keep the trend of increasing convergence between our real and nominal interest rates, we will be able to keep training credit market participants to differentiate both corporate and sovereign borrowers on the basis of their fundamentals.

For both companies and countries, this will mean greater attention to their cash flow, to the question of whether they can sustain their debt service payments.

For countries this will also enable them to differentiate themselves more effectively on the basis of the environment they provide for economic growth, on their commitment to the rule of law, on the strength of their financial sector, on the competence of their administration and their commitment to fight corruption, and on their investments in human capital in education and health care.

In a world where credit matters, where we differentiate more carefully among borrowers, there will be fewer triple A companies here in the United States. And, in fact, we are now down to just eight.

In a world where credit matters, some countries may not be able to borrow at all in the traded capital markets. Some countries may fall out of investment grade status if their performance falls short. But other countries will be able to move up into investment grade status, as we have seen.

Credit markets that can effectively differentiate among borrowers will provide the strongest incentives for both the private sector and the public sector to pursue policies that will lead to prosperity throughout the Americas. And steady and sustainable real growth is truly the most important contribution that we can make to this process.

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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
May 6, 2002

Contact: Peter Hollenbach
(202) 691-3502

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

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

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$2,091,060,788
Held in Unstripped Form	$1,923,491,654
Held in Stripped Form	$167,569,134
Reconstituted in April	$12,372,990

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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PA-553

PO-3073

TABLE V - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, APRIL 30, 2002

Loan Description			Corpus STRIP CUSIP	Maturity Date	Amount Outstanding in Thousands			Reconstituted This Month [18]
					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	4,518,247	3,783,559	172,641
DQ8		12	AD5	05/15/05	4,260,758	1,887,805	2,372,953	61,106
DR6		10-3/4	AG8	08/15/05	9,269,713	6,259,613	3,010,100	291,800
DU9		9-3/8	AJ2	02/15/06	4,755,916	4,400,477	355,439	1,200
DN5		11-3/4	912800 AA7	11/15/14	5,015,284	1,755,100	3,260,184	28,000
DP0		11-1/4	912803 AA1	02/15/15	10,520,299	8,681,110	1,839,189	715,500
DS4		10-5/8	AC7	08/15/15	4,023,916	3,175,130	848,786	97,600
DT2		9-7/8	AE3	11/15/15	5,584,859	3,378,517	2,206,342	64,000
DV7		9-1/4	AF0	02/15/16	5,431,754	5,326,448	105,306	35,000
DW5		7-1/4	AH6	05/15/16	18,823,551	18,697,118	126,433	133,800
DX3		7-1/2	AK9	11/15/16	18,787,448	17,380,388	1,407,060	24,960
DY1		8-3/4	AL7	05/15/17	15,559,169	7,990,317	7,568,852	487,760
DZ8		8-7/8	AM5	08/15/17	10,968,358	7,289,355	3,679,003	880,325
EA2		9-1/8	AN3	05/15/18	6,717,439	3,124,639	3,592,800	204,400
EB0		9	AP8	11/15/18	7,174,470	2,816,547	4,357,923	188,200
EC8		8-7/8	AQ6	02/15/19	13,090,498	7,192,671	5,897,827	385,600
ED6		8-1/8	AR4	08/15/19	18,940,932	17,715,491	1,225,441	404,800
EE4		8-1/2	AS2	02/15/20	9,476,268	7,352,708	2,123,560	320,200
EF1		8-3/4	AT0	05/15/20	7,582,183	2,998,598	4,583,585	99,200
EG9		8-3/4	AU7	08/15/20	17,059,306	6,729,376	10,329,930	672,360
EH7		7-7/8	AV5	02/15/21	10,075,573	9,240,693	834,880	328,800
EJ3		8-1/8	AW3	05/15/21	10,066,788	4,839,525	5,227,263	546,280
EK0		8-1/8	AX1	08/15/21	9,506,382	7,106,726	2,399,656	657,040
EL8		8	AY9	11/15/21	30,632,194	16,404,938	14,227,256	1,691,150
EM6		7-1/4	AZ6	08/15/22	10,127,790	8,909,791	1,217,999	99,200
EN4		7-5/8	BA0	11/15/22	7,423,626	3,172,831	4,250,795	19,200
EP9		7-1/8	BB8	02/15/23	15,782,061	10,010,861	5,771,200	368,000
EQ7		6-1/4	BC6	08/15/23	22,659,044	19,252,484	3,406,560	32,900
ES3		7-1/2	BD4	11/15/24	9,604,162	3,614,082	5,990,080	117,800
ET1		7-5/8	BE2	02/15/25	9,509,170	4,048,969	5,460,201	553,400
EV6		6-7/8	BF9	08/15/25	11,187,207	7,857,165	3,330,042	287,120
EW4		6	BG7	02/15/26	12,837,916	11,578,816	1,259,100	166,600
EX2		6-3/4	BH5	08/15/26	8,810,418	6,227,600	2,582,818	422,600
EY0		6-1/2	BJ1	11/15/26	10,860,177	5,093,127	5,767,050	251,200
EZ7		6-5/8	BK8	02/15/27	9,521,971	6,275,116	3,246,855	295,000
FA1		6-3/8	BL6	08/15/27	9,196,756	7,215,356	1,981,400	242,600
FB9		6-1/8	BM4	11/15/27	22,021,339	11,676,639	10,344,700	304,200
FE3		5-1/2	BP7	08/15/28	11,776,201	11,016,201	760,000	137,600
FF0		5-1/4	BV4	11/15/28	10,947,052	10,299,652	647,400	0
FG8		5-1/4	BW2	02/15/29	11,350,341	10,871,045	479,296	13,600
FJ2		6-1/8	CG6	08/15/29	11,178,580	10,428,780	749,800	75,200
FM5		6-1/4	CH4	05/15/30	17,043,162	16,285,498	757,664	107,744
FP8		5-3/8	CK7	02/15/31	16,427,648	16,318,848	108,800	1,600
Total Treasury Bonds..........................					499,889,485	356,414,398	143,475,087	11,987,286
Treasury Inflation-Indexed Notes:								
CUSIP:	Series:	Interest Rate:						
912827 3A8	J	3-5/8	912820 BZ9	07/15/02	18,667,770	18,667,770	0	0
2M3	A	3-3/8	BV8	01/15/07	17,681,704	17,681,704	0	0
3T7	A	3-5/8	CL9	01/15/08	18,499,598	18,389,557	110,041	0
4Y5	A	3-7/8	DN4	01/15/09	17,238,198	17,238,198	0	0
5W8	A	4-1/4	EK9	01/15/10	11,962,296	11,962,296	0	0
6R8	A	3-1/2	GA9	01/15/11	11,236,898	11,236,898	0	0
7J5	A	3-3/8	GT8	01/15/12	6,011,428	6,011,428	0	0
Total Inflation-Indexed Notes....................					101,297,892	101,187,851	110,041	0
Treasury Inflation-Indexed Bonds:								
CUSIP:		Interest Rate:						
912810 FD5		3-5/8	912803 BN2	04/15/28	18,447,560	18,442,064	5,496	0
FH6		3-7/8	CF8	04/15/29	21,084,147	20,943,971	135,176	0
FQ6		3-3/8	CL5	04/15/32	5,020,054	5,020,054	0	0
Total Inflation-Indexed Bonds..........................					44,551,761	44,411,089	140,672	0

Loan Description			Corpus STRIP CUSIP	Maturity Date	Amount Outstanding in Thousands			Reconstituted This Month [10]
					Total Outstanding	Portion Held in Unstripped Form	Portion Held in Stripped Form	
Treasury Notes								
CUSIP	Series	Interest Rate						
912827 F49	A	7-1/2	912820 BD8	05/15/02	11,714,397	7,480,141	4,234,256	131,100
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	19,193,258	4,665,757	0
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	12,731,614	75,200	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	26,498,692	95,200	0
3Q3	P	5-3/4	CH8	11/30/02	12,120,580	11,740,380	380,200	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	11,640,593	411,840	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	13,096,640	4,000	0
6S6	I	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	21,881,843	1,680,848	97,304
3Y5	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	14,148,092	24,800	0
6V9	N	4-1/4	GE1	03/31/03	14,674,853	14,674,853	0	0
4D1	F	5-3/4	CW5	04/30/03	12,573,248	12,542,048	31,200	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	13,093,179	33,600	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	16,001,670	1,600	0
L83	B	5-3/4	BG1	08/15/03	28,011,028	25,625,988	2,385,040	14,000
4N9	J	5-1/4	DE4	08/15/03	19,852,263	19,782,463	69,800	0
7C0	T	3-5/8	GM3	08/31/03	18,665,038	18,665,038	0	0
7D8	U	2-3/4	GN1	09/30/03	22,675,482	22,675,482	0	0
7E6	V	2-3/4	GP6	10/31/03	25,147,960	25,146,360	1,600	0
4U3	K	4-1/4	DJ3	11/15/03	18,625,785	17,361,865	1,263,920	0
7G1	W	3	GR2	11/30/03	26,170,526	26,170,526	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
N31	A	5-7/8	BH9	02/15/04	12,955,077	12,202,997	752,080	33,200
5A6	E	4-3/4	DQ7	02/15/04	17,823,228	17,805,628	17,600	0
7M6	K	3	GW1	02/29/04	31,746,077	31,746,077	0	0
AA8	L	3-5/8	GX9	03/31/04	32,873,508	32,873,508	0	0
AB6	M	3-3/8	GY7	04/30/04	32,658,867	32,658,867	0	0
P89	B	7-1/4	BJ5	05/15/04	14,440,372	13,632,772	807,600	41,000
5F5	F	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	11,455,227	1,891,240	8,900
5M0	G	6	DZ7	08/15/04	18,089,806	18,089,806	0	0
R57	D	7-7/8	BL0	11/15/04	14,373,760	14,369,160	4,600	0
5S7	H	5-7/8	EE3	11/15/04	32,658,145	32,658,145	0	0
S85	A	7-1/2	BM8	02/15/05	13,834,754	13,227,264	607,490	46,800
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	28,386,570	175,800	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	14,737,440	472,480	0
6N7	F	5-3/4	FX0	11/15/05	28,062,797	27,793,197	269,600	0
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	15,243,275	772,200	1,600
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
Z52	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	34,995,629	384,500	400
2J0	B	6-1/4	BW6	02/15/07	13,103,678	12,590,250	513,428	9,800
2U5	C	6-5/8	BX4	05/15/07	13,958,186	13,736,671	221,515	0
3E0	D	6-1/8	CA3	08/15/07	25,636,803	25,021,003	615,800	1,600
3X8	B	5-1/2	CQ8	02/15/08	13,583,412	13,556,412	27,000	0
4F5	C	5-5/8	CY1	05/15/08	27,190,961	27,124,401	66,560	0
4V1	D	4-3/4	DK0	11/15/08	25,083,125	25,069,125	14,000	0
5G3	B	5-1/2	DV5	05/15/09	14,794,790	14,750,290	44,500	0
5N8	C	6	EA1	08/15/09	27,399,894	27,304,894	95,000	0
5Z1	B	6-1/2	EM5	02/15/10	23,355,709	23,351,109	4,600	0
6J8	C	5-3/4	FT9	08/15/10	22,437,594	22,434,594	3,000	0
6T4	B	5	GC5	02/15/11	23,436,329	23,430,569	5,760	0
7B2	C	5	GL5	08/15/11	26,635,316	26,631,316	4,000	0
7L0	B	4-7/8	GY3	02/15/12	13,389,295	13,389,295	0	0
Total Treasury Notes					1,445,321,650	1,421,478,316	23,843,334	385,704
Grand Total					2,091,060,788	1,923,491,654	167,569,134	12,372,990

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
May 6, 2002

Contact: Peter Hollenbach
(202) 691-3502

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY TORNADOES IN MARYLAND

The Bureau of Public Debt took action to assist victims of severe weather in Maryland by expediting the replacement or payment of United States Savings Bonds for owners in the areas. The emergency procedures are effective immediately for paying agents and owners in Maryland affected by the storms. These procedures will remain in effect through the end of June 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.

Maryland counties involved are Calvert, Charles and Dorchester. 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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PA-554

www.publicdebt.treas.gov

PO-3074

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.
May 6, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $20,000 million to refund an estimated $14,000 million of publicly held 4-week Treasury bills maturing May 9, 2002, and to raise new cash of approximately $6,000 million.

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

The Federal Reserve System holds $13,850 million of the Treasury bills maturing on May 9, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders in this auction up to the balance of the amount not awarded in today's 13-week and 26-week Treasury bill auctions. Amounts awarded to SOMA will be in addition to the offering amount.

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

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

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

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

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

oOo

Attachment

PO-3075

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED MAY 9, 2002

May 6, 2002

Offering Amount ....$20,000 million
Public Offering ....$20,000 million
NLP Exclusion Amount ....$10,400 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 JX 0
Auction date ....May 7, 2002
Issue date ....May 9, 2002
Maturity date ....June 6, 2002
Original issue date ....December 6, 2001
Currently outstanding ....$40,595 million
Minimum bid amount and multiples $1,000

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

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

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

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May 6, 2002

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $69,177 million at the end of the latest week, compared to $68,361 million at the end of the prior week.

(in US millions)

I. Official U.S. Reserve Assets	April 19, 2002			April 26, 2002		
TOTAL			68,361			69,177
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	5,511	10,214	15,725	5,576	10,399	15,975
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	9,309	4,259	13,568	9,406	4,336	13,741
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]			17,171			*17,493*
3. Special Drawing Rights (SDRs) [2]			10,853			*10,923*
4. Gold Stock [3]			11,044			11,044
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.

PO-3076

Offical Reserve Assets Worksheet
(actual US dollar amounts)

	Last Week	This Week		
Enter Dates Here	19-Apr-02	26-Apr-02		

Foreign Currency	19-Apr-02	26-Apr-02	Change	
Euro Securities	$5,510,661,564.51	$5,575,742,604.57	65,081,040	Source: NY Fed (fax)
Yen Securities	$10,214,495,118.77	$10,399,350,140.43	184,855,022	copy and paste data into last week
Sec. Total	$15,725,156,683.28	$15,975,092,745.00	249,936,062	and put new data from fax into right column
Euro Deposits	$9,309,103,544.28	$9,405,897,408.55	96,793,864	
Yen Deposits	$4,258,513,820.25	$4,335,594,093.71	77,080,273	
Deposit Total	$13,567,617,364.53	$13,741,491,502.26	173,874,138	
Total	$29,292,774,047.82	$29,716,584,247.26	423,810,199	
Euro Rate	$0.8893	$0.8980		
Yen Rate	130.5	128.18		

IMF	19-Apr-02	26-Apr-02		Source: IMF (email)
		(prelim, with adjust.)		*put actual dollar figures in for last wee*
Reserve Tranche	17,170,862,625.08	17,493,126,656.22	322,264,031.14	
GAB	0.00	0.00	0.00	
NAB	0.00	0.00	0.00	
Total	17,170,862,625.08	17,493,126,656.22	322,264,031.14	
SDR	10,853,059,113.92	10,923,010,735.93	69,951,622.01	
			0.00	

as of 10/31/01	19-Apr-02	26-Apr-02		Source : FMS website
Gold	11,044,405,898.89	11,044,405,898.89	0.00	http://www.fms.treas.gov/gold
			0	

	19-Apr-02	26-Apr-02
Other Res.Assets	0	0

TOTAL	**68,361,101,685.71**	**69,177,127,538.30**	816,025,852.59

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

Prelim. IMF Data Calculation Section	**IN SDRs 19-Apr-02**	**Adjustments**		**SDR rate for 26-Apr-02**	**In USD**
Reserve Tranche	13,882,492,835		13,882,492,835	0.793597	$17,493,126,656.22
GAB	0		0		$0.00
NAB	0		0		$0.00
			13,882,492,835	Total =	$17,493,126,656.22
SDRs	8,668,468,551		8,668,468,551	SDRs =	$10,923,010,735.93

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

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
May 06, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	May 09, 2002
Maturity Date:	August 08, 2002
CUSIP Number:	912795KV2

High Rate: 1.740% Investment Rate 1/: 1.773% Price: 99.560

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 78.89%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 28,030,267	$ 13,341,695
Noncompetitive	1,518,552	1,518,552
FIMA (noncompetitive)	140,000	140,000
SUBTOTAL	29,688,819	15,000,247 2/
Federal Reserve	5,197,476	5,197,476
TOTAL	$ 34,886,295	$ 20,197,723

Median rate 1.730%: 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 = 29,688,819 / 15,000,247 = 1.98

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,261,794,000

http://www.publicdebt.treas.gov

PO-3077

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
May 06, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	May 09, 2002
Maturity Date:	November 07, 2002
CUSIP Number:	912795LJ8

High Rate: 1.850% Investment Rate 1/: 1.893% Price: 99.065

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 31.49%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 29,420,480	$ 13,631,630
Noncompetitive	1,213,696	1,213,696
FIMA (noncompetitive)	155,000	155,000
SUBTOTAL	30,789,176	15,000,326 2/
Federal Reserve	5,759,508	5,759,508
TOTAL	$ 36,548,684	$ 20,759,834

Median rate 1.840%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.800%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 30,789,176 / 15,000,326 = 2.05

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $993,711,000

http://www.publicdebt.treas.gov

PO-3078

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
May 7, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Treasury Department Announces Office of Financial Education

New Deputy Assistant Secretary for Financial Education in Place

The Treasury Department today announced the establishment of the Office of Financial Education (OFE) as part of its ongoing effort to improve financial education for all Americans. The OFE will develop and implement financial education policy initiatives, and will oversee and coordinate Treasury's outreach efforts.

Secretary Paul O'Neill has made financial education a focus at Treasury. Assistant Secretary for Financial Institutions Sheila Bair and U.S. Treasurer Rosario Marin are leading the Treasury effort to spread financial knowledge to Americans of all ages. Judy Chapa, Treasury's new Deputy Assistant Secretary for Financial Education, is heading up the OFE, effective May 6.

"The Office of Financial Education will play a key role in coordinating Treasury's efforts to improve the financial skills of all Americans," said Secretary O'Neill. "The Office will develop a long-term, multi-faceted approach to expanding our nation's money management skills. This is an area of great importance to me personally, to the Treasury Department, and to President Bush."

"The creation of this office is a tremendous step forward for the cause of financial literacy," said U.S. Treasurer Rosario Marin, who has been one of the Administration's leading advocates of financial education.

Ms. Chapa, who has more than 15 years of experience in marketing, public and government relations and community affairs, previously was Manager of External Affairs for Miller Brewing Co., Milwaukee, WI. In 1999, she served as the Executive Director of the New Majority Council for the Republican National Committee, where she developed and executed strategic plans aimed at increasing voter participation.

PO-3079

Ms. Chapa also worked as marketing director at The Laredo National Bank, Houston, TX, during 1997-98 and as director for Hispanic marketing at Banc One Corp., Columbus, OH, during 1994-97. Prior to 1994, Ms. Chapa was a corporate affairs regional manager at RJR Tobacco Co., Houston, TX. She earned a Bachelor of Science degree in broadcast journalism from the University of Texas in 1981.

-30-

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FOR IMMEDIATE RELEASE
May 7, 2002

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

Opening Remarks by
Deputy U.S. Treasury Secretary Kenneth Dam
at the Pacific Basin Economic Council Meeting
Kuala Lumpur, Malaysia
May 6th

Thank you for coming today.

Before taking your questions, let me tell you why I am here in Asia (for the 3rd time in 5 onths), what I am trying to achieve, and why my trip is of particular importance to President Bush and the United States Treasury.

I am visiting three Asian nations this week - Malaysia, China and South Korea. The purpose is to launch a new international economic initiative aimed at transforming financial sectors into engines of growth. This represents a new Bush Administration international economic policy initiative.

We believe that well-developed and competitive financial sectors must be the engines of growth in this decade. My intention is to spotlight what I see as early successes in Asian financial markets and to draw attention to where increased competition and better, more transparent regulation can clear a path to stronger economic growth. I will initiate a new economic dialogue with my Asian counterparts on ways we can encourage further financial sector openness in Asia. These efforts are, in my view, essential so that Asian countries can make the best use of their deep pools of domestic savings. Efficient use of domestic capital will be the new economic challenge for Asia in this century. This is the real path to sustainable economic growth.

Gone are the days when a national airline and heavy investments in manufacturing were badges of economic advancement. Now, in the 21st century, the fate of all our economies is intertwined. The world economy is no longer a zero-sum game. We have entered a period of convergence. When the United States grows, Asia grows. And vice-versa. It's that fundamental.

PO-3080

The global economy now stands at the leading edge of a new millennium in which world-class financial sectors – that are deep, flexible and resilient -- will be the engines of growth.

The path to transforming the world's financial sectors into engines of growth, we believe is through increased productivity. And the path to productivity, we believe, is through freer trade and investment in financial sectors.

Freer trade and investment in financial services enhances capital market efficiency. It bolsters financial sector stability, stimulates innovation, and provides businesses and consumers with the broadest range of financial products at the lowest cost. In short, freer trade in financial services enhances productivity.

When I say trade, I include FDI, after all, the right to have a local presence is normally essential to providing financial services. Openness in financial services also promotes access to new technologies and best practices. This has sped the development of on-line banking, securities trading, insurance services, and financial information services.

Therefore, I am using this trip to heighten the visibility of stronger and more advanced trade and investment in financial services. The connection between fully developed financial markets and economic growth is clear. The issue warrants being placed squarely on the global economic agenda. More frankly, it has not been until now.

While in Malaysia, China and South Korea, I will be hoping to enlist key Asian policymakers in an international effort to persuade leaders here and elsewhere to embrace greater openness to financial services trade and investment and financial sector liberalization.

I hope – through listening and engaging in constructive dialogue this week - to deepen and diversify the economic ties so that we can bring this issue to the forefront of governments in Asia and the rest of the world.

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
May 07, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	May 09, 2002
Maturity Date:	June 06, 2002
CUSIP Number:	912795JX0

High Rate: 1.725% Investment Rate 1/: 1.749% Price: 99.866

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 82.43%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 51,756,500	$ 19,969,725
Noncompetitive	30,338	30,338
FIMA (noncompetitive)	0	0
SUBTOTAL	51,786,838	20,000,063
Federal Reserve	2,893,222	2,893,222
TOTAL	$ 54,680,060	$ 22,893,285

Median rate 1.715%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.680%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 51,786,838 / 20,000,063 = 2.59

1/ Equivalent coupon-issue yield.

PO-3081

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
May 07, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Interest Rate:	4 3/8%	Issue Date:	May 15, 2002
Series:	E-2007	Dated Date:	May 15, 2002
CUSIP No:	912828AC4	Maturity Date:	May 15, 2007

High Yield: 4.475% Price: 99.556

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 71.82%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 37,314,525	$ 21,500,265
Noncompetitive	499,802	499,802
FIMA (noncompetitive)	0	0
SUBTOTAL	37,814,327	22,000,067 1/
Federal Reserve	2,340,909	2,340,909
TOTAL	$ 40,155,236	$ 24,340,976

Median yield 4.430%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 4.395%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 37,814,327 / 22,000,067 = 1.72

1/ Awards to TREASURY DIRECT = $259,873,000

PO-3082

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EMBARGOED UNTIL 11:00 A.M.
May 8, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS CASH MANAGEMENT BILLS

The Treasury will auction approximately $12,000 million of 7-day Treasury cash management bills to be issued May 10, 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.

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Attachment

HIGHLIGHTS OF TREASURY OFFERING
OF 7-DAY CASH MANAGEMENT BILLS

May 8, 2002

Offering Amount ....$12,000 million
Public Offering ....$12,000 million

Description of Offering:
Term and type of security ....7-day Cash Management Bill
CUSIP number ....912795 KN 0
Auction date ....May 9, 2002
Issue date ....May 10, 2002
Maturity date ....May 17, 2002
Original issue date ....May 10, 2002
Currently outstanding .... ---
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., 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.

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

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Statement of
Jimmy Gurulé, Under Secretary for Enforcement
U.S. Department of the Treasury

Before the

Commission on Security and Cooperation in Europe

Chairman Campbell, Co-chairman Smith, Ranking Member Hoyer, and Members of the Commission, I am privileged to be here today to discuss the Treasury Department's efforts in combating terrorist financing and ways in which the Department can work more closely with this Commission and the Member States of the Organization of Security and Cooperation in Europe (OSCE).

This is my first appearance before the Helsinki Commission since being confirmed as the Treasury Department's Under Secretary for Enforcement. The Commission has played a crucial role since 1976 in monitoring and encouraging compliance with the Helsinki Final Act and other OSCE documents. Therefore, it is a special honor for me to be here today.

My testimony today will focus on three areas: 1) an overview of Treasury Enforcement; 2) the Treasury Department's counter terrorist financing activities; and 3) the contributions of OSCE Member States in the war against terrorist financing and ways in which the Treasury Department and OSCE can coordinate more closely in this global financial battle.

I. Treasury Enforcement Overview

The mission of Treasury law enforcement is uniquely suited to combating terrorist financing, as well as to playing 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. Treasury Enforcement comprises approximately 40 percent of

PO-3084

Federal law enforcement, with a budget of $5.3 billion and more than 31,000 dedicated men and women who quietly and selflessly serve their country every day -- often at great personal peril and sacrifice.

The Office of Enforcement oversees and provides policy guidance to five bureaus, and includes the Office of Foreign Assets Control and the Executive Office for Asset Forfeiture. I take this opportunity to highlight for the Helsinki Commission the roles and missions of the Treasury law enforcement bureaus and offices.

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.

U.S. Customs Service

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. Customs also is the second largest source of revenue for the U.S. Government.

Bureau of Alcohol, Tobacco and Firearms

The Bureau of Alcohol Tobacco and Firearms 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 are the terrorists' weapon of choice.

Federal Law Enforcement Training Center

The Federal Law Enforcement Training Center (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.

FinCEN

The Financial Crimes Enforcement Network supports law enforcement investigative 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. On November 7, 2001, President Bush, Treasury Secretary O'Neill, Secretary of State Powell and Attorney General Ashcroft visited the FinCEN offices.

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.

Office of Foreign Assets Control

The Office of Foreign Assets Control (OFAC), an office within the Office of Treasury Enforcement, administers and enforces economic and trade sanctions against targeted foreign countries, terrorism sponsoring organizations and international narcotics traffickers based on U.S. foreign policy and national security goals. OFAC 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-Qaida and other global terrorist groups.

II. Treasury's Role in Combating Terrorist Financing

Combating terrorism and terrorist financing has become the Nation's primary agenda and is the top priority for the Treasury Department and the Office of Enforcement. 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.

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 and through a plethora of sources, including banks, charities, hawalas[1], narcotics traffickers, and money launderers.

[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.

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 Helsinki Commission this morning that Treasury has named 210 individuals and entities as financiers of terrorism pursuant to the President's September 23rd Executive Order, and has blocked over $34.3 million in assets. Our Coalition partners have blocked another $81.3 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.

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, 6 indictments, the seizure of nearly $4 million, and bulk cash seizures -- cash smuggling -- of over $12 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.

Blocking Assets

One of the higher profile results of OFAC and intelligence community 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 on November 7, 2001. 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 has led to additional leads and a money laundering conviction in the Al-Barakaat investigation.

Joint Designations

Our efforts to block the assets of terrorist financiers and supporters have truly become an international endeavor. Over the past two months, our partners abroad have engaged directly in proactively identifying and freezing the assets of terrorist organizations and supporters.

On May 3, 2002, the European Union and the United States took coordinated actions against the assets of several terrorist groups and individuals – including seven individuals and one group related to ETA, the Basque terrorist group. This follows the EU's actions, which we joined, in late December of 2001. On April 19th, the G-7 Finance Ministers joined in Washington and jointly designated nine individuals and one entity as terrorist supporters or financiers related to al-Qaida. Among those designated were The Aid Organization of the Ulema (AOU), headquartered in Pakistan, which was previously operating as al Rashid Trust, an entity that was among one of the first organizations named as a terrorist financial facilitator in September 2001. This organization has been raising funds for the Taliban since 1999. In addition, the G-7 designated two prominent individuals, Abu Hamza al-Masri and Ahmed Idris Nasreddin, who have been facilitators of terrorist organizations linked to al-Qaida. This action was the first multilateral joint designation, which marks a new stage of information sharing, collaboration, and coordinated action in this field.

The G-7 action followed on the heels of the March 11th joint designation between the United States and the Kingdom of Saudi Arabia. On the six month anniversary of the September 11th attacks, our countries jointly took a bold step in the war on terrorist financing by making the 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.

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[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.

With the March 11th action, 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-Qaida, AIAI (al-Itihaad al-Islamiya), and others. 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.

The joint blocking actions of April 19th and March 11th , and the continued cooperation with the EU, are especially significant because these actions signify the growing strength of the anti-terror coalition and mark a new level of international coordination and cooperation.

As part of our overall strategy to maintain the international momentum in our battle against terrorist financing, Treasury Secretary O'Neill has taken critical trips to the Persian Gulf region and Europe to discuss the importance of coordinated action in this arena. While in Europe last month, the Secretary met with his counterparts in Germany, France, and the United Kingdom where he obtained commitments to work closely on operational and structural issues related to the war against terrorist financing. On this trip, our European colleagues recommitted to taking aggressive steps along with the United States to attack the structural underpinnings of terrorist financing. In the Persian Gulf, the Secretary gained the commitment of our allies to work together on regulatory issues, like the oversight of charities and hawalas, and to combat generally the menace of terrorist financing. In these trips, the Secretary has reiterated this country's commitment to battle terrorism on all fronts, and he has obtained the support and cooperation of all these countries.

We at Treasury have been extensively engaged in this international outreach. In my trip to Europe in December 2001, I called on my Spanish, French and British counterparts to work with us to develop new ways of sharing information and taking aggressive steps to shut down terrorist financing networks. Treasury will continue to work with our allies for concrete actions in this area.

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. The Treasury Department, 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-Qaida network.

Treasury has worked with regional organizations such as APEC and the Manila Framework Group to further coordinate international efforts to stop the financing of terrorism. In March, we, along with the State Department, participated in an ASEAN Regional Forum (ARF) and Pacific Island Forum (PIF) regarding counter-terrorism and financing issues. These fora provide an opportunity to expand our efforts and to engage the entire world in this endeavor.

In light of the regional composition of the OSCE and the jurisdictional interest of the Helsinki Commission, I would like to take this opportunity to highlight Treasury Enforcement's work with a number of European multilateral organizations. The members of these organizations also are Participating States within the OSCE.

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 with the international financial institutions to combat terrorist financing in a global, systematic way.

At this point, I will highlight specific examples of counter terrorist financing activities in these organizations. On November 17, 2001, the G-20 finance ministers and central bank governors met in Ottawa, Canada and agreed that they would block terrorist assets in their respective countries, and report publicly on precisely which terrorist groups each country has blocked and the amount of actual monies blocked, if any. Meeting the next day, the governing body of the International Monetary Fund (IMF) announced that the IMF would take similar steps.

In February 2002, the G-7 group of industrialized countries met in Ottawa and agreed to an ambitious new work program. In particular, the G-7 agreed to develop a mechanism to identify jointly terrorists whose assets would be subject to freezing. This announcement has led to even closer cooperation and commitment between and among the G-7 countries. Treasury continues to work with the G-7 on developing key principles regarding information to be shared, the procedures for sharing it, and the protection of sensitive information.

The Financial Action Task Force on Money Laundering (FATF) is a 31-member organization committed to attacking the problem of money laundering on an international basis. Treasury's Office of Enforcement chairs the U.S. Delegation to FATF, and through its leadership, has applied the use of the successful FATF to address the issue of terrorist financing.

At the end of October 2001, the Treasury Department, in conjunction with the Departments of Justice and State, hosted an Extraordinary Plenary session of FATF in Washington, D.C., 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.

Treasury Enforcement also supports FinCEN's active involvement in the growing network of financial intelligence networks or FIUs. The specialized agencies created by governments to fight money laundering first met in 1995 at the Egmont-Arenberg Palace in Belgium to share experiences. Now known as the Egmont Group, these FIUs meet annually to find ways to cooperate, especially in the areas of information exchange, training, and the sharing of expertise.

This global network of information exchange and cooperation has been a valuable and responsive avenue of terrorist-related information. As I mentioned above, FinCEN hosted a special meeting of the Egmont Group on terrorist financing in October 2001, to support the unprecedented law enforcement investigation in the wake of the events of September 11th. During that special meeting, the Egmont Group agreed to: (1) review existing national legislation to identify and eliminate existing impediments to exchanging information between FIUs, especially when such information concerns terrorist activity; (2) encourage national governments to make terrorist financing a predicate offense to money laundering and to consider terrorist financing one form of suspicious activity for which financial institutions should be on the look out; (3) pass requests for information involving FIUs exclusively between FIUs rather than other government agencies; (4) have FIUs play a greater role in screening requests for information; and (5) pool Egmont Group resources, where appropriate, to conduct joint strategic studies of money laundering vulnerabilities, including Hawala.

Combating Money Laundering

The Office of Enforcement is about to publish the National Money Laundering and Terrorist Financing Strategy of 2002, and is overseeing the implementation of the 2001 National Money Laundering Strategy. The main focus of the Strategy is on the prosecution of the war against terrorist financing and investigation of major money laundering enterprises and sophisticated networks. This work has been significantly impacted by the passage of the USA PATRIOT Act.

One recent enforcement success has international implications -- 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.

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. In March 2002, 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's anti-money laundering efforts directly involve the cooperation of European countries, and our efforts will not be successful without the continued cooperation of our allies in Europe.

III. OSCE Contributions and Treasury Coodination

The Treasury Department supported the action taken by the OSCE in Bucharest on December 4, 2001, when the OSCE adopted the Bucharest Plan of Action for Combating Terrorism. Section 24 of the Bucharest Plan of Action, entitled "Suppressing the financing of terrorism," calls on Participating States to suppress the financing of terrorism, criminalize the collection or provision of funds for terrorist purposes, and freeze terrorist assets, all within the framework of the U.N. Convention on the Suppression of Financing of Terrorism. The section also calls on Participating States to enhance information sharing.

Less than two weeks after the Plan of Action was adopted, the OSCE, in partnership with the U.N. Office for Drug Control and Crime Prevention (UN ODCCP) sponsored an international conference in Bishkek, Tashkent, on Enhancing Security and Stability in Central Asia: Strengthening the Comprehensive Efforts to Counter Terrorism. This forum provided an important opportunity to consider the special challenges and threats to the security of the Central Asian region as a neighbor to Afghanistan.

In addition to these strong actions taken by the OSCE, many of the Participating States of the OSCE also are members of other European multilateral organizations. Much progress already has been made since September 11th, and we look forward to continued cooperation on operation as well as macro-level structural issues related to terrorist financing.

It is my view that there are a number of areas for enhanced participation by OSCE Participating States in the financial war against terrorism, as well as for enhanced cooperation between Treasury Enforcement and the OSCE.

I had the opportunity to meet at the Treasury Department with Ambassador Stephen Minikes, shortly after he was confirmed as the new U.S. Ambassador to the OSCE and prior to his departure for Vienna. We discussed a number of new ways Treasury Enforcement and other programs within Treasury could support his efforts and the work of OSCE and its membership in counter terrorism and counter terrorist financing. I am scheduled to meet again with Ambassador Minikes later this month to discuss additional ways to enhance cooperation and coordination.

OSCE Economic Forum

One area in which Treasury Enforcement can work directly and immediately with the OSCE is at its annual Economic Forum in Prague, scheduled for May 28 - 31, 2002. This year's conference topic is water management and transboundary issues; however, a special meeting on terrorist financing issues has been included in the agenda. I have authorized two officials from Treasury Enforcement to participate in OSCE's annual Economic Forum in Prague scheduled for May 28 - 31, 2002. They will join their colleagues from the State Department to support OSCE's efforts on counter terrorist financing.

The Economic Forum will provide an excellent opportunity to discuss international standards in the fight against money laundering and terrorist financing, including the role of FATF and its Eight Special Recommendations. National experts will participate to advise on ways to strengthen OSCE Participating States' capabilities in implementing these guidelines, especially the establishment of Foreign Intelligence Units (FIUs). The Forum also will provide the opportunity for bilateral and multilateral discussions on counter terrorist financing cooperative initiatives.

Another area in which the OSCE can be especially helpful is to encourage and assist other countries in developing legislation or setting up FIUs, especially in Central Asia and the Caucasus. A number of Central Asian states agree in principle with the need to adopt the FATF recommendations, but require advice or assistance in how to accomplish this objective or overcome technical (and in some cases, legal) obstacles to implementing them. The Participating States of the OSCE which have mechanisms in place for counter terrorist financing could share their expertise with those OSCE Participating States that require technical assistance.

International Law Enforcement Academy -- Budapest

Another area in which the Treasury Department and its Office of Enforcement can assist Participating States of the OSCE is in the provision of international training. Treasury's Federal Law Enforcement Training Center has conducted training programs in support of the U.S. Government's interest in international law enforcement activities since 1984. FLETC was a founding partner in the Department of State's Antiterrorism Assistance Training Program, which has provided specialized training in topics such as seaport and aviation security to countries cooperating with the United States. Some of those programs have been conducted overseas and others at FLETC sites and other locations arranged by the Department of State in the U.S.

Typically, FLETC's international training has been a three-pronged effort: 1) assessment in conjunction with the foreign government of existing needs; 2) implementation of the training; and 3) follow-up validation of the training to measure effectiveness or address needed adjustments. FLETC also is a principal member agency of the group formed by the Department of State for its International Law and Democracy Program. FLETC supports this effort through the International Law Enforcement Academy (ILEA) operations in various regions of the world, including the ILEA in Budapest, Hungary for countries in that region, and through bilateral training programs.

Of special interest to the members of the Helsinki Commission, the ILEA in Budapest has provided International Banking and Money Laundering training to officials in Russia, Poland, Romania, Ukraine, Lithuania and Kazakhstan. Examples of other programs which have been provided include Human Dignity and Police Training, Health Care Fraud, Computer Investigations and Security and Under Cover Operations. FLETC, working with the State Department has assisted in numerous training needs assessments for newly emerging democracies throughout Eastern Europe.

I am pleased to report to the Helsinki Commission that I have requested FLETC to develop a Terrorist Financing Training Program in Europe and elsewhere. My goal is to be able to provide a three to five day training program on Terrorist Financing at the ILEAs in Budapest and Bangkok in the near future. When this program is implemented, it will be of immediate benefit to law enforcement officials in the OSCE region.

IV. Conclusion

In conclusion, the OSCE's Bucharest Plan of Action for Combating Terrorism, the Bishkek Declaration, and the upcoming Economic Forum represent three significant steps the OSCE has taken since September 11th to counter terrorism and terrorist financing. The Treasury Department's enhanced cooperation and coordination with the OSCE and its Participating States will result in a force multiplier in this global battle.

I thank the members of the Helsinki Commission for holding this hearing today and for your support of Treasury Enforcement. I look forward to answering any questions you may have.

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STATEMENT OF
ANDREW LYON, DEPUTY ASSISTANT SECRETARY FOR TAX ANALYSIS
UNITED STATES DEPARTMENT OF THE TREASURY
BEFORE THE COMMITTEE ON FINANCE
UNITED STATES SENATE
HEARING ON REVENUE ISSUES RELATED TO THE HIGHWAY TRUST FUND

Mr. Chairman and Members of the Committee, I appreciate the opportunity to describe recent trends in actual highway-related excise taxes, briefly describe how funds are credited to the Highway Trust Fund, discuss the Administration's FY 2003 Budget forecast of related excise taxes, and highlight areas that Treasury is evaluating as a part of its ongoing simplification project.

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

[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 FY 2000 and 2001 includes three quarters of actual tax receipts certified by the IRS. Receipts for the last quarter of the fiscal 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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There was a rapid downturn in highway-related excise taxes as the economy began weakening in the summer of 2000 and continuing through 2001. Tax receipts deposited in 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.

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 as a proportion of total fuel use 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, the substitution of gasohol fuels for gasoline will result in a net reduction in Highway Account receipts.

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.

How Receipts Get to the Highway Trust Fund

Motor fuel, which accounts for more than 90 percent of trust fund receipts, is taxed when it moves out of the bulk transportation and storage network and into tanker trucks at the terminal rack. At this point the fuel is taxed or dyed if it is diesel or kerosene intended for nontaxable purposes. The owner of the fuel as it passes the terminal rack, the registered position holder, is liable for payment of the tax.

Taxpayers with more than $2,500 in net excise tax liability are required to make semi-monthly estimated payments and typically rely on safe harbor rules in determining the amount to deposit. For example, safe harbor rules permit taxpayers to make deposits of 1/6th of their tax liability from the quarter two quarters prior to the current quarter. These deposits are typically made via the Electronic Federal Tax Payment System and are initially deposited in the Treasury's General Fund. At the time of these deposits, taxpayers are not required to itemize which excise taxes they are depositing; they simply indicate that it is for excise taxes. This deposit may be for any of approximately 50 different excise taxes. Even taxpayers that exclusively owe taxes on motor fuel are likely to have tax liability for a combination of gasoline, diesel, kerosene, gasohol and possibly various alternative fuels. These fuels are taxed at different rates and distributed in different proportions across four different accounts: the two accounts of the Highway Trust Fund, the Leaking Underground Storage Tank Trust Fund, and the General Fund.

In the absence of sufficient information from the taxpayer regarding the composition of excise tax deposits, tax receipts appropriated to the Highway Trust Fund are estimated as called for in Section 9601 of the Internal Revenue Code. Thus on a semimonthly basis the Office of Tax Analysis allocates incoming excise tax receipts based on historical liability shares as an estimate of the amounts appropriated to the Highway Trust Fund.

Taxpayers report their tax liability for most excise taxes quarterly on Form 720, which is due one month following the close of the quarter. On the Form 720 taxpayers itemize their liability, for example reporting the number of gallons of each type of fuel and the tax due, and claims of nontaxable use of the fuel. Any balance due or overpayment is settled at the time the Form 720 is filed. Taxpayers report liability for the heavy vehicle use tax on Form 2290. For vehicles in use in July the return is due by August 31; otherwise it is due by the end of the month following the month the vehicle is first used. In general, payment must be paid in full with the return or in quarterly installments.

In conjunction with taxpayer payment records, the Internal Revenue Service (IRS) uses the Form 720 and Form 2290 returns to calculate the Highway Trust Fund Certification of taxes collected for the quarter. After processing the excise tax return the IRS compares the reported tax liability with the deposits received from each taxpayer. In cases where taxpayers have reported tax liability exceeding their deposits, deposits are allocated based on their prorated reported liability to assure that certified amounts equal tax collections. On the quarterly certification IRS reports the total prorated liability for the quarter. In order to allow time for late filing by taxpayers, amended returns, or adjustments from examinations, the certification is issued approximately four and a half months following the due date of the return. The certified amount is then compared to the amounts transferred as estimated. Reconciling adjustments are made to the trust fund accounts for any differences between the certified amounts and the amounts previously transferred.

In the past, the end of year financial statements for the Highway Trust Fund were not finalized until February, hence the final statements reflected three quarters of certified receipts and one quarter of estimates. The reconciling adjustment for the final quarter of the year would be reflected in the subsequent fiscal year. Beginning in FY 2002 Treasury will finalize the end of year financial statements in November, six weeks following the close of the fiscal year. As a result, beginning this year the end of year financial statements will reflect two quarters of actual receipts and two quarters of estimated receipts.

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.

While Gasoline and Diesel tax receipts are entirely dedicated to the Highway and Leaking Underground Storage Tank Trust Funds, some 2.5 cents per gallon of Gasohol receipts are retained in the General Fund. This general revenue from gasohol fuels is estimated to be almost $600 million in FY 2003 and, if the taxes were extended, almost $800 million in FY 2012. In addition, it is estimated that in FY 2003 approximately $1.1 billion in excise tax receipts will be forgone due to the excise tax exemption for ethanol fuels; in FY 2012 the excise tax exemption is estimated to reduce Highway Trust Fund receipts by $1.5 billion.[3]

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.

Administrative and Compliance Difficulties with Highway Excise Taxes

Maintaining the flow of receipts into the Highway Trust Fund requires continuing efforts to secure better tax compliance. Over the last decade there have been three major compliance success stories.

[3] This is an updated Tax Expenditure estimate reflecting the ethanol consumption in the current forecast. The Tax Expenditure estimate does not consider changes in the use of fuel that may accompany a change in tax policy. For further detail on Tax Expenditures, see Chapter 6 of the Analytical Perspectives volume of the Fiscal Year 2003 Budget.

Moving the point of taxation for motor fuels to the terminal rack significantly reduced opportunities for tax evasion, some of it carried out on a multi-million dollar scale by sophisticated criminal organizations. Requiring diesel fuel, home heating oil and other diesel substitutes to be dyed red if sold tax-free eliminated another source of evasion. The third has been the taxation of undyed kerosene on the same basis as the regular diesel fuel with which it is often mixed.

Combating fuel tax evasion occurring outside the main distribution network is a continuing effort of the IRS in cooperation with State tax authorities. Untaxed kerosene intended to be used as aviation fuel, "transmix" taken out of pipelines, waste vegetable oils, used dry-cleaning fluids, and other chemicals may be mixed with diesel fuel and find their way into the fuel tanks of trucks on the road. New initiatives are under way to combat this form of evasion. One is a detailed, computerized information system developed in cooperation with the petroleum industry and the States that will allow all fuels to be tracked from the refinery gate all the way through the distribution system. Another is "fuel fingerprinting," a technique that tests samples taken from retail stations for adulteration or for a mismatch with samples taken from the terminal racks that normally supply those stations. These continuing efforts are supported in part by a small appropriation from the Highway Trust Fund of moneys used specifically for compliance efforts.

The annual use tax involves all owners of heavy highway vehicles and imposes significant compliance burdens on taxpayers, the IRS, and State agencies. Some vehicle owners evade full compliance by paying the first quarter's tax but not subsequent installments.

The retail truck tax is particularly difficult to administer and compliance is particularly difficult for truck dealers and others. A factual finding must be made to determine if the truck is "heavy," i.e., whether the truck chassis or trailer body is suitable for use with a vehicle that has a gross vehicle weight in excess of 33,000 pounds. The determination of whether a truck has been remanufactured (and is therefore subject to tax) or has been repaired can be involved and may be confusing to the taxpayer. In some cases the distinction between a highway vehicle and a vehicle intended for off-highway use is not clear. There are a number of exemptions for particular types of trucks and installed equipment that are a continuing source of controversy between taxpayers and the IRS.

The Treasury Department expects to announce proposals to both simplify and improve compliance with the excise taxes that support the Highway Trust Fund as part of its ongoing simplification project.

Conclusion

I appreciate this opportunity to describe revenue issues related to the Highway Trust Fund and present our current forecast to you.

TABLE 1
ACTUAL AND FORECAST EXCISE TAX RECEIPTS TO THE HIGHWAY ACCOUNT OF THE HIGHWAY TRUST FUND

	Actual 2000	Actual 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006	Forecast 2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012
Highway Account						[millions of dollars, fiscal years]							
Gross Receipts													
Gasoline	17,969	16,922	17,165	17,465	17,707	17,888	18,240	18,571	18,846	19,109	19,397	19,692	19,995
Gasohol fuels	1,293	1,519	1,696	1,850	2,009	2,198	2,305	2,364	2,411	2,465	2,513	2,558	2,607
Diesel and other fuels	7,427	7,158	7,079	7,219	7,491	7,892	8,173	8,487	8,810	9,157	9,503	9,904	10,330
Retail tax on trucks	3,321	1,489	1,572	1,818	2,153	2,504	2,834	3,103	3,343	3,577	3,843	4,168	4,522
Highway-type tires	442	343	356	379	400	419	435	450	464	477	490	502	514
Heavy vehicle use tax	921	610	891	938	986	1,035	1,082	1,129	1,178	1,229	1,282	1,337	1,395
Gross Highway Account Receipts	31,374	28,040	28,759	29,669	30,746	31,936	33,069	34,104	35,052	36,014	37,028	38,161	39,363
Less Aquatic Resources	209	215	251	256	271	277	284	289	294	299	306	314	320
Net Highway Account Receipts	31,165	27,825	28,508	29,413	30,475	31,659	32,785	33,815	34,758	35,715	36,722	37,847	39,043
Less HA Refunds	831	925	830	843	872	910	941	973	1,006	1,039	1,073	1,112	1,154
Net Highway Account Receipts	30,334	26,900	27,678	28,570	29,603	30,749	31,844	32,842	33,752	34,676	35,649	36,735	37,889
Year-to-Year Changes													
Gasoline		-1,047	243	300	242	181	352	331	275	263	288	295	303
Gasohol fuels		226	177	154	159	189	107	59	47	54	48	45	49
Diesel and other fuels		-269	-79	140	272	401	281	314	323	347	346	401	426
Retail tax on trucks		-1,832	83	246	335	351	330	269	240	234	266	325	354
Highway-type tires		-99	13	23	21	19	16	15	14	13	13	12	12
Heavy vehicle use tax		-312	281	47	48	49	47	47	49	51	53	55	58
Gross Highway Account Receipts		-3,334	719	910	1,077	1,190	1,133	1,035	948	962	1,014	1,133	1,202
Less Aquatic Resources		7	36	5	15	6	7	5	5	5	7	8	6
Net Highway Account Receipts		-3,340	683	905	1,062	1,184	1,126	1,030	943	957	1,007	1,125	1,196
Less HA Refunds		94	-95	13	29	38	31	32	33	33	34	39	42
Net Highway Account Receipts		-3,435	778	892	1,033	1,146	1,095	998	910	924	973	1,086	1,154
Year-to-Year Percentage Changes													
Gasoline		-5.8%	1.4%	1.7%	1.4%	1.0%	2.0%	1.8%	1.5%	1.4%	1.5%	1.5%	1.5%
Gasohol fuels		17.5%	11.7%	9.1%	8.6%	9.4%	4.9%	2.6%	2.0%	2.2%	1.9%	1.8%	1.9%
Diesel and other fuels		-3.6%	-1.1%	2.0%	3.8%	5.4%	3.6%	3.8%	3.8%	3.9%	3.8%	4.2%	4.3%
Retail tax on trucks		-55.2%	5.6%	15.6%	18.4%	16.3%	13.2%	9.5%	7.7%	7.0%	7.4%	8.5%	8.5%
Highway-type tires		-22.5%	3.9%	6.5%	5.5%	4.8%	3.8%	3.4%	3.1%	2.8%	2.7%	2.4%	2.4%
Heavy vehicle use tax		-33.8%	46.2%	5.3%	5.1%	5.0%	4.5%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Gross Highway Account Receipts		-10.6%	2.6%	3.2%	3.6%	3.9%	3.5%	3.1%	2.8%	2.7%	2.8%	3.1%	3.1%
Less Aquatic Resources		3.1%	16.6%	2.0%	5.9%	2.2%	2.5%	1.8%	1.7%	1.7%	2.3%	2.6%	1.9%
Net Highway Account Receipts		-10.7%	2.5%	3.2%	3.6%	3.9%	3.6%	3.1%	2.8%	2.8%	2.8%	3.1%	3.2%
Less HA Refunds		11.4%	-10.3%	1.6%	3.4%	4.4%	3.4%	3.4%	3.4%	3.3%	3.3%	3.6%	3.8%
Net Highway Account Receipts		-11.3%	2.9%	3.2%	3.6%	3.9%	3.6%	3.1%	2.8%	2.7%	2.8%	3.0%	3.1%

Note: The FY 2000 and FY2001 figures are based on the end-of-year Highway Account Income Statement reported by the Bureau of Public Debt. The FY 2002 through FY 2012 figures are forecasts made by the Office of Tax Analysis, Department of the Treasury for the FY 2003 Budget.

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
May 09, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 7-DAY BILLS

Term:	7-Day Bill
Issue Date:	May 10, 2002
Maturity Date:	May 17, 2002
CUSIP Number:	912795KN0

High Rate: 1.725% Investment Rate 1/: 1.773% Price: 99.966

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 7.22%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 46,445,000	$ 12,000,090
Noncompetitive	0	0
FIMA (noncompetitive)	0	0
SUBTOTAL	46,445,000	12,000,090
Federal Reserve	0	0
TOTAL	$ 46,445,000	$ 12,000,090

Median rate 1.710%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.620%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 46,445,000 / 12,000,090 = 3.87

1/ Equivalent coupon-issue yield.

http://www.publicdebt.treas.gov

PO-3086

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.
May 9, 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 $32,000 million to refund an estimated $31,194 million of publicly held 13-week and 26-week Treasury bills maturing May 16, 2002, and to raise new cash of approximately $806 million. Also maturing is an estimated $14,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced May 13, 2002.

The Federal Reserve System holds $14,501 million of the Treasury bills maturing on May 16, 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 May 14, 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 $1,105 million into the 13-week bill and $683 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

0-3087

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED MAY 16, 2002

May 9, 2002

Offering Amount	$17,000 million	$15,000 million
Public Offering	$17,000 million	$15,000 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 KW 0	912795 LK 5
Auction date	May 13, 2002	May 13, 2002
Issue date	May 16, 2002	May 16, 2002
Maturity date	August 15, 2002	November 14, 2002
Original issue date	February 14, 2002	May 16, 2002
Currently outstanding	$19,109 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

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FOR IMMEDIATE RELEASE
May 9, 2002

Contact: Peter Hollenbach
(202)219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY TORNADOES IN KENTUCKY

The Bureau of Public Debt took action to assist victims of tornadoes 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 tornado. These procedures will remain in effect through the end of June 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.

Kentucky counties involved are Breckinridge, Crittenden, Grayson, Hancock, Hardin, Henderson, Hopkins, McLean, Meade, Ohio, Union and Webster. 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 Kansas City Federal Reserve Bank's Savings Bond Customer Service Department, 925 Grand Boulevard, Kansas City, Missouri 64198; phone (816) 881-2000. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, 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 Investor Services 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-3088

DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
May 10, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Secretary O'Neill Announces Bair Plans to Leave Treasury

Treasury Secretary Paul O'Neill today announced that Sheila C. Bair, Assistant Secretary of the Treasury for Financial Institutions, plans to leave government service in mid-June.

Bair will join the University of Massachusetts-Amherst's Center for Public Policy and Administration as Professor of Practice in Public Policy. In this capacity she will teach and conduct research on financial services issues, including the regulation of insurance and the expansion of access to financial services in low- and moderate-income areas.

"Sheila has done an outstanding job and has made exceptional contributions to the Treasury and to financial institutions nationwide," said Secretary O'Neill. "She brought invaluable expertise to her position, having worked for more than 20 years in both government service and with financial markets. With that experience and perspective, Sheila has played an important role in shaping many issues within the Administration and on Capitol Hill.

"She cares deeply about the need for a greater focus on financial education in U.S. schools and among low- and moderate income people who are 'unbanked.' Sheila has spearheaded efforts to improve the financial knowledge and skills of Americans of all ages, most notably helping to establish the Department's new Office of Financial Education. She also oversaw implementation of the First Accounts program, which recently awarded grants to 15 proposals that will assist more than 35,000 unbanked people.

"Following the tragic terrorist attacks of September 11, 2001, Sheila has worked tirelessly with Capitol Hill to gain consensus on much-needed legislation addressing terrorism risk insurance. She understands and effectively communicates the importance of enacting such a measure that will help keep our economic recovery on track.

PO-3089

"Sheila has played an integral part in the development of the USA PATRIOT Act regulations to engage financial institutions in the fight against terrorist financing and money-laundering. As Chairman of the Financial and Banking Information Infrastructure Committee of the President's Critical Infrastructure Protection Board, she has been a key Administration voice as we work to strengthen our financial services infrastructure protection and keep U.S. banking and financial systems safe from potential terrorist attacks. This effort is critical to protecting our homeland and our economy.

"Sheila's impact will be felt as we at Treasury continue work she started to encourage mortgage lenders to establish a code of best practices to address predatory lending, and to improve deposit insurance, regulatory coordination, implementation of the Gramm-Leach-Bliley Act, remittances, privacy issues and consumer protection.

"In short, both President Bush and I are grateful for her public service, as should be all Americans."

-30-

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EMBARGOED UNTIL 12:30 P.M. EDT
MAY 13, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

REMARKS OF UNDER SECRETARY OF THE TREASURY PETER R. FISHER TO THE INDEPENDENT COMMUNITY BANKERS OF AMERICA

I am skeptical of the view that the future of financial services will be all about financial conglomeration. I expect that small and nimble financial institutions will compete effectively in the coming years and, thus, I expect that well-managed community banks will prosper.

I concede that large banks and financial firms have some important advantages, among them greater potential for diversification. Effective diversification is a powerful tool in financial intermediation. It spreads risk and stabilizes earnings. Yet while large banks have the opportunity to benefit from diversification they must work continuously to effectively diversify their exposures and to avoid risk concentrations lurking inside seemingly diversified portfolios of assets.

Community banks have options and advantages that can counter-balance large banks' built-in diversification advantage.

First, advances in information and communication technology offset some of the scale and diversification advantages that large banks may have. The theory that supports large firms and conglomerates is that it is cheaper to move information inside a single corporation than between and among different corporations. The communications revolution that we have lived through in the last twenty years challenges this theory.

Today technology permits small firms to outsource many functions and thereby recapture some of the advantages previously associated only with economies of scale. In fact, small banks increasingly have been employing technological and financial innovations to improve efficiency and diversify operating and balance sheet risks. More of you are turning to nonbank technology providers as a means of outsourcing administrative and payments functions and other activities. Eighty percent of community banks now have web sites, up from 21 percent in 1997. More and more banks are taking advantage of the secondary markets to enhance liquidity and reduce balance sheet risks.

PO-3090

Second, small banks operate and make decisions closer to their customers. Small banks provide a level and continuity of services that their customers appreciate. The proximity of community bank management to the household and business customers benefits the credit decision process in a way that large banks find difficult to replicate.

Third, in a world in which real and nominal interest rates are converging, and in which inflation expectations are both low and stable, the franchise of deposit taking will be increasingly valuable. Consider how competitive community banks have been in recent years in attracting deposits. As Chairman Greenspan recently testified, after adjusting for the effects of mergers, banks below the top 1,000 on average increased in asset size almost twice as fast as the top 1,000 since the mid-1990s. And, in spite of the perception that that the largest banks have a "too big to fail" funding advantage, banks below the top 1,000 increased their *uninsured* deposits at *twice* the rate of the top 1,000 during the same period.

Small bank profitability has remained relatively strong and stable for the past several years. FDIC data reveal that banks with assets under $1 billion achieved higher returns on assets (ROAs) on average than larger banks in 7 of the last 10 years. And small banks remain sound: banks under $1 billion in assets have consistently reported higher capital ratios and lower nonperforming asset ratios than their large bank counterparts. Perhaps the most revealing indicator of the robust health of community banking is the chartering of over 1,350 new banks and over 180 new thrifts during the last 10 years.

In short, community banks are quite healthy, continue to adapt successfully to the changing financial and technological environment, and remain valued by millions of customers who rely upon your special quality of service. Consequently, I expect well-managed community banks to continue to play an important role in financial intermediation in America.

Let me turn to two issues of importance to the Treasury where I think you can play an important role: financial education and predatory lending.

A world in which smaller institutions can manage risk by selling assets into the secondary market is, unfortunately, also a world in which problems such as predatory lending may emerge. Let me be clear: I think that the secondary market is a great development, one that has helped both banks and consumers. But it does change the incentive structure at the margin.

When loan originators sell their production into the secondary market they have an increased incentive to pursue volume, which may be inconsistent with a thorough credit review and fair dealing with customers. Secondary market holders of the credit risk manage broadly diversified portfolios in which credit risk management practices differ from those used by a traditional originator *and* holder of credits. Because the secondary market approach to financing credit may sever the ongoing customer relationship an originator has with a borrower, at the margin, there is both an incentive and an opportunity for bad actors to enter the scene.

At Treasury, Assistant Secretary Sheila Bair has done a terrific job – in so many ways, but also – in addressing the problem of predatory lending by encouraging the development of best practices throughout all segments of the mortgage industry – brokers, lenders, and secondary market participants. A number of mortgage industry participants have developed best practices and Assistant Secretary Bair has been evaluating these efforts. While your banks and other federally regulated depository institutions are generally not associated with predatory lending problems, we urge you to adopt practices that help your banks avoid predatory lending situations. In doing so, you model good corporate citizenship in this area and establish a standard for others in your communities to follow.

We must also do more to educate consumers so they are in a better position to provide a first line of defense against abusive lending practices. This brings me to a second issue of importance to both community banks and the Treasury: financial education. As Secretary O'Neill recently noted, while financial independence is a goal all Americans share, many Americans never learn the basics of personal finance. We must work to ensure that all Americans have the knowledge and the tools to build their own financial security. Our schools need to teach the basic rules of personal finance.

As part of our long-term commitment to improve financial education for all Americans, we recently established an Office of Financial Education at the Treasury, which will develop and implement financial education policy initiatives and will oversee and coordinate our outreach efforts. We are also collaborating with the Department of Education to encourage all schools to integrate financial education into their curricula.

By helping us promote financial education, you have an opportunity not only to help individuals become more financially astute, but to secure future generations of loyal customers. We applaud the ICBA's interest in "Bank on Your Schools," a partnership between schools and financial institutions to 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 and they'll learn about the importance of saving and managing money.

Another issue I would like to touch on briefly has to do with an increasingly important source of funding for community banks, the Federal Home Loan Banks. Last fall, the Federal Housing Finance Board published a notice and solicitation of comments on the issue of a single depository institution concurrently belonging to multiple Federal Home Loan Banks.

Like the ICBA, we believe that a plain reading of the relevant language of the Federal Home Loan Bank Act strongly suggests that the Finance Board does not have legal authority to grant multi-district membership. Nor do we think that the relevant legislative history supports such an interpretation of the statute. We also question whether multidistrict membership serves the interests of the System's community banks and thrifts.

Finally, we share with you a common interest in deposit insurance reform. I've already described the recent strong performance of small banks and the bright future I see for you.

What I don't understand is why you want to pursue increased insurance coverage limits that will only worsen the problems of moral hazard and the regrettable perception that the largest banks are too-big-to-fail.

It is reasonable to be concerned that moral hazard increases costs born by healthy banks. Yet raising the deposit insurance coverage limit will worsen, not dampen, these problems. So I don't get it. Why expand moral hazard by increasing coverage limits when doing so will do absolutely nothing to improve the competitive position of small banks vis-à-vis large banks? This makes no sense to me, especially when you have demonstrated your ability to compete successfully for deposits, including uninsured deposits.

We also know that, with the BIF's reserves just above 1.25 percent, increased coverage will dilute those reserves to an extent that makes paying higher insurance premiums inevitable. And for every additional $30,000 in insured deposits you may be able to offer a customer, some of your large bank competitors will be able to offer multiples of that amount in insurance coverage through the control of several affiliated depository institutions.

There are so many aspects of deposit insurance reform where we agree. First, reforms we agree upon would compensate small banks for the adverse effects of "free riders" on the insurance fund. Rapid insured deposit growth from sweep programs conducted by a couple of large financial companies controlling multiple subsidiary banks – without compensating the FDIC – has reduced the BIF reserve ratio by 4 basis points. The proposed transition assessment credits offsetting future premiums would recognize the contributions that many of your banks made to reserve growth in the early-to-mid-1990s. Newer and recent fast-growing institutions would be eligible for proportionally fewer (or no) credits against future premiums. The proposed premium-setting reforms would also prevent future "free rider" inequities.

Second, merging the bank and thrift insurance funds would not only better diversify risks but – especially in light of the BIF reserve ratio's recent decline to 1.26 percent – reduce the size of any possible premium levied on the great majority of you that are BIF members.

And third, eliminating triggers in the current system that have the potential to force banks to pay very higher premiums at a time when the economy may be under serious stress just makes good sense for well-being of the financial system and for general economic stability.

In conclusion, let's recognize that the Treasury and the nation's community banks agree upon so many more things than we disagree. Let's work together to thwart abusive lending practices, to increase the financial literacy of our country's youth, and to preserve a strong deposit insurance system that promotes competition, fairly allocates costs, and protects taxpayers.

-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.
May 13, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $25,000 million to refund an estimated $14,000 million of publicly held 4-week Treasury bills maturing May 16, 2002, and to raise new cash of $11,000 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 $14,501 million of the Treasury bills maturing on May 16, 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-3091

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED MAY 16, 2002

May 13, 2002

Offering Amount..................... $25,000 million
Public Offering..................... $25,000 million
NLP Exclusion Amount................ $10,100 million

Description of Offering:
Term and type of security........... 28-day bill
CUSIP number........................ 912795 JY 8
Auction date........................ May 14, 2002
Issue date.......................... May 16, 2002
Maturity date....................... June 13, 2002
Original issue date................. December 13, 2001
Currently outstanding............... $39,302 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
May 13, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	May 16, 2002
Maturity Date:	August 15, 2002
CUSIP Number:	912795KW0

High Rate: 1.750% Investment Rate 1/: 1.781% Price: 99.558

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 5.08%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 35,240,570	$ 15,444,034
Noncompetitive	1,481,410	1,481,410
FIMA (noncompetitive)	75,000	75,000
SUBTOTAL	36,796,980	17,000,444 2/
Federal Reserve	6,299,078	6,299,078
TOTAL	$ 43,096,058	$ 23,299,522

Median rate 1.730%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.700%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 36,796,980 / 17,000,444 = 2.16

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,221,252,000

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

FOR IMMEDIATE RELEASE
May 13, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	May 16, 2002
Maturity Date:	November 14, 2002
CUSIP Number:	912795LK5

High Rate: 1.870% Investment Rate 1/: 1.913% Price: 99.055

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 47.44%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 32,979,572	$ 13,910,636
Noncompetitive	939,524	939,524
FIMA (noncompetitive)	150,000	150,000
SUBTOTAL	34,069,096	15,000,160 2/
Federal Reserve	5,667,980	5,667,980
TOTAL	$ 39,737,076	$ 20,668,140

Median rate 1.860%: 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 = 34,069,096 / 15,000,160 = 2.27

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $747,850,000

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 9:55 A.M.
MAY 14, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

TREASURY STATEMENT ON THE DEBT CEILING

Today the Treasury informed Congress that, absent extraordinary actions, the government will exceed the statutory debt ceiling no later than May 16. The Treasury also informed Congress that a "debt issuance suspension period" will begin no later than May 16. Today's notification allows the Treasury to suspend or redeem investments in two trust funds, which will provide flexibility to fund the operations of the government during this period. The two funds are the Civil Service Retirement and Disability Fund (CSRDF) and the Government Securities Investment Fund of the Federal Employees Retirement System (G-Fund). Both funds will be restored in full as to principal and interest once the debt limit has been raised. There will be no effect on beneficiaries.

To reduce uncertainty over the Treasury's borrowing needs during this period, the Treasury also has announced the suspension of new issuance of State and Local Government Series (SLGS) Treasury securities effective May 15.

Based upon the latest projections, debt subject to the limit would rise above the current statutory limit of $5,950 billion no later than May 16 and remain at a level roughly $40 to 50 billion above the limit through mid-June. Suspending investments in the two federal trust funds will provide approximately $44 billion in borrowing capacity, of which $4 billion will come from the CSRDF and $40 billion will come from the G-Fund. In addition to managing debt subject to the limit during this period by suspending or redeeming investments in the two trust funds, the Treasury also will make use of available cash resources, including balances held at the Federal Reserve and deposits held at commercial banks by which the Treasury compensates the banks for services essential to the collection of government receipts. Making use of these balances will require the Treasury to make larger deposits in the future as compensation to the banks.

In the second half of June, uncertainty with respect to taxes to be received on June 17 increases the chances that additional measures will be necessary to manage debt subject to the limit.

PO-3094

These measures are the suspension of U.S. dollar investments in the Exchange Stabilization Fund, and a swap of non-Treasury securities held by the Federal Financing Bank for an equivalent value of Treasury securities held by CSRDF. The Treasury is not authorized to restore the funds with interest once the debt ceiling is raised; these funds can only be fully restored through congressional action.

Collectively, the devices announced today - and those that could become necessary in June -will add a total of roughly $80 billion to the Treasury's borrowing capacity. All of these devices were used previously by Treasury in 1995 and 1996.

The Treasury faces obligations in late June that, on the basis of current projections, cannot be surmounted without an increase in the statutory debt limit. On June 28, the Treasury must credit an interest payment of approximately $67 billion to the Social Security and other federal trust funds that, on current projections, will result in an increase of debt subject to limit to almost $100 billion over the current statutory ceiling. In addition, the Treasury is scheduled to make $54 billion in payments between July 1 and 3, including approximately $30 billion of payments to trust fund beneficiaries. Lack of certainty by June 26 as to how the Treasury will fund these payments will challenge the Treasury's ability to ensure timely processing of payments to Social Security and other beneficiaries.

The Treasury would normally announce on June 19 the size of the 2-year note auction scheduled for June 26. Particularly in light of the risk that the Treasury will draw down compensating balances before the last week of June, this 2-year note auction will be an important source of funds for the payment obligations scheduled for the first week of July. If the debt ceiling has not been raised prior to June 19, the Treasury may need to delay the announcement of the size of the auction, announce the auction subject to cancellation, or both.

The Treasury Department requests that Congress pass the President's request for a permanent $750 billion increase in the debt ceiling as soon as possible.

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May 14, 2002

The Honorable Tom Daschle
Majority Leader
United States Senate
Washington, DC 20510

Dear Mr. Leader:

Absent other actions, the Federal government's debt subject to limit will rise above the current statutory ceiling of $5,950 billion no later than May 16. I am writing to inform you of actions the Treasury must take to avoid reaching the current statutory debt limit, and to reiterate the Administration's request for a permanent increase of $750 billion.

To manage debt subject to limit, the Treasury will initially take those extraordinary actions that it can reverse once the debt ceiling has been raised. First, Congress has explicitly authorized the Secretary of the Treasury to suspend or redeem investments in two funds for this purpose: the Government Securities Investment Fund of the Federal Employees Retirement System (G-Fund), and the Civil Service Retirement and Disability Fund (CSRDF). For purposes of these statutes, I have determined that a "debt issuance suspension period" will begin no later than May 16, 2002 and will last until June 28, 2002.

I am notifying you, as required under 5 U.S.C. § 8348 (l)(2) and 5 U.S.C. § 8438(h)(2), that by reason of the public debt limit, it is my determination that I will be unable to invest fully the portion of the CSRDF not immediately required to pay beneficiaries, and that I will be unable to invest fully the G-Fund. Therefore, during the debt issuance suspension period, I will redeem a portion of the investments held by the CSRDF, as authorized by law; and I will suspend the full investment of the G-Fund, as authorized by law. These actions will open an additional $44 billion in borrowing capacity under the limit. Beneficiaries will be fully protected and will suffer no adverse consequences. The statutes require that the Treasury restore all due interest and principal to these funds as soon as this can be done without exceeding the public debt limit.

Second, to reduce borrowing as much as possible during this period, the Treasury will actively manage and draw upon as needed all available cash resources, approximately $30 billion as of today, subject to the necessity of maintaining prudent cash balances to meet the government's payment obligations.

Based on current Treasury forecasts, these actions should be sufficient to enable us to finance the government's operations through mid-June. Uncertainty about projected debt subject to limit rises in the second half of June, in particular because of tax receipts

PO-3095

due on June 17. During this period, as necessary, the Treasury will take further extraordinary actions that have been previously utilized under established legal authority. However, based on the information now available to me, these additional devices at my disposal will be insufficient to manage debt subject to limit beyond June 28. On June 28, Treasury must credit an interest payment of approximately $67 billion to various federal trust funds, including Social Security. This payment is projected to exceed Treasury's flexibility in managing debt subject to limit.

These devices could also be exhausted earlier than June 28 because of uncertainty associated with federal receipts in mid-June. I will alert you as soon as possible if that should prove to be the case.

However, in order to meet the government's payment obligations in the first week of July, sufficient confidence as to our sources of funding must be established by June 26 in order to ensure timely processing.

I again urge Congress to pass the President's request for a permanent $750 billion increase in the debt ceiling as soon as possible.

Sincerely,

Paul H. O'Neill

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, May 14, 2002

Contact: Public Affairs
(202) 622-2960

MEDIA ADVISORY

Treasury Secretary to hold News Conference in advance of Five-Nation Trip

Treasury Secretary Paul H. O'Neill will hold a news conference in advance of a trip that will take him first to Romania and then on to Africa with visits to Ghana, South Africa, Uganda and Ethiopia. The news conference will be held in the Treasury Department's Diplomatic Reception Room at 10:30 a.m. on Thursday, May 16, 2002.

Departing Friday, May 17, O'Neill will attend the annual meeting of the European Bank for Reconstruction and Development in Bucharest, Romania. On Monday, May, 20 O'Neill will depart Romania for Africa, returning to Washington on Friday, May 31.

Time: 10:30 a.m. EDT

Where: Treasury Department, Diplomatic Reception Room
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 faxed to (202) 622-1999.

-30-

PO-3096

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

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FOR IMMEDIATE RELEASE
MAY 14, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Secretaries O'Neill and Paige Will Host Financial Education Roundtable This Week

Treasury Secretary Paul O'Neill and Education Secretary Rod Paige on Thursday, May 16, will host a roundtable meeting with leaders of key youth education groups to discuss ways in which the Departments of Treasury and Education can work with them to promote the integration of financial education concepts into core curriculum in U.S. schools.

U.S. Treasurer Rosario Marin will moderate the roundtable discussion jointly with Education Deputy Secretary Bill Hansen, Treasury Assistant Secretary for Financial Institutions Sheila Bair and Treasury Deputy Assistant Secretary for Financial Education Judy Chapa.

The roundtable will begin at 9:30 a.m. in the Treasury Department's Cash Room, 1500 Pennsylvania Ave., N.W. The first 30 minutes of the meeting will be open to the media.

The room will be available for pre-set at 8:00 a.m. on Thursday. Media without Treasury or White House press credentials planning to attend should contact Frances Anderson at Treasury's Office of Public Affairs at (202) 622-2960 by 5:00 p.m. on Wednesday with the following information: name, social security number and date of birth. This information may also be faxed to (202) 622-1999.

-30-

PO-3098

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

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
May 14, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	May 16, 2002
Maturity Date:	June 13, 2002
CUSIP Number:	912795JY8

High Rate: 1.745% Investment Rate 1/: 1.775% Price: 99.864

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 13.74%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 71,589,154	$ 24,976,602
Noncompetitive	23,704	23,704
FIMA (noncompetitive)	0	0
SUBTOTAL	71,612,858	25,000,306
Federal Reserve	2,533,992	2,533,992
TOTAL	$ 74,146,850	$ 27,534,298

Median rate 1.735%: 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 = 71,612,858 / 25,000,306 = 2.86

1/ Equivalent coupon-issue yield.

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FOR IMMEDIATE RELEASE
May 14, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Treasury Names Private Sector Coordinator for Critical Infrastructure Protection Partnership Effort

The Treasury Department today announced that Rhonda E. MacLean of Bank of America has been named as the private sector coordinator for a partnership between the government and the financial services industry to strengthen critical infrastructure protection initiatives that will protect the U.S. financial sector and economy from attack.

Treasury has lead-agency responsibility for the financial services sector with regard to critical infrastructure protection. Additionally, Treasury Assistant Secretary for Financial Institutions Sheila C. Bair chairs the Financial and Banking Information Infrastructure Committee (FBIIC) of the President's Critical Infrastructure Protection Board, which includes state and federal financial regulators and a representative from the Office of Homeland Security.

Ms. MacLean will work with Treasury's financial sector liaison, Assistant Secretary Bair, and the FBIIC to draw together industry initiatives and coordinate private sector outreach related to critical infrastructure protection and homeland security.

Ms. MacLean joined Bank of America in 1996 as Senior Vice President and Director of Corporate Information Security and is responsible for providing global leadership for information security policy, procedures and corporate standards, awareness programs, risk management, and information security technology implementation.

In addition, she is responsible for enterprise business continuity and the company's regional recovery centers. Prior to joining Bank of America, Ms. MacLean was with the Boeing Company from 1982-1996, where, as Senior Manager for Computing and Communications Security, she was responsible for all commercial and government program information security initiatives.

-30-

PO-3100

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

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FOR IMMIEDATE RELEASE
Wednesday, May 15, 2002

Contact: Rob Nichols
(202) 622-2910

"Transforming Korea's Financial Sector into a Domestic Engine of Growth"

Deputy U.S. Treasury Secretary Kenneth W. Dam

Korean Chamber of Commerce and Industry
Seoul, Korea
May 14, 2002

Good morning. It is a great honor for me to have the opportunity to address this impressive assembly of Korean business executives.

I am also privileged to be making my first trip to Korea in my capacity as Deputy Secretary of the United States Treasury. I've been to Korea many times before. The importance of this particular visit could not be greater.

I am here to launch a new effort aimed at transforming financial sectors into economic engines of growth. This is a new Bush Administration international economic policy initiative. We are calling it "Engines of Growth."

Why is this important to the United States and Korea?

For one, the fate of all our economies is intertwined. Economic growth is not a zero-sum game. When the United States grows, Korea grows. And vice-versa. It's just that fundamental.

For Korea, the consequences of this economic integration are profound. Access to export markets abroad means new growth for the Korean economy and greater profits for Korean firms. But economic integration also has its downsides, and the changing winds of the global economy, no doubt, can be punishing. Hedging against these risks is essential. In this economic landscape, countries like Korea must have strong, efficient financial sectors: in short, domestic engines of growth.

PO-3101

DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
Wednesday, May 15, 2002

Contact: Rob Nichols
(202) 622-2910

"Transforming China's Financial Sector into an Efficient Engine of Growth"

Good afternoon. It is an honor for me to have the opportunity to address some of China's best and brightest students.

I am also privileged to be making my first trip to China as Deputy Secretary of the United States Treasury. The timing could not be better.

I am here to launch a new effort aimed at transforming financial sectors into economic engines of growth. This is a new Bush Administration international economic policy initiative. We are calling it "Engines of Growth."

Why is this important to the United States?

Friends, we stand at the leading edge of a new millennium. Now in the 21st century, the fate of all our economies is intertwined. World economic growth is not a zero-sum game. When the United States grows, Asia grows. And vice-versa. It's that fundamental.

PO-3102

For China, the consequences of this new economic convergence are profound. Access to new markets abroad means rapid economic growth. Export-led growth alone, though, exposes China to the changing winds of the global economy. One way to offset this vulnerability is to diversify. And one way to diversify is to find additional fuels for growth.

In my opinion, China's great economic challenge in this decade will be to transform its financial sector into modern, efficient engine of growth. The importance of having a deep, flexible and resilient financial sector cannot be overstated. Gone are the days when a national airline or heavy investments in manufacturing are the badges of economic development.

In the United States, our financial sector is the backbone of our domestic economy. During last year's U.S. economic slowdown, for example, it was our financial sector – in addition to tax relief measures and monetary easing - that helped ignite the economic recovery we are currently experiencing. It was access to innovative mortgage products and sophisticated debt instruments that kept U.S. consumers spending and businesses investing.

Developing China's financial sector into an engine of growth will be a challenge. It will require enlightened policymaking, a deep commitment to openness, and the very best regulatory oversight and enforcement. Nevertheless, I am confident that China can succeed.

In developing its financial system, there are many possible configurations from which it can choose.

But, the importance of openness to trade and investment in financial services is undisputed. China's WTO commitments in financial services represent a healthy start. It is in China's self-interest to do more.

Let me be clear about one thing before going any further. Opening a financial system to freer trade in financial services is different from liberalizing the capital account. Allowing foreign firms to compete on equal terms with domestic firms can and should be independent of decisions on regulating portfolio capital flows. Just as there can be foreign direct investment in manufacturing without capital account opening, there can also be FDI in financial services. This is true for the whole panoply of financial services, including retail banking, investment banking, brokerage services, asset management, insurance and pension advisory services.

However, I don't want to be understood as supporting capital controls. They retard long-term economic productivity. Look around the world. No major developed economy maintains capital controls.

The fastest way to financial sector modernization for China will be to open to trade and investment in financial services. Increased trade and investment in financial services will bring in needed foreign direct investment and expertise. It will induce better management in domestic firms. And, it will increase the rates of return for those who invest in domestic Chinese firms.

Don't just take my word for it. A 2001 World Bank study found that countries with fully open financial services sectors grow on average one percentage point faster than other countries.

These results corroborate an earlier World Bank study estimating that more open and competitive financial services markets increase national growth rates by 1.3 to 1.5 percentage points. Likewise, a recent WTO study of 27 emerging market countries found that allowing foreign financial firms to establish locally and to engage in a broad spectrum of financial activities contributed to greater financial sector stability.

This should not be news to many of you. Here in China, for example, the very promise of a new, more level playing field in financial services is already beginning to speed the development of securities trading, new insurance services, and financial information services.

Implementation on these commitments is important. Particularly on the issue of transparency, China should continue to apply new, transparent methods of creating and applying regulations. Regulators should seek out the insights of the private sector before creating the rules of the game.

We use these methods in the United States. The U.S. Federal Reserve, for example, regularly publishes proposed regulations and asks for comments from the private sector in a reasonable period of time. During the implementation of our Gramm-Leach-Bliley bill -- which fundamentally reformed the US banking, securities and insurance sectors -- the U.S. Federal Reserve sought out and received hundreds of comments from foreign banks. As a result, it made several significant changes to accommodate the many international banks doing business in the United States. Rules that specify how regulations will be implemented and how applications for licenses will be granted or denied are just as important.

My mission here in China this week has been to engage key policymakers in a dialogue on building momentum for financial sector liberalization. Economic policymakers need to collaborate and share best practices if we are to pull back restrictions on international trade and investment in financial services.

I hope many of you here today will take the time to study your financial sector. You are China's future financial leaders. You have an important responsibility to help develop China's financial sector into a strong, efficient engine of growth.

Thank you.

About Us online

Bureau of the Public Debt online

BUREAU OF THE PUBLIC DEBT ANNOUNCES SERIES EE SAVINGS BOND RATE FOR MAY THROUGH OCTOBER 2002

FOR IMMEDIATE RELEASE
May 1, 2002

The Bureau of the Public Debt announced today the rate for Series EE savings bonds issued on or after May 1, 1997.

SERIES EE SAVINGS BOND RATE: 3.96%

The 3.96 percent Series EE savings bond rate is in effect for bonds issued on or after May 1, 1997, that enter semiannual earnings periods from May through October 2002. The rate is 90 percent of the average 5-year Treasury securities yields for the preceding six months. A new interest rate is announced effective each May 1 and November 1. A 3-month interest penalty is applied to these bonds if redeemed before five years. The Series EE bonds on sale now increase in value monthly. The bond's interest rate is compounded semiannually.

SERIES EE BONDS ISSUED BEFORE MAY 1997

The 3.74 percent Long-Term Series EE savings bond rate is in effect for bonds issued from May 1995 through April 1997 as they enter semiannual earnings periods from May through October 2002. See the Earnings Report for earnings on Series EE bonds issued from January 1980.

MATURED SERIES E SAVINGS BONDS AND SAVINGS NOTES

Series E savings bonds continue to reach final maturity and stop earning interest. Bonds issued from May 1941 through April 1962 along with those issued from December 1965 through April 1972, have stopped earning interest. All Savings Notes, issued from May 1967 through October 1970, have stopped earning interest. Series E Bonds with issue dates shown here will reach final maturity in the next six months.

E-Bond Issue Dates	E-Bonds Stop Earning Interest
May 1962 through October 1962	May 2002 through October 2002
May 1972 through October 1972	May 2002 through October 2002

MORE INFORMATION

P0-3103

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Updated May 1, 2002

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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
MAY 16, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Secretaries O'Neill and Paige Call for Increased Focus on Financial Education in America's Schools

WASHINGTON, DC – Treasury Secretary Paul O'Neill and Education Secretary Rod Paige today met with leaders of key youth education groups to discuss ways in which the Departments of Treasury and Education can work with them to promote the integration of financial education concepts into core curriculum in U.S. schools.

"Ownership, independence and access to wealth should not be the privilege of a few. They should be the hope of every American," said Secretary O'Neill. "Financial education is an essential tool to make that hope a reality."

" Financial education should be one of the cornerstones of a well-rounded, high-quality education," said Secretary Paige. "The Education Department is working to help school systems across the country promote the basics principles of earning, spending, saving, and investing. That's why we are pleased to announce today that the department intends to make up to $250,000 available to a coalition of organizations working to promote financial literacy among our nation's students."

The roundtable discussion among the agencies and 13 education groups was jointly moderated by U.S. Treasurer Rosario Marin, Education Deputy Secretary Bill Hansen, Treasury Assistant Secretary for Financial Institutions Sheila Bair and Treasury Deputy Assistant Secretary for Financial Education Judy Chapa. Topics discussed included the need for improved financial education programs; integrating financial education into specific age/grade levels/geographic areas; and opportunities and obstacles related to integrating financial education into core curriculum.

"As Americans, we need to be fully prepared to take advantage of the opportunities offered to us by our financial system," said Treasurer Marin, who has been very focused on improving financial education in communities across the country. "With the proper education, there is greater opportunity for each of us to be master of our own fate and determine our own financial destiny."

PO-3104

*U S Government Printing Office 1998 - 619-559

"Studies show that most young Americans' financial skills fall short and the problem appears to be worsening. As young people become more financially active at an earlier age, it is imperative that they learn the skills to make sound financial decisions," said Secretary O'Neill. "Today we hope to gain ideas and learn about effective methods for integrating financial education into schools' core curriculum, and we see this as the beginning of an on-going dialogue with the education community to address this critical issue."

Following the roundtable meeting, Treasury and Education Department officials plan to develop a white paper summarizing the effective methods and opportunities for integrating financial education into schools. They also will meet with representatives from states that have had success in integrating financial education into their core curriculum, and develop case studies and best practices for implementation nationwide. Other initiatives include the "Bank on Your Schools" partnership between schools and financial institutions in low- and moderate-income areas, and establishing an interagency working group within the Federal government to better coordinate financial education efforts.

"Financial education can be compared to a road map to the American Dream," said Secretary O'Neill. "We are committed to trying to ensure that all Americans have the necessary tools to read that map."

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FOR IMMEDIATE RELEASE
May 16, 2002

Contact: Michelle Davis
(202) 622-2960

Statement of Secretary Paul O'Neill on eve of trip to Romania and Africa

Good morning. I am leaving tomorrow for a two-week trip to focus on economic development. I will first visit Romania, and then I will be joined by Bono, of U2 fame, as I travel to four nations in Africa: Ghana, South Africa, Uganda and Ethiopia.

I'm looking forward to traveling with Bono. His compassion is well known. I've come to know him as a substantive person who wants to make a difference. I know that our traveling together has raised eyebrows. I hope it also raises interest in getting serious about achieving real improvements in the lives of the people of Africa. For too long, we've seen too little progress.

Yet, even as compassionate people and nations around the world send assistance, some nations in Africa have actually lost ground. We must support those African nations and peoples who are working to change the disappointing performance of the last 50 years and help to create conditions that free individuals to reach their human potential.

We don't know the perfect formula for development. If we did, our task would be far easier. But we do know certain things:

- Stable governments protecting individual rights and enforcing contracts are necessary to increase economic growth and raise human potential,
- Governments encouraging private sector development and innovation can unlock human potential,
- AIDS and other diseases ravage human potential, and
- Education unleashes human potential.

PO-3105

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

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I traveled to many parts of the world in my private sector days, and I saw heartbreaking poverty. Heartbreaking because we know so much more is possible. We know that human beings everywhere have the potential to succeed.

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PO-3105

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In short, when people can stay healthy, receive the necessary education and explore their entrepreneurial spirit, then people prosper, productivity grows, and countries advance.

This is the premise underlying the President's newly announced Millenium Challenge Accounts. Recognizing and acting on these truths requires strong leadership committed to improving the living conditions of its people. Leaders – national and community leaders -- must be committed to these principles in order for their people to flourish. Once that leadership is in place, development assistance from outside can fuel progress. President Bush is committing $5 billion per year in assistance to nations that rule justly, invest in their people and encourage economic freedom, so that nations taking the right policy actions are rewarded and so that we send US development assistance dollars where they have the greatest chance to make a difference in people's lives.

We want to help promote growth opportunities in countries where governments are already working to enhance the environment for private sector development, by promoting individual rights and enforceable contracts, by showing leadership on AIDS, and by investing effectively in education. The President's budget included an 18% increase in funding for the African Development Bank and for IDA, the World Bank assistance program for the poorest nations. The President has also called on the nations who fund IDA to make grants rather than loans for projects that are vital to improving health and education but don't create a direct economic return that can be used to repay loans.

As I travel over the next 14 days, I will see first hand some of the progress being made as well as the obstacles we have yet to tackle. My first stop is to attend the EBRD meeting in Bucharest, Romania. The EBRD has devoted much of its work to the development of small and medium size businesses throughout Russia and central Europe, and I will voice my support for that continued focus and encourage more activities in Central Asia.

In Africa, Bono and I will see several examples of progress toward stable governments protecting individual rights and enforcing contracts – and will witness the private sector growth such progress has unleashed. Ghana is one of only half a dozen nations in Africa to have held a democratic election and witnessed a peaceful transfer of power to the opposition party in the last decade. That political stability now has been combined with increased fiscal discipline and better economic policies to improve the investment climate, both for foreign and domestic investors. And the results are clear. The economy returned to its decade-long average growth rate of over 4%, and the percentage of the population living on less than $1 per day has fallen. Of course, there's a long way to go. But Ghana is an example of the progress that is possible.

I often say capital is a coward, because it's true. Foreign investors don't want to risk their savings in a place where corruption is rampant and contracts aren't enforced. And private citizens are scared off by the same uncertainty, choosing to keep their savings buried under their houses rather than put up a building or buy a machine that they fear could be taken away from them at any time.

Political stability and the rule of law are fundamental to the health of any economy. We'll see examples of that as we visit small entrepreneurs and large foreign owned companies in each of our stops in Africa. After making its transition to democracy, South Africa has achieved sound macroeconomic management and endeavors to create opportunity for all of its citizens. In large part, that opportunity stems from the country's political stability and rule of law.

But political stability and the rule of law are not enough. Sovereign governments must also invest in their people. Education is key to unleashing human potential. And eliminating or ameliorating major health problems is crucial as well. The African people's economic potential has been ravaged by the spread of AIDS and other infectious diseases. We must bolster local initiatives that are succeeding in taming these threats.

The Ugandan government, in particular, has shown leadership in addressing these social challenges. I'm looking forward to learning more about the cutting-edge work there on AIDS and seeing the progress they've made toward universal primary education. Bono and I will visit schools and health facilities in every nation to witness for ourselves the progress being made and the enormous challenges yet to be faced. We'll look at various projects being funded by international development assistance, and we'll insist on hearing about results. Because if we don't demand results, we aren't doing our jobs on behalf of compassionate taxpayers who want to help alleviate poverty, nor are we serving the poor who struggle for an opportunity to improve their own lives. Compassion requires that we be hard-minded and insist that we measure the impact our assistance is having, so that we can constantly improve our effectiveness and participate in the development of human potential in Africa.

The trip will wrap up at the African Development Bank Annual Meetings in Ethiopia. In recent years, the AfDB has undergone one of the most far-reaching and comprehensive restructuring efforts ever taken by a multilateral development bank. That these meetings are taking place in Ethiopia is a reflection of our hope for this country, the second most populous in sub-Saharan Africa and one with a long history of charting its own course. We look forward to working with the Ethiopian government, and other reform-minded governments on the continent, to make a real impact in reducing poverty and raising living standards.

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PO-3105

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FOR IMMEDIATE RELEASE
May 16, 2002

Contact: Michelle Davis
(202) 622-2960

Highlights of Secretary O'Neill's Schedule in Africa

GHANA (Arrive late Monday May 20; Depart early Thursday May 23)

- Secretary will meet with President Kufuor
- Secretary will meet with Ghanaian Government Economic Team
- Secretary will give a speech outlining the purpose of the trip and highlighting Ghana's potential to promote private sector-led economic growth
- Secretary will tour ACS-BPS, an example of foreign direct investment
- Secretary will visit with small local ventures assisted by USAID and community development projects financed by the African Development Bank to see examples of how official aid is working
- Secretary will travel to Tamale, in northern Ghana, to learn about conditions outside the capital
- Secretary will visit a local hospital to learn first hand the threat AIDS and other infectious diseases pose to the people of Ghana and their economic future
- Secretary will meet with NGOs promoting economic development, rule of law and civic action in Ghana

SOUTH AFRICA (Arrive mid afternoon Thursday May 23; Depart afternoon Sunday May 26)

- Secretary will meet with President Mbeki
- Secretary will meet with Finance Minister Manuel
- Secretary will meet with Central Bank Governor Mboweni
- Secretary will meet with South African businessmen and labor leaders
- Secretary will tour Ford Plant in Pretoria, example of successful foreign direct investment and a model corporate AIDS program
- Secretary will visit Chris Hani Baragwanath Hospital in Soweto to learn about progress from investment in AIDS research
- Secretary will tour People's Dialogue Moderate Housing Project, an example of expanding home-ownership to build the foundation of a private sector economy
- Secretary will tour a high school in Soweto, to learn about the investment in education to unleash human potential
- Secretary will visit the Johannesburg Stock Exchange to highlight the importance of capital to development

PO-3106

UGANDA (Arrive evening Sunday May 26;Depart evening Tuesday May 28)

- Secretary will meet with President Museveni
- Secretary will meet with Central Bank Governor Tumusiime
- Secretary will meet with Finance Minister Ssendaula
- Secretary will meet with other government officials, NGO representatives, businessmen and academics
- Secretary will give a speech at Makerere University, highlighting the government's strong commitment to economic reforms
- Secretary will tour a cut flowers factory as an example of export diversification
- Secretary will visit with small entrepreneurs who got their start with USAID micro-loans as an example of effective assistance, supporting private sector development
- Secretary will visit a private indigenous health clinic committed to treating and counseling people living with HIV/AIDS, in order to learn about Uganda's success in reducing the prevalence rate of HIV/AIDS in the adult population
- Secretary will visit a water project funded by the Government of Uganda with funds freed up by HIPC debt relief
- Secretary will visit a primary school to learn about the investment in education to ensure every child has the tools to succeed
- Secretary will visit two HIV/AIDS research centers
- Secretary will tour Customs facility in Entebbe to learn about Uganda's efforts to administer its borders efficiently to facilitate exports

ETHIOPIA (Arrive evening of Tuesday May 28; Depart morning of Friday May 31)

- Secretary will attend annual meeting of African Development Bank, deliver US Governor's Statement and meet with AfDB President Kabbaj
- Secretary will meet with other African Finance Ministers as well as with US and African businessmen doing business throughout the continent
- Secretary will meet with Ethiopian Prime Minister Meles and Finance Minister Sufian
- Secretary will visit a private coffee processing plant, an example of a successful agribusiness exporter
- Secretary will meet with religious leaders coping with the spread of AIDS
- Secretary will visit a school receiving official development assistance to learn of the effectiveness of this investment in human development
- Secretary will tour a garment factory to highlight the benefits of open borders, particularly the African Growth and Opportunity Act (enacted in 2000 to reduce US trade barriers to African products)

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EMBARGOED UNTIL 2:00 P.M. EDT
MAY 16, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

TESTIMONY OF THE HONORABLE SHEILA C. BAIR ASSISTANT SECRETARY FOR FINANCIAL INSTITUTIONS BEFORE THE SUBCOMMITTEE ON COMMERCIAL AND ADMINISTRATIVE LAW OF THE COMMITTEE ON THE JUDICIARY U.S. HOUSE OF REPRESENTATIVES

Chairman Barr, Mr. Watt, and Members of the Subcommittee, I appreciate the opportunity to appear here today to discuss administrative and procedural aspects of the joint Federal Reserve-Treasury rule proposal on whether to permit financial holding companies and financial subsidiaries of national banks to engage in real estate brokerage and real estate management under the Gramm-Leach-Bliley Act ("GLBA").

The four-month public comment period for this proposal ended May 1st of last year. Based on the substantial number of comment letters that the Treasury and the Federal Reserve Board ("Board") have received, there clearly is wide public interest in this proposal. The volume of letters demonstrates the sensitivity of this particular determination as well as the difficulty of the task that Congress gave us in promoting competition in financial services.

We also received letters from 160 Members of Congress, some of whom transmitted comments from their constituents and some of whom set forth comments of their own. We are carefully reviewing the issues raised by all the commenters.

On April 22nd, Secretary O'Neill informed Chairman Oxley by letter that, in consultation with Chairman Greenspan, he had decided that the Treasury will not make a final determination on this proposed rule until next year. It is incumbent on us to carefully review all the issues in keeping with the statutory criteria and purposes of the GLBA and to carefully articulate criteria that can guide our review of future requests. Given other Treasury priorities in the wake of September 11, we do not believe such a deliberative review can be completed until next year.

PO-3107

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

Because the rulemaking is pending, I will not be able to discuss the Treasury's views on substantive issues involved in making a final decision about the proposed rule. Instead, my prepared remarks will briefly describe the process and factors we considered in making the proposal and where it stands today.

By way of background, let me begin by highlighting the key provisions of the GLBA that relate to the rulemaking.

Rulemaking Provisions of the Gramm-Leach-Bliley Act

At its core, the GLBA stimulates greater competition and innovation in the financial services industry. At the same time, the legislation promotes consumer protection and safety and soundness, and restricts the mixing of banking and commerce.

To accomplish these outcomes, the GLBA amended the Bank Holding Company Act to permit financial holding companies to engage in a broad range of activities specifically listed in GLBA, as well as other activities that the Board determines, in consultation with the Treasury, to be "financial in nature or incidental to a financial activity." According to the Conference Report, the "financial in nature or incidental" standard represents a significant expansion of the "closely related to banking" standard that the Board previously applied in determining the permissibility of activities for bank holding companies.

The GLBA also amended the National Bank Act to allow national banks to control qualifying "financial subsidiaries" that are permitted to engage in most of the same "financial in nature or incidental" activities that the GLBA authorizes for financial holding companies. Activities in which financial subsidiaries may not engage under the GLBA generally include insurance underwriting and merchant banking. GLBA also explicitly prohibits financial subsidiaries from engaging in real estate development and investment.

Just as GLBA requires the Board to consult with Treasury before approving new activities as "financial in nature" or "incidental to a financial activity" for financial holding companies, GLBA also requires Treasury to consult with the Board in determining whether a new activity should be approved as financial in nature or incidental for financial subsidiaries. Under the GLBA's consultation requirement, neither the Treasury nor the Board may determine that an activity is financial in nature or incidental to a financial activity if the other agency disagrees with such a determination in writing. Treasury and the Board have developed procedures for those requesting determinations under the financial activities provisions of GLBA and for coordinating and consulting with each other. Treasury and the Board are working cooperatively in considering these determinations, as the joint proposal on real estate brokerage and management demonstrates.

In making determinations for financial subsidiaries, the GLBA requires Treasury to take into account, among other factors:

- the purposes of GLBA and the National Bank Act,
- changes in the marketplace in which banks compete,

- changes in the technology for delivering financial services, and
- whether the activity is necessary or appropriate to allow a bank and its subsidiaries to compete effectively with any company seeking to provide financial services in the United States.[1]

Let me turn now to a description of the process that the Treasury and the Board are following and where the rulemaking stands currently.

Status of the Rulemaking Process

The rulemaking process was initiated after Treasury and the Board received requests from the American Bankers Association, the Financial Services Roundtable, and the New York Clearing House Association asking that we determine that real estate brokerage and real estate management activities are financial in nature or incidental to a financial activity. Shortly thereafter, the National Association of Realtors sent a letter opposing such a determination.

In March 2000, the Treasury issued an Interim Final Rule setting forth specific procedures for requesting determinations under the GLBA, and invited the American Bankers Association and the Financial Services Roundtable to resubmit their requests to conform to these procedures. The American Bankers Association did so in July 2000, and a month later Freemont National Bank submitted a request that referenced the American Bankers Association's request.

After considering the factors specified in the GLBA and other relevant information, and consulting with the Federal Reserve Board and its staff, in December of 2000 the Treasury agreed with the Board to issue a joint notice of proposed rulemaking with a 60-day comment period. The proposal was published in the Federal Register on January 3rd 2001.

Following publication, it soon became apparent that there was a great deal of public interest in the proposal. Given this wide public interest and our desire to give the public sufficient time to

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[1] Section 5136A(b)(2) of the Revised Statutes (the National Bank Act) provides that:

"In determining whether an activity is financial in nature or incidental to a financial activity, the Secretary shall take into account –
(A) the purposes of this [National Bank] Act and the Gramm-Leach-Bliley Act;
(B) changes or reasonably expected changes in the marketplace in which banks compete;
(C) changes or reasonably expected changes in the technology for delivering financial services; and
(D) whether such activity is necessary or appropriate to allow a bank and the subsidiaries of a bank to –
(i) compete effectively with any company seeking to provide financial services in the United States;
(ii) efficiently deliver information and services that are financial in nature through the use of technological means, including any application necessary to protect the security or efficacy of systems for the transmission of data or financial transactions; and
(iii) offer customers any available or emerging technological means for using financial services or for the document imaging of data."

consider and comment on the proposal, and in view of letters we received requesting an extension, the Treasury and the Board decided to extend the comment period another 60 days.

As I mentioned, the comment period closed on May 1, 2001. Of the 34,735 comment letters we have received, most have come from real estate brokers expressing the same or similar views. We are giving serious consideration to the views expressed.

Conclusion

In conclusion, Mr. Chairman, we intend to carefully consider the issues raised by all the commenters. As we move forward next year, the Treasury will work closely with the Federal Reserve to ensure that this and other rulemakings under the financial in nature authority are consistent with the criteria Congress prescribed, the legal process, and the public interest.

Thank you. I am happy to respond to any questions.

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EMBARGOED UNTIL 2:30 P.M.
May 16, 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 $32,000 million to refund an estimated $31,786 million of publicly held 13-week and 26-week Treasury bills maturing May 23, 2002, and to raise new cash of approximately $214 million. Also maturing is an estimated $9,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced May 20, 2002.

The Federal Reserve System holds $15,218 million of the Treasury bills maturing on May 23, 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 May 21, 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 $846 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-3108

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED MAY 23, 2002

May 16, 2002

Offering Amount	$17,000 million	$15,000 million
Public Offering	$17,000 million	$15,000 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 KX 8	912795 LL 3
Auction date	May 20, 2002	May 20, 2002
Issue date	May 23, 2002	May 23, 2002
Maturity date	August 22, 2002	November 21, 2002
Original issue date	February 21, 2002	May 23, 2002
Currently outstanding	$18,952 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.

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TREASURY NEWS

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FOR IMMEDIATE RELEASE
May 17, 2002

Contact: Tara Bradshaw
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TREASURY RELEASES PRELIMINARY REPORT ON INVERSION TRANSACTIONS

Today the Treasury Department released its preliminary report on the issues arising in connection with the reincorporation of U.S.-based multinational corporations in foreign countries, sometimes referred to as "corporate inversion" transactions, and the implications of these transactions for U.S. tax rules.

"When we have a tax code that allows companies to cut their taxes on their U.S. business by nominally moving their headquarters offshore, then we need to do something to fix the tax code," stated Treasury Secretary Paul O'Neill.

"In addition, if the tax code disadvantages U.S. companies competing in the global marketplace, then we should address the anti-competitive provisions of the code. I don't think anyone wants to wake up one morning to find every U.S. company headquartered offshore because our tax code drove them away and no one did anything about it. This is about competitiveness and complications in the tax code that put U.S.-based companies out of step with their foreign competitors."

"We will work with Congress to address these important issues quickly," O'Neill concluded.

An inversion is a transaction through which the corporate structure of a U.S.-based multinational group is altered so that a new foreign corporation, typically located in a low or no tax country, replaces the existing U.S. parent corporation as the parent of the corporate group.

In recent months, several high-profile U.S. companies have announced plans to reincorporate outside the United States. The documents prepared for shareholder approval and filed with the Securities and Exchange Commission cite substantial reductions in overall corporate taxes as a key reason for the transactions.

PO-3109

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

While the corporate inversion transactions are not new, there has been a marked increase recently in the frequency, size, and profile of the transactions. The Treasury Department has been studying the issues that arise in connection with this corporate inversion activity and the implications for the U.S. tax system and the U.S. economy. The Treasury Department concluded that the release of a preliminary report would be useful to the consideration of the issues posed by the increased inversion activity. The report describes the current law tax treatment of the transactions and of the companies post-inversion, and the features of current law that facilitate the transactions and that may be used to reduce inappropriately the companies' tax burdens post-inversion. The report also describes the potential ramifications of reformulations of the tax laws, including in particular the long-term effect of such changes on the U.S. economy, that must be considered in the evaluation of changes to the tax laws.

Inversions are not the only transactions that result in an offshore headquarters. Companies can start up in a foreign jurisdiction. Also, U.S. companies that merge with a foreign company can decide to locate the headquarters of the merged companies outside the United States.

The report concludes that the policy response to the recent corporate inversion activity should be broad enough to address the underlying differences in the U.S. tax treatment of U.S.-based companies and foreign-based companies, without regard to how foreign-based status is achieved. Measures designed simply to halt inversion transactions may address the issues in the short run, but in the long run produce unintended and harmful effects for the U.S. economy.

A prompt and thoroughly-reasoned response is needed to address the U.S. tax advantages that are available to foreign-based companies through the ability to reduce the U.S. corporate-level tax on income from U.S. operations. Inappropriate shifting of income from the U.S. companies in the corporate group to the foreign parent or its foreign subsidiaries provides a competitive advantage to companies that have undergone an inversion or otherwise operate in a foreign-based group. Changes to the applicable statutory and regulatory rules is needed to ensure that any transaction that results in a new foreign parent of a corporate group with U.S. operations does not serve to facilitate an inappropriate decrease in tax on the U.S. income of the U.S. operations.

Further work also is needed to address the features of U.S. tax laws that may disadvantage U.S.-based companies relative to companies based in major trading partners, including the U.S. tax treatment of income from U.S. companies' foreign operations. A comprehensive reexamination of the U.S. international tax rules and the economic assumptions underlying them is needed to ensure that the system of international tax rules does not disadvantage U.S.-based companies competing in the global marketplace.

"As we address these important issues, we must do so in a way that maintains the position of the United States as the most desirable place in the world for people to do business. We must not undermine the fundamental strength of our economy," stated Acting Treasury Assistant Secretary for Tax Policy Pam Olson. "We want companies to keep their headquarters and their jobs here."

The text of the preliminary report is attached.

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FOR IMMEDIATE RELEASE
Tuesday, May 21, 2002

Contact: Public Affairs
(202) 622-2960

Treasury Secretary Paul H. O'Neill
Remarks at International Conference Center
Accra, Ghana

Good afternoon. Thank you for welcoming me to Ghana, and thanks to the American Chamber of Commerce for hosting today's lunch.

This tour marks my first visit to Africa since becoming Secretary of the United States Treasury. In my previous visits I traveled as a businessperson. I am eager to make the most of my time, to witness first hand the efforts underway to engage all the people of Africa in creating a brighter future.

I come here to learn. To hear from entrepreneurs, investors, farmers, artisans and vendors in the market. I want to hear their hopes and dreams and I hope they share with me their insights into how best to eliminate the obstacles to Africa's prosperity.

I come here with an open mind, convinced of only one thing -- that human beings everywhere have the potential to succeed.

The question for us, and for our time, is how to finally realize that vision. How can the people of the African nations and their elected leaders create prosperity -- and how can the people of the United States and the other industrialized countries best support their efforts?

If I had the answer, I would have sent a prescription. It's not so easy. For some 50 years, thoughtful, compassionate people have struggled to solve poverty here. As Bono, my friend and travelling companion, might say we "still haven't found what we're looking for." The results of official development assistance have been disappointing, and many poor countries here have stayed that way, even as others have excelled.

So I have come to Africa. Not to preach, but to listen, and share. I want to see what has worked here, and what has failed. I want to ask how we can do better. I want to learn from Ghana's political and economic success, so I can share the best of your experience with your neighbors and the world. At the same time, I want to share what we have learned from other successful developing countries around the world, and show our commitment to promoting those practices in Africa.

PO-3110

And I want to take our combined experience and put it to work, to produce results for Africans. Not in the next generation, but right now.

Here is what we know: all people are created equal. Given the tools and incentives for success, they will succeed, no matter who they are or where they live. Of course this is self-evident. But I have also seen this truth first-hand, as a leader in the private sector. As Chairman and CEO of Alcoa, I helped grow the company from 55,000 employees in 13 countries when I joined in 1987, to 140,000 people in 36 countries -- including several African countries -- when I retired in 2000.

During that time I learned about job creation, and about the ways of life and work around the globe. In my travels, I saw that human beings everywhere, with the proper education, good health, and a stable environment, could perform meaningful, value-adding work at world-competitive levels. I saw that in the Americas, I saw it in Europe, I saw it in Asia, and I saw it in Africa.

We also know that in every nation, economic growth and higher living standards come from increasing productivity -- that is, increasing the value that each worker produces each day. When productivity is rising, workers earn more for their work and their quality of life improves, year after year.

Moreover, we know that it is a competitive private sector that drives productivity gains. As companies compete with each other for business, they seek better ways to satisfy their customers. They try to provide more and more value for each dollar. As opportunities to add value emerge, entrepreneurs enter the market. To stay competitive, leaders must constantly invest in new ideas and better methods for production.

So what can a country do to unleash its private sector and increase productivity? What have successful leaders done?

- They rule justly, by fairly enforcing law and contracts, respecting human rights and property rights, and fighting corruption.

- They encourage economic freedom, by removing barriers to trade – both internal and external – and by opening their economies to investment, allowing companies and entrepreneurs to compete without excessive interference, and pursuing sound fiscal and monetary policies, including government divestment of business operations.

- And they invest in their people, by providing the best possible systems for education and health care. In particular, we must work to fight the spread of AIDS, which threatens to cripple the economic potential of many African nations and peoples.

All three of these elements -- ruling justly, encouraging economic freedom, and investing in people -- are essential for successful development.

Ghana is a leader in Africa, and nothing better demonstrates that leadership than last year's peaceful transfer of power following a democratic election. Respect for democracy is one aspect of ruling justly. But that peaceful transition was not only a political achievement, it was an economic achievement.

Here is why: capital is a coward. Investors know there are great opportunities for growth in Africa. The very fact that development in Africa has lagged compared to many parts of the world means that there is enormous potential for high returns as you catch up to the leaders.

Investors are slow to put their capital into Africa because they are afraid that the buildings and machines and businesses their capital will help build could be confiscated through corruption, or through a violent change in power. They fear their contracts will not be respected.

I am not only talking about foreign investors. I am talking about Africans investing in Africa. When savings and investments are not perceived as safe, people hide their cash where it cannot work for the economy, or they send it to countries where they know it will be safe. According to one study, 40% of Africa's private wealth is held abroad. Local entrepreneurs cannot flourish when they fear that corrupt officials may appropriate their success.

With its growing history of democracy and stability, Ghana is showing that it can offer continuous rule of law, even with a change in power. At the same time, Ghana has been opening its economy to international trade and investment, and continuing with the economic reform process started under previous governments.

Already, investors and entrepreneurs are responding to Ghana's improved stability and economic reforms. For example, this morning I visited a successful investment in Ghana, called Affiliated Computer Services, Inc.-Business Process Solutions (ACS-BPS). ACS sells data processing services to insurance companies in the U.S. It opened its office here in 2000, and already it employs over 800 Ghanaians, paying an average of three times the average wage in Ghana. The company now plans to expand its operations to four new sites in Ghana and to increase its workforce to over 1000 people.

The employees start with a high school diploma and typing skills. The training they receive creates a new knowledge base on which future employers can build. As foreign investments like ACS/BPS show success, others are bound to follow, and I am optimistic that increasingly advanced services, such as software development, will thrive in Ghana.

While foreign direct investment creates notice, building a new office and creating a lot of new jobs at one time, it isn't the silver bullet or magic solution for creating self-sustaining economic growth. Local entrepreneurs -- not foreigners -- are the backbone of every economy. That is true in the United States and around the world. Individuals with roots in the community are willing to take risks to improve the lives of their families and communities, and they pass on their skills and spark the imaginations of future entrepreneurs.

Later today, I will meet with several small businesses that are performing value-added processing for agricultural products, such as making cashew butter. Tomorrow, I'll travel to the northern region of Tamale, where I will visit Wamali, a village which produces, among other crops, Shea nut butter. The processing of shea nuts holds great potential for small and large scale agri-business, as shea nut is a good moisturizer used in cosemetics.

Small and medium-sized agricultural and business ventures like these can make a big difference for Ghanaian communities and the overall economy. With the right kind of support, such as investments in rural roads and reform of the land tenure system, the government could encourage further innovation, and help producers get their goods to the market.

As a framework for these economic development policies, I believe Ghana should pursue investment grade rating for its sovereign debt. The transparency and policy environment needed for an investment grade rating, and the rating itself, disciplines government. Achieving investment grade sovereign debt would allow Ghana to grow on its many merits, as investors could more easily differentiate Ghana's risks from those of less progressive nations.

When the sovereign leader is working to improve conditions for investment and entrepreneurship, outside assistance can speed progress.

In February of this year, with U.S. support, the World Bank and the IMF approved Ghana for debt relief under the enhanced Heavily Indebted Poor Countries, or "HIPC," initiative. Ghana now benefits from debt service relief from official creditors. As Ghana's debt burden is reduced, it will have greater resources to invest in health, education and fiscal stability.

As we forgive debt, we must also take steps to avoid recreating the debt burdens that stifled so many nations. President Bush has proposed that up to 50% of the World Bank and other development bank funds for the poorest countries be provided as grants rather than as loans. This proposal makes a lot of sense. It acknowledges the long-term development challenges facing these countries, their vulnerability to economic shocks, and the reality that investments in crucial social sectors such as education and health care -- investments in people – while critically important, may not generate the revenue needed to service new debt. Grants, rather than loans, will eliminate the need for governments to tax their people in order to repay the principal and interest – and thereby eliminate the next generation of debt servicing problems for the poorest nations.

We in the US have also taken steps to bolster economic growth in Africa. In the year 2000, we adopted the Africa Growth and Opportunity Act, or "AGOA," to open markets in the United States to exports from sub-Saharan Africa. Later today, I will be meeting with some apparel and handicraft producers that are eager to export to the U.S. under AGOA. I would encourage Ghanaian companies to take advantage of AGOA to enter the U.S. market and build their businesses. I would also encourage the nations of Africa to explore opportunities to reduce trade barriers between neighboring nations.

In our meeting this morning, I committed to President Kufuor that the Treasury Department will provide an advisor on domestic debt management in 2002. We are pleased to provide technical assistance whenever we can to support national leaders seeking to improve their internal budgeting and financial systems.

Technical assistance is also a crucial means through which our official development assistance adds support to burgeoning private sector growth. While in Ghana, we will be visiting several small businesses which have received technical assistance through USAID to market their goods, better organize their books and improve their manufacturing processes.

Official development assistance, through USAID, through the World Bank, the African Development Bank or bilaterally, stands a better chance of success when local leaders are already improving the economic framework of the nation.

That is the premise of the President's Millennium Challenge Accounts and the New Compact for Development. The President has proposed $5 billion in additional US bilateral aid annually, channeled to those countries that can use the money effectively. To access the Millennium Challenge Account, developing countries must demonstrate a strong commitment to ruling justly, encouraging economic freedom, and investing in people.

We are in the process of developing the criteria for measuring countries' policies in this area, so we can begin to disburse funds. As part of the process, President Bush has asked us to reach out to the world community, and that is one reason for this tour of Africa.

The plan the President outlined echos the objectives of the New Partnership for African Development (NEPAD), an initiative created by African leaders to promote, among other things, "sound economic management and people-centered development."

We have to be hard-headed and demand results—that is our responsibility to the impoverished people of Africa. If we don't insist on results for the dollars provided by compassionate people all over the developed world, then we are not meeting our responsibility as world leaders to improve the lives of people everywhere.

Since I became Treasury Secretary, I have been determined to reform the way in which the World Bank and the other multilateral development banks do business. They must improve the effectiveness of their assistance. Rather than focusing on inputs, I want them to focus on results. For example, don't tell me how many children you've enrolled in school, or how much you've spent on enrollment programs -- tell me how many of the children can read, write and compute at their grade level after six years of schooling. That's what matters – it's the only thing that matters to those children and their future.

President Bush has created new incentives in our development assistance programs to encourage a greater focus on results. He has committed to an 18% increase in funding for the African Development Bank and an 18% increase in funding for IDA, the World Bank's lending program for the poorest nations, so long as those programs can show they are achieving measurable improvements in development.

I believe strongly in development assistance that makes a difference in people's lives. I am optimistic that our efforts together will produce results in Ghana, and throughout Africa. This is an exciting time for those of us who relish the challenge of unleashing human potential around the world, especially in Africa. We are making progress on many fronts. 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.

Thank you.

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Contact: Betsy Holahan
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Remarks of Tony T. Brown
Director of the Treasury's Community Development Financial Institutions Fund
to the Association for Enterprise Opportunity's Annual Conference
Ft. Lauderdale, FL

Good afternoon and welcome to Florida, which happens to be my home 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 community development finance and the value of micro-finance. Yes, micro-enterprise does work and it is an effective tool for successfully alleviating poverty.

I am here to say thank you and to commend you for providing capital to underserved entrepreneurs. What started as a movement has grown to an industry and the CDFI Fund has been a big part of that growth.

The CDFI Fund has invested nearly $21 million in micro-lenders. We believe in you and the work you do to bring economic stability to our nation's communities. You can count on the CDFI Fund as an effective partner in helping you "provide access to capital to all Americans."

In remarks to community and business leaders in Los Angeles this month at the 10-year anniversary of the racial disturbances in South-Central LA, President Bush acknowledged the role of community-based organizations in helping to eliminate pockets of despair. His remarks sums up the socioeconomic commitment of your sponsoring organizations. President Bush believes in you and the work you do to improve America. He knows that we must work hard and that there is plenty of work to do. And he knows that we can eliminate poverty and despair with love, compassion and decency.

President Bush often reminds people that 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, to represent the CDFI Fund and the U.S. Department of the Treasury.

PO-3111

First, let me thank Bill Edwards for that kind introduction and commend AEO for advancing the field of microenterprise development. I thought I would share my vision for the CDFI Fund largely in relation to AEO's vision for micro-finance. I will relate many of my comments to AEO's five-year strategic plan.

In thinking about my comments to your organization, I recalled my first experience at self-employment and thought about how a micro-lender could have aided me in my first venture. It was the summer of 1978 – I was fresh out of high school. Two buddies and I were brainstorming ways we could make money during the summer.

First, we took an inventory of our assets. In our case, there wasn't much in the way of financial assets. My buddy, Gregg, had just purchased a pick-up truck. Now, Terrence and I knew that this had to be a sign from God.

We thought that money could be made from that pick-up truck because how many brothers from the North in urban, inner-city America, would go out and buy a pick-up truck after high school! A sports car maybe – but a pick up truck?

A neighbor told us that they made $500 in two days over the weekend delivering telephone books in the city. Our neighbors were a middle-aged couple and they delivered these telephone books in a station wagon.

We were 18 years old. In prime physical condition with a pick-up truck! So off we went to Cincinnati Bell. We told them to load up the truck and we gave them about 20 neighborhoods we were familiar with. They, in turn, gave us the list of homes to deliver telephone books. We then learned that you make twice as much picking up the old telephone books than you get delivering the new ones.

We learned a second lesson. You can't cover much of the city on one tank of gas and going up and down stairs on an empty stomach. So, we went to our micro-lender at that time – my grandmother – for $100 loan.

After a full day going up and down stairs and running from dogs, we learned our third lesson – market perception and receptivity. We were able to drop off telephone books but there weren't many homes willing to open their doors to let us in to pick up an old telephone book. We were young, well-groomed, African-American males bartering telephone books: look at this smile – would you invite me into your home? I guess in hindsight hocking telephone books doesn't sound as credible as selling insurance.

Well, we gave up on the telephone book exchange business and went into the moving business and made a pretty good living that summer.

I share this story with you because that experience helped to shape my sensitivities later in life as a banker.

As a banker, I empathized with entrepreneurs who are willing to take business risk but can't seem to overcome a financial institutions requirement for equity or collateral, including second or third potential sources for loan repayment.

I recall being trained as a lender to look for ways to consolidate debt to increase the loan size since our bank could not make money on a small loan. If this couldn't be done then we were to advise the customer to apply for a credit card and get a cash advance for a small dollar loan.

In my early years as a banker, bank regulations scrutinized an institution's lending policies when they reportedly had minimum loan amounts. To get around this aspect of Regulation B, a financial institution had to justify its minimum loan amounts as part of a business case.

In my mind, I felt that my financial institution was leaving too much money on the table and that scores of potential customers were being turned away. Well, you as mico-lenders, have proven me right.

Thankfully, you as micro-finance institutions help to fill this credit gap. You have proven that you are able to lend deeper with smaller loan sizes and to grow your portfolio by moving up-market as your clients mature. You have demonstrated profitable operations with strong portfolio performance.

The CDFI Fund fully supports the development of strong and effective microenterprise programs to assist underserved entrepreneurs in starting, stabilizing and expanding businesses. The numbers speak for themselves. For instance:

Annually, the CDFI Fund conducts a survey of its awardees. In 2000, 58 out of 122 awardees reported outstanding microloans in their portfolios. That means that a full 48% of the Fund's awardees engage in some degree of microenterprise, whether it is a microenterprise organization dedicated 100% to this sector or a business loan fund or credit union that has a microloan product. These institutions reported total assets of $1.8 billion and during FY 2000 they made nearly 9,200 loans for over $28 million – an average loan size of over $3,000.

Under the CDFI Data Project, 25 micrenterprise organizations completed an annual survey. These 25 had 14% delinquency (or 30 days or more past due). I consider this to be a "risky" portfolio. However, what's interesting is that larger business loan funds – which tend to do less risky investment – had 12% delinquency. So on that basis, you compare favorably. The average loan loss reserve for a micro-lender registered 12%, and compared favorably to the average loan loss provision reported for larger business loan funds at 11%.

Our analysis at the Fund generally includes a self-sufficiency calculation where we determine if earned program income covers general operating expenses. A rating of 100% or more means earned income exceeds operating expenses and the CDFI is "self-sufficient," it does not have to rely at all on grant income.

Our sample of 25 micro-finance institutions reported an average self-sufficiency ratio of 35%, while the business loan funds averaged self-sufficiency ratios of 55%.

This information helps me to better understand why many micro-lenders are part of other organizations with general socio-economic missions. It appears that you either need to achieve scale; be part of a larger organization, where operating expenses can be subsidized; or you have to attract annual operating grants just to keep your doors opened.

I understand from talking to my staff that your array of functions – entrepreneurial training, guidance to other would be business owners and other non-lending activity is a barrier for several AEO members to gaining CDFI certification. To meet the "financing entity" test it may be useful to consider forming an affiliated entity and consolidating lending activity in it, and keeping the training and other non-lending activity in the existing parent corporation.

Micro-finance institutions are important to the CDFI Fund. Our records show that 20% of our certified CDFIs are AEO members and that they offer some form of micro-finance. It is great to know that you value the CDFI Fund.

Bill Edwards also shared with me AEO's legislative priorities for 2002 where you cited the CDFI Fund as the most prominent source of funding and that you rank the CDFI Fund the highest in terms of scale and innovation for the micro-enterprise field. Thank you for this strong endorsement of importance and value.

But I think there is room for improvement. One such area is the utilization of our Small and Emerging CDFI Assistance Component (or SECA) under the CDFI Program. This program was created in response to the needs that you put forth –

- for a program that focused on new or smaller organizations that needed funding to help these organizations grow and expand;
- a program where similar entities can compete among themselves, as opposed to against much larger entities as in our CORE Component;
- and a program that provided funding for critically needed technical assistance dollars, but also allowed for smaller amounts of capital.

We introduced our SECA program in 2001 and made 70 awards. Only 9 of those awards – or roughly 13% - were made to AEO members. This number will rise in the coming months, as the CDFI Fund begins announcing the FY 2002 SECA awards. We know the SECA program is important to you, but it seems like there is a great opportunity here that many of you are not taking advantage of. I strongly encourage you to consider applying under the 2003 round of SECA. There is a great description of this program in AEO's January/March newsletter.

Another major change you will see at the Fund is how we manage compliance and measure CDFI performance and impact.

Bill has met with me and shared the details on the valuable work AEO has undertaken to develop a standard for accrediting micro-enterprise organizations. Your work has influenced my thoughts as the

CDFI Fund moves from our present compliance, monitoring and evaluation systems to a new evaluation tool we are calling PLUM (Performance, Leverage, Underwriting, Management).

In a 1998 report completed by the General Accounting Office on the Fund's systems, it was recommended that the Fund review its assistance agreements and establish procedures to encourage the greater use of accomplishment measures. To encourage the use of accomplishment measures, GAO recommended that the Director waive sanctions for accomplishment measures beyond the awardees' control – such as economic conditions – while retaining sanctions for activity measures within an award recipient's control.

Treasury Secretary Paul O'Neill is asking us to measure the outcome of your lending activities. He wants to know how did this lending improve the area's local economy? Were jobs created and retained? Did we build personal wealth? How many people were removed from welfare rolls and made successful entrepreneurs, as examples?

Our Compliance Monitoring program will begin to take on a more sophisticated approach. Our goal is to measure compliance based on your performance and capacity to reach and serve distressed markets, not merely on your performance to a five-year business plan that gets outdated after one year.

The point I want to make is that we are now at the stage where it is essential that we be able to measure the true impact of CDFIs in building community wealth through community development financing activities for our nation's financially underserved and economically distressed areas.

I will discuss my last point by addressing an issue of concern to micro-finance institutions and that is the growth of micro-lenders through mergers and partnerships that achieve scale. I think we all agree that the field of community development finance has grown considerably. The issue at hand is whether or not we can sustain our loan programs with existing and traditional funding sources.

One of the major policy objectives of President Bush is to see an increased flow of private capital into low-income communities. One new initiative at the Fund that you need to evaluate is the New Markets Tax Credit program.

The New Markets Tax Credit Program is the newest of the CDFI Fund's program. It is designed to help spur $15 billion worth of new investments in low-income urban and rural communities across the country. Briefly, here's how NMTCs 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.

    - Tax incentives covering $15 billion in investments will be available over the next six years. We expect to allocate up to $2.5 billion in NMTC in calendar year 2002.

- If you have not done so, you should be completing applications for certifications. As CDFIs, it is a simple online registration.

I encourage you all to think out-side-the-box on how we might utilize this new tool to help capitalize the important work you do. Don't let this opportunity slip by.

Conclusion:

The Fund is initiating a number of changes. These changes reflect the organizational maturity of the Fund and that of the CDFI industry itself. The Fund is poised to better connect our nation's distressed and underserved markets with financing alternatives to increase economic health and build community infrastructure.

We can achieve these changes and fulfill the goals described with your help. If the CDFIs do their share, the Fund, as your federal government partner, will do what it needs to in order to fulfill its end of the bargain. It is a partnership about which I am very excited.

Thank you so much for your attention. (At this time, I am open to take a few questions.)

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Contact: Public Affairs
(202) 622-2960

"Financial Services: Growth and Stability in Asia in the 21st Century"
Deputy U.S. Treasury Secretary Kenneth W. Dam

Good afternoon.

It is a great pleasure for me to speak to the Asia Society today. I have had a long and fruitful association with the Asia Society, both as a board member for some years, and as a steady customer for its policy discussions.

From my perspective, today's event is quite timely. I have just returned from a ten day trip to Malaysia, China, and South Korea. There, I announced a Bush Administration initiative to transform key emerging market financial sectors into engines for economic growth. I would like to elaborate on this new policy goal, which pertains directly to today's conference topic, "Strategizing for an Uncertain Future in Asia."

Our initiative seeks to strengthen financial sectors in emerging markets by helping them introduce best practices gleaned from the most developed markets. Such practices include opening their economies to international financial firms' resources and technology, and designing better domestic financial regulations and supervision. Financial sector strengthening consequently offers two fundamental benefits to those who undertake it. First, an open, well-regulated financial sector is more efficient and robust, and fuels growth throughout an economy. Indeed, all other sectors rely on financial intermediation for their growth. Second, perhaps more than any other economic sector, a strong financial sector protects an economy from external and domestic shocks. Thus it offers stability.

Clearly, growth and stability in the Asian economies are both high priorities for U.S. investors and multinationals doing business in Asia, just as they are sensible priorities for leadership in Asian countries. In light of the audience today, I should also point out two other benefits. Financial sector openness enables foreign investors to support the success of these economies with less systemic risk. And better regulatory supervision, along with openness, makes it easier for responsible governments to crack down on terrorist financing.

PO-3112

In my view, there is no better way to advance the Asian economies in the 21st century, and to reduce risks for both foreign and domestic investors in those economies, than through strengthening their financial service sectors.

Financial Services and Growth

As we look around the world, we see that just about every advanced economy has an open financial sector, with a large number of firms competing for business.

For example, in the United States, imports of financial services, including insurance, totaled $19.3 billion in 2000. This accounted for 10 percent of all cross-border service imports into our country that year. Sales by foreign-owned financial firms operating in the U.S. were even more substantial. In 1999, the latest year available, sales of services in the U.S. by majority-owned finance and insurance affiliates of foreign companies totaled $94 billion. These affiliates account for more than ten percent of total U.S. revenue in these sectors.

Because the U.S. economy is open to these firms, consumers and businesses can choose from the most advanced, best-priced financial services in the world. To attract and keep their business, financial firms offer the highest possible returns to savers, and the lowest possible cost of capital to investors. Thus the competition leads to narrower spreads, and stimulates both savings and investment. Financial institutions, as they aggregate capital, must move it into the businesses and industry sectors where the institutions can earn the best risk-adjusted returns for their savers. That means investing in the businesses that can make the best use of their capital. In other words, those that offer the highest productivity. And rising productivity -- output per worker -- is the root of rising living standards.

At the same time, proper regulatory practices, including transparency in rule-making and adequate disclosure from firms, ensures that savers can choose the right level of risk and return for themselves.

The process of intermediating capital between savers and investors -- the job of the financial sector -- is one of the most fundamental components of modern capitalism. The faster and more efficiently the financial sector identifies the best growth opportunities and moves savings into them, the faster the economy can grow. That is why I like to say that an efficient financial sector is an engine for economic growth. It converts the fuel -- the potential -- of savings into kinetic energy for the economy.

The best way to increase efficiency in emerging market financial sectors is to expose domestic firms to the best practices of world-class financial institutions, so that domestic firms can learn from the best and compete. Just as Asian manufacturers excelled in the last century by learning, and then improving upon the manufacturing methods of the industrialized economies, Asian financial systems must do the same with financial services.

Empirical evidence supports the theory. A 2001 World Bank study found that countries with fully open financial services sectors grow, on average, one percentage point faster than other countries. These results corroborate an earlier World Bank study estimating that more open and competitive financial services markets increase national growth rates by 1.3 to 1.5 percentage points. Likewise, a recent WTO study of 27 emerging market countries found that allowing foreign financial firms to establish locally and to engage in a broad spectrum of financial activities contributed to greater financial sector stability.

Financial Services and Risk

A strong financial service sector is also important because it enhances economic stability. That is, it reduces risk for savers and investors. I want to focus on two types of risk, though there are many others – risk posed by globalization and risk posed by terrorism.

Few regions of the world have more than Asia reaped the benefits of globalization – the growing interconnection between economies. Export-led growth was basic to the so-called Asian Miracle of the past half-century, one of the great development success stories in economic history. Nevertheless, growing interdependence brings challenges of its own. Increasingly, our economies pedal in tandem. When the United States moves forward, so do many Asian economies, and the reverse is true as well.

For many emerging markets, especially those in Asia, the consequences of this economic integration are profound. Access to markets abroad means greater exports for Asian economies and greater profits for their firms. But economic integration also has its downside, and the turbulent winds of the global economy can swing a boom hard, fast, and unexpectedly. The slowdown in U.S. high tech manufacturing in the last few years hit many Asian component manufacturers' exports in just that way.

A strong financial sector makes an economy more resilient to external economic shocks. One way it helps is by sustaining domestic demand when export demand falls off.

Again, consider the United States. During last year's economic slowdown, our flexible financial sector -- in addition to well-timed tax relief and aggressive monetary easing -- powered a swift rebound. In particular, widespread access to home mortgage products and rapid, low-cost refinancing kept U.S. consumers spending until businesses could clear their inventories and begin to rebuild.

Another risk we are beginning to understand as an economic risk is terrorism. Indeed, the terrorist attacks on September 11 were directed at the World Trade Center not only because so many people worked there, but also because the Twin Towers were symbols of the American economy, and the financial system in particular.

While September 11 was a wake up call to America, several economies and financial sectors of Asia have long faced this threat. The Philippine stock exchange was bombed in 2000 and the Korean financial sector has long had to cope with the threat of a military attack.
A strong financial service sector helps our economies manage risk from terrorism in two ways.

First, modern financial institutions can detect suspicious activity, report it, and help law enforcement to disrupt terrorists before they can attack. Modern financial institutions have information systems capable of searching millions of daily transactions. Stringent laws against terrorist financing are most effective when financial institutions have the technology to implement the laws at a reasonable cost, without impairing normal operations.

Second, robust financial services help diffuse the risk of an actual attack. One of the reasons the American economy proved so resilient following September 11 was that the United States has well-developed volatility markets. These markets shifted risk from those who didn't want it to those who were willing to bear it -- for a price, of course. When the risk was realized in that terrible moment, advanced financial instruments helped absorbed its financial impact.

At the same time, despite a devastating attack on the physical heart of our financial system, the American economy continued to function, thanks to our technologically advanced, highly decentralized financial infrastructure. Our payments system kept working. Our bond and stock markets re-opened in days. Since the attacks, we have hardened our critical financial infrastructure further.

How To Get There From Here

The economic importance of a deep, flexible and resilient financial sector cannot be overstated. Gone are the days when a national airline or government-directed investments in manufacturing were the badges of economic development. In this decade, the great challenge for Asian countries in transition will be financial sector restructuring and development. The question, of course, is how to get there.

Transforming the financial sectors of Asian economies into engines of growth will be a challenge. But I believe the record shows that when policymakers are determined, they can act to strengthen their nation's financial sector -- and succeed.

Consider Korea. In just four years, Korea has recreated its economy through financial sector reform, setting an example for the region. Failed banks have been recapitalized. Non-performing assets have been sold. Financial regulation and supervision have been strengthened. And Korea's capital account has been substantially liberalized.

The results are clear. Private banks are again profitable. Capital ratios have improved, and the number of non-performing loans is down. Though the reform process is not yet complete, change for the better is well underway. It is essential that countries that forge ahead to strengthen their financial systems will require enlightened policymaking, a deep commitment to openness, and the very best regulatory oversight and enforcement. Vested interests may object, and a new and deeper faith in the markets must be nurtured.

Let me say a word about regulation and supervision. Sound regulation and supervision are essential to the success of efforts to bolster the financial system. Every effort should be taken to apply new, transparent methods for drafting and applying regulations. Regulators should seek out the insights of the private sector before creating the rules of the game. We use these methods in the United States.

The U.S. Federal Reserve, for example, regularly publishes proposed regulations and asks for comments from the private sector in a reasonable period of time. During the implementation of our Gramm-Leach-Bliley bill -- which fundamentally reformed the U.S. banking, securities and insurance sectors -- the U.S. Federal Reserve sought out and received hundreds of comments from foreign banks. As a result, it made several significant changes to accommodate the many international banks doing business in the United States. Rules that specify how regulations will be implemented and how applications for licenses will be granted or denied are equally as important.

We are making some progress in improving the regulatory climate worldwide. Here in the United States, we have enacted the USA PATRIOT Act. Among other things, the Act requires financial institutions to terminate correspondent accounts maintained for foreign shell banks and to take reasonable steps to ensure that they do not indirectly provide banking services to foreign shell banks. Internationally, the United States, along with 28 other countries and territories, works with the multilateral Financial Action Task Force (FATF) to fight money-laundering and terrorist financing.

For the most part, Asian economies have been strong allies in the fight against terrorist financing. Hong Kong has been a strong advocate, as have Singapore, Malaysia and Thailand. While the Philippines and Indonesia have recently passed anti-money laundering laws, improvements are still needed. Furthermore, total assets blocked have been disappointing to date, particularly in Southeast Asian economies where we know terrorist cells operate.

My mission in Asia last week was to engage key policymakers in a dialogue aimed at building momentum for financial sector liberalization. I believe we were successful in sparking the discussion. We must continue to collaborate on financial sector development if the Asian economies are to enjoy the sustained growth and stability that a strong, modern financial service sector makes possible. Asian prosperity in the 21st century depends on it.

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.
May 20, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $18,000 million to refund an estimated $9,000 million of publicly held 4-week Treasury bills maturing May 23, 2002, and to raise new cash of $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 $15,218 million of the Treasury bills maturing on May 23, 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-3113

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED MAY 23, 2002

May 20, 2002

Offering Amount ....$18,000 million
Public Offering ....$18,000 million
NLP Exclusion Amount ....$ 9,600 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 JZ 5
Auction date ....May 21, 2002
Issue date ....May 23, 2002
Maturity date ....June 20, 2002
Original issue date ....December 20, 2001
Currently outstanding ....$38,027 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
May 20, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	May 23, 2002
Maturity Date:	August 22, 2002
CUSIP Number:	912795KX8

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 58.13%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 34,266,545	$ 15,386,868
Noncompetitive	1,438,237	1,438,237
FIMA (noncompetitive)	175,000	175,000
SUBTOTAL	35,879,782	17,000,105 2/
Federal Reserve	6,913,013	6,913,013
TOTAL	$ 42,792,795	$ 23,913,118

Median rate 1.715%: 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 = 35,879,782 / 17,000,105 = 2.11

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,184,398,000

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

FOR IMMEDIATE RELEASE
May 20, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	May 23, 2002
Maturity Date:	November 21, 2002
CUSIP Number:	912795LL3

High Rate: 1.900% Investment Rate 1/: 1.946% Price: 99.039

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 25.09%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 30,994,668	$ 13,837,860
Noncompetitive	1,087,195	1,087,195
FIMA (noncompetitive)	75,000	75,000
SUBTOTAL	32,156,863	15,000,055 2/
Federal Reserve	5,846,043	5,846,043
TOTAL	$ 38,002,906	$ 20,846,098

Median rate 1.885%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.835%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 32,156,863 / 15,000,055 = 2.14

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $905,039,000

http://www.publicdebt.treas.gov

'0-3115

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
May 21, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	May 23, 2002
Maturity Date:	June 20, 2002
CUSIP Number:	912795JZ5

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 63.97%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 46,505,600	$ 17,974,005
Noncompetitive	26,187	26,187
FIMA (noncompetitive)	0	0
SUBTOTAL	46,531,787	18,000,192
Federal Reserve	2,458,688	2,458,688
TOTAL	$ 48,990,475	$ 20,458,880

Median rate 1.680%: 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 = 46,531,787 / 18,000,192 = 2.59

1/ Equivalent coupon-issue yield.

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0-3116

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Embargoed until 2:00 pm EDT
May 21, 2002

Contact: Betsy Holahan
202-622-2960

STATEMENT OF ERIC SOLOMON
DEPUTY ASSISTANT SECRETARY (REGULATORY AFFAIRS)
DEPARTMENT OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON OVERSIGHT
HOUSE COMMITTEE ON WAYS AND MEANS

Mr. Chairman, Mr. Coyne, and Members of the Subcommittee:

I appreciate the opportunity to discuss with you today tax incentives designed to foster the revitalization of economically disadvantaged communities. I would like to start by thanking the Chairman and the Subcommittee for holding a hearing on this important issue.

The Administration is firmly committed to helping Americans in economically distressed communities. However, because there are limits on what the Federal government alone can accomplish, a more comprehensive approach is necessary. This approach calls for initiatives to encourage further involvement by individuals, businesses, and community-based and faith-based organizations in working to eliminate conditions of economic distress in this country.

Thanks in large part to the leadership shown by the Ways and Means Committee, many of the Administration's tax proposals in this area have already been enacted. Administration tax proposals benefiting low-income individuals or distressed communities that have already been enacted include the following: (1) extension of the work opportunity tax credit through 2003; (2) extension of the welfare to work credit through 2003; (3) extension of authority to issue qualified zone academy bonds through 2003; (4) authorization of tax-exempt private activity bonds to finance reconstruction in the area surrounding the World Trade Center in New York City devastated by the September 11, 2001 terrorist attacks; (5) creation of a new 10 percent income tax bracket; and (6) doubling of the child tax credit to $1,000.

The President's Budget for FY 2003 contains additional proposals on both the spending and tax side. The tax proposals include creation of a new tax credit, similar in design to the low-income housing tax credit, for developers of affordable single-family housing, and making the brownfields tax incentive permanent. These will be discussed in more detail below.

PO-3117

We look forward to working with this Subcommittee as it considers the remainder of the Administration's initiatives related to encouraging community renewal.

The remainder of my testimony will provide a more detailed discussion of current law and the Administration's budget proposals.

INCENTIVES FOR DISTRESSED COMMUNITIES

Current law tax incentives for distressed communities

The Internal Revenue Code of 1986 currently includes numerous incentives to encourage the development of economically distressed areas. They include tax incentives for businesses located in empowerment zones, enterprise communities and renewal communities, the new markets tax credit, qualified zone academy bonds, certain categories of tax-exempt bonds, special incentives for investment and employment on Indian reservations, the low-income housing tax credit, the work opportunity tax credit, and the deductibility of brownfields remediation costs.

Empowerment Zones

The Omnibus Budget Reconciliation Act of 1993 (OBRA 93) authorized a project under which nine empowerment zones, six in urban areas and three in rural areas, were designated through a competitive application process. State and local governments nominated distressed geographic areas, which were selected on the strength of their strategic plans for economic and social revitalization. The urban areas were designated by the Secretary of the Department of Housing and Urban Development. The rural areas were designated by the Secretary of the Department of Agriculture. The Taxpayer Relief Act of 1997 added two urban Round I zones and authorized 20 Round II zones (15 urban and five rural). The Community Renewal Tax Relief Act of 2000 authorized nine Round III zones (seven urban and two rural). There are currently 30 urban zones and 10 rural zones. Designation of Round I, Round II or Round III status generally will apply until December 31, 2009.

Qualifying businesses in empowerment zones are eligible for certain tax benefits. These benefits include the following: (1) a 20-percent wage credit for qualifying wages; (2) additional expensing for qualified zone property; and (3) tax-exempt financing for certain qualifying zone facilities. In addition, taxpayers may elect to defer capital gains from certain sales and re-investments in qualified empowerment zone assets. Taxpayers may also exclude certain gain from the sale of qualifying empowerment zone stock that is held for more than five years.

The wage credit provides a 20 percent subsidy on the first $15,000 of annual wages paid to residents of empowerment zones by businesses located in these communities, if substantially all of the employee's services are performed within the zone. By lowering the cost of labor, the wage credit encourages new businesses to locate in zones, and encourages those businesses already there to expand, providing jobs and opportunities for self-sufficiency for zone residents.

Enterprise zone businesses are allowed to expense the cost of certain property up to an additional $35,000 above the amounts generally available under section 179 of the Internal Revenue Code. In addition, only 50 percent of the cost of such property counts toward the aggregate annual limit on section 179 expensing. This incentive is designed to increase investment in machines, computers and other tangible business property within empowerment zones by small businesses.

Enterprise zone businesses are also permitted access to a special class of tax-exempt private activity bonds. Limits are placed on the amount of such financing available to each zone. Rural zones are allowed $60 million of such financing, urban zones with less than 100,000 residents are allowed $130 million of such financing and urban zones with at least 100,000 residents are allowed $230 million of such financing. These bonds are not subject to the State's volume cap on private activity bonds.

The Community Renewal Tax Relief Act of 2000 added two provisions to limit capital gains taxation on certain investments within empowerment zones to encourage greater private investment in the zones. Taxpayers are allowed to roll over the capital gain from the sale of qualified empowerment zone assets held more than one year, if a replacement qualified empowerment zone asset is purchased in the same zone as the asset sold. Qualified empowerment zone assets include certain stock and partnership interests in an enterprise zone business and certain tangible property used in an enterprise zone business. This provision applies to assets acquired after December 21, 2000.

In addition, taxpayers other than corporations are allowed to exclude 60 percent of the gain on the sale or trade of qualified small business stock held more than 5 years, if the business also qualifies as an enterprise zone business. Taxpayers are normally allowed to exclude 50 percent of the gain on the sale of qualified small business stock. This provision applies to stock acquired after December 21, 2000.

Enterprise Communities

In addition to empowerment zones, OBRA 93 provided for the designation of 95 enterprise communities, 65 in urban areas and 30 in rural areas. Qualified businesses in these communities are entitled to the same favorable tax-exempt financing benefits as those in empowerment zones. Many of these enterprise communities have subsequently been re-designated as part of an empowerment zone or a renewal community and are no longer designated as an enterprise community. Currently, 66 enterprise communities qualify for tax-exempt financing, 40 in urban areas and 26 in rural areas. A second round of rural enterprise communities were authorized under the Food and Drug Administration and Related Agencies Appropriations Act, 1999 (Agriculture Appropriations Act 1999), but this second round of rural enterprise communities were not entitled to the tax-exempt financing benefits.

Renewal Communities

The Community Renewal Tax Relief Act of 2000 authorized 40 renewal communities, at least 12 of which must be in rural areas. The renewal communities were chosen through a competitive application process similar to that used for empowerment zones. The 40 communities were designated by the Department of Housing and Urban Development at the beginning of this year and that designation continues through 2009.

Taxpayers may utilize the renewal community tax benefits beginning this year. These benefits include the following: (1) a 15-percent wage credit for qualifying wages; (2) additional section 179 expensing for qualified renewal property; (3) a commercial revitalization deduction; and (4) an exclusion for capital gains on qualified community assets held more than 5 years.

The wage credit and increased section 179 expensing operate in a similar fashion as in empowerment zones. The primary difference is that the wage credit is smaller, equal to 15 percent for the first $10,000 of wages.

The commercial revitalization deduction is designed to foster the development or rehabilitation of commercial real estate in renewal communities. This deduction is applicable to certain nonresidential real property or other property functionally related to nonresidential real property. A taxpayer may elect to either: (1) deduct one-half of any qualified revitalization expenditures that would otherwise be capitalized for any qualified revitalization building in the tax year the building is placed in service, or (2) amortize all such expenditures over a 120-month period beginning with the month the building is placed in service. A qualified revitalization building is any building and its structural components placed in service by the taxpayer in a renewal community. If the building is new, the original use of the building must begin with the taxpayer. If the building is not new, the taxpayer must substantially rehabilitate the building and then place it in service. The total amount of qualified revitalization expenditures for any building cannot be more than the smaller of $10 million or the amount allocated to the building by the commercial revitalization agency for the state in which the building is located. A $12 million dollar cap on allowed commercial revitalization expenditures is placed on each renewal community annually.

In order to help stimulate private investment in renewal communities, qualified capital gain earned on qualified community assets is excluded from gross income. A qualified community asset includes stock or a partnership interest in a qualified renewal community business and certain tangible property used in a renewal community business. To qualify for the capital gain exclusion, the asset must be purchased after December 31, 2001 and before January 1, 2010, and it must be held for at least five years.

District of Columbia Incentives

A special set of incentives was enacted in 1997 to help redevelop the District of Columbia. The Taxpayer Relief Act of 1997 included tax incentives for both residents and businesses to locate in the District of Columbia. A $5,000 income tax credit for first-time home purchasers was designed to attract new homeowners to the District. A second set of incentives, similar to those provided in empowerment zones, was intended to encourage the establishment of new businesses in the District as well as new investment in existing enterprises.

Subject to certain income restrictions, the $5,000 credit is available to first-time purchasers of a principal residence in the District of Columbia who have not owned houses in the District during the year preceding the purchase. Although the credit was initially available for property purchased through the end of 2000, subsequent legislation extended the incentive through the end of 2003.

Other tax incentives offer a range of economic inducements to businesses operating in the more economically disadvantaged parts of the District. With the exception of a provision related to the sale of capital assets, these incentives are available only to businesses located either within the boundaries of the D.C. Enterprise Community, or located in census tracts elsewhere in the District where the poverty rate exceeds 20 percent. These areas are collectively known as the DC Zone. With certain minor adjustments, businesses in the DC Zone may claim the same wage credit, expensing of certain capital investment, and tax exempt bond financing as businesses in an empowerment zone. In addition, as in renewal communities, capital gains realized from the sale of certain assets are excludable from the income of the seller. For the purposes of this provision alone, the DC Zone is expanded to include all census tracts in the District in which the poverty rate exceeds 10 percent.

New York Liberty Zone

While the area around the World Trade Center in New York City would not have been described as an economically distressed community prior to the extraordinary events of September 11, 2001, the horrible destruction of life and property in that area due to the terrorist attacks prompted both the Administration and the Congress to support tax incentives targeted to helping New York City recover economically. I commend you, Mr. Chairman, and other members of the Ways and Means Committee for the leadership you exhibited in helping to enact the Job Creation and Worker Assistance Act of 2002.

Some of the tax incentives provided in the New York Liberty Zone are similar to the tax incentives offered in empowerment zones, while others were designed to meet the unique challenges facing New York City in the aftermath of the September 11 terrorist attacks. As in empowerment zones, qualified businesses are allowed a wage credit, increased section 179 expensing, and access to tax-exempt financing. Provisions specific to the New York Liberty Zone include 30 percent expensing of certain property, accelerated depreciation of qualified leasehold improvement property, extension of the replacement period for certain property involuntarily converted, and an additional advance refunding of bonds for facilities located in New York City.

The wage credit is allowed for certain employees who work in New York City through an extension of the work opportunity tax credit (WOTC). The new targeted group for the WOTC includes employees of businesses located in the New York Liberty Zone if substantially all of the employee's services for the business are performed within the New York Liberty Zone.

In addition, the new targeted group includes employees of businesses that relocated from the New York Liberty Zone due to the physical destruction or damage of their workplaces by the September 11, 2001 terrorist attacks to another location within New York City, provided that substantially all of the employee's services are performed within New York City. Only businesses with an average of 200 or less employees during the taxable year are eligible for the credit. The credit is effective for wages paid or incurred for work performed during calendar year 2002 or 2003.

An increase in section 179 expensing of $35,000 is allowed for property placed in service by taxpayers after September 10, 2001, and before January 1, 2007, if the original use of the property in the New York Liberty Zone commences with the taxpayer after September 10, 2001 and substantially all of the use of the property is in the New York Liberty Zone. As in empowerment zones and renewal communities, only 50 percent of the value of such property counts toward the aggregate annual limit on section 179 expensing.

The Governor of New York State and the Mayor of New York City are each given an allowance to issue up to $4 billion of tax-exempt private activity bonds before January 1, 2005. The bonds may be used to finance the acquisition, construction, rehabilitation and renovation of nonresidential real property, residential rental real property, and public utility property in the New York Liberty Zone. The Governor and the Mayor may each designate up to $1 billion of such bonds for the acquisition, construction, rehabilitation and renovation of certain commercial real property located outside the New York Liberty Zone and within New York City. These bonds are not subject to the State's volume cap on private activity bonds.

A taxpayer is allowed an additional first-year depreciation deduction equal to 30 percent of the adjusted basis of qualified New York Liberty Zone property. In order to qualify for this partial expensing, the property must be (1) a property with a MACRS recovery period of 20 years or less, (2) computer software other than computer software covered by section 197, (3) water utility property, or (4) certain nonresidential real property and residential rental property. Nonresidential real property and residential rental property is eligible for the partial expensing only to the extent such property rehabilitates real property damaged, or replaces real property destroyed or condemned, as a result of the terrorist attacks of September 11, 2001. This provision applies neither to property that would otherwise qualify for 30 percent expensing under section 168(k), nor to qualified New York Liberty Zone leasehold improvement property. Furthermore, to qualify for the partial expensing, substantially all of the use of the property must be in the New York Liberty Zone and the original use of the property in the New York Liberty Zone must commence with the taxpayer after September 10, 2001 (except for certain leased property). Finally, qualified property must be purchased by the taxpayer after September 10, 2001, and placed in service before January 1, 2007, or for nonresidential property and residential rental property, January 1, 2009.

Qualified New York Liberty Zone leasehold improvement property placed in service after September 10, 2001 and before January 1, 2007 is treated as 5-year property for the purposes of section 168 depreciation rules, with deductions taken using the straight-line method. Under the alternative depreciation system (section 168(g)), such property has a class life of 9 years.

Qualified New York Liberty Zone leasehold improvement property is qualified leasehold improvement property as defined in section 168(e)(6) that is placed in service in the New York Liberty Zone.

When property used in a trade or business is damaged or destroyed, the taxpayer may deduct any loss sustained to the extent that the loss is not compensated by insurance or otherwise. When insurance or other compensation results in a gain from the damage or destruction of property, then the taxpayer may elect to reduce the current recognition of gain by purchasing a replacement property within a specific time period which is similar or related in use to the damaged or destroyed property (section 1033(a)). For property in the New York Liberty Zone that was involuntarily converted as a result of the terrorist attacks on September 11, 2001, the replacement period is extended from 2 years to 5 years if substantially all of the use of the replacement property is in New York City.

Finally, certain bonds for facilities located in New York City are given one additional advance refunding. There is an aggregate limit of $9 billion advance refunding bonds that may be issued before January 1, 2005.

New Markets Tax Credit

The new markets tax credit was created by the Community Renewal Tax Relief Act of 2000 to encourage capital investments in businesses that are located in low-income communities. The new markets tax credit provides a tax credit to investors who make "qualified equity investments" in privately-managed investment vehicles called "community development entities," or "CDEs." The CDEs are required to invest substantially all of the proceeds of the qualified equity investments in low-income communities. For example, CDEs may make loans or capital investments in companies that operate in low-income communities.[1]

Eligible investors in a CDE are entitled to claim tax credits over a seven-year period beginning on the date of the initial investment. The value of the credits to investors will be about 30 percent of the amount of the qualified equity investment on a present value basis.

In order for an entity to qualify as a CDE, it must meet three requirements. First, the primary mission of the entity must be to serve or provide investment capital for low-income communities or low-income persons. Second, the entity must maintain accountability to residents of low-income communities through their representation on the entity's governing or advisory board. Third, the entity must be certified as a CDE by the Treasury Department's Community Development Financial Institutions Fund (CDFI Fund).

In order for a CDE to issue qualified equity investments with respect to which new markets tax credits may be claimed, the CDE must apply for and receive from the CDFI Fund an allocation of credit authority for those investments. A total of $15 billion of equity investments will be able to qualify for this authority on a phased-in basis between 2001 and 2007. The CDFI Fund will allocate this authority among CDEs based on a competitive application process.

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[1] For these purposes, "low-income community" is defined as any population census tract if (1) the poverty rate for the tract is at least 20 percent, or (2) the median family income for the tract does not exceed 80 percent of statewide median family income (or, in the case of metropolitan areas, metropolitan area median family income, if greater).

In making these allocations, the CDFI Fund is required to give priority to any entity (1) with a record of having successfully provided capital or technical assistance to disadvantaged businesses or communities, or (2) which intends to invest substantially all of the proceeds of the qualified equity investments in one or more businesses in which persons unrelated to the entity hold the majority equity interest.

The Treasury Department has issued temporary and proposed tax regulations regarding the new markets tax credit and is currently accepting and reviewing comments on the regulations.

Qualified Zone Academy Bonds

State and local governments can issue qualified zone academy bonds (QZABs) to fund the improvement of certain eligible public schools. Instead of receiving interest payments, an eligible holder of a QZAB receives annual Federal income tax credits. These annual credits compensate the holder for lending money and, therefore, are treated like taxable interest payments for Federal tax purposes. Eligible holders are banks, insurance companies, and corporations actively engaged in the business of lending money. The credit rate for a QZAB is set on its day of sale by reference to credit rates established by the Department of the Treasury. The maximum term of a QZAB issued during any month is determined by reference to the adjusted applicable Federal rate (AFR) published by the Internal Revenue Service for the month in which the bond is issued.

This provision was enacted in the Taxpayer Relief Act of 1997, which established authority to issue $400 million of QZABs per year for 1998 and 1999. This authority was extended to 2000 and 2001 by the Ticket to Work and Work Incentives Improvement Act of 1999. The Administration proposed that this authority be extended through 2003, which was accomplished in the recently enacted Job Creation and Worker Assistance Act of 2002. The annual cap is allocated among the States in proportion to their respective populations of individuals with incomes below the poverty line. Unused authority to issue QZABs may be carried forward for two years (three years for authority arising in 1998 and 1999) after the year for which the authority was established.

A number of requirements must be met for a bond to be treated as a QZAB. First, the bond must be issued pursuant to an allocation of bond authority from the issuer's State educational agency. Second, at least 95 percent of the bond proceeds must be used for an eligible purpose at a qualified zone academy. Eligible purposes include rehabilitating school facilities, acquiring equipment, developing course materials, or training teachers. A qualified zone academy is a public school (or an academic program within a public school) that is designed in cooperation with business and is either (1) located in an empowerment zone or enterprise community, or (2) attended by students at least 35 percent of whom are estimated to be eligible for free or reduced-cost lunches under the Richard B. Russell National School Lunch Act. Third, private entities must have promised to contribute to the qualified zone academy certain property or services with a present value equal to at least 10 percent of the bond proceeds.

Tax-exempt Bonds

States and local governments may issue tax-exempt bonds to revitalize economically disadvantaged communities 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, the following types of tax-exempt private activity bonds may nonetheless be issued, subject to per-State volume limits, for revitalization purposes: mortgage revenue bonds ("MRBs"), bonds for qualified residential rental projects, and qualified redevelopment bonds.

MRBs may be issued to finance the purchase, or qualifying rehabilitation or improvement, of single-family, owner-occupied homes located within the jurisdiction of the issuer of the bonds. Interest on MRBs is excluded from gross income if they meet the requirements for "qualified mortgage bonds" or "qualified veterans' mortgage bonds." In addition, in some circumstances, "mortgage credit certificates" may be issued as an alternative to qualified mortgage bonds.

In general, qualified mortgage bonds must finance residences for first-time home buyers; the purchase price of the residence may not exceed certain amounts; and the purchaser must satisfy certain income limitations. In addition, certain special rules apply with respect to "targeted areas." A targeted area is defined as (1) a census tract in which 70 percent or more of the families have incomes that are 80 percent or less of the Statewide median family income, or (2) an area of chronic economic distress designated by the State and approved by the Secretary of the Treasury and the Secretary of Housing and Urban Development.

Exempt facility bonds may be used to fund qualified residential rental projects, if at least 95 percent of the net bond proceeds are used to provide a qualified residential rental project. A qualified residential rental project is a multifamily rental project in which one of the following two requirements is met at all times during the qualified project period: (1) 20 percent or more of the residential units in such project are occupied by individuals whose income is 50 percent or less of area median gross income; or (2) 40 percent or more of the residential units in such project are occupied by individuals whose income is 60 percent or less of area median gross income.

Qualified redevelopment bonds are bonds for which at least 95 percent of the net bond proceeds are used for redevelopment purposes in a locally designated blighted area. The payment of principal and interest must be primarily secured by taxes of general applicability imposed by a general purpose government, or by incremental property tax revenues that are reserved exclusively for debt service on such issue (and similar issues). Blighted areas are designated by a local governing body based on the substantial presence of factors such as excessive vacant land on which structures were previously located, abandoned or vacant buildings, substandard structures, vacancies, and delinquencies in payment of real property taxes.

The volume of certain tax-exempt private activity bonds, including qualified mortgage bonds, bonds for qualified residential rental projects, and qualified redevelopment bonds, that States and local governments may issue in each calendar year is limited by State-wide volume limits. The current annual volume limits are $75 per resident of the State or $225 million if greater. These dollar limits are indexed for inflation for years after 2002.

Indian Employment Credit

Unfortunately, many residents of Native American communities continue to struggle economically. The Indian Employment Credit provides an incentive for job growth in these communities. Employers may claim an Indian Employment Credit on the qualified wages and employee health insurance costs paid to an enrolled member of an Indian tribe in compensation for services performed on or near a reservation. The credit amount is equal to 20 percent of the excess of the employer's current year qualified wages and employee health insurance costs over the sum of the corresponding amounts paid or incurred by the employer during calendar year 1993. The aggregate amount of qualified wages and health insurance costs may not exceed $20,000 per person per year. This incentive was due to expire at the end of 2003, but has been extended through 2004 by the recently enacted Job Creation and Worker Assistance Act of 2002.

Depreciation of Property Used on Indian Reservations

Another tax incentive that encourages economic development on Indian reservations is the accelerated depreciation of qualified Indian reservation property. This accelerated depreciation is accomplished through the use of shorter recovery periods for certain property. In order to qualify for this provision, a property must (1) be used by the taxpayer predominantly in the active conduct of a trade or business within an Indian reservation, (2) not be used outside the Indian reservation on a regular basis, (3) not be acquired from a person related to the taxpayer, and (4) not be used for the purpose of certain gaming activities. In addition, property for which the alternative depreciation system is applied is not eligible for this provision. This provision was scheduled to expire for property placed in service after 2003, but was extended through 2004 by the recently enacted Job Creation and Worker Assistance Act of 2002.

Low-income Housing Tax Credit

Taxpayers who invest in qualified low-income rental units are eligible for the low-income housing tax credit (LIHTC). The LIHTC may be claimed over a 10-year period for a portion of the cost of rental housing occupied by tenants having incomes below specified levels. The credit percentage for newly constructed housing that is not federally subsidized is adjusted monthly by the Internal Revenue Service so that generally the 10 annual credit amounts have a present value of 70 percent of qualified basis. The credit percentage for new buildings that are federally subsidized and for existing buildings is calculated to have a present value of 30 percent of qualified basis. In general, the aggregate first-year credit authority allocated to each State is $1.75 per capita in 2002 and will be indexed for inflation in following years. Tax credits are allocated to particular projects by State or local housing agencies pursuant to publicly announced plans for allocation. Authority to allocate credits may be carried forward by agencies to the following calendar year.

Unused credit allocations may be returned to an agency for reallocation. Credit allocations may revert to the agency if less than 10 percent of the taxpayer's reasonably expected qualifying basis is expended within 6 months after receiving the allocation. Authority not used in a timely manner reverts to a national pool for distribution to States requesting additional authority. Generally, a qualifying building must be placed in service in the year the credit is allocated unless at least 10 percent of the taxpayer's reasonably expected basis in the property is expended in the year of allocation or within 6 months after the allocation date. Rules are provided for the allocation of costs to individual units in multi-unit projects and to property that is part of a project but used for purposes other than rental housing. The tax credit period begins with the taxable year in which a qualified building is placed in service (or, in certain circumstances, the succeeding taxable year). Credits are recaptured if the required number of units is not rented to qualifying tenants for a period of 15 years.

In certain geographic areas designated by the Secretary of Housing and Urban Development, LIHTC amounts awarded to projects may be increased by up to 30 percent. These areas are: Difficult Development Areas, defined as metropolitan areas and nonmetropolitan counties where development costs are high relative to area incomes (limited to 20 percent of U.S. metropolitan and nonmetropolitan populations); and Qualified Census Tracts, census tracts, containing not more than 20 percent of their metropolitan area or State nonmetropolitan populations, where either at least 50 percent of households have incomes below 60 percent of area median income, or the poverty rate is at least 25 percent.

Work Opportunity Tax Credit

Employers are generally entitled to the work opportunity tax credit (WOTC) for the first $6,000 of wages paid to several targeted groups of economically disadvantaged workers or workers with disabilities. For workers employed between 120 and 400 hours per year, the credit rate is 25 percent of qualified wages. For workers employed over 400 hours per year, the credit rate is 40 percent. Employers must reduce their deduction for wages paid by the amount of the credit claimed. Current WOTC target groups include qualified: (1) recipients of Temporary Assistance to Needy Families; (2) veterans; (3) ex-felons; (4) high-risk youth; (5) participants in State-sponsored vocational rehabilitation programs; (6) summer youth; (7) food stamp recipients; and (8) Supplemental Security Income recipients.

A qualified high-risk youth employee listed above is an individual at least 18 years old but less than 25, who lives within an empowerment zone, enterprise community, or renewal community. A qualified summer youth employee works for the employer between May 1 and September 15, is 16 or 17 years old, and resides within an empowerment zone, enterprise community, or renewal community. The limit on the wages of a summer youth employee that qualify for the credit is reduced to $3,000.

At the time the Administration proposed the FY 2003 budget, the WOTC was scheduled to expire at the end of 2001. The Administration proposed that the WOTC be extended through 2003. This was accomplished by the Job Creation and Worker Assistance Act of 2002.

The House is considering the Encouraging Work and Supporting Marriage Act of 2002. The bill would combine the WOTC and the welfare to work (WTW) credit by making persons eligible for WTW a WOTC target group with special rules. The WTW credit enables employers to claim a tax credit for eligible wages paid to certain long-term welfare recipients. The changes contained in the House bill will simplify the computation of the credit for employers that hire members of the economically disadvantaged targeted groups. We commend the proposed tax simplification.

Brownfields Remediation Costs

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.

Administration budget proposals

The President's Budget for FY 2003 includes two proposals to improve upon these tax incentives and further encourage development in economically distressed communities. In addition, there are other Administration proposals that would help low-income individuals, such as the creation of Individual Development Accounts, increased incentives for charitable giving, and a refundable tax credit for the purchase of health insurance, which are not discussed in this testimony.

Single-Family Housing Tax Credit

The Administration believes that quality of life in distressed neighborhoods can be improved by increasing home ownership. Existing buildings in these neighborhoods often need extensive renovation. Renovation may not occur because the costs involved exceed the prices at which the housing units could be sold. Similarly, the costs of new construction may exceed their market value. Properties will sit vacant and neighborhoods will remain blighted unless the gap between development costs and market prices can be filled. The Administration has proposed the creation of a single-family housing tax credit (SFHTC) to expand the possibility of home ownership for low-income families.

First-year credit authority of $1.75 per resident would be made available annually to States (including U.S. possessions) beginning in calendar year 2003. The per capita amount would be indexed for inflation beginning in 2004. Pursuant to a plan of allocation, State or local housing credit agencies would award first-year credits to housing units comprising a project for the development of single-family housing in certain low-income census tracts. Rules similar to the current law rules for the LIHTC would apply regarding carry forward and return of unused credits and a national pool for unused credits. Units in condominiums and cooperatives could qualify as single-family housing. Credits would be awarded as a fixed amount for individual units comprising a project. The present value of the credits with respect to a unit could not exceed 50 percent of the qualifying costs of the unit. For these purposes, present value would be determined based on the mid-term Applicable Federal Rate in effect for the date the agency allocated credits to the project. Rules similar to the current law rules for the LIHTC would apply to determine eligible costs of individual units. The Treasury Department would have the authority to promulgate necessary reporting requirements.

The taxpayer (developer or investor partnership) owning the housing unit immediately prior to the date of sale to a qualified buyer would be eligible to claim SFHTCs over a 5-year credit period beginning on that date. No credits with respect to a housing unit would be available unless the unit was sold within a 1-year period after the construction or rehabilitation was completed.

Eligible homebuyers would have incomes at 80 percent (70 percent for families with less than 3 members) or less of applicable median family income. They would not have to be first-time homebuyers. Homebuyers would be subject to recapture provisions in certain circumstances. In particular, recapture rules would apply if the homebuyer (or a subsequent buyer) sold the property to a nonqualified buyer within 3 years after the date of initial sale of the unit. No recapture provision would apply to taxpayers eligible to claim SFHTCs. If a housing unit for which any credit is claimed were converted to rental property by the initial homebuyer within the first 3 years following the purchase, expenses relating to the unit would not be allowed as a deduction with respect to that unit during that time period.

The proposal would be effective beginning with first-year credit allocations for calendar year 2003. The revenue cost of this proposal is expected to be $2.4 billion over FY 2003-2007.

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.

CONCLUSION

I would like to thank you, Mr. Chairman, Mr. Coyne and the members of the Subcommittee for providing the chance today to discuss these important issues. I hope that, working together, we can ensure that all Americans share in our country's prosperity and have even greater opportunity in the future. While this concludes my prepared testimony, I would be pleased to respond to your questions.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 8:30 A.M. EDT
Wednesday, May 22, 2002

Contact: Tasia Scolinos
(202) 622-2960

"Risk and Recovery"

Remarks by Kenneth W. Dam
Deputy Secretary of the Treasury

Delivered to
The World Economic Forum
Washington, D.C.

Thank you, Greg, for that kind introduction. I'd like to make just a few opening comments and then I look forward to engaging in a more informal dialogue with you, Greg. I noticed in looking at the agenda that I am speaking to you after a working breakfast on risk and before a session on the scope of the recovery in the U.S. economy. Accordingly, I thought I'd say a word about both.

The Recovery.

First, we do believe that economy is strong and growing stronger.

Annualized GDP growth in the past two quarters has been stronger than most predicted --- 1.7% in the fourth quarter of 2001 and 5.8% in the first quarter of 2002. Inventory adjustment appears to be almost over. Production is rising. Equipment spending is stabilizing. Although investment in equipment and software declined at a 0.5% annual rate in the first quarter, a sharp decline in investment in transportation goods, particularly aircraft, offset solid gains in other types of capital investment. Computer expenditures, for example, rose at a 38% annual rate in the first quarter of 2002 - on top of a 34% increase in the fourth quarter of 2001.

PO-3118

Consumer spending is healthy. It rose by 3.5% in the first quarter. Non-automotive spending increased by more than 6%.

Inflation remains tame.
And the productivity numbers increasingly support the hypothesis that new technologies have increased the growth potential of the U.S. economy. Productivity increased at a 5.5% annual rate in the fourth quarter of 2001 and at an eye-popping 8.6% rate in the first quarter of 2002.
All told, we continue to expect growth over the four quarters of this year to come in at a healthy 3 plus percent.

<u>Risk</u>
Terrorism, however, remains an economic wild card. And, unfortunately, we are almost certain to be attacked again. As the Vice President said last weekend, "we're as much involved in conflict today as we were September 12 . . . the prospects of a future attack against the United States are almost certain."

Our job is to try to prevent those attacks from occurring and to take steps now that will mitigate the damage of future attacks.

At Treasury, we lead the nation's fight on the financial front of the war on terrorism. Among many, many other things, we have implemented provisions of the USA PATRIOT Act that require broker-dealers, money-service businesses, and other financial institutions to adopt anti-money laundering compliance programs. On the international front, we are working bilaterally and multilaterally through organizations like the G7 and the Financial Action Task Force to close the financial system to terrorists.

Treasury is also leading steps to mitigate the damage of future attacks. For example, we play a leadership role in critical infrastructure protection. An October 16 executive order from the President established the Critical Infrastructure Protection (CIP) Board, which seeks to secure information systems, including emergency preparedness communications, and the physical assets that support such systems.

I represent the Department on the CIP Board, and Assistant Secretary Bair chairs a committee of state and federal financial regulators that addresses CIP issues with regard to the financial sector of the economy.

And we are working hard to obtain passage of a terrorism insurance bill that makes good economic sense. Consensus estimates put the losses resulting from the September 11 attacks in the $36 billion to $54 billion range. To put that in perspective, the losses from Hurricane Andrew were $19.3 billion (adjusted for inflation). In addition, terrorist risks are harder to model than hurricanes.

Immediately following September 11, the reinsurance industry almost entirely stopped assuming terrorism risk and primary insurers withdrew from the market where state law and regulation permitted them to do so. More recently, there has been some tentative reengagement in providing limited coverage at high premium rates, but there are still serious gaps, and the expiration of additional policies over the summer will expose more businesses to risk.

Needless to say, this unprecedented gap in coverage has serious adverse consequences for our economy. Most specifically, it makes it more difficult to finance commercial construction and more difficult to sell commercial real estate. More generally, the lack of terror risk insurance jeopardizes the economy's ability to withstand future attacks.

Accordingly, we are working with Congress to obtain legislation that would provide a federal backup for terrorism insurance. The House has passed a bill that is a starting point. It is time for the Senate to act.

There are many, many other things that we are doing on these fronts, Greg, but I'd like to stop there open it up to you for some questions.

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FOR IMMEDIATE RELEASE
May 22, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

MEDIA ADVISORY

U.S. Treasurer Marin Will Demonstrate
New, Lower-Cost Remittance Options at Friday Event
Treasurer Will Send Money to Relative in Mexico City

As part of her ongoing leadership in the U.S./Mexico Partnership for Prosperity initiative, U.S. Treasurer Rosario Marin on Friday will highlight some of the new competitive, low-cost ways that people in the United States can send money to family members and friends in Mexico. She will demonstrate these options by sending personal funds to a relative in Mexico City.

The event will take place at **10:00 a.m. EDT on Friday, May 24 at the Citibank Financial Center, 1749 ½ Columbia Road, N.W., Washington, DC.**

The event is hosted by the U.S./Mexico Chamber of Commerce and will take place in a Citibank Financial Center in the Adams Morgan neighborhood of Washington, D.C. The U.S./Mexico Chamber of Commerce selected Citibank as one of several financial institutions including banks and credit unions that are offering competitive, low-cost ways to send money to Mexico.

Each year, Mexicans and Mexican-Americans send a total of more than $9 billion to family and friends in Mexico. The average remittance is $200-$250. However, fees for those remittances can be as high as 20%.

The U.S./Mexico Partnership for Prosperity initiative – a joint effort created by President George W. Bush and Mexican President Vicente Fox – seeks to leverage private sector resources to promote development in the parts of Mexico where growth has lagged and fueled migration. Partnership for Prosperity is working to promote competition among financial institutions offering remittance services. Greater competition will lower the cost to consumers of sending money home to households and regional economies in Mexico that need it most.

Rosario Marin, the highest-ranking Latina in the Bush Administration, was sworn in as the 41st Treasurer of the United States on Aug. 16, 2001. Born in Mexico City before immigrating to the United States at age 14, Treasurer Marin is the first U.S. Treasurer born outside of the country.

-30-

PO-3119

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 2:30 P.M.
May 22, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 2-YEAR NOTES

The Treasury will auction $27,000 million of 2-year notes to refund $22,078 million of publicly held notes maturing May 31, 2002, and to raise new cash of approximately $4,922 million.

In addition to the public holdings, Federal Reserve Banks hold $6,298 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 $813 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-3120

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

May 22, 2002

Offering Amount .... $27,000 million
Public Offering .... $27,000 million

Description of Offering:
Term and type of security .... 2-year notes
Series N-2004
CUSIP number .... 912828 AD 2
Auction date .... May 29, 2002
Issue date .... May 31, 2002
Dated date .... May 31, 2002
Maturity date .... May 31, 2004
Interest rate .... Determined based on the highest accepted competitive bid
Yield .... Determined at auction
Interest payment dates .... November 30 and May 31
Minimum bid amount and multiples $1,000
Accrued interest payable by investor .... None
Premium or discount .... Determined at auction

STRIPS Information:
Minimum amount required $1,000
Corpus CUSIP number .... 912820 HA 8
Due date(s) and CUSIP number(s)
for additional TINT(s) .... May 31, 2004 - - 912833 YU 8

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

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FOR IMMEDIATE RELEASE
May 23, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Air Transportation Stabilization Board:
June 28th is the Deadline for Applications

WASHINGTON, DC --As stated in the Office of Management and Budget (OMB) regulations that govern the loan guarantee program, June 28, 2002 is the deadline for submitting complete applications to the Air Transportation Stabilization Board (ATSB) under the air carrier loan guarantee program.

Prospective applicants should submit an original application and four copies. Applications will not be accepted via facsimile machine transmission or electronic mail. No application will be accepted for review unless it is received at the ATSB's offices by 5:00 p.m. EDT on June 28, 2002.

The OMB regulations and in particular 14 CFR 1300.16, which is available on the ATSB web site (www.treas.gov/atsb/documents), clearly set out the information required to be included in an application. The ATSB is authorized to reject at any time an application that it determines to be incomplete.

"The Board will continue to review all applications received by the deadline, as long as the applications are complete and satisfactorily meet the OMB regulations," said ATSB Executive Director Dan Montgomery.

Under the Act, signed into law September 22, 2001, the ATSB is authorized by Congress to issue Federal loan guarantees to eligible air carriers that suffered losses due to terrorist attacks on September 11, 2001.

The ATSB 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 referenced above.

-30-

PO-3121

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U.S. International Reserve Position

May 10, 2002

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $68,523 million at the end of the latest week, compared to $68,580 million at the end of the prior week.

(in US millions)

I. Official U.S. Reserve Assets	May 3, 2002			May 10, 2002		
TOTAL			68,580			68,523
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	5,671	10,479	16,150	5,659	10,423	16,082
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	9,572	4,369	13,941	9,560	4,345	13,905
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]			16,313			*16,341*
3. Special Drawing Rights (SDRs) [2]			11,132			*11,151*
4. Gold Stock [3]			11,044			11,044
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.

PO-3122

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U.S. International Reserve Position May 3, 2002

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $69,758 million at the end of the latest week, compared to $69,240 million at the end of the prior week.

(in US millions)

I. Official U.S. Reserve Assets	April 26, 2002			May 3, 2002		
TOTAL			69,240	69,758		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	5,576	10,399	15,975	5,671	10,479	16,150
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	9,406	4,336	13,741	9,572	4,369	13,941
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]			17,510			*17,598*
3. Special Drawing Rights (SDRs) [2]			10,969			*11,025*
4. Gold Stock [3]			11,044			11,044
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.

PO-3123

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EMBARGOED UNTIL 2:30 P.M.
May 23, 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 $32,000 million to refund an estimated $30,749 million of publicly held 13-week and 26-week Treasury bills maturing May 30, 2002, and to raise new cash of approximately $1,251 million. Also maturing is an estimated $16,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced May 28, 2002.

The Federal Reserve System holds $14,839 million of the Treasury bills maturing on May 30, 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 May 29, 2002. Amounts awarded to SOMA will be in addition to the offering amount.

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

TreasuryDirect customers have requested that we reinvest their maturing holdings of approximately $1,087 million into the 13-week bill and $743 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-3124

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED MAY 30, 2002

May 23, 2002

Offering Amount	$17,000 million	$15,000 million
Public Offering	$17,000 million	$15,000 million
NLP Exclusion Amount	$ 4,900 million	None
Description of Offering:		
Term and type of security	91-day bill	183-day bill
CUSIP number	912795 KY 6	912795 LM 1
Auction date	May 28, 2002	May 28, 2002
Issue date	May 30, 2002	May 30, 2002
Maturity date	August 29, 2002	November 29, 2002
Original issue date	February 28, 2002	May 30, 2002
Currently outstanding	$19,812 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.

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FOR IMMEDIATE RELEASE
MAY 23, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Treasury Department Issues Proposed Regulation
Implementing Section 312 of the USA PATRIOT Act

The Treasury Department today issued and sent to the Federal Register for publication a proposed rule implementing Section 312 of the USA PATRIOT Act.

Section 312 requires certain U.S. financial institutions to take prescribed anti-money laundering measures with respect to correspondent and private banking accounts that they establish or maintain for non-U.S. persons.

Under the proposed rule, certain U.S. financial institutions would be required to establish a due diligence program for correspondent accounts they maintain for certain foreign financial institutions designed to detect and report money laundering, and to conduct enhanced due diligence for accounts maintained for foreign banks from certain jurisdictions considered of higher risk for money laundering.

In addition, these U.S. financial institutions must take reasonable steps to determine the owners of, and source of funds deposited into, private banking accounts they maintain for non-U.S. persons, and conduct enhanced scrutiny of such accounts maintained for senior foreign political figures in order to detect and report transactions involving the proceeds of foreign corruption.

The proposed rule is open to public comment for 30 days after it is published in the Federal Register, which is expected to occur next week.

Proposed Regulation

-30-

PO-3125

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FOR IMMEDIATE RELEASE
May 19, 2002

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

STATEMENT BY TREASURY SECRETARY PAUL H. O'NEILL
GOVERNOR FOR THE UNITED STATES OF AMERICA
EBRD 2002 Annual Meeting
Bucharest, Romania

EMBARGOED FOR 4:20 Local Time

President Lemierre, fellow Governors, ladies and gentlemen, I am delighted to be here in Bucharest for these annual meetings. I believe I am the first U.S. Treasury Secretary to visit Bucharest. And it has been a decade since a Treasury Secretary attended the EBRD annual meetings. Secretary Brady attended in 1991 and 1992. I have come because I think the EBRD has been an exceptionally effective tool for development and transition in the region. It is uniquely endowed with a mandate to support countries committed to and applying the principles of multiparty democracy, pluralism, and market economics. I also want to call on this bank to rise to the challenges now facing us.

In a series of recent speeches, President Bush and I have put forth an agenda for accelerating development and for greatly increasing aid effectiveness. Key elements of that agenda are:

- a focus on productivity growth,
- the importance of private investment and investment in human capital in raising productivity,
- an insistence on measurable results, and
- the Millennium Challenge Account based the on essential policy underpinnings good governance, economic freedom, and investment in health and education.

The EBRD is well-designed and well-positioned to advance this agenda. The central purpose of the EBRD is to promote the transition to democratic market economies, particularly by facilitating private sector investment. It is designed to finance projects that are above the risk threshold for private capital alone. Under President Lemierre, it has also intensified efforts to use its financing to encourage better corporate governance and improved investment environments. We view these activities as among the most effective that international financial institutions can undertake in raising productivity and spurring growth and higher living standards.

PO-3126

*U S Government Printing Office 1998 - 619-559

September 11 and the war on terrorism it launched have forced us to look again at our definitions of national, regional, and global security. The concept of security must be broadly defined to encompass the sources of instability, extremism, and terrorism. We know that the war on terrorism has an economic front. This bank includes countries and regions very much on the frontlines of this struggle, including Central Asia and the Caucasus. I think the EBRD has a unique, vital contribution to make, and I welcome its efforts to step up its activities in these areas.

We very much support and encourage more EBRD efforts to expand operations to the South and to the East, and also to expand financing and investment in micro, small, and medium size companies. While these are only a part of the EBRD's operations, we view its programs to promote new, small businesses as especially valuable tools in support of transition and development. SMEs are an essential source of job growth, where productivity gains are likely to be highest.

The governments of the region should seize this moment and redouble their efforts to improve investment climates. They have influence over much of the risk facing investors. If they act, we are confident that the EBRD will vigorously respond. The United States has put its own resources on the line in these efforts. We have created a Fund at the EBRD to support the development of micro, small and medium sized businesses in early and intermediate transition countries, which will grow to over $25 million this year, and expand operations to the farthest reaches of the Bank.

Just this morning in Bucharest, President Lemierre and I visited a furniture factory that has been a beneficiary of this SME fund. With a loan from this Facility, the furniture factory has rapidly increased its operations, enabling it to expand from sales to designing and manufacturing its own products. This is typical of the EBRD's success with this facility across Southeast Europe. Nearly 17,000 loans worth over $100 million have been provided since its inception nearly two years ago. This Fund includes a "policy dialogue" component, under which EBRD staff engage governments at the local and national levels on steps to identify and remove obstacles to small business finance and growth. Our financing also trains loan officers to do this kind of lending, thus building human capital in a very practical, productive sense.

While in Russia last summer, I witnessed first hand the enormous impact of EBRD's activities in promoting small business loans through the Russia Small Business Fund. We fully endorse the EBRD's plans to further expand this very successful program, and I strongly urge other donors to join us in contributing the resources necessary to support its expansion.

With more than a decade of transition behind us, the benefits of reform are more and more in evidence. Despite the global uncertainty in the wake of the events of September 11, as well as financial turmoil in other regions, the economies in the EBRD's portfolio grew at an average rate of 4% in 2001, with every country except Macedonia posting positive growth for the second consecutive year. In the Baltics and Central Europe, this growth is driven by vibrant private sectors, robust export performances and high levels of foreign investment, and we look forward to the day when these countries will no longer need the EBRD.

In other countries, the foundations for growth are much more fragile. In the Balkans, the key is to seize the opportunity offered by improved political stability by embracing the reforms necessary to attract investment – such as simpler tax systems, clear and efficient regulatory frameworks, contract and property rights enforcement, and comprehensive efforts to root out corruption.

In Russia, the government has embarked on structural reforms that are making tangible improvements in the investment climate. In addition to a radical income and profit tax reform, the Government is turning its attention to the small business sector, agricultural land reform, the banking sector, public administration reform, and the remaining large state-owned monopolies in the energy sector. I sense and welcome continued resolve by President Putin and his government to stay this difficult course.

For Romania, our host country, this as a critical year: it has the attention of the international community and has opportunities created by growth, lower inflation and foreign investment. If the authorities can seize these opportunities by embracing further reform, this could be the year that Romania launches itself on the path of sustained growth.

Finally, I would like to commend EBRD for its efforts to help fight terrorism by establishing procedures to ensure that the proceeds of Bank financing do not go to organizations that support or finance terrorist activity. This is a crucial component of the international community's determination to choke off financing for terror, and we are very grateful for the Bank's cooperation. The EBRD is also taking additional steps to combat money laundering, including working more closely with the Financial Action Task Force, a most welcome development that should continue.

In conclusion, I would like to thank President Lemierre for his leadership at this institution, and look forward to working closely with him – and others – to achieve our common objectives. I will not be satisfied with a region where one's living standard depends on one's longitude. Our aim is sustained high growth throughout the region, and I hope this bank aims for no less.

-30-

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FOR IMMEDIATE RELEASE
MAY 24, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

**Remarks by U.S. Treasurer Rosario Marin
at the
U.S./Mexico Chamber of Commerce Event
Highlighting Competitive, Low-Cost Ways To Send Money To Mexico**

Thank you. Thank you, Barbara for hosting this event. Thank you, Ambassador Bremer for your leadership, friendship, and support. Thank you, José for joining us today and for your leadership at the Inter-American Development Bank. Thank you, Fernando and Michael for showing us your financial center, your employees, and letting us use your services to demonstrate something very important.

Today I sent $200 to my aunt in Mexico. I paid $10 to do this, plus an exchange-rate conversion fee of 3.5%. Of the $200 I sent, my aunt in Mexico will receive $193.

I was pleased to do this because I love my aunt and I'm glad I had the chance to share some of my money with my aunt.

But I'm also pleased because this is a very important transaction. It happens tens of thousands of times a day in the United States. Last year, over $9.3 billion was sent to Mexico by Mexicans and Mexican-Americans in the United States. Average fees, however, are about 20%. That means that of the $9.3 billion dollars sent to Mexico last year, $1.86 billion was eaten up in fees.

Last September, President Bush and President Fox launched the U.S./Mexico Partnership for Prosperity. The Partnership seeks to leverage private sector resources to promote development in the parts of Mexico where growth has lagged and fueled migration.

One of the things that we are working on in the Partnership for Prosperity is to lower the cost of sending money to Mexico. We want to do this by promoting competition. More competition will result in lower costs to consumers. If we can cut the fees in half – from 20% to 10% -- we can increase the amount of money that ultimately gets to Mexico by as much as $930 million dollars. That's a lot of money.

PO-3127

That's a lot of money, especially, when you think of it in human terms. 20% of $200 is $40. If we can cut that fee in half, though competition, innovation, and the use financial institutions like banks and credit unions, we'll save consumers $20. $20 is a lot of money. It can mean a pair of shoes or a new dress. It can put meat into tortillas instead of just beans. And when you add it up it means almost $1 billion more into the pockets of Mexicans who need it most.

Already, we are seeing progress. Since the Partnership was launched in February, we have seen competitive remittance products being offered by a number of financial institutions including banks and credit unions. I appreciate the U.S./Mexico Chamber of Commerce's decision to host this event and to celebrate these accomplishments. I look forward to seeing more competition and even lower costs in the future.

Thank you.

-30-

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FOR IMMEDIATE RELEASE
May 24, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

U.S. Treasurer Marin Demonstrates New, Low-Cost Remittance Options

Treasurer Sends Money to Relative in Mexico City

WASHINGTON – As part of her ongoing leadership in the U.S./Mexico Partnership for Prosperity initiative, U.S. Treasurer Rosario Marin today demonstrated one of the new competitive, low-cost ways that people in the United States can send money to family members and friends in Mexico. She did so by sending personal funds to a relative in Mexico City.

The event, hosted by the U.S./Mexico Chamber of Commerce, took place in a Citibank Adams Morgan Financial Center in the Adams Morgan neighborhood of Washington, D.C. The U.S./Mexico Chamber of Commerce selected Citibank as one of several financial institutions including banks and credit unions that are offering competitive, low-cost ways to send money to Mexico. It will be followed by a second event, in Mexico City on May 27, during which Treasurer Marin and her relative will pick up the money.

"This is a very important transaction," said Treasurer Marin. "It happens tens of thousands of times a day in the United States. Last year, over $9.3 billion was sent to Mexico by Mexicans and Mexican-Americans in the United States. Average fees, however, are about 20%. That means that of the $9.3 billion dollars sent to Mexico last year, $1.86 billion was eaten up in fees.

"That's a lot of money, especially, when you think of it in human terms," she said. "Twenty percent of $200 is $40. If we can cut that fee in half, though competition, innovation, and the use financial institutions like banks and credit unions, it will save consumers $20. $20 is a lot of money. It can mean a pair of shoes or a new dress. It can put meat into tortillas instead of just beans. And when you add it up, it means almost $1 billion more into the pockets of Mexicans who need it most."

The U.S./Mexico Partnership for Prosperity initiative – a joint effort created by President George W. Bush and Mexican President Vicente Fox – seeks to leverage private sector resources to promote development in the parts of Mexico where growth has lagged and fueled migration. Partnership for Prosperity is working to promote competition among financial institutions offering remittance services. Greater competition will lower the cost to consumers of sending money home to households and regional economies in Mexico that need it most.

PO-3128

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

Rosario Marin, the highest-ranking Latina in the Bush Administration, was sworn in as the 41^{st} Treasurer of the United States on Aug. 16, 2001. Born in Mexico City before immigrating to the United States at age 14, Treasurer Marin is the first U.S. Treasurer born outside of the country.

-30-

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For Release Upon Delivery
Monday, May 27, 2002

Contact: Tony Fratto at 256-41-345-260.

Treasury Secretary Paul H. O'Neill
Remarks at Makerere University
Kampala, Uganda

Good afternoon. It is a pleasure to be at your university today.

This tour marks my first visit to Africa since becoming Secretary of the United States Treasury. In my previous visits I traveled as a businessperson. I am eager to make the most of my time, to witness first hand the efforts underway to engage all the people of Africa in creating a brighter future.

I come here to learn. To hear from entrepreneurs, investors, farmers, artisans and vendors in the market. I want to hear their hopes and dreams and I hope they share with me their insights into how best to eliminate the obstacles to Africa's prosperity.

I come here with an open mind, convinced of only one thing -- that human beings everywhere have the potential to succeed.

The question for us, and for our time, is how to finally realize that vision. How can the people of the African nations and their elected leaders create prosperity -- and how can the people of the United States and the other industrialized countries best support their efforts?

If I had the answer, I would have sent a prescription. It's not so easy. For some 50 years, thoughtful, compassionate people have struggled to solve poverty here. As Bono, my friend and travelling companion, might say we "still haven't found what we're looking for." The results of official development assistance have been disappointing, and many poor countries here have stayed that way, even as others have excelled.

So I have come to Africa. Not to preach, but to listen, and share. I want to see what has worked here, and what has failed. I want to ask how we can do better. I want to learn from Uganda's political and economic success, so I can share the best of your experience with your neighbors and the world. At the same time, I want to share what we have learned from other successful developing countries around the world, and show our commitment to promoting those practices in Africa.

PO-3129

And I want to take our combined experience and put it to work, to produce results for Africans. Not in the next generation, but right now.

Here is what we know: all people are created equal. Given the tools and incentives for success, they will succeed, no matter who they are or where they live. Of course this is self-evident. But I have also seen this truth first-hand, as a leader in the private sector. As Chairman and CEO of Alcoa, I helped grow the company from 55,000 employees in 13 countries when I joined in 1987, to 140,000 people in 36 countries -- including several African countries -- when I retired in 2000.

During that time I learned about job creation, and about the ways of life and work around the globe. In my travels, I saw that human beings everywhere, with the proper education, good health, and a stable environment, could perform meaningful, value-adding work at world-competitive levels. I saw that in the Americas, I saw it in Europe, I saw it in Asia, and I saw it in Africa.

We also know that in every nation, economic growth and higher living standards come from increasing productivity -- that is, increasing the value that each worker produces each day. When productivity is rising, workers earn more for their work and their quality of life improves, year after year.

Moreover, we know that it is a competitive private sector that drives productivity gains. As companies compete with each other for business, they seek better ways to satisfy their customers. They try to provide more and more value for each dollar. As opportunities to add value emerge, entrepreneurs enter the market. To stay competitive, leaders must constantly invest in new ideas and better methods for production.

So what can a country do to unleash its private sector and increase productivity? What have successful leaders done?

- They rule justly, by fairly enforcing law and contracts, respecting human rights and property rights, and fighting corruption.

- They encourage economic freedom, by removing barriers to trade – both internal and external – and by opening their economies to investment, allowing companies and entrepreneurs to compete without excessive interference, and pursuing sound fiscal and monetary policies, including government divestment of business operations.

- And they invest in their people, by providing the best possible systems for education and health care. In particular, we must work to fight the spread of AIDS, which threatens to cripple the economic potential of many African nations and peoples.

All three of these elements -- ruling justly, encouraging economic freedom, and investing in people -- are essential for successful development.

Among the many nations in Africa, we chose to visit Uganda on this tour because you have been an inspiration for the continent. Uganda's economy has grown by almost 7% annually over the past ten years, an extraordinary achievement in any part of the world. Because of that growth, poverty fell from 56% of the population in 1992 to 35% in 2000. Inflation is low, the currency is stable, and trade is open.

Foreign investment has increased by ten-fold from its average rate in the early 90s, as Ugandan reforms have raised investor confidence.[1] Just a few weeks ago, President Museveni and I met in Washington to discuss how to further encourage private investment in your country. One of my suggestions was to pursue an investment grade credit rating as an indicator of leadership and good policies.

The transparency and policy environment needed for an investment grade rating disciplines government. Achieving investment grade sovereign debt would allow Uganda to grow on its many merits, as investors could more easily differentiate Uganda's risks from those of less progressive nations.

Thanks to President Museveni's leadership, Uganda has become the first country in Africa to reduce its AIDS infection rate. At the same time, primary school enrollment has increased from about half (55%) of children in 1994 to nearly all of them (94%) in 1999, and half (over 47%) of the students are girls. Education quality is improving as well.

Uganda shows the positive difference that leadership can make. There is still much more work to do -- fighting corruption and building democracy, improving infrastructure, strengthening the financial sector, and expanding exports. But there is much to learn here. And so, we will visit The AIDS Support Organization clinic in Kampala and several AIDS research centers. This morning we visited a Universal Primary Education school and a community water project. A cut-flower factory we will visit exemplifies Uganda's export efforts. And later today, we will meeth entrepreneurs building businesses with micro-finance loans from USAID.

When we return to Washington, we will push ahead with President Bush's reform agenda.

One key component of this reform agenda is that official development assistance, through USAID, through the World Bank, the African Development Bank or bilaterally, stands a better chance of success when local leaders are already improving the economic framework of the nation.

That is the premise of the President's Millennium Challenge Account and the New Compact for Development. The President has proposed $5 billion in additional US bilateral aid annually, channeled to those countries that can use the money effectively. To access the Millennium Challenge Account, developing countries must demonstrate a strong commitment to ruling justly, encouraging economic freedom, and investing in people.

[1] FDI $228 million in 2001 up from annual average $23 million per year, 1989-1994.

We are in the process of developing the criteria for measuring countries' policies in this area, so we can begin to disburse funds. As part of the process, President Bush has asked us to reach out to the world community, and that is one reason for this tour of Africa.

Uganda was the first beneficiary of the World Bank and IMF Heavily Indebted Poor Country initiative, which has freed substantial debt service resources for worthwhile social investments. Washington has supported the HIPC initiative. But we want to go even further, to overcome the causes of excessive debt for countries whose leaders embrace reform.

President Bush has proposed that up to 50% of World Bank and other development bank funds for the poorest countries be provided as grants rather than as loans. This proposal acknowledges the long-term development challenges facing these countries, their vulnerability to economic shocks, and the reality that essential investments in social sectors such as education and health care -- investments in people -- cannot directly generate the incremental revenue to service new debt.

Replacing loans with targeted grants will eliminate the need for governments to repay principal and interest on long-term investments in people. It will thereby eliminate the next generation of debt service problems. It is time to end the sad cycle of indebtedness for countries committed to success.

We have to be hard-headed and demand results—that is our responsibility to the impoverished people of Africa. If we don't insist on results for the dollars provided by compassionate people all over the developed world, then we are not meeting our responsibility as world leaders to improve the lives of people everywhere.

Since I became Treasury Secretary, I have been determined to reform the way in which the World Bank and the other multilateral development banks do business. They must improve the effectiveness of their assistance. Rather than focusing on inputs, I want them to focus on results. For example, don't tell me how many children you've enrolled in school, or how much you've spent on enrollment programs -- tell me how many of the children can read, write and compute at their grade level after six years of schooling. That's what matters – it's the only thing that matters to those children and their future.

President Bush has created new incentives in our development assistance programs to encourage a greater focus on results. He has committed to an 18% increase in funding for the African Development Bank and an 18% increase in funding for IDA, the World Bank's lending program for the poorest nations, so long as those programs can show they are achieving measurable improvements in development.

In the long-term, domestic entrepreneurship as well as trade and foreign investment are far more important for economic growth than official aid. I agree with President Museveni, who wrote in our Wall Street Journal last week that "there is now a broad a agreement that no national or international strategy for addressing poverty can be successful unless it promotes expanded trade and investment."

The United States has created the Africa Growth and Opportunity Act, or "AGOA," to open U.S. markets to exports from sub-Saharan Africa. AGOA provides duty-free treatment for African exports to the United States, including preferential treatment for certain products. The Ugandan government has qualified for AGOA, which will advance export-driven private sector growth. As President Museveni said "If somebody buys what Uganda produces, then he is rendering my country the best assistance possible."

I would also encourage Uganda and all African nations to reduce trade barriers amongst themselves, so that all can benefit from their different comparative advantages, and relative proximity to each other.

I believe strongly in development assistance that makes a difference in people's lives. I am optimistic that our efforts together will produce results in Uganda, and throughout Africa. This is an exciting time for those of us who relish the challenge of unleashing human potential around the world, especially in Africa. We are making progress on many fronts. 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.

Thank you.

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.
May 28, 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 $16,000 million of publicly held 4-week Treasury bills maturing May 30, 2002.

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 $14,839 million of the Treasury bills maturing on May 30, 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-3130

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED MAY 30, 2002

May 28, 2002

Offering Amount ....$16,000 million
Public Offering ....$16,000 million
NLP Exclusion Amount ....$ 9,400 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 KA 8
Auction date ....May 29, 2002
Issue date ....May 30, 2002
Maturity date ....June 27, 2002
Original issue date ....December 27, 2001
Currently outstanding ....$37,496 million
Minimum bid amount and multiples $1,000

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

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

Receipt of Tenders:
Noncompetitive tenders:
Prior to 11:00 a.m. eastern daylight saving time on auction day
Competitive tenders:
Prior to 11:30 a.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
May 28, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	May 30, 2002
Maturity Date:	August 29, 2002
CUSIP Number:	912795KY6

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 82.06%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 31,876,362	$ 15,390,822
Noncompetitive	1,456,424	1,456,424
FIMA (noncompetitive)	153,000	153,000
SUBTOTAL	33,485,786	17,000,246 2/
Federal Reserve	6,440,886	6,440,886
TOTAL	$ 39,926,672	$ 23,441,132

Median rate 1.720%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.695%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 33,485,786 / 17,000,246 = 1.97

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,192,300,000

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
May 28, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	183-Day Bill
Issue Date:	May 30, 2002
Maturity Date:	November 29, 2002
CUSIP Number:	912795LM1

High Rate: 1.890% Investment Rate 1/: 1.935% Price: 99.039

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 80.35%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 28,527,105	$ 13,466,543
Noncompetitive	1,068,699	1,068,699
FIMA (noncompetitive)	465,000	465,000
SUBTOTAL	30,060,804	15,000,242 2/
Federal Reserve	6,014,025	6,014,025
TOTAL	$ 36,074,829	$ 21,014,267

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 = 30,060,804 / 15,000,242 = 2.00

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $802,722,000

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
May 28, 2002

Contact: Betsy Holahan
(202) 622-2960

ATSB Decision On Vanguard Airlines

WASHINGTON, DC – The Air Transportation Stabilization Board (ATSB) announced today that it has rejected the application of Vanguard Airlines, Inc. for a Federal guarantee of a $15 million financing pursuant to the Air Transportation Safety and System Stabilization Act (Act) and implementing regulations promulgated by the Office of Management and Budget (OMB). The Board concluded its review based on the standards set out in the Act and the OMB regulations and determined that Vanguard's application did not meet the applicable standards. The Board determined that Vanguard's proposal did not provide a reasonable assurance that Vanguard will be able to repay the loan, one of the factors that the Board is required to consider under the OMB regulations.

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.

PO-3133

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

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
May 29, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate:	3 1/4%	Issue Date:	May 31, 2002
Series:	N-2004	Dated Date:	May 31, 2002
CUSIP No:	912828AD2	Maturity Date:	May 31, 2004

High Yield: 3.274% Price: 99.954

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 6.82%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 70,919,927	$ 25,418,777
Noncompetitive	1,581,271	1,581,271
FIMA (noncompetitive)	0	0
SUBTOTAL	72,501,198	27,000,048 1/
Federal Reserve	6,298,360	6,298,360
TOTAL	$ 78,799,558	$ 33,298,408

Median yield 3.255%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 3.200%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 72,501,198 / 27,000,048 = 2.69

1/ Awards to TREASURY DIRECT = $1,134,206,000

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TREASURY NEWS

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

FOR IMMEDIATE RELEASE
Thursday, May 30, 2002

Contact: Tasia Scolinos
(202) 622-2960

TREASURY UNDER SECRETARY FOR ENFORCEMENT JIMMY GURULE D.C. BAR ASSOCIATION SPEECH INTERNATIONAL LAW SECTION

Introduction:

I want to thank you for this opportunity to be here with you today. It is always a pleasure to dialogue with fellow lawyers about issues of importance confronting our nation, and I welcome the opportunity to share with you the Treasury Department's role in combating terrorist financing. As you all know the United States is engaged in a war against terrorism. This is an unconventional war and this requires that it be fought on several unconventional fronts, including the financial front.

In the aftermath of the September 11th disaster President Bush acted decisively and his command to us was clear. On September 24, 2001, he stated: "We will direct every resource at our command to win the war against terrorists, every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence. We will starve the terrorists of funding." The President directed Secretary O'Neill to lead the nation's war against terrorist financing and we have devoted extensive resources and applied our considerable expertise to fulfill this mandate.

The Treasury Department's strategy is preventive, intended to disrupt the ability of terrorists to raise funds and finance future terrorist attacks. This isn't a numbers game, focusing on how much money the USG blocked last week versus this week. Instead, by dismantling terrorist financial networks, we seek to prevent acts of terror and save human lives.

To be successful, any strategy intended to dismantle the financial infrastructure of terrorist groups like al Qaida must be international in nature. The reasons of course are obvious. First, terrorism is a global problem. Al Qaida cells are believed to be operating in as many as 60 countries worldwide. Second, money is a fluid commodity that can be wired around the world in seconds. Third, because of the strict federal bank reporting requirements and aggressive forfeiture laws, terrorist funds are not likely to be held in U.S. banks.

PO-3135

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

However, the development of an international strategy to starve terrorist of funds poses enormous challenges. Foreign governments have different legal regimes, imposing different legal standards and procedures. Some countries have not enacted either anti-terrorist financing, money laundering, or asset forfeiture legislation. Finally, sovereignty concerns may hamper information sharing and law enforcement cooperation.

Executive Order 13224

Let me first begin by outlining the tools we have been utilizing to develop our comprehensive domestic and international strategy. On September 23rd, pursuant to the International Emergency Economic Powers Act (IEEPA), President Bush issued Executive Order 13224 declaring a national emergency with respect to acts of terrorism and threats of terrorism committed by foreign terrorists against the United States. E.O. 13224 provides the Treasury broad, sweeping powers to block all property and interests in property of the individuals and entities named in the E.O.'s Annex or as designated by the Secretary of the Treasury or the Secretary of State under the Order. It also prohibits all financial transactions, including charitable donations, between U.S. citizens and all designees named in the E.O. Annex.

Although prior to 9/11 other executive orders and statutes were already in effect that permitted some blocking action, E.O. 13224 broadened the Treasury Department's existing authority in two principal ways. First, it expanded the coverage of existing Executive orders from terrorism in the Middle East to global terrorism. Second, it emphasized the authority to block assets and deny access to the U.S. financial markets to persons who support, finance, or assist those who commit or pose a serious threat of committing acts of terrorism.

The new E.O. has proven an effective tool. Since September 24th the Treasury Department's Office of Foreign Assets Control, has blocked the assets of 210 entities and individuals and $ 34 million has been frozen here in the U.S.

We are also intimately involved in the selection of the blocking targets. The Treasury Department chairs the inter-agency working group that has been targeting and listing these entities and individuals. In this inter-agency process, we have assembled experts and policymakers from the Treasury Department, including the Office of Foreign Assets Control (OFAC), the Department of Justice, the Department of State, the Federal Bureau of Investigation (FBI), the intelligence community, and the White House.

The process of identifying and investigating targets is ongoing and we are currently investigating other financial entities, businesses, groups, and persons for potential listing. We are focusing on uncovering high-impact financial intermediaries that act as financial conduits and facilitators for terrorist groups. Our ultimate goal is to use all the tools at our disposal to disrupt terrorist financing in an effort to prevent the perpetration of further terrorist attacks.

International Cooperation

I am pleased to report that we have seen unprecedented cooperation from our friends and allies on the financial front. To date, all but a handful of countries have expressed their support for the war on terrorist financing and 166 countries and jurisdictions around the world have taken blocking action against individuals and entities with suspected terrorist links resulting in blocked assets abroad of $ 82 million.

UN Security Council Resolutions

Despite our successes there have been some unique challenges that have required flexibility and creativity as we crafted together an international coalition one country at a time. For instance, many countries, despite the good intentions of the government, do not have the domestic laws necessary to allow the government to take blocking action legally. In some of these cases legal authority was obtained via UN Security Council Resolutions 1267, 1337 and 1390. Let me take a moment to explain how this works. UNSCR s 1267 and 1333 are now combined in UNSCR 1390. UNSCR 1390 was adopted January 16, 2002, and requires all UN member States to block the assets of the Taliban, Usama bin Ladin, the al-Qaida organization and those linked to them. Thus, when the U.S. designates persons or entities under E.O. 13224, those names are forwarded to the U.N. Sanctions Committee. The members of the U.N. Committee have 48 hours to object or the names are placed on the U.N. Security Council list. The UN's so-called "1267 Committee" maintains a list of blocked individuals and entities. All states are required to freeze their assets and prevent assets from being made available to them.

In addition, UNSCR 1373, adopted on September 28th, 2001, mandates that all States prevent and suppress the financing of terrorist acts. To be more specific, it requires them to criminalize providing or collecting funds for terrorist use. It also requires them to block without delay funds and other assets of terrorists and their supporters, and prohibits making assets available to terrorists and supporters. UNSCR 1373 also mandates that States prosecute terrorists and provide mutual assistance in criminal investigations and proceedings for terrorist financing, including obtaining needed evidence. It further bars States from giving terrorists a safe haven. The resolution also mandates the establishment of the Counter-Terrorism Committee to monitor implementation of UNSCR 1373.

Technical Assistance

In addition, the Treasury Department has also worked bilaterally with many of these countries to provide them with the technical assistance necessary to enact and enforce domestic laws in their home countries that would give them the legal authority to block assets. Over the past eight months forty-three countries have requested technical assistance from the United States. The Treasury Department has been sending out teams of lawyers, accountants, and other specialists to aid many of these countries in drafting new laws that would enable them to take action unilaterally without relying on the UN process. Our technical assistance efforts are an ongoing priority of the Department and we are encouraged by the progress we have seen thus far on this front.

FATF

Another prong of our international strategy involves the Financial Action Task Force. FATF, a twenty-nine member organization, was originally created for the purpose of combating money laundering on an international, multilateral level. Treasury, State and Justice each contribute to the U.S. position on policy matters that implicate FATF.

The decision was made post September 11th to also utilize FATF to address terrorist financing issues. The United States hosted an Extraordinary FATF Plenary session in October of 2001, at which FATF members established 8 Special Recommendations on Terrorist Financing that have quickly become the international standard on how countries can ensure that their financial regimes are not being perverted by terrorist financiers. The U.S. delegation also attended a FATF Plenary Session in Hong Kong earlier this year in which FATF required that all countries, including non-members, participate in a self-assessment process to identify loopholes in their financial systems that could be exploited by terrorist financiers. This FATF effort, along with our ongoing bilateral and multilateral negotiations, will ensure that we are crippling terrorist financiers by securing the global financial system.

Other Multi- Lateral Organizations

Treasury officials have also engaged internationally with key countries via three multi-lateral bodies: the G-7, the G-8, and the G-20. In particular, the G-7 agreed to develop a mechanism to jointly identify terrorists whose assets are subject to freezing. This has resulted in even closer cooperation and commitment from our allies. We are also working toward developing criteria regarding information-sharing protocols that would address such issues as the procedures for sharing information and the protection of sensitive materials.

Another example of the progress that has been made on the multi-lateral front is the November 17th decision by the G-20 finance ministers and Central Bank governors in Ottawa, Canada. They agreed that they would block terrorist assets in their respective countries and report publicly which terrorist groups each country has blocked and the amount of actual monies blocked. Such coordination has been extremely helpful in improving communication and information sharing.

Joint Designations:

There has also been steady progress on the joint designation front. I am referring to situations where the United States and one, or more, other countries coordinate to identify, target and block the assets of terrorist related individuals and entities. Such action takes extensive coordination and close cooperation. The first joint designation took place on March 11th of this year with our ally Saudi Arabia. The U.S. and Saudi Arabia together took action to designate and block the assets of two branch offices of the Saudi Arabia based charity the Al-Haramain Islamic Foundation.

On May 3rd we also participated in a joint designation with the European Union countries. The list of designees, which consisted of 18 groups and individuals, was a product of different countries contributing information and possible blocking targets to the larger group. It is this type of international synergy that we strive toward in our terrorist financing strategy. I am very optimistic that joint designations will become a routine component of terrorist related blocking actions by the U.S. government.

Financial Intelligence Units

Treasury also supports FinCEN's active involvement in the growing network of financial intelligence units or FIUs. These specialized agencies were created by governments around the world to fight money laundering. They first met in 1995 at the Egmont-Arenberg Palace in Belgium to compare money laundering trends and law enforcement tips. Now known as the Egmont Group, these FIUs meet annually to find ways to cooperate on money laundering issues, especially in the areas of information exchange, training, and the sharing of expertise.

This global network of information exchange and cooperation has proved to be a valuable tool on the terrorist financing front. FinCEN hosted a special meeting of the Egmont Group in October 2001 to support the unprecedented law enforcement investigation in the wake of the events of September 11th. During the special meeting, the Egmont Group agreed to: (1) Review existing national legislation to identify and eliminate existing impediments to exchanging information between FIUs, especially when such information concerns terrorist activity; (2) Encourage national governments to make terrorist financing a predicate offense to money laundering and to consider terrorist financing one form of suspicious activity for which financial institutions should be on the look out; (3) Pass requests for information involving FIUs exclusively between FIUs rather than other government agencies; (4) Have FIUs play a greater role screening requests for information; and (5) To pool Egmont Group resources, where appropriate, to conduct joint strategic studies of money laundering vulnerabilities, including Hawala.
In addition, Egmont officials have also met with representatives of international financial institutions in order to solicit the support of private industry in its efforts to combat terrorist financing in a global, systematic way.

Long Term Efforts

The fight against terrorist financing is a complex problem that will involve years of careful diplomacy and innovative thinking. One critical component of the strategy as we look toward the future is the development of personal relationships with our counterparts abroad. Treasury Secretary O'Neill has personally traveled to Europe, Asia and the Middle East in an effort to enlist the cooperation of our global counterparts. I have also visited Europe to engage with our colleagues there on this issue and will be traveling to Belgium, Luxembourg, Switzerland and Italy next week to engage in additional discussions with our global partners and personally underscore the importance of the financial war on terrorism to the U.S. government.

Close relations and regular communication with our global partners is critical to our success in combating terrorism now and in the future.

Conclusion

In conclusion, I want to talk a bit about why we are doing all of this. Our strategy, both domestically and internationally, is designed to be a preventative approach to the crisis facing our country today. Our view is that money that makes it into the hands of the terrorists is money that kills. If we can make it difficult for the terrorists to move money around the world and, even more importantly, make it difficult for them to raise money, we believe we can save lives. Terrorism threatens to harm not only our great country but freedom-loving countries around the globe. Our challenge is to harness the international interest in the terrorist financing issue into worldwide action. We believe that we have made some important steps in the right direction but I want to point out that this fight will be a marathon and not a sprint. We are just beginning. And I leave you with my personal assurance that we will not stop until every last dollar is rendered useless to those who seek to destroy us and our friends and allies abroad.

Thank you. I will be happy to take a few questions at this time.

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 1:45 P.M.
May 30, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS CASH MANAGEMENT BILLS

The Treasury will auction approximately $20,000 million of 9-day Treasury cash management bills to be issued June 3, 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.

Note: The closing time for receipt of noncompetitive and competitive tenders will be at 11:00 a.m. eastern daylight saving time.

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).

We expect to issue one or more additional cash management bills in June.

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

oOo

Attachment

PO-3136

HIGHLIGHTS OF TREASURY OFFERING
OF 9-DAY CASH MANAGEMENT BILLS

May 30, 2002

Offering Amount ....$20,000 million
Public Offering ....$20,000 million

Description of Offering:
Term and type of security ....9-day Cash Management Bill
CUSIP number ....912795 KP 5
Auction date ....May 31, 2002
Issue date ....June 3, 2002
Maturity date ....June 12, 2002
Original issue date ....June 3, 2002
Currently outstanding .... ---
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., 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.

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

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

EMBARGOED UNTIL 2:30 P.M.
May 30, 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 $32,000 million to refund an estimated $29,758 million of publicly held 13-week and 26-week Treasury bills maturing June 6, 2002, and to raise new cash of approximately $2,242 million. Also maturing is an estimated $20,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced June 3, 2002.

The Federal Reserve System holds $13,730 million of the Treasury bills maturing on June 6, 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 June 4, 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 $1,053 million into the 13-week bill and $889 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-3137

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED JUNE 6, 2002

May 30, 2002

Offering Amount	$17,000 million	$15,000 million
Public Offering	$17,000 million	$15,000 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 KZ 3	912795 LN 9
Auction date	June 3, 2002	June 3, 2002
Issue date	June 6, 2002	June 6, 2002
Maturity date	September 5, 2002	December 5, 2002
Original issue date	March 7, 2002	June 6, 2002
Currently outstanding	$17,642 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

FOR IMMEDIATE RELEASE
Saturday, May 25, 2002

Contact: Tasia Scolinos
(202) 622-2960

TREASURY UNDER SECRETARY FOR ENFORCEMENT JIMMY GURULE UNIVERSITY OF UTAH SCHOOL OF LAW

Introduction:

Good afternoon, I am happy to be here with you, my alumni, sharing in your time of accomplishment. I am proud to be in such great company. You have worked hard, stood determined and today you will be rewarded for all that you gave and all that you sacrificed. Today you should stand proud and recognize your achievement.

As most of you know I am also a graduate of the University of Utah School of Law. I have to be honest with you. Just stepping foot on campus today made me feel a little nervous and anxious. My palms started to sweat when I thought about all those final exams and hours of studying. It seems not so long ago, I sat in those same chairs, eager to learn, eager to be a lawyer and carry the title of one of the noblest professions. Being a lawyer brings so many opportunities. As you pursue your career objectives, I hope you consider all your options and realize that the pursuit of financial gain, while necessary for the well being of yourself and your families, should not be your sole focus.

Role as Treasury Under Secretary for Enforcement:

Let me talk for a moment about my current position as Under Secretary of Enforcement, for the United States Department of the Treasury. I am responsible for overseeing the enforcement operations of a number of Treasury agencies: the Bureau of Alcohol, Tobacco and Firearms; the United States Secret Service – which was established in 1865 and holds the distinction of being the oldest federal law enforcement agency in the country; the United States Customs Service which was established in 1789 to collect duties; the Financial Crimes Enforcement Network; the Federal Law Enforcement Training Center; and IRS Criminal Investigations, which as many of you know was the government agency that brought down Al Capone . I must ensure that the men and women of law enforcement are serving the country in the most professional manner. More importantly, I must ensure that the country is protected and kept safe, both from domestic as well as international threats.

The job has taken on new dimensions since the events of September 11th. I was able to visit both Ground Zero and the Pentagon in the days immediately following the attacks. They are experiences that have left an indelible impression on me.

PO-3138

The day I visited the site of the World Trade Center it was pouring rain, the air had the feel of death, and the sullenness of the moment was unnerving. Standing immediately across the street from where once stood the majestic "Twin Towers" now remained six stories of smoldering concrete and gnarled steel beams.

It was there at the site that I saw our dedicated agents, agents who had been working around the clock, combing through the debris, uncovering the remains of the horrific dark side of humanity, yet never forgetting the oath taken nor the honor of the badge. Their undaunting courage and loyalty to the country ever present.

I asked them what they needed. I talked with many of these brave men and women, their dedication and concern apparent. They were giving of themselves so unselfishly, so loyal to serving the citizens of this great nation. Their sacrifices many – time spent away from family and loved ones, the physical and emotional pressures – such sacrifices speak to the true meaning of public service. Clearly, the calling of public service provided the strength for these officers to persevere.

I had a similar experience at the Pentagon. ATF Director Brad Buckles and I met with dedicated ATF agents working at that site two days after the attacks. Parts of the building were still burning and recovery teams were removing bodies as we met with our dedicated Treasury law enforcement team there. Their dedication to this country and to the difficult task at hand left quite an impression.

The challenges when I accepted the job as Treasury Under Secretary for Enforcement were daunting. The challenges we have faced over the last eight months are even more formidable. As Under Secretary, I am intimately involved in the fight against terrorism. The Treasury Department is playing a critical role in this fight. We are blocking the assets of those persons and organizations supporting terror. My employees are involved daily in identifying these fanatical perpetrators and assassins and ensuring that the monetary resources used to fund their malevolent activities are severed. I am pleased to report that our efforts are making a difference. We have blocked the assets of 210 entities and individuals. 166 other countries have joined us in our blocking actions. Worldwide $116 million has been frozen.

As Under Secretary, there is great solace in knowing that you are actively involved in facilitating the apprehension of those that act with such callous disregard for human life. As a lawyer, involvement in the execution of justice and the protection of our country provides me with an inexplicable sense of achievement. Martin Luther King, once wrote, "Morality cannot be legislated, but behavior can be regulated. Judicial decrees may not change the heart, but they can restrain the heartless." It is through the dedication, competence, and patriotism of our public servants that we will ensure that those who terrorize U.S. citizens receive their just punishment.

Importance of Public Service:

As a public servant myself perhaps I might be a bit bias but I hope you consider the benefits of public service, both tangible and intangible when you are plotting your career path. I cannot convey amply enough the sense of satisfaction that is derived when you lend a hand to your fellow man.

I graduated from law school 22 years ago with a boundless sense of idealism; I was determined to "make a difference". As a novice lawyer, I was able to serve as a state prosecutor working on child abuse cases.

One of the cases that I successfully prosecuted involved the sexual abuse of a 7 year-old girl by a next door neighbor. You can't even begin to imagine the pressure that I felt. I wanted to see this man taken off the streets, to deprive him of his freedom so that he could never again harm another child. I tried the case and won; he was sent to jail.

It was sometime later that I received a card at my office. I was curious to see who had sent it. When I opened it, on the front I saw a picture of a rainbow as well as a self-portrait of the little girl that had been abused by her neighbor. Inside the card she had written, " Thank you for helping me smile again." I can't even begin to describe to you how bittersweet that moment was. Her words touched both my heart and soul.

As a lawyer, you possess a unique knowledge and understanding of our legal system and are trained to analyze and dissect complex issues. I challenge you to use that knowledge and those skills to make a difference in someone's life. Defending that little girl and bringing the assailants of DEA Agent Camarena to justice made me so appreciative of my profession and the skills that my legal education had provided me.

I simply wish for you to know that there is so much good that can be done if educated and brilliant minds such as yours are used for the public good.

I'm not sure how many of you may be acquainted with the President's Freedom Corps, so I would like to discuss the Corps with you for a moment. It seems that the recent acts of terrorism have reawakened the American spirit of patriotism – service to our country. Americans have looked for and found many opportunities to do good. President Bush created the USA Freedom Corps in an effort to capture those opportunities and foster an American culture of service, citizenship and responsibility. During his State of the Union address, he called upon every American to commit at least two years of their lives – the equivalent of 4,000 hours—to the service of others. Through USA Freedom Corps he wants to help every American answer the call to service by strengthening and expanding service opportunities for them to protect our homeland, to support our communities and to extend American compassion around the world.

I encourage all of you to expand your realm of experiences and explore the challenge of public service. At a time when we see our country, and its landmarks and other symbols of its greatness under attack, the need for well-trained, strong analytical minds like yours is obvious. Our nation needs you. If your interest is in policy development, working with counsel, or other areas, the public service has it all.

I encourage you to provide your services pro-bono from time to time and never lose sight of the true meaning of justice – defined as, " the quality of being fair." There is a quote by Thomas Woodrow Wilson that sums up this sentiment quite profoundly. The quote reads, "The nature of men and of organized society dictates the maintenance in every field of action the highest and purest standards of justice and right of dealing. By justice the lawyer generally means the prompt, fair, and open application of impartial rules. But we call ours a civilization, and a conception of justice must include sympathy and helpfulness and a willingness to forego self-interest in order to promote welfare, happiness, and contentment of others and to the community as a whole."

Importance of Integrity:
As a lawyer it is incumbent upon you to set the example. Morality and ethics govern our legislative and judicial processes and cannot be divorced from the law. As lawyers, you are held to the highest of standards and will be expected to represent the profession in an exemplary way, always reflecting the characteristics of those charged with the ultimate duty, that of carrying out justice. Life can often provide temptation and often great financial gain but you must always caution yourself and use your analytical gifts to guide you in the right direction.

I cannot emphasize to you enough the importance of integrity. After several years of trial work, I have found that when I walk into a courtroom the strongest tool that I bring to the bar is not a well-written brief or my oratory skills. It is my integrity. When you sign your name to a document or represent information in open court you are putting your reputation on the line. That means something. Once that credibility is tarnished in any way it is something that can never truly be replaced.

Another important quality is to always set **high expectations** for yourself in whatever you do. " Strive for greatness". On this front, I want to share with you the inspirational words of my grandmother. She always told me " to set the bar high and go after what it is that you want to pursue and be relentless in your efforts." She cautioned me to never lose sight of that goal and always strive for excellence. I never forgot my grandmother's words - they are words that I try to live by. I realized through the years that the bar must always be high, excellence should never be substituted by something less.

Conclusion:
While the road you have chosen will not always be an easy one and the obligations will sometimes feel overwhelming, you will undoubtedly find that the joys of the profession far outweigh the burdens. The sense of accomplishment at being able to right "wrongs" is unsurpassed.

"A good job and comfortable standard of living" should not be the benchmark by which you measure your professional success. Rather, the benchmark should be " did I constantly strive for excellence – even 'greatness' and did I stay true to my values and beliefs while doing so".

While it goes without saying that all of you will make great lawyers, after all you are graduates of the University of Utah, it is even more apparent that your opportunities are endless. I wish you success in whatever course you take and extend my sincerest congratulations to you as you accept today that honor which you so rightly deserve. Thank you and best of luck!

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
Thursday, May 30, 2002

Contact: Tasia Scolinos
(202) 622-2960

The United States and China Meet to Discuss Terrorist Financing Concerns

Experts from the People's Republic of China and the United States of America met at the Department of the Treasury in Washington, DC from May 29th to the 31st to exchange views on how to prevent and combat terrorist financing. The experts, representing various agencies and departments in both countries, also visited and were briefed at the FBI's Financial Review Group, Treasury's Operation Green Quest, and the Financial Crimes Enforcement Center (FINCEN).

The present meeting is the first of semi-annual meetings planned to deal with the issue of terrorist financing. The U.S. and China will alternate serving as hosts of future meetings. These meetings will not only strengthen cooperation between China and the U.S. in the area of terrorist financing, but will also seek to further strengthen the existing cooperative relationship in the law enforcement and counter-terrorism areas between the two countries. The meetings this week represent another important step in our bilateral relationship with China and in the international fight against global terrorism.

PO-3139

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
May 31, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 9-DAY BILLS

Term:	9-Day Bill
Issue Date:	June 03, 2002
Maturity Date:	June 12, 2002
CUSIP Number:	912795KP5

High Rate: 1.720% Investment Rate 1/: 1.745% Price: 99.957

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 59.92%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 49,165,000	$ 20,000,192
Noncompetitive	0	0
FIMA (noncompetitive)	0	0
SUBTOTAL	49,165,000	20,000,192
Federal Reserve	0	0
TOTAL	$ 49,165,000	$ 20,000,192

Median rate 1.705%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.680%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 49,165,000 / 20,000,192 = 2.46

1/ Equivalent coupon-issue yield.

http://www.publicdebt.treas.gov

PO-3140

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

AIR TRANSPORTATION STABILIZATION BOARD

FOR IMMEDIATE RELEASE
May 31, 2002

Contact: Betsy Holahan
(202) 622-2960

ATSB Decision On Frontier Flying Service, Inc.

WASHINGTON, DC - The Air Transportation Stabilization Board (ATSB) announced today that it has rejected the application of Frontier Flying Service, Inc. for a Federal guarantee of a $7.2 million financing pursuant to the Air Transportation Safety and System Stabilization Act (Act) and implementing regulations promulgated by the Office of Management and Budget (OMB).

The Board concluded its review based on the standards set out in the Act and the OMB regulations and determined that Frontier's application did not meet the applicable standards. In its application, Frontier emphasized that it expected to be unable to renew its insurance at reasonable rates as a result of the terrorist attacks of September 11 and applied for a Federal loan guarantee as part of a plan to address this issue. However, Frontier recently informed the Board that, in fact, it was able to renew its insurance coverage at acceptable rates.

Accordingly, the Board was unable to determine that the proposed Federally guaranteed loan was a necessary part of maintaining a safe, efficient, and viable commercial aviation system in the United States, as required by the Act. The Board also concluded that Frontier's proposal did not provide a reasonable assurance that Frontier would be able to repay the loan, another of the factors the Board is required to consider under the OMB regulations.

PO-3141

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.

-30-

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

May 17, 2002

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $68,931 million at the end of the latest week, compared to $68,519 million at the end of the prior week.

(in US millions)

	May 10, 2002			May 17, 2002		
I. Official U.S. Reserve Assets — ***TOTAL***			**68,519**			**68,931**
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	5,659	10,423	16,082	5,714	10,577	16,291
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	9,560	4,345	13,905	9,660	4,410	14,070
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]			16,336			*16,360*
3. Special Drawing Rights (SDRs) [2]			11,151			*11,167*
4. Gold Stock [3]			11,044			11,044
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.

0-3143

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

May 24, 2002

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $69,194 million at the end of the latest week, compared to $68,916 million at the end of the prior week.

(in US millions)

I. Official U.S. Reserve Assets	May 17, 2002			May 24, 2002		
TOTAL			**68,916**			**69,194**
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	5,714	10,577	16,291	5,736	11,330	17,066
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	9,660	4,410	14,070	9,681	3,815	13,496
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]			16,344			*16,390*
3. Special Drawing Rights (SDRs) [2]			11,167			*11,199*
4. Gold Stock [3]			11,044			11,044
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.

PO-3144

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.
June 3, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $18,000 million to refund an estimated $20,000 million of publicly held 4-week Treasury bills maturing June 6, 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 $13,730 million of the Treasury bills maturing on June 6, 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-3145

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED JUNE 6, 2002

June 3, 2002

Offering Amount ....$18,000 million
Public Offering ....$18,000 million
NLP Exclusion Amount ....$ 9,700 million

Description of Offering:
Term and type of security ....29-day bill
CUSIP number ....912795 KQ 3
Auction date ....June 4, 2002
Issue date ....June 6, 2002
Maturity date ....July 5, 2002
Original issue date ....January 3, 2002
Currently outstanding ....$38,829 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.

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press 202-622-296
FFB 202-622-2450

FEDERAL FINANCING BANK May 31, 2002

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

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $37.6 billion on April 30, 2002, posting a decrease of $388.0 million from the level on March 31, 2002. This net change was the result of decreases in holdings of agency assets of $380.0 million and in holdings of government-guaranteed loans of $8.0 million. The FFB made 51 disbursements and received 14 prepayments during the month of April. The FFB also refinanced two Rural Utilities Service ("RUS") guaranteed loans, and extended the maturities of 123 loans guaranteed by the Rural Utilities Service during the month of April.

Attached to this release are tables presenting FFB April loan activity and FFB holdings as of April 30, 2002.

PO-3146

FEDERAL FINANCING BANK
APRIL 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
GOVERNMENT-GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Foley Services Contract	4/03	$16,739.56	7/31/25	5.823% S/A
Foley Services Contract	4/03	$13,609.80	7/31/25	5.823% S/A
San Francisco OB	4/03	$403,927.64	8/01/05	4.530% S/A
Foley Services Contract	4/11	$6,890.83	7/31/25	5.724% S/A
Foley Services Contract	4/11	$4,886.92	7/31/25	5.724% S/A
Atlanta CDC Lab	4/15	$54,126.50	1/30/31	5.770% S/A
Foley Services Contract	4/18	$4,372.58	7/31/25	5.732% S/A
San Francisco OB	4/25	$358,231.16	8/01/05	4.163% S/A
ICTC Building	4/26	$266,598.41	11/02/26	5.633% S/A
Atlanta CDC Lab	4/29	$59,700.38	1/30/31	5.688% S/A
DEPARTMENT OF EDUCATION				
Barber-Scotia College	4/12	$69,214.53	3/01/30	5.690% S/A
Livingstone College	4/19	$572,378.42	7/01/31	5.727% S/A
RURAL UTILITIES SERVICE				
*Amicalola Electric #664	4/01	$7,000,000.00	3/31/03	2.695% Qtr
*Big Sand Elec. #540	4/01	$788,752.17	7/01/02	1.801% Qtr
*Big Sand Elec. #540	4/01	$591,564.11	7/01/02	1.801% Qtr
*Big Sand Elec. #540	4/01	$988,966.76	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$3,073,205.71	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$1,364,988.35	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$341,339.68	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$787,320.78	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$1,027,997.00	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$684,581.32	7/01/02	1.801% Qtr.
*Brazos Electric #917	4/01	$393,597.44	7/01/02	1.801% Qtr.
*Brazos Electric #917	4/01	$735,862.37	7/01/02	1.801% Qtr.
*Brazos Electric #917	4/01	$890,467.05	7/01/02	1.801% Qtr.
*Brazos Electric #917	4/01	$287,147.85	7/01/02	1.801% Qtr.
*Brazos Electric #917	4/01	$208,400.61	7/01/02	1.801% Qtr.
*Brazos Electric #917	4/01	$358,469.08	7/01/02	1.801% Qtr.
*Brazos Electric #917	4/01	$210,092.96	7/01/02	1.801% Qtr.
*Brazos Electric #917	4/01	$150,525.73	7/01/02	1.801% Qtr.
*Brazos Electric #917	4/01	$131,137.73	7/01/02	1.801% Qtr.
*Brazos Electric #917	4/01	$71,846.74	7/01/02	1.801% Qtr.
*Brazos Electric #917	4/01	$108,567.07	7/01/02	1.801% Qtr.
*Brazos Electric #917	4/01	$34,943.41	7/01/02	1.801% Qtr.
*Brazos Electric #917	4/01	$1,157,563.45	7/01/02	1.801% Qtr.
*Brazos Electric #917	4/01	$230,763.92	7/01/02	1.801% Qtr.
*Brazos Electric #917	4/01	$873,775.62	7/01/02	1.801% Qtr.
*Brazos Electric #917	4/01	$2,617,317.55	7/01/02	1.801% Qtr.
*Brazos Electric #917	4/01	$1,567,440.52	7/01/02	1.801% Qtr.

FEDERAL FINANCING BANK
APRIL 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
*Brazos Electric #917	4/01	$939,366.52	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$567,166.64	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$881,983.48	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$479,165.07	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$1,382,597.80	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$1,665,853.35	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$1,957,619.43	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$800,869.97	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$612,696.28	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$1,255,962.33	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$992,155.32	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$402,399.04	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$1,079,641.18	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$1,402,808.02	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$2,306,287.49	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$2,468,627.92	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$484,048.55	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$15,662.29	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$825,800.79	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$2,705,436.53	7/01/02	1.801% Qtr
*Brazos Electric #917	4/01	$2,121,372.88	7/01/02	1.926% Qtr
*Brazos Electric #437	4/01	$4,015,964.94	7/01/02	1.926% Qtr
*Brazos Electric #437	4/01	$1,357,129.44	7/01/02	1.926% Qtr
*Brazos Electric #437	4/01	$307,835.23	7/01/02	1.926% Qtr
*Brazos Electric #437	4/01	$2,948,753.56	7/01/02	1.926% Qtr
*Brazos Electric #437	4/01	$1,138,797.37	7/01/02	1.926% Qtr.
*Brazos Electric #437	4/01	$478,340.79	7/01/02	1.926% Qtr.
*Brazos Electric #561	4/01	$10,703,540.19	7/01/02	1.801% Qtr.
*Brazos Electric #561	4/01	$5,387,339.61	7/01/02	1.801% Qtr.
*Brazos Electric #561	4/01	$10,512,183.82	7/01/02	1.801% Qtr.
*Brazos Electric #561	4/01	$8,272,224.01	7/01/02	1.801% Qtr.
*Brazos Electric #561	4/01	$4,762,794.59	7/01/02	1.801% Qtr.
*Brown County Elec. #687	4/01	$250,000.00	7/01/02	1.801% Qtr.
*Brown County Elec. #687	4/01	$600,000.00	7/01/02	1.801% Qtr.
*Central Georgia Elec. #731	4/01	$1,780,000.00	7/01/02	1.801% Qtr.
*Citizens Elec. #742	4/01	$2,694,000.00	7/01/02	1.801% Qtr.
*Clark Energy Coop. #611	4/01	$2,966,900.25	7/01/02	1.801% Qtr.
*Clark Energy Coop. #611	4/01	$1,971,579.96	7/01/02	1.801% Qtr.
*Cumberland Valley #668	4/01	$4,200,000.00	7/01/02	1.801% Qtr.
Cornbelt Power #565	4/01	$2,052,000.00	1/03/28	5.796% Qtr.
*Darien Telephone Co. #719	4/01	$1,927,403.00	7/01/02	1.801% Qtr.
*Darien Telephone Co. #719	4/01	$444,000.00	7/01/02	1.801% Qtr.
*Darien Telephone Co. #719	4/01	$214,000.00	7/01/02	1.801% Qtr.
*Delaware County Elec. #682	4/01	$364,000.00	7/01/02	1.801% Qtr.
*Delaware County Elec. #682	4/01	$250,000.00	7/01/02	1.801% Qtr.
*East River Power #453	4/01	$390,286.72	7/01/02	1.926% Qtr.
*Farmer's Telephone #459	4/01	$23,011.79	7/01/02	1.926% Qtr.
*Farmer's Telephone #459	4/01	$221,892.78	7/01/02	1.926% Qtr.
*Fleming-Mason Energy #644	4/01	$2,571,313.54	7/01/02	1.801% Qtr.
*Fleming-Mason Energy #644	4/01	$1,384,553.43	7/01/02	1.801% Qtr.

FEDERAL FINANCING BANK
APRIL 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
*Fleming-Mason Energy #644	4/01	$1,483,450.11	7/01/02	1.801% Qtr
*Fleming-Mason Energy #644	4/01	$2,175,726.84	7/01/02	1.801% Qtr
*Fleming-Mason Energy #644	4/01	$1,384,553.43	7/01/02	1.801% Qtr
*FTC Communications #709	4/01	$6,648,000.00	3/31/06	4.591% Qtr
*Georgia Trans. Corp. #446	4/01	$10,937,133.20	3/31/03	2.689% Qtr
*Grayson Rural Elec. #619	4/01	$1,186,760.09	7/01/02	1.801% Qtr
*Grayson Rural Elec. #619	4/01	$593,380.06	7/01/02	1.801% Qtr
*Grayson Rural Elec. #619	4/01	$988,966.76	7/01/02	1.801% Qtr
*Grayson Rural Elec. #619	4/01	$1,281,236.85	7/01/02	1.801% Qtr
*Greenbelt Elec. #743	4/01	$1,739,000.00	7/01/02	1.801% Qtr
Harrison County rural #609	4/01	$1,000,000.00	1/03/34	5.846% Qtr
*Harrison County #532	4/01	$984,944.93	7/01/02	1.801% Qtr
*Harrison County #532	4/01	$886,450.43	7/01/02	1.801% Qtr
*Inter-County Energy #592	4/01	$1,477,417.38	7/01/02	1.801% Qtr
*Inter-County Energy #592	4/01	$1,969,889.85	7/01/02	1.801% Qtr
*Inter-County Energy #592	4/01	$2,567,751.40	7/01/02	1.801% Qtr
*Inter-County Energy #592	4/01	$218,561.65	7/01/02	1.801% Qtr
*Johnson County Elec. #482	4/01	$1,584,634.70	7/01/02	1.926% Qtr
*Karnes Elec. #568	4/01	$1,482,914.65	3/31/03	2.695% Qtr
*Karnes Elec. #568	4/01	$1,385,164.62	3/31/05	4.278% Qtr
*Licking Valley Elec. #522	4/01	$2,707,613.59	7/01/02	1.801% Qtr
*Magnolia Electric #560	4/01	$4,927,895.01	7/01/02	1.926% Qtr
*Meade County Elec. #662	4/01	$1,300,000.00	7/01/02	1.801% Qtr
*Meade County Elec. #662	4/01	$2,000,000.00	7/01/02	1.801% Qtr
*Meade County Elec. #662	4/01	$2,000,000.00	7/01/02	1.801% Qtr
Middle Georgia Electric #804	4/01	$1,200,000.00	12/31/35	5.859% Qtr
*Newberry Electric #704	4/01	$4,164,000.00	3/31/32	5.835% Qtr
*Nolin Rural Elec. #528	4/01	$1,864,500.73	7/01/02	1.801% Qtr
*Nolin Rural Elec. #577	4/01	$2,544,112.74	7/01/02	1.801% Qtr
*Nolin Rural Elec. #577	4/01	$2,544,112.74	7/01/02	1.801% Qtr
*Oglethorpe Power #445	4/01	$14,500,169.30	3/31/03	2.814% Qtr
*Oglethorpe Power #445	4/01	$15,001,159.09	3/31/04	3.798% Qtr
*Owen Electric #525	4/01	$1,968,656.37	7/01/02	1.801% Qtr
*Panhandle Tele. #400	4/01	$553,477.60	12/31/13	5.229% Qtr.
*PRTCommunications #798	4/01	$4,802,000.00	7/01/02	1.801% Qtr.
*San Miguel Electric #919	4/01	$8,047,859.18	7/01/02	1.801% Qtr.
*San Miguel Electric #919	4/01	$8,450,346.32	7/01/02	1.801% Qtr.
*Shelby Energy Coop. #758	4/01	$1,000,000.00	7/01/02	1.801% Qtr.
*Stearns Cooperative #733	4/01	$2,400,000.00	7/01/02	1.801% Qtr.
*Stearns Cooperative #733	4/01	$1,400,000.00	7/01/02	1.801% Qtr.
*Sumter Elec. #735	4/01	$1,000,000.00	12/31/35	5.859% Qtr.
*Surry-Yadkin Elec. #534	4/01	$977,453.68	7/01/02	1.801% Qtr.
*Surry-Yadkin Elec. #534	4/01	$977,453.68	7/01/02	1.801% Qtr.
*Surry-Yadkin Elec. #534	4/01	$488,726.84	7/01/02	1.801% Qtr.
*Surry-Yadkin Elec. #534	4/01	$977,453.68	7/01/02	1.801% Qtr.
*Surry-Yadkin Elec. #534	4/01	$977,453.68	7/01/02	1.801% Qtr.
*Surry-Yadkin Elec. #534	4/01	$993,479.60	7/01/02	1.801% Qtr.
*Upsala Coop. Tele. #429	4/01	$312,059.74	7/01/02	1.926% Qtr.
*Upsala Coop. Tele. #429	4/01	$7,259.12	7/01/02	1.926% Qtr.
Tideland Electric #734	4/03	$438,000.00	12/31/31	5.761% Qtr.

FEDERAL FINANCING BANK
APRIL 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
Horry Electric Coop. #536	4/04	$5,730,000.00	1/03/34	5.735% Qtr
Johnson County Elec. #500	4/04	$1,500,000.00	1/03/33	5.852% Qtr
Rio Grand Electric #615	4/04	$340,000.00	1/03/34	5.735% Qtr
East Otter Tele. #435	4/05	$300,000.00	12/31/15	5.273% Qtr
Newberry Electric #704	4/05	$1,643,000.00	3/31/32	5.724% Qtr
Tri-County EMC #814	4/05	$2,400,000.00	12/31/36	5.740% Qtr
Tri-County EMC #814	4/05	$600,000.00	12/31/36	5.740% Qtr
United Power Assoc. #721	4/05	$6,300,000.00	12/31/20	5.552% Qtr.
North Plains Elec. #785	4/08	$132,000.00	1/02/35	5.676% Qtr.
Buckeye Power #822	4/10	$23,981,000.00	12/31/25	5.432% Qtr.
Buckeye Power #823	4/10	$12,162,000.00	12/31/25	5.432% Qtr.
South Slope Cooperative #741	4/10	$1,793,000.00	3/31/17	5.147% Qtr.
Cooper Valley Tel. #648	4/11	$1,022,300.00	9/30/02	1.941% Qtr.
Jemez Mountains Elec. #499	4/11	$5,581,000.00	1/03/33	5.754% Qtr.
Rural Elec. Conven. #613	4/11	$200,000.00	10/01/12	5.196% Qtr.
W. Farmers Elec. #701	4/11	$4,997,000.00	12/31/25	5.570% Qtr.
Fairfield Elec. #684	4/12	$3,233,000.00	9/30/02	1.930% Qtr.
KEM Electric #537	4/12	$687,000.00	1/03/34	5.665% Qtr.
Tri-State E.M.C. #730	4/12	$1,000,000.00	1/02/35	5.674% Qtr.
Craig-Botetourt #632	4/15	$3,000,000.00	1/02/35	5.648% Qtr.
Ocmulgee Electric #654	4/17	$1,000,000.00	1/02/35	5.661% Qtr.
Planters Electric #763	4/17	$2,500,000.00	12/31/30	5.621% Qtr.
Arkansas Elec. #812	4/18	$10,000,000.00	12/31/31	5.697% Qtr.
East Otter Tele. #435	4/18	$600,000.00	12/31/15	5.206% Qtr.
Greenbelt Elec. #743	4/18	$502,000.00	9/30/02	1.878% Qtr.
Douglas Electric #725	4/19	$100,000.00	12/31/35	5.725% Qtr.
FTC Communications #709	4/19	$2,663,000.00	9/30/02	1.858% Qtr.
Coop. Power Assoc. #450	4/22	$8,367,000.00	12/31/12	5.017% Qtr.
Coop. Power Assoc. #722	4/22	$3,383,000.00	12/31/07	4.687% Qtr.
United Power Assoc. #721	4/22	$13,400,000.00	12/31/09	4.935% Qtr.
+Brazos Electric #917	4/23	$2,100,643.52	9/30/02	1.861% Qtr.
+Brazos Electric #917	4/23	$2,368,948.96	9/30/02	1.861% Qtr.
Brown County Elec. #687	4/23	$300,000.00	9/30/02	1.862% Qtr.
Farmer's Telephone #459	4/26	$148,525.00	1/02/18	5.183% Qtr.
Mid-Carolina Elec. #645	4/26	$3,161,000.00	1/02/35	5.593% Qtr.
P.K.M. Electric #770	4/26	$1,000,000.00	12/31/35	5.603% Qtr.
San Miguel Power #824	4/26	$7,284,000.00	12/31/36	5.614% Qtr.

S/A is a Semiannual rate.
Qtr. is a Quarterly rate.
* maturity extension or interest rate reset
\+ 306C refinancing

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	April 30, 2002	March 31, 2002	Monthly Net Change 4/1/02- 4/30/02	Fiscal Year Net Change 10/1/01- 4/30/02
Agency Debt:				
U.S. Postal Service	$6,950.0	$6,950.0	$0.0	-$4,363.0
Subtotal*	$6,950.0	$6,950.0	$0.0	-$4,363.0
Agency Assets:				
FmHA-RDIF	$1,730.0	$1,860.0	-$130.0	-$705.0
FmHA-RHIF	$4,125.0	$4,375.0	-$250.0	-$250.0
Rural Utilities Service-CBO	$4,270.2	$4,270.2	$0.0	$0.0
Subtotal*	$10,125.2	$10,505.2	-$380.0	-$955.0
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	$2,036.9	$2,039.6	-$2.7	-$119.8
DoEd-HBCU+	$52.8	$52.2	$0.6	$21.5
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+	$2,236.4	$2,238.1	-$1.8	-$31.6
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	$14,053.3	$14,055.1	-$1.8	$454.1
SBA-State/Local Development Cos.	$113.7	$116.1	-$2.4	-$18.3
DOT-Section 511	$3.3	$3.3	$0.0	-$0.1
Subtotal*	$20,563.5	$20,571.5	-$8.0	$132.1
Grand total*	$37,638.7	$38,026.7	-$388.0	-$5,185.9

* figures may not total due to rounding
+ does not include capitalized interest

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
June 03, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	June 06, 2002
Maturity Date:	September 05, 2002
CUSIP Number:	912795KZ3

High Rate: 1.720% Investment Rate 1/: 1.752% Price: 99.565

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 50.68%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 34,416,250	$ 15,467,584
Noncompetitive	1,416,630	1,416,630
FIMA (noncompetitive)	116,000	116,000
SUBTOTAL	35,948,880	17,000,214 2/
Federal Reserve	6,330,041	6,330,041
TOTAL	$ 42,278,921	$ 23,330,255

Median rate 1.700%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.675%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 35,948,880 / 17,000,214 = 2.11

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,154,438,000

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
June 03, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	June 06, 2002
Maturity Date:	December 05, 2002
CUSIP Number:	912795LN9

High Rate: 1.875% Investment Rate 1/: 1.919% Price: 99.052

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 52.89%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 35,629,005	$ 13,691,470
Noncompetitive	1,188,604	1,188,604
FIMA (noncompetitive)	120,000	120,000
SUBTOTAL	36,937,609	15,000,074 2/
Federal Reserve	5,667,745	5,667,745
TOTAL	$ 42,605,354	$ 20,667,819

Median rate 1.860%: 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 = 36,937,609 / 15,000,074 = 2.46

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $962,520,000

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
JUNE 3, 2002

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Assistant Secretary Brian C. Roseboro
A Review of Treasury's Debt Management Policy:
UBS Eighth Annual Reserve Management Seminar for Sovereign Institutions
June 3, 2002 (teleconference)

I would like to begin by thanking you for the opportunity to address such a distinguished gathering.

As Assistant Secretary for Financial Markets at the Treasury, I am responsible for advising Secretary O'Neill on the federal government's debt management policies. I am also one of Treasury's bond salesmen. I am therefore particularly pleased to appear in front of our biggest customers. Central banks including the Federal Reserve and other sovereign institutions around the world now own more than half of all marketable US Treasury securities.

Today my goal is to encourage you to continue heavily investing in securities backed by the full faith and credit of the United States. I'll spend the time you've graciously afforded me by first outlining the core of Treasury's debt management policies – that is, to meet the U.S. government's financing needs at the lowest cost over time. As part of that, I'll touch upon the dynamics of the Treasury primary and secondary markets. I will close by reviewing our improvement program: specifically, to quicken our primary market auctions, and to deepen the market for a product that central bankers may want to look at more closely, the 10-year Treasury Inflation-Indexed Security.

Treasury's debt management policy: one objective with constraints

It's important to understand that Treasury has less influence over how much debt we issue than do many other finance ministries. How much money we need to raise is instead a function of decisions the Congress and President make about spending and taxes, and most important, the level of U.S. economic activity.

PO-3149

What we do control is *how* we will raise that sum of money. And here we have set a single overarching objective for managing Treasury's marketable debt: *to achieve the lowest borrowing cost, over time, for the federal government's financing needs.*

While our financing needs rise and fall, that objective remains our lodestar. From the 1970's to the mid-1990's, the U.S. faced seemingly ever-expanding deficits. Then, since 1998, gross new issuance of Treasury coupon securities has lagged not one but three other domestic bond markets – corporate, agency, and mortgage-backed securities. Yet even as our borrowing needs have waxed and waned, Treasury does not "time the market." We never have.

Traders and corporate chief financial officers sometimes have trouble understanding Treasury's mindset, but you as sovereigns will better understand. We don't hold snap unscheduled auctions for a given maturity when yields appear low. We don't even take the yield curve into account when we allocate how much to raise by different maturities. Instead, to achieve our objective of lowest cost over time, Treasury commits to "regular and predictable" issuance across a wide range of securities.

This regularity and predictability provides certainty for investors as to the availability of our securities. We're always there. Market participants thus have grown habituated to using Treasury securities for pricing, hedging, and cash management, and to relying on our stable issuance patterns. Over time, this regularity and predictability cuts our financing costs more than any market-timing could.

Consequently, we accept the cost of occasionally borrowing when it is temporarily inconvenient or expensive in return for the savings, over time, from providing greater certainty to the Treasury market. Only at the margin must we deviate from regular and predictable issuance to manage the swings in our cash balances through seasonal changes in bill issuance and the use of cash management bills. If our financing approach requires more fundamental adjustment, we use our regular quarterly refunding announcements to explain any changes. Market participants gain substantial lead-time for any specific changes to our offerings, and an awareness of problems or choices we face.

Ideally, we would like to lock down our issuance calendar through eternity. Realistically, we can't. Our biggest constraint is uncertainty about our future financing needs: how much will we need to borrow and when? Our financing needs, and thus auction sizes, are constantly shifting in response to (1) seasonal changes in our cash flows, (2) structural changes in tax policy, (3) ebbs and flows in government spending, and (4) U.S. economic activity. We do what we can to minimize that uncertainty. We work to forecast our likely borrowing needs. We try to anticipate how we would alter our borrowing pattern when – not if – the future does not fit our forecast. We try to anticipate what will prove to be the lowest cost means of financing in the future.

This leads us to an additional constraint on our overarching objective: the need to sustain the liquidity of secondary market trading, principally by ensuring an adequate supply at each maturity. A deep, liquid, and resilient secondary market serves our goal of lowest-cost financing for the taxpayer by encouraging more aggressive bidding in the primary market.

Treasury over the past few decades has been quite successful at managing this constraint and at fostering the deepest, most liquid securities market in the world. In 2001, even with reduced issuance over the prior years, the daily average volume of transactions in the Treasury market averaged almost $300 billion, or over three times the daily average volumes for each of corporate debt, agency debt, mortgage-related securities, and even the New York Stock Exchange. Only the volume of interest rate swaps compare with Treasury securities.

Some over-simplify by presuming that secondary market liquidity is a linear function of how much debt we issue, as if we controlled secondary liquidity with a joystick. That's not accurate: secondary liquidity is even more dependent on what market participants do with what we issue. We do, however, look to matching our financing needs with market needs. For instance, at the May 2002 quarterly refunding, we announced the end of the regular re-opening policy for the 5-year note and a return to issuing four CUSIPs a year. We expect this change will smooth the maturity distribution of our issuance, allow for slightly larger issuance sizes, and enhance secondary market liquidity.

Actions to improve product offering

Secretary O'Neill insists we make excellence a habit. This insistence builds upon Treasury's long tradition of continually adapting to changing markets and financing needs to achieve the lowest borrowing cost over time. Over the last three decades, Treasury has introduced and withdrawn numerous securities including the 52 week bill, 3 year note, 4 year note, 5 year inflation index note, seven year note, twenty year bond, thirty year bond, thirty year callable bond, thirty year inflation indexed bond, and foreign-denominated securities. This same imperative to adapt has led to the utilization of the single price auction, promotion of the ten-year inflation index note, debt buybacks, Internet-based auction bidding, and the 4-week bill.

More recently, we have worked to improve the efficiency of the primary market. Our top priority has been to reduce the time it takes us to release auction results. We believe that the faster and more predictable the release time, the less uncertainty bidders will bear – and the lower the premium they will charge taxpayers. In the 1970s it took as much as a day to release auction results. In 1995, the average release time was 45 minutes; by 2000, 27 minutes. Our ultimate objective is a two-minute release with a variance of +/- 30 seconds. On the way, we are setting interim targets and reporting on our progress. In February 2002, we started at 6 minutes +/- 60 seconds; now we're at 5 minutes.

We will also continue to improve our technology, both hardware and software. We especially want to make submitting tenders more user-friendly. To take one example, we have made available technology to allow direct primary auction participation over the Internet on TAAPSLink (Treasury Automated Auction Processing System). TAAPSLink is a safe and reliable application that uses 128-bit encryption for security and requires no additional cost or fees. A diverse group of approximately 900 entities currently uses it. We expect this initiative will aid us in expanding the number of competitive bidders in our auctions.

As I mentioned, we are promoting the 10-year U.S. Treasury inflation-indexed note. These notes are particularly interesting to investors because their market values move differently from conventional securities. Their market value at any given moment is a function of the real price and measured inflation since original issuance. Thus, their real (inflation unadjusted) price varies inversely with real U.S. interest rates, not nominal interest rates. For example, if nominal yields increase because of inflationary expectations for the U.S. rise, the market value of outstanding nominal securities will fall – but the market value of inflation-indexed securities may even increase.

Nothing can be as important to risk management as diversification. For us as issuers, indexed notes diversify our portfolio of liabilities. And because Treasury Inflation-Indexed Securities (TIIS) are a unique asset class – dollar-denominated, inflation- protected, backed by U.S. full faith and credit – we think every diversified investor should own some. We think central banks in particular should take a close look at Treasury Inflation-Indexed Securities. First, adding these securities to a portfolio increases diversification but does not increase credit risk, thus potentially improving the risk/reward tradeoff. Second, these securities can be used to mitigate exchange rate risk, since they are linked to a measure of purchasing power. Third, they can at times provide a superior return to investments in short-term Treasury bills, which might be viewed as an alternative investment for decreasing market risk. While the investment goals of any particular central bank are unique, central banks should carefully consider how Treasury Inflation-Indexed Securities could benefit their portfolios.

Over the 5 years we have been issuing inflation-indexed securities, some analysts have said they are a more expensive form of borrowing than the comparable nominal securities. (That's because most inflation forecasts are higher than the prospective inflation-rate at which we would break-even). We've concluded that we need to take a broader and longer view of their performance. It's too early to pass judgment on the cost effectiveness of these instruments. It takes time and effort to build a critical mass of liquidity. The right time to assess their cost-effectiveness is after they have worked their way through at least an entire interest rate cycle – 10 years of experience, perhaps more.

We are looking for suggestions on how to deepen the market for the 10-year inflation indexed security. One step we are already taking in reaction to market feedback is to reduce the when-issued period for Treasury Inflation-Indexed Security auctions beginning in July. As we stated at our May 2002 quarterly refunding, the 10-year Treasury Inflation-Indexed Security will be announced on July 8, be auctioned on July 10, and settle July 15th. It will be re-opened twice, in October 2002 and January 2003.

We invite your suggestions on how we can make this product more attractive to you as reserve managers – and more broadly on how we can make all our products more attractive to you. The best way to get in touch with us is at email address debt.management@do.treas.gov. We'd welcome the chance to hear from you.

Conclusion

U.S. Treasury securities are the most liquid and highest quality investment available to reserve managers. We understand the importance of effective, direct communication channels with the holders of our securities. We are striving to be as transparent as possible on how changes in our financing needs will affect security issuance. As we work to manage our financing needs, we will also be working to deliver our securities more efficiently and in a product mix of maturities and classes that you will find appealing.

I again thank you for inviting me to speak at the conference. I would be more than happy to answer any questions you may have about Treasury debt management policy.

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For Immediate Release
Wednesday, May 29, 2002

Contact: Public Affairs
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STATEMENT BY TREASURY SECRETARY PAUL H. O'NEILL AT THE AFRICAN DEVELOPMENT BANK ANNUAL MEETINGS IN ADDIS ABABA, ETHIOPIA

President Kabbaj, My Fellow Governors, Honored Guests, Ladies and Gentlemen:

It is a pleasure for me to be here in Ethiopia for the 37th Annual Meeting of the African Development Bank. I extend my sincere thanks to our Ethiopian hosts for their gracious arrangements, and to President Kabbaj and his staff for their hard work in organizing these meetings.

At this gathering of some 50 African nations plus non-regional member countries, we have an important opportunity to talk about how the African Development Bank can meet the challenge of promoting more effective development on this continent.

My visit to Ethiopia concludes a ten-day journey in Africa that has included visits to Ghana, South Africa, and Uganda. Each stop on this trip has underlined the need for the work performed by the African Development Bank. Each stop has also provided overwhelming evidence that the people of Africa have the potential to succeed greatly. The challenge for every person, every agency of government and every non-governmental organization that cares about Africa is to work together to accelerate the movement from human deprivation to the full realization of individual human potential.

From the start of his administration, President Bush has been clear that the goal of the United States is to spur economic growth and reduce poverty throughout the world. Our agenda for the multilateral development banks is guided by a focus, first, on supporting growth in productivity as the key to broad and deep gains in per capita incomes; second, on ensuring the effectiveness of development assistance through close measurement and monitoring; and third, by insisting on results.

In recent years, the African Development Bank under the leadership of President Kabbaj has undergone one of the most far-reaching and comprehensive restructuring programs ever undertaken by a multilateral development bank.

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Our support for the Bank is demonstrated by President Bush's request to Congress for an 18% increase in the U.S. contribution to the African Development Fund.

These added resources are needed to support the continuing reforms at the Bank. President Bush also is proposing an 18% increase in the U.S. contribution to IDA, much of which will go to Africa.

Productivity, Growth, and Measurable Results in the AfDB

I am hopeful that the Bank can form strong partnerships with donors and borrowing member countries to target its interventions in Africa more precisely on increasing human productivity, promoting private sector development, and thereby accelerating economic growth.

Examples would include improving education and health; promoting private enterprise, including small and medium enterprises (SMEs); expanding the rule of law; strengthening public expenditure management, accountability and anti-corruption; and promoting more open trade and investment environments. Every AfDB operation should be assessed with these goals in mind and with a clear vision of the AfDB's comparative advantage. I applaud the Bank's Vision Statement that makes basic education and health a priority, and I am encouraged by the recent agreement to allocate a greater share of African Development Fund resources to these areas.

Investment by private enterprise, African as well as foreign, is critical to increasing productivity, employment, and growth. I believe that the AFDB can do much more in the area of private sector development, and I urge it to find new ways to support entrepreneurs in Africa, especially small and medium-sized enterprises, which are an important source of income and employment generation. I also would urge the AfDB to work closely with its borrowing member countries to promote investment climate reform, spur privatization of many state-owned enterprises, and to lay the foundation for a more vibrant private sector in Africa.

To ensure that AfDB programs support higher productivity, measurable results should be the hallmark of all its operations, with progress tracked against a set of key objectives for each investment, each country, and the AfDB itself. I am encouraged by the Bank's agreement under AfDF-9 to develop a results-based management system that links project inputs with clear measurable indicators related to improving the lives of people. Implementation of this system will be key, as will the feedback of findings into new projects. By measuring results, we want to see not necessarily that a school was built, but that, for example, an African child after six years of schooling is able to read, write, and compute at grade level. If this goal has not been met, then something must be changed, and quickly.

Grants

To be effective, assistance should be delivered on appropriate financial terms and by appropriate instruments. President Bush's proposal for a substantial move from loans to grants in the multilateral development banks, coupled with continued progress under HIPC, can help African countries to increase productivity through investments in people, but without adding to debt burdens.

Investments in education, health care, control of HIV/AIDS and other diseases, nutrition, clean water, and sewerage do not directly generate the funds needed to repay loans; it makes more sense to finance these activities with grants. We look forward to reaching final agreement soon on a substantially increased grants program in the ninth replenishment of the African Development Fund.

Millenium Challenge Account

On March 14, President Bush outlined a major new vision for development, based on the common interests of developed and developing countries in peace, security, and prosperity. His "Compact for Development" proposes an historic, shared effort to achieve substantial, sustainable increases in the average income level in developing countries, and defines a new partnership between the United States and governments in the developing world that are making an effective commitment to the reforms necessary for sustained growth.

To support the US commitment, the President is proposing to create a new development assistance account, called the Millenium Challenge Account. Beginning in 2004, it would be funded by increases in the budget that would reach $5 billion per year by FY 2006. These amounts would be <u>additional</u> to the roughly $10 billion we currently devote to official development assistance.

To gain access to the Millenium Challenge Account, developing countries need to show that they are implementing sound policies that promote growth and development. We will channel these funds to countries that demonstrate a strong commitment to ruling justly and transparently, encouraging economic freedom and a competitive environment for the private sector, and investing in their people by improving education, health, and water supplies, and fighting the deadly scourge of AIDS.

This initiative is based on the belief that good policies have universal application, and that development partnerships can be effective only if rooted in a sound policy framework. President Bush has asked Secretary Powell and me to design indicators that will govern use of the new funds, and has asked us to reach out to the world community in the process of developing these indicators. I have begun that effort with this trip.

Conclusion

The New Partnership for African Development (NEPAD) initiated by the Presidents of South Africa, Nigeria, and Algeria, embodies many of the ideas that I have been discussing today. We congratulate them, as well as the President of Senegal and other leaders who have been involved, for providing a framework for effective action. Now there is a need to fill in the blanks and to show how it would work.

They will find that the US commitment to support reforming countries in the region will be substantial and unwavering.

The Millenium Challenge Account builds on our previous initiatives, including the Africa Growth and Opportunity Act, the multilateral development bank grants initiative, the increase in funding for IDA and the African Development Fund, the HIPC debt relief initiative, establishment of the HIV/AIDS Trust Fund, and expanding technical assistance from Treasury and other agencies. These initiatives demonstrate that African countries that are committed to raising productivity growth and reducing poverty will have a strong partner in the United States.

Thank you.

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
June 04, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	29-Day Bill
Issue Date:	June 06, 2002
Maturity Date:	July 05, 2002
CUSIP Number:	912795KQ3

High Rate: 1.710% Investment Rate 1/: 1.739% Price: 99.862

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 79.94%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 39,175,000	$ 17,957,600
Noncompetitive	42,658	42,658
FIMA (noncompetitive)	0	0
SUBTOTAL	39,217,658	18,000,258
Federal Reserve	1,732,077	1,732,077
TOTAL	$ 40,949,735	$ 19,732,335

Median rate 1.700%: 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 = 39,217,658 / 18,000,258 = 2.18

1/ Equivalent coupon-issue yield.

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Embargoed until 9:00 a.m. EDT
Wednesday, June 05, 2002

Contact: Rob Nichols
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Deputy Treasury Secretary Kenneth W. Dam
"Strengthening Financial Sectors in Emerging Markets"
Institute for International Economics

It is a pleasure to join you today for this important and timely discussion on global financial services liberalization.

I recently returned from the Far East, where strengthening financial sectors was at the top of my agenda.

Beyond private talks in Malaysia, China, and South Korea, and bilateral talks with a broad range of countries at the Annual Meeting of the Asian Development Bank, I publicly announced a new Bush Administration international economic policy initiative. The initiative aims to spur financial sector reform in developing economies by encouraging greater financial sector openness and better, sounder financial regulation. Our goal is to help developing countries transform their domestic financial sectors into economic "engines of growth."

Financial sector reform and liberalization of financial services markets are closely connected. So, I'd like to review with you the message of my Asia tour. And I'd like to preview a tentative strategy for producing results in the area of financial sector reform in that region and in others.

Our policy toward financial sector reform in emerging markets is evolving, and we are still at an early stage in development process. Therefore, another of my goals here today is to pose questions -- not to suggest that we have all the answers. Treasury can learn from the many experts IIE has assembled here, and I am looking forward to an informed and spirited discussion.

In our understanding, strong, efficient financial sectors are essential for developing countries seeking to post productivity gains and protect their economies against global shocks. But the importance of an efficient financial sector is not up for debate. The questions how to build such a financial sector, at what pace, in what sequence, and in what configuration are those which require careful consideration. As a baseline judgment, we at Treasury believe that openness to foreign direct investment in the financial sector coupled with improved financial supervision and regulation -- is a clear path to economic growth and stability.

PO-3152

Let me define my terms. To me, financial sector openness means establishing an environment in which foreign-owned financial firms can compete on equal footing with domestic ones. And it means a clear and transparent financial regulatory regime. For participation will often take the form of foreign direct investment in domestic financial services businesses. It may also take the form of cross-border trade -- although such trade tends to account for a much smaller portion of trade in financial services than in goods.

I should note that allowing foreign-owned financial firms to compete on equal terms with domestic-owned firms is distinct from a country's decision to open its capital account. It is not U.S. policy to encourage any country to maintain capital controls. After all, no developed country maintains them. It is countries that allow a foreign presence in banking, brokerage, asset management, investment banking, and insurance industries stand to benefit substantially -- even those countries that choose to open their capital account at a slower pace.

Perhaps some of you will disagree with my definition of openness, and certainly I expect some debate on the significance of capital account restrictions.

Less controversial, I think, is that foreign financial institutions can introduce business practices, technology, products, and risk management systems honed in the more developed markets. And, of course, foreign financial institutions can bring their own financial resources to bear as well.

Our message in Asia was that financial sector openness offers two fundamental benefits to those who undertake it.

First, a more open and well-regulated financial sector is more efficient, more robust. It acts as an "engine of growth" for the entire economy. The financial sector has an economy-wide effect. All other sectors rely on financial intermediation for growth. Second, perhaps more than in any other economic sector, a stronger, deeper financial sector can protect an economy from external as well as domestic shocks. Therefore, financial sector openness can promote stability.

GROWTH

How does financial sector openness lead to growth? Well, we know that the world's best financial institutions are better able to identify productive investment opportunities and then more quickly move domestic savings into them -- in short, the better they perform their capital intermediation function, the faster an economy can grow.

In our view, one of the best ways to improve financial sector intermediation is to expose domestic firms to the best practices of world-class financial institutions, so that domestic firms can learn from the best, and begin to compete. There are examples.

Take Spain, which opened its financial sector to freer trade in 1986. In 1986, foreign banks held just a 9.3 percent share of the Spanish market for commercial banking, as measured by total assets. Challenged by foreign competition, domestic financial firms were forced to restructure, cut overhead costs and improve efficiency.

To compete, they expanded into new national markets and merged with other banks to take advantage of economies of scale. They also began operating in international markets.

As a result of these and other factors associated with openness and EEC accession, Spain's growth rate rose to 4.8% and gross capital formation rose to 14.1% for the period from 1986-1989. Such growth stood in sharp contrast to previous five years.

Another benefit of a competitive foreign presence is that competition forces all financial firms operating in an economy to offer the highest returns to savers, and the lowest cost of capital to investors. Under the right conditions, competition from international firms leads to narrower spreads, and stimulates both savings and investment.

As financial institutions aggregate capital, they must move it into the businesses and industry sectors where they can earn the best risk-adjusted returns for their savers. That means investing in the businesses that can make the best use of their capital -- in other words, those that offer the highest productivity. And rising productivity -- output per worker -- is at the root of rising living standards.

The positive effect of openness has been documented by the World Bank, another fact we highlighted for Asian policymakers. In 2001, a World Bank study found that countries with fully open financial service sectors grow, on average, one percentage point faster than other countries. These results corroborate an earlier World Bank study which estimated that more open and competitive financial services markets -- in developing markets – helped increase growth rates by 2.0 to 2.5%.

STABILITY

Another fact we asked Asian policymakers to consider was that a stronger financial sector enhances economic stability: that is, that a financial sector reduces risks for savers and investors, and acts as a hedge against global economic cycles.

In my view, the growing interdependence between emerging markets and developed markets -- globalization -- brings new challenges to all economies, even as it opens new opportunities. Increasingly, our economies pedal in tandem. When the United States moves forward, so do many developing economies, especially those most dependent on exports to the U.S. The reverse is true as well.

For emerging markets, the consequences of this economic integration are profound. Access to markets abroad means greater exports for developing economies and greater profits for their firms. But economic integration also has its downside, and the turbulent winds of the global economy can swing a boom hard, fast, and unexpectedly. The slowdown in U.S. high tech manufacturing in the last few years hit Asian electronic component manufacturers in just that way, for example. While export-led growth is attractive to many developing countries, recent events demonstrate its downside.

One way a stronger financial sector can make an economy more resilient to such shocks is by helping to buoy domestic demand when export demand falls off. Though it has yet to be quantified, the recent and widespread use of credit cards in Korea likely has helped drive consumer demand. Likewise, a introduction of new home mortgage products has surely influenced a rising demand for new housing starts.

Conversely, a weak and inefficient financial sector may limit a government's ability to run counter-cyclical macroeconomic policies to offset shocks. This is true in developed and developing economies alike. In some economies, most notably Japan, a significant easing of monetary policies has not translated into significant credit growth because the banking sector is already supporting too much bad debt, and is unable or unwilling to add new loans to balance sheets.

By contrast, a healthy financial sector is able to inject new credit into the economy as the central bank expands the money supply. Foreign-backed financial institutions in developing markets often have stronger balance sheets, and a greater ability to lend, especially during slowdowns.

For example, a recent study of emerging Latin American markets showed that during periods of crisis, foreign banks actually increased their local lending relative to their competitors. With an international capital base, foreign banks have the ability to continue extending credit to local businesses, which is often essential for stabilizing the economy.

Finally, with regard to regulation, we pointed out to Asian leaders that sound and transparent regulation and supervision, with consistent national treatment of foreign-owned financial institutions, essential in strengthening financial systems. Every effort must be taken to use transparent methods for drafting and applying regulations, with input from all relevant parties. Regulators must seek out the experience of the private sector and especially internationally active firms before creating the rules of the game.

U.S. FINANCIAL SECTOR

It is always perilous to hold up oneself as an exemplar of virtue, but I believe that the United States has one of the most open and, therefore, competitive financial sectors in the world.

As evidence of U.S. financial sector openness, consider that U.S. imports of financial services, including insurance, totaled $19.3 billion in 2000. This accounted for 10 percent of all cross-border service imports into our country that year. Sales figures of foreign-owned financial firms operating in the U.S. were even more substantial. In 1999, the latest year available, sales of services in the U.S. by majority-owned finance and insurance affiliates of foreign companies totaled $94 billion. These affiliates account for more than ten percent of total U.S. revenue in these sectors.

Because the U.S. economy is open to these firms, consumers and businesses can choose from the most advanced, best-priced financial services in the world. Entrepreneurs and major corporations alike can finance expansion; and they can better survive periods of contraction.

Consider U.S. financial sector contributions to U.S. economic stability during last year's slowdown. Clearly, the breadth and depth of our financial sector -- in addition to well-timed tax relief and monetary easing -- abridged the contraction. In particular, widespread access to home mortgage products and rapid, low-cost refinancing kept U.S. consumers spending until businesses could clear their inventories and begin to rebuild.

Advanced financial risk management practices also served their purpose. As Federal Reserve Chairman Alan Greenspan put it, "New financial products -- including derivatives, asset-backed securities, collateralized loan obligations, and collateralized mortgage obligations, among others -- have enabled risk to be dispersed more effectively to those willing to, and presumably capable of, bearing it. Shocks to the overall economic system are accordingly less likely to create cascading credit failure."

With regard to regulatory practices, the U.S. Federal Reserve regularly publishes proposed regulations and asks for comments from the private sector in a reasonable time period. During the implementation of our Gramm-Leach-Bliley bill -- which fundamentally reformed the U.S. banking, securities and insurance sectors -- the U.S. Federal Reserve sought out and received hundreds of comments from foreign banks. As a result, it made several significant changes to accommodate the many international banks doing business in the United States. Rules that specify how regulations will be implemented and how applications for licenses will be granted or denied are equally as important.

QUESTIONS FOR IIE CONFERENCE

The opinions I have expressed thus far are preliminary. They are reasonably well-informed, I hope, but nonetheless subject to refinement. That is why I welcome so heartily this IIE conference today.

We need your help in understanding the best approaches, and highest priorities, for financial sector liberalization. How much can liberalization boost growth? And in which subsectors will it be most effective?

How should we look at the least developed countries in the respect? Secretary O'Neill has just returned from a tour through Africa, where he was collecting data on how to improve economic growth in the poorest nations. Can low-income nations benefit as much from financial sector reform as middle-income countries? How might the approach differ for different levels of development, and different regions?

Further, many in the developing world have, rightly or wrongly, come to associate financial liberalization with financial crisis. Are these phenomena linked in fact, or just perception? Here again we need to distinguish the effects of more foreign direct investment in financial services from the question of opening the capital account. And we need to distinguish foreign portfolio investment from foreign direct investment in financial services.

There are so many more questions -- but we'll get to them in time. I am glad that the Institute is devoting an entire day to the subject.

NEXT STEPS

My Asia trip was just the beginning of our commitment. There is much more to our strategy.

As we identify the most important target countries, we will plan more visits to raise these issues in a bilateral context. We will also hope to promote discussion at multilateral, regional, and bilateral economic meetings. We will continue to work with international financial institutions such as the World Bank and the IMF to make sure financial sector openness is more closely related to their core missions.

We are considering other approaches as well, and I welcome your input on these.

I can say, without equivocation, that the Treasury Department, and this Administration, intend to place financial sector openness high on the international economic agenda. And we want to do it right. Your insights today will make an impact on our policy.

CONCLUSION

In conclusion, I believe that a major challenge for emerging markets, in this decade, will be financial sector restructuring and development. The bigger question, of course, is how to get there.

I believe the record shows that when policymakers understand the importance of financial sector openness, and are firmly resolved to take the necessary steps, they can succeed in strengthening their country's financial sector. And succeed they must -- prosperity in the 21st century will depend on it.

-30-

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EMBARGOED UNTIL 11:00 A.M. EDT
Wednesday, June 5, 2002

Contact: Michele Davis
(202) 622-2960

Treasury Secretary Paul H. O'Neill
"Caring Greatly and Succeeding Greatly: Producing Results in Africa"
Remarks to the Carnegie Endowment for Peace
Washington, DC
June 5, 2002

Good morning. Thank you, Jack (DeGioia, President of Georgetown University), for that kind introduction. I also want to thank the Carnegie Endowment for International Peace for arranging this opportunity to discuss my tour of Africa. And thanks to Georgetown University for accommodating this crowd! It's encouraging to see so much interest in this important subject.

I went to Africa last month to listen and learn; to meet African leaders in and out of government, to meet doctors, farmers, teachers, students, and entrepreneurs. I went to hear their insights into the obstacles to Africa's prosperity.

I also went to find a real-world basis for recommendations to the President on how to allocate funds from the new Millennium Challenge Account. But most of all, I went with an open mind, and one pivotal question: How can the people of the United States and the developed world best help Africans and their elected leaders achieve prosperity at last?

It is too soon to announce policy recommendations from the trip, but I certainly learned a great deal, and I want to share some of my experience with you.

Some would say my trip was a little out of the ordinary. The Treasury Secretary traveling with the rock star. The "odd couple." Bono even had tee-shirts made portraying Jack Lemmon and Walter Matthau. But we really weren't so odd. In fact, I think Bono and I found a lot in common. We both desperately want to see the people of Africa – in fact, the people of the world – living to their full potential.

I did try on the famous blue shades during the trip. And Bono sang the occasional song. Between these lighter moments, though, I have to say this was the most intense twelve days I've ever experienced. I met people like Sister Benedicta, who runs a hospital and orphanage in Ethiopia. She maintained an incredible radiance, even as she told us how many people die in her hospital every day – how many children die in her hospital every day. To witness that strength of spirit is a truly profound experience.

PO-3153

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

I can't begin to describe all the emotional moments during this trip. They confirmed three things for me. First, a truth we've always known: All people everywhere can do great things when they are given the tools and incentives for success. Second, that with leadership – honest, accountable, and committed to progress – everything is possible. Without leadership, nothing is possible. And finally, that in the right environment focused on growth, enterprise and human development, aid works. Knowing that it can work, we have a moral imperative to demand as much. Assistance should make a real difference in people's lives.

We in the developed world must support African leaders who are creating the conditions for success – ruling justly, encouraging economic freedom, and investing in their people. And we must ourselves take a leadership role in demanding results.

The impoverished people of Africa – and in poor nations everywhere – require a new kind of help, that goes beyond the well-intentioned but disappointing results of the past fifty years.

If our assistance is not making a difference, or if we cannot measure our results to know what difference we have made, then we have to change our approach. We owe that to the people of Africa.

In Africa, I saw signs of progress everywhere. Programs are working, aid is helping, and standards of living are improving.

But there is a long way to go. The progress I saw deserves praise, but it just isn't enough.

Let me highlight the areas in which we witnessed progress. In particular, I saw three kinds of investments in people that are vital to realizing Africa's potential: clean water, primary education, and fighting HIV/AIDS.

Clean water is, surely, one of the most essential elements of a dignified, civilized life. No aspect of infrastructure is more basic. Yet 45% of sub-Saharan Africans lack access to clean, safe water. That's about 300 million people – more than the total population of the United States. In Ethiopia, that figure is 78%, or 50 million people in that country alone.

One insight from my Africa tour is that local leaders, with some engineering and financial support, could develop clean water sources for their towns and villages fairly quickly. For example, in one Ugandan village I saw a concrete basin installed to protect a natural spring. The women of the village could collect the water directly from the basin instead of collecting it after it spilled across the muddy ground. The concrete basin cost a thousand dollars to install.

But the local chairman for the project told me that the greatest hindrance to installing the system had been local fears that a snake was protecting the spring, and that the snake would become enraged by any tampering and would take away the water. He had to spend considerable time persuading his fellow villagers to go ahead with the project. It took his leadership to get the project finished.

Or consider another village, where women were trekking to a muddy river to obtain water, even after a well was dug in the village. After the well was built, the women wouldn't use it. It turns out that they valued their social time down by the river, and so they chose to continue collecting dirty water from the river, rather than clean water from the well. When the water tap was relocated further from the village, providing an opportunity to socialize, they started to use it.

In these and other cases, only local leadership could tailor development projects to suit local cultures and customs. And it was sometimes shocking to see the disconnect between the aid bureaucracies with their 15-year plans and the availability of more immediate solutions.

You cannot airdrop solutions to local problems. You can only offer air support. Local leadership must implement the solutions on the ground and be accountable for success.

If we can figure out a way to support African leaders in bringing clean water to their nations – and I think we can do that much faster and cheaper than the endless studies say we can – we can liberate hundreds of millions of people, especially women and children, from preventable, debilitating illness and meaningless, wearisome labor. They would be free to pursue their dreams for a better life.

The second important investment I saw was in raising primary education enrollment. I believe that in Africa, in the United States, and in every part of the world, children by the age of about ten years old should and can have the tools to be life-long self-learners. But that requires that we get them into schools at an early age, and keep them there, with adequate materials.

In Uganda, they've had tremendous success increasing primary school enrollment. Primary school enrollment has increased from about half (55%) of the children in 1994 to nearly all of them (94%) in 1999, and nearly half the students are girls. Education quality is improving as well. But there is still a long way to go. I visited schools where they have gone from a ratio of 16 students per book down to six per book. That's progress, but it's not good enough. We must set our expectations higher. Surely, we can get every student his or her own book.

Similarly, one study in Uganda found that only 2% of non-wage spending for education was actually reaching schools in 1991. The rest was lost to corruption and bureaucracy. Following reforms enhancing transparency and accountability for government spending, over 90% of school spending now gets to the schools. That's a huge improvement. But again, we can do better.

The third, perhaps most crucial area for investment in people is health care. Nowhere is this more urgent, and more heartbreaking, than in the struggle against AIDS. In South Africa I saw mothers with AIDS caring for babies with AIDS, even when proven, inexpensive drugs are available to stop transmission between mother and child. I saw the dedication of nurses and doctors treating people with AIDS, and their patients' struggle to survive.

Certainly, prevention of further HIV contagion is the utmost priority, especially to keep the next generation of newborns free from disease. Uganda, in particular, thanks to President Museveni's leadership on this issue, is one of the few to reduce the portion of the population afflicted with AIDS. But among the challenges facing those who fight AIDS in Africa is that in many countries, there is a social stigma attached to even testing for the disease. They need more leaders to tackle this issue head-on.

This is our challenge: to focus the attention of the world on getting results. Caring greatly is not enough. We must also succeed greatly. Starting today.

I'm glad to see progress, but we should not confuse progress with success. We must challenge ourselves to aim higher and concentrate our efforts so that international assistance advances the progress taking place on the ground.

Providing the framework for basic health and education is fundamental for enabling people to realize their potential. When governments are investing in their people, providing clean water, education, and health care, and when the other aspects of good governance are present – just rule and economic freedom – prosperity can blossom.

In fact, the private sector is already growing in parts of Africa. I visited entrepreneurs who are grabbing the opportunities that good governance has made possible. They are creating jobs in industries from coffee and cut flowers to athletic wear and data processing. By doing so they are spreading knowledge and inspiring others to reach for their dreams.

As private enterprise expands in an economy, trade and investment grow to dwarf official aid. Countries that won political independence years ago finally win their economic independence as well. Government provides the conditions for growth, but it is not the source of prosperity. Private citizens create prosperity through enterprise.

And in Africa, where the conditions are right, citizens are doing just that.

For example, in Ghana I visited a successful U.S. investment, called Affiliated Computer Services, Inc. ACS sells data processing services to insurance companies in the U.S. It opened its office there in 2000, and already it employs over 800 Ghanaians, paying an average of three times the average wage in Ghana. 80% of the employees are women. The company now plans to expand its operations to four new sites in Ghana and to increase its workforce to over 1,000 people.

ACS employees start with a high school diploma and typing skills. The training they receive creates a new knowledge base on which future employers can build. As foreign investments like ACS show success, others are bound to follow, and I am optimistic that increasingly advanced services, such as software development, will thrive in Ghana and elsewhere in Africa.

In Uganda, I met a woman, Lukia Ssemonobe, who opened a restaurant with micro-loan funding and a lot of hard work. This woman lost her husband a dozen years ago, and had to feed four children without income. Indomitable, she borrowed $50 from the local branch of a micro-finance NGO, and used that and subsequent loans to build two businesses – a restaurant and then a tailoring shop. Now she employs about a dozen of her neighbors, supports her family, owns a home, and has become a leader in the community. Lukia shows the kind of success that is possible.

I also visited a cut-flower factory, where local entrepreneurs are diversifying Ugandan exports by growing beautiful flowers and air-shipping them the same day to European markets.

In Ethiopia, an entrepreneur from Chicago invested in building a garment factory that makes sports clothes and ships them to the U.S. under the Africa Growth and Opportunity Act. The company now employs about 200 workers, each earning between three and 21 times the average Ethiopian income.

Jobs that deliver prosperity are created one at a time, by people like Lukia, or the investors in ACS. They see opportunities and choose to take the risks, confident they will reap the rewards of success.

Unfortunately, in too many cases, potential entrepreneurs and investors in Africa are deterred by arbitrary laws, corrupt bureaucracies and government favoritism. Africa is a continent of entrepreneurial enthusiasm – that's what I saw. But these individuals have no chance for success without governments that fairly enforce laws and contracts, respect human rights and property, and fight corruption. Governments also must remove barriers to trade – both internal and external – and open their economies to investment. They must allow companies and entrepreneurs to compete without excessive interference, including interference from government-owned enterprises.

That's no small order. But as private sector production takes hold in Africa, and incomes rise, African growth will become self-sustaining. Africa will be its own best market.

Coming back to my original question, what can we in the U.S. do to support African success? Here in Washington, we need to push ahead with President Bush's reform agenda, to improve the effectiveness of wealthy nations' support for African development and promote the best efforts of our African partners.

Many extol debt forgiveness as the path to African development. I would agree that debt forgiveness may help, but it alone is not the solution.

Debt forgiveness solves nothing if we allow new debt to create the next generation of heavily indebted poor countries a decade from now. President Bush has proposed that up to 50% of World Bank and other development bank funds for the poorest countries be provided as grants rather than as loans. This proposal acknowledges the long-term development challenges facing these countries, their vulnerability to economic shocks, and the reality that essential investments in social sectors, such as education and health care – investments in people – cannot directly generate the incremental revenue to service new debt.

Replacing loans with targeted grants will eliminate the need for governments to repay long-term investments in people. It will thereby eliminate the next generation of debt service problems. It is time to end the sad cycle of indebtedness for countries committed to success.

Second, it's a simple fact that is as true about an individual as it is about a nation – even without debt, it's impossible to prosper without income. Even if we forgave all debts, many of these countries still could not fund their own budgets, and they would not be much better off. In Uganda over half of the government budget comes from foreign aid. Think about that. It is not a self-sustaining situation. The only way out of that kind of shortfall is internal economic growth. Local leaders must create the conditions for self-sustaining prosperity, not further dependency.

That is a premise of President Bush's New Compact for Development. In March, the President said, "the advance of development is a central commitment of American foreign policy " and he outlined a "new compact for global development, defined by new accountability for both rich and poor nations alike."

The New Compact for Development creates the Millennium Challenge Account and proposes an additional $5 billion per year in official U.S. development aid – a 50% increase over current levels – specifically targeting poor countries that can use the money effectively. To access the Millennium Challenge Account, a developing country must have a government that shows a strong commitment to ruling justly, encouraging economic freedom, and investing in people, as I have described.

Because results are what count, President Bush has created new incentives in our development assistance programs to reward those that achieve real improvements in peoples' lives. He has committed that as a reward for proven results, the U.S. will increase funding for the African Development Bank by 18%, and will do the same for the International Development Association (IDA), the World Bank program for the poorest nations. To receive these additional funds, the programs need only show they are making a difference in people's lives – a challenge these development organizations, their supporters, and their beneficiaries should welcome.

In the long-term, domestic entrepreneurship as well as trade and foreign investment are far more important for economic growth than official aid. The United States has created the Africa Growth and Opportunity Act, or "AGOA," to open U.S. markets to exports from sub-Saharan Africa. As Uganda's President Museveni said "If somebody buys what Uganda produces, then he is rendering my country the best assistance possible."

I would also encourage all African nations to reduce trade barriers amongst themselves, so that all can benefit from their different comparative advantages, and relative proximity to each other. They should be their own best markets, not their worst.

The Africa I saw on my journey is already changing. We stand ready to help, eager and impatient to assist real improvement in the lives of the African people.

Consider this. Fifty-five years ago on this very date, U.S. Secretary of State George C. Marshall gave a speech outlining the European Recovery Program, later known as the Marshall Plan.

In it, he said: "I need not tell you that the world situation is very serious. That must be apparent to all intelligent people. I think one difficulty is that the problem is one of such enormous complexity... Furthermore, the people of this country are distant from the troubled areas of the earth and it is hard for them to comprehend the plight and consequent reactions of the long-suffering peoples, and the effect of those reactions on their governments in connection with our efforts to promote peace in the world."

He was talking about Europe in 1947. The words are just as true of Africa today.

I went to those troubled lands, and I believe this: with the right combination of aid and accountability – from both rich nations and poor ones – we can accelerate the spread of education, clean water and private enterprise throughout Africa. We can help the African people create vibrant, self-sustaining economies and a rising standard of living.

Development is complicated. I know that. I don't underestimate the challenge. I just don't think we should accept complexity as an excuse for delay.

As Marshall said, "With foresight, and a willingness on the part of our people to face up to the vast responsibility which history has placed upon our country, the difficulties I have outlined can and will be overcome."

Together, we can produce results for Africa. We will tear down the walls to prosperity. Not in the next generation, but right now. In this era of global opportunity, no continent, no country, and no person should be left behind. President Bush said it best – there are no second class citizens in the human race. We must make his vision into a worldwide reality.

Thank you.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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June 5, 2002

Contact: Michele Davis
202-622-2920

O'NEILL STATEMENT ON PATIENT SAFETY IMPROVEMENT ACT

Today at least 100,000 Americans every year die because of medical errors and mistakes, despite the best efforts of the good doctors, nurses and hospitals in this country. The system they work in is broken. Everybody knows a story about a friend or relative who went into the hospital and had something go wrong. We can and must change that. We've tinkered long enough with our health care system – a band-aid here, a cosmetic fix there. Mistakes and errors don't just cost money, they cost lives.

I spent considerable time working to reform the health care delivery system in Pittsburgh, where I saw firsthand that it is possible to make systematic and far-reaching improvements in health care quality and safety. Every American deserves this kind of high-quality, error free health care.

We know from other high risk industries, such as aviation, that a fundamental requirement for improvement is that it must be safe to learn from errors. Punishment, ridicule and legal exposure drive error reporting underground so corrective action does not occur. Properly constructed health care quality and safety initiatives should be protected from liability. They are not now.

Along with Secretary Thompson, our leader on national health care policy, I applaud the sponsors of the Patient Safety Improvement Act for tearing down the barriers to quality improvement so that we can move toward the goal of error-free health care for every American.

-30-

PO-3154

PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
June 6, 2002

Contact: Peter Hollenbach
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PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR MAY 2002

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

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$2,120,826,266
Held in Unstripped Form	$1,956,558,228
Held in Stripped Form	$164,268,038
Reconstituted in May	$13,670,318

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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TABLE V - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, MAY 31, 2002 -- Continued

Loan Description			Corpus STRIP CUSIP	Maturity Date	Amount Outstanding in Thousands			Reconstituted This Month [18]
					Total Outstanding	Portion Held in Unstripped Form	Portion Held in Stripped Form	
Treasury Notes:								
CUSIP:	Series:	Interest Rate:						
912827 2Y7	H	6-1/4	912820 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	15,055,500	2,400	0
G55	B	6-3/8	BE6	08/15/02	23,859,015	19,174,158	4,684,857	74,200
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	12,731,614	75,200	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	26,498,692	95,200	0
3Q3	P	5-3/4	CH8	11/30/02	12,120,580	11,730,780	389,800	4,800
6P2	AC	6-5/8	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	11,640,593	411,840	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	13,091,040	9,600	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	21,729,639	1,833,052	54,200
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	14,144,892	28,000	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	12,540,448	32,800	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	13,084,643	47,600	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	13,091,579	35,200	0
6Z0	R	3-7/8	GJ0	06/30/03	14,671,070	14,671,070	0	0
7A4	S	3-7/8	GK7	07/31/03	16,003,270	16,001,670	1,600	0
L83	B	5-3/4	BG1	08/15/03	28,011,028	25,650,388	2,360,640	90,600
4N9	J	5-1/4	DE4	08/15/03	19,852,263	19,783,263	69,000	800
7C0	T	3-5/8	GM3	08/31/03	18,665,038	18,665,038	0	0
7D8	U	2-3/4	GN1	09/30/03	22,675,482	22,675,482	0	0
7E6	V	2-3/4	GP6	10/31/03	25,147,960	25,146,360	1,600	0
4U3	K	4-1/4	DJ3	11/15/03	18,625,785	17,300,365	1,325,420	27,200
7G1	W	3	GR2	11/30/03	26,170,526	26,170,526	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	12,191,717	763,360	6,200
5A6	E	4-3/4	DQ7	02/15/04	17,823,228	17,805,628	17,600	0
7M8	K	3	GW1	02/29/04	31,746,077	31,746,077	0	0
912828 AA8	L	3-5/8	GX9	03/31/04	32,873,508	32,873,508	0	0
AB6	M	3-3/8	GY7	04/30/04	32,654,946	32,654,946	0	0
912827 P89	B	7-1/4	BJ5	05/15/04	14,440,372	13,511,272	929,100	35,000
5F5	F	5-1/4	DU8	05/15/04	18,925,383	18,925,383	0	0
912828 AD2	N	3-1/4	HA8	05/31/04	33,304,334	33,304,334	0	0 X
912827 Q88	C	7-1/4	BK2	08/15/04	13,346,467	11,435,067	1,911,400	4,540
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	1,600
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	13,275,784	558,970	61,200
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	28,456,170	106,200	69,600
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	14,825,320	384,600	95,680
6N7	F	5-3/4	FX0	11/15/05	28,062,797	27,703,597	359,200	0
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	15,208,435	807,040	5,440
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	34,873,329	506,800	78,800
2J0	B	6-1/4	BW6	02/15/07	13,103,678	12,541,634	562,044	39,508
2U5	C	6-5/8	BX4	05/15/07	13,958,186	12,962,511	995,675	1,640
912828 AC4	E	4-3/8	GZ4	05/15/07	24,351,371	24,351,371	0	0 X
912827 3E0	D	6-1/8	CA3	08/15/07	25,636,803	24,562,003	1,074,800	400
3X8	B	5-1/2	CQ8	02/15/08	13,583,412	13,556,712	26,700	1,200
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	25,069,125	14,000	0
5G3	B	5-1/2	DV6	05/15/09	14,794,790	14,741,290	53,500	0
5N8	C	6	EA1	08/15/09	27,399,894	27,304,894	95,000	0
5Z1	B	6-1/2	EM5	02/15/10	23,355,709	23,351,109	4,600	0
6J6	C	5-3/4	FT9	08/15/10	22,437,594	22,434,594	3,000	0
6T4	B	5	GC5	02/15/11	23,436,329	23,430,569	5,760	0
7B2	C	5	GL5	08/15/11	26,635,316	26,631,316	4,000	0
7L0	B	4-7/8	GV3	02/15/12	24,779,823	24,779,823	0	0
Total Treasury Notes					1,474,273,852	1,452,952,854	21,320,998	652,608
Grand Total					2,120,826,266	1,956,558,228	164,268,038	13,670,318

TABLE V - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, MAY 31, 2002

Loan Description			Corpus STRIP CUSIP	Maturity Date	Amount Outstanding in Thousands			Reconstituted This Month [18]
					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	4,521,807	3,779,999	80,400
DQ8		12	AD5	05/15/05	4,260,758	1,891,305	2,369,453	20,400
DR6		10-3/4	AG8	08/15/05	9,269,713	6,246,413	3,023,300	185,400
DU9		9-3/8	AJ2	02/15/06	4,755,916	4,375,957	379,959	19,200
DN5		11-3/4	912800 AA7	11/15/14	5,015,284	1,893,700	3,121,584	166,600
DP0		11-1/4	912803 AA1	02/15/15	10,520,299	9,032,050	1,488,249	981,780
DS4		10-5/8	AC7	08/15/15	4,023,916	3,108,250	915,666	79,680
DT2		9-7/8	AE3	11/15/15	5,584,859	3,415,317	2,169,542	56,000
DV7		9-1/4	AF0	02/15/16	5,431,754	5,316,248	115,506	73,600
DW5		7-1/4	AH6	05/15/16	18,823,551	18,695,518	128,033	24,800
DX3		7-1/2	AK9	11/15/16	18,787,448	17,454,148	1,333,300	73,760
DY1		8-3/4	AL7	05/15/17	15,559,169	7,824,997	7,734,172	598,880
DZ8		8-7/8	AM5	08/15/17	10,968,358	7,303,955	3,664,403	779,400
EA2		9-1/8	AN3	05/15/18	6,717,439	3,062,039	3,655,400	350,400
EB0		9	AP8	11/15/18	7,174,470	3,140,947	4,033,523	1,035,800
EC8		8-7/8	AQ6	02/15/19	13,090,498	6,878,271	6,212,227	358,200
ED6		8-1/8	AR4	08/15/19	18,940,932	17,937,571	1,003,361	376,280
EE4		8-1/2	AS2	02/15/20	9,476,268	7,324,308	2,151,960	225,000
EF1		8-3/4	AT0	05/15/20	7,582,183	2,866,438	4,715,745	22,400
EG9		8-3/4	AU7	08/15/20	17,059,306	6,626,296	10,433,010	685,720
EH7		7-7/8	AV5	02/15/21	10,075,573	9,088,093	987,480	68,000
EJ3		8-1/8	AW3	05/15/21	10,066,788	4,708,045	5,358,743	725,840
EK0		8-1/8	AX1	08/15/21	9,506,382	7,284,566	2,221,816	581,040
EL8		8	AY9	11/15/21	30,632,194	17,328,988	13,303,206	2,252,650
EM6		7-1/4	AZ6	08/15/22	10,127,790	8,858,191	1,269,599	40,400
EN4		7-5/8	BA0	11/15/22	7,423,626	2,965,231	4,458,395	202,000
EP9		7-1/8	BB8	02/15/23	15,782,061	10,091,261	5,690,800	353,400
EQ7		6-1/4	BC6	08/15/23	22,659,044	19,287,460	3,371,584	89,600
ES3		7-1/2	BD4	11/15/24	9,604,162	3,584,762	6,019,400	298,520
ET1		7-5/8	BE2	02/15/25	9,509,170	3,971,369	5,537,801	197,600
EV6		6-7/8	BF9	08/15/25	11,187,207	8,008,045	3,179,162	402,560
EW4		6	BG7	02/15/26	12,837,916	11,447,216	1,390,700	53,200
EX2		6-3/4	BH5	08/15/26	8,810,418	6,228,400	2,582,018	135,400
EY0		6-1/2	BJ1	11/15/26	10,860,177	5,238,827	5,621,350	401,000
EZ7		6-5/8	BK8	02/15/27	9,521,971	6,347,916	3,174,055	211,200
FA1		6-3/8	BL6	08/15/27	9,196,756	7,049,956	2,146,800	161,000
FB9		6-1/8	BM4	11/15/27	22,021,339	12,016,039	10,005,300	535,000
FE3		5-1/2	BP7	08/15/28	11,776,201	10,946,401	829,800	10,000
FF0		5-1/4	BV4	11/15/28	10,947,052	10,088,252	858,800	39,400
FG8		5-1/4	BW2	02/15/29	11,350,341	10,821,645	528,696	16,000
FJ2		6-1/8	CG6	08/15/29	11,178,580	10,425,180	753,400	20,400
FM5		6-1/4	CH4	05/15/30	17,043,162	16,174,330	868,832	29,800
FP8		5-3/8	CK7	02/15/31	16,427,648	16,318,848	108,800	0
Total Treasury Bonds					499,889,485	357,194,556	142,694,929	13,017,710
Treasury Inflation-Indexed Notes:								
CUSIP:	Series:	Interest Rate:						
912827 3A8	J	3-5/8	912820 BZ9	07/15/02	18,771,869	18,771,869	0	0
2M3	A	3-3/8	BV8	01/15/07	17,780,191	17,780,191	0	0
3T7	A	3-5/8	CL9	01/15/08	18,602,821	18,492,166	110,655	0
4Y5	A	3-7/8	DN4	01/15/09	17,334,408	17,334,408	0	0
5W8	A	4-1/4	EK9	01/15/10	12,028,976	12,028,976	0	0
6R8	A	3-1/2	GA9	01/15/11	11,299,494	11,299,494	0	0
7J5	A	3-3/8	GT8	01/15/12	6,044,992	6,044,992	0	0
Total Inflation-Indexed Notes					101,862,751	101,752,096	110,655	0
Treasury Inflation-Indexed Bonds:								
CUSIP:		Interest Rate:						
912810 FD5		3-5/8	912803 BN2	04/15/28	18,550,443	18,544,916	5,526	0
FH6		3-7/8	CF8	04/15/29	21,201,713	21,065,783	135,930	0
FQ6		3-3/8	CL5	04/15/32	5,048,022	5,048,022	0	0
Total Inflation-Indexed Bonds					44,800,178	44,658,722	141,456	0

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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TESTIMONY OF PAMELA OLSON, ACTING ASSISTANT SECRETARY (TAX POLICY), UNITED STATES DEPARTMENT OF THE TREASURY BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS ON CORPORATE INVERSION TRANSACTIONS

Mr. Chairman, Congressman Rangel, and distinguished Members of the Committee, we appreciate the opportunity to appear today at this hearing on corporate inversion transactions.

In recent months, several high-profile U.S. companies have announced plans to reincorporate outside the United States. The documents prepared for shareholder approval and filed with the Securities and Exchange Commission cite substantial reductions in overall corporate taxes as a key reason for the transactions. While these so-called corporate inversion transactions are not new, there has been a marked increase recently in the frequency, size, and profile of the transactions.

On February 28, 2002, the Treasury Department announced that it was studying the issues arising in connection with these corporate inversion transactions and the implications of these transactions for the U.S. tax system and the U.S. economy. On May 17, 2002, the Treasury Department released its preliminary report on the tax policy implications of corporate inversion transactions. The Treasury preliminary report describes the mechanics of the transactions, the current tax treatment of the transactions, the current tax treatment of the companies post-inversion, the features of our tax laws that facilitate the transactions or that may be exploited through such transactions, and the features of our tax laws that drive companies to consider these transactions.

Inversion transactions implicate fundamental issues of tax policy. The U.S. tax system can operate to provide a cost advantage to foreign-based multinational companies over U.S.-based multinational companies. The Treasury report identifies two distinct classes of tax reduction that are available to foreign-based companies and that can be achieved through an inversion transaction. First, an inversion transaction may be used by a U.S.-based company to achieve a reduction in the U.S. corporate-level tax on income from U.S. operations. In addition, through an inversion transaction, a U.S.-based multinational group can substantially reduce or eliminate the U.S. corporate-level tax on income from its foreign operations.

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The Treasury preliminary report discusses the need for an immediate response to address the U.S. tax advantages that arise from the ability to reduce U.S. corporate-level tax on income from U.S. operations. My testimony today will focus on several specific actions that we believe are urgently needed to eliminate these opportunities to reduce inappropriately the U.S. tax on U.S. operations and thereby to ensure continued confidence in the U.S. tax system. We believe that addressing these opportunities will have an immediate effect on the corporate inversion activity that is now occurring by eliminating the substantial upfront tax reductions that can be achieved through these transactions. This approach also addresses the similar tax reduction opportunities that are available to companies that form offshore from the outset and to foreign companies that acquire U.S. businesses, and therefore avoids advantaging companies that begin as non-U.S. companies over those that begin here in the United States.

The Treasury preliminary report also discusses the need to address the U.S. tax disadvantages that are caused for U.S.-based companies because of the U.S. tax treatment of their foreign operations. We must evaluate our tax system, particularly our international tax rules, relative to those of our major trading partners, to ensure that the U.S. tax system is competitive.

An inversion is a transaction through which the corporate structure of a U.S.-based multinational group is altered so that a new foreign corporation, typically located in a low- or no-tax country, replaces the existing U.S. parent corporation as the parent of the corporate group. In order to provide context for consideration of the policy issues that arise, the Treasury preliminary report includes a technical description of the forms of the inversion transaction and the potential tax treatment of the various elements of the transaction under current law. The transactional forms through which the basic reincorporation outside the United States can be accomplished vary as a technical matter, but all involve little or no immediate operational change and all are transactions in which either the shareholders of the company or the company itself are subject to tax. This reincorporation step may be accompanied by other restructuring steps designed to shift the ownership of the group's foreign operations outside the United States. The restructuring steps involving movement of foreign subsidiaries are complex and varied, but, like the reincorporation itself, are transactions that are subject to tax. When all the transactions are complete, the foreign operations of the company will be outside of the U.S. taxing jurisdiction and the corporate structure also may provide opportunities to reduce the U.S. tax on U.S. operations.

Market conditions have been a factor in the recent increase in inversion activity. Although the reincorporation step triggers potential tax at the shareholder level or the corporate level, depending on the transactional form, that tax liability may be less significant because of current economic and market factors. The company's shareholders may have little or no gain inherent in their stock and the company may have net operating losses that reduce any gain at the company level. While these market conditions may help facilitate the transactions, they are not, however, what motivates a company to undertake an inversion. U.S.-based companies and their shareholders are making the decision to reincorporate outside the United States largely because of the tax savings available. It is that underlying motivation that we must address.

The ability to achieve a substantial reduction in taxes through a transaction that is complicated technically but virtually transparent operationally is a cause for concern as a policy matter. As we formulate a response, however, we must not lose sight of the fact that an inversion is not the only route to accomplishing the same type of reduction in taxes. A U.S.-based start-up venture that contemplates both U.S. and foreign operations may incorporate overseas at the outset. An existing U.S. group may be the subject of a takeover, either friendly or hostile, by a foreign-based company. In either case, the structure that results provides tax-savings opportunities similar to those provided by an inversion transaction. A narrow policy response to the inversion phenomenon may inadvertently result in a tax code favoring the acquisition of U.S. operations by foreign corporations and the expansion of foreign controlled operations in the United States at the expense of domestically managed corporations. In turn, other decisions affecting the location of new investment, choice of suppliers, and employment opportunities may be adversely affected. While the openness of the U.S. economy has always made -- and will continue to make -- the United States one of the most attractive and hospitable locations for foreign investment in the world, there is no merit in policies biased *against* domestic control and domestic management of U.S. operations.

The policy response to the recent corporate inversion activity should be broad enough to address the underlying differences in the U.S. tax treatment of U.S.-based companies and foreign-based companies, without regard to how foreign-based status is achieved. Measures designed simply to halt inversion activity may address these transactions in the short run, but there is a serious risk that measures targeted too narrowly would have the unintended effect of encouraging a shift to other forms of transactions and structures to the detriment of the U.S. economy in the long run.

An immediate response is needed to address the U.S. tax advantages that are available to foreign-based companies through the ability to reduce the U.S. corporate-level tax on income from U.S. operations. Inappropriate shifting of income from the U.S. companies in the corporate group to the foreign parent or its foreign subsidiaries represents an erosion of the U.S. corporate tax base. It provides a competitive advantage to companies that have undergone an inversion or otherwise operate in a foreign-based group. It creates a corresponding disadvantage for their U.S. competitors that operate in a U.S.-based group. Moreover, exploitation of inappropriate income-shifting opportunities erodes confidence in the fairness of the tax system.

In the case of inversion transactions, the ability to reduce overall taxes on U.S. operations through these income-shifting techniques provides an immediate and quantifiable benefit. Because of the cost and complexity of these transactions, the immediate and quantifiable benefit from reducing U.S. tax on U.S. operations is a key component of the cost-benefit analysis with respect to the transaction. In other words, the decision to consummate the inversion often is dependent upon the immediate expected reduction in U.S. tax on income from U.S. operations. Accordingly, eliminating the opportunities to reduce inappropriately the U.S. tax on income from U.S. operations will eliminate the upfront tax reductions that are fueling the inversion transaction activity.

We believe there are several specific areas in which changes are urgently needed. The statutory rules regarding the deductibility of interest payments to related parties must be tightened to prevent the inappropriate use of related-party debt to generate deductions against income from U.S. operations that otherwise would be subject to U.S. tax. We must undertake a comprehensive review of the rules governing the transfer of assets among related parties and establish a revitalized compliance program to ensure adherence with the arm's-length standard for related party transfers. We must undertake a comprehensive review of our income tax treaties and make the modifications to particular treaties necessary to ensure that they do not provide inappropriate opportunities to reduce U.S. taxes. We must promulgate reporting requirements to provide the IRS with information to ensure that shareholders are paying the tax owed on the gain recognized in an inversion transaction. We also are working on other areas where further study is needed.

In addition, we must continue to work to address the U.S. tax disadvantages faced by U.S.-based companies that do business abroad relative to their counterparts in our major trading partners. We look forward to working closely with the Committee on this important issue.

Interest on Related Party Debt. One of the simplest ways for a foreign-based company to reduce the U.S. tax on income from U.S. operations is through deductions for interest payments on intercompany debt. The U.S. subsidiary can be loaded up with a disproportionate amount of debt for purposes of generating interest deductions through the mere issuance of an intercompany note, without any real movement of assets or change in business operations. Interest paid by a U.S. subsidiary to its foreign parent or a foreign affiliate thereof gives rise to a U.S. tax deduction but the interest income may be subject to little or no tax in the home country of the foreign related party recipient. It is important to recognize that a U.S.-based company could not achieve such a result. Indeed, the rules governing the allocation of interest expense to which U.S.-based companies are subject can operate effectively to deny a U.S. company deductions for interest expense incurred in the United States and paid to an unrelated third party.

The potential to use foreign related-party debt to generate deductions that reduce taxable income in the United States is not unique to inversion transactions, and concern about this technique is not new. Section 163(j) of the Internal Revenue Code was enacted in 1989 to address these concerns by denying U.S. tax deductions for certain interest expense paid by a corporation to a related party. Section 163(j) as it currently exists applies only where (1) the corporation's debt-equity ratio exceeds 1.5 to 1, and (2) its net interest expense exceeds 50 percent of its adjusted taxable income (computed by adding back net interest expense, depreciation, amortization and depletion, and any net operating loss deduction). If the corporation exceeds these thresholds, no deduction is allowed for interest in excess of the 50-percent limit that is paid to a related party and that is not subject to U.S. tax. Any interest that is disallowed in a given year is carried forward indefinitely and may be deductible in a subsequent taxable year. Section 163(j) also provides a four-year carryforward for any excess limitation (*i.e.*, the amount by which interest expense for a given year falls short of the 50 percent of adjusted tax income threshold).

A revision of these rules is needed immediately to eliminate what is referred to as the real "juice" in an inversion transaction.

The prevalent and increasing use of foreign related-party debt in inversion transactions demonstrates the importance to these transactions of the tax reductions achieved through interest deductions and the need to act now to eliminate this benefit. Accordingly, we propose statutory changes to tighten the interest disallowance rules of section 163(j) in several respects. Moreover, the opportunities for generating interest deductions that reduce U.S. taxable income are not limited to inversion transactions. These U.S. taxable income minimization strategies, which are not available to U.S.-based companies, are possible as well in cases where a U.S. business is structured from the outset with a foreign parent and in cases where a foreign corporation acquires a U.S. operating group. Therefore, we believe these revisions to section 163(j) should not be limited to companies that have inverted but should apply across the board. There is no reason to allow companies to reduce income that would otherwise be subject to U.S. tax through deductions generated simply by putting in place debt owed to related parties.

The fixed debt-equity test of current law effectively operates as a safe harbor for corporations with debt-equity ratios of 1.5 to 1 or lower. We propose replacing the safe harbor protection currently available under the fixed 1.5 to 1 debt-equity test with a test that would deny a deduction for related party interest to the extent that the corporate group's level of indebtedness in the United States exceeds its worldwide level of indebtedness. This worldwide test would compare (i) the ratio of indebtedness incurred by the U.S. members of the corporate group to their assets, with (ii) the ratio of the entire corporate group's worldwide indebtedness (excluding related party debt) to its worldwide assets. Interest that is paid to related parties and that is not subject to U.S. tax would be denied deductibility to the extent it is attributable to indebtedness in excess of the worldwide ratio.

With this approach, the 50-percent of adjusted taxable income test would operate as a second, alternative test applicable in cases where the U.S. debt-to-assets ratio does not exceed the worldwide ratio. We propose modifying the 50-percent test by revising the definition of adjusted taxable income to eliminate the addback of depreciation, amortization and depletion. This would have the effect of appropriately focusing the test on net interest expense as a percentage of income rather than cash flow.

We also propose curtailing the carry over rules applicable under section 163(j). Although the current carryforwards appropriately provide relief to those taxpayers whose interest-to-income ratio may be subject to unanticipated fluctuations due to business fluctuations, an indefinite carryforward has the effect of dampening the impact of the deduction denial. This consequence is further exacerbated by the ability under current law to carry forward excess limitation to shelter additional interest deductions in future years. Accordingly, we propose eliminating the carryforward of excess limitation and limiting the carryforward period for disallowed deductions to 5 years.

Income Shifting and Transfers of Intangibles. Another way for a foreign-based company to reduce the U.S. tax on income from U.S. operations is through related-party transactions for other than arm's length consideration. Many inversion transactions involve the movement of foreign subsidiaries out of the U.S. group so that they are held directly by the new foreign parent. Some inversion transactions involve transfers of intangible or other assets, or business opportunities, to the new foreign parent or its foreign subsidiaries. This type of movement of foreign subsidiaries, assets, and opportunities is not unique to inversion transactions.

The same sort of restructuring transactions are common whenever a multinational group is acquired or makes an acquisition. Cross-border transfers of subsidiaries and assets can give rise to significant valuation issues, and the ongoing transactions between the various entities can give rise to significant income allocation issues.

The outbound transfer of subsidiaries and assets to a related person in a taxable transaction is subject to the transfer pricing rules of section 482 and the regulations thereunder, which provide that the standard to be applied is that of unrelated persons dealing at arm's length. In the case of transfers of intangible assets, section 482 further provides that the income with respect to the transaction must be commensurate with the income attributable to the intangible assets transferred. The magnitude of the potential tax savings at stake in substantial outbound transfers of assets, especially intangible assets, puts significant pressure on the enforcement and application of the arm's length and commensurate with income standards. Where the arm's length standard is not properly applied or enforced, the inappropriate income shifting that results can significantly erode the U.S. tax base.

Treasury will undertake a comprehensive study focusing on the tools needed to ensure that cross-border transfers and other related party transactions, particularly transfers of intangible assets, cannot be used to shift income out of the United States. This will include a review and appropriate revisions of the contemporaneous documentation and penalty rules and of the substantive rules relating to transfers of intangible property and services and cost sharing arrangements. It also will include an administrative compliance initiative. While there is much that can and will be accomplished in this area through regulatory guidance and enhanced enforcement efforts, Treasury will report to the Congress on any need for statutory changes or additions.

Treasury and the IRS will undertake an initiative to review current practices related to the examination of transfer pricing issues and the imposition of transfer pricing penalties, with a particular emphasis on transactions in which intangibles are transferred. The volume and complexity of cross-border related party transactions have grown significantly in recent years, and a number of U.S. trading partners have undertaken broad compliance initiatives relative to transfer pricing. The purposes of this comprehensive review will include ensuring that contemporaneous documentation from taxpayers is utilized effectively by the IRS and that transfer pricing penalties are imposed where warranted on a fair and consistent basis. This focused review also will help identify potential improvements to existing rules, including the provisions regarding penalties, reporting, and documentation, that would enhance transfer pricing compliance.

We will revise the current section 482 cost sharing regulations with a view to ensuring that cost-sharing arrangements cannot be used to facilitate a disguised transfer of intangible assets outside the United States in a manner inconsistent with the arm's length standard, as reinforced by the commensurate with income standard. The purpose of the cost sharing regulations is to facilitate the allocation among related taxpayers of future income attributable to future intangible property in a manner that reasonably reflects the actual economic activity undertaken by each related taxpayer to develop that property.

This work will focus initially on the effectiveness of the current rules intended to apply the arm's length standard to taxpayers that contribute to the cost sharing arrangement the right to use existing intangible property, such as know-how or core technology, which often constitutes the most important and valuable input into the development of future intangible property.

We also will review the section 482 regulations applicable to transfers of intangible assets to ensure they do not operate to facilitate the transfer of intangible property outside the United States for less than arm's length consideration. These regulations relating to the transfer of intangible assets implement the arm's length and commensurate with income standards by allowing periodic adjustments to transfer prices in limited circumstances based on objective standards. While these objective standards have provided certainty and minimized disputes in this otherwise contentious area, focus is needed on ensuring the proper operation of the periodic adjustments provisions.

Finally, as part of an ongoing project to update the 482 regulations applicable to services, we will work to mitigate the extent to which the structuring or characterization of a transfer of intangible assets as the provision of services can lead to inappropriate transfer pricing results. The differences between the section 482 regulations relating to the provision of services and those relating to the transfer of intangible property could be exploited through the characterization of a transfer of intangible property as a provision of services. While a transfer of intangibles through a license in return for royalty payments and the provision of technical services utilizing the intangibles in return for a service fee, for example, may be similar from an economic perspective, the transfer pricing results may differ depending on whether the transfer pricing regulations related to services or intangible property are applicable. The transfer pricing rules should reach similar results in the case of economically similar transactions regardless of the characterization or structuring of such transactions.

Because the potential to use related party transactions to reduce the U.S. tax on income from U.S. operations is not unique to inversion transactions, our proposals in this area are not limited in scope to corporations that have inverted.

Income Tax Treaties. The United States imposes a withholding tax at a rate of 30 percent on payments of interest and royalties (as well as dividends) from a U.S. corporation to a foreign affiliate. This withholding tax may be reduced or eliminated in certain circumstances under an applicable income tax treaty. The cost advantage achieved by shifting income by means of deductible payments to foreign related parties is most effective when the payments are to a foreign related party that is eligible for benefits under a comprehensive U.S. income tax treaty and, in addition, is not subject to significant local tax on the income.

Most inversion transactions have involved a reincorporation into a foreign jurisdiction either that does not have a tax treaty with the United States or whose treaty with the United States does not generally reduce U.S. withholding tax rates. However, many of the newly created foreign parent corporations may be considered resident for treaty purposes in a country that has a comprehensive tax treaty with the United States and that does not subject certain payments received by its corporations to significant local income tax. Through such a structure, the cost advantage achieved by shifting income can be maximized. Similar results may be obtained through the use of finance subsidiaries located in certain treaty jurisdictions.

We must review and evaluate our tax treaties to identify any inappropriate reductions in U.S. withholding tax that provide opportunities for shifting income out of the United States. U.S. income tax treaties are intended to prevent the double taxation by the United States and its treaty partner of income earned by residents of one country from sources within the other. Thus, the United States does not enter into income tax treaties that lower the rates of U.S. withholding tax on U.S.-source income (*e.g.*, U.S.-source interest and royalties) with jurisdictions that do not have a comprehensive income tax system. In such a case, there is no need to reduce the U.S. withholding tax because there is no risk of double taxation. We must make certain that the operation of our treaties is consistent with the expectation of the United States and its treaty partners that treaties should reduce or eliminate double taxation of income, not eliminate all taxation of income. If a current or prospective treaty partner does not tax a particular category of U.S.-source income earned by its residents, either because of a general tax exemption or a special tax regime, reduction of U.S. withholding tax on that category of income may not be appropriate.

We also must consider whether anti-abuse mechanisms already within our treaties are operating properly. Because U.S. tax treaties are intended to benefit only residents of either the United States or the treaty partner, U.S. income tax treaties include detailed limitation on benefits provisions, to prevent the misuse of treaties by residents of third countries. Those limitation on benefits provisions are important for ensuring that a resident of a third country cannot benefit inappropriately from a reduction in U.S. withholding tax by structuring a transaction, including a transaction designed to generate deductible payments, through a treaty country. One of Treasury's key tax policy goals in modernizing our network of existing tax treaties is to bring the limitations on benefits provisions in all our treaties up to current model standards so as to remove the opportunity for such misuse.

Reporting Requirements. In many inversion transactions the company's shareholders are required to recognize gain. Current Treasury regulations generally require Form 1099 reporting to the IRS of the gross proceeds from any sale for cash effected by a broker in the ordinary course of its business. However, there are no similar reporting obligations in the case of an inversion where a shareholder exchanges stock of one corporation for stock in another corporation. We intend to establish a Form 1099 reporting requirement for stock transfers in inversions and other taxable reorganization transactions. Requiring reporting of these transactions will increase the IRS's access to information about the transactions. It also will serve to remind shareholders of the tax consequences to them from the company's transaction and of their obligation to report any gain.

Other Areas of Further Study. There are two other areas where we believe that further study is needed and we have begun careful consideration of these areas.

A comprehensive review of the corporate organization and reorganization rules is needed in light of the increasing pressure put on these rules through the larger and more complicated international restructuring transactions that are becoming commonplace. The corporate organization and reorganization rules, as well as the other related rules affecting corporations and their stock and option holders, were written largely for purely domestic transactions.

Section 367, and the lengthy regulations thereunder, modify those rules for application in the case of cross-border transactions. With the increasing globalization of both U.S. companies and foreign companies, these rules are being applied more frequently and to larger and more complicated cross-border transactions. It is critical that the rules governing cross-border reorganizations keep up with these developments. The current cross-border reorganization rules are something of a patchwork, developed and revised over the last twenty years. One focus in this reconsideration of the current-law rules will be on achieving greater consistency in treatment across similar transactions, in order to avoid both traps for the unwary and opportunities for taxpayers to exploit the rules to reach results that are not intended. Moreover, clearer rules will help provide greater certainty to taxpayers and the government in this complex area.

A careful review also is needed of the income-shifting issues that arise in the context of the several inversion transactions that have involved insurance and reinsurance companies. The initial reincorporation outside the United States typically has been accompanied by a shift of some portion of the existing U.S. insurance business through reinsurance with a related foreign affiliate. An evaluation must be made as to whether the use of related party reinsurance permits inappropriate shifting of income from the U.S. members of a corporate group to the new foreign parent and its foreign affiliates, and whether existing mechanisms for dealing with such related party transactions are sufficient to address these opportunities. In this regard, further analysis is appropriate to consider and evaluate the approaches used by our trading partners in taxing insurance companies, including, for example, the use by some countries of a premium-based tax that captures within the country's tax base all business written on risks within the country.

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Finally, we must continue our work to address the U.S. tax disadvantages for U.S.-based companies that do business abroad relative to their counterparts in our major trading partners. The U.S. international tax rules can operate to impose a burden on U.S.-based companies with foreign operations that is disproportionate to the tax burden imposed by our trading partners on the foreign operations of their companies. The U.S. rules for the taxation of foreign-source income are unique in their breadth of reach and degree of complexity. Both the recent inversion activity and the increase in foreign acquisitions of U.S. multinationals are evidence that the competitive disadvantage caused by our international tax rules is a serious issue with significant consequences for U.S. businesses and the U.S. economy. A comprehensive reexamination of the U.S. international tax rules and the economic assumptions underlying them is needed. As we consider appropriate reformulation of these rules we should not underestimate the benefits to be gained from reducing the complexity of the current rules. Our system of international tax rules should not disadvantage U.S.-based companies competing in the global marketplace.

As we work to address these important issues, we must keep our focus on the overarching goal of maintaining the attractiveness of the United States as the most desirable location in the world for incorporation, headquartering, foreign investment, business operations, and employment opportunities, in order to achieve an ever higher standard of living for all Americans.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
June 6, 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 $32,000 million to refund an estimated $28,717 million of publicly held 13-week and 26-week Treasury bills maturing June 13, 2002, and to raise new cash of approximately $3,283 million. Also maturing is an estimated $25,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced June 10, 2002.

The Federal Reserve System holds $13,119 million of the Treasury bills maturing on June 13, 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 June 11, 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 $1,027 million into the 13-week bill and $642 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-3157

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED JUNE 13, 2002

June 6, 2002

Offering Amount	$17,000 million	$15,000 million
Public Offering	$17,000 million	$15,000 million
NLP Exclusion Amount	$ 4,300 million	None
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 LA 7	912795 LP 4
Auction date	June 10 2002	June 10, 2002
Issue date	June 13, 2002	June 13, 2002
Maturity date	September 12, 2002	December 12, 2002
Original issue date	March 14, 2002	June 13, 2002
Currently outstanding	$17,649 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.

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EMBARGOED UNTIL 9:30 A.M. EDT
June 7, 2002

CONTACT: BETSY HOLAHAN
202-622-1997

REMARKS OF UNDER SECRETARY OF THE TREASURY PETER R. FISHER TO THE BOND BUYER'S FINANCIAL INNOVATIONS AND DERIVATIVES CONFERENCE NEW YORK, NY

My purpose today is to ask you to focus more attention and more thought – to do an even better job – promoting the transparency, depth and resilience of the interest rate volatility market. This is a challenge for all participants in the markets to price and transfer the risk of likely and unlikely outcomes for interest rates.

There is a stale debate about "whether derivatives are good or bad." There is the never-ending story in Washington about "who should regulate derivatives." I fear that these questions have diverted attention from the underlying subject matter. What is the volatility market? Is it healthy and robust? How will it and should it evolve over the coming years?

In the fourth quarter of last year, fixed-income markets experienced extraordinarily high levels of volatility. With the benefit of hindsight, this high volatility seems paradoxically to have been due, at least in part, to the resilience of our economy. Market participants came to realize, rather abruptly, that the economy was withstanding the slowdown in manufacturing, the rapid inventory adjustment, the bursting of the technology and energy bubbles, and the shock of 9-11.

At the same time, of course, the market had to adjust to the greater-than-anticipated near-term refinancing needs of the federal government, our suspension of the 30-year bond, and the exercise by millions of Americans of the options embedded in their mortgages to refinance at lower rates. While the markets adapted to this extraordinary set of events, we learned, once again, how dependent we are upon the volatility market to attenuate the transmission of shocks.

Those of us who believe, as I do, that an over-the-counter market in interest rate volatility is a vital part of our capital markets, may need to spend more time going back over the basics. To launch such a discussion, let me suggest two questions that have led me to question some of the assumptions on which my own perception of the volatility market are based.

PO-3158

First, do we understand the interaction of volatility risk and credit risk? And, second, looking at the structure of the volatility market, is it a "complete" market?

Credit matters – now even more

Credit matters and, in my opinion, it matters more now that it did a few years ago. We all can read the headlines and understand the truth of that statement, but I believe there is also more subtle, macroeconomic reason for the change. I think that the rise of credit concerns is a natural consequence of a transition from a world of volatile output and inflation expectations, which characterized the 1980s and early 1990s, to a world of more stable output and prices.

In the old environment, you made money in fixed-income markets by anticipating the rapid swings in real and nominal interest rates. The big macro-economic events were *relatively more important* than the particular circumstances of individual borrowers. In that environment, it was good enough for market participants to form a consensus on credit by using rough rules of thumb for spreads – both corporate and sovereign – as long as you could hang on for the ride as the underlying interest rates gyrated.

In a period of more stable output and prices, by definition, it becomes *relatively less important* to anticipate the changes in underlying rates and *relatively more important* to assess accurately the credit standing of individual borrowers. Even in the recent brief downturn and the recovery now underway, we have seen much less volatility in real output and prices than most observers expected. In this environment, we have all discovered that fixed-income markets are a little bit less about macro-economics and little bit more about micro-economics – about whether, behind the balance sheet and the corporate disclosures, the borrower has the real cash flow to meet its payment obligations in the event of either likely or unlikely outcomes.

Forgive me for this digression, but digging a little deeper, one reason output growth has been steadier and inflation more subdued and predictable is that the U.S. economy has enjoyed a remarkable step-up in growth of productivity in the past half decade. I believe that this improvement is owed in part to an intensification of the process of creative destruction. Simply put, our economy now punishes weaker performers more swiftly and rewards better performers more richly. The implications for credit risk, of course, are obvious.

The transition to this world where credit matters a-little-bit-more has been an expensive learning process for some. The habits of the 1980s and early 1990s, of tracking indexes and trading off rule-of-thumb spreads, have been hard to shed. To do so, we had all better be sure that we understand the interaction of volatility risk and credit risk. What if the periodic peaks that punctuate the volatility time line are a depiction of credit cycles or credit concerns? How should we be pricing volatility if that's the case?

Market structure matters – Is the volatility market complete?

That leads me to my second question. Looking at the market's structure, is the volatility market "complete", particularly with respect to price discovery? Now, let me confess that market structure may not be quite the right term but it does convey a "holistic" approach and my intent is to focus attention on the overall structure, dynamics and flow of the interest rate volatility market.

We should recognize that the volatility market, while increasingly important, is quite young. While the major instruments we rely upon have been around for 20 years or so, the market as we now know it is really only about 10 years old, and is continuing to develop.

The bond market, of course, has been around for a long time. But we should recognize that the interest rate volatility market has become a major market in its own right and, at least at present, it is not at times clear, as between the bond market and the volatility market, which is the tail and which is the dog – or even whether that's the right metaphor for their relationship.

In looking at the overall structure of the volatility market, we need to address some important questions: Where is the demand for volatility coming from? Are the correct players pricing, trading, and eventually owning volatility? Is there a healthy price discovery process?

These questions are inter-related and I am not going to try to answer them definitively both because I do not have the answers and because I think that their resolution should be driven by you in the private sector. But I will identify some issues associated with just one of these questions - whether we are getting good price signals.

Is there a primary market for volatility?

Two major players hold positions that require the rest of the market systematically to be short volatility. One is the federal government, and the other is the American homeowner, through the mortgage market.

The federal government absorbs volatility from the economy through its tax and expenditure policies. One way of thinking about this is to view the Treasury as holding a short volatility position. In effect, we pass this along to the markets, without the benefit of explicit pricing, through changes in our cash balances in the banking system and changes in our debt issuance.

We think that for a borrower of our size and long-term focus, our commitment to financing entirely through regular and predictable auctions of straight debt is more cost-effective, and more effectively promotes efficient capital markets, than attempting to arbitrage across different interest rate markets or retaining or separately pricing and transfering the variance in our refinancing needs.

We do not think we can better judge where and how to transfer the volatility in our refinancing needs between markets and across time – other than by trying our best to spread all of our financing needs across a curve of liquid instruments.

As a consequence, we pay for the uncertainty associated with our borrowing needs, the old fashioned way, in the yield on our debt. You all trade this volatility among yourselves very efficiently and that, undoubtedly, has an impact on the yields in our auctions. But we do not help provide a primary market for volatility. We leave price discovery entirely to the secondary market.

The American homeowner, through the mortgage market, is in a roughly similar position: a potential source of market volatility but not helping in the explicit pricing of that volatility. The normal thirty-year mortgage allows homeowners to refinance if interest rates move lower. This option is not explicitly priced but paid for implicitly in the mortgage interest payments. Homeowners could choose to forgo this option, and presumably pay lower interest rates, but apparently are quite content not to.

In the rational desire to put a ceiling on our most important monthly cash flows, we take out fixed-rate mortgages and pay for the option to refinance if rates move lower. While the price homeowners pay for the option can be extracted, it is not explicit or separately priced.

Do we have a healthy price discovery process? We do have an extraordinarily efficient secondary market for volatility. But we don't have much of a primary market, do we?

Neither the homeowner nor the federal government is aiding in price discovery. Some corporate borrowers and some other sovereign borrowers engage in explicit pricing and sale of volatility risk. But they take their prices from the secondary markets that you trade, not the other way around. So, the price discovery process is certainly not ailing but the more I think about it, the more the market seems to me to be incomplete.

- Do we have the right set of players, the right flow of volatility, and do we have enough capital? Again, I do not know but I doubt that the market structure we have now for this relatively young market is the one that we are likely to have 10 or 20 years from now.

Looking forward

I have only scratched the surface of the questions that I think we need to ask ourselves about the structure and the dynamics of the volatility market. But given the extreme events of last year, and of the preceding years, it seems to me that we all have been a little slow to question some of the assumptions on which our current understanding of the volatility market are based.

Going forward, we need to know whether there are sufficient investors, in aggregate, willing to commit the capital needed to bear the risk of holding the short-volatility position. We need to better understand all of the different ways that volatility risk and credit risk can interact. We need to work hard to promote an efficient volatility market place, one in which there are a sufficient number of sufficiently strong market participants to withstand the periodic shocks.

I do not have the answers to these questions, nor do I think it is the role of the federal government to provide the answers. But we all had better be working on them.

To begin this process, you need to focus more of your attention on the structure and the dynamics of the volatility market to be sure that it has the transparency, depth and resilience that are commensurate with the risks that you trade and hold.

-30-

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For Immediate Release Thursday, June 06, 2002

Treasury Secretary and Relevant Bureaus Praise President Bush For His Plan To Create A New Cabinet Agency: The Department Of Homeland Security

Statement by Treasury Secretary Paul O'Neill

"I applaud President Bush for his bold plan to concentrate our homeland security resources in a single Cabinet department. The President has demonstrated real leadership, recognizing the new challenges we face and redesigning our system to rise to those challenges. I fully support this plan to integrate our resources into one collaborative, efficient and nimble structure to focus solely on protecting the American people. I look forward to working closely with the Congress and acting quickly to make America safer."

Statement by Undersecretary for Enforcement Jimmy Gurule

"President Bush's plan to consolidate homeland security resources in one cabinet department reflects his strong leadership in America's war against terrorism. This bold proposal demonstrates that protecting the American people is of the highest priority to this Administration. I look forward to working with Secretary O'Neill and the Congress to ensure a speedy implementation of the President's plan."

Statement by Commissioner of Customs Robert C. Bonner

"I applaud the vision of President Bush and unequivocally support his bold proposal to create a Department of Homeland Security, which will include the entire U.S. Customs Service. I am proud of the vital role the employees of the U.S. Customs Service have played and will continue to play in defending our nation's homeland."

Statement by United States Secret Service Director Brian L. Stafford

"The Secret Service wholeheartedly supports President Bush's new plan and is excited to join the ranks of this new agency that will work in a coordinated effort to make America safe. Since 1865, we have had a proud history of serving America as a bureau of the Department of Treasury, and we look forward to building on that legacy with the Department of Homeland Security."

-30-

PO-3159

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For Immediate Release
Thursday, June 6, 2002

Contact: Tony Fratto
(202) 622-2960

New Policies for Economic Development[1]
Remarks by
John B. Taylor
Under Secretary for International Affairs
United States Treasury
at the
Bretton Woods Committee
Annual Meeting
Omni Shoreham Hotel
Washington, DC

Thank you for inviting me to speak at this year's Bretton Woods Committee Annual Meeting. Nearly one year ago at a luncheon talk sponsored by the Bretton Woods Committee I outlined the Bush Administration's policy plans regarding emerging markets, developing countries, and the Bretton Woods Institutions in particular. I believe we have made much progress since then.

For example, at that time President Bush's IDA grants proposal had just been announced; now we are on the verge of an historic agreement with other donors to increase grants significantly in IDA. We have also made progress in forging an historic agreement among the G-7 on an Action Plan to improve predictability and prevent crises in emerging markets, starting with the incorporation of contingency clauses in sovereign debt contracts.

But rather than give a broad survey of our entire international economic agenda today I would like to focus on economic development. Our economic development agenda itself is huge. It stresses ownership and good policies for economic growth in developing countries. It demands measurable results from the international financial institutions. And it includes substantial increases in development funding for the first time in many years.

[1] Slides to accompany this talk are posted on the Treasury web site. Previous versions of the talk were given at Princeton University (April 22), the World Bank (April 30) and the University of Ghana (May 20).
PO-3160

Before describing the specific policies, I first want to define the problem we are trying to solve. I then want to discuss in simple, straightforward terms the economic principles that underlie the policies. In doing so I will draw on economic development research completed in the last dozen years.

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 color-coded world maps dramatically illustrate, many of the poorest countries are in Sub-Saharan Africa, Central Asia, and Central America.

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 you want to reduce the number of poor countries—to make the all countries on those color-coded world maps the same color as the United States, Europe, Japan—then you have no choice but to increase productivity growth 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 1/5th 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 direct 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 19th century, such as Texas and Florida, grew more rapidly in the 20th 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.

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

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. As Secretary O'Neill and Bono both stated on their recent tour of Africa, "we still haven't found what we're looking for."

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For Immediate Release
Wednesday, June 5, 2002

Contact: Tony Fratto
(202) 622-2960

Remarks at the International Roundtable
on "Better Measuring, Monitoring, and Managing for Development Results"
John B. Taylor
Under Secretary for International Affairs
United States Treasury
World Bank
Washington, DC

Good evening. Thank you, Jim Wolfensohn, for the kind introduction. It is a pleasure to be here tonight to say a few words about the very important work you all are doing at this conference on measuring the results of development assistance.

Measuring results is a very important priority for Secretary O'Neill at all the multilateral development banks. In fact, it goes beyond the development banks. Measuring results is a very high priority for the entire Bush Administration. President Bush is insisting that we measure results in all government programs, domestic as well as international. For Secretary O'Neill, measurement of results encompasses all aspects of Treasury's mission, from closing our books, to worker safety, to combating terrorist financing. So I want you to know how vital your work is to us. We appreciate the effort the World Bank and its shareholders are putting into this endeavor.

By measuring results we can focus our efforts on what really matters: helping poor people around the world escape from poverty and lead better lives. The approach helps us cut through bureaucratic layers, ignore non-essentials, and concentrate on development problems that must be solved. It is a way to maximize the benefits of our funds.

We talked a lot about measuring results on the recent trip of Secretary O'Neill and Bono to Africa. The first time I met Bono I gave him one of my textbooks on economics. Economics, of course, is all about maximizing the benefits one can achieve with limited resources. When Bono boarded the plane to Africa, he told me he had read my book. And after spending some time with him, I knew he did read it. Like the rest of us, he has a sense of curiosity that showed how much reducing poverty and helping the poor meant to him. It means a lot to me too. And it means a lot to Secretary O'Neill. That is why we care about measuring results.

PO-3161

How should you go about measuring results of development assistance in practice? I would like to use an example of what I have in mind. The example is from Nemat Shafik, the World Bank's Vice President for Vice-President for Private Sector Development, Infrastructure and Guarantees.

There is a local NGO in Bangladesh called the Bangladesh Rural Advancement Committee, or BRAC. BRAC wanted to teach mothers in remote rural areas how to administer oral rehydration salts to children suffering from diarrhea. Absent such therapy, children frequently die from diarrhea.

BRAC worked with instructors who taught mothers how to administer the oral rehydration salts. Like us, the people at BRAC were interested in measuring results. They could have simply based the measurements on the number of mothers that the instructors taught. But they went further than this. They went directly to see of the mothers learned the technique. Instead of paying the instructors for every household they visited, BRAC actually went to the households to see whether the mothers that the instructors taught were administering the oral rehydration treatments properly. The instructors were paid according to whether or not the mothers they taught were actually able to perform the action. The result was more mothers being able to give the medicine and fewer children dying from diarrhea.

I think this example illustrates how a focus on results has to permeate every level of what the World Bank and others do in development. If we focus on these very simple measures, we can really get to the heart of the matter. I like to compare it to monetary policy, where you have a single target of inflation and you craft policy on the basis of achieving that result. Sometimes you may have two objectives (growth/low inflation) that may conflict; then there has to be a weighting to come up with a single performance measure. But if we can hone in our focus on simple areas -- the areas that really matter to the living standards of poor people around the world – we can do a lot for development.

Measuring results is a key part of our contribution to IDA-13. As you may know, President Bush has proposed an increase of 18 percent in our contribution to the IDA-13 replenishment. A portion of this increase is based on measurable results in the second and third years, $100 million and $200 million, respectively. This is very important to us. Based on what our very capable team at Treasury working on IDA-13 has told me, it is also an increasingly integral component of the World Bank's own work. We welcome that. We would also encourage other donors to come on board and consider attaching a portion of their contributions to the outcomes that have been identified. Now I know a large part of it is just getting the system up and running – after all, it is very difficult to ask for much after only one year. I think a lot has already been accomplished. I hope others will build on this approach and support through their contribution to IDA-13.

I understand that you are also working on measurements of policy performance at this conference. Policy performance is a key component of the Millennium Challenge Account, President Bush's proposal to dramatically increase U.S. bilateral assistance to the poorest countries based on quantitative and qualitative measures of policy performance. At every stop on our trip to Africa, people asked about this new initiative.

I had the chance to talk to mid-career, public servants and other students at the University of Ghana a little bit about the program. Essentially, there are three policy components: ruling justly, investing in people, and promoting economic freedom. We are now working on a set of criteria based on these ideas and we are looking closely at which countries, for example, have reduced barriers to trade and provide education for their people.

Let me conclude by saying how very much I appreciate being here and having the opportunity to talk to you about this initiative. Joanne Salop has been doing great work and I thank her and her staff for taking this on. I am certain it will be an effort that will help increase the effectiveness of our work. Thank you.

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For Immediate Release
Wednesday, June 5, 2002

Contact: Tony Fratto
(202) 622-2960

Remarks at the International Roundtable
on "Better Measuring, Monitoring, and Managing for Development Results"
John B. Taylor
Under Secretary for International Affairs
United States Treasury
World Bank
Washington, DC

Good evening. Thank you, Jim Wolfensohn, for the kind introduction. It is a pleasure to be here tonight to say a few words about the very important work you all are doing at this conference on measuring the results of development assistance.

Measuring results is a very important priority for Secretary O'Neill at all the multilateral development banks. In fact, it goes beyond the development banks. Measuring results is a very high priority for the entire Bush Administration. President Bush is insisting that we measure results in all government programs, domestic as well as international. For Secretary O'Neill, measurement of results encompasses all aspects of Treasury's mission, from closing our books, to worker safety, to combating terrorist financing. So I want you to know how vital your work is to us. We appreciate the effort the World Bank and its shareholders are putting into this endeavor.

By measuring results we can focus our efforts on what really matters: helping poor people around the world escape from poverty and lead better lives. The approach helps us cut through bureaucratic layers, ignore non-essentials, and concentrate on development problems that must be solved. It is a way to maximize the benefits of our funds.

We talked a lot about measuring results on the recent trip of Secretary O'Neill and Bono to Africa. The first time I met Bono I gave him one of my textbooks on economics. Economics, of course, is all about maximizing the benefits one can achieve with limited resources. When Bono boarded the plane to Africa, he told me he had read my book. And after spending some time with him, I knew he did read it. Like the rest of us, he has a sense of curiosity that showed how much reducing poverty and helping the poor meant to him. It means a lot to me too. And it means a lot to Secretary O'Neill. That is why we care about measuring results.

PO-3161

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For Immediate Release **Contact: Tony Fratto**
Wednesday, June 5, 2002 **(202) 622-2960**

The Essential Role of Private Enterprise in Reducing Poverty
Remarks by John B. Taylor
Under Secretary for International Affairs
United States Treasury
at the
International Finance Corporation
Participants Meeting
Washington, DC

Thank you for inviting me to speak at the annual participants meeting of the International Finance Corporation (IFC). The purpose of the IFC, as stated in its charter, is "to further economic development by encouraging the growth of productive private enterprise." So I would like to use this speaking opportunity to discuss the role of private enterprise in the Bush Administration's economic development agenda.

To illustrate my points I would like to draw on some examples from the recent trip by Treasury Secretary Paul O'Neill and Bono to Africa. I was part of that trip, which included four countries, Ghana, South Africa, Uganda, and Ethiopia. Much of the press publicity of that trip focused on the visits to schools, hospitals, community projects, and government agencies. We also visited many private firms—small and large, domestic and global. These private firms are playing an important role in reducing poverty and raising incomes in the places we visited. But they represent a tiny fraction of what the private sector could be, what it should be, and what it must be if we are to be successful in reducing poverty in Africa and other regions of the world.

President Bush's economic development agenda includes substantial increases in U.S. government funding for foreign aid for the first time in many years. It insists on ownership and good economic policy by developing country governments. It demands measurable results from the aid provided by the World Bank and other agencies.

To explain the role of private enterprise in this economic development agenda let me first be specific about the problem that we are trying to solve and how we are trying to solve it.

PO-3162

The problem, 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. Many of these poor countries are in Sub-Saharan Africa. But many are also in Asia and Latin America.

Why are these countries so poor? The simple answer is that there is a lack of high-productivity jobs. Productivity is the value of the goods or services that a worker produces per unit of time. High productivity jobs are the source of high wages, high income per capita, and lasting reductions in poverty. If there are only a few high productivity jobs in a country—as in the countries visited by Secretary O'Neill and Bono—then the country is poor. If the number of high productivity jobs in a country is rising, then the country is becoming less poor. If there are already a lot of high productivity jobs—as in the countries of Western Europe, the United States and Japan—then the country is rich. If you want to reduce the number of poor countries then you have no choice but to increase productivity in poor countries.

And this is where private enterprise becomes essential to any successful economic development policy. The role of the private sector is to create higher productivity jobs and thereby raise productivity growth. Productivity may seem like an abstract concept, but if you look, you can see it growing all around you, and you can see it reducing poverty in the countries Secretary O'Neill and Bono visited in Africa.

In Ghana, for example, a U.S. Fortune 500 firm, Affiliated Computer Services (ACS), recently opened an office. That of course is an example of foreign direct investment. So far ACS has created jobs for 900 Ghanaian workers in this new office. The workers produce services. They process insurance forms that are transmitted via satellite from the United States and then sent back via satellite once the forms are completed. The value of the services produced by these workers is much higher than average labor productivity in Ghana. As a result these workers can be paid, and are being paid, many times the average wage in Ghana. They are all earning more than they previously earned so they have more to spend on food, housing, and clothing for themselves and their children or even to save for the future. When I asked a young single female employee what she was doing with her higher wages she said she was investing in Ghanaian Treasury Bills! By creating higher productivity jobs in Africa, ACS is reducing poverty. ACS has similar operations in Guatemala and Mexico employing about 5,500 in total in the three countries.

Of course it is not only global firms like ACS that create higher productivity jobs in Africa. Consider an example of a domestic firm, Mukwano Industries, operating in Uganda. President Museveni made a special request that I visit this fast-growing firm, and I can see why. In the late 1980s Mukwano employed 100 workers and produced one product line—soap. Now it employees over 7,000 workers producing nearly 25 different products from vegetable oils to plastic cups. The firm produces mainly for the Ugandan domestic market, with some exports to Kenya and Tanzania.

On top of all this, the firm is effectively employing over 100,000 farmers in Northern Uganda in the production of vegetable seeds. Formerly these farmers were only doing subsistence farming. Now they are able to raise their standard of living well above subsistence.

I could go on and on—textile firms, fish smokers, small restaurant owners, green coffee processors, cut flower producers, tuna processing and canning firms, small dairy farms. In each case jobs were being produced by the private sector. And the vast majority of these jobs had higher than typical productivity levels, causing average productivity to rise and poverty to fall. Of course examples such as these are only a beginning, a demonstration that much more can happen. Thus far there is far too little productivity growth in Africa. In fact, for the continent as a whole productivity actually fell during the last dozen years with conflict and disease in many areas offsetting the small gains elsewhere. In order to reduce poverty significantly many more high productivity jobs must be created in Africa and other poor regions. Productivity growth must rise significantly. But how?

Broadly speaking productivity depends on two things: the amount of capital (machines, tools, computers) that workers have to work with and the level of technology, including general know-how. The more capital and the more technology, the higher is productivity. So if you want to raise productivity, somehow you have to raise capital or technology. If there were no impediments to the flow and accumulation of capital and technology, then countries or areas that are behind in productivity would have a higher productivity growth rate. Capital would flow to where it is in short supply relative to labor, such as the countries visited on the O'Neill-Bono trip. Similarly, without impediments, technology would spread through education, foreign investment, or even the Internet. For these reasons, poor areas or countries should be catching up to rich areas or countries.

Consider again some more examples from the O'Neill-Bono trip. Consider two green coffee processing firms that we visited in Africa—one in Kampala, Uganda, and one in Addis Abba, Ethiopia—a distance about the same as between New York and Chicago. Both these firms select and sort green coffee coming off the farms and prepare it for export or roasting. The Ethiopian firm had recently installed a new conveyer belt to bring green coffee more efficiently to workers for sorting. That new conveyer belt—a piece of capital with a new technology—substantially increased productivity at that firm. In fact, to illustrate the improvement, the owner of that firm was kind enough to show us how coffee was sorted before he bought and installed the conveyer belt. In contrast, the Ugandan firm had no such conveyer belt. It was still sorting by the old method; productivity was much lower at that firm despite the available technology. In some sense, therefore there was an impediment for the flow of capital and technology.

Historical evidence shows that when there are few impediments to the use and accumulation of capital and technology, there is evidence for "catch up" in productivity. Productivity growth data in states in the United States—where there have been few impediments—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. Historical 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 since the 1960s.

Such catch up does not exist for the world as a whole, however, and certainly not for Africa. 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. The reason is that there are significant impediments—in the broadest sense—to investment and the adoption of technology in poor countries that are holding private enterprise back. The example of the Ugandan coffee processing plant with the old sorting method is unfortunately the rule rather than the exception.

One can group these impediments into three areas:

Poor governance, including the lack of rule of law or enforceable contracts and the prevalence of corruption, raises the cost of doing business and creates disincentives for the private sector to create high-productivity jobs. For example, it costs $230 to ship cattle from the Sahel area in Burkina Faso to the coast of Ghana compared to only $80 to ship cattle all the way from Europe to the same point. According to International Livestock Research Institute, which I visited in Africa, "numerous checkpoints and bribes" factor into this large cost difference.

Inadequate education 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. The workers in the ACS facility in Ghana had good writing, reading, and computation skills and could thereby use the new computer technology to raise productivity.

Restrictions on economic transactions prevent people from buying or selling goods or capital, or adopting new technologies. Lack of openness to international trade, monopolistic state marketing boards, and excessive regulations and red tape are all examples of restrictions that create disincentives for the private sector to invest and innovate so as to boost productivity. For example, until recently the government of Uganda operated a marketing board, which controlled most of the buying and selling in the Ugandan green coffee market. The marketing board held down the price paid to farmers for their coffee. After the government eliminated the marketing board, income to coffee farmers increased by nearly a factor of four—from 20 percent of the world price to 70 percent of the world price. So even with the drop in world coffee prices in recent years, many coffee farmers have begun to have higher standards of living.

But there are still many similar restrictions in other markets, in other countries, and between countries. Restrictions on imports into developed countries still reduce the opportunities to create jobs in the export sectors of developing countries. And there are also significant barriers to international trade in developing countries. In Uganda, for example, there is a 45 percent tariff on the import of specialty coffee bags needed for shipping more perishable roasted beans. This tariff is a factor in keeping Ugandan firms out of the roasted coffee market.

To deal with these problems, the Bush Administration's economic development agenda calls for a much greater emphasis than in the past on policies that reduce the impediments to the creation of high productivity jobs by the private sector. Countries that follow good economic policies are to receive more aid, and the actual results of the aid are to be quantitatively measured.

Consider, for example, the Millennium Challenge Account. This account would amount to about $5 billion a year, a 50 percent increase over and above the approximately $10 billion in existing U.S. development assistance. The Millennium Challenge Account would channel aid to poor countries that have chosen to adopt good policies that reduce the impediments to increasing productivity growth. To access the account, developing countries must demonstrate strong commitments to (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. Of course, these are exactly the ways to reduce the three types of impediments I mentioned above.

Another example is President Bush's proposal to increase the U.S. contribution to the next IDA replenishment (IDA-13) and to tie part of the increase to measurable results. Under this proposal, funding would be 18 percent higher than either the IDA-11 or the 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. The increases in the second and third years are explicitly linked to measurable results of the aid, such as in improving education. Linking the size of the IDA replenishment to measurable 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. In fact today there is a conference on this topic at the World Bank where I will be speaking later.

How much of an increase in productivity growth can we expect if the right policies are chosen and if the results of our aid are successful? What might we hold out as a goal? We should, of course, expect that poor countries should have productivity growth rates much higher than countries like the United States. But I think we can be more specific. There is currently a huge gap between the productivity of poor countries and rich countries. That means that there is a gap between the levels of capital per worker and the levels of technology. But those huge capital and technology gaps represent huge opportunities.

The International Livestock Research Institute operating in Ethiopia demonstrated some of those opportunities for us. By breeding Ethiopian cattle with European stock, they found it is possible to increase milk productivity by over 700 percent. And, if adopted on a large scale, that 700 percent increase in productivity could occur in Ethiopia in a short period of time.

Some simple calculations suggests that countries with huge productivity gaps—like the gap between Ghana or Uganda or Ethiopia and the United States—could achieve productivity growth rates of 10 percent per year on a sustainable basis. That is an ambitious goal, and it requires a much greater growth of the private sector than we have at present. But the 700 percent example shows that it could be a reality.

In conclusion, I hope that I have shown how private enterprise is essential to our economic development goals. I realize that many of the examples I have given are of smaller firms or projects, at least when compared to the large-scale infrastructure projects many IFC participants are interested in. Of course, large infrastructure projects are also essential. For example, the Bujagali project—consisting of a 200-megawatt hydropower station in Uganda—is a sorely needed infrastructure project which has been delayed too long already. But a thriving private sector in general—small, medium, and large size firms—is what is needed to attain the productivity goals I have outlined.

What more could be done for the smaller and medium sized private enterprises? Lack of access to credit is key obstacle. In many developing economies, special connections are needed in order to have access to credit from financial institutions. In many countries, governments use the financial sector to channel resources to inefficient state-owned enterprises.

Financial intermediation is often hampered by a lack of credit ratings, high collateral requirements, and underdeveloped financial management skills. For new firms and small- and medium-sized private enterprises, these factors are often compounded by the inherent unwillingness of banks to serve them due to their perceived riskiness and the higher costs of servicing such clients. Inadequate access to credit inhibits productivity growth. New, entrepreneurial firms have a more difficult time starting up and continuing operations. All businesses have less capital to make productivity-enhancing investments.

The IFC is looking for ways to boost such lending in Africa and I commend Peter Woicke and his colleagues for doing so. Ultimately the private enterprise sector will require the development of full-fledged financial markets to thrive in the developing world.

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Contact: Rob Nichols
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THE FINANCIAL FRONT OF THE WAR ON TERRORISM - THE NEXT PHASE

Kenneth W. Dam
Deputy Secretary of the Treasury
Delivered to the Council on Foreign Relations
New York, New York

The financial front of the war on terrorism has entered a new phase. This new phase is characterized by increased leadership by our coalition partners and increased focus on means of financing terrorism outside the mainstream financial system. At the same time, the United States must and will remain vigilant in preventing terrorists from abusing its financial system.

Today, I shall describe how the financial front of the war on terrorism has evolved toward this new phase.

The first phase of the financial front of the war on terrorism was dominated by public designations of terrorists and terrorist supporters and attempts to freeze their accounts. To be sure, this was - and remains -- an important aspect of the fight. We must close the world's financial system to known terrorists and their financiers.

To date, we have had considerable success. Since September 11, we and our coalition partners have publicly designated 210 terrorists or terrorist supporters. We have frozen over $115 million around the world. 166 countries and jurisdictions have blocking orders in force.

We still have work to do on this effort. Not every country has joined us in blocking every identified terrorist or terrorist supporter. Also, we have to make sure that countries do more than just add names to a list. We need to - and we do - continually follow up with them to ensure that their regulators and financial institutions are out there giving teeth to their blocking orders.

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Designations and blockings dominated the early phase of the financial front of the war on terrorism for several reasons.

First, the United States and many other countries (but by no means all) could quickly put in place a legal infrastructure to carry out the designations and blockings. In the United States, all that was immediately necessary was to promulgate an executive order invoking the President's authority under the International Emergency Economic Powers Act to go after not just terrorists but also their financial supporters, to announce the designations, and to transmit the blocking orders to U.S. financial institutions.

Second, public designations highlighted the need for countries without adequate legal infrastructures to enact laws and regulations that would allow them to close their financial systems to terrorists. When we started our effort even countries like Canada and Japan did not have legislation criminalizing terrorist fundraising. Many countries lacked the legal infrastructure to adopt and implement blocking orders on terrorist assets. Public designations by the U.S. and our allies highlighted these deficiencies and prompted countries to address them.

Third, joint designations provided an opportunity to highlight international cooperation in the financial front of the war. We were pleased, for example, when the EU independently designated several new terrorists and terrorist organizations at the end of 2001. (The EU made another such designation on May 2, 2002.) We were also pleased by the joint designation we made with Saudi Arabia on March 11 and another joint designation with the G7 on April 19. These have been no insignificant accomplishments. The public sees the end-product - joint designations. But what the public doesn't see is the intense consultations and exchanges going on before and after the events.

The opportunity to highlight international cooperation is particularly important because the financial front of the war on terrorism cannot be won without it. As I have said many times, you can't bomb a foreign bank account. You need the cooperation of the host government to investigate and freeze that foreign account. Increasingly, our strategy to enlist the aid of foreign governments is working.

This brings me to a fourth reason why public designations and blockings dominated the first phase: other actions take time. It takes time to persuade other governments to take a leadership role in the effort. The United States made its first public designation on September 24, 2002. It took even the EU another three months to take the lead with its own independent designation. It also takes time for governments to adopt laws and implement regulations that they need to curtail terrorist financing. In addition, it takes time to cultivate new sources of information about terrorist finances that will lead us to terrorist financiers and, even more valuably, sometimes to terrorists themselves. So, the "long sales cycle" of these other actions is another reason why public designations and asset freezings dominated the first phase of the financial front of the war.

Before describing the next phase of the war, let me be clear. Public designations remain an important - an essential - weapon in the fight against terrorism. We will continue to make them and we will continue to scour our financial system for terrorist assets. Likewise, we will continue to encourage our coalition partners to take the lead in making their own designations. We will also continue to encourage our partners to ensure that they follow through on their blocking orders and give them teeth.

While public designations will remain important, we are entering a new phase of the war. This new phase will be dominated by greater leadership by our coalition partners and greater focus on means of financing terrorism outside of the mainstream financial system. Public designations and blockings will not dominate this new phase to the degree that they did the early phase.

There are several reasons why public designations and blockings should not be expected to dominate the next phase.

First, public designations are, by their very nature, public. Terrorists learn about them and adapt their behavior accordingly. They will avoid keeping their money in the United States or other financial centers with effective rules and regulations to thwart them. They will use informal methods of moving their money. They may avoid storing value in currency at all, instead preferring commodities like gold or diamonds, converting the commodities to cash only as needed. Provided the United States and the international community remain vigilant in policing their financial systems, we expect that terrorists increasingly will avoid keeping their money in large amounts in single accounts in the mainstream financial system. Over time, therefore, we anticipate that public designations will not "catch" as much money as they did initially.

Second, those "long sales cycles" are coming to an end. We are seeing foreign governments increasingly play leadership roles in taking action against terrorist financiers.

Foreign governments have acted privately to stop individuals from donating money to suspect groups.

Foreign governments have arrested terrorist financiers or, as in the case of Pakistan, cooperated in successful U.S. efforts to capture them.

Foreign governments are taking steps to regulate hawala dealers. Hawala systems (in some countries called hundi systems) are efficient, inexpensive, trust-based methods of moving money that do not leave large paper trails.

Foreign governments are making progress in preventing terrorists from using hawalas to move money. During a conference on hawalas in the UAE on May 15-16, a number of governments agreed to take steps to regulate and monitor hawalas to ensure that they are not abused. After the conference, on May 28, the Dubai Gulf News reported that the UAE will soon require hawalas to be licensed and regulated. The Times of India also reported that India is taking steps to crack down on unlicensed money transmitters.

I wish to emphasize one point. We do not think that banning hawalas altogether is the answer. Hawala dealers provide an important service. They transfer money at low cost to populations that are not supported by formal financial services. We are working with our coalition partners to preserve the benefits of the hawala system while at the same time preventing their abuse by terrorists.

Along with hawalas, charities will be the subject of increasing focus. This is an important and sensitive issue. As many of you know, charity is a central pillar of Islam. Indeed, in many parts of the world charities provide much of the social infrastructure - orphanages, hospitals, and schools. At the same time, there is no denying that some legitimate charities have been penetrated by terrorists or terrorist supporters - possibly by only a few managerial employees - who misdirect a portion of the charity's funds for terrorist ends. There are also organizations that are primarily organized and directed to abuse charitable status for terrorist ends. Some groups threaten not only their targets, but their donors, extracting "donations" as "protection" against reprisals. Our challenge is to prevent terrorists from using charities as a cover for supporting terrorism while ensuring that charitable giving and charitable works continue.

We are pursing these two goals by freezing the flow of funds through charities that have been corrupted by terrorist supporters and increasing the transparency and oversight of charities around the world. Thus far, a number of charities around the world have been designated and their assets frozen - our joint designation with Saudi Arabia of two regional Al Haramain offices is a good example of what is beginning to occur. Also, we are asking countries, bilaterally and through multilateral bodies, to evaluate their regulatory and enforcement oversight of non-profits. Indeed, the multilateral Financial Action Task Force or FATF will take up this issue at its meeting later this month. In addition, we are working to disseminate international best practices for ensuring the accountability of charitable organizations. Finally, we are calling upon private watchdog groups to continue and expand their important work on ensuring transparency in charitable operations, and to broaden their focus beyond their historical emphasis on fraud and waste to include the threat posed by terrorist abuse of charities. We have been gratified by the positive response that these initiatives have received from other governments and the charitable community.

We are also beginning to make some progress in preventing terrorists from using otherwise legitimate trade in goods and services as a means to funnel money to terrorists. Our Customs Service uses techniques developed in the drug war to look for movements of goods at abnormal prices. Customs used this technique to support the designations of three Yemen-based honey businesses tied to Osama Bin Laden. In addition to designating businesses linked to terrorism, we also work to ensure that legitimate merchants are able to identify suspicious transactions so that they can report the transactions and take steps to prevent such transactions in the future. We work to educate the business community, especially those industries that are particularly vulnerable to this type of trade-based laundering activity, just as we have done in the drug war through our program to fight the Colombian-based Black Market Peso Exchange.

Finally, across the world, the international coalition is acting to improve the regulatory climate more generally.

We have taken important steps in this regard in the United States with the passage in October 2001, of the USA PATRIOT Act. The Act gives us important new tools in the fight against terrorism. I shall highlight just three.

First, the Act requires U.S. financial institutions to terminate correspondent accounts maintained for foreign shell banks and to take reasonable steps to ensure that they do not indirectly provide banking services to foreign shell banks. Treasury provided interim guidance on this requirement, suggesting that financial institutions obtain certification from all foreign banks with correspondent accounts in the U.S. to the effect that (1) those foreign banks are not themselves shell banks; and (2) those foreign banks do not maintain accounts for shell banks. We worked closely with the private sector to make this interim guidance as effective as possible, and the final rule, when issued, will benefit considerably from this input.

Second, the Act required most financial institutions to have an anti-money laundering program in place by April. Money service businesses, broker-dealers in securities, and credit card operators are now all required to have comprehensive anti-money laundering programs in place. We are now working with the insurance industry, hedge funds and other financial sectors to develop appropriate rules for those businesses as well.

Another point worth noting is that the Act allows for *in camera* judicial review of any classified information we use to freeze terrorist assets. This gives us greater ability to freeze terrorist assets without fear that intelligence sources and methods will become compromised during judicial review.

I should mention one very important partner in our effort to clean up the regulatory environment in the United States - the private sector. Many of the leaders of financial services companies in New York lost employees or friends in the September 11 attacks. They understand that the terrorists targeted the World Trade Center in an effort to strike at our financial nerve-center. The cooperation we have received from these business leaders and their employees has been invaluable. Among other things, they have worked with us to maximize the effectiveness of the new regulations while minimizing their impact on legitimate transactions.

Another way in which we have acted to improve the regulatory climate generally is to reach Tax Information Exchange Agreements with several tax haven jurisdictions: the Bahamas, the British Virgin Islands, the Cayman Islands, the Netherlands Antilles, and Antigua & Barbuda. We expect to enter into more of these bilateral agreements in the coming months. As we make it harder for tax evaders to find safe haven in off shore financial centers, those centers move toward cleaner, better regulated systems and improve their regulatory climate generally. The end result is fewer places where terrorists can hide their money.

Another important effort is the work of the Financial Action Task Force, which established eight Special Recommendations for terrorist financing. The FATF action plan requires jurisdictions to engage in a self-assessment and to take steps to bring their systems up to these standards. As in the money laundering context, we expect that these recommendations and the FATF process will prompt countries to make substantive changes to their laws and regulations or risk being "named and shamed" as non-cooperative.

Other nations have joined us in raising the regulatory hurdles to terrorist financing. Here is just a sampling of one day's activity based on a search of foreign media on June 5, 2002. On June 4, 2002, Belgrade's Politika reported that Sebia's law on the prevention of money laundering will go in effect on July 1, and require the reporting of currency transactions over 600,000 dinars to a newly-established Federal Commission for the Prevention of Money Laundering. Bucharest's Rompres reported on June 5, 2002, that customer identification and suspicious activity reporting requirements are in force as of June 4, 2002. On June 5, Tokyo's Jiji Press reported that Japan enacted a law criminalizing terrorist financing. On June 4, Seoul's Yonhap reported that Korea's Financial Intelligence Unit joined the 58 member Egmont Group - an international association of financial intelligence units dedicated to sharing information about financial crimes. This is just a sampling. Every day, the international press contains similar items about the progress other countries are making in improving the regulatory climate. Just yesterday, the Washington Post reported that Qatar has just adopted an anti-money laundering law.

Public designations will, however, remain and important weapon in our arsenal. For one thing, public designations reinforce our private diplomatic efforts. Governments who fear the political consequences of public designation of one of their citizens have a strong incentive to do something privately about that citizen's behavior. In some cases, we have seen governments act to stop citizens from supporting groups associated with terrorism so as to avoid the domestic and international political consequences that public designation of that citizen would have. Since our goal is to prevent and disrupt - not to build a long public list - we have not only accepted that result but have made it clear that our goal is results, not public announcements.

I have reviewed what is, to be sure, a lot of activity. But our objective is not to generate a lot of activity. Our objective is to prevent attacks and disrupt terrorist operations.

So how are we doing?

We know that we are having an impact. We have frozen over $115 million dollars. We know that Al Qaida is having some financial difficulty. We know that some potential donors to terrorists are reluctant to give money for fear of the consequences. We see encouraging signs that the world is erecting regulatory barriers to terrorist financing. Almost daily, we receive word of a new money laundering law, a new arrest, a new regulation that will make life more difficult for terrorists and root them out so that they can be captured or otherwise disrupted.

At the same time, we know that Al Qaida's financial needs are greatly reduced - they no longer have to support the Taliban government and they no longer bear the cost of maintaining training camps. We have also not made enough progress against people who donate funds to charities knowing that their donations will be used to support terrorism. In addition, although we have made some progress on groups other than Al Qaida, we still have much more work to do against other terrorist groups of global reach.

In the physical war, the Vice President and others have made clear that there is nothing that a free and open society like the United States can do to protect itself 100% against future attacks.

The same is true in the financial front of the war. We can never be 100% sure that terrorists are not transferring money one way or another. Doing so would come at too great a cost to the economies of our interdependent world.

Accordingly, just as in the physical war, we must take the battle to the terrorists themselves. We cannot limit ourselves to improving the protections of the U.S. financial system, or even to improving the protections of the world's mainstream financial systems. While those are necessary, they are not sufficient. We must also search out terrorist finances outside of the mainstream financial systems - in the hawala networks, in corrupted NGOs, and in fraudulent trade patterns. And, more than ever, this effort must be led by our coalition partners.

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.
June 10, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS CASH MANAGEMENT BILLS

The Treasury will auction approximately $21,000 million of 6-day Treasury cash management bills to be issued June 12, 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.

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

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

’0-3164

HIGHLIGHTS OF TREASURY OFFERING
OF 6-DAY CASH MANAGEMENT BILLS

June 10, 2002

Offering Amount ....$21,000 million
Public Offering ....$21,000 million

Description of Offering:
Term and type of security ....6-day Cash Management Bill
CUSIP number ....912795 MU 2
Auction date ....June 11, 2002
ssue date ....June 12, 2002
aturity date ....June 18, 2002
riginal issue date ....June 12, 2002
urrently outstanding .... ---
inimum bid amount and multiples $1,000

ubmission of Bids:
oncompetitive bids: Accepted in full up to $1 million at the highest discount rate of accepted competitive bids.
oreign 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.
ompetitive 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.

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

eceipt of Tenders:
oncompetitive tenders:
Prior to 11:00 a.m. eastern daylight saving time on auction day
ompetitive tenders:
Prior to 11:30 a.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

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EMBARGOED UNTIL 11:30 A.M.
June 10, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $18,000 million to refund an estimated $25,000 million of publicly held 4-week Treasury bills maturing June 13, 2002, and to pay down 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 $13,119 million of the Treasury bills maturing on June 13, 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-3165

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED JUNE 13, 2002

June 10, 2002

Offering Amount .... $18,000 million
Public Offering .... $18,000 million
NLP Exclusion Amount .... $ 8,200 million

Description of Offering:
Term and type of security .... 28-day bill
CUSIP number .... 912795 KR 1
Auction date .... June 11, 2002
Issue date .... June 13, 2002
Maturity date .... July 11, 2002
Original issue date .... January 10, 2002
Currently outstanding .... $32,537 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
June 10, 2002

Contact: Bill Luecht
(202) 622-8042
Betsy Holahan
(202) 622-1997

Treasury Announces First Round of Competition for New Markets Tax Credit Program

Treasury Secretary Paul O'Neill today announced the first competitive round for the allocation of tax credits under the New Markets Tax Credit (NMTC) program.

"The NMTC program is designed to stimulate private sector investment in the economic development of low-income communities – and we hope to see a real difference in the lives of the people in these communities," said O'Neill. "President Bush's vision of a more prosperous America for all of its citizens can only be achieved through results-oriented programs."

The NMTC program, established by Congress in December 2000, permits taxpayers to receive a credit against Federal income taxes for making Qualified Equity Investments in designated Community Development Entities (CDEs). Substantially all of the taxpayer's investment must in turn be used by the CDE to make qualified investments in low-income communities. The credit to the taxpayer totals 39% of the investment and is claimed over a seven-year credit period.

NMTCs will be allocated annually by the Treasury Department's Community Development Financial Institutions (CDFI) Fund to CDEs under a competitive application process. With the publication of this first Notice of Allocation Availability in the Federal Register on June 11, the CDFI Fund invites CDEs, and those entities seeking CDE designation, to submit an application to compete for tax credit allocations. The application deadline is August 29, 2002.

During the first round, allocations of up to an aggregate total of $2.5 billion in qualified equity investments in CDEs will be made. This $2.5 billion in allocations represents the combined allocations for 2001 and 2002, as the legislation permits. The remaining allocations will be made available as follows: $1.5 billion in 2003; $2 billion in each of 2004 and 2005; and $3.5 billion in each of 2006 and 2007.

"The NMTC Program has the potential to make a significant impact in the targeted areas because of the wide variety of investments that can be made," said Tony T. Brown, Director of the CDFI Fund.

PO-3166

"This program will catalyze new economic activity – ranging from loans to small businesses to the development of grocery stores, from charter schools to manufacturing plants. This flexible tool will enable urban and rural areas alike to attract private capital to expand their community development efforts."

Additional information can be found on the CDFI Fund's web site, www.cdfifund.gov .

-30-

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 10, 2002

The Honorable Trent Lott
Senate Republican Leader
United States Senate
Washington, DC 20510

Dear Senator Lott:

The War on Terrorism must be fought on many fronts. From an economic perspective, we must minimize the risks and consequences associated with potential acts of terror. No measure is more important to mitigating the economic effects of terrorist events than the passage of terrorism insurance legislation.

Last November 1, the Administration publicly agreed to bipartisan legislation negotiated with Chairman Sarbanes, Chairman Dodd, Senator Gramm and Senator Enzi. While the House of Representatives quickly responded to this urgent need by passing appropriate legislation, the Senate did not act and has not passed any form of terrorism legislation in the intervening seven months.

The absence of federal legislation is having a palpable and severe effect on our economy and is costing America's workers their jobs. In the first quarter of this year, commercial real estate construction was down 20 percent. The disruption of terrorism coverage makes it more difficult to operate, acquire, or refinance property, leading to diminished bank lending for new construction projects and lower asset values for existing properties. The Bond Market Association has said that more than $7 billion worth of commercial real estate activity has been suspended or cancelled due to the lack of such insurance. Last week, Moody's Investors Service announced that 14 commercial mortgage-backed transactions could be downgraded due to a lack of such insurance.

Without such insurance, the economic impact of another terrorist attack would be much larger, including major bankruptcies, layoffs and loan defaults. While we are doing everything we can to stop another attack, we should minimize the widespread economic damage to our economy should such an event occur.

One important issue for the availability of terrorism insurance is the risk of unfair or excessive litigation against American companies following an attack. Many for-profit and charitable entities have been unable to obtain affordable and adequate insurance, in part because of the risk that they will be unfairly sued for the acts of international terrorists.

To address this risk at least two important provisions are essential. First, provisions for an exclusive federal cause of action and consolidation of all cases arising out of terrorist attacks, like those included in the Air Transportation Safety and System Stabilization Act, are necessary to provide for reasonable and expeditious litigation.

PO-3167

Second, the victims of terrorism should not have to pay punitive damages. Punitive damages are designed to punish criminal or near-criminal wrongdoing. Of course such sanctions are appropriate for terrorists. But American companies that are attacked by terrorists should not be subject to predatory lawsuits. The availability of punitive damages in terrorism cases would result in inequitable relief for injured parties, threaten bankruptcies for American companies and a loss of jobs for American workers.

It is also clear that the potential for massive damages imposed on companies that suffer from acts of terror would endanger our economic recovery from a terrorist attack. Indeed, the added risks and legal uncertainty hanging over the economy as a result of last September 11th are major factors inhibiting a business willingness to invest and to create jobs. It makes little economic sense to pass a terrorism insurance bill that leaves our economy exposed to such inappropriate and needless legal uncertainty.

The bipartisan public agreement reached between the Administration and Chairman Sarbanes, Chairman Dodd, Senator Gramm and Senator Enzi last fall provided these minimum safeguards. We would recommend that the President not sign any legislation that leaves the American economy and victims of terrorist acts subject to predatory lawsuits and punitive damages.

The American people and our economy have waited seven months since our public agreement on legislation. The process must move forward. Prompt action by the Senate on this vitally important legislation is needed now.

Sincerely,

Paul H. O'Neill
Secretary of the Treasury

Lawrence Lindsey
Director,
National Economic Council

Mitchell E. Daniels
Director
Office of Management and Budget

R. Glenn Hubbard
Director
Council of Economic Advisors

cc: Senator Daschle

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
June 11, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	June 13, 2002
Maturity Date:	July 11, 2002
CUSIP Number:	912795KR1

High Rate: 1.710% Investment Rate 1/: 1.736% Price: 99.867

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 97.64%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 34,515,850	$ 17,973,530
Noncompetitive	26,666	26,666
FIMA (noncompetitive)	0	0
SUBTOTAL	34,542,516	18,000,196
Federal Reserve	1,894,839	1,894,839
TOTAL	$ 36,437,355	$ 19,895,035

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

Bid-to-Cover Ratio = 34,542,516 / 18,000,196 = 1.92

1/ Equivalent coupon-issue yield.

http://www.publicdebt.treas.gov

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PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
June 11, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 6-DAY BILLS

Term:	6-Day Bill
Issue Date:	June 12, 2002
Maturity Date:	June 18, 2002
CUSIP Number:	912795MU2

High Rate: 1.715% Investment Rate 1/: 1.765% Price: 99.971

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 74.98%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 60,990,000	$ 21,001,280
Noncompetitive	50	50
FIMA (noncompetitive)	0	0
SUBTOTAL	60,990,050	21,001,330
Federal Reserve	0	0
TOTAL	$ 60,990,050	$ 21,001,330

Median rate 1.715%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.680%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 60,990,050 / 21,001,330 = 2.90

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 4:30 P.M. EDT
Tuesday, June 11, 2002

Contact: Tasia Scolinos
(202) 622-2960

TESTIMONY OF ASSISTANT SECRETARY FOR ENFORCEMENT KENNETH LAWSON AND BRADLEY A. BUCKLES DIRECTOR BUREAU OF ALCOHOL, TOBACCO AND FIREARMS BEFORE SUBCOMMITTEE ON CRIME, TERRORISM AND HOMELAND SECURITY HOUSE JUDICIARY COMMITTEE

Thank you, Mr. Chairman, Mr. Scott and members of the Subcommittee. I am grateful to Chairman Smith for scheduling this hearing. I welcome the opportunity to discuss this important legislation addressing explosives.

The legislation before you contains practical, common sense provisions, which, if enacted into law, will significantly strengthen current Federal oversight responsibilities on explosives controls. It will also enhance our ability to deter, prevent, and identify individuals who illegally misuse or acquire explosives. This proposal provides new and strong measures to ensure that only persons who are legally entitled to possess explosives can do so, thereby enhancing our overall National efforts to combat terrorism.

NEED FOR ADDITIONAL AUTHORITY

We know that firearms, arson, and explosives are the most common tools of violent criminals and terrorists. However, under current Federal law, we have an "honor" system for explosives acquisition. Any individual may go into an explosives dealer's place of business within a State of residence and purchase virtually any quantity or type of explosives without a background check. As you know, background checks are currently required by law for

PO-3170

firearms purchases. Federal firearms laws also prohibit non-immigrant or illegal aliens from purchasing or possessing firearms.

It is not unlawful for these aliens to acquire or possess explosives. The legislation being considered by the Subcommittee would address both of these weaknesses in the Federal explosives laws.

Specifically, H.R. 4864 would require all purchasers of explosives to obtain a permit from ATF. A permit would be issued only to individuals who are properly identified and subjected to a thorough background check. This will ensure that prohibited categories of persons cannot acquire or possess explosives through legal distribution channels. Permits under existing law are required only for interstate purchases. This bill would extend the permit requirement to intrastate transactions. Although some States have enacted controls over intrastate purchases, they are not uniform and do not present a comprehensive solution as does the legislation before you today.

H.R.4864 will also provide for additional screening of all employees who will possess explosive materials, so that ATF can verify that these individuals are not prohibited from receiving or possessing explosives. Under current law, it is possible for terrorists and criminals to obtain access to explosive materials by obtaining jobs (such as driving trucks) with companies or individuals who are explosives licensees.

The legislation further recognizes the distinction between occasional users of explosives and frequent users by creating a new "limited user" permit for those who anticipate only infrequent purchases. Occasional users with an intrastate purchaser's permit would be allowed to make no more than four purchases of explosives within a 12-month period and the permit would only be valid for purchases within the purchaser's State of residence. While limited permit holders must pass the background check like all other license or permit applicants, they would not be subject to warrantless compliance inspections that are required for holders of regular user permits.

This legislation also expands the list of individuals who are prohibited from purchasing or possessing explosives to include mental incompetents, certain aliens other than lawful permanent residents, persons dishonorably discharged from the military, and persons who have renounced their U.S. citizenship.

Congress has already determined that the possession of firearms by the above categories of people is dangerous to society. In order to combat terrorism and other violent crime, it is essential that Federal law prohibit the receipt or possession of explosive materials by such individuals already deemed too dangerous to possess firearms. These additions to the list of prohibited persons brings the explosives law in line with most categories of prohibited persons under the Gun Control Act.

The legislation also would enhance ATF's ability to solve criminal cases involving explosives by requiring explosives manufacturers and importers, as well as persons who manufacture or import ammonium nitrate, to provide to ATF, upon request, samples of, or chemical information on, the products they manufacture or import. This will essentially enable us to create a library with which to identify explosives materials, increase our investigative capabilities, and produce a greater body of scientific and research data available for use by the law enforcement and intelligence communities, nationwide and worldwide. Such information is essential to ATF's ability to prevent and solve bombings and to trace explosive materials used in terrorist activities and other violent crimes by matching residue with the manufacturers' samples.

This provision would further augment the capabilities of ATF's National Arson and Explosives Repository, in that it will assist us in analyzing unusual sales and thefts for trends and patterns that may indicate criminal misuse of explosives or illegal trafficking. This proactive approach will complement existing homeland security efforts.

Finally, the legislative package includes a provision restoring the ability of ATF and Federal law enforcement to investigate and prosecute those who use explosives to damage the property of institutions receiving Federal financial assistance, such as hospitals and laboratories.

We fully anticipate the need for additional resources to implement this legislation, if enacted. We are currently evaluating what those specific needs will be and will continue to coordinate the resource requirements with OMB for submission to Congress.

In summary, we believe the legislative package under consideration today would greatly enhance our current efforts to prevent the illegal and criminal diversion and misuse of explosive materials.

REGULATION AND INSPECTION OF THE EXPLOSIVES INDUSTRY

In order to put these legislative proposals in context, I would like to provide some background on ATF's current regulatory and investigative efforts involving explosives.

ATF regulates the commerce in explosives by licensing and inspecting importers, manufacturers, dealers, and persons acquiring or transporting explosive materials in interstate or foreign commerce. As a part of its regular inspection program, ATF inspects explosives storage facilities and the records of acquisition and disposition that licensees and permittees are required to maintain. ATF is able to trace explosive materials using these records.

Explosives storage facilities are inspected to ensure that explosive materials are properly secured against theft and located at minimum prescribed distances from inhabited buildings, public roads, and passenger railroads.

Under current law, any person who has knowledge of the theft or loss of explosive materials from his stock must report the theft or loss to ATF within 24 hours of discovery.

Following the September 11 terrorist attacks, ATF sent a letter urging all explosives licensees and permittees to take immediate measures to secure their explosives inventories. Between October and December 2001, ATF field personnel conducted 7,459 inspections of explosives licensees/permittees (out of a total of 9,400). ATF personnel encouraged the proprietors to report thefts, losses, or suspicious activity to ATF and the appropriate local authorities. ATF carried out these inspections to gauge internal security controls and report any unusual purchase attempts, break-ins, or any other anomalies that would indicate a breach to security.

In connection with the 7,459 inspections, ATF uncovered over 200 possible criminal violations. We also found 1,763 violations in recordkeeping, storage, and the conduct of business. Follow-up inspections will be required to ensure that corrective actions have been taken. In one instance, we revoked the license of a company which did not properly store approximately 4 million pounds of explosives materials. During the first half of Fiscal Year(FY) 2002, ATF identified and corrected 486 violations as a result of these inspections.

In addition to the inspections of explosives industry members after the September 11 attacks, ATF inspectors carried a considerable workload throughout the year, helping to ensure the lawful storage of explosives materials. In FY 01, inspectors completed 5,032 full inspections, which encompassed explosives application and compliance inspections. ATF opened investigations on 58 explosives thefts in FY 01, and ATF's Arson and Explosives National Repository Branch (AENRB) recorded the thefts of nearly 50,000 pounds of explosives and the recovery of over 12,000 pounds.

ATF'S ROLE IN COMBATING TERRORISM

As with all law enforcement agencies in the United States today, ATF faces an unprecedented challenge. Our world in 2002 is very different than it was a year ago. The magnitude and effect of the attacks of September 11 cannot be measured, but we are committed to doing everything in our power to ensure the safety of all Americans from future attacks.

In response, ATF has aligned its priorities to the current priorities of the President and the Nation--anti-terrorism. ATF is charged with the responsibility of preventing terrorists from acquiring firearms and explosives. ATF's statutory mandates and unparalleled investigative expertise place us in the forefront of this National effort.

Before and since September 11, ATF has been an active partner with other Federal, State and local law enforcement agencies in combating terrorism.

From illegal arms smuggling cases, to virtually every major bombing such as the 1993 World Trade Center bombing, the Oklahoma City Federal building bombing, and the Atlanta Olympics Centennial Park Bombing, ATF has played a significant role, lending its unique expertise to these investigations.

ATF's role in investigating the illegal use of firearms and explosives dates back to 1934, with the enactment of the National Firearms Act. Under this law, the Secretary of the Treasury was directed to impose controls on machine guns, short-barreled weapons, other dangerous weapons, and "destructive devices." The term "destructive device" includes bombs, grenades, and mines. This authority was delegated to ATF's predecessor bureau within the Internal Revenue Service. Subsequently, the Organized Crime Control Act of 1970, under 18 U.S.C. Section 846, gave the Secretary of the Treasury investigative jurisdiction with respect to Federal explosives laws, also delegated to ATF.

ATF RESOURCES IN COMBATTING TERRORISM

ATF employs a wide array of resources in the investigation of explosives incidents.

ATF is addressing violent arson and explosives-related crimes through enforcement and training. ATF's arson and explosives programs provide a comprehensive proactive and reactive force in the fight to protect the American public from the criminal use of fire and explosives. Through these programs, ATF personnel work to prevent criminal and terrorist activity involving explosives at nearly every level of the regulatory and investigative process. ATF's focus on arson and explosives crimes continues to be a major Bureau priority.

Explosives Enforcement

In FY 01, ATF submitted 220 explosives cases for prosecution, of which 303 defendants were recommended for prosecution.

Highlighted below are examples of ATF expertise and resources brought to bear in support of explosives investigations.

Our National Response Teams (NRTs) are comprised of highly trained and well-equipped professionals that can be deployed within 24 hours to major explosion and fire scenes anywhere in the United States. The teams are comprised of ATF's most experienced fire and explosives investigators and supported by state-of-the art forensic laboratory equipment, chemists, accelerant or explosives-detecting canines, and intelligence resources. There have been 521 activations of the NRTs since 1978, the year of their inception. The NRTs were activated 26 times in FY 01 to investigate major fire and explosives incidents. These 26 activations involved 194 deaths, 24 injuries, and nearly $35.8 million in estimated property damages. An ATF NRT responded to the September 11, attack on the Pentagon as well. As of May 3, 2002, there have been 19 NRT activations.

In addition to investigating fire and explosives incidents, the NRTs provide assistance to other Federal, State, and local law enforcement agencies during special events. In fiscal years 2001 and 2002, the NRT provided support at the Special Olympics in Anchorage, the Asian Bank Conference in Honolulu, the Presidential Inauguration, and most recently, the Winter Olympics in Salt Lake City.

ATF's International Response Team (IRT) participates with the Diplomatic Security Service of the Department of State to provide investigative assistance at international explosives and fire incidents. There have been 21 IRT activations since its inception in 1991. The team has responded to vehicle bombings in Peru and Macedonia, explosions in Argentina targeting the Israeli Embassy, and incidents in El Salvador, Ecuador, Surinam, Pakistan, Grenada, and Korea. In 2001, the IRT was activated three times to assist foreign governments in explosives investigations and fire scene examinations.

Also participating in many of these incidents were ATF's Explosives Enforcement Officers (EEOs). EEOs conduct explosives operations in support of ATF investigative efforts.

They conduct render-safe procedures of improvised explosive devices, perform underwater explosives recoveries, make destructive device determinations and testify about these determinations in court, as well as participate in foreign country explosives capability assessments. These EEOs operate the "ARTS-V," the only fully functional remote transport vehicle-bomb disruption system designed to disrupt, at a safe distance, car and truck bombs too large to defeat by traditional methods. In FY 01, ATF EEOs traveled with the Department of State's Antiterrorism Assistance Team to assess the capabilities of 10 foreign countries to respond to terrorist or explosives incidents. In addition, the EEOs participated in each National and International Response Team callout, testified in criminal proceedings 24 times, rendered 237 technical assists, wrote 389 technical statements, and performed many other tasks in support of ATF's explosives mission.

ATF also relies on our Special Agent Certified Explosives Specialists (SACES) in combating terrorism and violent crime. Our SACES are trained to identify explosive devices. Additionally, they provide explosives technical support and assistance in explosives-related matters in the field, and are trained to assess destructive devices.

The ATF laboratories support investigations by offering scientific forensic services in the areas of alcohol, tobacco, arson, explosives, trace evidence, questioned documents, fingerprints, firearms, toolmarks, and automated ballistic identification (NIBIN).

ATF has forensic laboratories in Atlanta, San Francisco, and the Washington, DC, metro area. A new Fire Research Center under construction in the Washington, DC, metro area is scheduled for completion in March of 2003. ATF's laboratory service is composed of over 130 chemists, forensic examiners, and support personnel. ATF laboratories, the first Federal accredited laboratories, are the only Federal accredited explosives laboratories in the United States, accredited by the American Society of Crime Laboratory Directors.

ATF has more personnel trained and experienced in examining fire and explosives evidence than any other laboratory in the United States. Over 70 chemists and forensic examiners are available to provide support from their respective laboratory sites.

The personnel from these laboratories assist in the collection of evidence at fire and explosives scenes and examine it to identify accelerants, incendiary devices components, and destructive device components. Evidence collected at the site of an explosion is examined to identify the explosives used and to identify blasting caps, leg wires, fuses, timing mechanisms, energy sources, igniters, tape, and other components used to construct the device. The ATF laboratories house the only complete library of smokeless powder samples in existence.

In 1996, Congress, recognizing ATF's expertise in the investigation of fire/arson and explosives-related incidents, passed legislation authorizing the Secretary of the Treasury to establish a National Repository for information regarding arson incidents and the actual and suspected criminal misuse of explosives throughout the United States.

The Arson and Explosives National Repository Branch (AENRB) maintains a state-of-the-art database that contains detailed information on over 112,000 arson and explosives incidents. This database, the Arson and Explosives Incidents System (AEXIS), is used to trace stolen and recovered explosive material and military ordnance. In addition to providing vital investigative services to law enforcement personnel worldwide, the AENRB uses information from AEXIS to provide threat assessment support to Federal agencies and major event security task forces. The AENRB contains data on not only arson and explosives incidents, but destructive devices and their components, and information on the criminal use of explosives. This database is an investigative tool that can be queried and analyzed to provide information on trends in criminal use of explosives, similarities between different explosive devices, and other investigative leads.

In spring 2001, the AENRB embarked on a focused program to connect the Nation's fire and explosion investigators to the latest in information communications and management technology.

The project, known as the Bomb Arson Tracking System (BATS), is designed to facilitate and promote the collection and dissemination of fire, arson, and explosives information among participating agencies. As presently envisioned, participating law enforcement agencies and members with established National Crime Information Center (NCIC) access will be able to access BATS via desktop computer and Internet. Once connected to the ATF-secured and maintained extranet server, participants will be able to enter information, query information (both locally and across agencies), and produce relevant reports.

The AENRB coordinates explosives intelligence internationally with 12 Bomb Data Centers throughout the world and is involved in planning and coordinating the establishment of Explosive Repository Centers in Mexico and Colombia. In FY 01, AENRB personnel provided presentations on the Repository's capabilities to 2,158 representatives of Federal, State, local, and foreign law enforcement or explosives industry representatives.

Explosives Training

ATF continues to vigorously enforce the Federal explosives and arson law by providing state-of-the-art training and expertise to Federal, State, local, and foreign law enforcement partners. This training is instrumental in preparing our law enforcement partners for the fight against terrorists who use explosives.

ATF's Office of Training and Professional Development (TPD) provides the highest level of training available anywhere on the investigation of explosives and firearms-related incidents. ATF courses related to counter-terrorism include the Advanced Explosives Investigative Techniques, International Firearms and Explosives Identification, the Seminar on Terrorism and Explosives (SEMTEX), and the Post-blast Investigation Course, for foreign, Federal, State, and local law enforcement students.

ATF has trained hundreds of law enforcement officers from the United States and abroad in the techniques of conducting explosives-related investigations.

This type of training is ongoing and the international courses are funded through cooperative agreements with the State Department Anti-Terrorism Assistance Program and International Narcotics and Law Enforcement Affairs.

For the past several years, to protect the Nation's largest airports, the Federal Aviation Administration (FAA) and ATF have joined together to conduct SEMTEX and field training exercises that better prepare and train aviation, security, and law enforcement personnel in explosives countermeasure techniques. In FY 01, ATF trained 312 FAA personnel. ATF and FAA are currently updating this curriculum in light of September 11. In FY 02, 300 additional personnel are expected to be trained.

During FY 02, ATF, in conjunction with the U.S. Department of Education, is developing a CD-ROM training platform titled, "Bomb Threat Management and Response." This training CD-ROM will provide a standardized bomb threat management and response template that can be used by school administrators to develop a customized response program for their schools. This CD-ROM will be completed in the summer of 2002 and distributed to all school districts, local law enforcement offices, and ATF offices. It is anticipated that ATF field personnel will be called upon by the school districts to help establish and implement these management and response plans.

Additionally, ATF developed a course for bomb technicians on the safe destruction and disposal of explosive materials. The Advanced Explosives Destruction Techniques (AEDT) course was developed in response to the fact that far more injuries and deaths of bomb technicians occur during disposal operations than during render-safe operations. Over the course of a year and a half, ATF worked with many State and local bomb technicians, along with representatives from the Environmental Protection Agency, the Department of Transportation, the Consumer Product Safety Commission, and others to develop the course. Together, we developed a course that covers the safety, legal, logistical, operational, and health facets of explosives disposal/destruction operations.

Explosive Detection Canines

ATF-certified accelerant and explosives detection handler/canine teams support ATF's fire and explosives investigations. In FY 01, ATF's six special agent/canine teams searched 10,356 vehicles, buildings, or items during the execution of Federal, State, or local search warrants, or in conjunction with searches or sweeps during ATF or Federal security details. Our canines supported preventive security efforts at such diverse events as the response to the September 11 attack on the Pentagon, the Special Olympics, the 2001 and 2002 Superbowl, the 2002 Winter Olympics, and many others.

The ATF Canine Training Center in Front Royal, Virginia, trains explosives and accelerant detection canines. In a training arrangement with the U.S. Department of State, ATF trains explosives detection canines for foreign countries to be used in the war against terrorism and to protect American travelers abroad. ATF has also trained and certified 310 explosives-detection canine teams for deployment in 13 countries around the world. Additionally, ATF has trained 47 explosives detection canine teams for other Federal, State, and local agencies, including the Federal Bureau of Investigation, the Central Intelligence Agency, and the Internal Revenue Service. With the funding provided in the FY 02 Anti-Terrorism Supplemental Appropriations Act we will be expanding the canine training center to meet the increasing demand for these resources. Since the start of the program, ATF has also trained and certified 94 accelerant-detection canines for State and local agencies.

Explosives Study Group

ATF's Explosives Study Group (ESG) is examining: 1) the feasibility of tagging explosive materials for purposes of detection and identification; 2) possibilities for rendering inert common chemicals used to manufacture explosive materials; 3) imposing controls on certain precursor chemicals used to manufacture explosives; 4) State licensing requirements for the purchase and use of commercial high explosives; and 5) the possible use of new prevention (explosives detection) technologies, as directed by section 732 of the Antiterrorism and Effective Death Penalty Act of 1996, as amended by the Omnibus Consolidated Appropriations Act for FY 97. A report on these findings is in the final stages of review.

The ESG has also compiled a comprehensive list of State licensing requirements for the purchase and use of commercial high explosives, and is currently consulting with State regulators and industry members to develop recommendations for consideration by Congress that would advance public safety.

The ESG has worked with The Fertilizer Institute (TFI) to expand the "Be Aware for America" program to address areas of vulnerability for distributors of ammonium nitrate fertilizer and agricultural chemicals. This expansion, the "Be Secure for America" program, is aimed at ensuring the security of the transportation, storage, and manufacturing of agricultural chemicals.

Additionally, ATF is conducting promising research at the Oak Ridge National Laboratory, including prototype development, engineering, and training on advanced sensing technologies for explosives detection. The objective is the development of a portable explosives detector that will function with a short, real-time response rate for trace amounts of explosives.

The ESG has continued to communicate and work with other Federal agencies such as the FAA, the Customs Service, the Department of Justice, and the Department of Energy. The goal is to achieve a coordinated effort to identify and direct resources toward the most promising technologies for both the detection of additives and the detection of explosive materials.

Dipole Might

ATF, the Army Corps of Engineers, and the Defense Special Weapons Agency have been jointly conducting a multi-year research project called Dipole Might to create a database of information and a protocol for investigating large-scale vehicle bombs. This project analyzes blast effects of large vehicle bombs to allow for a more effective deployment of investigative resources and quicker analysis of recovered evidence following bombing events such as the World Trade Center, the Oklahoma City bombing, and the U.S. embassies in Kenya and Tanzania. Dipole Might is funded by the National Security Council.

Partnerships

ATF continues its tradition of partnering with other Federal, State, and local agencies on developing protocols and partnerships to efficiently utilize our resources in the fight against terrorism and violent crime. Some of the agencies we have partnered with include the Central Intelligence Agency, the Department of State, the Customs Service, the Secret Service, the National Transportation Safety Board, the Department of Justice, Federal Bureau of Investigation, the United States Department of Agriculture, the Chemical Safety and Hazard Investigation Board, and the new Transportation Security Administration.

Additionally, ATF has worked to establish a rapport with industry organizations such as the International Society of Explosives Engineers, the Institute of Makers of Explosives, the American Pyrotechnics Association, and the National Shooting Sports Foundation.

ATF's criminal investigative analysts (Profilers) assigned to the FBI's National Center for the Analysis of Violent Crime (NCAVC), spent two years conducting research and interviewing 38 imprisoned bombing offenders. In June 2001, they published the findings of their joint study with the NCAVC. The study, "Behavior and Characteristics of Bomb Related Offenders," will serve as a catalyst for further research into understanding the motivations and characteristics of subjects who use explosives for criminal intent.

Our profilers are also assisting in our Nation's war on terrorism, and they are working with their FBI counterparts to conduct ongoing threat assessments, such as that for the G-8 Summit in Canada.

CONCLUSION

In summary, let me once again express my appreciation for the opportunity to appear before the Committee. It has been a privilege to provide you with background on ATF's explosives resources and programs, as well as this legislative package which we believe will greatly enhance our Nation's safety and homeland security. I would be happy to answer any questions you may have.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
Wednesday, June 12, 2002

Contact: Tara Bradshaw
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Statement of Secretary Paul O'Neill Urging Senate Passage of the Gramm-Kyl Amendment to Permanently Repeal the Death Tax

America's prosperity comes from the millions of individuals who spend their time, their energy and their resources pursuing ideas, setting up new businesses and creating value. Last year, the Congress phased out the death tax, recognizing that innovative entrepreneurs deserve to pass their life's work to their children, not to the government.

Unfortunately, the death tax repeal enacted last year expires in 2011, after which Washington will step in once again to take part of the legacy created by the individuals who are the backbone of our economy. And because the death tax reappears, too many small business owners today are forced to spend money on estate planning that could instead be invested in job-creating business expansions.

I urge the Senate today to repeal the death tax once and for all, so that today's small business owners can pass their legacies to their families and thriving enterprises can continue to employ American workers and create prosperity.

-30-

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DEPARTMENT OF THE TREASURY

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Thursday June 13, 2002

Contact: Tara Bradshaw
202-622-2014

TESTIMONY OF BARBARA ANGUS, INTERNATIONAL TAX COUNSEL, UNITED STATES DEPARTMENT OF THE TREASURY BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS SUBCOMMITTEE ON SELECT REVENUE MEASURES ON INTERNATIONAL TAX POLICY AND COMPETITIVENESS

Mr. Chairman, Congressman McNulty, and distinguished Members of the Subcommittee, I appreciate the opportunity to appear today at this hearing focusing on international tax policy and competitiveness issues. The issues that the Subcommittee has explored in this series of hearings on the recent WTO decision regarding the U.S. extraterritorial income exclusion provisions are critically important as we work toward meaningful changes in our tax rules that will protect the competitive position of American businesses and workers and honor our WTO obligations.

Introduction

The pace of technological advancement around the world is awe inspiring. Computer processing abilities are expanding at exponential rates, roughly doubling every year or two. Innovations in pharmaceuticals and biotechnology are providing breakthroughs in treating disease, permitting dramatic improvements in the quality of life. Today, the keys to production in even basic commodity industries like oil, paper, and steel are found in better knowledge and innovation: the ability to produce more with less waste.

The concern facing this Subcommittee today is that our tax code has not kept pace with the changes in our real economy. International tax policy remains rooted in tax principles developed in the 1950s and 1960s. That was a time when America's foreign direct investment was preeminent abroad and competition from imports to the United States was scant. Today, we have a truly global economy, in terms of both trade and investment. The value of goods traded to and from the United States increased more than three times faster than GDP between 1960 and 2000, rising to more than 20 percent of GDP. The flow of cross-border investment, both inflows and outflows, rose from a scant 1.1 percent of GDP in 1960 to 15.9 percent of GDP in 2000.

The globalization of the world economy has provided tremendous benefits to consumers and workers. Those who can build a better mousetrap now can sell it to the world.

PO-3172

The potential for a world market encourages companies to invest in research that leads to continuous innovation. At one time, the strength of America's economy was thought to be tied to its abundant natural resources. Today, America's strength is its ability to innovate: to create new technologies and to react faster and smarter to the commercialization of these technologies. America's preeminent resource today is its knowledge base.

A feature of a knowledge-driven economy is that unlike physical capital, technological know-how can be applied across the world without reducing the productive capacity of the United States. For example, computer software designed to enhance the efficiency of a manufacturing process may require substantial investment, but once developed it can be employed around the world without diminishing the benefits of the know-how within the United States. Foreign direct investment by companies in a knowledge-driven economy provides opportunities to export this know-how at low cost and incentives to undertake greater domestic investment in developing these sources of competitive advantage.

There are many reasons to believe that the principles that guided tax policy adequately in the past should be reconsidered in today's highly competitive, knowledge-driven economy. In this regard, it is significant that the U.S. tax system differs in fundamental ways from those of our major trading partners. In order to ensure the ability of U.S. workers to achieve higher living standards, we must ensure that the U.S. tax law does not operate to hinder the ability of the U.S. businesses that employ those workers to compete on a global scale.

Competitiveness and U.S. Tax Policy

There are several different ways in which tax policy can affect the ability of firms to compete. It may be helpful to consider the ways in which commercial operations based in different countries compete in the global marketplace.

Competition may be among:

- U.S.-managed firms that produce within the United States;
- U.S.-managed firms that produce abroad;
- Foreign-managed firms that produce within the United States;
- Foreign-managed firms that produce abroad within the foreign country in which they are headquartered; and
- Foreign-managed firms that produce abroad within a foreign country different from the one in which they are headquartered.

These entities may be simultaneously competing for sales within the United States, within a foreign country against local foreign production (either U.S., local, or other foreign managed), or within a foreign country against non-local production. Globalization requires that U.S. companies be competitive both in foreign markets and at home.

Other elements of competition among firms exist at the investor level: U.S.-managed firms may have foreign investors and foreign-managed firms may have U.S. investors.

Portfolio investment accounts for approximately two-thirds of U.S. investment abroad and a similar fraction of foreign investment in the United States. Firms compete in global capital markets as well as global consumer markets.

In a world without taxes, competition among these different firms and different markets would be determined by production costs. In a world with taxes, however, where countries make different determinations with respect to tax rates and tax bases, these competitive decisions inevitably are affected by taxes. Assuming other countries make sovereign decisions on how to establish their own tax systems and tax rates, it simply is not possible for the United States to establish a tax system that restores the same competitive decisions that would have existed in a world without taxes.

The United States can, for example, attempt to equalize the taxation of income earned by U.S. companies from their U.S. exports to that of U.S. companies producing abroad for the same foreign market. However, in equalizing this tax burden, it may be the case that the U.S. tax imposed results in neither type of U.S. company being competitive against a foreign-based multinational producing for sale in this foreign market.

The manner in which balance is achieved among these competitive concerns changes over time as circumstances change. For example, as foreign multinationals have increased in their worldwide position, the likelihood of a U.S. multinational company competing against a foreign multinational in a foreign market has increased relative to the likelihood of U.S. export sales competing against sales from a U.S. multinational producing abroad. The desire to restore competitive decisions to those that would occur in the absence of taxation therefore may place greater weight today on U.S. taxes not impeding the competitive position of U.S. multinationals vis-à-vis foreign multinationals in the global marketplace. Similarly, while at one time U.S. foreign production may have been thought to be largely substitutable with U.S. domestic production for export, today it is understood that foreign production may provide the opportunity for the export of firm-specific know-how and domestic exports may be enhanced by the establishment of foreign production facilities through supply linkages and service arrangements.

Given the significance today of competitiveness concerns, it is important to understand the major features of the U.S. tax system and how they differ from those of our major trading partners. The primary features of the U.S. tax system considered here are: (i) the taxation of worldwide income; (ii) the current taxation of certain types of active foreign-source income; (iii) the limitations placed on the use of foreign tax credits; and (iv) the unintegrated taxation of corporate income at both the entity level and the individual level.

Taxation of Worldwide Income

The United States, like about half of the OECD countries, including the United Kingdom and Japan, operates a worldwide system of income taxation. Under this worldwide approach, U.S. citizens and residents, including U.S. corporations, are taxed on all their income, regardless of where it is earned.

Income earned from foreign sources potentially is subject to taxation both by the country where the income is earned, the country of source, and by the United States, the country of residence. To provide relief from this potential double taxation, the United States allows taxpayers a foreign tax credit that reduces the U.S. tax on foreign-source income by the amount of foreign income and withholding taxes paid on such income. As discussed below, detailed rules apply to limit the foreign tax credit. A U.S. corporation generally is subject to U.S. tax on the active earnings of a foreign subsidiary if and when such income is repatriated as a dividend. However, the U.S. parent is subject to current U.S. tax on certain income earned by a foreign subsidiary, without regard to whether that income is distributed to the U.S. parent. As discussed further below, while these current taxation rules are focused on passive, investment-type income earned by a foreign subsidiary, their reach extends to active business income in certain cases.

The U.S. worldwide system of taxation is in contrast to the territorial tax systems operated by the other half of the OECD countries, including Canada, Germany, France, and the Netherlands. Under these territorial tax systems, domestic residents and corporations generally are subject to tax only on their income from domestic sources. A domestic business is not subject to domestic taxation on the active income earned abroad by a foreign branch or on dividends paid from active income earned by a foreign subsidiary. A domestic corporation generally is subject to tax on other investment-type income, such as royalties, rent, interest, and portfolio dividends, without regard to where such income is earned; because this passive income is taxed on a worldwide basis, relief from double taxation generally is provided through either a foreign tax credit or a deduction allowed for foreign taxes imposed on such income. This type of territorial tax system sometimes is referred to as a "dividend exemption" system because active foreign business income repatriated in the form of a dividend is exempt from taxation. By contrast, a pure territorial system would provide an exemption for all income received from foreign sources, including passive income such as royalties, rent, interest, and portfolio dividends. Such pure territorial systems have existed only in a few developing countries.

Differences between a worldwide tax system and a territorial system can affect the ability of U.S.-based multinationals to compete for sales in foreign markets against foreign-based multinationals. Under a worldwide tax system, repatriated foreign income is taxed at the higher of the source country rate or the residence country rate. In contrast, foreign income under a territorial tax system is subject to tax at the source country rate.

Consider a U.S.-based company and a foreign-based company established in a country with a territorial tax system. Each company is considering investment in a new foreign subsidiary to establish a manufacturing operation for the local foreign market. The effect of the worldwide system on this form of competition depends on the relationship of the foreign rate of tax on corporate income to that of the United States.

Let us first assume that the effective tax rate on corporate income of this foreign country is *lower* than the effective U.S.-tax rate on corporate income (because the foreign country has a lower statutory rate on corporate income or because it has investment incentives such as accelerated depreciation). If the foreign subsidiary of the U.S.-based company repatriates on a current basis its economic profits to its U.S. parent, it will effectively be subject to the higher U.S. tax rate on its income.

The foreign subsidiary of the company established in the territorial country, however, will be subject to the lower foreign rate of tax. If the U.S. company cannot garner sufficient efficiency advantages relative to its foreign competitor, it will be unable to compete since it must sell its product in this market at prices competitive with that of its foreign competition.
An alternative outcome results if the foreign country in which the foreign investment is being considered has a *higher* effective corporate tax rate than the United States. In this case, the U.S. parent is not disadvantaged relative to the company established in a country with a territorial tax system. Income earned by the U.S.-owned foreign subsidiary will be subject to tax at only the source country tax rate, the same result as under a territorial system.

The foregoing examples assumed that the U.S. parent company had no other foreign-source income. The presence of other foreign-source income can affect the rate of tax paid on additional foreign-source income under U.S. tax rules because credits for taxes paid to one foreign country can effectively be pooled with credits for taxes paid to another foreign country.

Consider for example the case of a U.S. parent that has other foreign-source income that is taxed at foreign rates *higher* than the U.S. tax rate. In this case, the U.S. parent will have excess foreign tax credits before considering its decision to invest in a new foreign subsidiary. If the U.S. parent is considering establishing its new foreign subsidiary in a country with a tax rate *lower* than the U.S. rate, these excess credits generally may be used to offset the additional U.S. tax that would be levied on the income of this new investment. The presence of excess foreign tax credits thus reduces the tax burden imposed by the United States on income from the new lower-taxed foreign location. As a result, a U.S. parent in this position will be relatively less disadvantaged by the U.S. tax system. If it has sufficient excess foreign tax credits, the U.S. parent can offset all of its U.S. corporate tax on the income from the new investment and its tax burden will be just the taxes paid in the foreign country -- the same result as under a territorial system.

A different competitive result occurs when the U.S. parent has other foreign-source income that is taxed at foreign rates *lower* than the U.S. tax rate. In such a case the U.S. tax rate is the effective tax rate on such foreign income. If the U.S. parent is now considering establishing its new foreign subsidiary in a country with a tax rate *higher* than the U.S. rate, the income earned from this new investment will generate excess foreign tax credits that can offset the additional U.S. tax paid on its preexisting foreign-source income. As a result, in this case the U.S. parent receives a tax advantage from making the new investment in the high-tax country relative to the treatment of such investment under a territorial system.

These examples illustrate that the use by the United States of a worldwide tax system may disadvantage the competitiveness of U.S. foreign direct investment in countries with effective corporate tax rates below those of the United States. The use of a worldwide tax system does not disadvantage investment in countries with effective corporate tax rates above those of the United States, and in some instances may actually result in more favorable treatment for incremental U.S. investment relative to investment from companies headquartered in territorial countries. Of course, these results are based just on the distinction between a territorial and worldwide tax system, and ignore other key features of the U.S. tax system.

The complexities present in taxing income generally are heightened in determining the taxation of income from multinational activities, where in addition to measuring the income one must determine its source (foreign or domestic). This complexity affects both tax administrators and taxpayers. Indeed, the U.S. international tax rules have been identified as one of the largest sources of complexity facing U.S. corporate taxpayers.

The distinction in the treatment under a territorial tax system of foreign-source income relative to domestic-source income puts particular pressure on the determination of the source of items of income and expense. While classification of income as foreign source is important under a worldwide tax system because it determines availability of foreign tax credits, in a territorial system classification as foreign-source income gives rise to an exemption from tax. Similarly, under a territorial tax system, expenses allocable to foreign-source income would not be deductible for tax purposes while expenses so allocated in a worldwide tax system would reduce the availability of foreign tax credits.

Under most territorial systems, certain investment-type income is subject to tax without regard to where that income is earned. This raises the further issue of classification of income as subject to tax under this exception from the generally applicable territorial principles. Moreover, to the extent that this income is eligible for a foreign tax credit, the computational steps that are required to determine the amount of foreign-source income for purposes of applying foreign tax credit rules in a worldwide tax system would be built into the territorial system as well.

Given the complexity of the task of taxing multinational income under a worldwide or territorial system on top of the general complexity of the income tax system, some consideration might be given to alternative tax bases other than income. Other OECD countries typically rely on taxes on goods and services, such as under a value added tax, for a substantial share of tax revenues. In the European OECD countries, for example, these taxes raise nearly five times the amount of revenue as does the U.S. corporate income tax as a share of GDP.

Differences in Worldwide Tax Systems

As described above, about half of the OECD countries employ a worldwide tax system as does the United States. However, even limiting comparison of competition among multinational companies established in countries using a worldwide tax system, U.S. multinationals may be disadvantaged when competing abroad. This is because the United States employs a worldwide tax system that, unlike other worldwide systems, may tax active forms of business income earned abroad before it has been repatriated and may more strictly limit the use of the foreign tax credits that prevent double taxation of income earned abroad.

Limitations on Deferral

Under the U.S. international tax rules, income earned abroad by a foreign subsidiary generally is subject to U.S. tax at the U.S. parent corporation level only when such income is distributed by the foreign subsidiary to the U.S. parent in the form of a dividend.

An exception to this general rule is provided with the rules of subpart F of the Code, under which a U.S. parent is subject to current U.S. tax on certain income of its foreign subsidiaries, without regard to whether that income is actually distributed to the U.S. parent. The focus of the subpart F rules is on passive, investment-type income that is earned abroad through a foreign subsidiary. However, the reach of the subpart F rules extends well beyond passive income to encompass some forms of income from active foreign business operations. No other country has rules for the immediate taxation of foreign-source income that are comparable to the U.S. rules in terms of breadth and complexity.

Several categories of active business income are covered by the subpart F rules. Under subpart F, a U.S. parent company is subject to current U.S. tax on income earned by a foreign subsidiary from certain sales transactions. Accordingly, a U.S. company that uses a centralized foreign distribution company to handle sales of its products in foreign markets is subject to current U.S. tax on the income earned abroad by that foreign distribution subsidiary. In contrast, a local competitor making sales in that market is subject only to the tax imposed by that country. Moreover, a foreign competitor that similarly uses a centralized distribution company to make sales into the same markets also generally will be subject only to the tax imposed by the local country. While this subpart F rule may operate in part as a "backstop" to the transfer pricing rules that require arms' length prices for intercompany sales, this rule has the effect of imposing current U.S. tax on income from active marketing operations abroad. U.S. companies that centralize their foreign distribution facilities therefore face a tax penalty not imposed on their foreign competitors.

The subpart F rules also impose current U.S. taxation on income from certain services transactions performed abroad. In addition, a U.S. company with a foreign subsidiary engaged in shipping activities or in certain oil-related activities, such as transportation of oil from the source to the consumer, will be subject to current U.S. tax on the income earned abroad from such activities. In contrast, a foreign competitor engaged in the same activities generally will not be subject to current home-country tax on its income from these activities. While the purpose of these rules is to differentiate passive or mobile income from active business income, they operate to subject to current tax some classes of income arising from active business operations structured and located in a particular country for business reasons wholly unrelated to tax considerations.

Limitations on Foreign Tax Credits

Under the worldwide system of taxation, income earned abroad potentially is subject to tax in two countries – the taxpayer's country of residence and the country where the income was earned. Relief from this potential double taxation is provided through the mechanism of a foreign tax credit, under which the tax that otherwise would be imposed by the country of residence may be offset by tax imposed by the source country. The United States allows U.S. taxpayers a foreign tax credit for taxes paid on income earned outside the United States.

The foreign tax credit may be used only to offset U.S. tax on foreign-source income and not to offset U.S. tax on U.S.-source income. The rules for determining and applying this limitation are detailed and complex and can have the effect of subjecting U.S.-based companies to double taxation on their income earned abroad. The current U.S. foreign tax credit regime also requires that the rules be applied separately to separate categories or "baskets" of income. Foreign taxes paid with respect to income in a particular category may be used only to offset the U.S. tax on income from that same category. Computations of foreign and domestic source income, allocable expenses, and foreign taxes paid must be made separately for each of these separate foreign tax credit baskets, further adding to the complexity of the system.

The application of the foreign tax credit limitation to ensure that foreign taxes paid offset only the U.S. tax on foreign-source income requires a determination of net foreign-source income for U.S. tax purposes. For this purpose, foreign-source income is reduced by U.S. expenses that are allocated to such income. Under the current rules, interest expense of a U.S. affiliated group is allocated between U.S. and foreign-source income based on the group's total U.S. and foreign assets. The stock of foreign subsidiaries is taken into account for this purpose as a foreign asset (without regard to the debt and interest expense of the foreign subsidiary). These rules thus treat interest expense of a U.S. parent as relating to its foreign subsidiaries even where those subsidiaries are equally or more leveraged than the U.S. parent. This over-allocation of interest expense to foreign income inappropriately reduces the foreign tax credit limitation because it understates foreign income. The effect can be to subject U.S. companies to double taxation. Other countries do not have expense allocation rules that are nearly as extensive as ours.

Under the current U.S. rules, if a U.S. company has an overall foreign loss in a particular taxable year, that loss reduces the company's total income and therefore reduces its U.S. tax liability for the year. Special overall foreign loss rules apply to recharacterize foreign-source income earned in subsequent years as U.S.-source income until the entire overall foreign loss from the prior year is recaptured. This recharacterization has the effect of limiting the U.S. company's ability to claim foreign tax credits in those subsequent years. No comparable recharacterization rules apply in the case of an overall domestic loss. However, a net loss in the United States would offset income earned from foreign operations, income on which foreign taxes have been paid. The net U.S. loss thus would reduce the U.S. company's ability to claim foreign tax credits for those foreign taxes paid. This gives rise to the potential for double taxation when the U.S. company's business cycle for its U.S. operations does not match the business cycle for its foreign operations.

These rules can have the effect of denying U.S.-based companies the full ability to credit foreign taxes paid on income earned abroad against the U.S. tax liability with respect to that income and therefore can result in the imposition of the double taxation that the foreign tax credit rules are intended to eliminate.

U.S. Corporate Taxation

While concern about the effects of the U.S. tax system on international competitiveness may focus on the tax treatment of foreign-source income, competitiveness issues arise in very much the same way in terms of the general manner in which corporate income is subject to tax in the United States.

One aspect of the U.S. tax system is that the income from an equity-financed investment in the corporate sector is taxed twice. Equity income, or profit, is taxed first under the corporate income tax. Profit is taxed again under the individual income tax when received by the shareholder as a dividend or as a capital gain on the appreciation of corporate shares. In contrast, most other OECD countries offer some form of integration, under which corporate tax payments are either partially or fully taken into consideration when assessing shareholder taxes on this income, eliminating or reducing the double tax on corporate profits.

The non-integration of corporate and individual tax payments on corporate income applies equally to domestically earned income or foreign-source income of a U.S. company. This double tax increases the "hurdle" rate, or the minimum rate of return required on a prospective investment. In order to yield a given after-tax return to an individual investor, the pre-tax return must be sufficiently high to offset both the corporate level and individual level taxes paid on this return.

Whether competing at home against foreign imports or competing abroad through exports from the United States or through foreign production, the double tax makes it less likely that the U.S. company can compete successfully against a foreign competitor.

An example may help to clarify matters. Suppose that a corporation earns $100 of pre-tax profit. Consider the tax burden imposed by the present U.S. tax system. On its $100 profit, the corporation must pay corporate income tax of $35 assuming a 35 percent corporate tax rate, leaving $65 to be distributed to shareholders or reinvested in the firm. If the money is distributed as a dividend, shareholders also must pay tax under the individual income tax. If shareholders are subject to an average tax rate of 20 percent, they pay tax of $13, leaving them $52 of after-tax income. In this example, the $100 profit is taxed twice – $35 in tax payments are collected under the corporate income tax and an additional $13 are collected under the individual income tax. In total, the tax system collects $48 in tax and so imposes a 48 percent "effective" tax rate on corporate profits distributed as dividends.

Now consider how integration reduces the tax burden on income from corporate equity. Full integration of the partnership type eliminates the corporate income tax and imputes the $100 of pre-tax profit directly to the shareholders, where it is taxed at the shareholders' 20 percent tax rate under the individual income tax. Full integration reduces the total tax on $100 in profits from $48 under present law to $20.

A simple form of partial integration is a dividend exclusion, which exempts dividends from the shareholders' taxable income. A dividend exclusion reduces the total tax burden to $35, entirely paid under the corporation income tax.

Because the unintegrated tax system results in a higher effective tax rate on income earned in the corporate sector, it is more difficult for a given investment to achieve a desired after-tax return (after both corporate and individual taxes are paid) than in an integrated tax system. As a result, projects that could attract equity capital in an integrated tax system may not be sufficiently profitable to attract equity capital in the present unintegrated system. In the context of competitiveness, this may mean that a project that would otherwise be undertaken by a U.S. company, either at home or abroad, is instead undertaken by a foreign competitor.

As noted above, most OECD countries offer some form of tax relief for corporate profits. This integration typically is provided by reducing personal income tax payments on corporate distributions rather than by reducing corporate level tax payments. International comparisons of corporate tax burdens, however, sometimes fail to account for differences in integration across countries and consider only corporate level tax payments. To be meaningful, comparisons between the total tax burden faced on corporate investments by U.S. companies and those of foreign multinational companies must take into account the total tax burden on corporate profits at both the corporate and individual levels.

* * * * *

Both the increase in foreign acquisitions of U.S. multinationals and the recent corporate inversion activity are evidence that the potential competitive disadvantage created by our international tax rules is a serious issue with significant consequences for U.S. businesses and the U.S. economy. The urgency of this issue is further heightened by the recent WTO decision against our extraterritorial income exclusion provisions and the need to respond promptly to that decision to come into compliance with the WTO rules.

A reexamination of the U.S. international tax rules is needed. It is appropriate to question the fundamental assumptions underlying the current system. We should look to the experiences of other countries and the choices that they have been made in designing their international tax systems. Consideration should be given to fundamental reform of the U.S. international tax rules. Consideration also should be given to significant reforms within the context of our current system.

The many layers of rules in our current system arise in large measure because of the difficulties inherent in satisfactorily defining and capturing income for tax purposes, particularly in the case of activities and investments that cross jurisdictional boundaries. However, the complexity of our tax law itself imposes a significant burden on U.S. companies. Therefore, we also must work to simplify our international tax rules.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 12:00 P.M. EDT
Thursday, June 13, 2002

Contact: Michele Davis
(202) 622-2920

Treasury Secretary Paul H. O'Neill
"Supporting American Small Business with Economic Freedom"
Remarks to the National Federation of Independent Business
Washington, DC

Thank you for your introduction, Jack (Ferris, President of NFIB). Thank you for inviting me to address the National Small Business Summit of the National Federation of Independent Business. It's always a pleasure for me to talk to small business leaders, the people who are on the ground, who are making things happen in the United States' economy. Your organization reminds us that our economy is built not on the swirl of activity in Washington, but rather on the hard work and creativity of entrepreneurs and innovators. Prosperity is built one job at a time.

Some of you know that I just returned from a tour through Africa, traveling with the rock star Bono. My kids think I'm "cool" now. But the trip was a lot more than cool. The things I saw in Africa, both the human suffering and human triumphs, deeply affected me. Among the most moving experiences were meetings with African entrepreneurs, individuals who are changing their lives and their communities for the better through their own hard work. I was reminded that small businesses and individual enterprise are the key to economic growth and development not just here at home, but around the world.

For example, in Uganda I met a woman named Lukia, a single mother, who started a restaurant with a $50 micro-loan and now employs a dozen of her neighbors, pays for school for her children, owns her home, and cares for babies orphaned by AIDS.

Lukia, like so many entrepreneurs around the globe, impressed me with her courage and can-do spirit. But many more, not just in Africa but all around the developing world, are prevented from realizing the same dreams. They are frustrated by corruption, bad laws, and good laws that go un-enforced. In too many cases, they suffer from leaders who steal rather than lead. They lack an environment with good governance and economic freedom that would allow them to make real their ambitions for a better life.

PO-3173

Seeing what I saw there also makes me appreciate what we have in the United States. In Africa, I met with Lukia and other successful entrepreneurs but their successes are too rare, even as aspirations for success are universal.

In the United States, we enjoy the greatest economic freedom in the world. Entrepreneurial success, while never easy, is an experience that millions share. Too often we take that for granted. The bedrock of the American way of life, and the foundation of our economy, is that any person with vision and courage can make his or her dream real.

Our laws, and our government, at their best, let people do just that. They let business owners decide how to invest their money -- in hiring and training new employees, or buying better equipment, or advancing research and development. It's not a perfect system, but we're trying to make it better every day.

We are fortunate to have a President, George W. Bush, who understands that private enterprise is the real source of American prosperity, and that economic freedom isn't only a true and just principle -- it is also the best policy. He understands, and I understand, that economic freedom is a principle that we have to fight for every day, to keep America prosperous.

Thanks to your efforts making good use of your economic freedom, our economy today is far ahead of where pessimists even six months ago thought it could be.

The underlying statistics are remarkably positive, and I believe we are on track to reach a 3-3.5% growth rate by the end of this year. In fact, the slowdown that started in 2000 is now officially the only single-quarter recession since World War II. Total GDP loss was 0.3%, compared to a 2.2% average drop for other recessions. Some credit for the shallowness of the slowdown goes to President Bush for advancing tax reform last summer at exactly the time our economy needed it most.

President Bush's first tax relief package, passed a year ago last week, has allowed business owners to put more money into productive endeavors and new jobs, instead of sending it to Washington. Over 30 million business owners who are taxed on their business income at individual rates stand to benefit. Tax relief came at just the right time for consumers, putting cash in their pockets right at the low point of the slowdown, last summer and fall.

I am also pleased to say that with President Bush's direction, the Treasury Department has altered the tax rules for service-oriented businesses with less than $10 million revenue, so that these organizations can use cash accounting rather than accrual accounting methods. This allows you to spend more time on your business, and less worrying about needless paperwork.

Government doesn't fix the economy, we just give you better tools to do what you do best.

You all, with your ingenuity, turned the economy around quickly. In fact, small businesses provide two-thirds to three-quarters of the net new jobs in America, represent more than 99 percent of all employers, and generate more than 50 percent of America's private sector output. You are the ones who make things happen in our economy.

And largely because of America's indomitable spirit, the fundamentals of our economy continue to be strong. Housing and consumer demand remain strong, and auto sales are ahead of industry expectations for the year, even coming off of all-time highs late last year. And there are signs that business investment, a necessary ingredient in this recovery, is picking up.

The Job Creation Act, passed this March, provides new incentives for investment and job creation by allowing partial expensing of equipment. Now we are seeing that declines in business investment in capital goods have been narrowing, and new orders for capital goods have been increasing for the past several months.

For example, new orders for non-defense capital goods, excluding aircraft, increased by 4% in April. Excess inventories have been largely eliminated and capacity utilization is rising. As the latest NFIB survey indicates, deterioration in investment demand seems to be ending.

In a welcome sign of strength last month, unemployment fell to 5.8%, and the number of new jobs grew for the second month in a row. Nothing matters more to this Administration than keeping Americans working. Most encouraging to me is the ongoing boom in productivity growth. Non-farm labor productivity has risen 4.2% over the past four quarters. The 8.4% annualized productivity growth last quarter -- the strongest quarterly gain in almost 19 years -- has helped boost profit margins for businesses. Higher productivity means America is working smarter -- creating more value in the same amount of time. Higher productivity means that individual business owners like you are taking advantage of your economic freedom to produce results. You are putting new ideas to work, and putting people to work in the process.

I'm an optimist about our economy, but I'm no Pollyanna. The numbers are telling a positive story these days, but that's not always the story people are telling each other. Too many are still out of work, and we need to see more business investment to maintain the recovery.

Clearly there is more we can do to add vitality to our recovery. First, the President has called on Congress to make his tax reform permanent. The House has voted to make the death tax repeal permanent, and it will vote this week to make marriage penalty relief permanent. Unfortunately, yesterday the Senate voted down permanent repeal of the death tax.

America's prosperity comes from the millions of individuals who spend their time, their energy and their resources pursuing ideas, setting up new businesses and creating value.

Innovative entrepreneurs deserve to pass their life's work to their children, not to the government. NFIB has been a tireless advocate of this cause, and I want to thank you for that.

We will continue to fight to ensure that you can pass on to your families the results of your life's labor, and to ensure that your thriving enterprises can continue to employ American workers and create prosperity.

And there's more to be done in the tax arena, especially in simplifying the tax code. Taxpayers spend as much as $125 billion each year, or about 1% of GDP, trying to comply with the tax code, and small businesses suffer disproportionately. You taxes are as complicated as a big company's, but you can't afford a whole tax department to take care of them.

My dream is that we will succeed in simplifying the tax code, and make it worthy of the principles of our nation. Then the tax lawyers and accountants will have to be retrained, so they can work at something that adds value to our economy -- start a new business, maybe.

There is another disgrace in this country right now: the unethical behavior of a few notorious company executives.

Small business owners know that, at the end of the day, they have to make good on their obligations to suppliers, employees, investors and customers. It is your reputation and your bank account on the line. You either make the sales and pay the bills, or you go home hungry. There's no hiding from that truth.

But we've seen instances lately of executives who don't seem to have lived by the same standard. I believe these cases are infrequent, but even a few bad cases can poison confidence in our system, which depends on entrusting public company managers with investors' capital. We will never be able to write rules that anticipate every possible subterfuge. Nonetheless, we must take action to restore investor confidence in the accuracy of public company information.

President Bush has proposed a ten-point plan for strengthening corporate responsibility and renewing investor confidence in public companies, and I support it strongly. Much of the plan can be implemented by the SEC, without congressional action. Corporations themselves have taken corrective action, as boards get together and members speak up demanding to know that their accounting standards are beyond reproof. The Business Roundtable has recommended actions that all responsible corporations should take to improve their disclosure practices and better assure the independence of auditors. And the New York Stock Exchange has also put forward recommendations to improve the information available to investors about companies traded there. Some needed changes do require legislative action, and I look forward to working with Congress to improve accountability and avoid hastily constructed reforms that will have harmful unintended consequences.

In addition to calling on Congress to support further tax reforms, an end to the death tax, and better rules for corporate governance, there are several other issues on the table in Congress that need legislative action.

First, Congress should support the President's plan for creating the Department of Homeland Security. No business person can invest for the future if the future is not secure. No government function is more important than defending our Homeland. A corollary is that Congress should pass federal terrorism risk insurance, which offers financial protection for businesses against the risk of future terrorism. I'm pleased the Senate is taking up this legislation today.

Businesses, especially those in development, cannot bear this risk alone, and insurers cannot price it. As a result, inaction on terrorism risk insurance is starting to impede economic growth.

Also, I want to thank the Senate for voting to support an increase to the debt limit on Tuesday. Now House leaders must join the Senate in recognizing that the good credit of the United States is essential for financing the war on terrorism, meeting the government's obligation to Social Security recipients, supporting our men and women in uniform and many other important functions. The House should vote to increase the debt limit right away.

Congress must also complete work on Trade Promotion Authority, so the President can negotiate to open more markets abroad to US goods and services. All of you have a stake in that.

Again, I want to thank the National Federation of Independent Businesses for inviting me to speak today. It is wonderful of you to take time away from running your enterprises, creating value in America, to come to Washington. This Administration respects and admires your good work. We do not take your economic freedom for granted, just as, by coming to Washington, you show that you do not take good governance for granted.

Our job together is to protect and expand that freedom, so that you can keep on building a prosperous America. Thanks for your support.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
June 13, 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 $32,000 million to refund an estimated $27,449 million of publicly held 13-week and 26-week Treasury bills maturing June 20, 2002, and to raise new cash of approximately $4,551 million. Also maturing is an estimated $18,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced June 17, 2002.

The Federal Reserve System holds $13,036 million of the Treasury bills maturing on June 20, 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 June 18, 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 $1,050 million into the 13-week bill and $837 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-3174

TO BE ISSUED JUNE 20, 2002

June 13, 2002

Offering Amount	$17,000 million	$15,000 million
Public Offering	$17,000 million	$15,000 million
NLP Exclusion Amount	$ 4,300 million	None
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 LB 5	912795 LQ 2
Auction date	June 17 2002	June 17, 2002
Issue date	June 20, 2002	June 20, 2002
Maturity date	September 19, 2002	December 19, 2002
Original issue date	March 21, 2002	June 20, 2002
Currently outstanding	$17,716 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.

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For Immediate Release
June 13, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY SECRETARY PAUL O'NEILL STATEMENT ON HOUSE PASSAGE OF BILL TO MAKE MARRIAGE PENALTY TAX RELIEF PERMANENT

"I applaud the House for voting to prevent a tax hike on hard-working married couples. We are one step closer to allowing more than 30 million people keep more of their own money to help pay for their children's education, invest for their retirement, and spend as they see fit. I hope the Senate acts quickly to end the marriage penalty and provide millions of Americans with the permanent tax relief they deserve," stated Treasury Secretary Paul O'Neill.

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PO-3175

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For immediate release
June 15, 2002

Contact: Michele Davis
(202) 622-2920

Statement of Secretary Paul O'Neill Following the Meeting of G-7 Finance Ministers in Halifax:

First let me thank Minister Manley for hosting a productive session of the G-7 Finance Ministers here in Halifax. I enjoyed meeting him and Minister Mer of France, and look forward to working closely with each of them.

During our meetings here today, I reported to my colleagues that I believe the US economy is on track to reach a 3 to 3.5% rate of growth by the end of this year. And I was encouraged by the reports of several of my fellow ministers on the outlook for growth in their economies. There is no question that global growth has strengthened. We also devoted some time today to discussing measures that could further enhance medium-term growth prospects in our economies.

I am very pleased that we have reached agreement that the International Development Association (IDA) should increase substantially the amount of development assistance delivered to the poorest countries from loans to grants. We will now work with the other IDA donors to complete the IDA replenishment. Last summer, President Bush called on the development banks to provide 50% of the funds to poorest countries "as grants for education, health, nutrition, water supply, sanitation and other human needs." The agreement by the G-7 Finance Ministers would do more than that, with grants for nearly 100% of the assistance to the poorest countries in these key social sectors. This is a victory for poor nations around the world. Countries like Ethiopia, Ghana and Uganda -- which I visited last month -- have up until now been required to take out loans to finance their HIV/AIDS programs. Under this new agreement, they will receive those funds as grants – avoiding the need to tax their citizens who earn less than a dollar a day in order to pay back the funds borrowed for this crucial protection of human capital. By moving from loans to grants, we can prevent the poorest nations from building up suffocating debt and we can avoid the next generation of debt relief.

We had a useful discussion of debt relief today, and I reiterated my point that debt relief is not a cure-all. The ultimate success of the HIPC Initiative will be measured not by the weight of a poor nation's debt but by that nation's ability to create economic growth. A debt-free nation still needs income to be prosperous. I urged my colleagues to focus our international assistance on getting results, so that poor nations develop their own private economies to generate self-sustaining prosperity.

PO-3176

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

Last month in Romania I saw remarkable success from the European Bank for Reconstruction and Development's (EBRD) small business program, and in Africa I met entrepreneurs backed with micro-finance assistance who were building the health and wealth of their communities. I urged my fellow ministers today to increase the focus of the development banks on supporting small and medium-sized enterprises.

We also discussed the World Bank's Education for All proposal, and I reiterated what I said to the Development Committee in April: "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." I requested that the World Bank's proposal start with the measurable results to be achieved, for example a specified improvement in the numbers of children demonstrating strong functional competencies in reading, writing and computing by the age of 10.

We reviewed progress since our last meeting on combating of terrorism financing. We continue to make progress in preventing the abuse of our global financial system by those who would destroy innocent lives. The Ministers also discussed the importance of having the IMF and World Bank begin conducting integrated and comprehensive assessments to combat money-laundering and the financing of terrorism.

We similarly reviewed progress on our spring statement on the creation of an orderly sovereign debt restructuring process. We were pleased to note that the private sector is already putting forward clauses consistent with our April 20th Action Plan. We also continue to support the IMF's work on a sovereign debt restructuring mechanism.

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For immediate release
June 15, 2002

Contact: Michele Davis
(202) 622-2920

GRANTS AGREEMENT A VICTORY FOR POOR NATIONS

President Bush proposed last summer "that up to 50 percent of the funds provided by the development banks to the poorest countries be provided as grants for education, health, nutrition, water supply, sanitation and other human needs." The recent agreement among G-7 donors achieves the President's goal. The agreement also takes a major step towards addressing the debt sustainability problem in the poorest countries and, as President Bush noted, the proposal "doesn't merely drop the debt, it helps stop the debt."

Within the next few weeks, the principle of substantially increased grant financing for the poorest countries will be embodied in an agreement among donors to the thirteenth replenishment of the International Development Association (IDA), the arm of the World Bank that lends to the poorest countries.

As a result of the President's initiative, IDA – for the first time in its history – will provide grants instead of loans for urgent human needs beyond HIPC debt relief and post-conflict assistance. These results-based grants will be provided based on country performance and commitment to economic reforms. This landmark agreement will mean that:

- IDA will provide ***nearly 100%*** of its assistance on grant terms **for education, health, nutrition, potable water and sanitation** (the key social sectors) in countries whose people live on less than a dollar a day;
- ***IDA's assistance*** for **HIV/AIDS** will be in grant form for all IDA-only countries;
- ***All of IDA's assistance*** for **natural disaster** reconstruction will be in grant form; and
- Up to 40% of IDA's assistance to **post-conflict countries** will now be delivered on grant terms.

Results Based Lending. The US initiated, and now IDA will establish, a monitoring and evaluation system that measures borrowing countries' progress against a set of key development indicators. The measurement system serves two important functions to improve development effectiveness: an accountability function to better position IDA to demonstrate more precise results from resources invested, and a learning function to improve project design and direct resources to what works.

PO-3177

In recognition of the importance of this initiative, the President's budget conditioned a portion of US assistance during the second and third years of the replenishment period on satisfactory progress towards select, high-development impact objectives in areas such as health, education and private sector development.

These hallmark reforms are a significant achievement for the poorest countries and fulfill a pledge by President Bush that the U.S. will stand shoulder-to-shoulder with "all nations promoting democratic government and the rule of law so that trade and aid can succeed."

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EMBARGOED UNTIL 11:30 A.M.
June 17, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $18,000 million to refund an estimated $18,000 million of publicly held 4-week Treasury bills maturing June 20, 2002.

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 $13,036 million of the Treasury bills maturing on June 20, 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-3178

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED JUNE 20, 2002

June 17, 2002

Offering Amount ....$18,000 million
Public Offering ....$18,000 million
NLP Exclusion Amount ....$ 8,000 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 KS 9
Auction date ....June 18, 2002
Issue date ....June 20, 2002
Maturity date ....July 18, 2002
Original issue date ....January 17, 2002
Currently outstanding ....$31,866 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
Saturday, June 15, 2002

Contact: Michele Davis
(202) 622-2920

Statement of G-7 Finance Ministers
Halifax, June 15, 2002

Since we last met, growth in our economies has strengthened and should continue to consolidate throughout the year. We are thus confident about our future prospects.

Looking forward, this foundation for stronger and sustainable productivity growth can be enhanced globally by policies and institutions that support people, markets, and ideas. These include sound macroeconomic policies, measures that support well-functioning labour, capital and product markets, a policy environment that fosters innovation and entrepreneurship, and a commitment to trade liberalization through a strong and effective multilateral trade system. Continued attention must be paid to strengthening the financial sector to ensure the most productive use of resources as well as to strengthen the resilience of the domestic economy to external shocks. We emphasize the importance of transparency, including in the private sector, to well functioning markets everywhere. We welcome the work of the Financial Stability Forum and International Accounting Standards Board responding to financial and related vulnerabilities.

We recognize the difficult circumstances facing the people of Argentina, and that the way forward is for Argentina itself to develop a plan to build a credible and sustainable economic recovery. We are encouraged by the significant progress made by Argentina in reforming the fiscal framework encompassing the provinces, and addressing their bankruptcy and economic subversion laws. However, much more needs to be done, especially regarding the monetary framework and bank restructuring. We welcome the decision to invite an IMF mission to Argentina this week. We call on the Argentine Government to work with the IMF on a new program to implement such a plan; we will continue to support Argentina and the IMF in this effort.

We are actively pursuing the Action Plan we adopted in April to improve predictability in emerging markets by strengthening crisis prevention and resolution. We are working with the Fund and others to advance all of its elements, including the active pursuit of contractual clauses. We welcome the interest many in the private sector have shown in this approach.

PO-3179

At the IMF, we are pursuing more objective and transparent surveillance, including the assessment of debt sustainability, and consideration of greater independence between the IMF's surveillance and lending roles. We will continue to work to enhance discipline on the size of IMF assistance packages, and define more precisely the circumstances where exceptions might be justified. We strongly support the Fund's continuing work on a sovereign debt restructuring mechanism.

We reiterate the call made at Monterrey for a Global Development Compact between developed and developing countries based on mutual accountability for results. We emphasize that development assistance is most effective when recipient countries have sound economic policies, strong institutions and good governance, and agree that priority in development assistance should be given to poor countries that meet these criteria. We agree that developed countries have a responsibility to improve development cooperation in support of country-owned poverty reduction and growth strategies, increase technical assistance, provide appropriate aid and debt relief, and expanding market access.

We welcome the progress achieved by the Multilateral Development Banks in implementing the proposals for reform discussed last year, but more needs to be done. We urge the MDBs to continue to increase their collaboration and the effectiveness of their assistance, including through increased priority on improving governance in recipient countries, an enhanced focus on measurable results, and greater transparency in program decisions.

We also examined several key development issues in more detail, including the Heavily Indebted Poor Countries (HIPC) initiative, education, and the International Development Association (IDA). With regard to the HIPC initiative, we will work with the IFIs and other donors to promote the participation of all creditors that have not yet done so, in particular some multilateral institutions, to fully participate in the initiative; to complete the financing of the HIPC Trust Fund; and thus to deliver on our commitment to help achieve debt sustainability for the world's poorest countries.

We also endorse full replenishment of IDA, the cornerstone of multilateral support for low-income countries. We welcome the increased use of results measurement to track development outcomes. We support an increase in the use of grants, in the range of 18 per cent to 21 per cent of the IDA13 program, to enhance the effectiveness of IDA in helping the poorest and debt vulnerable countries combat HIV/AIDS, support the social sectors, including education, and overcome the effects of devastating conflict. We will work with our fellow IDA donor governments to finalize the negotiation as soon as possible along these lines.

We also note the World Bank's Education Action Plan and strongly endorse the expeditious implementation of a plan focused on program quality and measurable results. Each of us in turn will work to support the Education for All goals with countries that have credible education plans and strong policy commitments in place. We urge other donor governments and the multilateral development banks to join us.

Following the tragic events of September 11, 2001, we issued an Action Plan to Combat the Financing of Terrorism and committed to work with the broader international community to achieve results. Our Action Plan has fostered international cooperation to stop the flow of funds to terrorists, protect the international financial system from abuse, and enhance transparency.

In this regard, we welcome the work underway to combat the abuse of charities and Hawalas. Over 160 countries and jurisdictions have taken action to freeze terrorist assets. The implementation of UN instruments has intensified and countries are working diligently to comply with the FATF's Special Recommendations. We call on the FATF-member countries to comply quickly with these recommendations. To encourage the broadest possible participation in this fight, we call on the FATF to identify countries for follow-up assessment and technical assistance, by the IMF, the World Bank, and the United Nations. We urge the IMF and World Bank to begin conducting integrated and comprehensive assessments of standards to combat money laundering and financing of terrorism.

We agree that the administration and enforcement of tax laws depend increasingly on transparency and effective international exchange of information. We call on all countries to permit access to, and exchange, bank and other information for all tax purposes; OECD countries should lead by example. Progress in this area is urgently needed and we intend to review developments at our next meeting.

A stable and more prosperous Afghanistan is important to the Afghan people and to the world. We are determined to ensure that the international community supports Afghanistan, and delivers on the commitments pledged at the Tokyo Conference in January 21-22, 2002.

We discussed with the Finance Minister of Russia the progress made by this country toward structural reforms. We encourage further efforts to strengthen the financial sector, improve corporate governance and the investment climate, and combat money laundering and terrorist financing. We agree on the importance of Russia's early accession to the World Trade Organization (WTO).

We will be reporting on a number of subjects discussed at this meeting to our Leaders in connection with the June 26-27 Kananaskis Summit. We welcomed the participation in, and contributions to, our discussions preparatory to the Summit, the Finance Minister of Spain representing the Presidency of the European Union and the European Commissioner for Economic and Monetary Affairs.

PUBLIC DEBT NEWS

)epartment of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
June 18, 2002

Contact: Office of Financing
202-691-3550

TREASURY'S INFLATION-INDEXED SECURITIES
JULY 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 July 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 3180. The information is also available on the Internet at Public Debt's website (http://www.publicdebt.treas.gov).

The information for August is expected to be released on July 19, 2002.

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Attachment

PUBLIC DEBT NEWS

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

<u>FOR IMMEDIATE RELEASE</u>
June 18, 2002

Contact: Office of Financing
202-691-3550

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(6) 3-7/8% 30-year bonds due April 15, 2029
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The information for August is expected to be released on July 19, 2002.

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Attachment

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
July 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**
July 1 2002	179.80000	1.13485	1.12266	1.11293	1.11166
July 2 2002	179.80000	1.13485	1.12266	1.11293	1.11166
July 3 2002	179.80000	1.13485	1.12266	1.11293	1.11166
July 4 2002	179.80000	1.13485	1.12266	1.11293	1.11166
July 5 2002	179.80000	1.13485	1.12266	1.11293	1.11166
July 6 2002	179.80000	1.13485	1.12266	1.11293	1.11166
July 7 2002	179.80000	1.13485	1.12266	1.11293	1.11166
July 8 2002	179.80000	1.13485	1.12266	1.11293	1.11166
July 9 2002	179.80000	1.13485	1.12266	1.11293	1.11166
July 10 2002	179.80000	1.13485	1.12266	1.11293	1.11166
July 11 2002	179.80000	1.13485	1.12266	1.11293	1.11166
July 12 2002	179.80000	1.13485	1.12266	1.11293	1.11166
July 13 2002	179.80000	1.13485	1.12266	1.11293	1.11166
July 14 2002	179.80000	1.13485	1.12266	1.11293	1.11166
July 15 2002	179.80000	1.13485	1.12266	1.11293	1.11166
July 16 2002	179.80000	1.13485		1.11293	1.11166
July 17 2002	179.80000	1.13485		1.11293	1.11166
July 18 2002	179.80000	1.13485		1.11293	1.11166
July 19 2002	179.80000	1.13485		1.11293	1.11166
July 20 2002	179.80000	1.13485		1.11293	1.11166
July 21 2002	179.80000	1.13485		1.11293	1.11166
July 22 2002	179.80000	1.13485		1.11293	1.11166
July 23 2002	179.80000	1.13485		1.11293	1.11166
July 24 2002	179.80000	1.13485		1.11293	1.11166
July 25 2002	179.80000	1.13485		1.11293	1.11166
July 26 2002	179.80000	1.13485		1.11293	1.11166
July 27 2002	179.80000	1.13485		1.11293	1.11166
July 28 2002	179.80000	1.13485		1.11293	1.11166
July 29 2002	179.80000	1.13485		1.11293	1.11166
July 30 2002	179.80000	1.13485		1.11293	1.11166
July 31 2002	179.80000	1.13485		1.11293	1.11166

CPI-U (NSA) for : March 2002 178.8 April 2002 179.8 May 2002 179.8

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

	3-7/8% 10-Year Notes	3-7/8% 30-Year Bonds	4-1/4% 10-Year Notes	3-1/2% 10-Year Notes
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
July 1 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 2 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 3 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 4 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 5 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 6 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 7 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 8 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 9 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 10 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 11 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 12 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 13 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 14 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 15 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 16 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 17 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 18 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 19 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 20 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 21 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 22 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 23 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 24 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 25 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 26 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 27 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 28 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 29 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 30 2002	179.80000	1.09634	1.09372	1.06868	1.03307
July 31 2002	179.80000	1.09634	1.09372	1.06868	1.03307

CPI-U (NSA) for : March 2002 178.8 April 2002 179.8 May 2002 179.8

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
July 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		
July 1 2002	179.80000	1.01296	1.01259		
July 2 2002	179.80000	1.01296	1.01259		
July 3 2002	179.80000	1.01296	1.01259		
July 4 2002	179.80000	1.01296	1.01259		
July 5 2002	179.80000	1.01296	1.01259		
July 6 2002	179.80000	1.01296	1.01259		
July 7 2002	179.80000	1.01296	1.01259		
July 8 2002	179.80000	1.01296	1.01259		
July 9 2002	179.80000	1.01296	1.01259		
July 10 2002	179.80000	1.01296	1.01259		
July 11 2002	179.80000	1.01296	1.01259		
July 12 2002	179.80000	1.01296	1.01259		
July 13 2002	179.80000	1.01296	1.01259		
July 14 2002	179.80000	1.01296	1.01259		
July 15 2002	179.80000	1.01296	1.01259		
July 16 2002	179.80000	1.01296	1.01259		
July 17 2002	179.80000	1.01296	1.01259		
July 18 2002	179.80000	1.01296	1.01259		
July 19 2002	179.80000	1.01296	1.01259		
July 20 2002	179.80000	1.01296	1.01259		
July 21 2002	179.80000	1.01296	1.01259		
July 22 2002	179.80000	1.01296	1.01259		
July 23 2002	179.80000	1.01296	1.01259		
July 24 2002	179.80000	1.01296	1.01259		
July 25 2002	179.80000	1.01296	1.01259		
July 26 2002	179.80000	1.01296	1.01259		
July 27 2002	179.80000	1.01296	1.01259		
July 28 2002	179.80000	1.01296	1.01259		
July 29 2002	179.80000	1.01296	1.01259		
July 30 2002	179.80000	1.01296	1.01259		
July 31 2002	179.80000	1.01296	1.01259		

CPI-U (NSA) for : March 2002 178.8 April 2002 179.8 May 2002 179.8

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
June 17, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	June 20, 2002
Maturity Date:	September 19, 2002
CUSIP Number:	912795LB5

High Rate: 1.700% Investment Rate 1/: 1.732% Price: 99.570

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 27.61%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 29,860,922	$ 15,450,976
Noncompetitive	1,376,078	1,376,078
FIMA (noncompetitive)	173,000	173,000
SUBTOTAL	31,410,000	17,000,054 2/
Federal Reserve	5,720,766	5,720,766
TOTAL	$ 37,130,766	$ 22,720,820

Median rate 1.680%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.655%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 31,410,000 / 17,000,054 = 1.85

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,138,046,000

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
JUNE 17, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Treasury Postpones Announcement of June 2-Year Note Auction

The Treasury Department is postponing announcement of the June 2-year note, originally scheduled to be announced on June 19, auctioned on June 26, and settled on July 1. Treasury will announce plans for this auction once Treasury is assured that it has sufficient borrowing authority.

-30-

PO-3182

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 1:15 P.M. EDT
Tuesday, June 18, 2002

Contact: Public Affairs
(202) 622-2960

Treasury Secretary Paul H. O'Neill
Remarks to the New York Treasury Securities Luncheon
New York City

Thank you for that introduction, Jimmy (Lee, Vice Chairman of J.P. Morgan Chase and 2002 Greater New York Volunteer Committee Chair). Before I begin my remarks, I would like to recognize several individuals and organizations who have made special contributions to the Greater New York Volunteer Committee's efforts.

The first one is you, Jimmy. Because of efforts by you and your other volunteers, more people know about the value and benefits of Treasury securities, and that is really a service to our country.

I would like to present you with this certificate appointing you Chair of the Greater New York Volunteer Committee. And I want to thank you and the members of your committee for your leadership on behalf of Treasury securities here in New York.

I would also like to recognize two organizations for their achievements in last year's savings bond effort. First I'd like to thank Johnson & Johnson. Eighty-two percent of Johnson & Johnson employees bought savings bonds last year, making J&J the country's participation leader. For that achievement, I would like to present them with Treasury's Golden Eagle award. Fred Rush has been a leader in J&J's savings bond efforts for many years, and I would like to invite him up to accept this award. Great job, Fred.

Finally, I would like to present the Honor Roll Award to the City of New York. More than 4,000 city employees chose to invest in savings bonds last year. I would like to invite Martha Hirst, Commissioner for Administrative Services, to receive the award for the City. Martha, thank you, and thanks to your colleagues, for your tremendous support.

I want to give you a brief report on our economy, as I see it. The fundamentals of our economy continue to be strong. The recent economic slowdown proved to be the briefest and shallowest in post-War history.

PO-3183

Thanks to President Bush's well-timed tax relief package last year, the Fed's monetary easing, and the resilience of American consumers, businesses, and the financial sector, I believe we are on track to reach 3 to 3.5% growth by the end of this year.

There are signs that business investment, so far the missing ingredient in this recovery, is picking up. Most encouraging to me, American productivity growth continues to soar. Productivity is, essentially, a measure of Americans' ability to turn new ideas for doing things better into real world practice, increasing value and increasing living standards.

Most important to the President and this Administration, unemployment fell to 5.8% last month, and the number of new jobs grew for the second month in a row. Nothing in our economy matters more to President Bush than keeping Americans working. Last month's improvement is welcome, but we believe we can do much better.

You know I'm a self-identified optimist about our economy. My optimism comes from direct observation and from being a value-creating participant in the private sector for 24 years. During that period I had the opportunity to travel the world and to see economic activity – or the lack of it – everywhere.

It is easy to conclude in 2002 that no other economy in the world matches the delivery of income and wealth produced by the US system. But even in our lifetime – say in the 1970s and early 80s – that conclusion would not have been so easily agreed as, for example, we witnessed Japan powering its way from the devastation of World War II to the position of second largest economy in the world and gaining rapidly on the US.

Reflecting on the period since the Second World War, it is possible to identify events and episodes that contributed to the status of the US economy that we enjoy today, but as I think about the prime general cause of our success the name I give it is Flexibility.

By flexibility I mean this: We know our system is not perfect but, as fitful as it may seem or be at times, we keep adjusting and adapting at the level of individual companies as they strive to meet the best of national and international competition and at the governmental level we take action when the need arises.

In a nutshell, we know our system is not perfect, but we keep changing and reacting to make it better. If you look at other economies, this is their missing ingredient. A case in point is the changes that are being made to counter the actions taken by some so-called business leaders who abused their position of trust by deceiving their employees, shareholders and the general public. The Enron case began to unfold last October, and other cases have followed.

On March 7th, the President urged the implementation of a ten-part plan to improve corporate governance and disclosure, and today a large part of that plan is being put in place.

I would note first that business leaders – CEOS and Boards of Directors – have responded by re-examining their practices to ensure that they can attest to the accuracy, transparency and completeness of their financial statements. This is critical, because our system depends on millions of business leaders operating to high standards of truthfulness.

I believe almost all business leaders strive to meet this responsibility, but from recent cases it is clear we need to adjust our system and that is what the President's plan seeks to do.

The President's plan has three planks: holding corporate officers accountable, ensuring better information for investors, and bolstering our auditing and accounting system.

Beginning at the top, the President's plan would require that chief executive officers and chief financial officers personally certify the veracity, timeliness and completeness of their companies' public disclosures including their financial statements. This new requirement will eliminate the ambiguities of the current certifications while creating a clear pathway to punish those who abuse the trust that is placed in them. The premise must be very clear: with the highest position in a company comes the highest responsibility, to know what's going on and to inform investors of everything that's important to know. A companion provision will require outside auditors to make essentially the same independent certification.

The SEC, under Harvey Pitt's leadership, is putting these provisions in place along with the other steps that can be implemented under their existing enforcement powers. For example, the SEC has the power to force those who mislead to give up any earnings gained from misleading investors. We are working with the Congress to expand that authority, so that the SEC can bar corrupt officers and directors from serving again in any corporate leadership positions.

The SEC also has issued new proposed rules to improve information available to investors. Companies would have to illustrate the impact of their critical accounting choices on their financial statements, and to tell investors in near real-time of a much more comprehensive list of significant events. And, perhaps most central, in its enforcement action against Edison Schools the SEC has put teeth behind its policy that technical GAAP compliance does not equal sufficient disclosure.

In a country that prizes individual freedom and initiative-taking, issuers, financial analysts, and investors also have a role in setting best practices. Both the NASD and the NYSE have heeded that call, showing again the merits of our hybrid public/private regulatory model. The NASD has proposed a first set of stricter listing standards.

And the NYSE has published a forceful, thoughtful paper as a prelude to far-reaching reforms. Similarly the Business Roundtable has recommended actions that all responsible corporations should take to improve their disclosure practices and better assure the independence of auditors.

Finally, in the area of strengthening the audit system. On Thursday, the SEC will propose rules to create an independent private-sector body with the power to review audit firms' professional conduct and competence, and to discipline those that fall short. Congress is also considering bills along these lines. We will work with the SEC and Congress to build a regulatory body consistent with those principles.

Realistically, we cannot devise rules that will stop every aspiring crook. Not without crushing economic freedom. And some businesses will fail for good reason, even with the best of accounting and disclosure practices. The President has made the goal crystal-clear: we must hold corporate leaders and professionals "to the highest standards of conduct." To do that, we must ensure that the regulators maintain the authority to constantly adapt the rules to address changes in rapidly evolving financial markets.

As I said earlier, the flexibility of individuals, companies and governments in the US is the key to our continued prosperity. We've shown resilience in responding to the devastating attacks of September 11 and rebounded faster than anyone thought possible. We are integrating the need for increased security and alertness without dampening productivity growth. And in the area of corporate governance, the changes occurring today in corporate board rooms, on Wall Street, in SEC rules and in the law will ensure that we overcome today's uncertainties about corporate financial information, so that investors can have the confidence they need to allocate capital where it can best contribute to US economic growth and prosperity.

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
June 18, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	June 20, 2002
Maturity Date:	July 18, 2002
CUSIP Number:	912795KS9

High Rate: 1.695% Investment Rate 1/: 1.723% Price: 99.868

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 58.71%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 44,064,030	$ 17,970,170
Noncompetitive	29,919	29,919
FIMA (noncompetitive)	0	0
SUBTOTAL	44,093,949	18,000,089
Federal Reserve	1,665,279	1,665,279
TOTAL	$ 45,759,228	$ 19,665,368

Median rate 1.680%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.660%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 44,093,949 / 18,000,089 = 2.45

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
June 18, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Treasury Statement on Debt Ceiling Deadline

Treasury Secretary Paul O'Neill, in response to speculation that June 28 is not the deadline for hitting the statutory debt ceiling, today said:

"Since May 16th we have had to engage in a series of extraordinary accounting measures to avoid breaching the statutory debt ceiling.

Using all of the accounting devices that I described to Congress in my letter of May 14th, we project that we can continue to avoid breaching the debt ceiling until the end of June. At that time we will be required to credit an interest payment of approximately $67 billion to various federal trust funds, including Social Security. We are also scheduled to make $54 billion in payments in the first few days of July, including approximately $30 billion of payments to Social Security beneficiaries and other trust fund beneficiaries.

It is important that Congress act on a bipartisan basis to increase the statutory debt ceiling before the end of June. It's time to put politics aside and do the right thing for the country."

PO-3185

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TREASURY NEWS

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FOR IMMEDIATE RELEASE
June 18, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Statement of Treasury Secretary Paul O'Neill on Senate Passage of Terrorism Insurance Legislation

"I commend the Senate for moving forward with legislation to provide a federal backstop for terrorism insurance. Such legislation is vitally needed to mitigate the economic drag we are currently experiencing due to the scarcity of terrorism insurance and to minimize adverse economic consequences from possible future attacks.

"I am deeply disappointed, however, that the Senate rejected Senator McConnell's amendment to provide for litigation management procedures to protect against abusive litigation and punitive damages claims. Such procedures are crucial to the protection of American taxpayers' interests and needs to be included in any final legislation."

PO-3186

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TREASURY NEWS

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U.S. International Reserve Position

06/19/02

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $69,675 million at the end of the latest week, compared to $69,163 million at the end of the prior week.

(in US millions)

I. Official U.S. Reserve Assets	May 24, 2002			May 31, 2002		
TOTAL			69,163			69,675
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	5,736	11,330	17,066	5,814	11,383	17,197
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	9,681	3,815	13,496	9,812	3,833	13,644
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]			16,355			*16,492*
. Special Drawing Rights (SDRs) [2]			11,203			*11,297*
. Gold Stock [3]			11,044			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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For Immediate Release
Wednesday, June 19, 2002

Contact: Michele Davis
(202) 622-2920

Statement by Secretary Paul O'Neill following President Bush's announcement of the $500 million International Mother and Child HIV Prevention Initiative:

I congratulate President Bush for committing funds today to prevent the transmission of AIDs from mothers to children in Africa and the Caribbean. When I traveled to South Africa last month, I went to a hospital that uses the nevirapine drug therapy to prevent transmission of the AIDs virus from mother to child. I met women there who were filled with joy that their infant children were HIV-free, and would live a longer, healthier happy life because of this drug treatment. The initiative President Bush announced today will bring treatment to a million additional mothers each year, and will bring children into the world with the potential for a longer, healthier life.

President Bush has said that our development assistance must get results and today he put our resources behind techniques proven to free infant children from near certainty of dying before the age of 5. Today's announcement is an example of effective development assistance, and I hope our partners in development around the world will join us in this commitment to save children from a life shortened by AIDs. We have the technology. We know it works. Now is the time to bring it to those who need it most.

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PO-3188

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FOR IMMEDIATE RELEASE
June 19, 2002

CONTACT: Rob Nichols
(202) 622-2910

Statement by Treasury Under Secretary for International Affairs John B. Taylor Following Actions Taken Today by Turkey's Bank Regulation and Supervision Agency

We welcome the forceful actions taken today by Turkey's Bank Regulation and Supervision Agency (BRSA). These actions are critical steps in the plan to recapitalize the private banking system and they demonstrate the on-going commitment of the Turkish authorities to implement the economic program. Turkey's reform measures are strengthening the prospects for economic growth.

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PO-3189

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For immediate release --
June 20, 2002

Contact: Michele Davis
(202) 622-2920

Statement by Under Secretary Taylor on Uruguay's Change in Exchange Rate Regime

Today, Under Secretary for International Affairs John Taylor made the following statement:

We welcome the progress made by the Uruguayan authorities in recent weeks and months. The government has acted swiftly to strengthen the banking system, open key sectors of the economy, and reform the tax code. Today's decision to change the exchange rate regime is part of Uruguay's strengthened policy strategy.

The demonstrated commitment to good policy in Uruguay has paved the way for the proposed augmentation of the IMF program, which will be presented to the executive board of the IMF next week.

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PO-3191

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
June 20, 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 $32,000 million to refund an estimated $26,750 million of publicly held 13-week and 26-week Treasury bills maturing June 27, 2002, and to raise new cash of approximately $5,250 million. Also maturing is an estimated $16,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced June 24, 2002.

The Federal Reserve System holds $13,130 million of the Treasury bills maturing on June 27, 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 June 25, 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 $994 million into the 13-week bill and $607 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-3192

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED JUNE 27, 2002

June 20, 2002

<u>Offering Amount</u>	$17,000 million	$15,000 million
<u>Public Offering</u>	$17,000 million	$15,000 million
<u>NLP Exclusion Amount</u>	$ 4,200 million	None
<u>Description of Offering</u>:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 LC 3	912795 LR 0
Auction date	June 24, 2002	June 24, 2002
Issue date	June 27, 2002	June 27, 2002
Maturity date	September 26, 2002	December 26, 2002
Original issue date	March 28, 2002	June 27, 2002
Currently outstanding	$16,740 million	---
Minimum bid amount and multiples	$1,000	$1,000

<u>The following rules apply to all securities mentioned above:</u>

<u>Submission of Bids</u>:

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.

<u>Maximum Recognized Bid at a Single Rate</u> ....35% of public offering

<u>Maximum Award</u> ....35% of public offering

<u>Receipt of Tenders</u>:

Noncompetitive tenders..... Prior to 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

<u>Payment Terms</u>: 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
June 21, 2002

CONTACT: Tara Bradshaw
(202) 622-2014

TREASURY SECRETARY PAUL O'NEILL STATEMENT ON HOUSE PASSAGE OF BILL TO MAKE RETIREMENT SECURITY PERMANENT

"I applaud the House for voting to make the pension and individual retirement provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001 permanent. This legislation enhances the retirement security of the more than 170 million workers in the labor force in 2011. I hope the Senate acts quickly to ensure that millions of hardworking Americans will continue to have greater opportunity to save for their retirement," stated Treasury Secretary Paul O'Neill.

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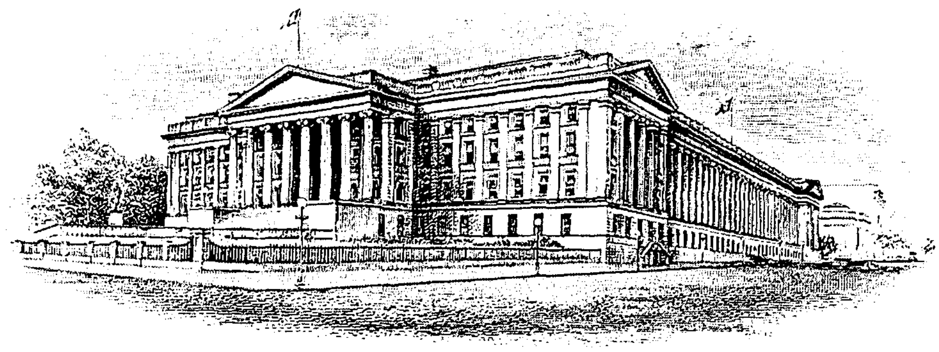
PO-3193



DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

FOR IMMEDIATE RELEASE
Friday, June 21, 2002

Contact: Rob Nichols
202-622-1260

STATEMENT BY TREASURY SECRETARY PAUL O'NEILL

To clarify my earlier comments, the Brazilian government is implementing the right economic policies to address the current difficulties. Because of these policies, we have consistently supported Brazil, including through its current IMF program launched last summer and last week's $10 billion drawing on that program. Brazil has not requested any new funds and its economic fundamentals are strong. Brazil is a critical regional and global partner of the United States.

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PO-3195

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 11:30 A.M.
June 24, 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 $16,000 million of publicly held 4-week Treasury bills maturing June 27, 2002.

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 $13,130 million of the Treasury bills maturing on June 27, 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-3196

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED JUNE 27, 2002

June 24, 2002

Offering Amount..................... $16,000 million
Public Offering..................... $16,000 million
NLP Exclusion Amount................ $ 8,200 million

Description of Offering:
Term and type of security........... 28-day bill
CUSIP number........................ 912795 KT 7
Auction date........................ June 25, 2002
Issue date.......................... June 27, 2002
Maturity date....................... July 25, 2002
Original issue date................. January 24, 2002
Currently outstanding............... $33,413 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
June 24, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	June 27, 2002
Maturity Date:	September 26, 2002
CUSIP Number:	912795LC3

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 59.23%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 32,648,534	$ 15,328,894
Noncompetitive	1,360,118	1,360,118
FIMA (noncompetitive)	311,000	311,000
SUBTOTAL	34,319,652	17,000,012 2/
Federal Reserve	6,265,061	6,265,061
TOTAL	$ 40,584,713	$ 23,265,073

Median rate 1.665%: 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 = 34,319,652 / 17,000,012 = 2.02

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,088,585,000

http://www.publicdebt.treas.gov

PO-3197

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
June 24, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	June 27, 2002
Maturity Date:	December 26, 2002
CUSIP Number:	912795LR0

High Rate: 1.765% Investment Rate 1/: 1.805% Price: 99.108

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 2.60%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 24,962,182	$ 13,638,082
Noncompetitive	872,041	872,041
FIMA (noncompetitive)	490,000	490,000
SUBTOTAL	26,324,223	15,000,123 2/
Federal Reserve	5,739,170	5,739,170
TOTAL	$ 32,063,393	$ 20,739,293

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

Bid-to-Cover Ratio = 26,324,223 / 15,000,123 = 1.75

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $670,539,000

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
June 25, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY AND IRS EXTEND FICA AND FUTA TAX MORATORIUM FOR STATUTORY STOCK OPTIONS

Today the Treasury Department and the Internal Revenue Service announced it will extend the administrative moratorium on FICA and FUTA taxes for incentive stock options (ISOs) and options under employee stock purchase plans (ESPPs). ISOs and ESPPs are commonly referred to as "statutory stock options."

"We have decided to extend the moratorium indefinitely," stated Pam Olson, acting Assistant Secretary for Tax Policy. "Given the significant administrative changes that would be required of employers to implement the proposed withholding, it is clear that a delay in the effective date is necessary to provide employers with adequate time to make the required changes. In addition, Treasury and the IRS need additional time to consider the many comments we received on the proposed regulations and to decide on an appropriate course of action. Consequently, employers will not be required to implement the changes until at least two years after the regulations have been issued in final form."

Under Notice 2002-47, the IRS will not assess FICA or FUTA taxes, or impose federal income tax withholding, on the exercise of any statutory stock option or the disposition of any stock acquired by exercising a statutory stock option. This moratorium will remain in place until the IRS completes its review of comments on recent proposed regulations and issues future guidance, which would apply only on a prospective basis.

Notice 2001-14, issued by Treasury and the IRS in January of 2001, imposed an administrative moratorium on the assessment of FICA and FUTA taxes for statutory stock options exercised before January 1, 2003. In November 2001, Treasury and the IRS issued proposed regulations applying FICA and FUTA taxes to statutory stock options exercised on or after January 1, 2003. At the same time, Notices 2001-72 and 2001-73 proposed rules of administrative convenience for employers and employees and clarified an employer's income tax withholding and reporting obligations. Treasury and the IRS are continuing their review of the comments received on the proposed regulations and on Notices 2001-72 and 2001-73.

Notice 2002-47 indicates that individuals still must include any compensation in income on a disqualifying disposition of stock acquired by exercising a statutory stock option, and the notice does not relieve employers of their reporting obligations.

PO-3199

Other types of stock options - "nonqualified" or "nonstatutory" options - are not affected by the notice. These options have always been, and continue to be, subject to FICA and FUTA at exercise.

The text of Notice 2002-47 follows.

Part III - Administrative, Procedural, and Miscellaneous

Application of Employment Taxes to Statutory Stock Options

Notice 2002-47

I. Purpose and Overview

This notice provides that until Treasury and the Service issue further guidance, in the case of a statutory stock option, i.e., an incentive stock option (ISO) described in section 422(b) of the Internal Revenue Code (Code) or an option granted under an employee stock purchase plan (ESPP) described in section 423(b), the Service will not assess the Federal Insurance Contributions Act (FICA) tax or Federal Unemployment Tax Act (FUTA) tax, or apply federal income tax withholding obligations, upon either the exercise of the option or the disposition of the stock acquired by an employee pursuant to the exercise of the option. This notice further announces that Treasury and the Service anticipate that any final guidance that would apply employment taxes to statutory stock options will not apply to any exercise of a statutory stock option that occurs before the January 1 of the year that follows the second anniversary of the publication of the final guidance. This notice does not relieve individual taxpayers of the obligation to include compensation in income upon a disposition of stock acquired pursuant to the exercise of a statutory stock option and does not relieve employers of any of their reporting obligations.

II. Background

A. Notice 2001-14

On January 18, 2001, the Internal Revenue Service (Service) issued Notice 2001-14, 2001-6 I.R.B. 516, addressing the application of employment taxes to statutory stock options. Notice 2001-14 provides that, in the case of a statutory stock option exercised before January 1, 2003, the Service will not assess FICA or FUTA taxes upon the exercise of the option, and will not treat the disposition of stock acquired by an employee pursuant to the exercise of the option as subject to federal income tax withholding. The notice further provides that information reporting requirements continue to be applicable. The notice also announced the intention to issue administrative guidance clarifying the application of employment taxes to statutory stock options.

B. Proposed Regulations and Related Guidance

On November 13, 2001, the Service and the Treasury Department issued proposed regulations addressing the application of employment taxes to statutory stock options (66 Fed. Reg. 57023 (Nov. 14, 2001)). The proposed regulations provide that FICA and FUTA taxes apply when an individual exercises a statutory stock option and that federal income tax withholding does not apply when an individual exercises a statutory stock option. As proposed, the regulations would have been effective for exercises of statutory stock options occurring on or after January 1, 2003.

On November 13, 2001, the Service also issued two related notices containing proposed guidance: Notice 2001-72, 2001-49 I.R.B. 548, and Notice 2001-73, 2001-49 I.R.B. 549. In Notice 2001-72, the Service provides proposed rules regarding an employer's federal income tax withholding and reporting obligations upon the disposition of stock acquired by an individual pursuant to the exercise of a statutory stock option. The rules would exempt the employer from any federal income tax withholding in such cases. However, under the proposed rules, an employer generally would still be required to make reasonable efforts to report any income on an employee's or former employee's Form W-2.

In Notice 2001-73, the Service provides proposed rules of administrative convenience intended to lessen the administrative burdens related to the application of FICA and FUTA taxes at the time of exercise of a statutory stock option. The rules would allow employers to deem the wages paid due to the exercise of a statutory stock option as being paid at any subsequent date or dates during the calendar year of the date of exercise. In addition, under the proposed rules, an employer would be allowed to spread the deemed wage payments over a period of dates. Notice 2001-73 also proposes other rules of administrative convenience that are intended to assist employers and employees in meeting their employment tax obligations.

III. Comments Received

The Service requested comments as to the proposed regulations and the proposed rules in the accompanying notices. Comments were submitted on a wide variety of issues raised by the application of employment taxes to statutory stock options, including whether imposition of the FICA and FUTA taxes upon an exercise of a statutory stock option was the correct interpretation of the law, and the extent of the administrative burdens upon employers and employees in administering the payments of the taxes. Recognizing the complexity of the issues raised by the proposed guidance and comments, Treasury and the Service have determined that an extension of the moratorium is needed to provide adequate time to consider those issues.

IV. Interim Guidance

The Service and Treasury will continue to consider all of the comments received on the proposed regulations. However, until that review is completed and further guidance is issued, the Service (1) will not assess FICA or FUTA taxes upon the exercise of a statutory stock option or the disposition of stock acquired by an employee pursuant to the exercise of a statutory stock option, and (2) will not treat the exercise of a statutory stock option, or the disposition of stock acquired by an employee pursuant to the exercise of a statutory stock option, as subject to federal income tax withholding.

This Part IV does not relieve individual taxpayers of the obligation to include any compensation in income upon a disposition of stock acquired pursuant to the exercise of a statutory stock option and does not relieve employers of any of their reporting obligations. Regarding the reporting obligations, §1.6041-2(a)(1) of the Income Tax Regulations requires that, under certain circumstances, a payment made by an employer to an employee be reported on Form W-2 even if the payment is not subject to income tax withholding. Specifically, §1.6041-2(a)(1) generally requires reporting of a payment on the Form W-2 if the total amount of the payment, and any other payment of remuneration (including wages, if any) made to the employee (or former employee) that are required to be reported on Form W-2, aggregate at least $600 in a calendar year. Therefore, a disqualifying disposition of stock acquired pursuant to the exercise of a statutory stock option which results in ordinary income generally will result in a reporting obligation on the Form W-2.

V. Effect on Other Documents

In recognition of the need of employers and statutory stock option plan administrators for adequate time to implement any guidance that may be forthcoming, the Service and Treasury anticipate that any final guidance that would apply employment taxes to statutory stock options will not apply to exercises of statutory stock options that occur before the January 1 of the year that follows the second anniversary of the publication of the final guidance.

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
June 25, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	June 27, 2002
Maturity Date:	July 25, 2002
CUSIP Number:	912795KT7

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

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 42.32%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 36,030,600	$ 15,969,400
Noncompetitive	30,790	30,790
FIMA (noncompetitive)	0	0
SUBTOTAL	36,061,390	16,000,190
Federal Reserve	1,126,249	1,126,249
TOTAL	$ 37,187,639	$ 17,126,439

Median rate 1.685%: 50% of the amount of accepted competitive tenders 'as tendered at or below that rate. Low rate 1.660%: 5% of the amount ·f accepted competitive tenders was tendered at or below that rate.

id-to-Cover Ratio = 36,061,390 / 16,000,190 = 2.25

/ Equivalent coupon-issue yield.

)-3200

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
June 25, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

TREASURY TO DELAY 2-YEAR NOTE AUCTION

The Treasury Department is postponing the June 2-year note auction, scheduled for June 26, 2002, until further notice.

-30-

PO-3201

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
Tuesday, June 25, 2002

Contact: Public Affairs
(202) 622-2960

MEDIA ADVISORY

U.S. Treasury Signs Debt-for-Nature Swap with Peru

Treasury Under Secretary of International Affairs John Taylor and Peruvian Ambassador Allan Wagner will participate in a signing ceremony on Wednesday, June 26, 2002 in the Department of the Treasury's Diplomatic Reception Room. The debt-for-nature swap, a provision of the U.S. Tropical Forest Conservation Act of 1998, will relieve Peru of debt payments in exchange for the preservation of its tropical forests. Representatives from Conservation International, The Nature Conservancy, and the World Wildlife Fund will also be present for the signing.

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.

What: Peru Debt Swap Signing Ceremony

Time: 12:15pm EDT

Where: U.S. Department of the Treasury,
Diplomatic Reception Room
1500 Pennsylvania Ave., NW
Washington D.C

-30-

PO-3202

TEXT OF A LETTER FROM THE PRESIDENT
TO THE SPEAKER AND THE DEMOCRATIC LEADER
OF THE HOUSE OF REPRESENTATIVES

June 25, 2002

Dear Mr. Speaker: (Dear Mr. Leader:)

I am writing to ask that the bipartisan cooperation you have shown in our war against terror and creation of a new Department of Homeland Security be extended to another important priority: maintaining the full faith and credit of the United States Government.

Because of the economic slowdown that began in the summer of 2000, the terrorist attacks of September 11, and the ongoing expense of the war, the Secretary of the Treasury last December asked the Congress to increase the statutory ceiling on the Government's ability to raise funds. Seven months later, the Congress has still not acted, although it has routinely fulfilled this responsibility in the past.

The Treasury has had to take extraordinary measures to allow the United States Government to continue to function normally as a result of the failure of the Congress to act. These are only temporary measures, not an excuse for the Congress to fail to fulfill its duties.

I urge you and Minority Leader Gephardt to show the same spirit of bipartisan cooperation that Senate Majority Leader Daschle and Senate Minority Leader Lott showed 2 weeks ago with their bipartisanship on this important issue.

As we fight for freedom, we must not imperil the full faith and credit of the United States Government and the soundness and strength of the American economy.

Sincerely,

PO-3203

GEORGE W. BUSH

Rob Nichols
Deputy Assistant Secretary for Public Affairs
Department of the Treasury
(202) 622-2910

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
June 26, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY AND IRS ISSUE GUIDANCE ON HEALTH REIMBURSEMENT ARRANGEMENTS

Today the Treasury Department and the Internal Revenue Service issued guidance that clarifies the tax treatment of health reimbursement arrangements (HRAs) in which the employee's health benefit arrangement provides for employee-controlled reimbursement of medical costs.

"With this new guidance, we clear the way for employers to adopt health plans with patient-directed features so that employees have more choice and greater control over their health care coverage," stated Treasury Secretary Paul O'Neill.

The guidance, consisting of a notice and a revenue ruling, provides that medical benefits paid by Health Reimbursement Arrangements (HRAs) that meet certain requirements are not taxable. The guidance also clarifies that HRAs generally are not subject to the complex design requirements for health Flexible Spending Arrangements funded through salary reduction under a cafeteria plan.

The primary requirements for an HRA are that (1) the plan must be funded solely by the employer and cannot be funded by salary reduction, and (2) the plan may only provide benefits for substantiated medical expenses. If the plan provides for payments or other benefits irrespective of medical expenses, all amounts paid by the plan become taxable, including prior medical reimbursements.

Under this guidance HRAs can:

- Allow the carryover of unused amounts to later years (i.e., the "use-it-or-lose-it rule" does not apply) and
- Reimburse employees for the purchase of health insurance.

In addition, the guidance provides that:

- HRAs may allow former employees, including retirees, continued access to unused reimbursements;

PO-3204

- HRAs may provide that an FSA funded by salary reduction reimburses expenses before the HRA; and
- HRAs are group health plans subject to the COBRA continuation requirements.

The text of the notice and revenue ruling are attached.

-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
Wednesday, June 26, 2002

Contact: Tasia Scolinos
(202) 622-2960

Statement of Jimmy Gurulé, Under Secretary for Enforcement Department of the Treasury

Hearing on the U.S. Customs Service and the Department of Homeland Security House Committee on Ways and Means

Chairman Thomas, members of the Committee, thank you for this opportunity to testify. Let me at the outset say that we want to work closely with you, Congressman Rangel, and the Members of the Committee to address your questions and concerns as we move through the legislative process on this important issue. We appreciate the Committee's historical role on trade and tariff matters which, along with Customs itself, dates back to 1789. We also recognize the highly compressed schedule you are operating under, and we will make every effort to be responsive to you and do so in a timely manner.

I am proud to be here on behalf of the Administration to discuss President Bush's proposal to create a Homeland Security Department. As you know, President Bush's proposal includes moving the entire U.S. Customs Service into the new Department, which is the subject of today's hearing. Secretary O'Neill, Customs Commissioner Bonner and I fully support the President's proposal and strongly believe that the new Department of Homeland Security will play a key role in safeguarding the American people.

In his June 6th address to the Nation, President Bush called for the creation of "a single, permanent department with an overriding and urgent mission: securing the homeland of America, and protecting the American people." The President also stated, "The reason to create this department is not to [increase] the size of government, but to increase its focus and effectiveness."

PO-3205

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

After the President's announcement on June 6th, Treasury Secretary O'Neill applauded President Bush for his bold plan to concentrate our homeland security resources in a single Cabinet department. The Secretary said, "The President has demonstrated real leadership, recognizing the new challenges we face and redesigning our system to rise to those challenges. I fully support for this plan to integrate our resources into one collaborative, efficient and nimble structure to focus solely on protecting the American people."

Two days ago, President Bush toured Port Elizabeth, New Jersey, and commended employees of the Customs Service, Coast Guard, and the New York/New Jersey Port Authority for their vital work in keeping dangerous cargo from entering our country. The President told the employees that his proposed Homeland Security Department would make their jobs easier. President Bush said, "It'll make our Federal government more responsive. It will allow us to communicate better" to more effectively secure the homeland.

For over 200 years, the U.S. Customs Service has defended our country's borders and facilitated legitimate international trade and travel. Since September 11th, at the direction of the President, the top priority of Customs has been responding to the continuing terrorist threat at our land borders, seaports, and airports. The Customs Service is working diligently to protect homeland security by keeping terrorists and terrorist weapons from entering the United States, while enhancing our economic security by moving goods and people efficiently across the borders.

The Customs Service has implemented several key programs since September 11th that respond to the new threat our country faces. "Operation Green Quest," a Customs-led multi-agency initiative that targets terrorist financing, has already initiated hundreds of investigations, aggressively moved against terrorist funding sources, and led to the seizure of suspected terrorist assets. With the Container Security Initiative (CSI), Customs is entering into partnerships with foreign seaports to conduct pre-screening and more effective risk targeting of sea containers, <u>before</u> they are shipped to our ports. Under "Project Shield America," Customs agents monitor exports of strategic weapons and materials from the U.S. to prevent international terrorist groups from obtaining sensitive U.S. technology, weapons, and equipment that could be used in a terrorist attack on our nation.

On April 16th of this year, Secretary O'Neill, Governor Ridge and Commissioner Bonner launched the Customs-Trade Partnership Against Terrorism (C-TPAT) in Detroit. C-TPAT is a unique partnership with U.S. importers, carriers, brokers, and others to improve security along the entire supply chain, while expediting the flow of legitimate commerce into the United States.

The success of programs like CSI and C-TPAT demonstrates how Customs seeks to balance its important dual missions of security enforcement and trade facilitation, dual missions that are inextricably linked. With C-TPAT, for example, Customs has been successful in recruiting companies to join the program and make additional investments in supply chain security solely because Customs is able to offer those companies the benefit of expedited clearance at the borders. The same is largely true for CSI, which offers expedited processing at U.S. ports for pre-screened cargo from its partner ports. These programs underscore how Customs is capable of effectively increasing security at the borders while facilitating the critical flow of trade into and out of the United States. These programs also reflect how Customs has effectively established partnerships with private industry to work together to protect our borders.

Another example of how Customs' trade and enforcement functions are intertwined can be seen in the way Customs inspectors, import specialists, and special agents currently work closely with each other to enforce trade and anti-smuggling laws. When Customs inspectors make a substantial bulk cash seizure at the border using resources such as canine enforcement teams and non-intrusive inspection equipment, they hand the case over to Customs special agents. These agents then conduct a follow-up investigation, such as an investigation into the source of the funds or the destination of the funds. This cooperative effort between inspectors and special agents is a seamless one precisely because of Customs' dual missions. The same is true with other border-related enforcement matters, such as intellectual property piracy. What begins as an infringement identification is often directly turned into an investigative effort.

There are three additional points that may be self-evident, but cannot be overlooked in describing the link between Customs' dual missions. First, many trade enforcement functions are carried out by the <u>same</u> Customs personnel who ensure border security. Second, Customs uses the information it receives from trade compliance examinations and manifests also to assess security risks for shipments. This information is the cornerstone of many of Customs' anti-terrorism efforts. Third, Customs relies on the expertise of its trade enforcement personnel to recognize anomalies in their review and processing of commercial transactions information associated with the admissibility and entry of imported goods that assist law enforcement in developing targeting criteria as well as targeting suspect shipments and initiating investigations.

Recognizing these links, the President has proposed that the Customs Service as a whole be transferred intact into the new Department of Homeland Security. Under the President's plan, Customs will continue to administer and enforce our Customs laws, protect our borders from terrorists, and facilitate the flow of legitimate commerce.

The President's plan strikes the appropriate balance between enforcement and trade facilitation that is so critical to our nation's economy and security.

Mr. Chairman, the Department of the Treasury is proud of the vital role the men and women of the Customs Service have played, and will continue to play under the President's plan, in defending our homeland. Thank you again, Mr. Chairman and the members of the Committee, for this opportunity to testify. I would be happy to answer any questions you may have.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Embargoed Until 12:00 p.m. EDT
Wednesday, June 26, 2002

Contact: Tasia Scolinos
(202) 622-2960

The Global Fight Against the Financing of Terror: Prevention – A New Paradigm

Jimmy Gurulé
Under Secretary of the Treasury (Enforcement)
Speech Delivered to the Heritage Foundation
Washington, D.C.

It is a pleasure to be here today to discuss what for me, the Treasury Department, and United States government has been our top priority since September 11th: combating global terrorism and, more specifically, terrorist financing. As we watched in utter horror the mass murder of innocent civilians at the World Trade Center and the Pentagon, we all understood that we are at war with an enemy whose sole purpose is to destroy our country and way of life, and terrorize the American people. On that fateful day, the world changed forever: our national security is threatened from a stateless enemy willing to use catastrophic means to create terror. Now, the principal goal of Government is to *prevent* future calamitous attacks. Thus, our strategy must be proactive in nature – prevention is now our guiding principle.

That is why immediately after September 11th, President Bush marshaled the resources of the Government to attack the scourge of terrorism in a bold and preventative way. He ordered the military to take the fight to the heart of al Qaida in the Taliban-controlled Afghanistan. He directed the Justice Department to bring the perpetrators to justice. And he ordered the Treasury Department to identify, disrupt, and dismantle the global terrorist financial networks.

Proactive Prevention Using All Financial Tools

The mission of disrupting terrorist financing is proactive and preventative. We cannot afford to wait for further terrorist attacks to occur before acting. Simply stated, we are trying to save human lives. We are therefore targeting our intelligence, law enforcement, regulatory, and financial expertise and resources to ferret out those who support, facilitate, and fuel the activities of terrorist groups. In doing so, we seek to achieve three goals:

(1) We are making it more difficult for terrorist groups to transfer money that kills;

(2) We are deterring fundraisers, donors, and sympathizers from giving support and money to terrorist groups; and

(3)We are uncovering terrorist networks that will provide the footprints for sleeper cells.

PO-3206

I would like to read to you a portion of the al-Qaida Manual. It is instructive as to why it is important to follow and cut the flow of money to terrorist groups. The Manual was discovered during a search of an al Qaida member's home in England and introduced into evidence during the Embassy bombings trial in New York. The Third Lesson in the Manual, entitled "Counterfeit Currency and Forged Documents," discusses "Financial Security Precautions" that al Qaida members should take to secure their operations. Al Qaida terrorists are instructed to:

1. Divid[e] operational funds into two parts: One part is to be invested in projects that offer financial return, and the other is to be saved and not spent except during operations.
2. Not plac[e] operational funds all in one place.
3. Not tell[] the Organization members about the location of the funds.
4. Hav[e] proper protection while carrying large amounts of money.
5. Leav[e] the money with non-members and spend[] it as needed.

As you can see, this is an enemy that understands the need to cover their financial tracks while simultaneously funneling funds to finance new acts of terror. While twisted ideology fuels their fervor, money is the lifeblood of their activities. By cutting off or freezing their funds, we are striking at the heart of their operations. Because we are facing an enemy with malignant cells planted around the world, we must employ all our assets and resources to track and disrupt al-Qaida fundraising globally.

To that end, we have followed the President's directives and marshaled the Treasury Department's unique financial forensic expertise in financial and electronic crimes, as well as our contacts with the financial community both here and abroad to fulfill this mission.

On September 23, 2001, the President issued Executive Order 13324 that granted the Secretary of the Treasury broad powers to freeze the assets of terrorist financiers and supporters. This authority has given Treasury the ability to attack terrorist groups – not with bombs or criminal prosecutions, but with financial actions based on the President's constitutional authorities. We have followed the money trail and swiftly frozen the assets of 210 specially designated terrorist groups, individuals and entities who comprise the support networks for terrorism. Worldwide we have blocked over $112 million of al Qaida, Taliban, and other terrorist funds and dismantled networks for channeling funds to terrorist groups.

These blocking actions have been the most public of our activities, and we think they have proven effective. We have received the support of nearly the entire world in this effort, and 166 countries currently have blocking orders in effect. The United Nations, under Security Council Resolution 1373, has made the freezing, without delay, of terrorist-related assets mandatory on all Member States.

These actions will continue to be an essential part of our global strategy. The process of identifying and investigating targets is ongoing. We have currently identified other financial entities, businesses, groups, and persons for potential listing. Moreover, we are focusing on high-impact financial intermediaries that act as financial conduits and facilitators for terrorist groups. Our ultimate goal is to use this unique tool the President has authorized to prevent the perpetration of terrorist acts by attacking the financial substructure of terrorism.

The United States government has also directed its law enforcement resources to attack terrorist financing. On October 25, 2001, we created a Treasury-led task force known as Operation Green Quest (OGQ). OGQ brings together the financial forensic expertise of the Customs Service, IRS-CI, Secret Service, the Bureau of Alcohol, Tobacco and Firearms (ATF), Financial Crimes Enforcement Network (FinCEN), the Office of Foreign Assets Control (OFAC), the FBI, Postal Service, and the Naval Criminal Investigative Service. This task force has taken a multi-jurisdictional approach to investigate and disrupt terrorist financing schemes. Whether it's using our authorities to investigate cigarette smuggling and trade violations or exploiting our access to Bank Secrecy Act data, we are tracking money flows aggressively. Much in the same way that the Treasury was able to bring down Al Capone by use of the tax laws, we are using our financial authorities to follow the money to uncover terrorist financing networks.

At the same time, our efforts are not solely operational. We are also strengthening domestic and global financial systems to make them more transparent and thereby prevent abuse by terrorist financiers. At home, with the passage of the USA PATRIOT Act, we have engaged in an expansion and broadening of the existing anti-money laundering regulations and laws. Financial institutions, like broker/dealers, that once fell outside the anti-money laundering regulatory framework are now subject to appropriate reporting requirements. We have also targeted high-risk systems, like shell banks, by prohibiting U.S. banks from operating correspondent accounts for such institutions.

It is important to emphasize that we have made this effort *global* in nature. In late October, Treasury hosted a meeting of the 29-member Financial Action Task Force on Money Laundering, which has set international standards for creating anti-money laundering regimes. With our leadership, FATF redirected its attention and expertise to the issue of terrorist financing and established eight Special Recommendations for anti-terrorist financing. These Recommendations have quickly become the international standard, recognized by the international financial institutions and regional organizations, by which countries are evaluating their respective regulations and laws.

Two areas on which FATF has concentrated attention are the abuse of charities and the potential use of alternative remittance systems, like hawalas, to move money for terrorist groups. Terrorist groups can abuse charities and use them to raise, conceal, and transfer money globally. Terrorists prey on the goodwill of people throughout the world and use the images of hungry orphans and lonely widows to raise money to pay for lethal arms and weapons and fund terrorist training camps. The United States government, the FATF members, and countries around the world are reassessing how charities can be regulated to prevent the misuse of donations and the corruption of charities.

With respect to alternative remittance systems, we have recognized that unregulated, informal ways of moving money across borders, like the hawala system, pose a threat in the context of terrorism. When a terrorist cell leader in one country can quickly effect the movement of money to an operative in another country without physically transferring the funds, there is grave potential for abuse. Thus, the expansion of regulations to all money service businesses, as has been done under the U.S.A. PATRIOT Act, is an important step to ensure that such sectors are more accountable and transparent worldwide. The international community has recognized this by endorsing the FATF principles and calling for regulation of hawalas at a recent global conference in Abu Dhabi.

These efforts are critical in the war against terrorist financing. As we squeeze terrorist financiers, making it more difficult for them to transfer funds through more traditional western banking systems, they will resort to less conventional, less regulated ways of moving money. Smuggling cash or commodities are certainly ways to move money or value surreptitiously. Thus, the Customs Service, through Operation Green Quest, has engaged in increased vigilance at the borders to prevent bulk-cash smuggling. Since September 11th, Customs inspectors have seized millions of dollars from individuals trying to smuggle money out of the country.

To ensure the success of our global strategy, we need to encourage and assist countries to improve their regulatory and financial systems and enhance their law enforcement capabilities. The United Nations, FATF, and other multilateral organizations have recognized the importance of delivering technical assistance and training to countries around the world. The United States has been providing needed assistance in the anti-terrorist financing and anti-money laundering fields, but the international community is just starting to develop efficient means to deliver needed assistance.

At the same time, efforts to starve terrorist of funds will not be successful unless there is continued cooperation with our international allies. Since September 11th, foreign governments and multi-national regional groups have been engaged in a global campaign to freeze the assets of terrorist financiers. On March 11th, for example, the United States joined with the Kingdom of Saudi Arabia to designate two branches of a Saudi-based charity as supporting terrorism. On April 19th, the G7 jointly designated 10 targets in the first multi-lateral designation. The European Union has now published three lists of terrorist groups and members. Additionally, law enforcement agencies from Asia to Europe are moving aggressively against terrorist cells. Finally, multi-lateral and regional groups, like the G-20 and APEC, have committed to action plans to address terrorist financing. This is truly a global undertaking

Greater Security Requires Creative Solutions

The threat of terrorism requires that we devise new and creative strategies to more effectively utilize existing resources, expertise, and technology to attack this problem. This new focus demands a recalculation of how the government will devote and target its resources, but it does not mean that government has to be bigger.

Instead, this involves a reprioritization of existing expertise and resources, as well as enhanced information sharing. For example, when we embarked on the mammoth task of freezing terrorist assets, the President redirected intelligence resources to uncover these terrorist networks. At Treasury, we employed the existing talents of the Office of Foreign Assets Control to quarterback the world-wide effort to freeze assets. On the law enforcement front, we redirected the expertise of the Treasury Department's financial investigators and the use of our financial and trade databases to focus on terrorist financing schemes.

This reprioritization also requires greater cooperation and new ways of sharing information among government agencies. Our efforts have been aided by the PATRIOT Act that has given the Departments of Treasury and Justice the authority to share financial information with the intelligence community in a way unavailable prior to September 11th. The sharing of information and pooling of resources and expertise is critical to identifying, disrupting, and dismantling terrorist networks. This is plainly good government and represents improved efficiencies in the way we conduct our business.

Moreover, we must call upon the private sector to be vigilant. In this new type of war, our financial institutions are on the front lines and the attentiveness of their employees, much like the passengers who captured Richard Reid, is essential to our national security. From bank tellers to pawn shop owners, attentiveness to anomalies in transactions is essential to uncovering illicit financial networks. Soon after September 11th, the Treasury's FinCEN established a 24-hour toll-free number for banks and financial institutions to call in suspicious transactions, as opposed to waiting for the normal filing procedure. The response from the private sector has been outstanding, and several leads called into this number have proven valuable to law enforcement.

The PATRIOT Act also allows for financial institutions to share financial information with each other, and we are seeing the private sector take the onus of identifying suspicious customers upon themselves. Tracking terrorist funds is a complex undertaking and we will need to rely more on the ability of financial institutions to construct better ways of identifying suspicious activities, more efficient ways of sorting through voluminous financial records and more effective ways of sharing information.

In short, the challenge to those of us in government is to think creatively. Simply stated, the answer to every problem confronting our nation isn't more federal funding or another government program. The hallmark of good governance in this era will be our ability to use existing resources in the public and private sector, and abroad to attack terrorism.

Conclusion

As I previously stated, Treasury's principal mission is prevention -- to disrupt terrorist financial networks and to permanently shut the doors on these bankers of death and destruction. By doing so, we believe that we can prevent future terrorist attacks and save lives. Although the task at hand is not an easy one, I am pleased to report that the Administration's strategy has realized some success. We know that Al Qaida members are having difficulty moving money globally. Potential donors are reluctant to donate money for fear of having their assets frozen and their names blacklisted by the international community. In sum, our strategy has forced al Qaida fundraisers out of their comfort zone.

Moreover, there are other encouraging signs including almost daily reports of foreign governments enacting new anti-money laundering and terrorist funding legislation, terrorist funds being blocked abroad, and al Qaida cell members being rooted out and arrested by foreign law enforcement officers.

Most importantly, the Bush Administration's efforts have mobilized the international community against terrorism. As I have stated, prevention is the goal. This new paradigm for security requires that we use all available resources to prevent the next terrorist attack, because the consequences are too horrific to imagine. This means working smarter, cooperatively and sharing information between federal, state and local law enforcement and the intelligence communities, as well as working more effectively with members of the private sector, and our partners abroad. Only working together can we defeat the global threat of terrorism.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Wednesday, June 26, 2002

Contact: Tony Fratto
(202) 622-2960

U.S. SIGNS DEBT-FOR-NATURE AGREEMENT WITH PERU
REMARKS BY UNDER SECRETARY JOHN B. TAYLOR

Good afternoon, and thank you for joining us today for the signing of the debt-for-nature agreements for Peru under the Tropical Forest Conservation Act (TFCA).

I would like to welcome Ambassador Wagner and Minister Kuczynski, Roberto Roca from Conservation International, Gregory Miller from the Nature Conservancy, David Sandalow from the World Wildlife Fund, and Representative Portman. Representative Portman's work on the TFCA, as well that of Senators Biden and Lugar, has been an essential part of the bipartisan support that has made today's agreement possible.

As President Bush said at last year's Summit of the Americas, "We are committed to protecting this hemisphere's natural resources. That's why I am committed to using the Tropical Forest Conservation Act to help countries redirect debt payment towards local projects that will protect biodiversity and tropical forests." That is exactly what today's agreements do. U.S. debt forgiveness will allow Peru to devote $10.6 million to finance tropical forest conservation activities in Peru over a 12-year period. These funds will go toward the establishment, restoration and maintenance of parks, protected areas, and reserves, as well as train scientists, technicians, and managers involved in conservation.

These activities will help protect Peru's natural riches for future generations. From the top of the Andes to the Amazon basin, Peru is home to 84 of the 103 types of "life zones" found on Earth, with nine "life zones" in Machu Picchu alone. The funds generated will go towards protecting rainforests in Peru, including the Peruvian Amazon. This area is home to dozens of endangered species, such as the jaguar, harpy eagle, the giant river otter, black caiman, and several species of macaws and rare plants such as walking palms and giant water lilies.

This agreement would not be possible without the important financial contribution of Conservation International, the Nature Conservancy, and the World Wildlife Fund. Together, these three groups made a contribution of $1.1 million to this debt swap. We are grateful for their support and tireless efforts to aid this U.S. agenda.

PO-3207

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

This isn't the first time the Treasury worked to fulfill this mission, and it won't be the last. Today's agreements mark the second U.S. debt-for-nature *swap*, and the fifth agreement concluded under the Tropical Forest Conservation Act. We are still looking to extend the benefits of the program. We have already seen agreements with Bangladesh, Belize, El Salvador, and Thailand, we expect to conclude an agreement with the Philippines this year.

Before signing, I invite the Finance Minister from Peru, Mr. Pedro Paulo Kuczynski to say a few words about the agreement. Let me introduce Pedro Pablo by commenting on how well he has served Peru. He has been an effective leader and advocate of strong economic policies. Earlier this year, his Finance Ministry brought the first sovereign issuance to the international capital markets in over 70 years. And they are doing fine work in the local market as well, where the country is creating a formal, periodic local-currency debt market that we all hope will begin to serve the corporate sector as well. It gives me great pleasure to sign this deal with my colleague.

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Embargoed until 2:30 PM
Wednesday, June 26, 2002

Contact: Tony Fratto
(202) 622-2960

STATEMENT OF PAUL SPELTZ
NOMINEE FOR UNITED STATES EXECUTIVE DIRECTOR FOR THE ASIAN DEVELOPMENT BANK
BEFORE THE COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

Thank you, Mr. Chairman, Senator Allen and Members of the Committee. I am deeply honored for having the privilege of sitting here before you to be considered for confirmation by your esteemed committee. I, of course, also feel very honored to have been nominated by President Bush to serve as the Executive Director of the Asian Development Bank (ADB).

Before proceeding, and with the Chairman's permission, may I introduce you to, and comment on my family members? My wife Renee is the stabilizing force in my life, helping me to keep my feet on the ground, family priorities in order, and my shirt collars properly turned down. A difficult task for her, at best, many times, and I thank her for many years of love and support. Also, with your indulgence Mr. Chairman, although not present due to work obligations and long travel, I thank our three grown children, Matthew, Alec and Jessica, spread across the State of Texas and into California, my sister Karen, brother, David and father, Eugene, spread across the east coast of the US for their long distance support this important date. I also wish to note my mother, Elizabeth, who, with my father, was a guiding light in my life, as it is the case with most of us. She was totally committed to be here with us today in this Chamber, but most unfortunately she died recently. I am however, confident, that she is here in spirit.

The ADB is a very important partnership for the United States, especially during these critical times. The responsibilities of this institution include over half of the world's population and such countries as Afghanistan, Pakistan, and India, all of which figure so predominantly in today's headlines. The underlying role of the ADB is to reduce poverty and increase economic growth. It must do so through economic programs that enhance human development, private sector growth, good governance, transparency, and the environment.

PO-3208

Mr. Chairman, I have witnessed first hand heart wrenching poverty. However, I have also been encouraged over the decades by the growth in the standard of living of many of the countries in which I have worked. Additionally, I hope to continue to see a move to many of the principles and freedoms that we enjoy and advocate in the USA.

If confirmed for this position, I would utilize the skills and lessons learned over some 30 years of working, living and traveling throughout much of this region of the world. I am an experienced multinational, culturally sensitive negotiator, and hands on executive.

Thank you again Mr. Chairman for your time and the privilege of appearing here today. I would be pleased to answer any questions you or the members of the Committee may wish to ask of me.

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Embargoed until 2:30 p.m.
Wednesday, June 26, 2002

Contact: Tony Fratto
(202) 622-2960

STATEMENT OF MARK SULLIVAN
NOMINEE FOR UNITED STATES EXECUTIVE DIRECTOR FOR THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT
BEFORE THE COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

Thank you very much, Mr. Chairman, Senator Allen and Members of the Committee, for the opportunity to appear before you today. It is a great honor to have been nominated by President Bush to be the United States Executive Director for the European Bank for Reconstruction and Development (EBRD), and I am particularly grateful to have the privilege of appearing before you.

Before proceeding with my statement, and with your permission Mr. Chairman, I would like to acknowledge two members of my family who are here with me today. They are my son, Jamie, who is currently engaged in government service, and my daughter, Abby, who recently graduated from college and is interested in pursuing a career in international relations. My wife of thirty years, Susan, could not be here today. She is studying for her comprehensive exams for her Masters degree in special education focusing on children with learning disabilities.

The agreement establishing the EBRD provides that the purpose of the Bank is to foster the transition towards market-oriented economies and to promote private sector and entrepreneurial initiative in its countries of operations that are committed to and applying the principles of multi-party democracy and pluralism. The President and Secretary O'Neill have articulated an agenda for enhancing development in such countries, with a focus on productivity growth and stressing the importance of private investment and human capital. At the Bank's annual meeting in Bucharest last month, the Secretary said that the EBRD was well designed and well positioned to advance that agenda. I share the Secretary's conviction that the Bank has a positive role to play in the twenty-seven transition countries. If I am fortunate enough to be confirmed, it would be a great privilege and honor to represent the United States on the Board of Directors of the European Bank for Reconstruction and Development.

My career includes both public and private sector experience. As an attorney, the majority of my work has been in the financial services area where I have represented a variety of financial services providers in transactional and policy matters.

PO-3209

My practice also involved a successful effort to include a consumer finance chapter in the North American Free Trade Agreement and representing clients on projects in Central America, the Middle East and Romania. More recently, I have been involved in working on the development of secondary market mechanisms for the securitization of the unguaranteed portions of Section 7(a) SBA guaranteed loans.

During my government service, I was privileged to have the Senate confirm me as the General Counsel of the Department of the Treasury and I dealt with issues including foreign debt restructurings, sanctions programs, foreign investment in the United States and foreign military sales among many others. I also served on the board of the Federal Financing Bank and as a member of the Council of the Administrative Conference of the United States and was a member of its Special Committee on Financial Services.

I am particularly grateful to President Bush for the opportunity to serve my country. If confirmed, I hope that each of my experiences over the last thirty years will enable me to serve as an effective U.S.E.D. to the EBRD and advance the interests of the United States.

Thank you again, Mr. Chairman, for the opportunity to appear before you and the Committee today. I would be pleased to answer any questions that you and the other members of the Committee may have.

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FOR IMMEDIATE RELEASE
June 26, 2002

Contact: Peter Hollenbach
(202)691-3502

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY WILDFIRES IN COLORADO

The Bureau of Public Debt took action to assist victims of wildfires in Colorado 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 Colorado affected by the storms. These procedures will remain in effect through the end of August 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.

Colorado jurisdictions involved are: Adams, Alamosa, Arapahoe, Archuleta, Baca, Bent, Boulder, Broomfield and the city of Broomfield, Chaffee, Cheyenne, Clear Creek, Conejos, Costilla, Crowley, Custer, Delta, Denver and the city of Denver, Dolores, Douglas, Eagle, Elbert, El Paso, Fremont, Garfield, Gilpin, Grand, Gunnison, Hinsdale, Huerfano, Jefferson, Kiowa, Kit Carson, Lake, La Plata, Las Animas, Lincoln, Mesa, Mineral, Moffat, Montezuma, Montrose, Otero, Ouray, Park, Pitkin, Pueblo, Rio Blanco, Rio Grande, Routt, Saguache, San Juan, San Miguel, Summit, Teller, Washington and Yuma, and the Southern Ute and Ute Mountain reservations. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

Public Debt will also expedite the replacement of bonds lost or destroyed. Bond owners should complete form PD-1048, available at most financial institutions or by writing the Kansas City Federal Reserve Bank's Savings Bond Customer Service Department, 925 Grand Boulevard, Kansas City, Missouri 64198; phone (816) 881-2000. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, and approximate dates of issue, bond denominations and serial numbers if available. A notary public or an officer of a financial institution must certify the completed form. Completed forms should be forwarded to Public Debt's Savings Bond Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "DISASTER" on the front of their envelopes, to help expedite the processing of claims.

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FOR IMMEDIATE RELEASE
June 26, 2002

Contact: Peter Hollenbach
(202)691-3502

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY FLOODING IN MINNESOTA AND IOWA

The Bureau of Public Debt took action to assist victims of flooding in Minnesota and Iowa 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 Minnesota and Iowa affected by the storms. These procedures will remain in effect through the end of August 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.

Minnesota counties involved are: Beltrami, Kittson, Koochiching, Lake of the Woods, Marshall, Norman, Pennington, Polk, Red Lake and Roseau. In Iowa the counties are Clayton, Clinton, Delaware, Dubuque, Jackson, Jones and Linn. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

Public Debt will also expedite the replacement of bonds lost or destroyed. Bond owners should complete form PD-1048, available at most financial institutions or by writing the Minneapolis Federal Reserve Bank's Savings Bond Customer Service Department, 90 Hennepin Avenue, Minneapolis, Minnesota 55401; phone (612) 204-5000. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, and approximate dates of issue, bond denominations and serial numbers if available. A notary public or an officer of a financial institution must certify the completed form. Completed forms should be forwarded to Public Debt's Savings Bond Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "DISASTER" on the front of their envelopes, to help expedite the processing of claims.

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EMBARGOED UNTIL 10 A.M. EDT
Wednesday, June 27, 2002

Contact: Michele Davis
(202) 622-2960

Treasury Secretary Paul H. O'Neill
Testimony to the House International Relations Committee
Regarding Economic Development in Africa

Chairman Hyde, Ranking Member Lantos, and Members of the Committee, thank you for inviting me to talk to you today about my recent trip to Africa, and the President's initiatives to improve conditions in the developing world.

I went to Africa last month to listen and learn; to meet African leaders in and out of government, to meet doctors, farmers, teachers, students, and entrepreneurs. I went to hear their insights into the obstacles to Africa's prosperity.

I also went to find a real-world basis for recommendations to the President on how to allocate funds from the new Millennium Challenge Account. But most of all, I went with an open mind, and one pivotal question: How can the people of the United States and the developed world best help Africans and their elected leaders achieve prosperity at last?

I learned a great deal, and I want to share some of my experience with the Members of the Committee.

I have to say these were the most intense twelve days I've ever experienced. I met people like Sister Benedicta, who runs a hospital and orphanage in Ethiopia. She maintained an incredible radiance, even as she told us how many people die in her hospital every day – how many children die in her hospital every day. To witness that strength of spirit is a truly profound experience.

This trip confirmed three things for me. First, a truth we've always known: All people everywhere can do great things when they are given the tools and incentives for success. Second, that with leadership – honest, accountable, and committed to progress – everything is possible. Without leadership, nothing is possible. And finally, that in the right environment – focused on growth, enterprise and human development – aid works. Knowing that it can work, we have a moral duty to demand as much. Assistance should make a real difference in people's lives.

PO-3212

We in the developed world must support African leaders who are creating the conditions for success – ruling justly, encouraging economic freedom, and investing in their people. And we must ourselves take a leadership role in demanding results.

In Africa, I saw signs of progress everywhere. Programs are working, aid is helping, and standards of living are improving. But there is a long way to go. The progress I saw deserves praise, but it just isn't enough.

Let me highlight the areas in which we witnessed progress. In particular, I saw three kinds of investments in people that are vital to realizing Africa's potential: clean water, primary education, and fighting HIV/AIDS.

Clean water is, surely, one of the most essential elements of a dignified, civilized life. No aspect of infrastructure is more basic. Yet 45% of sub-Saharan Africans lack access to clean, safe water. That's about 300 million people – more than the total population of the United States. In Ethiopia, that figure is 78%, or 50 million people in that country alone.

One insight from my Africa tour is that local leaders, with some engineering and financial support, could develop clean water sources for their towns and villages fairly quickly. For example, in one Ugandan village I saw a concrete basin installed to protect a natural spring. The women of the village could collect the water directly from the basin instead of collecting it after it spilled across the muddy ground. The concrete basin cost a thousand dollars to install.

But the local chairman for the project told me that the greatest hindrance to installing the system had been local fears that a snake was protecting the spring, and that the snake would become enraged by any tampering and would take away the water. He had to spend considerable time persuading his fellow villagers to go ahead with the project. It took his leadership to get the project finished.

Or consider another village, where women were trekking to a muddy river to obtain water, even after a well was dug in the village. After the well was built, the women wouldn't use it. It turns out that they valued their social time down by the river, and so they chose to continue collecting dirty water from the river, rather than clean water from the well. When the water tap was relocated further from the village, providing an opportunity to socialize, they started to use it.

In these and other cases, only local leadership could tailor development projects to suit local customs and culture. And it was sometimes shocking to see the disconnect between the aid bureaucracies with their grand, expensive, multi-year plans and the availability of more immediate, practical solutions. It made me wonder how much was going to aid, and how much to bureaucracy.

Compounding the problem are the changing demographics in Africa, especially the fast growing urban populations. Africa's urban infrastructure, including water and sanitation systems, is antiquated and overextended.

If we can figure out a way to support African leaders in bringing local solutions for clean water to their nations – and I think we can do that much faster and cheaper than the endless studies say we can – we can liberate hundreds of millions of people, especially women and children, from preventable, debilitating illness and meaningless, wearisome labor. They would be free to pursue their dreams for a better life.

The second important investment I saw was in raising primary education enrollment. I believe that in Africa, in the United States, and in every part of the world, children by the age of about ten years old should and can have the tools to be life-long learners. But that requires that they get into schools at an early age, and stay in school, with well-trained teachers and adequate materials.

In Uganda, they've had tremendous success increasing primary school enrollment. Primary school enrollment has increased from about half (55%) of the children in 1994 to nearly all of them (94%) in 1999, and nearly half the students are girls. Education quality is improving as well. But there is still a long way to go. I visited schools where they have gone from a ratio of 16 students per book down to six per book. That's progress, but it's not good enough. We must set our expectations higher. Surely, we can get every student his or her own book.

That is why President Bush committed last week to doubling funds for the African Education Initiative, which was first announced last July. This will raise our total spending on the initiative to $200 million over the next 5 years. The program will train more teachers, provide scholarships for girls – who are disproportionately excluded from schooling today – and work with historically Black colleges in the U.S. to supply millions more books to African children. It will also promote accountability and transparency in the school systems, so that communities can ensure that all the funds that are supposed to reach teachers and children are really reaching them.

The third, perhaps most crucial area for investment in people is health care. Nowhere is this more urgent, and more heartbreaking, than in the struggle against AIDS. In South Africa I saw mothers with AIDS caring for babies with AIDS, even when proven, inexpensive drugs are available to stop transmission between mother and child. I saw the dedication of nurses and doctors treating people with AIDS, and their patients' struggle to survive.

Prevention of further HIV contagion is the utmost priority, especially to keep the next generation of newborns free from disease.

The President has therefore stated his intention to provide $500 million in funding for the International Mother and Child HIV Prevention Initiative. This initiative will increase our commitment to preventing infant HIV infection abroad by almost $200 million next year alone, up from less than $20 million last year. It will increase another 50% in 2004. We will start with the hardest-hit countries in Africa and the Caribbean, and expand the program as it shows progress.

In addition to promoting nevirapine dosing at birth, which can reduce mother-to-child HIV transmission by up to 50 percent, the President's initiative will introduce more advanced combination antiretroviral therapy and best-practice postnatal care where local healthcare infrastructure permits. At least as important, it will improve healthcare training and delivery systems throughout the affected regions, bringing public and private resources to bear.

This is our challenge: to focus the attention of the world on getting results. Caring greatly is not enough. We must also succeed greatly.

Providing the framework for basic health and education is fundamental for enabling people to realize their potential. When governments are investing in their people, providing clean water, education, and health care, and when the other aspects of good governance are present – just rule and economic freedom – prosperity can blossom.

In fact, the private sector is already growing in parts of Africa. I visited entrepreneurs who are grabbing the opportunities that good governance has made possible. They are creating jobs in industries from coffee and cut flowers to athletic wear and data processing.

Government provides the conditions for growth, but it is not the source of prosperity. Private citizens create prosperity through enterprise.

And in Africa, where the conditions are right, citizens are doing just that.

For example, in Ghana I visited a successful U.S. investment, called Affiliated Computer Services, Inc. ACS sells data processing services to insurance companies in the U.S. It opened its office there in 2000, and already it employs over 800 Ghanaians, paying an average of three times the average wage in Ghana. 80% of the employees are women. The company now plans to expand its operations to four new sites in Ghana and to increase its workforce to over 1,000 people.

As foreign investments like ACS show success, others are bound to follow, and I am optimistic that increasingly advanced services, such as software development, will thrive in Ghana and elsewhere in Africa.

In Uganda, I met a woman, Lukia Ssemonobe, who opened a restaurant with micro-loan funding and a lot of hard work. This woman lost her husband a dozen years ago, and had to feed four children without income.

Indomitable, she borrowed $50 from the local branch of a micro-finance NGO, and used that and subsequent loans to build two businesses – a restaurant and then a tailoring shop. Now she employs about a dozen of her neighbors, supports her family, owns a home, and has become a leader in the community, caring for AIDS orphans.

In Ethiopia, an entrepreneur from Chicago invested in building a garment factory that makes sports clothes and ships them to the U.S. under the Africa Growth and Opportunity Act. The company now employs about 200 workers, each earning between three and 21 times the average Ethiopian income.

Jobs that deliver prosperity are created one at a time, by people like Lukia, or the investors in ACS. They see opportunities and choose to take the risks, confident they will reap the rewards of success.

Unfortunately, in too many cases, potential entrepreneurs and investors in Africa are deterred by arbitrary laws, corrupt bureaucracies and government favoritism. Africa is a continent of entrepreneurial enthusiasm – that's what I saw. But these individuals have no chance for success without governments that fairly enforce laws and contracts, respect human rights and property, and fight corruption. Governments also must remove barriers to trade – both internal and external – and open their economies to investment. They must allow companies and entrepreneurs to compete without excessive interference, including interference from government-owned enterprises.

That's no small order. But as private sector production takes hold in Africa, and incomes rise, African growth will become self-sustaining. Africa will be its own best market.

Coming back to my original question, what can we in the U.S. do to support African success? In addition to supporting President Bush's new initiatives for stopping the spread of HIV and broadening access to education in Africa, we need to push ahead with the rest of his reform agenda, which includes restructuring, increasing, and improving the effectiveness of wealthy nations' support for African development.

On March 14, 2002 President Bush announced that the United States will increase its core assistance to developing countries by 50% over the next 3 years, resulting in a $5 billion annual increase over current levels by FY 2006. This increased assistance will go to a new Millennium Challenge Account that funds initiatives to improve the economies and standards of living in qualified developing countries. The goal of the Millennium Challenge Account is to reward sound policy decisions that support economic growth and reduce poverty.

The Millennium Challenge Account recognizes that economic development assistance can be successful only if it is linked to sound policies in developing countries. The President therefore instructed Secretary of State Colin Powell and myself to develop a set of clear, concrete, and objective criteria for measuring progress in three key areas: ruling justly, investing in people and encouraging economic freedom.

Treasury has been working with State and an interagency group to investigate options for criteria and country selection.

The same policies that make a country eligible for Millennium Challenge grants will also make other official aid more effective. We are not setting out to pile one more program on the layers already present. We aim to improve them all, and streamline the aid process wherever we can. Too many of the responsible developing countries already labor under the demands of countless bilateral, multilateral and NGO aid bureaucracies. These organizations mean well, but poor countries end up consuming a large part of their aid allocations – and then some – just trying to qualify for the next helping. Sometimes it seems that more money goes to administration than assistance.

Also, international donors have sometimes knowingly made loans to poor countries for programs that could never generate a return sufficient to pay back the principal and interest due. The reality is that essential investments in sectors such as education and health care – investments in people – cannot directly generate the incremental revenue to service new debt. Of course, in many other cases, loans simply financed corrupt leaders, who stole the money and left their impoverished citizens saddled with the debt.

As a result, many caring people now extol debt forgiveness as the path to African development. I would agree that debt forgiveness may help, but it alone is not the solution.

First, debt forgiveness solves nothing if we allow new debt to create the next generation of heavily indebted poor countries a decade from now. To prevent this situation in the future, President Bush proposed a year ago that up to 50 percent of the multilateral development funds to the poorest countries be provided as grants instead of loans. President Bush's proposal led to intensive discussions with our development partners, and the principle of substantial grant financing for the poorest countries will be embodied in an agreement among the donors to the thirteenth replenishment of the International Development Association (IDA-13). African nations will be the largest beneficiaries of this initiative, under which all financing to the poorest countries for HIV/AIDS, and nearly all for other key social sectors, will be provided with grants.

The United States is also increasing its financial contribution to IDA-13 and to the replenishment of the African Development Fund by 18 percent. IDA programs need only show they are making a difference in people's lives to receive a portion of these additional funds – a challenge development organizations, their supporters, and their beneficiaries should welcome.

Replacing loans with targeted grants will eliminate the need for governments to repay long-term investments in people. It will thereby help eliminate the next generation of debt service problems. It is time to end the sad cycle of indebtedness for countries committed to success.

But it is also a simple fact that even without debt, it is impossible to prosper without income. Even if we forgave all debts, many of these countries still could not fund their own budgets, and they would immediately have to borrow more. In Uganda, over half of the government budget comes from foreign aid. Half the budget! That is not a sustainable situation. The only way out of that kind of shortfall is internal economic growth. Local leaders must create the conditions for self-sustaining prosperity, not further dependency.

In the long-term, domestic entrepreneurship as well as trade and foreign investment are far more important for economic growth than official aid. The purpose of aid is to speed the transition to economic independence. But we are using other mechanisms to help as well. For example, the United States created the Africa Growth and Opportunity Act to open U.S. markets to exports from sub-Saharan Africa. As Uganda's President Museveni said "If somebody buys what Uganda produces, then he is rendering my country the best assistance possible."

The Africa I saw on my journey is already changing. And we in America stand ready to help, eager and impatient to support real improvement in the lives of the African people.

I believe this: with the right combination of aid and accountability – from both rich nations and poor ones – we can accelerate the spread of clean water, education, and healthcare throughout Africa. We can help the African people create vibrant, self-sustaining economies founded on private enterprise, which will generate a rising standard of living.

With the support of the Members of this Committee, and the United States Congress, we can help Africa achieve prosperity at last. Not in the next generation, but right now. In this era of global opportunity, no continent, no country, and no person should be left behind. President Bush said it best – there are no second class citizens in the human race. We must make his vision into a worldwide reality.

Thank you.

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June 27, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

TREASURY TO DELAY ANNOUNCEMENT OF WEEKLY BILLS

The Treasury Department is postponing announcement of its weekly 13-week and 26-week bill auctions, scheduled to be announced June 27, 2002, until further notice.

-30-

PO-3213

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
June 27, 2002

Contact: Rob Nichols
(202) 622-2960

STATEMENT BY TREASURY SECRETARY PAUL O'NEILL ON HOUSE PASSAGE OF LEGISLATION TO INCREASE THE STATUTORY DEBT CEILING

I applaud House Speaker Dennis Hastert for bringing to the floor legislation to increase the statutory debt ceiling. The bipartisan House Members who voted for this legislation heeded the President's call to put politics aside and did the right thing for the country. They stood up for the soundness and strength of the American economy and preserved the full faith and credit of the United States Government.

-30-

PO-3214

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 8:15 A.M.
June 28, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 2-YEAR NOTES

The Treasury will auction $27,000 million of 2-year notes to refund $20,334 million of publicly held notes maturing June 30, 2002, and to raise new cash of approximately $6,666 million. The announcement of this offering, originally scheduled for June 19, 2002, was postponed on June 17, 2002.

The auction date has been changed from the scheduled date of June 26, 2002 to today, June 28, 2002, with closing times for receipt of noncompetitive and competitive tenders at 10:30 a.m. and 11:00 a.m. eastern daylight saving time, respectively.

In addition to the public holdings, Federal Reserve Banks hold $7,046 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 $848 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

)-3215

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF 2-YEAR NOTES TO BE ISSUED JULY 1, 2002

June 28, 2002

Offering Amount .... $27,000 million
Public Offering .... $27,000 million

Description of Offering:
Term and type of security .... 2-year notes
Series P-2004
CUSIP number .... 912828 AE 0
Auction date .... June 28, 2002
Issue date .... July 1, 2002
Dated date .... June 30, 2002
Maturity date .... June 30, 2004
Interest rate .... Determined based on the highest accepted competitive bid
Yield .... Determined at auction
Interest payment dates .... December 31 and June 30
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 HB 6
Due date(s) and CUSIP number(s)
for additional TINT(s) .... June 30, 2004 - - 912833 YV 6

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 10:30 a.m. eastern daylight saving time on auction day.
Competitive tenders:
Prior to 11:00 a.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.

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TREASURY NEWS

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EMBARGOED UNTIL 8:15 A.M.
June 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 $32,000 million to refund an estimated $27,793 million of publicly held 13-week and 26-week Treasury bills maturing July 5, 2002, and to raise new cash of approximately $4,207 million. The announcement of these offerings, originally scheduled for yesterday, June 27, 2002, was postponed yesterday. Also maturing is an estimated $18,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced July 1, 2002.

The Federal Reserve System holds $12,768 million of the Treasury bills maturing on July 5, 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 July 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 $1,018 million into the 13-week bill and $859 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-3216

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED JULY 5, 2002

June 28, 2002

Offering Amount	$17,000 million	$15,000 million
Public Offering	$17,000 million	$15,000 million
NLP Exclusion Amount	$ 3,800 million	None
Description of Offering:		
Term and type of security	90-day bill	181-day bill
CUSIP number	912795 LD 1	912795 LS 8
Auction date	July 1, 2002	July 1, 2002
Issue date	July 5, 2002	July 5, 2002
Maturity date	October 3, 2002	January 2, 2003
Original issue date	April 4, 2002	July 5, 2002
Currently outstanding	$15,022 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
June 28, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate:	2 7/8%	Issue Date:	July 01, 2002
Series:	P-2004	Dated Date:	June 30, 2002
CUSIP No:	912828AE0	Maturity Date:	June 30, 2004

High Yield: 2.970% Price: 99.817

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 69.04%. All tenders at lower yields were accepted in full.

Accrued interest of $ 0.07813 per $1,000 must be paid for the period from June 30, 2002 to July 01, 2002.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 34,295,564	$ 25,857,616
Noncompetitive	1,142,627	1,142,627
FIMA (noncompetitive)	0	0
SUBTOTAL	35,438,191	27,000,243 1/
Federal Reserve	7,046,300	7,046,300
TOTAL	$ 42,484,491	$ 34,046,543

Median yield 2.900%: 50% of the amount of accepted competitive tenders vas tendered at or below that rate. Low yield 2.839%: 5% of the amount)f accepted competitive tenders was tendered at or below that rate.

3id-to-Cover Ratio = 35,438,191 / 27,000,243 = 1.31

./ Awards to TREASURY DIRECT = $1,036,919,000

DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
June 28, 2002

CONTACT: Office of Financing
202/691-3550

INDEPENDENCE DAY HOLIDAY SCHEDULE FOR
TREASURY'S WEEKLY BILL ANNOUNCEMENT

In view of the Independence Day holiday next week, the offering details for the 13-week and 26-week bills to be issued on July 11, 2002, will be announced on Wednesday, July 3, 2002 at 11:30 a.m. This is consistent with the Bond Market Association's recommendations for a full market closing on Independence Day and an early closing on Wednesday, July 3.

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PO-3218

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
June 28, 2002

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Treasury Announces Final Suspicious Activity Reporting Rule for Broker-Dealers

The Treasury Department and its Financial Crimes Enforcement Network (FinCEN) today announced a new final rule requiring brokers and dealers in securities to report suspicious activity to FinCEN.

These firms will be obligated to report suspicious transactions that are conducted or attempted by, at, or through a broker-dealer and involve or aggregate at least $5,000 in funds or other assets. The rule will be published in the Federal Register on July 1, 2002 and becomes effective January 1, 2003.

Specifically, the final rule requires brokers and dealers in securities to report to FinCEN a transaction if the broker-dealer knows, suspects, or has reason to suspect that it falls within one of four classes:

- transactions involving funds derived from illegal activity or intended or conducted in order to hide or disguise funds derived from illegal activity;
- transactions designed, whether through structuring or other means, to evade the requirements of the Bank Secrecy Act;
- transactions that appear to serve no business or apparent lawful purpose or are not the sort of transactions in which the particular customer would be expected to engage, and for which the broker dealer knows of no reasonable explanation after examining the available facts; or
- transactions intended to further a criminal purpose, but apparently involving legally-derived funds. (This category involves the use of the broker-dealer to facilitate criminal activity, including terrorism).

The final rule was drafted in consultation with the Securities and Exchange Commission (SEC). Broker-dealers already are required to establish anti-money laundering programs that, among other things, are designed to detect suspicious transactions, under recently promulgated self-regulatory organization (SRO) rules. The SEC has the authority to examine broker-dealers for compliance with the rule, and it is expected that the SROs will also be reviewing compliance as part of the enforcement of their rules.

PO-3219

"The SEC and the SROs have taken important steps to address money laundering concerns at broker-dealers," said James F. Sloan, Director of FinCEN. "It was critical that we all work together to strike the appropriate balance and I believe in drafting the final rule we have benefited from their efforts in this area. We look forward to our continued dialogue as we move forward toward implementation of the rule."

The USA Patriot Act addresses the issue of suspicious transaction reporting by broker-dealers in Section 356 of Title III. Both the proposed rule, which was published on December 31, 2001 and the final rule, to be published July 1, 2002, have met the deadlines specified by the USA Patriot Act.

Depository institutions have been required to report suspicious activity since April 1, 1996. Broker-dealers that are affiliates of banks or bank holding companies have also been required to report suspicious activity since that time. Certain money services business fell under SAR requirements beginning January 1, 2002. In addition, FinCEN has proposed a SAR rule for casinos and card clubs.

A copy of the final rule may be found at www.treas.gov/press
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For Immediate Release
Thursday, June 27, 2002

Contact: Rob Nichols
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Treasury as a Foreign Policy Institution"
Remarks by Kenneth W. Dam
Deputy Secretary of the Treasury
Delivered to the Council on Foreign Relations Chicago

Tonight, I'd like to say a few words about the ways in which the United States Treasury Department implements U.S. foreign policy. Some of these will be familiar to you; some may not be. Certainly, I did not fully appreciate the many ways in which Treasury functions as a foreign policy institution until well after I joined the Department last year.

As a former Deputy Secretary of State, I came to Treasury intent on more fully integrating Treasury into all aspects of our foreign policy, not just the aspects that are traditionally recognized as economic. I was pleased when the President directed that "[t]he National Security Council shall have as its regular attendees . . . the Secretary of the Treasury" in addition, of course, to the President, the Vice-President, the National Security Advisor, and the Secretaries of State and Defense. The President wisely recognized that few international issues are exclusively political or military in scope. There is almost always an economic angle as well. Conversely, few issues in what we might call international economic policy are purely economic affairs.

There are also important tactical benefits to integrating international economic policy with other aspects of our foreign policy. For example there are some countries with which the United States has difficult relations. Economic and financial diplomacy through the Treasury can provide channels for positive interaction when other channels become strained.

PO-3220

For these reasons, one of my first acts at Treasury was to create a national security office within the Department. We've staffed this office with a senior foreign service officer and a senior intelligence analyst. They help ensure that the United States develops and implements an integrated foreign policy.

So, how is Treasury a foreign policy institution? Let me count the ways.

The U.S. Economy. First and foremost, we are stewards of the U.S. economy. This may sound like a counter-intuitive place to begin. But consider. The U.S. Gross Domestic Product in 2000 was nearly $10 trillion dollars.

That was more than one-fifth of the total world Gross Product. Economic conditions in the United States have a lot to do with economic conditions around the globe. When we grow, the rest of the world grows with us. The converse also is true. The impact of the U.S. economy on the rest of the world is especially pronounced now, given the continued underperformance of Japan, the world's second largest economy.

The United States, therefore, has much to contribute to the state of the world economy simply by getting things right at home.

International Financial Institutions. Second, Treasury leads U.S. participation in international financial institutions like the International Monetary Fund and the World Bank. Since we are the biggest contributor to most of these institutions, and since the executive boards use weighted voting, we have considerable voice in whether, when, how much, and under what conditions they lend to countries like Argentina or Turkey. That is a tremendous responsibility. Not only are the loan programs important to the countries that benefit from them, but they can have implications for other, associated countries as well. We have worked hard – as have many in the private sector – to dispel the notion that contagion necessarily and automatically spreads when one emerging market economy has difficulties. Now, we believe that markets are making more considered judgments about individual emerging markets. Investors are not allowing conditions in one to determine conditions in all the others. We are also working to improve the transparency and predictability of the way in which sovereign debt is restructured -- if a restructuring proves necessary -- by including collective action clauses in sovereign debt agreements.

Development. Third, together with the State Department, Treasury implements the President's economic development agenda. Development is a difficult issue. Short of touring Africa with a rock star, it is difficult to generate sustained interest in the media, Washington, or the public for improving development. But we are determined to make a difference and to implement the President's development agenda.

The President's development agenda is to focus on countries that are committed to ruling justly, promoting economic freedom, and investing in their people. We will measure performance based on changes in GDP, productivity, and other quantitative measures.

We are already putting money behind our ideas for change, with a 50% increase in bilateral assistance through the Millennium Challenge Account; more money for primary education programs and AIDS prevention in Africa; and increasing support for small and medium sized enterprises modeled on successful efforts in post-communist Eastern Europe. The President's approach is a bottom-up approach. While the specifics are still being worked out, my personal prediction is that you will see even greater emphasis on results-oriented clean water programs, universal education, and HIV-AIDS prevention and treatment.

There will also be an element of our development agenda that is driven, in part, by national security considerations, as in the case of our efforts to assist in the reconstruction of Afghanistan.

In addition, we are also seeking to leverage private sector resources to promote our development agenda. As the President has said, "most funds for development do not come from international aid -- they come from domestic capital, from foreign investment, and especially from trade." Together with Under Secretary of State Alan Larson, I chair a Presidential initiative called the Partnership for Prosperity, which is a U.S./Mexico, public/private partnership to spur investment in the parts of Mexico where growth has been lagging.

<u>Trade</u>. Fourth, Treasury promotes trade. Of course, the United States Trade Representative has the lead in most aspects of trade negotiations. Treasury, however, takes the lead in promoting trade in financial services. In my view, such trade is crucial to international economic development and stability. East Asia and other regions have learned the limits of export-led growth. Financial services are key to countries that wish to diversify away from an export-based strategy and develop the domestic demand to sustain them when an international economic downturn causes exports to lag.

We facilitate trade in other ways as well. The USTR may negotiate trade agreements, but Treasury, which includes the Customs Service, implements the agreements. I learned this all too well as I sat hostage for months awaiting confirmation, due to concerns that Senators Helms and Hollings had with how the Customs Service interprets terms like "dyeing and finishing" and "knit to shape" with respect to textile imports from certain Caribbean and African countries.

Treasury also takes the lead in negotiating international rules in the OECD that govern the provision of official trade financing, most prominently, financing provided by official export credit agencies and aid agencies. These rules govern some $60 billion a year of official export financing. By reducing the scope for export subsidies in this official financing, Treasury helps open markets and complements USTR's work in the WTO. There is also an important side benefit of this trade finance work, and that is budget savings. Treasury's negotiating success has reduced the need for matching U.S. financing subsidies and produced an annual budget savings of about $800 million.

International Tax Policy. Fifth, together with Congress, we set the rules that govern the taxation of foreign income earned by U.S. corporations. Our challenge is to do so in a way that is fair both to taxpayers without foreign operations and to taxpayers with foreign operations, so that multi-national companies headquartered in the United States are not disadvantaged competing in the global marketplace. When you stop to think about it, this is an extremely important component of our international economic policy. Increasingly, the flow of goods and services is not through purchases between exporters and importers, but through transfers between affiliates of multinational corporations. The rules governing transfer pricing, interest allocation, withholding rates, foreign tax credits, and the taxation of actual or deemed dividends impacts these flows.

Also, Treasury negotiates international tax treaties. These play an important role in increasing the amount of investment flowing from the United States to other countries. In addition to tax treaties, we negotiate tax information exchange agreements. These agreements provide for the exchange of information upon request for use in civil or criminal tax cases. We've signed five of these and more such agreements are on the way. The agreements – such as the ones we've entered into with Barbuda & Antigua, the Bahamas, the British Virgin Islands, the Cayman Islands, and the Netherlands' Antilles – help clean up the international financial system.

Transnational Financial Crime. Sixth, we work to police the international financial system. In addition to negotiating the tax information exchange agreements I just mentioned, Treasury combats international financial crime bilaterally through undercover criminal investigations, usually with the cooperation of foreign governments. We also work multilaterally, through such organizations as the Financial Action Task Force, FATF. In my view, FATF has been a particularly effective. FATF's 40 recommendations have become the international benchmark in anti-money laundering regimes. Its Eight Special Recommendations have set the standard in fighting terrorist financing. FATF has proven highly effective at extracting commitments from nations to implement such recommendations, assessing compliance with the commitments, and "naming and shaming" nations that fail to keep their commitments.

Terrorist Finances. Seventh, we lead the nation's fight against terrorist finances. We chair another interagency committee that sets the strategic priorities for the financial front of the war. We chair another interagency committee that implements these priorities through actions such as public designation and blocking, law enforcement action, diplomatic action, or other means. We work with foreign governments to ensure that they are doing all they can to stop the financing of terror. We work to promote the regulation and accountability of informal methods of moving money, such as hawala systems. And we work to increase the transparency of charities so that they cannot be used as fronts for terrorist support.

Well, that's a good list to start with. We work on the U.S. economy, international financial institutions, development, trade, international tax policy, financial crime, and terrorist finances.

There are other areas as well. And, of course, I could delve much more deeply into any one of these areas. But considering this list, I am struck by two observations.

The first observation is the great importance of the first item on my list – promoting growth in the U.S. economy. With the United States representing more than one-fifth of the world's GDP and with the Japanese economic ship of state in irons, no single thing matters more for international economic policy than the health of the U.S. economy. Ironically, the U.S. economy is precisely the part of the world economy on which international policymakers spend the least amount of time. U.S. fiscal, tax, and monetary policy are driven by domestic institutions with a predominantly domestic focus.

The second observation concerns the importance of the private sector. For example, we don't look to loans and grants from the World Bank in themselves to advance the economies of poor countries. Rather, we try to dedicate aid where it can help establish minimal conditions for local enterprises to grow, prosper, and attract foreign investment. Our efforts in development, trade, and tax policy all center around the recognition that the most important player in international economic policy is the private sector. This is true, to a degree, even in the hunt for terrorist finances. We cannot be successful in that sphere without the cooperation of the private sector. Incidentally, I am pleased to say that we have been getting that cooperation in abundance.

These are humbling observations for students of foreign relations. There can be no denying that economic policy is an important component of foreign relations. At the same time, the things that matter most in international economic policy are one or two steps removed from the attention of most foreign policymakers, and are often outside their control.

These observations also suggest a prescription. As we study foreign relations, we need to be keenly aware of the role of the private sector. Foreign service officers must be trained in the language and culture of business, in addition to the languages and cultures of the countries in which they work. And we must reward efforts to facilitate the growth of the private sector. It is sometimes hard to perceive the effects of these efforts. They don't culminate in grand treaties. They occur incrementally, as trade, tax, and regulatory conditions improve, encouraging growth. You can't promise foreign service officers a Rose Garden ceremony every time a new plant opens in Ghana or every time a country manages to control inflation or bring its sovereign debt rating to investment grade.

Nonetheless, we must reward international economic policymakers who succeed in the hard, incremental work of establishing the right conditions for global growth. I think organizations such as the Chicago Council on Foreign Relations can play an important role in recognizing those contributions, and educating constituencies on the true nature of international economic policy.