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Department of the Treasury

PRESS RELEASES

The following numbers were not used:
3235, 3267, 3280, 3306, 3310, 3323

The following numbers are not available:
3325, 3384

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 10:00 a.m. EDT
Monday, July 1, 2002**

**Contact: Michele Davis
(202) 622-2920**

Treasury Secretary Paul H. O'Neill
Remarks to the Economic and Social Council of the United Nations
New York, New York
July 1, 2002

Mr. President, Mr. Secretary General, your Excellencies, and distinguished guests of the Council, it is an honor to join you today as the Special Guest of the high-level segment of this year's Economic and Social Council session.

As you begin your annual session on human development, I feel great cause for optimism. In the year 2002, I believe we are seeing a breakthrough for human development around the world. From the U.N. conference in Monterrey this March, through the G-8 summit in Kananaskis last week, a consensus has been forming among the world's economic and political leaders. For fifty years we have accepted, and expected, too little from development aid.

Now, at last, we are ready to make changes, and make a difference.

It was in this spirit of impatience and hope that I went to Africa last month, to ask one pivotal question: how can the people of the United States and the developed world best support Africans in their efforts to achieve prosperity? I felt that the answers could serve not just that continent, but the entire developing world.

Those twelve days were intense. I met people like Sister Benedicta, who cares for mothers and children with AIDS in her Ethiopian hospital and orphanage. Her strength of spirit and commitment to service affected me profoundly. I met Rejoyce, a new mother in an AIDS clinic in South Africa. Rejoyce confronted her disease, and spared her newborn son from HIV. She was truly joyful that her boy would live a longer, happier life. And in Uganda, I met Lukia, a widow 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. Now she employs a dozen of her neighbors, supports her family, owns a home, and has become a leader in the community.

PO-3221

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As I met these amazing women and so many others on my trip, I saw that in the right environment – where there is leadership – aid works.

Knowing that aid can work, we have a moral duty to demand as much. Assistance should make a real difference in people's lives.

In the past, too much aid has scattered into the winds of lawlessness, corruption, and unaccountability, and too little has targeted results that build a foundation for economic growth. Too often, aid has been sustenance for bureaucracy, rather than investment in people.

And sometimes it is we the donors who are at fault. We prescribe western solutions for problems that only local leaders can solve.

Moreover, we have often given aid without setting standards for accountability, and defining clear measures for success. In my experience, that is a recipe for failure. How can we know that primary education aid is working unless we know how many children have the full functional ability to read, write and compute by the time they are ten years old?

We donors become too absorbed in our long-term plans when we could be making a difference for people right now. Yes, development is complicated. But complexity cannot be an excuse for delay.

In Africa, I saw three investments that are vital to realizing human potential, where we could make a difference today: clean water, primary education, and fighting HIV/AIDS. Under the leadership of President Bush, the United States is already stepping up its commitments in these areas, concomitant with a new pledge for good governance and pro-growth policies from key African leaders.

First, clean water. Water fit for drinking is, surely, one of the most essential elements of a dignified, civilized life. Yet 300 million people in sub-Saharan Africa lack access to clean, safe water – more than the total population of the United States.

One insight from my Africa tour is that we can help local and national efforts to bring clean water to many towns and villages fairly quickly. In West Africa, for example, one organization estimates that clean water and basic sanitation can be provided at a cost of about \$17 per person, per year, over five years. That is one well for 400 people, and includes the additional costs of training, maintenance, sanitation, and hygiene education for sustained, positive outcomes. And we must not forget the urban poor. Low-cost options such as the extension of existing services from cities to outlying areas are available and can be implemented quickly.

Clearly, working together we can make an enormous difference in a very short time, at a reasonable, achievable cost.

Every new well liberates hundreds of people, especially women and children, from preventable, debilitating illness and meaningless, wearisome work. They are freed to pursue dreams for a better life.

The second important investment I saw was in primary education. A prosperous future requires that children enter school at an early age, and stay in school, with well-trained teachers and adequate materials.

In parts of Africa such as Uganda, they've had success in increasing primary school enrollment. Education quality is improving as well. I visited schools where they have gone from a ratio of 16 students per book down to six per book.

But surely we can get every student his or her own book. It would cost only an estimated \$18 million per year to buy one textbook for each of four core subjects for every primary student in Uganda, for example. That is a small step, but a manageable one, and it would make a big difference in the learning environment for those students.

No, books alone do not make an education – but we need to start somewhere. The perfect tomorrow should not be the enemy of a better today.

President Bush is stepping up to support primary education in Africa. He has committed to doubling funds for his African Education Initiative. The \$200 million Initiative will train 420,000 teachers, provide 250,000 scholarships for girls, and supply 4.5 million more textbooks to African children. It will also promote accountability and transparency in the school systems. But we should not be confused. The goal is not more teachers or more scholarships or more books. The goal is children with full functional ability to read, write and compute by age ten.

We cannot underestimate the importance of transparency and accountability for social programs such as education. In Uganda, one study found that in the early 90s, only 13% of non-wage spending for education was actually reaching schools. The rest was lost to corruption and bureaucracy. After an extensive, decade-long anti-corruption campaign, posting school budgets on school doors or reading them on the radio, over 90% of school spending now gets to the schools in Uganda.

The third crucial area for investment is health care. Nowhere is this more urgent, and more heartbreaking, than in the struggle against AIDS. Prevention of further HIV contagion is the utmost priority, especially to keep the next generation of newborns free from disease.

President Bush is putting our resources into projects that are proven to achieve results. He has announced \$500 million for the International Mother and Child HIV Prevention Initiative. We will start work with the hardest-hit countries in Africa and the Caribbean, and expand as it shows progress.

In the ten initiative countries over the first five years, we will reach 12.6 million pregnant women and provide them with voluntary counseling, testing, HIV prevention education, and obstetric care. Of those, we expect that 1.2 million HIV positive mothers will also receive short course anti-retroviral treatment, which will save over 178,000 infants from HIV. Once the program is fully up and running, we estimate that we will save 51,000 infants each year in these countries.

If the rest of the world joins our effort, we can do even more. Each year there are some 360,000 preventable cases of HIV in newborns.

President Bush has also pledged \$500 million to the Global Fund to Fight AIDS, Tuberculosis, and Malaria, and committed to increase our contribution as the Fund shows results. Taking into account the new mother-child initiative, President Bush has doubled U.S. international AIDS funding to \$1.1 billion, devoting far more to fighting AIDS than any other nation.

We are determined to focus our assistance where it will make a difference, and where it can, we have committed to do more. To that end, President Bush announced in March 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 by 2006. This new "Millennium Challenge Account" will fund initiatives that support economic growth in countries that govern justly, invest in people, and encourage economic freedom. We are now developing measures for each of these.

For "governing justly," we are considering a variety of indices that measure civil liberties, political rights, enforceability of contracts, judicial independence, corruption, transparency and government effectiveness.

For "investing in people," we are considering measures such as primary school completion rates and public expenditures on health care.

And for "encouraging economic freedom," we are examining indicators such as country credit ratings, inflation, openness to trade, and the quality of regulatory policies.

These measures are still in development, and we are reaching out to the world community for help in finalizing the criteria. We will keep the criteria few, identifying indicators that gauge the leadership and commitment of each nation. Because it takes leadership on the ground to move any nation toward prosperity. As countries seek to meet the criteria for Millennium Challenge grants, the policy changes they make will also make other official aid more effective.

Another way to make aid more effective will be to better harmonize the goals of bilateral, multilateral, and NGO agencies. For example, a recent release from the Human Sciences Resource Council in South Africa lists more than 5,600 development-related organizations operating in the 14-nation Southern African Development Community.

These organizations mean well, but poor countries end up consuming a substantial part of their aid allocations just trying to qualify for additional funds.

Finally, we must avoid creating the next generation of highly indebted poor countries. The reality is that essential investments in sectors such as education and healthcare cannot directly generate the revenue to service new debt. These projects should be funded by grants, not loans. President Bush recognized this, and proposed that a much greater share of development funds to the poorest countries go as grants instead of loans. We have reached out to our development partners with this idea, and today, donors to the thirteenth replenishment of the International Development Association (IDA-13) have agreed to the principle of substantial grant financing for the poorest countries. 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.

Local leaders that create conditions for self-sustaining prosperity, not further dependency, deserve our support. The purpose of aid is to speed the transition to economic independence.

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 and the developing world. We can help create vibrant, self-sustaining economies founded on private enterprise, which will generate a rising standard of living.

Working together, the member states of the United Nations can go beyond eradicating poverty in the developing world, to achieving prosperity at last. Not in the next generation, but right now. 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

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

EMBARGOED UNTIL 11:30 A.M.
July 1, 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 July 5, 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 \$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 in this auction up to the balance of the amount not awarded in today's 13-week and 26-week Treasury bill auctions. Amounts awarded to SOMA will be in addition to the offering amount.

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

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

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

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

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Attachment

PO-3222

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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
July 01, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term: 90-Day Bill
Issue Date: July 05, 2002
Maturity Date: October 03, 2002
CUSIP Number: 912795LD1

High Rate: 1.690% Investment Rate 1/: 1.719% Price: 99.578

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 83.70%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
-----	-----	-----
Competitive	\$ 28,872,997	\$ 15,451,047
Noncompetitive	1,404,049	1,404,049
FIMA (noncompetitive)	145,000	145,000
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SUBTOTAL	30,422,046	17,000,096 2/
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Federal Reserve	6,238,716	6,238,716
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TOTAL	\$ 36,660,762	\$ 23,238,812

Median rate 1.675%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.645%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 30,422,046 / 17,000,096 = 1.79

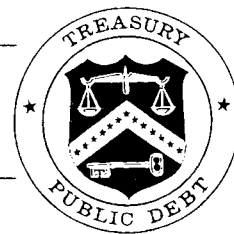
1/ Equivalent coupon-issue yield.

2/ Awards to TREASURY DIRECT = \$1,111,705,000

<http://www.publicdebt.treas.gov>

PUBLIC DEBT NEWS

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



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

FOR IMMEDIATE RELEASE
July 01, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term: 181-Day Bill
Issue Date: July 05, 2002
Maturity Date: January 02, 2003
CUSIP Number: 912795LS8

High Rate: 1.730% Investment Rate 1/: 1.770% Price: 99.130

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 66.87%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 31,781,985	\$ 13,804,610
Noncompetitive	1,195,598	1,195,598
FIMA (noncompetitive)	0	0
SUBTOTAL	32,977,583	15,000,208 2/
Federal Reserve	5,635,252	5,635,252
TOTAL	\$ 38,612,835	\$ 20,635,460

Median rate 1.710%: 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 = 32,977,583 / 15,000,208 = 2.20

1/ Equivalent coupon-issue yield.

2/ Awards to TREASURY DIRECT = \$932,875,000

<http://www.publicdebt.treas.gov>



For immediate release --
July 2, 2002

Contact: Michele Davis
(202) 622-2920

**IDA REFORMS WILL MAKE ASSISTANCE
TO THE POOREST COUNTRIES MORE EFFECTIVE**

International agreement achieves landmark reforms with Bush Administration Leadership

Economic assistance to poor countries will be more effective in coming months as a result of Bush Administration reforms achieved today with an agreement to replenish a key international development organization.

The agreement among international donors to replenish the International Development Association (IDA) will require measurable results for the first time since IDA was established nearly forty years ago.

Treasury Secretary Paul O'Neill praised the agreement as a significant change in how donor nations help poor countries succeed.

"This agreement reflects President Bush's determination that our development assistance must achieve results if we really want to help poor people succeed," said O'Neill. "These reforms are taking us in the right direction. They will make a difference in the lives of real people. We insist on measuring results, we deliver grants where grants are most appropriate, and we're putting more emphasis on productivity growth in the private sector. More funding is important - and we're providing more funding."

The agreement, reached earlier today in London, concludes negotiations for the 13th replenishment of IDA, and provides an additional \$23 billion to the organization over the next three years. IDA is the arm of the World Bank that provides development assistance to the poorest countries.

With Bush Administration leadership, donors agreed to the following sweeping reforms: First, IDA will establish a measurement and evaluation system that measures recipient countries' progress. This will enable donors to link a portion of their contributions to the achievement of

PO-3225



results on the ground. In fact President Bush's FY2003 budget request will condition \$300 million of its proposed \$2.85 billion contribution on achieving results in health, education, and private sector development.

Second, a significant increase in grant funding will now be available for the poorest countries for education, HIV/AIDS, health, nutrition, water, sanitation and other human needs. Secretary O'Neill said, "This agreement fulfills an initiative of President Bush to ensure that more funding is available for investment in poor countries - without adding to crippling debt burdens."

Third, IDA will devote significant resources over the next three years to private sector development in the poorest countries. I will do this by working with the International Finance Corporation. The IFC is the arm of the World Bank Group that provides financial sector products to private sector projects in developing countries.

These hallmark reforms are a significant achievement for the poorest countries and fulfill a pledge by President Bush that the U.S. stand shoulder-to-shoulder with people and countries that are trying to succeed.

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
July 02, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term: 27-Day Bill
Issue Date: July 05, 2002
Maturity Date: August 01, 2002
CUSIP Number: 912795KU4

High Rate: 1.690% Investment Rate 1/: 1.719% Price: 99.873

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 1.48%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 43,635,187	\$ 17,967,327
Noncompetitive	33,125	33,125
FIMA (noncompetitive)	0	0
SUBTOTAL	43,668,312	18,000,452
Federal Reserve	894,505	894,505
TOTAL	\$ 44,562,817	\$ 18,894,957

Median rate 1.675%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.650%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 43,668,312 / 18,000,452 = 2.43

1/ Equivalent coupon-issue yield.

<http://www.publicdebt.treas.gov>

PO-3226



For Immediate Release
July 3, 2002

Contact: Tara Bradshaw
202.622.2014

**GREG JENNER JOINS TREASURY AS
SENIOR ADVISOR AND ACTING DEPUTY ASSISTANT SECRETARY
FOR TAX POLICY**

Treasury Secretary Paul O'Neill today announced that Greg Jenner will join the Department of the Treasury as Senior Advisor and Acting Deputy Assistant Secretary for Tax Policy on July 8, 2002.

"Greg brings an extensive background in tax policy to the Treasury Department," stated Pam Olson, Acting Assistant Secretary for Tax Policy. "His previous Treasury and Senate Finance Committee experience combined with his tenure in private practice make him an invaluable asset to the Office of Tax Policy."

Most recently, Jenner served as Partner in the Tax and Legislative Groups at Venable, Baetjer, Howard & Civiletti LLP, where he focused on a wide variety of tax issues. Prior to joining Venable, he was a partner with PricewaterhouseCoopers LLP Washington National Tax Services office. He served from 1989 to 1992 as the Special Assistant to the Assistant Secretary for Tax Policy. Jenner served as Tax Counsel for the U.S. Senate Committee on Finance from 1985 to 1989, playing a key role in the Finance Committee's development of legislation that became the Tax Reform Act of 1986.

Jenner was recently named a Fellow of the American College of Tax counsel. He is a member of the District of Columbia Bar and the American Bar Association. He is a member of the Council of the ABA's Section of Taxation, and chaired the Tax Section's Corporate Tax Shelter Task Force.

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PO-3227



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.
July 3, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling \$32,000 million to refund an estimated \$23,408 million of publicly held 13-week and 26-week Treasury bills maturing July 11, 2002, and to raise new cash of approximately \$8,592 million. Also maturing is an estimated \$18,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced July 8, 2002.

The Federal Reserve System holds \$11,024 million of the Treasury bills maturing on July 11, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders either in these auctions or the 4-week Treasury bill auction to be held July 9, 2002. Amounts awarded to SOMA will be in addition to the offering amount.

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

TreasuryDirect customers have requested that we reinvest their maturing holdings of approximately \$1,060 million into the 13-week bill and \$730 million into the 26-week bill.

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

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

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

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Attachment

PO-3228

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HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED JULY 11, 2002

July 3, 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>	\$ 3,500 million	None

Description of Offering:

Term and type of security.....	91-day bill	182-day bill
CUSIP number.....	912795 LE 9	912795 LT 6
Auction date.....	July 8, 2002	July 8, 2002
Issue date.....	July 11, 2002	July 11, 2002
Maturity date.....	October 10, 2002	January 9, 2003
Original issue date.....	April 11, 2002	July 11, 2002
Currently outstanding.....	\$13,824 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.



FOR IMMEDIATE RELEASE
July 3, 2002

Contact: Rob Nichols
(202) 622-2910

Fourth of July Message From Secretary O'Neill

Over 215 years ago, the founders of our nation gathered on July 4, boldly declaring independence from oppression. These great leaders envisioned a unified nation, which upheld equality and liberty for every one of its members. The founders envisioned a powerful nation, with powerful ideas to lead the world. During the past nine months since September 11th, I have watched our leaders and our people come together to show this same courage.

As the American people gather with family, friends and neighbors, this courage and unity has a refreshed value. We remember the words of President George W. Bush, who said on September 11th, "This is a day when all Americans from every walk of life unite in our resolve for justice and peace . . . None of us will ever forget this day. Yet, we go forward to defend freedom and all that is good and just in our world."

This Fourth of July, I urge everyone to celebrate not only the power of our nation, but the power of the human spirit which created and defended the values of democracy. Have a safe and happy holiday.

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PO-3229



FROM THE OFFICE OF PUBLIC AFFAIRS

July 3, 2002
PO-3230

**TREASURY AND IRS PROPOSE REGULATIONS FOR
SPLIT - DOLLAR LIFE INSURANCE ARRANGEMENTS**

Today, the Treasury Department and the IRS issued proposed regulations on the tax treatment of split-dollar life insurance arrangements. These regulations provide comprehensive rules on split-dollar life insurance, resolving many questions about how these arrangements are taxed.

A split-dollar life insurance arrangement involves two parties agreeing to split the premiums and/or benefits of a life insurance policy. These arrangements are often used as a type of employee compensation or for making gifts among family members. The tax treatment of split-dollar life insurance has been unclear for many years.

The proposed regulations require a split-dollar life insurance arrangement to be taxed under one of two sets of rules—depending on who the owner of the policy is. If the employee is the owner of the policy, then the employer's payments of premiums are treated as loans to the employee. Consequently, unless the employee is required to pay the employer market-rate interest on the loan, the employee will be taxed on the difference between the market-rate interest and the actual interest.

If the employer is the owner, the employer's payments of premiums are treated as the employer providing "economic benefits" to the employee. The economic benefits would include the value of the life insurance protection provided together with any other benefits provided the employee under the arrangement.

As indicated in Notice 2002-8, the proposed regulations will apply only to split-dollar life insurance arrangements that are entered into after the date the regulations are published in final form. Until then, taxpayers may rely on the proposed regulations.

The text of the proposed regulations is attached.

[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Parts 1 and 31

[REG-164754-01]

RIN 1545-BA44

Split-Dollar Life Insurance Arrangements

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking and notice of public hearing.

SUMMARY: This document contains proposed regulations relating to the income, employment, and gift taxation of split-dollar life insurance arrangements. The proposed regulations will provide needed guidance to persons who enter into split-dollar life insurance arrangements. This document also provides notice of a public hearing on the proposed regulations.

DATES: Written or electronic comments must be received by October 7, 2002.

Requests to speak and outlines of topics to be discussed at the public hearing scheduled for October 23, 2002, must be received by October 9, 2002.

ADDRESSES: Send submissions to CC:ITA:RU (REG-164754-01), room 5226, Internal Revenue Service, POB 7604, Ben Franklin Station, Washington, DC 20044.

Submissions may be hand delivered Monday through Friday between the hours of 8 a.m. and 5 p.m. to: CC:ITA:RU (REG-164754-01), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, NW., Washington, DC or sent electronically, via the IRS Internet site at www.irs.gov/regs. The public hearing will be held in room 4718, Internal Revenue Building, 1111 Constitution Avenue, NW., Washington, DC.

FOR FURTHER INFORMATION CONTACT: Concerning the section 61 regulations, please contact Elizabeth Kaye at (202) 622-4920; concerning the section 83

regulations, please contact Erinn Madden at (202) 622-6030; concerning the section 301 regulations, please contact Krishna Vallabhaneni at (202) 622-7550; concerning the section 7872 regulations, please contact Rebecca Asta at (202) 622-3940; and concerning the application of these regulations to the Federal gift tax, please contact Lane Damazo at (202) 622-3090. To be placed on the attendance list for the hearing, please contact LaNita M. Vandyke at (202) 622-7180.

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collection of information contained in this notice of proposed rulemaking has been submitted to the Office of Management and Budget for review in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3507(d)). Comments on the collection of information should be sent to the **Office of Management and Budget, Attn: Desk Officer for the Department of the Treasury, Office of Information and Regulatory Affairs, Washington, DC 20503, with copies to the Internal Revenue Service, Attn: IRS Reports Clearance Officer, W:CAR:MP:FP:S Washington, DC 20224.** Comments on the collection of information should be received by September 7, 2002. Comments are specifically requested concerning:

Whether the proposed collection of information is necessary for the proper performance of the functions of the IRS, including whether the information will have practical utility;

The accuracy of the estimated burden associated with the proposed collection of information (see below);

How the quality, utility, and clarity of the information to be collected may be enhanced;

How the burden of complying with the proposed collection of information may be minimized, including through the application of automated collection techniques or other forms of information technology; and

Estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information.

The collections of information in this proposed regulation are in §1.7872-15(d)(2)(ii) and (j)(3)(ii). These collections of information are required by the IRS to verify consistent treatment by the borrower and lender of split-dollar loans with nonrecourse or contingent payments. In addition, in the case of a split-dollar loan that provides for nonrecourse payments, the collections of information are required to obtain a benefit. The likely respondents are parties entering into split-dollar loans with nonrecourse or contingent payments.

Estimated total annual reporting and/or recordkeeping burden: 32,500 hours.

Estimated average annual burden hours per respondent and/or recordkeeper: 17 minutes.

Estimated number of respondents and/or recordkeepers: 115,000.

Estimated annual frequency of responses: on occasion.

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

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

BACKGROUND AND EXPLANATION OF PROVISIONS

1. Current Law

_____ Section 61 provides that gross income includes all income from whatever source derived. Section 1.61-2(d) describes the taxation of premiums paid by an employer or service recipient for life insurance on the life of an employee or independent contractor if the proceeds of the life insurance are payable to the beneficiary of the employee.

Section 83 provides rules for taxing a transfer of property in connection with the performance of services. Generally, if property is transferred to any person other than the service recipient in connection with the performance of services, the excess of the fair market value of such property (determined without regard to lapse restrictions) over

the amount paid for such property is included in the gross income of the service provider in the first taxable year in which the service provider's rights in such property are either transferable or not subject to a substantial risk of forfeiture, whichever is applicable. Under §1.83-1(a)(2), the cost of life insurance protection under a life insurance contract, retirement income contract, endowment contract, or other contract providing life insurance protection generally is taxable under section 61 and the regulations thereunder during the period such contract is substantially nonvested (that is, prior to the time when rights to the contract are either transferable or not subject to a substantial risk of forfeiture). The cost of such life insurance protection is the reasonable net premium cost, as determined by the Commissioner, of the current life insurance protection (as defined in §1.72-16(b)(3)) provided by such contract. Under §1.83-3(e), in the case of a transfer of a life insurance contract, retirement income contract, endowment contract, or other contract providing life insurance protection, only the cash surrender value of the contract is considered property.

Section 163(h) disallows a deduction for personal interest paid or accrued during the taxable year for taxpayers other than corporations. For purposes of section 163(h), personal interest is any interest other than the following: interest paid or accrued on indebtedness property allocable to a trade or business; any investment interest within the meaning of section 163(d); any interest which is taken into account under section 469 in computing passive income or loss; any qualified residence interest; any interest payable under section 6601 on any unpaid portion of the tax imposed by section 2001 for the period during which an extension of time for payment is in effect; and any interest allowable for deduction under section 221 (relating to interest on education loans).

Section 264(a)(1) provides that no deduction is allowed for premiums on any life insurance policy if the taxpayer is directly or indirectly a beneficiary under the policy. Section 264(a)(2) provides that no deduction is allowed, except as provided in section 264(e), for any interest paid or accrued on indebtedness with respect to a life insurance policy owned by the taxpayer and covering the life of any individual.

Section 301 provides that distributions of property made by a corporation to a shareholder with respect to its stock may constitute a dividend includible in the gross income of the shareholder.

Sections 163(e) and 1271 through 1275 provide rules for the treatment of original issue discount (OID) on debt instruments. In general, the holder and the issuer of a debt instrument take the OID into account as it accrues on the basis of the debt instrument's yield to maturity.

Section 7872 provides rules for certain direct and indirect below-market loans enumerated in section 7872(c)(1). The legislative history of section 7872 states that the term loan is to be interpreted broadly for purposes of section 7872, potentially encompassing "any transfer of money that provides the transferor with a right to repayment." H.R. Rep. 98-861, 98th Cong., 2d Sess. 1018 (1984). In general, section 7872 recharacterizes a below-market loan (a loan in which the interest rate charged is less than the applicable Federal rate (AFR)) as an arm's-length transaction in which the lender makes a loan to the borrower at the AFR, coupled with a payment or payments to the borrower sufficient to fund all or part of the interest that the borrower is treated as paying on that loan. The amount, timing, and characterization of the imputed payments to the borrower under a below-market loan depend on the relationship between the borrower and the lender and whether the loan is characterized as a demand loan or a term loan. For example, in the case of a compensation-related below-market loan within the meaning of section 7872(c)(1)(B), the imputed payments are treated as payments of compensation.

Section 7872 generally provides that, in the case of any below-market loan that is a gift or demand loan subject to section 7872, forgone interest is treated as transferred from the lender to the borrower and retransferred from the borrower to the lender as interest on the last day of the calendar year for each year the loan is outstanding.

Section 7872 generally provides that, in the case of any below-market loan that is a term loan subject to section 7872, the lender is treated as having transferred, on the day the loan is made, an amount equal to the excess of the amount loaned over the

present value of all payments which are required to be made under the terms of the loan. This amount is treated as retransferred by the borrower to the lender as OID over the term of the loan.

Rev. Rul. 64-328 (1964-2 C.B. 11) and Rev. Rul. 66-110 (1966-1 C.B. 12) address the Federal income tax treatment of a split-dollar life insurance arrangement under which an employer and an employee join in the purchase of a life insurance contract on the life of the employee and provide for the allocation of policy benefits. The rulings conclude that all economic benefits provided by the employer to the employee under such an arrangement are taxed to the employee. Thus, under the rulings, the employee generally must include in compensation income for each taxable year during which the arrangement remains in effect (i) the annual cost of the life insurance protection provided to the employee, reduced by any payments made by the employee for such life insurance protection, (ii) any policy owner dividends or similar distributions provided to the employee under the life insurance contract (including any dividends, as described in Rev. Rul. 66-110, used to provide additional policy benefits), and (iii) any other economic benefits provided to the employee under the arrangement. Neither ruling distinguishes, for tax purposes, between an arrangement in which the employer owns the life insurance contract (as in a so-called endorsement arrangement) and an arrangement in which the employee owns the contract (as in a so-called collateral assignment arrangement).

Rev. Rul. 79-50 (1979-1 C.B. 138) provides that, in a split-dollar life insurance arrangement similar to the one described in Rev. Rul. 64-328 between a corporation and a shareholder, the shareholder must include in income the value of the insurance protection in excess of the premiums paid by the shareholder, and must treat such amounts as provided in section 301(c).

Notice 2001-10 (2001-1 C.B. 459) set forth rules for the taxation of split-dollar life insurance arrangements in which the employee has an interest in the cash surrender value of the life insurance contract (so-called equity split-dollar life insurance arrangements). Notice 2001-10 generally provided, under specified conditions, for the

taxation of equity split-dollar life insurance arrangements under either the rules of sections 61 and 83 or the rules of section 7872.

Notice 2002-8 (2002-4 I.R.B. 398), which revoked Notice 2001-10, provides guidance with respect to split-dollar life insurance arrangements entered into before the date final regulations concerning such arrangements are published in the **Federal Register**. The notice indicates that taxpayers may treat current life insurance protection provided under such an arrangement as an economic benefit and that the IRS will not treat the arrangement as having been terminated if the parties continue to treat and report the value of the current life insurance protection in that manner. Notice 2002-8 provides that, alternatively, the parties may treat the premiums or other payments as loans from the sponsor of the arrangement (typically, the employer) to the other party. In these cases, the IRS will not challenge a taxpayer's reasonable efforts to comply with the requirements of sections 1271 through 1275 and section 7872. In addition, all payments by the sponsor from the inception of the arrangement (reduced by any repayments to the sponsor) before the first taxable year in which the payments are treated as loans must be treated as loans entered into at the beginning of such first taxable year.¹

Notice 2002-8 also describes the anticipated proposed regulations on split-dollar life insurance arrangements. The notice states that the rules would require taxation of a split-dollar life insurance arrangement under one of two mutually exclusive regimes: an economic benefit regime and a loan regime.

2. Overview of the Proposed Regulations

¹ Notice 2002-8 also provides that an employer and employee may continue to use the P.S. 58 rates set forth in Rev. Rul. 55-747 (1955-2 C.B. 228), which was revoked by Notice 2001-10, only with respect to split-dollar life insurance arrangements entered into before January 28, 2002, in which a contractual arrangement between the employer and employee provides that the P.S. 58 rates will be used to determine the value of the current life insurance protection provided to the employee (or to the employee and one or more additional persons). Taxpayers may not use the P.S. 58 rates for "reverse" split-dollar life insurance arrangements or for split-dollar life insurance arrangements outside of the compensatory context.

_____ These proposed regulations provide guidance on the taxation of split-dollar life insurance arrangements, including equity split-dollar life insurance arrangements. The proposed regulations apply for purposes of Federal income, employment, and gift taxes. For example, the proposed regulations apply to a split-dollar life insurance arrangement between an employer and an employee, between a corporation and a shareholder, and between a donor and a donee.

Definition of split-dollar life insurance arrangement

_____ The proposed regulations generally define a split-dollar life insurance arrangement as any arrangement (that is not part of a group term life insurance plan described in section 79) between an owner of a life insurance contract and a non-owner of the contract under which either party to the arrangement pays all or part of the premiums, and one of the parties paying the premiums is entitled to recover (either conditionally or unconditionally) all or any portion of those premiums and such recovery is to be made from, or is secured by, the proceeds of the contract. This definition is intended to apply broadly and will cover an arrangement, for example, under which the non-owner of a contract provides funds directly to the owner of the contract with which the owner pays premiums, as long as the non-owner is entitled to recover (either conditionally or unconditionally) all or a portion of the funds from the contract proceeds (for example, death benefits) or has an interest in the contract to secure the right of recovery. In addition, the amount to be recovered by the party paying the premiums need not be determined by reference to the amount of those premiums. The definition is not intended to cover the purchase of an insurance contract in which the only parties to the arrangement are the policy owner and the life insurance company acting only in its capacity as issuer of the contract.

A special rule applies in the case of an arrangement entered into in connection with the performance of services. Under this special rule, a split-dollar life insurance arrangement is any arrangement (whether or not described in the general rule) between an owner and a non-owner of a life insurance contract under which the employer or service recipient pays, directly or indirectly, all or any portion of the premiums and the

beneficiary of all or any portion of the death benefit is designated by the employee or service provider or is any person whom the employee or service provider would reasonably be expected to name as beneficiary. (Like the general rule, this special rule does not apply to any arrangement covered by section 79.) This special rule also applies to arrangements between a corporation and another person in that person's capacity as a shareholder in the corporation under which the corporation pays, directly or indirectly, all or any portion of the premiums and the beneficiary of all or a portion of the death benefit is a person designated by, or would be reasonably expected to be designated by, the shareholder. As in the case of the general definition, the special rule is not intended to cover the purchase of an insurance contract in which the only parties to the arrangement are the policy owner and the life insurance company acting only in its capacity as issuer of the contract.

Mutually exclusive regimes

_____As indicated in Notice 2002-8, the proposed regulations provide two mutually exclusive regimes for taxing split-dollar life insurance arrangements. A split-dollar life insurance arrangement (as defined in the proposed regulations) is taxed under either the economic benefit regime or the loan regime. The proposed regulations provide rules that determine which tax regime applies to a split-dollar life insurance arrangement.

Under the economic benefit regime (generally set forth in §1.61-22 of the proposed regulations), the owner of the life insurance contract is treated as providing economic benefits to the non-owner of the contract. The economic benefit regime generally will govern the taxation of endorsement arrangements. In addition, a special rule requires the economic benefit regime to apply (and the loan regime not to apply) to any split-dollar life insurance arrangement if (i) the arrangement is entered into in connection with the performance of services, and the employee or service provider is not the owner of the life insurance contract, or (ii) the arrangement is entered into between a donor and a donee (for example, a life insurance trust) and the donee is not the owner of the life insurance contract.

Under the loan regime (generally set forth in §1.7872-15 of the proposed regulations), the non-owner of the life insurance contract is treated as loaning premium payments to the owner of the contract. Except for specified arrangements, the loan regime applies to any split-dollar loan (as defined in the proposed regulations). The loan regime generally will govern the taxation of collateral assignment arrangements.

Thus, in contrast to Rev. Rul. 64-328 and Rev. Rul. 66-110, the proposed regulations generally provide substantially different tax consequences to the parties depending on which party owns the life insurance contract.

The proposed regulations also require both the owner and the non-owner of a life insurance contract that is part of a split-dollar life insurance arrangement (as defined either in the general rule or the special rule) to fully and consistently account for all amounts under the arrangement under the rules of either §1.61-22 or §1.7872-15.

For purposes of both the general rule and the special rule, unless the non-owner's payments are certain payments made in consideration for economic benefits, general Federal income, employment, and gift tax principles apply to the arrangement. For example, if an employer pays premiums on a contract owned by an employee and the payments are not split-dollar loans under §1.7872-15, the employee must include the full amount of the payments in gross income at the time they are paid by the employer to the extent that the employee's rights to the life insurance contract are substantially vested. Also, to the extent an owner's repayment obligation is waived, cancelled, or forgiven at any time under an arrangement that prior to the cancellation of indebtedness was treated as a split-dollar loan, the owner and non-owner must account for the amount waived, cancelled, or forgiven in accordance with the relationship between the parties. Thus, if the arrangement were in a compensatory context, the owner of the contract (the employee) and the non-owner (the employer) would account for the amount as compensation. See OKC Corp. and Subsidiaries v. Commissioner, 82 T.C. 638 (1984) (whether the cancellation of a debt is ordinary income to the debtor depends upon the nature of the payment); Newmark v. Commissioner, 311 F.2d 913

(2d Cir. 1962) (discharge of indebtedness constituted a payment for services in an employment situation).

Owners and non-owners

_____The proposed regulations provide rules for determining the owner and the non-owner of the life insurance contract. The owner is the person named as the policy owner. If two or more persons are designated as the policy owners, the first-named person generally is treated as the owner of the entire contract. However, if two or more persons are named as the policy owners and each such person has an undivided interest in every right and benefit of the contract, those persons are treated as owners of separate contracts. For example, if an employer and an employee jointly own a life insurance contract and share equally in all rights and benefits under the contract, they are treated as owning two separate contracts (and, ordinarily, neither contract would be treated as part of a split-dollar life insurance arrangement).

The general rule that the person named as the policy owner is treated as the owner of the life insurance contract is subject to two exceptions involving situations in which the only benefits available under the split-dollar life insurance arrangement would be the value of current life insurance protection (that is, so-called non-equity arrangements). Under the first exception, an employer or service recipient is treated as the owner of the contract under a split-dollar life insurance arrangement that is entered into in connection with the performance of services if, at all times, the only economic benefits available to the employee or service provider under the arrangement would be the value of current life insurance protection. Similarly, a donor is treated as the owner of a life insurance contract under a split-dollar life insurance arrangement that is entered into between a donor and a donee (for example, a life insurance trust) if, at all times, the only economic benefits available to the donee under the arrangement would be the value of current life insurance protection. The proposed regulations reserve on the issue of the consequences of a modification to these arrangements (for example, such as subsequently providing the employee or donee with an interest in the cash value of the life insurance contract). The IRS and the Treasury Department request comments

on the rule the final regulations should adopt regarding the consequences of modifying these arrangements.

The non-owner is any person other than the owner of the life insurance contract having any direct or indirect interest in such contract (other than a life insurance company acting solely in its capacity as issuer of a life insurance contract). For example, an employee whose spouse is designated by the employer as the beneficiary of a life insurance contract that is owned by the employer would have an indirect interest in the contract and, therefore, would be treated as a non-owner.

3. Taxation Under the Economic Benefit Regime

a. In general

_____ Section 1.61-22(d) provides that, as a general rule for split-dollar life insurance arrangements that are taxed under the economic benefit regime, the owner of the life insurance contract is treated as providing economic benefits to the non-owner of the contract, and those economic benefits must be accounted for fully and consistently by both the owner and the non-owner. The value of the economic benefits, reduced by any consideration paid by the non-owner to the owner, is treated as transferred from the owner to the non-owner. The tax consequences of that transfer will depend on the relationship between the owner and the non-owner. Thus, the transfer may constitute a payment of compensation, a distribution under section 301, a gift, or a transfer having a different tax character.

Non-Equity Split-Dollar Life Insurance Arrangements

Under a non-equity split-dollar life insurance arrangement, the owner is treated as providing current life insurance protection (including paid-up additions) to the non-owner. The amount of the current life insurance protection provided to the non-owner for a taxable year equals the excess of the average death benefit of the life insurance contract over the total amount payable to the owner under the split-dollar life insurance arrangement. The total amount payable to the owner is increased by the amount of any outstanding policy loan. The cost of the current life insurance protection provided to the non-owner in any year equals the amount of the current life insurance

protection provided to the non-owner multiplied by the life insurance premium factor designated or permitted in guidance published in the Internal Revenue Bulletin. For example, assume that employer R is the owner of a \$1,000,000 life insurance contract that is part of a split-dollar life insurance arrangement between R and employee E. Under the arrangement, R pays all of the \$10,000 annual premiums and is entitled to receive the greater of its premiums or the cash surrender value of the contract when the arrangement terminates or E dies. Assume that through year 10 of the arrangement R has paid \$100,000 of premiums and that in year 10 the cost of term insurance for E is \$1.00 for \$1,000 of insurance and the cash surrender value of the contract is \$200,000. Under §1.61-22, in year 10, E must include in compensation income \$800 ($\$1,000,000 - \$200,000$, or \$800,000 payable to R, multiplied by .001 (E's premium rate factor)). If, however, E paid \$300 of the premium, E would include \$500 in compensation income.

The Treasury Department and the IRS request comments on whether there is a need for more specific guidance in computing the cost of a death benefit that varies during the course of a taxable year. Comments are requested concerning, for example, whether a convention requiring the amount of the death benefit to be recomputed on a quarterly or semi-annual basis would properly balance the accurate computation of the death benefit against compliance and administrative burdens.

Equity Split-Dollar Life Insurance Arrangements

Under §1.61-22(d)(3), the owner and the non-owner also must account fully and consistently for any right in, or benefit of, a life insurance contract provided to the non-owner under an equity split-dollar life insurance arrangement. For example, in a compensatory context in which the contract is owned by the employer, the employee must include in gross income the value of any interest in the cash surrender value of the contract provided to the employee during a taxable year.

This result is consistent with the conclusion in Rev. Rul. 66-110 that an employee must include in gross income the value of all economic benefits provided under a split-dollar life insurance arrangement. More broadly, this result is consistent with the fact that a non-owner who has an interest in the cash surrender value of a life insurance

contract under an equity split-dollar life insurance arrangement is in a better economic position than a non-owner who has no such interest under a non-equity arrangement.

In general, a mere unfunded, unsecured promise to pay money in the future – as in a standard nonqualified deferred compensation plan covering an employee – does not result in current income. However, a non-owner's interest in a life insurance contract under an equity split-dollar life insurance arrangement is less like that of an employee covered under a standard nonqualified deferred compensation arrangement and more like that of an employee who obtains an interest in a specific asset of the employer (such as where the employer makes an outright purchase of a life insurance contract for the benefit of the employee). The employer's right to a return of its premiums, which characterizes most equity split-dollar life insurance arrangements, affects only the valuation of the employee's interest under the arrangement and, therefore, the amount of the employee's current income.

Specific guidance regarding valuation of economic benefits under an equity split-dollar life insurance arrangement is reserved in §1.61-22, pending comments from interested parties concerning an appropriate valuation methodology and views on whether such a methodology should be adopted as a substantive rule or as a safe harbor. Any proposal for a specific methodology should be objective and administrable. One potential approach for valuation might involve subtracting from current premium payments made by the contract owner the net present value of the amount to be repaid to the owner in the future.

Other Tax Consequences

Because §1.61-22(c) treats one party to the split-dollar life insurance arrangement as the owner of the entire contract, the non-owner has no investment in the contract under section 72(e). Thus, no amount paid by the non-owner under a split-dollar life insurance arrangement, whether or not designated as a premium, and no amount included in the non-owner's gross income as an economic benefit, is treated as investment in the contract under section 72(e)(6) for the non-owner. However, as

described below, special rules apply in the case of a transfer of the contract from the owner to the non-owner.

Any premium paid by the owner is included in the owner's investment in the contract under section 72(e)(6). However, no premium payment and no economic benefit includible in the non-owner's gross income is deductible by the owner (except as otherwise provided under section 83 when the contract is transferred to the non-owner and the transfer is taxable in accordance with the rules of that section). Any amount paid by the non-owner to the owner for any economic benefit is included in the owner's gross income. Such amount is also included in the owner's investment in the contract (but only to the extent not otherwise so included by reason of having been paid by the owner as a premium or other consideration for the contract).

b. Taxation of amounts received under the life insurance contract

_____ Any amount received under the life insurance contract (other than an amount received by reason of death) and provided, directly or indirectly, to the non-owner is treated as though paid by the insurance company to the owner and then by the owner to the non-owner. This rule applies to a policy owner dividend, the proceeds of a specified policy loan (as defined in §1.61-22(e)), a withdrawal, or the proceeds of a partial surrender. The owner is taxed on the amount in accordance with the rules of section 72. The non-owner (and the owner for gift tax and employment tax purposes) must take the amount into account as a payment of compensation, a distribution under section 301, a gift, or other transfer depending on the non-owner's relationship to the owner. However, the amount that must be taken into account is reduced by the sum of (i) the value of all economic benefits actually taken into account by the non-owner (and the owner for gift tax and employment tax purposes) reduced (but not below zero) by the amounts that would have been taken into account were the arrangement a non-equity split-dollar life insurance arrangement and (ii) any consideration paid by the non-owner for all economic benefits reduced (but not below zero) by any consideration paid by the non-owner that would have been allocable to economic benefits provided to the non-owner were the arrangement a non-equity split-dollar life insurance arrangement.

However, the preceding sentence applies only to the extent such economic benefits were not previously used to reduce an earlier amount received under the contract.

The same result applies in the case of a specified policy loan. A policy loan is a specified policy loan to the extent (i) the proceeds of the loan are distributed directly from the insurance company to the non-owner; (ii) a reasonable person would not expect that the loan will be repaid by the non-owner; or (iii) the non-owner's obligation to repay the loan to the owner is satisfied, or is capable of being satisfied, upon repayment by either party to the insurance company. Because the employee is not the owner of the contract, the specified policy loan will not be treated as a loan to the employee but as a loan to the employer (the owner of the contract), followed by a payment of cash compensation from the employer to the employee.

Amounts received by reason of death are treated differently. Under §1.61-22(f), any amount paid to a beneficiary (other than the owner) by reason of the death of the insured is excludable from the beneficiary's gross income under section 101(a) as an amount received under a life insurance contract. This result applies only to the extent that such amount is allocable to current life insurance protection provided to the non-owner pursuant to the split-dollar life insurance arrangement, the cost of which was paid by the non-owner, or the value of which the non-owner actually took into account under the rules set forth in §1.61-22. Amounts received by a non-owner in its capacity as a lender are generally not amounts received by reason of the death of the insured under section 101(a). Cf. Rev. Rul. 70-254 (1970-1 C.B. 31).

c. Transfer of life insurance contract to the non-owner

_____ Section 1.61-22(g) provides rules for the transfer of a life insurance contract (or an undivided interest therein) from the owner to the non-owner. Consistent with the general rule for determining ownership, §1.61-22(g) provides that a transfer of a life insurance contract (or an undivided interest therein) underlying a split-dollar life insurance arrangement occurs on the date that the non-owner becomes the owner of the entire contract (or the undivided interest therein). Thus, a transfer of the contract does not occur merely because the cash surrender value of the contract exceeds the

premiums paid by the owner or the amount ultimately repayable to the owner on termination of the arrangement or the death of the insured. In addition, there is no transfer of the contract if the owner merely endorses a percentage of the cash surrender value of the contract (or similar rights in the contract) to the non-owner. Unless and until ownership of the contract is formally changed, the owner will continue to be treated as the owner for all Federal income, employment, and gift tax purposes.

At the time of a transfer, there generally must be taken into account for Federal income, employment, and gift tax purposes the excess of the fair market value of the life insurance contract (or the undivided interest therein) transferred to the non-owner (transferee) over the sum of (i) the amount the transferee pays to the owner (transferor) to obtain the contract (or the undivided interest therein), (ii) the value of all economic benefits actually taken into account by the non-owner (and the owner for gift tax and employment tax purposes) reduced (but not below zero) by the amounts that would have been taken into account were the arrangement a non-equity split-dollar life insurance arrangement, and (iii) any consideration paid by the non-owner for all economic benefits reduced (but not below zero) by any consideration paid by the non-owner that would have been allocable to economic benefits provided to the non-owner were the arrangement a non-equity split-dollar life insurance arrangement. However, clauses (ii) and (iii) of the preceding sentence apply only to the extent those economic benefits were not previously used to reduce an earlier amount received under the contract. For this purpose, the fair market value of the life insurance contract is the cash surrender value and the value of all other rights under the contract (including any supplemental agreements, whether or not guaranteed), other than the value of the current life insurance protection. For example, the fair market value of the contract includes the value of a guaranteed right to an above-market rate of return (to the extent not already reflected in the cash surrender value).

In a transfer subject to section 83, fair market value is determined disregarding any lapse restrictions. In addition, the timing of the transferee's inclusion is determined under the rules of section 83. Therefore, a transfer will not give rise to gross income

until the transferee's rights to the contract (or undivided interest in the contract) are substantially vested (unless the transferee makes a section 83(b) election). Section 1.83-6(a)(5) of the proposed regulations allows the service recipient's deduction at that time.

Under the general rule, the amount treated as consideration paid to acquire the contract under section 72(g)(1) equals the greater of the fair market value of the contract or the sum of the amount the transferee pays to obtain the contract plus the amount of unrecovered economic benefits previously taken into account or paid for by the transferee. Thus, these amounts become the transferee's investment in the contract under section 72(e) immediately after the transfer.

In the case of a transfer between a donor and a donee, the amount treated as consideration paid by the transferee to acquire the contract under section 72(g)(1) to determine the transferee's investment in the contract under section 72(e) immediately after the transfer is the sum of (i) the amount the transferee pays to obtain the contract, (ii) the aggregate of premiums or other consideration paid or deemed to have been paid by the transferor, and (iii) the amount of unrecovered economic benefits previously either taken into account by the transferee (excluding the amount of those benefits that was excludable from the transferee's gross income at the time of receipt) or paid for by the transferee.

After a transfer of an entire life insurance contract, the transferee becomes the owner for Federal income, employment, and gift tax purposes, including for purposes of the split-dollar life insurance rules. Thus, if the transferor pays premiums after the transfer, the payment of those premiums may be includible in the transferee's gross income if the payments are not split-dollar loans under §1.7872-15. After the transfer of an undivided interest in a life insurance contract, the transferee is treated as the new owner of a separate contract for all purposes. However, if a transfer of a life insurance contract or an undivided interest in the contract is made in connection with the performance of services and the transfer is not yet taxable under section 83 (because rights to the contract or the undivided interest are substantially nonvested and no

section 83(b) election is made), the transferor continues to be treated as the owner of the contract.

4. Taxation Under the Loan Regime

a. In general

_____ Under §1.7872-15, a payment made pursuant to a split-dollar life insurance arrangement is a split-dollar loan and the owner and non-owner are treated, respectively, as borrower and lender if (i) the payment is made either directly or indirectly by the non-owner to the owner; (ii) the payment is a loan under general principles of Federal tax law or, if not a loan under general principles of Federal tax law, a reasonable person would expect the payment to be repaid in full to the non-owner (whether with or without interest); and (iii) the repayment is to be made from, or is secured by, either the policy's death benefit proceeds or its cash surrender value. The Treasury Department and the IRS recognize that, in the earlier years during which a split-dollar life insurance arrangement is in effect, policy surrender and load charges may significantly reduce the policy's cash surrender value, resulting in under-collateralization of a non-owner's right to be repaid its premium payments. Nevertheless, so long as a reasonable person would expect the payment to be repaid in full, the payment is a split-dollar loan under §1.7872-15. The Treasury Department and the IRS believe that Congress generally intended that section 7872 would govern the treatment of an arrangement the substance of which is a loan from one party to another and that there was no congressional intent to make section 7872 inapplicable to split-dollar life insurance arrangements if the arrangements are, in substance, loans.

If a payment on a split-dollar loan is nonrecourse to the borrower and the loan does not otherwise provide for contingent payments, §1.7872-15 treats the loan as a split-dollar loan that provides for contingent payments unless the parties to the split-dollar life insurance arrangement provide a written representation with respect to the loan to which the payment relates. In general, unless the parties represent that a reasonable person would expect that all payments under the loan will be made, the loan will be treated as a loan that provides for contingent payments. This written

representation requirement is intended to help ensure that the parties to the arrangement treat the payments consistently.

If a split-dollar loan does not provide for sufficient interest, the loan is a below-market split-dollar loan subject to section 7872 and §1.7872-15. If the split-dollar loan provides for sufficient interest, then, except as provided in §1.7872-15, the loan is subject to the general rules for debt instruments (including the rules for OID). In general, interest on a split-dollar loan is not deductible by the borrower under sections 264 and 163(h). Section 1.7872-15 provides special rules for split-dollar loans that provide for certain variable rates of interest, contingent interest payments, and lender or borrower options. Section 1.7872-15 also provides rules for split-dollar loans on which stated interest is subsequently waived, cancelled, or forgiven by the lender, and for below-market split-dollar loans with indirect participants.

b. Treatment of below-market split-dollar loans

_____ If a split-dollar loan is a below-market loan, then, in general, the loan is recharacterized as a loan with interest at the AFR, coupled with an imputed transfer by the lender to the borrower. The timing, amount, and characterization of the imputed transfers between the lender and borrower of the loan will depend upon the relationship between the lender and the borrower (for example, the imputed transfer is generally characterized as a compensation payment if the lender is the borrower's employer), and whether the loan is a demand loan or a term loan.

For purposes of §1.7872-15, a below-market split-dollar loan made from a lender to a borrower with a relationship not enumerated in section 7872(c)(1)(A), (B), or (C) is treated as a significant-effect loan under section 7872(c)(1)(E). However, if the effect of a split-dollar loan is attributable to the relationship between the lender or borrower and an indirect participant (for example, when a split-dollar loan is made from an employer to the child of an employee), the below-market split-dollar loan is restructured as two or more successive below-market loans. Any deduction allowable to the indirect participant under section 163(d) for investment interest deemed paid is limited to the amount of investment interest deemed received by the indirect participant.

Split-Dollar Demand Loans

A split-dollar demand loan is any split-dollar loan that is payable in full at any time on the demand of the lender (or within a reasonable time after the lender's demand). Each calendar year that a split-dollar demand loan is outstanding, the loan is tested to determine if the loan provides for sufficient interest. A split-dollar demand loan provides for sufficient interest for the calendar year if the rate (based on annual compounding) at which interest accrues on the loan's adjusted issue price during the year is no lower than the blended annual rate for the year. The use of an annual rate, rather than a semiannual rate, provides a simplified method to determine whether a split-dollar loan provides for sufficient interest and, if the split-dollar loan is below-market, to compute the loan's forgone interest.

In the case of a below-market split-dollar demand loan, the amount of forgone interest for a calendar year is the excess of (i) the amount of interest that would have been payable on the loan for the calendar year if interest accrued on the loan's adjusted issue price at the appropriate AFR and were payable annually over (ii) any interest that accrues on the loan during the year. In general, this excess amount is treated as transferred by the lender to the borrower and retransferred as interest by the borrower to the lender at the end of each calendar year that the loan remains outstanding.

Split-Dollar Term Loans

A split-dollar term loan is any loan that is not a split-dollar demand loan. A split-dollar term loan does not provide for sufficient interest if the amount loaned exceeds the imputed loan amount, which is the present value of all payments due under the loan, determined as of the date the loan is made, using a discount rate equal to the AFR in effect on that date. The AFR used for purposes of the preceding sentence must be appropriate for the loan's term (short-term, mid-term, or long-term) and the compounding period used in computing the present value.

With respect to a below-market split-dollar term loan, the amount of the imputed transfer by the lender to the borrower is the excess of the amount loaned over the imputed loan amount. In general, a split-dollar term loan is treated as having OID equal

to the amount of the imputed transfer, in addition to any other OID on the loan (determined without regard to §1.7872-15).

The term of a split-dollar term loan generally is the term stated in the split-dollar life insurance arrangement. However, special rules apply if the loan is subject to certain borrower or lender options. For purposes of determining a loan's term, the borrower or the lender is projected to exercise or not exercise an option or combination of options in a manner that minimizes the loan's overall yield.

Special rules also are provided for split-dollar term loans payable upon the death of an individual, certain split-dollar term loans that are conditioned on the future performance of substantial services by an individual, and gift split-dollar term loans. Under §1.7872-15, these split-dollar loans are split-dollar term loans for purposes of determining whether the loan provides for sufficient interest. However, if the loan does not provide for sufficient interest when the loan is made, forgone interest is determined on the loan annually similar to a split-dollar demand loan. The rate used to determine the amount of forgone interest each year is the AFR based on the term of the loan rather than the blended annual rate. A below-market gift split-dollar term loan is treated as a term loan for gift tax purposes.

c. Loans that provide for contingent payments

_____ A split-dollar loan that provides for one or more contingent payments is accounted for by the parties under the contingent split-dollar method, a method similar to the noncontingent bond method described in §1.1275-4(b). Under this method, the lender prepares a projected payment schedule that includes all of the noncontingent payments and a projected payment for each contingent payment. Any contingent payment provided for under the terms of a split-dollar loan is projected to resolve to its lowest possible value. However, the projected payment schedule must produce a yield that is not less than zero. The projected payment schedule is used to determine the yield of the split-dollar loan. This yield is then used to determine the accruals of interest (OID) on the loan and to determine whether the loan is a below-market loan for purposes of section 7872 and §1.7872-15. For example, a split-dollar loan providing for

contingent payments is treated as a below-market split-dollar loan if the yield based on the projected payment schedule is less than the appropriate AFR.

If, when a contingency resolves, the actual amount of a contingent payment is different than the projected payment, appropriate adjustments are made by the parties to reflect the difference when the contingency resolves. For example, if a contingent split-dollar loan was treated as a below-market split-dollar loan based on the projected payment schedule and the actual yield on the loan turns out to be greater than the appropriate AFR when the contingency resolves, the parties will take appropriate adjustments into account for any prior imputed transfers under section 7872 and §1.7872-15 at that time.

d. Split-dollar loans with stated interest that is subsequently waived, cancelled or forgiven

_____ If a split-dollar loan provides for stated interest that is subsequently waived, cancelled or forgiven, appropriate adjustments are made by the parties to reflect the difference between the interest payable at the stated rate and the interest actually paid by the borrower at that time. An adjustment (for example, an imputed transfer of compensation) may have consequences for the Federal Insurance Contributions Act (FICA) and the Federal Unemployment Tax Act (FUTA) if the adjustment represents wages to the borrower.

e. Payment ordering rules

_____ Payments made by a borrower to a lender pursuant to a split-dollar life insurance arrangement are applied in the following order: to accrued but unpaid interest (including any OID) on all outstanding split-dollar loans in the order the interest accrued; to principal on the outstanding split-dollar loans in the order in which the loans were made; to payments of amounts previously paid by the lender pursuant to the split-dollar life insurance arrangement that were not reasonably expected to be repaid; and to any other payment with respect to a split-dollar life insurance arrangement. Comments are

requested on this rule and other alternative rules, which include applying payments to both the accrued but unpaid interest and principal on each split-dollar loan in the order in which the loans were made, and applying payments pro-rata on all existing split-dollar loan balances.

5. Transfer Tax Treatment of Split-Dollar Life Insurance Arrangements

_____ The proposed regulations will apply for gift tax purposes in situations involving private split-dollar life insurance arrangements. Thus, if, under the proposed regulations, an irrevocable insurance trust is the owner of the life insurance contract underlying the split-dollar life insurance arrangement, and a reasonable person would expect that the donor, or the donor's estate, will recover an amount equal to the donor's premium payments, those premium payments are treated as loans made by the donor to the trust and are subject to §1.7872-15. In such a case, payment of a premium by the donor is treated as a split-dollar loan to the trust in the amount of the premium payment. If the loan is repayable upon the death of the donor, the term of the loan is the donor's life expectancy determined under the appropriate table under §1.72-9 as of the date of the payment and the value of the gift is the amount of the premium payment less the present value (determined under section 7872 and §1.7872-15) of the donor's right to receive repayment. If, however, the donor makes premium payments that are not split-dollar loans, then the premium payments are governed by general gift tax principles. In such a case, with each premium payment, the donor is treated as making a gift to the trust equal to the amount of that payment.

Different rules apply, however, if the donor is treated under §1.61-22(c) as the owner of the life insurance contract underlying the split-dollar life insurance arrangement and the donor is entitled to recover (either conditionally or unconditionally) all or any portion of the premium payments and such recovery is to be made from, or is secured by, the proceeds of the life insurance contract. Under these circumstances, the donor is treated as making a gift of economic benefits to the irrevocable insurance trust when the donor makes any premium payment on the life insurance contract. For example, assume that under the terms of the split-dollar life insurance arrangement, on

termination of the arrangement or the donor's death, the donor or donor's estate is entitled to receive an amount equal to the greater of the aggregate premiums paid by the donor or the cash surrender value of the contract. In this case, each time the donor pays a premium, the donor makes a gift to the trust equal to the cost of the current life insurance protection provided to the trust less any premium amount paid by the trustee. On the other hand, if the donor or the donor's estate is entitled to receive an amount equal to the lesser of the aggregate premiums paid by the donor, or the cash surrender value of the contract, the amount of the donor's gift to the trust upon the payment of a premium equals the value of the economic benefits attributable to the trust's entire interest in the contract (reduced by any consideration the trustee paid for the interest).

As discussed earlier, §1.61-22(c) treats the donor as the owner of a life insurance contract even if the donee is named as the policy owner if, under the split-dollar life insurance arrangement, the only amount that would be treated as a transfer by gift by the donor under the arrangement would be the value of current life insurance protection. However, any amount paid by a donee, directly or indirectly, to the donor for such current life insurance protection would generally be included in the donor's gross income.

Similarly, if the donor is the owner of the life insurance contract that is part of the split-dollar life insurance arrangement, amounts received by the irrevocable insurance trust (either directly or indirectly) under the contract (for example, as a policy owner dividend or proceeds of a specified policy loan) are treated as gifts by the donor to the irrevocable insurance trust as provided in §1.61-22(e). The donor must also treat as a gift to the trust the amount set forth in §1.61-22(g) upon the transfer of the life insurance contract (or undivided interest therein) from the donor to the trust.

The gift tax consequences of the transfer of an interest in a life insurance contract to a third party will continue to be determined under established gift tax principles notwithstanding who is treated as the owner of the life insurance contract under the proposed regulations. See, for example, Rev. Rul. 81-198 (1981-2 C.B. 188). Similarly, for estate tax purposes, regardless of who is treated as the owner of a life

insurance contract under these proposed regulations, the inclusion of the policy proceeds in a decedent's gross estate will continue to be determined under section 2042. Thus, the policy proceeds will be included in the decedent's gross estate under section 2042(1) if receivable by the decedent's executor, or under section 2042(2) if the policy proceeds are receivable by a beneficiary other than the decedent's estate and the decedent possessed any incidents of ownership with respect to the policy.

6. Other Applications of These Regulations

_____ The proposed regulations provide for conforming changes to the definition of wages under sections 3121(a), 3231(e), 3306(b), and 3401(a) and self-employment income under section 1402(a). The rules also apply for purposes of characterizing distributions from a corporation to a shareholder under section 301.

7. Revenue Rulings to Become Obsolete

_____ Concurrent with the publication of final regulations relating to split-dollar life insurance arrangements in the **Federal Register**, the IRS will obsolete the following revenue rulings with respect to split-dollar life insurance arrangements entered into after the date the final regulations are published in the **Federal Register**: Rev. Rul. 64-328 (1964-2 C.B. 11); Rev. Rul. 66-110 (1966-1 C.B. 12); Rev. Rul. 78-420 (1978-2 C.B. 68) (with respect to income tax consequences); Rev. Rul. 79-50 (1979-1 C.B. 138); and Rev. Rul. 81-198 (1981-2 C.B. 188) (with respect to income tax consequences). Taxpayers entering into split-dollar life insurance arrangements on or before the date of publication of the final regulations may continue to rely on these revenue rulings to the extent described in Notice 2002-8.

The Treasury Department and the IRS request comments concerning whether any other revenue rulings or guidance published in the Internal Revenue Bulletin should be reconsidered in connection with the publication of final regulations relating to split-dollar life insurance arrangements in the **Federal Register**.

PROPOSED EFFECTIVE DATE

These proposed regulations are proposed to apply to any split-dollar life insurance arrangement entered into after the date these regulations are published as

final regulations in the **Federal Register**. In addition, under the proposed regulations, an arrangement entered into on or before the date final regulations are published in the **Federal Register** and that is materially modified after that date is treated as a new arrangement entered into on the date of the modification. Comments are requested regarding whether certain material modifications should be disregarded in determining whether an arrangement is treated as a new arrangement for purposes of the effective date rule. For example, comments are requested whether an arrangement entered into on or before the effective date should be subject to these rules if the only material modification to the arrangement after that date is an exchange of an insurance policy qualifying for nonrecognition treatment under section 1035.

Taxpayers are reminded that Notice 2002-8 provides guidance with respect to arrangements entered into before the effective date of these regulations.

In addition, taxpayers may rely on these proposed regulations for the treatment of any split-dollar life insurance arrangement entered into on or before the date final regulations are published in the **Federal Register** provided that all parties to the split-dollar life insurance arrangement treat the arrangement consistently. Thus, for example, an owner and a non-owner of a life insurance contract that is part of a split-dollar life insurance arrangement may not rely on these proposed regulations if one party treats the arrangement as subject to the economic benefit rules of §1.61-22 and the other party treats the arrangement as subject to the loan rules of §1.7872-15. Moreover, parties to an equity split-dollar life insurance arrangement subject to the economic benefit regime may rely on these proposed regulations only if the value of all economic benefits taken into account by the parties exceeds the value of the economic benefits the parties would have taken into account if the arrangement were a non-equity split-dollar life insurance arrangement (determined using the Table 2001 rates in Notice 2002-8), thereby reflecting the fact that such an arrangement provides the non-owner with economic benefits that are more valuable than current life insurance protection.

Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory flexibility assessment is not required. It is hereby certified that the collection of information requirements in these regulations will not have a significant economic impact on a substantial number of small entities. This certification is based on the fact that the regulations merely require a taxpayer to prepare a written representation that contains minimal information (if the loan provides for nonrecourse payments) or a projected payment schedule (if the loan provides for contingent payments). In addition, the preparation of these documents should take no more than .28 hours per taxpayer. Therefore, a Regulatory Flexibility Analysis under the Regulatory Flexibility Act (5 U.S.C. chapter 6) is not required. Pursuant to section 7805(f) of the Internal Revenue Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Comments and Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any written or electronic comments (a signed original and eight (8) copies) that are submitted timely to the IRS. The Treasury Department and IRS specifically request comments on the clarity of the proposed rules and how they may be made easier to understand. All comments will be available for public inspection and copying.

A public hearing has been scheduled for October 23, 2002, beginning at 10 a.m. in room 4718 of the Internal Revenue Building, 1111 Constitution Avenue, NW., Washington, DC. Due to building security procedures, visitors must enter at the Constitution Avenue entrance. All visitors must present photo identification to enter the building. Because of access restrictions, visitors will not be admitted beyond the immediate entrance area more than 30 minutes before the hearing starts. For information about having your name placed on the building access list to attend the hearing, see the "FOR FURTHER INFORMATION CONTACT" section of this preamble.

The rules of 26 CFR 601.601(a)(3) apply to the hearing. Persons who wish to present oral comments at the hearing must submit written comments and an outline of the topics to be discussed and the time to be devoted to each topic (signed original and eight (8) copies) by October 9, 2002. A period of 10 minutes will be allotted to each person for making comments. An agenda showing the schedule of speakers will be prepared after the deadline for receiving outlines has passed. Copies of the agenda will be available free of charge at the hearing.

Drafting Information

The principal authors of these proposed regulations are Rebecca Asta of the Office of Associate Chief Counsel (Financial Institutions and Products), Lane Damazo of the Office of Associate Chief Counsel (Passthroughs and Special Industries), Elizabeth Kaye of the Office of Associate Chief Counsel (Income Tax and Accounting), Erinn Madden of the Office of Associate Chief Counsel (Tax-Exempt and Governmental Entities), and Krishna Vallabhaneni of the Office of Associate Chief Counsel (Corporate). However, other personnel from the IRS and Treasury Department participated in their development.

List of Subjects

26 CFR Part 1

_____ Income taxes, Reporting and recordkeeping requirements.

26 CFR Part 31

_____ Employment taxes, Income taxes, Penalties, Pensions, Railroad retirement, Reporting and recordkeeping requirements, Social security, Unemployment compensation.

Proposed Amendments to the Regulations

Accordingly, 26 CFR parts 1 and 31 are proposed to be amended as follows:

PART 1—INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended to read in part as follows:

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

Section 1.7872-15 also issued under 26 U.S.C. 1275 and 7872. * * *

Par. 2. Section 1.61-2 is amended by:

1. Redesignating paragraphs (d)(2)(ii)(a) and (b) as paragraphs (d)(2)(ii)(A) and (B), respectively.

2. Adding two sentences immediately following the second sentence in newly designated paragraph (d)(2)(ii)(A).

The additions read as follows:

§1.61-2 Compensation for services, including fees, commissions, and similar items.

* * * * *

(d) * * *

(2) * * *

(ii)(A) **Cost of life insurance on the life of the employee.** * * * For example, if an employee or independent contractor is the owner (as defined in §1.61-22(c)(1)) of a life insurance contract and the payments under such contract are not split-dollar loans under §1.7872-15(b)(1), the employee or independent contractor must include in income the amount of any such payments by the employer or service recipient with respect to such contract during any year to the extent that the employee's or independent contractor's rights to the life insurance contract are substantially vested (within the meaning of §1.83-3(b)). This result is the same regardless of whether the employee or independent contractor had at all times been the owner of the life insurance contract or the contract previously had been owned by the employer or service recipient as part of a split-dollar life insurance arrangement (as defined in §1.61-22(b)(1) or (2)) and had been transferred by the employer or service recipient to the employee or independent contractor under §1.61-22(g). * * *

* * * * *

Par. 3. Section 1.61-22 is added to read as follows:

§1.61-22 Taxation of split-dollar life insurance arrangements.

(a) **Scope—(1) In general.** This section provides rules for the taxation of a split-dollar life insurance arrangement for purposes of the income tax, the gift tax, the

Federal Insurance Contributions Act (FICA), the Federal Unemployment Tax Act (FUTA), the Railroad Retirement Tax Act (RRTA), and the Self-Employment Contributions Act of 1954 (SECA). For the Collection of Income Tax at Source on Wages, this section also provides rules for the taxation of a split-dollar life insurance arrangement, other than a payment under a split-dollar life insurance arrangement that is a split-dollar loan under §1.7872-15(b)(1). In general, a split-dollar life insurance arrangement (as defined in paragraph (b) of this section) is subject to the rules of either paragraphs (d) through (g) of this section or §1.7872-15. For rules to determine which rules apply to a split-dollar life insurance arrangement, see paragraph (b)(3) of this section.

(2) Overview. Paragraph (b) of this section defines a split-dollar life insurance arrangement and provides rules to determine whether an arrangement is subject to the rules of paragraphs (d) through (g) of this section, §1.7872-15, or general tax rules. Paragraph (c) of this section defines certain other terms. Paragraph (d) of this section sets forth rules for the taxation of economic benefits provided under a split-dollar life insurance arrangement. Paragraph (e) of this section sets forth rules for the taxation of amounts received under a life insurance contract that is part of a split-dollar life insurance arrangement. Paragraph (f) of this section provides rules for additional tax consequences of a split-dollar life insurance arrangement, including the treatment of death benefits. Paragraph (g) of this section provides rules for the transfer of a life insurance contract (or an undivided interest in the contract) that is part of a split-dollar life insurance arrangement. Paragraph (h) of this section provides examples illustrating the application of this section. Paragraph (j) of this section provides the effective date of this section.

(b) Split-dollar life insurance arrangement--(1) In general. A split-dollar life insurance arrangement is any arrangement between an owner and a non-owner of a life insurance contract that satisfies the following criteria--

(i) Either party to the arrangement pays, directly or indirectly, all or any portion of the premiums on the life insurance contract, including a payment by means of a loan to the other party that is secured by the life insurance contract;

(ii) At least one of the parties to the arrangement paying premiums under paragraph (b)(1)(i) of this section is entitled to recover (either conditionally or unconditionally) all or any portion of those premiums and such recovery is to be made from, or is secured by, the proceeds of the life insurance contract; and

(iii) The arrangement is not part of a group-term life insurance plan described in section 79.

(2) ~~Special rule—(i) In general.~~ Any arrangement between an owner and a non-owner of a life insurance contract is treated as a split-dollar life insurance arrangement (regardless of whether the criteria of paragraph (b)(1) of this section are satisfied) if the arrangement is described in paragraph (b)(2)(ii) or (iii) of this section.

(ii) Compensatory arrangements. An arrangement is described in this paragraph (b)(2)(ii) if the following criteria are satisfied—

(A) The arrangement is entered into in connection with the performance of services and is not part of a group-term life insurance plan described in section 79;

(B) The employer or service recipient pays, directly or indirectly, all or any portion of the premiums; and

(C) The beneficiary of all or any portion of the death benefit is designated by the employee or service provider or is any person whom the employee or service provider would reasonably be expected to designate as the beneficiary.

(iii) Shareholder arrangements. An arrangement is described in this paragraph (b)(2)(iii) if the following criteria are satisfied—

(A) The arrangement is entered into between a corporation and another person in that person's capacity as a shareholder in the corporation;

(B) The corporation pays, directly or indirectly, all or any portion of the premiums; and

(C) The beneficiary of all or any portion of the death benefit is designated by the shareholder or is any person whom the shareholder would reasonably be expected to designate as the beneficiary.

(3) Determination of whether this section or §1.7872-15 applies to a split-dollar life insurance arrangement—(i) Split-dollar life insurance arrangements involving split-dollar loans under §1.7872-15. Except as provided in paragraph (b)(3)(ii) of this section, paragraphs (d) through (g) of this section do not apply to any split-dollar loan as defined in §1.7872-15(b)(1). Section 1.7872-15 applies to any such loan. See paragraph (b)(5) of this section for the treatment of payments made by a non-owner under a split-dollar life insurance arrangement that are not split-dollar loans.

(ii) Exceptions. Paragraphs (d) through (g) of this section apply (and §1.7872-15 does not apply) to any split-dollar life insurance arrangement if—

(A) The arrangement is entered into in connection with the performance of services, and the employee or service provider is not the owner of the life insurance contract (or is not treated as the owner of the contract under paragraph (c)(1)(ii)(A)(1) of this section); or

(B) The arrangement is entered into between a donor and a donee (for example, a life insurance trust) and the donee is not the owner of the life insurance contract (or is not treated as the owner of the contract under paragraph (c)(1)(ii)(A)(2) of this section).

(4) Consistency requirement. Both the owner and the non-owner of a life insurance contract that is part of a split-dollar life insurance arrangement described in paragraph (b)(1) or (2) of this section must fully and consistently account for all amounts under the arrangement under paragraph (b)(5) of this section, paragraphs (d) through (g) of this section, or under §1.7872-15.

(5) Non-owner payments that are not split-dollar loans. If a non-owner of a life insurance contract makes premium payments (directly or indirectly) under a split-dollar life insurance arrangement, and the payments are neither split-dollar loans nor consideration for economic benefits described in paragraph (d) of this section, then neither the rules of paragraphs (d) through (g) of this section nor the rules in §1.7872-15

apply to such payments. Instead, general income tax, employment tax, and gift tax principles apply to the premium payments. See, for example, §1.61-2(d)(2)(ii)(A).

(6) Waiver, cancellation, or forgiveness. If a repayment obligation described in §1.7872-15(a)(2) is waived, cancelled, or forgiven at any time, then the parties must take the amount waived, cancelled, or forgiven into account in accordance with the relationships between the parties (for example, as compensation in the case of an employee-employer relationship).

(c) Definitions. The following definitions apply for purposes of this section:

(1) Owner—(i) In general. With respect to a life insurance contract, the person named as the policy owner of such contract generally is the owner of such contract. If two or more persons are named as policy owners of a life insurance contract and each person has all the incidents of ownership with respect to an undivided interest in the contract, each person is treated as the owner of a separate contract to the extent of such person's undivided interest. If two or more persons are named as policy owners of a life insurance contract but each person does not have all the incidents of ownership with respect to an undivided interest in the contract, the person who is the first-named policy owner is treated as the owner of the entire contract.

(ii) Special rule for certain arrangements—(A) In general. Notwithstanding paragraph (c)(1)(i) of this section—

(1) An employer or service recipient is treated as the owner of a life insurance contract under a split-dollar life insurance arrangement that is entered into in connection with the performance of services if, at all times, the arrangement is described in paragraph (d)(2) of this section; and

(2) A donor is treated as the owner of a life insurance contract under a split-dollar life insurance arrangement that is entered into between a donor and a donee (for example, a life insurance trust) if, at all times, the arrangement is described in paragraph (d)(2) of this section.

(B) Modifications. [Reserved]

(iii) Attribution rules. [Reserved]

(2) Non-owner. With respect to a life insurance contract, a non-owner is any person (other than the owner of such contract) that has any direct or indirect interest in such contract (but not including a life insurance company acting only in its capacity as the issuer of a life insurance contract).

(3) Transfer of entire contract or undivided interest therein. A transfer of the ownership of a life insurance contract (or an undivided interest in such contract) that is part of a split-dollar life insurance arrangement occurs on the date that a non-owner becomes the owner (within the meaning of paragraph (c)(1) of this section) of the entire contract or of an undivided interest in the contract.

(4) Undivided interest. An undivided interest in a life insurance contract consists of an identical fractional or percentage interest in each right and benefit under the contract.

(5) Employment tax. The term employment tax means the Federal Insurance Contributions Act (FICA), the Federal Unemployment Tax Act (FUTA), the Railroad Retirement Tax Act (RRTA), the Self-Employment Contributions Act of 1954 (SECA), and the Collection of Income Tax at Source on Wages.

(d) Economic benefits provided under a split-dollar life insurance arrangement—(1) In general. Under a split-dollar life insurance arrangement subject to the rules of paragraphs (d) through (g) of this section, the owner of the life insurance contract is treated as providing economic benefits to the non-owner of the life insurance contract. Those economic benefits must be accounted for fully and consistently by both the owner and the non-owner pursuant to the rules of this paragraph (d). The value of the economic benefits, reduced by any consideration paid by the non-owner to the owner, is treated as transferred from the owner to the non-owner. Depending on the relationship between the owner and the non-owner, the economic benefits may constitute a payment of compensation, a distribution under section 301, a gift, or a transfer having a different tax character. Further, depending on the relationship between or among a non-owner and one or more other persons, the economic benefits may be treated as provided from the owner to the non-owner and as separately

provided from the non-owner to such other person or persons (for example, as a payment of compensation from an employer to an employee and as a gift from the employee to the employee's children).

(2) Non-equity split-dollar life insurance arrangements. In the case of a split-dollar life insurance arrangement subject to the rules of paragraphs (d) through (g) of this section under which the only economic benefit provided to the non-owner is current life insurance protection (including paid-up additions thereto), the amount of the current life insurance protection provided to the non-owner for a taxable year equals the excess of the average death benefit of the life insurance contract over the total amount payable to the owner under the split-dollar life insurance arrangement. The total amount payable to the owner is increased by the amount of any outstanding policy loan. The cost of the current life insurance protection provided to the non-owner in any year equals the amount of the current life insurance protection provided to the non-owner multiplied by the life insurance premium factor designated or permitted in guidance published in the Internal Revenue Bulletin (see §601.601(d)(2)(ii) of this chapter).

(3) Equity split-dollar life insurance arrangements—(i) In general. In the case of a split-dollar life insurance arrangement subject to the rules of paragraphs (d) through (g) of this section other than an arrangement described in paragraph (d)(2) of this section, any right in, or benefit of, a life insurance contract (including, but not limited to, an interest in the cash surrender value) provided during a taxable year to a non-owner under a split-dollar life insurance arrangement is an economic benefit for purposes of this paragraph (d).

(ii) Valuation of economic benefits. [Reserved]

(e) Amounts received under the contract—(1) In general. Except as otherwise provided in paragraph (f)(2)(ii) of this section, any amount received under a life insurance contract that is part of a split-dollar life insurance arrangement subject to the rules of paragraphs (d) through (g) of this section (including, but not limited to, a policy owner dividend, proceeds of a specified policy loan described in paragraph (e)(2) of this section, or the proceeds of a withdrawal from or partial surrender of the life insurance

contract) is treated, to the extent provided directly or indirectly to a non-owner of the life insurance contract, as though such amount had been paid to the owner of the life insurance contract and then paid by the owner to the non-owner who is a party to the split-dollar life insurance arrangement. The amount received is taxable to the owner in accordance with the rules of section 72. The non-owner (and the owner for gift tax and employment tax purposes) must take the amount described in paragraph (e)(3) of this section into account as a payment of compensation, a distribution under section 301, a gift, or other transfer depending on the relationship between the owner and the non-owner.

(2) Specified policy loan. A policy loan is a specified policy loan to the extent—

(i) The proceeds of the loan are distributed directly from the insurance company to the non-owner;

(ii) A reasonable person would not expect that the loan will be repaid by the non-owner; or

(iii) The non-owner's obligation to repay the loan to the owner is satisfied or is capable of being satisfied upon repayment by either party to the insurance company.

(3) Amount required to be taken into account. With respect to a non-owner (and the owner for gift tax and employment tax purposes), the amount described in this paragraph (e)(3) is equal to the excess of—

(i) The amount treated as received by the owner under paragraph (e)(1) of this section; over

(ii) The amount of all economic benefits described in paragraph (d)(3) of this section actually taken into account under paragraph (d)(1) of this section by the transferee (and the transferor for gift tax and employment tax purposes) reduced (but not below zero) by any amounts that would have been taken into account under paragraph (d)(1) of this section if paragraph (d)(2) of this section were applicable to the arrangement plus any consideration paid by the non-owner for all economic benefits described in paragraph (d)(3) of this section reduced (but not below zero) by any consideration paid by the non-owner that would have been allocable to amounts

described in paragraph (d)(2) of this section if paragraph (d)(2) of this section were applicable to the arrangement. The amount determined under the preceding sentence applies only to the extent that neither this paragraph (e)(3)(ii) nor paragraph (g)(1)(ii) of this section previously has applied to such economic benefits.

(f) Other tax consequences—(1) Introduction. In the case of a split-dollar life insurance arrangement subject to the rules of paragraphs (d) through (g) of this section, this paragraph (f) sets forth other tax consequences to the owner and non-owner of a life insurance contract that is part of the arrangement for the period prior to the transfer (as defined in paragraph (c)(3) of this section) of the contract (or an undivided interest therein) from the owner to the non-owner. See paragraph (g) of this section and §1.83-6(a)(5) for tax consequences upon the transfer of the contract (or an undivided interest therein).

(2) To non-owner—(i) In general. A non-owner does not receive any investment in the contract under section 72(e)(6) with respect to a life insurance contract that is part of a split-dollar life insurance arrangement subject to the rules of paragraphs (d) through (g) of this section.

(ii) Death proceeds to beneficiary (other than the owner). Any amount paid to a beneficiary (other than the owner) by reason of the death of the insured is excluded from gross income by such beneficiary under section 101(a) as an amount received under a life insurance contract to the extent such amount is allocable to current life insurance protection provided to the non-owner pursuant to the split-dollar life insurance arrangement, the cost of which was paid by the non-owner, or the value of which the non-owner actually took into account pursuant to paragraph (d) of this section.

(3) To owner. Any premium paid by an owner under a split-dollar life insurance arrangement subject to the rules of paragraphs (d) through (g) of this section is included in the owner's investment in the contract under section 72(e)(6). No premium or amount described in paragraph (d) of this section is deductible by the owner (except as otherwise provided in §1.83-6(a)(5)). Any amount paid by a non-owner, directly or indirectly, to the owner of the life insurance contract for current life insurance protection

or for any other economic benefit under the life insurance contract is included in the owner's gross income and is included in the owner's investment in the life insurance contract for purposes of section 72(e)(6) (but only to the extent not otherwise so included by reason of having been paid by the owner as a premium or other consideration for the contract).

(g) Transfer of entire contract or undivided interest therein—(1) In general. Upon a transfer within the meaning of paragraph (c)(3) of this section of a life insurance contract (or an undivided interest therein) to a non-owner (transferee), the transferee (and the owner (transferor) for gift tax and employment tax purposes) takes into account the excess of the fair market value of the life insurance contract (or the undivided interest therein) transferred to the transferee at that time over the sum of—

(i) The amount the transferee pays to the transferor to obtain the contract (or the undivided interest therein); and

(ii) The amount of all economic benefits described in paragraph (d)(3) of this section actually taken into account under paragraph (d)(1) of this section by the transferee (and the transferor for gift tax and employment tax purposes) reduced (but not below zero) by any amounts that would have been taken into account under paragraph (d)(1) of this section if paragraph (d)(2) of this section were applicable to the arrangement plus any consideration paid by the non-owner for all economic benefits described in paragraph (d)(3) of this section reduced (but not below zero) by any consideration paid by the non-owner that would have been allocable to amounts described in paragraph (d)(2) of this section if paragraph (d)(2) of this section were applicable to the arrangement. The amount determined under the preceding sentence applies only to the extent that neither paragraph (e)(3)(ii) of this section nor this paragraph (g)(1)(ii) previously has applied to such economic benefits.

(2) Determination of fair market value. For purposes of paragraph (g)(1) of this section, the fair market value of a life insurance contract is the cash surrender value and the value of all other rights under such contract (including any supplemental

agreements thereto and whether or not guaranteed), other than the value of current life insurance protection.

(3) Exception for certain transfers in connection with the performance of services.

To the extent the ownership of a life insurance contract (or undivided interest in such contract) is transferred in connection with the performance of services, paragraph (g)(1) of this section does not apply until such contract (or undivided interest in such contract) is taxable under section 83. For purposes of paragraph (g)(1) of this section, fair market value is determined disregarding any lapse restrictions and at the time the transfer of such contract (or undivided interest in such contract) is taxable under section 83.

(4) Treatment of non-owner after transfer—(i) In general. After a transfer of an entire life insurance contract (except when such transfer is in connection with the performance of services and the transfer is not yet taxable under section 83), the person who previously had been the non-owner is treated as the owner of such contract for all purposes, including for purposes of paragraph (b) of this section and for purposes of §1.61-2(d)(2)(ii)(A). After the transfer of an undivided interest in a life insurance contract (or, if later, at the time such transfer is taxable under section 83), the person who previously had been the non-owner is treated as the owner of a separate contract consisting of that interest for all purposes, including for purposes of paragraph (b) of this section and for purposes of §1.61-2(d)(2)(ii)(A). However, such person will continue to be treated as a non-owner with respect to any undivided interest in the contract not so transferred (or not yet taxable under section 83).

(ii) Investment in the contract after transfer—(A) In general. The amount treated as consideration paid to acquire the contract under section 72(g)(1) to determine the aggregate premiums paid by the transferee for purposes of determining the transferee's investment in the contract under section 72(e) after the transfer (or, if later, at the time such transfer is taxable under section 83) equals the greater of the fair market value of the contract or the sum of the amounts determined under paragraphs (g)(1)(i) and (ii) of this section.

(B) Transfers between a donor and a donee. In the case of a transfer of a contract between a donor and a donee, the amount treated as consideration paid by the transferee to acquire the contract under section 72(g)(1) to determine the aggregate premiums paid by the transferee for purposes of determining the transferee's investment in the contract under section 72(e) after the transfer equals the sum of the amounts determined under paragraphs (g)(1)(i) and (ii) of this section except that—

(1) The amount determined under paragraph (g)(1)(i) of this section includes the aggregate of premiums or other consideration paid or deemed to have been paid by the transferor; and

(2) The amount of all economic benefits determined under paragraph (g)(1)(ii) of this section actually taken into account by the transferee does not include such benefits to the extent such benefits were excludable from the transferee's gross income at the time of receipt.

(C) Transfers of an undivided interest in a contract. If a portion of a contract is transferred to the transferee, then the amount to be included as consideration paid to acquire the contract is determined by multiplying the amount determined under paragraph (g)(4)(ii)(A) of this section (as modified by paragraph (g)(4)(ii)(B) of this section, if the transfer is between a donor and a donee) by a fraction, the numerator of which is the fair market value of the portion transferred and the denominator of which is the fair market value of the entire contract.

(D) Example. The following example illustrates the rules of this paragraph (g)(4)(ii):

Example. (i) In year 1, donor D and donee E enter into a split-dollar life insurance arrangement as defined in paragraph (b)(1) of this section. D is the owner of the life insurance contract under paragraph (c)(1) of this section. The life insurance contract is not a modified endowment contract as defined in section 7702A. In year 5, D gratuitously transfers the contract, within the meaning of paragraph (c)(3) of this section, to E. At the time of the transfer, the fair market value of the contract is \$200,000 and D had paid \$50,000 in premiums under the arrangement. In addition, at the time of the transfer, E had previously received \$80,000 of benefits described in paragraph (d)(3) of this section, which were excludable from E's gross income under section 102.

(ii) E's investment in the contract is \$50,000, consisting of the \$50,000 of premiums paid by D. The \$80,000 of benefits described in paragraph (d)(3) of this section that E received is not included in E's investment in the contract because such amounts were excludable from E's gross income at the time of receipt.

(iii) No investment in the contract for current life insurance protection. No amount allocable to current life insurance protection provided to the transferee (the cost of which was paid by the transferee or the value of which was provided to the transferee) is treated as consideration paid to acquire the contract under section 72(g)(1) to determine the aggregate premiums paid by the transferee for purposes of determining the transferee's investment in the contract under section 72(e) after the transfer.

(h) Examples. The following examples illustrate the rules of this section. Except as otherwise provided, each of the examples assumes that the employer (R) is the owner (as defined in paragraph (c)(1) of this section) of a life insurance contract that is part of a split-dollar life insurance arrangement subject to the rules of paragraphs (d) through (g) of this section, that the life insurance contract is not a modified endowment contract under section 7702A, that the compensation paid to the employee (E) is reasonable, and that E makes no premium payments. The examples are as follows:

Example 1. (i) In year 1, R purchases a life insurance contract on the life of E. R is named as the policy owner of the contract. R and E enter into an arrangement under which R will pay all the premiums on the life insurance contract until the termination of the arrangement or E's death. Upon termination of the arrangement or E's death, R is entitled to receive the greater of the aggregate premiums or the cash surrender value of the contract. The balance of the death benefit will be paid to a beneficiary designated by E.

(ii) Because R is designated as the policy owner, R is the owner of the contract under paragraph (c)(1) of this section. E is a non-owner of the contract. Under the arrangement between R and E, a portion of the death benefit is payable to a beneficiary designated by E. The arrangement is a split-dollar life insurance arrangement under paragraph (b)(1) or (2) of this section. For each year that the split-dollar life insurance arrangement is in effect, the arrangement is described in paragraph (d)(2) of this section and E must include in income the value of current life insurance protection, as required by paragraph (d)(2) of this section.

Example 2. (i) The facts are the same as in Example 1 except that, upon termination of the arrangement or E's death, R is entitled to receive the lesser of the aggregate premiums or the cash surrender value of the contract.

(ii) For each year that the split-dollar life insurance arrangement is in effect, the arrangement is described in paragraph (d)(3) of this section and E must include in gross income the value of the economic benefit attributable to E's interest in the life insurance contract, as required by paragraph (d)(3) of this section.

Example 3. (i) The facts are the same as in **Example 1** except that in year 5, R and E modify the split-dollar life insurance arrangement to provide that, upon termination of the arrangement or E's death, R is entitled to receive the greater of the aggregate premiums or one-half the cash surrender value of the contract.

(ii) In year 5 (and subsequent years), the arrangement is described in paragraph (d)(3) of this section and E must include in gross income the value of the economic benefit attributable to E's interest in the life insurance contract, as required by paragraph (d)(3) of this section. Because the modification made by R and E in year 5 does not involve the transfer (within the meaning of paragraph (c)(3) of this section) of an undivided interest in the life insurance contract from R to E, the modification is not a transfer for purposes of paragraph (g) of this section.

Example 4. (i) The facts are the same as in **Example 2** except that in year 7, R and E modify the split-dollar life insurance arrangement to provide that, upon termination of the arrangement or E's death, R will be paid the lesser of 80 percent of the aggregate premiums or the cash surrender value of the contract.

(ii) The arrangement is described in paragraph (d)(3) of this section. In year 7 (and in subsequent years), E must include in gross income the value of the increased economic benefits described in paragraph (d)(3) of this section resulting from the contract modification under which E obtains rights to a larger amount of the cash value of the contract (attributable to the fact that R will forgo the right to recover 20 percent of the premiums R pays).

Example 5. (i) The facts are the same as in **Example 3** except that in year 7, E is designated as the policy owner. At that time, E's rights to the contract are substantially vested as defined in §1.83-3(b).

(ii) In year 7, R is treated as having made a transfer (within the meaning of paragraph (c)(3) of this section) of the life insurance contract to E. E must include in gross income the amount determined under paragraph (g)(1) of this section.

(iii) After the transfer of the contract to E, E is the owner of the contract and any premium payments by R will be included in E's income under paragraph (b)(5) of this section and §1.61-2(d)(2)(ii)(A) (unless R's payments are split-dollar loans as defined in §1.7872-15(b)(1)).

Example 6. (i) In year 1, E and R enter into a split-dollar life insurance arrangement as defined in paragraph (b)(2) of this section. Under the arrangement, R

is required to make annual premium payments of \$10,000 and E is required to make annual premium payments of \$500. In year 5, a \$500 policy owner dividend payable to E is declared by the insurance company. E directs the insurance company to use the \$500 as E's premium payment for year 5.

(ii) For each year the arrangement is in effect, the arrangement is described in paragraph (d)(3) of this section and E must include in gross income the value of the economic benefits granted during the year, as required by paragraph (d)(3) of this section over the \$500 premium payments paid by E. In year 5, E must also include in gross income as compensation the excess, if any, of the \$500 distributed to E from the proceeds of the policy owner dividend over the amount determined under paragraph (e)(3)(ii) of this section.

(iii) R must include in income the premiums paid by E during the years the split-dollar life insurance arrangement is in effect, including the \$500 of the premium E paid in year 5 with proceeds of the policy owner dividend. R's investment in the contract is increased in an amount equal to the premiums paid by E, including the \$500 of the premium paid by E in year 5 from the proceeds of the policy owner dividend. In year 5, R is treated as receiving a \$500 distribution under the contract, which is taxed pursuant to section 72.

Example 7. (i) The facts are the same as in **Example 2** except that in year 10, E withdraws \$100,000 from the cash value of the contract.

(ii) In year 10, R is treated as receiving a \$100,000 distribution from the insurance company. This amount is treated as an amount received by R under the contract and taxed pursuant to section 72. This amount reduces R's investment in the contract under section 72(e). R is treated as paying the \$100,000 to E as cash compensation, and E must include that amount in gross income less any amounts determined under paragraph (e)(3)(ii) of this section.

Example 8. (i) The facts are the same as in **Example 7** except E receives the proceeds of a \$100,000 specified policy loan directly from the insurance company.

(ii) The transfer of the proceeds of the specified policy loan to E is treated as a loan by the insurance company to R. Under the rules of section 72(e), the \$100,000 loan is not included in R's income and does not reduce R's investment in the contract. R is treated as paying the \$100,000 of loan proceeds to E as cash compensation. E must include that amount in gross income less any amounts determined under paragraph (e)(3)(ii) of this section.

(i) [Reserved]

(j) Effective date—(1) General rule. This section applies to any split-dollar life insurance arrangement (as defined in paragraph (b)(1) or (2) of this section) entered into after the date the final regulations are published in the **Federal Register**.

(2) Early reliance—(i) General rule. Taxpayers may rely on this section for the treatment of any split-dollar life insurance arrangement (as defined in paragraph (b)(1) or (2) of this section) entered into on or before the date described in paragraph (j)(1) of this section, provided that all taxpayers who are parties to the arrangement treat the arrangement consistently under this section and, in the case of an arrangement described in paragraph (d)(3) of this section, also satisfy the requirements in paragraph (j)(2)(ii) of this section.

(ii) Equity split-dollar life insurance arrangements. Parties to an arrangement described in paragraph (d)(3) of this section may rely on this section only if the value of all economic benefits taken into account by the parties exceeds the value of the economic benefits the parties would have taken into account if paragraph (d)(2) of this section were applicable to the arrangement (determined using the life insurance premium factor designated in guidance published in the Internal Revenue Bulletin (see §601.601(d)(2)(ii) of this chapter)), thereby reflecting the fact that such an arrangement provides the non-owner with economic benefits that are more valuable than current life insurance protection.

(3) Modified arrangements treated as new arrangements. An arrangement entered into on or before the date set forth in paragraph (j)(1) of this section that is materially modified after the date set forth in paragraph (j)(1) of this section is treated as a new arrangement entered into on the date of the modification.

Par. 4. Section 1.83-1 is amended by:

1. Removing the second sentence of paragraph (a)(2).
2. Adding a sentence at the end of paragraph (a)(2).

The addition reads as follows:

§1.83-1 Property transferred in connection with the performance of services.

(a) ***

(2) **Life insurance.** *** For the taxation of life insurance protection under a split-dollar life insurance arrangement (as defined in §1.61-22(b)(1) or (2)), see §1.61-22.

Par. 5. Section 1.83-3 is amended by:

1. Adding a sentence at the end of paragraph (a)(1).
2. Revising the penultimate sentence in paragraph (e).

The addition and revision read as follows:

§1.83-3 Meaning and use of certain terms.

(a) *** (1) *** For special rules applying to the transfer of a life insurance contract (or an undivided interest therein) that is part of a split-dollar life insurance arrangement (as defined in §1.61-22(b)(1) or (2)), see §1.61-22(g).

(e) *** In the case of a transfer of a contract, or any undivided interest therein, providing death benefit protection (including a life insurance contract, retirement contract, or endowment contract) after the date the final regulations are published in the **Federal Register**, the cash surrender value and all other rights under such contract (including any supplemental agreements thereto and whether or not guaranteed), other than current life insurance protection, are treated as property for purposes of this section. ***

Par. 6. Section 1.83-6 is amended as follows:

1. Redesignating paragraph (a)(5) as paragraph (a)(6).
2. Adding a new paragraph (a)(5).

The addition reads as follows:

§1.83-6 Deduction by employer.

(a) * * *

(5) Transfer of life insurance contract (or an undivided interest therein)—(i)

General rule. In the case of a transfer of a life insurance contract (or an undivided interest therein) described in §1.61-22(c)(3) in connection with the performance of services, a deduction is allowable under paragraph (a)(1) of this section to the person for whom the services were performed. The amount of the deduction, if allowable, is equal to the sum of the amount included as compensation in the gross income of the service provider under §1.61-22(g)(1) and the amount determined under §1.61-22(g)(1)(ii).

(ii) Effective date—(A) General rule. Paragraph (a)(5)(i) of this section applies to any split-dollar life insurance arrangement (as defined in §1.61-22(b)(1) or (2)) entered into after the date the final regulations are published in the **Federal Register**.

(B) Early reliance—(1) General rule. Taxpayers may rely on this paragraph (a)(5) for the treatment of any split-dollar life insurance arrangement (as defined in §1.61-22(b)(1) or (2)) entered into on or before the date described in paragraph (a)(5)(ii)(A) of this section, provided that all taxpayers who are parties to the arrangement treat the arrangement consistently under §1.61-22(d) through (g) and, in the case of an arrangement described in §1.61-22(d)(3), also satisfy the requirements in paragraph (a)(5)(ii)(B)(2) of this section.

(2) Equity split-dollar life insurance arrangements. Parties to an arrangement described in §1.61-22(d)(3) may rely on this paragraph (a)(5) only if the value of all economic benefits taken into account by the parties exceeds the value of the economic benefits the parties would have taken into account if §1.61-22(d)(2) were applicable to the arrangement (determined using the life insurance premium factor designated in guidance published in the Internal Revenue Bulletin (see §601.601(d)(2)(ii) of this

chapter)), thereby reflecting the fact that such an arrangement provides the non-owner with economic benefits that are more valuable than current life insurance protection.

(C) Modified arrangements treated as new arrangements. An arrangement entered into on or before the date set forth in paragraph (a)(5)(ii)(A) of this section that is materially modified after the date set forth in paragraph (a)(5)(ii)(A) of this section is treated as a new arrangement entered into on the date of the modification.

Par. 7. In §1.301-1, paragraph (q) is added to read as follows:

§1.301-1 Rules applicable with respect to distributions of money and other property.

(q) Split-dollar and other life insurance arrangements--(1) Split-dollar life insurance arrangements--(i) Distribution of economic benefits. The provision by a corporation to its shareholder pursuant to a split-dollar life insurance arrangement, as defined in §1.61-22(b)(1) or (2), of economic benefits described in §1.61-22(d) or of amounts described in §1.61-22(e) is treated as a distribution of property, the amount of which is determined under §1.61-22(d) and (e), respectively.

(ii) Distribution of entire contract or undivided interest therein. A transfer (within the meaning of §1.61-22(c)(3)) of the ownership of a life insurance contract (or an undivided interest therein) that is part of a split-dollar life insurance arrangement is a distribution of property, the amount of which is determined pursuant to §1.61-22(g)(1) and (2).

(2) Other life insurance arrangements. A payment by a corporation on behalf of a shareholder of premiums on a life insurance contract or an undivided interest therein that is owned by the shareholder constitutes a distribution of property, even if such payment is not part of a split-dollar life insurance arrangement under §1.61-22(b).

(3) When distribution is made--(i) In general. Except as provided in paragraph (q)(3)(ii) of this section, paragraph (b) of this section shall apply to determine when a

distribution described in paragraph (q)(1) or (2) of this section is taken into account by a shareholder.

(ii) Exception. Notwithstanding paragraph (b) of this section, a distribution described in paragraph (q)(1)(ii) of this section shall be treated as made by a corporation to its shareholder at the time that the life insurance contract, or an undivided interest therein, is transferred (within the meaning of §1.61-22(c)(3)) to the shareholder.

(4) Effective date—(i) General rule. This paragraph (q) applies to split-dollar and other life insurance arrangements entered into after the date the final regulations are published in the **Federal Register**.

(ii) Early reliance—(A) General rule. Taxpayers may rely on this paragraph (q) for the treatment of any split-dollar life insurance arrangement (as defined in §1.61-22(b)(1) or (2)) entered into on or before the date described in paragraph (q)(4)(i) of this section, provided that all taxpayers who are parties to the arrangement treat the arrangement consistently under §1.61-22(d) through (g) and, in the case of an arrangement described in §1.61-22(d)(3), also satisfy the requirements in paragraph (q)(4)(ii)(B) of this section.

(B) Equity split-dollar life insurance arrangements. Parties to an arrangement described in §1.61-22(d)(3) may rely on this paragraph (q) only if the value of all economic benefits taken into account by the parties exceeds the value of the economic benefits the parties would have taken into account if §1.61-22(d)(2) were applicable to the arrangement (determined using the life insurance premium factor designated in guidance published in the Internal Revenue Bulletin (see §601.601(d)(2)(ii) of this chapter)), thereby reflecting the fact that such an arrangement provides the non-owner with economic benefits that are more valuable than current life insurance protection.

(iii) Modified arrangements treated as new arrangements. An arrangement entered into on or before the date set forth in paragraph (q)(4)(i) of this section that is

materially modified after the date set forth in paragraph (q)(4)(i) of this section is treated as a new arrangement entered into on the date of the modification.

Par. 8. Section 1.1402(a)-18 is added to read as follows:

§1.1402(a)-18 Split-dollar life insurance arrangements.

See §1.61-22 for rules relating to the treatment of split-dollar life insurance arrangements.

Par. 9. Section 1.7872-15 is added to read as follows:

§1.7872-15 Split-dollar loans.

(a) ~~General rules~~—(1) Introduction. This section applies to split-dollar loans as defined in paragraph (b)(1) of this section. If a split-dollar loan is not a below-market loan, then, except as provided in this section, the loan is governed by the general rules for debt instruments (including the rules for original issue discount (OID) under sections 1271 through 1275 and the regulations thereunder). If a split-dollar loan is a below-market loan, then, except as provided in this section, the loan is governed by section 7872 and the regulations thereunder. The timing, amount, and characterization of the imputed transfers between the lender and borrower of a below-market split-dollar loan depend upon the relationship between the parties and upon whether the loan is a demand loan or a term loan. For additional rules relating to the treatment of split-dollar life insurance arrangements, see §1.61-22.

(2) ~~Loan treatment~~—(i) General rule. A payment made pursuant to a split-dollar life insurance arrangement is treated as a loan for Federal tax purposes, and the owner and non-owner are treated, respectively, as the borrower and the lender, if—

(A) The payment is made either directly or indirectly by the non-owner to the owner (including a premium payment made by the non-owner directly to the insurance company with respect to the policy held by the owner);

(B) The payment is a loan under general principles of Federal tax law or, if it is not a loan under general principles of Federal tax law, a reasonable person would

expect the payment to be repaid in full to the non-owner (whether with or without interest); and

(C) The repayment is to be made from, or is secured by, either the policy's death benefit proceeds or its cash surrender value.

(ii) Payments that are only partially repayable. For purposes of §1.61-22 and this section, if a non-owner makes a payment pursuant to a split-dollar life insurance arrangement and the non-owner is entitled to repayment of some but not all of the payment, the payment is treated as two payments: one that is repayable and one that is not. Thus, paragraph (a)(2)(i) of this section refers to the repayable payment.

(iii) Treatment of payments that are not split-dollar loans. See §1.61-22(b)(5) for the treatment of payments by a non-owner that are not split-dollar loans.

(iv) Examples. The provisions of this paragraph (a)(2) are illustrated by the following examples:

Example 1. Assume an employee owns a life insurance policy under a split-dollar life insurance arrangement, the employer makes premium payments on this policy, there is a reasonable expectation that the payments will be repaid, and the repayments are secured by the policy. Under paragraph (a)(2)(i) of this section, each premium payment is a loan for Federal tax purposes.

Example 2. (i) Assume an employee owns a life insurance policy under a split-dollar life insurance arrangement and the employer makes premium payments on this policy. The employer is entitled to be repaid 80 percent of each premium payment, and the repayments are secured by the policy. Under paragraph (a)(2)(ii) of this section, the taxation of 20 percent of each premium payment is governed by §1.61-22(b)(5). If there is a reasonable expectation that the remaining 80 percent of a payment will be repaid in full, then, under paragraph (a)(2)(i) of this section, the 80 percent is a loan for Federal tax purposes.

(ii) If less than 80 percent of a premium payment is reasonably expected to be repaid, then this paragraph (a)(2) does not cause any of the payment to be a loan for Federal tax purposes. If the payment is not a loan under general principles of Federal tax law, the entire premium payment is governed by §1.61-22(b)(5).

(3) No de minimis exceptions. For purposes of this section, section 7872 is applied to a split-dollar loan without regard to the de minimis exceptions in section 7872(c)(2) and (3).

(b) Definitions. For purposes of this section, the terms split-dollar life insurance arrangement, owner, and non-owner have the same meanings as provided in §1.61-22(b) and (c). In addition, the following definitions apply for purposes of this section:

(1) A split-dollar loan is a loan described in paragraph (a)(2)(i) of this section.

(2) A split-dollar demand loan is any split-dollar loan that is payable in full at any time on the demand of the lender (or within a reasonable time after the lender's demand).

(3) A split-dollar term loan is any split-dollar loan other than a split-dollar demand loan. See paragraph (e)(5) of this section for special rules regarding certain split-dollar term loans payable on the death of an individual, certain split-dollar term loans conditioned on the future performance of substantial services by an individual, and gift split-dollar term loans.

(c) Interest deductions for split-dollar loans. The borrower may not deduct any qualified stated interest, OID, or imputed interest on a split-dollar loan. See sections 163(h) and 264(a). In certain circumstances, an indirect participant may be allowed to deduct qualified stated interest, OID, or imputed interest on a deemed loan. See paragraph (e)(2)(iii) of this section (relating to indirect loans).

(d) Treatment of split-dollar loans providing for nonrecourse payments—(1) In general. Except as provided in paragraph (d)(2) of this section, if a payment on a split-dollar loan is nonrecourse to the borrower, the payment is a contingent payment for purposes of this section. See paragraph (j) of this section for the treatment of a split-dollar loan that provides for one or more contingent payments.

(2) Exception for certain loans with respect to which the parties to the split-dollar life insurance arrangement make a representation—(i) Requirements. An otherwise

noncontingent payment on a split-dollar loan that is nonrecourse to the borrower is not a contingent payment under this section if the following requirements are satisfied—

(A) The split-dollar loan provides for interest payable at a stated rate that is either a fixed rate or a variable rate described in paragraph (g) of this section; and

(B) The parties to the split-dollar life insurance arrangement represent in writing that a reasonable person would expect that all payments under the loan will be made.

(ii) Time and manner for providing written representation. The Commissioner may prescribe the time and manner for providing the written representation required by paragraph (d)(2)(i)(B) of this section. Until the Commissioner prescribes otherwise, the written representation that is required by paragraph (d)(2)(i)(B) of this section must meet the requirements of this paragraph (d)(2)(ii). Both the borrower and the lender must sign the representation not later than the last day (including extensions) for filing the Federal income tax return of the borrower or lender, whichever is earlier, for the taxable year in which the lender makes the first split-dollar loan under the split-dollar life insurance arrangement. This representation must include the names, addresses, and taxpayer identification numbers of the borrower, lender, and any indirect participants. Unless otherwise stated therein, this representation applies to all subsequent split-dollar loans made pursuant to the split-dollar life insurance arrangement. Each party should retain an original of the representation as part of its books and records and should attach a copy of this representation to its Federal income tax return for any taxable year in which the lender makes a loan to which the representation applies.

(e) Below-market split-dollar loans—(1) Scope—(i) In general. This paragraph (e) applies to below-market split-dollar loans enumerated under section 7872(c)(1), which include gift loans, compensation-related loans, and corporation-shareholder loans. The characterization of a split-dollar loan under section 7872(c)(1) and of the imputed transfers under section 7872(a)(1) and (b)(1) depends upon the relationship between the lender and the borrower or the lender, borrower, and any indirect participant. For

example, if the lender is the borrower's employer, the split-dollar loan is generally a compensation-related loan, and any imputed transfer from the lender to the borrower is generally a payment of compensation. The loans covered by this paragraph (e) include indirect loans between the parties. See paragraph (e)(2) of this section for the treatment of certain indirect split-dollar loans. See paragraph (f) of this section for the treatment of any stated interest or OID on split-dollar loans. See paragraph (j) of this section for additional rules that apply to a split-dollar loan that provides for one or more contingent payments.

(ii) Significant-effect split-dollar loans. If a direct or indirect below-market split-dollar loan is not enumerated in section 7872(c)(1)(A), (B), or (C), the loan is a significant-effect loan under section 7872(c)(1)(E).

(2) Indirect split-dollar loans—(i) In general. If, based on all the facts and circumstances, including the relationship between the borrower or lender and some third person (the indirect participant), the effect of a below-market split-dollar loan is to transfer value from the lender to the indirect participant and from the indirect participant to the borrower, then the below-market split-dollar loan is restructured as two or more successive below-market loans (the deemed loans) as provided in this paragraph (e)(2). The transfers of value described in the preceding sentence include (but are not limited to) a gift, compensation, a capital contribution, and a distribution under section 301 (or, in the case of an S corporation, under section 1368). The deemed loans are—

(A) A deemed below-market split-dollar loan made by the lender to the indirect participant; and

(B) A deemed below-market split-dollar loan made by the indirect participant to the borrower.

(ii) Application. Each deemed loan is treated as having the same provisions as the original loan between the lender and borrower, and section 7872 is applied to each deemed loan. Thus, for example, if, under a split-dollar life insurance arrangement, an

employer (lender) makes an interest-free split-dollar loan to an employee's child (borrower), the loan is generally restructured as a deemed compensation-related below-market split-dollar loan from the lender to the employee (the indirect participant) and a second deemed gift below-market split-dollar loan from the employee to the employee's child. In appropriate circumstances, section 7872(d)(1) may limit the interest that accrues on a deemed loan for Federal income tax purposes. For loan arrangements between husband and wife, see section 7872(f)(7).

(iii) Limitations on investment interest for purposes of section 163(d). For purposes of section 163(d), the imputed interest from the indirect participant to the lender that is taken into account by the indirect participant under this paragraph (e)(2) is not investment interest to the extent of the excess, if any, of--

(A) The imputed interest from the indirect participant to the lender that is taken into account by the indirect participant; over

(B) The imputed interest to the indirect participant from the borrower that is recognized by the indirect participant.

(iv) Example. The provisions of this paragraph (e)(2) are illustrated by the following example:

Example. (i) On January 1, 2009, Employer X and Individual A enter into a split-dollar life insurance arrangement under which A is named as the policy owner. A is the child of B, an employee of X. On January 1, 2009, X makes a \$30,000 premium payment, repayable upon demand without interest. Repayment of the premium payment is fully recourse to A. The payment is a below-market split-dollar demand loan. A's net investment income for 2009 is \$1,100, and there are no other outstanding loans between A and B. Assume that the blended annual rate for 2009 is 5 percent, compounded annually.

(ii) Based on the relationships among the parties, the effect of the below-market split-dollar loan from X to A is to transfer value from X to B and then to transfer value from B to A. Under paragraph (e)(2) of this section, the below-market split-dollar loan from X to A is restructured as two deemed below-market split-dollar demand loans: a compensation-related below-market split-dollar loan between X and B and a gift below-market split-dollar loan between B and A. Each of the deemed loans has the same terms and conditions as the original loan.

(iii) Under paragraph (e)(3) of this section, the amount of forgone interest deemed paid to B by A in 2009 is \$1,500 ($[\$30,000 \times 0.05] - 0$). Under section 7872(d)(1), however, the amount of forgone interest deemed paid to B by A is limited to \$1,100 (A's net investment income for the year). Under paragraph (e)(2)(iii) of this section, B's deduction under section 163(d) in 2009 for interest deemed paid on B's deemed loan from X is limited to \$1,100 (the interest deemed received from A).

(3) Split-dollar demand loans—(i) In general. This paragraph (e)(3) provides rules for testing split-dollar demand loans for sufficient interest, and, if the loans do not provide for sufficient interest, rules for the calculation and treatment of forgone interest on these loans. See paragraph (g) of this section for additional rules that apply to a split-dollar loan providing for certain variable rates of interest.

(ii) Testing for sufficient interest. Each calendar year that a split-dollar demand loan is outstanding, the loan is tested to determine if the loan provides for sufficient interest. A split-dollar demand loan provides for sufficient interest for the calendar year if the rate (based on annual compounding) at which interest accrues on the loan's adjusted issue price during the year is no lower than the blended annual rate for the year. (The Internal Revenue Service publishes the blended annual rate in the Internal Revenue Bulletin in July of each year (see §601.601(d)(2)(ii) of this chapter).) If the loan does not provide for sufficient interest, the loan is a below-market split-dollar demand loan for that calendar year. See paragraph (e)(3)(iii) of this section to determine the amount and treatment of forgone interest for each calendar year the loan is below-market.

(iii) Imputations—(A) Amount of forgone interest. For each calendar year, the amount of forgone interest on a split-dollar demand loan is treated as transferred by the lender to the borrower and as retransferred as interest by the borrower to the lender. This amount is the excess of--

(1) The amount of interest that would have been payable on the loan for the calendar year if interest accrued on the loan's adjusted issue price at the AFR (determined in paragraph (e)(3)(ii) of this section) and were payable annually on the day referred to in paragraph (e)(3)(iii)(B) of this section; over

(2) Any interest that accrues on the loan during the year.

(B) Timing of transfers of forgone interest—(1) In general. Except as provided in paragraphs (e)(3)(iii)(B)(2) and (3) of this section, the forgone interest (as determined under paragraph (e)(3)(iii)(A) of this section) that is attributable to a calendar year is treated as transferred by the lender to the borrower (and retransferred as interest by the borrower to the lender) on the last day of the calendar year and is accounted for by each party to the split-dollar loan in a manner consistent with that party's method of accounting.

(2) Exception for death, liquidation, or termination of the borrower. In the taxable year in which the borrower dies (in the case of borrower who is a natural person) or is liquidated or otherwise terminated (in the case of a borrower other than a natural person), any forgone interest is treated, for both the lender and the borrower, as transferred and retransferred on the last day of the borrower's final taxable year.

(3) Exception for repayment of below-market split-dollar loan. Any forgone interest is treated, for both the lender and the borrower, as transferred and retransferred on the day the split-dollar loan is repaid in full.

(4) Split-dollar term loans—(i) In general. Except as provided in paragraph (e)(5) of this section, this paragraph (e)(4) provides rules for testing split-dollar term loans for sufficient interest and, if the loans do not provide for sufficient interest, rules for imputing payments on these loans. See paragraph (g) of this section for additional rules that apply to a split-dollar loan providing for certain variable rates of interest.

(ii) Testing a split-dollar term loan for sufficient interest. A split-dollar term loan is tested on the day the loan is made to determine if the loan provides for sufficient

interest. A split-dollar term loan provides for sufficient interest if the imputed loan amount equals or exceeds the amount loaned. The imputed loan amount is the present value of all payments due under the loan, determined as of the date the loan is made, using a discount rate equal to the AFR in effect on that date. The AFR used for purposes of the preceding sentence must be appropriate for the loan's term (short-term, mid-term, or long-term) and for the compounding period used in computing the present value. See section 1274(d)(1). If the split-dollar loan does not provide for sufficient interest, the loan is a below-market split-dollar term loan subject to paragraph (e)(4)(iv) of this section.

(iii) Determining loan term. This paragraph (e)(4)(iii) provides rules to determine the term of a split-dollar term loan for purposes of paragraph (e)(4)(ii) of this section. The term of the loan determined under this paragraph (e)(4)(iii) (other than paragraph (e)(4)(iii)(C) of this section) applies to determine the split-dollar loan's term, payment schedule, and yield for all purposes of this section.

(A) In general. Except as provided in paragraph (e)(4)(iii)(B), (C), (D) or (E) of this section, the term of a split-dollar term loan is based on the period from the date the loan is made until the loan's stated maturity date.

(B) Special rules for certain options—(1) Payment schedule that minimizes yield. If a split-dollar term loan is subject to unconditional options that are exercisable at one or more times during the term of the loan and that, if exercised, would require full payment of the loan on a date other than the stated maturity date, then the rules of this paragraph (e)(4)(iii)(B)(1) determine the term of the loan. For purposes of determining a split-dollar loan's term, the borrower is projected to exercise or not exercise an option or combination of options in a manner that minimizes the loan's overall yield. Similarly, the lender is projected to exercise or not exercise an option or combination of options in a manner that minimizes the loan's overall yield. If different projected patterns of exercise or non-exercise produce the same minimum yield, the parties are projected to exercise

or not exercise an option or combination of options in a manner that produces the longest term.

(2) Change in circumstances. If the borrower (or lender) does or does not exercise the option as projected under paragraph (e)(4)(iii)(B)(1) of this section, the split-dollar loan is treated as retired and reissued on the date the option is or is not exercised. The amount for which the loan is deemed to be retired and reissued is the loan's adjusted issue price on that date. The reissued loan must be retested using the appropriate AFR in effect on the date of reissuance to determine whether it is a below-market loan.

(3) Examples. The following examples illustrate the rules of this paragraph (e)(4)(iii)(B):

Example 1. Employee B issues a 10-year split-dollar term loan to Employer Y. B has the right to prepay the loan at the end of year 5. Interest is payable on the split-dollar loan at 1 percent for the first 5 years and at 10 percent for the remaining 5 years. Under paragraph (e)(4)(iii)(B)(1) of this section, this arrangement is treated as a 5-year split-dollar term loan from Y to B, with interest payable at 1 percent.

Example 2. The facts are the same as the facts in Example 1, except that B does not in fact prepay the split-dollar loan at the end of year 5. Under paragraph (e)(4)(iii)(B)(2) of this section, the first loan is treated as retired at the end of year 5 and a new 5-year split-dollar term loan is issued at that time, with interest payable at 10 percent.

Example 3. Employee A issues a 10-year split-dollar term loan on which the lender, Employer X, has the right to demand payment at the end of year 2. Interest is payable on the split-dollar loan at 7 percent each year that the loan is outstanding. Under paragraph (e)(4)(iii)(B)(1) of this section, this arrangement is treated as a 10-year split-dollar term loan because the exercise of X's put option would not reduce the yield of the loan (the yield of the loan is 7 percent, compounded annually, whether or not X demands payment).

(C) Split-dollar term loans providing for certain variable rates of interest. If a split-dollar term loan is subject to paragraph (g) of this section (a split-dollar loan that

provides for certain variable rates of interest), the term of the loan for purposes of paragraph (e)(4)(ii) of this section is determined under paragraph (g)(3)(ii) of this section.

(D) Split-dollar loans payable upon the death of an individual. If a split-dollar term loan is described in paragraph (e)(5)(ii)(A) or (v)(A) of this section, the term of the loan for purposes of paragraph (e)(4)(ii) of this section is determined under paragraph (e)(5)(ii)(C) or (v)(B)(2) of this section, whichever is applicable.

(E) Split-dollar loans conditioned on the future performance of substantial services by an individual. If a split-dollar term loan is described in paragraph (e)(5)(iii)(A)(1) or (v)(A) of this section, the term of the loan for purposes of paragraph (e)(4)(ii) of this section is determined under paragraph (e)(5)(iii)(C) or (v)(B)(2) of this section, whichever is applicable.

(iv) Timing and amount of imputed transfer in connection with below-market split-dollar term loans. If a split-dollar term loan is a below-market loan, then the rules applicable to below-market term loans under section 7872 apply. In general, the loan is recharacterized as consisting of two portions: an imputed loan amount (as defined in paragraph (e)(4)(ii) of this section) and an imputed transfer from the lender to the borrower. The imputed transfer occurs at the time the loan is made (for example, when the lender makes a premium payment on a life insurance policy) and is equal to the excess described in paragraph (e)(4)(ii) of this section.

(v) Amount treated as OID. In the case of any below-market split-dollar term loan described in this paragraph (e)(4), for purposes of applying sections 1271 through 1275 and the regulations thereunder, the issue price of the loan is the amount determined under §1.1273-2, reduced by the amount of the imputed transfer described in paragraph (e)(4)(iv) of this section. Thus, the loan is generally treated as having OID in an amount equal to the amount of the imputed transfer described in paragraph (e)(4)(iv)

of this section, in addition to any other OID on the loan (determined without regard to section 7872(b)(2)(A) or this paragraph (e)(4)).

(vi) Example. The provisions of this paragraph (e)(4) are illustrated by the following example:

Example. (i) On July 1, 2009, Corporation Z and Shareholder A enter into a split-dollar life insurance arrangement under which A is named as the policy owner. On July 1, 2009, Z makes a \$100,000 premium payment, repayable without interest in 15 years. Repayment of the premium payment is fully recourse to A. The premium payment is a split-dollar term loan. Assume the long-term AFR (based on annual compounding) at the time the loan is made is 7 percent.

(ii) Based on a 15-year term and a discount rate of 7 percent, compounded annually (the long-term AFR), the present value of the payments under the loan is \$36,244.60, determined as follows: $\$100,000/[1+(0.07/1)]^{15}$. This loan is a below-market split-dollar term loan because the imputed loan amount of \$36,244.60 (the present value of the amount required to be repaid to Z) is less than the amount loaned (\$100,000).

(iii) In accordance with section 7872(b)(1) and paragraph (e)(4)(iv) of this section, on the date that the loan is made, Z is treated as transferring to A \$63,755.40 (the excess of \$100,000 (amount loaned) over \$36,244.60 (imputed loan amount)). Under section 7872 and paragraph (e)(1)(i) of this section, Z is treated as making a section 301 distribution to A on July 1, 2009, of \$63,755.40. Z must take into account as OID an amount equal to the imputed transfer. See §1.1272-1 for the treatment of OID.

(5) Special rules for certain split-dollar term loans—(i) In general. This paragraph (e)(5) provides rules for split-dollar loans payable on the death of an individual, split-dollar loans conditioned on the future performance of substantial services by an individual, and gift term loans. These split-dollar loans are split-dollar term loans for purposes of determining whether the loan provides for sufficient interest. If, however, the loan is a below-market split-dollar loan, then, except as provided in paragraph (e)(5)(v) of this section, forgone interest is determined annually, similar to a demand

loan, but using an AFR that is appropriate for the loan's term and that is determined when the loan is issued.

(ii) Split-dollar loans payable not later than the death of an individual—(A)

Applicability . This paragraph (e)(5)(ii) applies to a split-dollar term loan payable not later than the death of an individual.

(B) Treatment of loan. A split-dollar loan described in paragraph (e)(5)(ii)(A) of this section is tested under paragraph (e)(4)(ii) of this section to determine if the loan provides for sufficient interest. If the loan provides for sufficient interest, then section 7872 does not apply to the loan, and the interest on the loan is taken into account under paragraph (f) of this section. If the loan does not provide for sufficient interest, then section 7872 applies to the loan, and the loan is treated as a below-market demand loan subject to paragraph (e)(3)(iii) of this section. For each year that the loan is outstanding, however, the AFR used in the determination of forgone interest under paragraph (e)(3)(iii) of this section is not the blended annual rate but rather is the AFR (based on annual compounding) appropriate for the loan's term for the month in which the loan is made. See paragraph (e)(5)(ii)(C) of this section to determine the loan's term.

(C) Term of loan. For purposes of paragraph (e)(5)(ii)(B) of this section, the term of a split-dollar loan payable on the death of an individual (including the death of the last survivor of a group of individuals) is the life expectancy as determined under the appropriate table in §1.72-9 on the day the loan is made. If a split-dollar loan is payable on the earlier of the individual's death or another term determined under paragraph (e)(4)(iii) of this section, the term of the loan is whichever term is shorter.

(D) Retirement and reissuance of loan. If a split-dollar loan described in paragraph (e)(5)(ii)(A) of this section remains outstanding longer than the term determined under paragraph (e)(5)(ii)(C) of this section because the individual outlived his or her life expectancy, the split-dollar loan is treated as retired and reissued as a

split-dollar demand loan at that time for the loan's adjusted issue price on that date. However, the loan is not retested at that time to determine whether the loan provides for sufficient interest. For purposes of determining forgone interest under paragraph (e)(5)(ii)(B) of this section, the appropriate AFR for the reissued loan is the AFR determined under (e)(5)(ii)(B) of this section on the day the loan was originally made.

(iii) Split-dollar loans conditioned on the future performance of substantial services by an individual—(A) Applicability—(1) In general. This paragraph (e)(5)(iii) applies to a split-dollar term loan if the benefits of the interest arrangements of the loan are not transferable and are conditioned on the future performance of substantial services (within the meaning of section 83) by an individual.

(2) Exception. Notwithstanding paragraph (e)(5)(iii)(A)(1) of this section, this paragraph (e)(5)(iii) does not apply to a split-dollar loan described in paragraph (e)(5)(v)(A) of this section (regarding a split-dollar loan that is payable on the later of a term certain and the date on which the condition to perform substantial future services by an individual ends).

(B) Treatment of loan. A split-dollar loan described in paragraph (e)(5)(iii)(A)(1) of this section is tested under paragraph (e)(4)(ii) of this section to determine if the loan provides for sufficient interest. Except as provided in paragraph (e)(5)(iii)(D) of this section, if the loan provides for sufficient interest, then section 7872 does not apply to the loan and the interest on the loan is taken into account under paragraph (f) of this section. If the loan does not provide for sufficient interest, then section 7872 applies to the loan and the loan is treated as a below-market demand loan subject to paragraph (e)(3)(iii) of this section. For each year that the loan is outstanding, however, the AFR used in the determination of forgone interest under paragraph (e)(3)(iii) of this section is not the blended annual rate but rather is the AFR (based on annual compounding) appropriate for the loan's term for the month in which the loan is made. See paragraph (e)(5)(iii)(C) of this section to determine the loan's term.

(C) Term of loan. The term of a split-dollar loan described in paragraph (e)(5)(iii)(A)(1) of this section is based on the period from the date the loan is made until the loan's stated maturity date. However, if a split-dollar loan described in paragraph (e)(5)(iii)(A)(1) of this section does not have a stated maturity date, the term of the loan is presumed to be seven years.

(D) Retirement and reissuance of loan. If a split-dollar loan described in paragraph (e)(5)(iii)(A)(1) of this section remains outstanding longer than the term determined under paragraph (e)(5)(iii)(C) of this section because of the continued performance of substantial services, the split-dollar loan is treated as retired and reissued as a split-dollar demand loan at that time for the loan's adjusted issue price on that date. The loan is retested at that time to determine whether the loan provides for sufficient interest.

(iv) Gift split-dollar term loans—(A) Applicability. This paragraph (e)(5)(iv) applies to gift split-dollar term loans.

(B) Treatment of loan. A split-dollar loan described in paragraph (e)(5)(iv)(A) of this section is tested under paragraph (e)(4)(ii) of this section to determine if the loan provides for sufficient interest. If the loan provides for sufficient interest, then section 7872 does not apply to the loan and the interest on the loan is taken into account under paragraph (f) of this section. If the loan does not provide for sufficient interest, then section 7872 applies to the loan and the loan is treated as a below-market demand loan subject to paragraph (e)(3)(iii) of this section. For each year that the loan is outstanding, however, the AFR used in the determination of forgone interest under paragraph (e)(3)(iii) of this section is not the blended annual rate but rather is the AFR (based on annual compounding) appropriate for the loan's term for the month in which the loan is made. See paragraph (e)(5)(iv)(C) of this section to determine the loan's term.

(C) Term of loan. For purposes of paragraph (e)(5)(iv)(B) of this section, the term of a gift split-dollar term loan is the term determined under paragraph (e)(4)(iii) of this section.

(D) Limited application for gift split-dollar term loans. The rules of paragraph (e)(5)(iv)(B) of this section apply to a gift split-dollar term loan only for Federal income tax purposes. For purposes of Chapter 12 of the Internal Revenue Code (relating to the gift tax), gift below-market split-dollar term loans are treated as term loans under section 7872(b) and paragraph (e)(4) of this section. See section 7872(d)(2).

(v) Split-dollar loans payable on the later of a term certain and another specified date—(A) Applicability. This paragraph (e)(5)(v) applies to any split-dollar term loan payable upon the later of a term certain or—

(1) The death of an individual; or

(2) For a loan described in paragraph (e)(5)(iii)(A)(1) of this section, the date on which the condition to perform substantial future services by an individual ends.

(B) Treatment of loan—(1) In general. A split-dollar loan described in paragraph (e)(5)(v)(A) of this section is a split-dollar term loan, subject to paragraph (e)(4) of this section.

(2) Term of the loan. The term of a split-dollar loan described in paragraph (e)(5)(v)(A) of this section is the term certain.

(3) Appropriate AFR. The appropriate AFR for a split-dollar loan described in paragraph (e)(5)(v)(A) of this section is based on a term of the longer of the term certain or the loan's expected term as determined under either paragraph (e)(5)(ii) or (iii) of this section, whichever is applicable.

(C) Retirement and reissuance. If a split-dollar loan described in paragraph (e)(5)(v)(A) of this section remains outstanding longer than the term certain, the split-dollar loan is treated as retired and reissued at the end of the term certain for the loan's adjusted issue price on that date. The reissued loan is subject to paragraph

(e)(5)(ii) or (iii) of this section, whichever is applicable. However, the loan is not retested at that time to determine whether the loan provides for sufficient interest. For purposes of paragraph (e)(3)(iii) of this section, the appropriate AFR for the reissued loan is the AFR determined under paragraph (e)(5)(v)(B)(3) of this section on the day the loan was originally made.

(vi) Example. The provisions of this paragraph (e)(5) are illustrated by the following example:

Example. (i) On January 1, 2009, Corporation Y and Shareholder B, a 65 year-old male, enter into a split-dollar life insurance arrangement under which B is named as the policy owner. On January 1, 2009, Y makes a \$100,000 premium payment, repayable, without interest, from the death benefits of the underlying contract upon B's death. The premium payment is a split-dollar term loan. Repayment of the premium payment is fully recourse to B. Assume the long-term AFR (based on annual compounding) at the time of the loan is 7 percent. Both Y and B use the calendar year as their taxable years.

(ii) Based on Table 1 in §1.72-9, the expected term of the loan is 15 years. Under paragraph (e)(5)(ii)(C) of this section, the long-term AFR (based on annual compounding) is the appropriate test rate. Based on a 15-year term and a discount rate of 7 percent, compounded annually (the long-term AFR), the present value of the payments under the loan is \$36,244.60, determined as follows: $\$100,000/[1+(0.07/1)]^{15}$. Under paragraph (e)(5)(ii)(B) of this section, this loan is a below-market split-dollar term loan because the imputed loan amount of \$36,244.60 (the present value of the amount required to be repaid to Y) is less than the amount loaned (\$100,000).

(iii) Under paragraph (e)(5)(ii)(B) of this section, the amount of forgone interest for 2009 (and each subsequent full calendar year that the loan remains outstanding) is \$7,000, which is the amount of interest that would have been payable on the loan for the calendar year if interest accrued on the loan's adjusted issue price (\$100,000) at the long-term AFR (7 percent, compounded annually). Under section 7872 and paragraph (e)(1)(i) of this section, on December 31, 2009, Y is treated as making a section 301 distribution to B of \$7,000. In addition, Y has \$7,000 of imputed interest income for 2009.

(f) Treatment of stated interest and OID for split-dollar loans—(1) In general . If a split-dollar loan provides for stated interest or OID, the loan is subject to this paragraph (f), regardless of whether the split-dollar loan has sufficient interest. Except

as provided in paragraphs (f)(2), (g), and (j) of this section, split-dollar loans are subject to the same Internal Revenue Code and regulatory provisions for stated interest and OID as other loans. For example, the lender of a split-dollar loan that provides for stated interest must account for any qualified stated interest (as defined in §1.1273-1(c)) under its regular method of accounting (for example, an accrual method or the cash receipts and disbursements method). See §1.446-2 to determine the amount of qualified stated interest that accrues during an accrual period. In addition, the lender must account under §1.1272-1 for any OID on a split-dollar loan. See paragraph (h) of this section for a subsequent waiver, cancellation, or forgiveness of stated interest on a split-dollar loan.

(2) Term, payment schedule, and yield. The term of a split-dollar term loan determined under paragraph (e)(4)(iii) of this section (other than paragraph (e)(4)(iii)(C) of this section) applies to determine the split-dollar loan's term, payment schedule, and yield for all purposes of this section.

(g) Certain variable rates of interest--(1) In general. This paragraph (g) provides rules for a split-dollar loan that provides for certain variable rates of interest. If this paragraph (g) does not apply to a variable rate split-dollar loan, the loan is subject to the rules for split-dollar loans providing for one or more contingent payments in paragraph (j) of this section.

(2) Applicability--(i) In general. Except as provided in paragraph (g)(2)(ii) of this section, this paragraph (g) applies to a split-dollar loan that is a variable rate debt instrument (within the meaning of §1.1275-5) and that provides for stated interest at a qualified floating rate (or rates).

(ii) Interest rate restrictions. This paragraph (g) does not apply to a split-dollar loan if, as a result of interest rate restrictions (such as an interest rate cap), the expected yield of the loan taking the restrictions into account is significantly less than the expected yield of the loan without regard to the restrictions. Conversely, if

reasonably symmetric interest rate caps and floors or reasonably symmetric governors are fixed throughout the term of the loan, these restrictions generally do not prevent this paragraph (g) from applying to the loan.

(3) Testing for sufficient interest—(i) Demand loan. For purposes of paragraph (e)(3)(ii) of this section (regarding testing a split-dollar demand loan for sufficient interest), a split-dollar demand loan is treated as if it provided for a fixed rate of interest for each accrual period to which a qualified floating rate applies. The projected fixed rate for each accrual period is the value of the qualified floating rate as of the beginning of the calendar year that contains the last day of the accrual period.

(ii) Term loan. For purposes of paragraph (e)(4)(ii) of this section (regarding testing a split-dollar term loan for sufficient interest), a split-dollar term loan subject to this paragraph (g) is treated as if it provided for a fixed rate of interest for each accrual period to which a qualified floating rate applies. The projected fixed rate for each accrual period is the value of the qualified floating rate on the date the split-dollar term loan is made. The term of a split-dollar loan that is subject to this paragraph (g)(3)(ii) is determined using the rules in §1.1274-4(c)(2). For example, if the loan provides for interest at a qualified floating rate that adjusts at varying intervals, the term of the loan is determined by reference to the longest interval between interest adjustment dates. See paragraph (e)(5) of this section for special rules relating to certain split-dollar term loans, such as a split-dollar term loan payable not later than the death of an individual.

(4) Interest accruals and imputed transfers. For purposes of paragraphs (e) and (f) of this section, the projected fixed rate or rates determined under paragraph (g)(3) of this section are used for purposes of determining the accrual of interest each period and the amount of any imputed transfers. Appropriate adjustments are made to the interest accruals and any imputed transfers to take into account any difference between the projected fixed rate and the actual rate.

(5) Example. The provisions of this paragraph (g) are illustrated by the following

example:

Example. (i) On January 1, 2010, Employer V and Employee E enter into a split-dollar life insurance arrangement under which E is named as the policy owner. On January 1, 2010, V makes a \$100,000 premium payment, repayable in 15 years. The premium payment is a split-dollar term loan. Under the arrangement between the parties, interest is payable on the split-dollar loan each year on January 1, starting January 1, 2011, at a rate equal to the value of 1-year LIBOR as of the payment date. The short-term AFR (based on annual compounding) at the time of the loan is 7 percent. Repayment of both the premium payment and the interest due thereon is nonrecourse to E. However, the parties made a representation under paragraph (d)(2) of this section. Assume that the value of 1-year LIBOR on January 1, 2010, is 8 percent, compounded annually.

(ii) The loan is subject to this paragraph (g) because the loan is a variable rate debt instrument that bears interest at a qualified floating rate. Because the interest rate is reset each year, under paragraph (g)(3)(ii) of this section, the short-term AFR (based on annual compounding) is the appropriate test rate used to determine whether the loan provides for sufficient interest. Moreover, under paragraph (g)(3)(ii) of this section, to determine whether the loan provides for sufficient interest, the loan is treated as if it provided for a fixed rate of interest equal to 8 percent, compounded annually. Based on a discount rate of 7 percent, compounded annually (the short-term AFR), the present value of the payments under the loan is \$109,107.91. The loan provides for sufficient interest because the loan's imputed loan amount of \$109,107.91 (the present value of the payments) is more than the amount loaned of \$100,000. Therefore, the loan is not a below-market split-dollar term loan, and interest on the loan is taken into account under paragraph (f) of this section.

(h) Adjustments for interest paid at less than the stated rate—(1) In general. To the extent required by this paragraph (h), if accrued but unpaid interest on a split-dollar loan is subsequently waived, cancelled, or forgiven by the lender, the waiver, cancellation, or forgiveness is treated as if, on that date, the interest had in fact been paid to the lender and then retransferred by the lender to the borrower. To determine

the characterization of any retransferred amount, see paragraph (e)(1)(i) of this section. For purposes of this paragraph (h), the amount of interest deemed transferred and retransferred pursuant to this paragraph (h) is determined under paragraph (h)(2) or (3) of this section. See §1.61-22(b)(6) for the treatment of amounts other than interest on a split-dollar loan that are waived, cancelled, or forgiven by the lender. For purposes of this paragraph (h), a split-dollar term loan described in paragraph (e)(5) of this section (for example, a split-dollar term loan payable not later than the death of an individual) is subject to the rules of paragraph (h)(3) of this section.

(2) Split-dollar term loans. In the case of a split-dollar term loan, the amount of interest deemed transferred and retransferred for purposes of paragraph (h)(1) of this section is determined as follows:

(i) If the loan's stated rate is less than or equal to the appropriate AFR (the AFR used to test the loan for sufficient interest under paragraph (e) of this section), the amount of interest deemed transferred and retransferred pursuant to this paragraph (h) is the excess of the amount of interest payable at the stated rate over the interest actually paid.

(ii) If the loan's stated rate is greater than the appropriate AFR (the AFR used to test the loan for sufficient interest under paragraph (e) of this section), the amount of interest deemed transferred and retransferred pursuant to this paragraph (h) is the excess, if any, of the amount of interest payable at the AFR over the interest actually paid.

(3) Split-dollar demand loans. In the case of a split-dollar demand loan, the amount of interest deemed transferred and retransferred for purposes of paragraph (h)(1) of this section is equal to the aggregate of—

(i) For each year that the split-dollar demand loan was outstanding in which the loan was a below-market split-dollar demand loan, the excess of the amount of interest payable at the stated rate over the interest actually paid allocable to that year; plus

(ii) For each year that the split-dollar demand loan was outstanding in which the loan was not a below-market split-dollar demand loan, the excess, if any, of the amount of interest payable at the appropriate AFR used for purposes of imputation for that year over the interest actually paid allocable to that year.

(4) Examples. The provisions of this paragraph (h) are illustrated by the following examples:

Example 1. (i) On January 1, 2009, Employer Y and Employee B entered into a split-dollar life insurance arrangement under which B is named as the policy owner. On January 1, 2009, Y made a \$100,000 premium payment, repayable on December 31, 2011, with interest of 5 percent, compounded annually. The premium payment is a split-dollar term loan. Assume the short-term AFR (based on annual compounding) at the time the loan was made was 5 percent. Repayment of both the premium payment and the interest due thereon was fully recourse to B. On December 31, 2011, Y is repaid \$100,000 but Y waives the remainder due on the loan (\$15,762.50). Both Y and B use the calendar year as their taxable years.

(ii) When the split-dollar loan was made, the loan was not a below-market loan under paragraph (e)(4)(ii) of this section. Under paragraph (f) of this section, Y was required to accrue compound interest of 5 percent each year the loan remained outstanding. B, however, was not entitled to any deduction for this interest under paragraph (c) of this section.

(iii) Under paragraph (h)(2) of this section, the waived amount is treated as if, on December 31, 2011, it had in fact been paid to Y and was then retransferred by Y to B. The amount deemed transferred to Y and retransferred to B equals the excess of the amount of interest payable at the stated rate (\$15,762.50) over the interest actually paid (\$0), or \$15,762.50. Because of the employment relationship between Y and B, this retransferred amount is treated as compensation paid by Y to B.

Example 2. (i) On January 1, 2009, Employer Y and Employee B entered into a split-dollar life insurance arrangement under which B is named as the policy owner. On January 1, 2009, Y made a \$100,000 premium payment, repayable on the demand of Y, with interest of 7 percent, compounded annually. The premium payment is a split-dollar demand loan. Assume the blended annual rate (based on annual compounding) in 2009 was 5 percent and in 2010 was 6 percent. Repayment of both the premium payment and the interest due thereon was fully recourse to B. On December 31, 2010, Y demands repayment and is repaid its \$100,000 premium payment in full; however, Y waives all interest due on the loan. Both Y and B use the calendar year as their taxable years.

(ii) For each year that the split-dollar demand loan was outstanding, the loan was not a below-market loan under paragraph (e)(3)(ii) of this section. Under paragraph (f) of this section, Y was required to accrue compound interest of 7 percent each year the loan remained outstanding. B, however, was not entitled to any deduction for this interest under paragraph (c) of this section.

(iii) Under paragraph (h)(1)(i) of this section, a portion of the waived interest may be treated as if, on December 31, 2010, it had in fact been paid to Y and was then retransferred by Y to B. The amount of interest deemed transferred to Y and retransferred to B equals the excess, if any, of the amount of interest payable at the blended annual rate for each year the loan is outstanding over the interest actually paid with respect to that year. For 2009, the interest payable at the blended annual rate is \$5,000 ($\$100,000 \times 0.05$). For 2010, the interest payable at the blended annual rate is \$6,000 ($\$100,000 \times 0.06$). Therefore, the amount of interest deemed transferred to Y and retransferred to B equals \$11,000. Because of the employment relationship between Y and B, this retransferred amount is treated as compensation paid by Y to B.

(i) [Reserved]

(j) Split-dollar loans that provide for contingent payments—(1) In general. Except as provided in paragraph (j)(2) of this section, this paragraph (j) provides rules for a split-dollar loan that provides for one or more contingent payments. This paragraph (j), rather than §1.1275-4, applies to split-dollar loans that provide for one or more contingent payments.

(2) Exceptions—(i) Certain contingencies. For purposes of this section, a split-dollar loan does not provide for contingent payments merely because—

(A) The loan provides for options described in paragraph (e)(4)(iii)(B) of this section (for example, certain call options, put options, and options to extend); or

(B) The loan is described in paragraph (e)(5) of this section (relating to certain split-dollar term loans, such as a split-dollar term loan payable not later than the death of an individual).

(ii) Insolvency and default. For purposes of this section, a payment is not contingent merely because of the possibility of impairment by insolvency, default, or similar circumstances. However, if any payment on a split-dollar loan is nonrecourse to

the borrower, the payment is a contingent payment for purposes of this paragraph (j) unless the parties to the arrangement make the written representation provided for in paragraph (d)(2) of this section.

(iii) Remote and incidental contingencies. For purposes of this section, a payment is not a contingent payment merely because of a contingency that, as of the date the split-dollar loan is made, is either remote or incidental (within the meaning of §1.1275-2(h)).

(iv) Exceptions for certain split-dollar loans. This paragraph (j) does not apply to a split-dollar loan described in §1.1272-1(d) (certain debt instruments that provide for a fixed yield) or a split-dollar loan described in paragraph (g) of this section (relating to split-dollar loans providing for certain variable rates of interest).

(3) Contingent split-dollar method—(i) In general. If a split-dollar loan provides for one or more contingent payments, then the parties account for the loan under the contingent split-dollar method. In general, except as provided in this paragraph (j), this method is the same as the noncontingent bond method described in §1.1275-4(b).

(ii) Projected payment schedule—(A) Determination of schedule. No comparable yield is required to be determined. The projected payment schedule for the loan includes all noncontingent payments and a projected payment for each contingent payment. The projected payment for a contingent payment is the lowest possible value of the payment. The projected payment schedule, however, must produce a yield that is not less than zero. If the projected payment schedule produces a negative yield, the schedule must be reasonably adjusted to produce a yield of zero.

(B) Split-dollar term loans payable upon the death of an individual. If a split-dollar term loan described in paragraph (e)(5)(ii)(A) or (v)(A)(1) of this section provides for one or more contingent payments, the projected payment schedule is determined based on the term of the loan as determined under paragraph (e)(5)(ii)(C) or (v)(B)(2) of this section, whichever is applicable.

(C) Certain split-dollar term loans conditioned on the future performance of substantial services by an individual. If a split-dollar term loan described in paragraph (e)(5)(iii)(A)(1) or (v)(A)(2) of this section provides for one or more contingent payments, the projected payment schedule is determined based on the term of the loan as determined under paragraph (e)(5)(iii)(C) or (v)(B)(2) of this section, whichever is applicable.

(D) Demand loans. If a split-dollar demand loan provides for one or more contingent payments, the projected payment schedule is determined based on a reasonable assumption as to when the lender will demand repayment.

(E) Borrower/lender consistency. Contrary to §1.1275-4(b)(4)(iv), the lender rather than the borrower is required to determine the projected payment schedule and to provide the schedule to the borrower and to any indirect participant as described in paragraph (e)(2) of this section. The lender's projected payment schedule is used by the lender, the borrower, and any indirect participant to compute interest accruals and adjustments.

(iii) Negative adjustments. If the issuer of a split-dollar loan is not allowed to deduct interest or OID (for example, because of section 163(h) or 264), then the issuer is not required to include in income any negative adjustment carryforward determined under §1.1275-4(b)(6)(iii)(C) on the loan, except to the extent that at maturity the total payments made over the life of the loan are less than the issue price of the loan.

(4) Application of section 7872—(i) Determination of below-market status. The yield based on the projected payment schedule determined under paragraph (j)(3) of this section is used to determine whether the loan is a below-market split-dollar loan under paragraph (e) of this section.

(ii) Adjustment upon the resolution of a contingent payment. To the extent that interest has accrued under section 7872 on a split-dollar loan and the interest would not have accrued under this paragraph (j) in the absence of section 7872, the lender is not

required to recognize income under §1.1275-4(b) for a positive adjustment and the borrower is not treated as having interest expense for a positive adjustment. To the same extent, there is a reversal of the tax consequences imposed under paragraph (e) of this section for the prior imputed transfer from the lender to the borrower. This reversal is taken into account in determining adjusted gross income.

(5) Examples. The following examples illustrate the rules of this paragraph (j).

For purposes of this paragraph (j)(5), assume that the contingent payments are neither remote nor incidental. The examples are as follows:

Example 1. (i) On January 1, 2010, Employer I and Employee G enter into a split-dollar life insurance arrangement under which G is named as the policy owner. On January 1, 2010, I makes a \$100,000 premium payment. On December 31, 2013, I will be repaid an amount equal to the premium payment plus an amount based on the increase, if any, in the price of a specified commodity for the period the loan is outstanding. The premium payment is a split-dollar term loan. Repayment of both the premium payment and the interest due thereon is recourse to G. Assume that the appropriate AFR for this loan, based on annual compounding, is 7 percent. Both I and G use the calendar year as their taxable years.

(ii) Under this paragraph (j), the split-dollar loan between I and G provides for a contingent payment. Therefore, the loan is subject to the contingent split-dollar method. Under this method, the projected payment schedule for the loan provides for a noncontingent payment of \$100,000 and a projected payment of \$0 for the contingent payment (because it is the lowest possible value of the payment) on December 31, 2013.

(iii) Based on the projected payment schedule and a discount rate of 7 percent, compounded annually (the appropriate AFR), the present value of the payments under the loan is \$76,289.52. Under paragraphs (e)(4) and (j)(4)(i) of this section, the loan does not provide for sufficient interest because the loan's imputed loan amount of \$76,289.52 (the present value of the payments) is less than the amount loaned of \$100,000. Therefore, the loan is a below-market split-dollar loan and the loan is recharacterized as consisting of two portions: an imputed loan amount of \$76,289.52 and an imputed transfer of \$23,710.48 (amount loaned of \$100,000 minus the imputed loan amount of \$76,289.52).

(iv) In accordance with section 7872(b)(1) and paragraph (e)(4)(iv) of this section, on the date the loan is made, I is treated as transferring to G \$23,710.48 (the imputed transfer) as compensation. In addition, I must take into account as OID an amount equal to the imputed transfer. See §1.1272-1 for the treatment of OID.

Example 2. (i) Assume, in addition to the facts in **Example 1**, that on December 31, 2013, **T** receives \$115,000 (its premium payment of \$100,000 plus \$15,000).

(ii) Under the contingent split-dollar method, when the loan is repaid, there is a \$15,000 positive adjustment (\$15,000 actual payment minus \$0 projected payment). Under paragraph (j)(4) of this section, because **T** accrued imputed interest under section 7872 on this split-dollar loan to **G** and this interest would not have accrued in the absence of section 7872, **T** is not required to include the positive adjustment in income, and **G** is not treated as having interest expense for the positive adjustment. To the same extent, **T** must include in income, and **G** is entitled to deduct, \$15,000 to reverse their respective prior tax consequences imposed under paragraph (e) of this section (**T**'s prior deduction for imputed compensation deemed paid to **G** and **G**'s prior inclusion of this amount). **G** takes the reversal into account in determining adjusted gross income. That is, the \$15,000 is an "above-the-line" deduction, whether or not **G** itemizes deductions.

Example 3. (i) Assume the same facts as in **Example 2**, except that on December 31, 2013, **T** receives \$127,000 (its premium payment of \$100,000 plus \$27,000).

(ii) Under the contingent split-dollar method, when the loan is repaid, there is a \$27,000 positive adjustment (\$27,000 actual payment minus \$0 projected payment). Under paragraph (j)(4) of this section, because **T** accrued imputed interest of \$23,710.48 under section 7872 on this split-dollar loan to **G** and this interest would not have accrued in the absence of section 7872, **T** is not required to include \$23,710.48 of the positive adjustment in income, and **G** is not treated as having interest expense for the positive adjustment. To the same extent, in 2013, **T** must include in income, and **G** is entitled to deduct, \$23,710.48 to reverse their respective prior tax consequences imposed under paragraph (e) of this section (**T**'s prior deduction for imputed compensation deemed paid to **G** and **G**'s prior inclusion of this amount). **G** and **T** take these reversals into account in determining adjusted gross income. Under the contingent split-dollar method, **T** must include in income \$3,289.52 upon resolution of the contingency (\$27,000 positive adjustment minus \$23,710.48).

(k) **Payment ordering rule.** For purposes of this section, a payment made by the borrower pursuant to a split-dollar life insurance arrangement is applied to all direct and indirect split-dollar loans in the following order—

(1) A payment of interest to the extent of accrued but unpaid interest (including any OID) on all outstanding split-dollar loans in the order the interest accrued;

(2) A payment of principal on the outstanding split-dollar loans in the order in which the loans were made;

(3) A payment of amounts previously paid by a non-owner pursuant to a split-dollar life insurance arrangement that were not reasonably expected to be repaid by the owner; and

(4) Any other payment with respect to a split-dollar life insurance arrangement, other than a payment taken into account under paragraphs (k)(1), (2), and (3) of this section.

(l) [Reserved]

(m) Repayments received by a lender. Any amount received by a lender under a life insurance contract that is part of a split-dollar life insurance arrangement is treated as though the amount had been paid to the borrower and then paid by the borrower to the lender. Any amount treated as received by the borrower under this paragraph (m) is subject to other provisions of the Internal Revenue Code as applicable (for example, sections 72 and 101(a)). The lender must take the amount into account as a payment received with respect to a split-dollar loan, in accordance with paragraph (k) of this section. No amount received by a lender with respect to a split-dollar loan is treated as an amount received by reason of the death of the insured.

(n) Effective date—(1) General rule. This section applies to any split-dollar life insurance arrangement entered into after the date the final regulations are published in the **Federal Register**.

(2) Early reliance. Taxpayers may rely on this section for the treatment of any split-dollar life insurance arrangement entered into on or before the date described in paragraph (n)(1) of this section, provided that all taxpayers who are parties to a split-dollar loan described in paragraph (b)(1) of this section treat the arrangement consistently under this section.

(3) Modified arrangements treated as new arrangements. An arrangement entered into on or before the date set forth in paragraph (n)(1) of this section that is

materially modified after the date set forth in paragraph (n)(1) of this section is treated as a new arrangement entered into on the date of the modification.

PART 31—EMPLOYMENT TAXES AND COLLECTION OF INCOME TAX AT SOURCE

Par. 10. The authority citation for part 31 continues to read in part as follows:

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

Par. 11. In §31.3121(a)-1, paragraph (k) is added to read as follows:

§31.3121(a)-1 Wages.

* * * * *

(k) **Split-dollar life insurance arrangements.** Except as otherwise provided under section 3121(v), see §1.61-22 of this chapter for rules relating to the treatment of split-dollar life insurance arrangements.

Par. 12. In §31.3231(e)-1, paragraph (a)(6) is added to read as follows:

§31.3231(e)-1 Compensation.

(a) * * *

(6) **Split-dollar life insurance arrangements.** See §1.61-22 of this chapter for rules relating to the treatment of split-dollar life insurance arrangements.

* * * * *

Par. 13. In §31.3306(b)-1, paragraph (l) is added to read as follows:

§31.3306(b)-1 Wages.

* * * * *

(l) **Split-dollar life insurance arrangements.** Except as otherwise provided under section 3306(r), see §1.61-22 of this chapter for rules relating to the treatment of split-dollar life insurance arrangements.

Par. 14. In §31.3401(a)-1, paragraph (b)(15) is added to read as follows:

§31.3401(a)-1 Wages.

(b) ***

(15) Split-dollar life insurance arrangements. See §1.61-22 of this chapter for rules relating to the treatment of split-dollar life insurance arrangements.

David A. Mader,
Acting Deputy Commissioner of Internal Revenue.

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.
July 8, 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 \$18,000 million of publicly held 4-week Treasury bills maturing July 11, 2002, and to raise new cash of approximately \$2,000 million.

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

The Federal Reserve System holds \$11,024 million of the Treasury bills maturing on July 11, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders in this auction up to the balance of the amount not awarded in today's 13-week and 26-week Treasury bill auctions. Amounts awarded to SOMA will be in addition to the offering amount.

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

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

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

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

oOo

Attachment

PO-3231

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

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED JULY 11, 2002

July 8, 2002

Offering Amount\$20,000 million
Public Offering\$20,000 million
NLP Exclusion Amount\$ 9,600 million

Description of Offering:

Term and type of security28-day bill
CUSIP number912795 KV 2
Auction dateJuly 9, 2002
Issue dateJuly 11, 2002
Maturity dateAugust 8, 2002
Original issue dateFebruary 7, 2002
Currently outstanding\$39,187 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 non-competitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed \$1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the \$1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.

Competitive bids:

- (1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 4.215%.
- (2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$1 billion or greater.
- (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

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.
July 8, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 10-YEAR INFLATION-INDEXED NOTES

The Treasury will auction \$9,000 million of 10-year inflation-indexed notes to refund the outstanding adjusted amount of \$17,870 million of publicly held notes maturing July 15, 2002, and to pay down about \$8,870 million.

In addition to the public holdings, Federal Reserve Banks hold the outstanding adjusted amount of \$1,010 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.

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

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

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

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

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Attachment

PO-3232

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24-hour fax line at (202) 622-2040

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

July 8, 2002

Offering Amount \$9,000 million
Public Offering \$9,000 million

Description of Offering:

Term and type of security 10-year inflation-indexed notes
Series C-2012
CUSIP number 912828 AF 7
Auction date July 10, 2002
Issue date July 15, 2002
Dated date July 15, 2002
Maturity date July 15, 2012
Interest rate Determined based on the highest
accepted competitive bid
Real yield Determined at auction
Interest payment dates January 15 and July 15
Minimum bid amount and multiples \$1,000
Accrued interest None
Premium or discount Determined at auction

STRIPS Information:

Minimum amount required \$1,000
Corpus CUSIP number 912820 HC 4
Due date(s) and CUSIP number(s)
for additional TIIN(s) July 15, 2012 - - 912833 YW 4

Submission of Bids:

Noncompetitive bids: Accepted in full up to \$5 million at the highest accepted yield.

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

Competitive bids:

- (1) Must be expressed as a real yield with three decimals, e.g., 3.123%.
- (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is \$2 billion or greater.
- (3) Net long position must be determined as of one half-hour prior to the closing time 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.

Indexing Information:

CPI Base Reference Period 1982-1984
Ref CPI 07/15/2002 179.80000
Index Ratio 07/15/2002 1.00000

PUBLIC DEBT NEWS

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



FOR RELEASE AT 3:00 PM
July 5, 2002

Contact: Peter Hollenbach
(202) 691-3502

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

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

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	\$2,094,259,664
Held in Unstripped Form	\$1,925,154,338
Held in Stripped Form	\$169,105,326
Reconstituted in June	\$14,487,009

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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www.publicdebt.treas.gov

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

Loan Description	Corpus STRIP CUSIP	Maturity Date	Amount Outstanding in Thousands			Reconstituted This Month		
			Total Outstanding	Portion Held in Unstripped Form	Portion Held in Stripped Form			
Treasury Notes:								
CUSIP:	Series:	Interest Rate:						
912827 3C4	K	6	912820 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	19,137,958	4,721,057	28,800
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	26,497,892	96,000	0
3Q3	P	5-3/4	CH8	11/30/02	12,120,580	11,736,380	384,200	8,800
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	1,600
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	13,090,240	10,400	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	21,770,735	1,791,956	237,824
3Z3	D	5-1/2	CS4	02/28/03	13,670,354	13,623,154	47,200	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	14,139,292	33,600	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	12,537,248	36,000	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	13,068,643	63,600	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	13,086,779	40,000	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	25,564,188	2,446,840	5,200
4N9	J	5-1/4	DE4	08/15/03	19,852,263	19,783,263	69,000	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	17,330,265	1,295,520	103,200
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	12,138,717	816,360	5,400
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	13,446,170	994,202	32,100
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	33,297,395	33,297,395	0	0
912827 Q88	C	7-1/4	BK2	08/15/04	13,346,467	11,287,067	2,059,400	22,200
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	14,365,160	8,600	0
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	13,206,339	628,415	13,860
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	28,417,770	144,600	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	14,816,720	393,200	16,800
6N7	F	5-3/4	FX0	11/15/05	28,062,797	27,702,797	360,000	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	14,985,235	1,030,240	13,200
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	22,634,446	106,000	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	34,796,973	583,156	66,000
2J0	B	6-1/4	BW6	02/15/07	13,103,678	12,393,046	710,632	2,016
2U5	C	6-5/8	BX4	05/15/07	13,958,186	12,677,310	1,280,876	658,800
912828 AC4	E	4-3/8	GZ4	05/15/07	24,351,431	24,351,431	0	0
912827 3E0	D	6-1/8	CA3	08/15/07	25,636,803	24,060,803	1,576,000	7,600
3X8	B	5-1/2	CQ8	02/15/08	13,583,412	13,557,112	26,300	400
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	24,972,525	110,600	0
5G3	B	5-1/2	DV6	05/15/09	14,794,790	14,737,190	57,600	0
5N8	C	6	EA1	08/15/09	27,399,894	26,891,194	508,700	26,000
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	23,429,569	6,760	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	24,779,838	24,778,838	1,000	0
Total Treasury Notes.....					1,446,887,685	1,423,294,191	23,593,494	1,249,800
Grand Total.....					2,094,259,664	1,925,154,338	169,105,326	14,487,009

TABLE V - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, JUNE 30, 2008

Fund Description	CUSIP	Maturity Date	Amount Outstanding in Thousands			Reconstituted This Month		
			Total Outstanding	Portion Held in Unstripped Form	Portion Held in Stripped Form			
Treasury Bonds								
CUSIP	Interest Rate							
912810 QM1	11-5/8	912803 AB9	11/15/04	8,301,806	4,531,807	3,769,999	235,200	
QO8	12	AD5	05/15/05	4,260,758	1,891,305	2,369,453	0	
QO9	10-3/4	AG8	08/15/05	9,269,713	6,093,213	3,176,500	130,600	
QO9	9-3/8	AJ2	02/15/06	4,755,916	4,324,629	431,287	6,592	
QNS	11-3/4	912800 AA7	11/15/14	5,015,284	1,916,100	3,099,184	95,800	
QO9	11-1/4	912803 AA1	02/15/15	10,520,299	9,250,970	1,269,329	525,920	
QO4	10-5/8	AC7	08/15/15	4,023,916	3,405,210	618,706	523,520	
QO7	9-7/8	AE3	11/15/15	5,584,859	3,432,163	2,152,696	214,400	
QO7	9-1/4	AF0	02/15/16	5,431,754	5,274,648	157,106	13,600	
QO9	7-1/4	AH6	05/15/16	18,823,551	18,647,518	176,033	167,200	
QNS	7-1/2	AK9	11/15/16	18,787,448	17,600,428	1,187,020	555,880	
QY1	8-3/4	AL7	05/15/17	15,559,169	7,683,653	7,875,516	981,160	
QZ9	8-7/8	AM5	03/15/17	10,968,358	7,906,113	3,062,245	1,128,558	
EA2	9-1/8	AN3	05/15/18	6,717,439	2,888,439	3,829,000	640,600	
F00	9	AP8	11/15/18	7,174,470	2,762,347	4,412,123	248,800	
FCA	8-7/8	AQ6	02/15/19	13,090,498	7,177,871	5,912,627	785,200	
EO6	8-1/8	AR4	08/15/19	18,940,932	17,969,891	971,041	305,600	
FE4	8-1/2	AS2	02/15/20	9,476,268	7,087,308	2,388,960	150,400	
EP1	8-3/4	AT0	05/15/20	7,582,183	2,979,878	4,602,305	197,280	
EG9	8-3/4	AU7	08/15/20	17,059,306	6,738,956	10,320,350	473,780	
FH7	7-7/8	AV5	02/15/21	10,075,573	8,948,293	1,127,280	569,200	
IJ3	8-1/8	AW3	05/15/21	10,066,788	4,088,845	5,977,943	336,160	
LE9	8-1/8	AX1	08/15/21	9,506,382	6,925,546	2,580,836	359,160	
FL8	8	AY9	11/15/21	30,632,194	15,375,038	15,257,156	1,568,625	
EM6	7-1/4	AZ6	08/15/22	10,127,790	8,970,991	1,156,799	122,400	
EN4	7-5/8	BA0	11/15/22	7,423,626	2,967,431	4,456,195	192,000	
EP9	7-1/3	BB8	02/15/23	15,782,061	10,422,949	5,359,112	459,488	
EO7	6-1/4	BC6	08/15/23	22,659,044	19,383,204	3,275,840	207,744	
FS3	7-1/2	BD4	11/15/24	9,604,162	3,856,322	5,747,840	446,840	
FT1	7-5/8	BE2	02/15/25	9,509,170	4,160,569	5,348,601	190,800	
EV9	6-7/8	BF9	08/15/25	11,187,207	7,857,405	3,329,802	115,200	
EW4	6	BG7	02/15/26	12,837,916	11,119,857	1,718,059	71,700	
EX2	6-3/4	BH5	08/15/26	8,810,418	6,235,800	2,574,618	150,200	
EY0	6-1/2	BJ1	11/15/26	10,860,177	5,036,165	5,824,012	111,138	
EZ7	6-5/8	BK8	02/15/27	9,521,971	6,433,715	3,088,255	188,200	
FA1	6-3/8	BL6	08/15/27	9,195,756	7,045,956	2,150,800	158,400	
FB9	6-1/8	BM4	11/15/27	22,021,339	11,350,839	10,670,500	204,600	
FE3	5-1/2	BP7	08/15/28	11,776,201	10,985,601	790,600	50,800	
FF0	5-1/4	BV4	11/15/28	10,947,052	10,169,652	777,400	162,600	
FG8	5-1/4	BW2	02/15/29	11,350,341	10,892,445	457,896	100,000	
FJ2	6-1/8	CG6	08/15/29	11,178,580	10,351,580	827,000	53,600	
FMS	6-1/4	CH4	05/15/30	17,043,162	15,171,674	871,488	38,264	
FP8	5-3/8	CK7	02/15/31	16,427,648	16,318,848	108,800	0	
Total Treasury Bonds				499,889,485	354,631,173	145,258,312	13,237,209	
Treasury Inflation-Indexed Notes								
CUSIP	Series	Interest Rate						
912827 3A8	J	3-5/8	912820 BZ9	07/15/02	18,876,809	18,876,809	0	0
2M3	A	3-3/8	BV8	01/15/07	17,879,624	17,879,624	0	0
3T7	A	3-5/8	CL9	01/15/08	18,706,716	18,595,443	111,273	0
4Y5	A	3-7/8	DN4	01/15/09	17,431,253	17,431,253	0	0
5W5	A	4-1/4	EK9	01/15/10	12,096,223	12,096,223	0	0
6R3	A	3-1/2	GA9	01/15/11	11,362,640	11,362,640	0	0
7J5	A	3-3/8	GT8	01/15/12	6,078,736	6,078,736	0	0
Total Inflation-Indexed Notes				102,432,002	102,320,729	111,273	0	
Treasury Inflation-Indexed Bonds								
CUSIP	Interest Rate							
912810 FD6	3-5/8	912803 BN2	04/15/28	18,653,997	18,648,439	5,557	0	
FH6	3-7/8	CF8	04/15/29	21,320,254	21,183,564	136,690	0	
FQ6	3-3/8	CL5	04/15/32	5,076,241	5,076,241	0	0	
Total Inflation-Indexed Bonds				45,050,492	44,908,245	142,247	0	

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
July 08, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term: 182-Day Bill
Issue Date: July 11, 2002
Maturity Date: January 09, 2003
CUSIP Number: 912795LT6

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

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 62.51%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 29,844,555	\$ 13,818,656
Noncompetitive	1,031,679	1,031,679
FIMA (noncompetitive)	150,000	150,000
SUBTOTAL	31,026,234	15,000,335 2/
Federal Reserve	5,324,181	5,324,181
TOTAL	\$ 36,350,415	\$ 20,324,516

Median rate 1.730%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.670%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 31,026,234 / 15,000,335 = 2.07

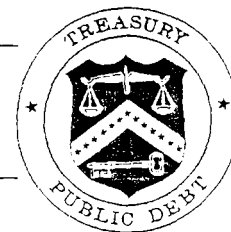
1/ Equivalent coupon-issue yield.

2/ Awards to TREASURY DIRECT = \$798,325,000

<http://www.publicdebt.treas.gov>

PO-3234

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
July 08, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term: 91-Day Bill
Issue Date: July 11, 2002
Maturity Date: October 10, 2002
CUSIP Number: 912795LE9

High Rate: 1.695% Investment Rate 1/: 1.724% Price: 99.572

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 72.65%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 30,857,693	\$ 15,437,879
Noncompetitive	11,412,220	11,412,220
FIMA (non-competitive)	150,000	150,000
SUBTOTAL	32,419,921	17,000,107 2/
Federal Reserve	5,603,220	5,603,220
TOTAL	\$ 38,023,141	\$ 22,603,327

Median rate 1.675%: 50% of the amount of accepted competitive tenders is tendered at or below that rate. Low rate 1.655%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

d-to-Cover Ratio = $32,419,921 / 17,000,107 = 1.91$

Equivalent coupon-issue yield.

Awards to TREASURY DIRECT = \$1,158,817,000

<http://www.publicdebt.treas.gov>



FOR IMMEDIATE RELEASE
July 8, 2002

Contact: Tasia Scolinos
(202) 622-1996

U.S. Lifts Financial Advisories on Israel, Lebanon and St. Kitts & Nevis

In June of 2000 the Financial Action Task Force (FATF) included Israel, Lebanon, and St. Kitts & Nevis on its list of Non-Cooperative Countries and Territories (NCCT list). (A complete list of NCCT countries can be found at www.fatf-gafi.org) The U.S. responded to FATF's action by issuing FinCEN Advisories in July 2000 recommending that U.S. financial institutions give enhanced scrutiny to transactions involving these jurisdictions. Since that time these jurisdictions have made impressive progress in enacting comprehensive anti-money laundering legislation and have taken significant steps to implement their new anti-money laundering regimes. In response to this progress, FATF removed these three countries from the NCCT list last month. Today, FinCEN notified U.S. financial institutions that, based on the improvements in their anti-money laundering regimes and on the FATF action, the U.S. is withdrawing the FinCEN Advisories on Israel, Lebanon, and St. Kitts & Nevis.

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PO-3236





For Immediate Release
Tuesday, June 27, 2002

Contact: Tony Fratto
(202) 622-2960

**Treasury Official to Visit Central American Nations to Discuss
Economic Growth and Development**

John B. Taylor, Treasury Under Secretary for International Affairs, will travel to Honduras, El Salvador and Nicaragua to discuss economic growth and development in these Central American nations. Taylor will depart Washington on Sunday, June 30 and return on Thursday, July 4.

The trip presents an opportunity to observe the unique challenges these nations face as they try to improve standards of living, raise productivity and create economic growth. The visit is well timed as the Administration is working to develop standards for President Bush's Millennium Challenge Account program.

Taylor will visit private businesses, schools, export processing and free trade zones and other development projects. He will also meet with government officials and representatives of non-governmental organizations.

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PO-3237



TREASURY



NEWS

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

For Immediate Release
July 9, 2002

Contact: Rob Nichols
202-622-2910

**TREASURY SECRETARY ANNOUNCES TRIP TO
UKRAINE, KYRGYZSTAN, UZBEKISTAN, AND GEORGIA**

Treasury Secretary Paul O'Neill will travel to Ukraine, Kyrgyzstan, Uzbekistan, and Georgia, July 10-18, 2002.

During high-level discussions with a wide array of senior government officials and private sector political, financial and economic experts, Secretary O'Neill will focus on how to accelerate private sector investment, growth, and job creation to raise living standards in this region. He will examine, first-hand, bilateral and multilateral assistance efforts, and will emphasize the importance of measuring results to ensure that we direct assistance where it is most effective. He will pay particular emphasis on efforts to provide financing to new small and medium-sized businesses. He will highlight the role of regional integration and trade in spurring growth, both within the region as well as with large markets to the East and West.

Following on the heels of his trip to Africa, Secretary O'Neill will continue to share his views on and learn more about development and Millennium Challenge Account issues - leadership and governance, market-reforms, and health and education - and how they apply to governments, businesses, and people in these four nations.

Further, Secretary O'Neill will continue to build and deepen our relations with our allies in this region in the economic front on the war against terrorism. Economic development and strong democratic institutions are strong safeguards to prevent extremism from taking root.

This is Secretary O'Neill's first visit to the region.

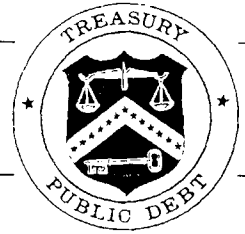
Undersecretary for International Affairs John Taylor will accompany Secretary O'Neill.

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PO-3238



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
July 09, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term: 28-Day Bill
Issue Date: July 11, 2002
Maturity Date: August 08, 2002
CUSIP Number: 912795KV2

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 45.67%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 49,036,050	\$ 19,964,640
Noncompetitive	36,720	36,720
FIMA (noncompetitive)	0	0
SUBTOTAL	49,072,770	20,001,360
Federal Reserve	96,570	96,570
TOTAL	\$ 49,169,340	\$ 20,097,930

Median rate 1.690%: 50% of the amount of accepted competitive tenders as tendered at or below that rate. Low rate 1.670%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

id-to-Cover Ratio = $49,072,770 / 20,001,360 = 2.45$

/ Equivalent coupon-issue yield.

<http://www.publicdebt.treas.gov>

TREASURY



NEWS

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

For Immediate Release
July 10, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY, IRS RELEASE 2002-2003 PRIORITY GUIDANCE PLAN

The Treasury Department and the Internal Revenue Service today released the 2002-2003 Priorities for Tax Regulations and Other Administrative Guidance. The Priority Guidance Plan identifies the tax issues that Treasury and IRS will address through regulations, rulings, notices and other forms of guidance during the year ending June 30, 2003. This plan reflects the combined input of taxpayers, practitioners and industry groups.

Attached is a joint statement from Pam Olson, the Treasury Department's Acting Assistant Secretary for Tax Policy, Charles O. Rossotti, Commissioner of the Internal Revenue Service, and B. John Williams, Jr., Chief Counsel of the Internal Revenue Service, regarding the 2002-2003 Priority Guidance Plan.

The 2002-2003 Priority Guidance Plan is attached.

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PO-3240





DEPARTMENT OF THE TREASURY
Washington, DC 20220

July 10, 2002

**Department of the Treasury
2002-2003 Priorities for
Tax Regulations and Other
Administrative Guidance**

Joint Statement by:

**Pamela F. Olson
Acting Assistant Secretary (Tax Policy)
U.S. Department of the Treasury**

**Charles O. Rossotti
Commissioner
Internal Revenue Service**

**B. John Williams, Jr.
Chief Counsel
Internal Revenue Service**

We are pleased to announce the release of the 2002 - 2003 Priority Guidance Plan. This plan reflects our continuing commitment to serve the public through the published guidance process.

The development of the 2002 - 2003 Priority Guidance Plan was a cooperative effort. In Notice 2002-22, we solicited suggestions from all interested parties, including taxpayers, tax practitioners, and industry groups. We believe that the cornerstone of the effort to provide appropriate and meaningful guidance is direct and continuous communication between the government and taxpayers. This process results in a more comprehensive plan that is more responsive to taxpayer needs.

We are committed to increased and more timely published guidance. The 2002 - 2003 Priority Guidance Plan contains 250 projects to be completed over a twelve-month period, from July 2002 through June 2003. In addition to the items on this year's plan, the Appendix lists the more routine guidance that is published each year.

This year's plan also includes seven items under the Industry Issue Resolution Program. These items are described in a separate IRS News Release (IR-2002-89). The Industry Issue Resolution Program was introduced

as a pilot program in December 2000 (see Notice 2000-65). The success of the program prompted the IRS to make it permanent in Notice 2002-20. The Industry Issue Resolution Program demonstrates our continuing efforts to work with taxpayers on a cooperative basis to resolve frequently disputed tax issues.

The plan should not be viewed as an exclusive list of guidance that may be published in this plan year or of matters that may ultimately result in the publication of guidance. As in previous years, other areas currently under study ultimately may result in published guidance. Moreover, the Internal Revenue Service and Treasury's Office of Tax Policy will respond to developments that may arise throughout the plan year.

Unlike previous years, we intend to update and republish the Priority Guidance Plan quarterly to reflect additional guidance that we intend to publish in this plan year. For example, we intend to publish a number of revenue rulings and revenue procedures that currently are not reflected in this year's plan, but subsequently will be added. This allows us additional flexibility throughout the plan year to take comments from taxpayers and tax practitioners relating to additional projects, and to respond to developments that may arise during the plan year.

The published guidance process can be fully successful only if we have the benefit of the insight and experience of the taxpayers and practitioners who must apply the rules. Consequently, we invite the public to continue to provide us with their comments and suggestions as we write guidance throughout the plan year.

Additional copies of the 2002 - 2003 Priority Guidance Plan can be obtained from the IRS website on the Internet (www.irs.gov) under Tax Professionals, IRS Resources, Administrative Information and Resources, 2002 - 2003 Priority Guidance Plan, or by calling Treasury's Office of Public Affairs at (202) 622-2960.

**OFFICE OF TAX POLICY
AND
INTERNAL REVENUE SERVICE**

2002 - 2003 PRIORITY GUIDANCE PLAN

CONSOLIDATED RETURNS

1. Final regulations containing conforming amendments to section 446 regulations to reflect changes in the consolidated return regulations.
2. Guidance under section 1502 regarding transactions involving obligations of consolidated group members.
3. Guidance under section 1502 and 337(d) regarding losses on member stock.
4. Guidance regarding continuation of a consolidated group in certain transactions.

CORPORATIONS AND THEIR SHAREHOLDERS

1. Guidance regarding redemptions of corporate stock.
2. Final regulations regarding conversions of C corporations to RIC or REIT status.
3. Final regulations regarding taxable asset acquisitions and dispositions of insurance companies.
4. Guidance regarding the acquisition of businesses having certain nonqualified settlement funds.
5. Guidance regarding the availability of a section 338(h)(10) election in multi-step transactions.
6. Guidance regarding requests for rulings under section 355.
7. Guidance regarding the active trade or business requirement under section 355(b).
8. Guidance under section 355(e).
9. Guidance regarding the assumption of liabilities in certain transfers of property.
10. Guidance regarding mergers with disregarded entities.

11. Guidance under section 368 regarding mergers with or into a foreign corporation.
12. Guidance under section 368 regarding reorganizations involving non-stock entities.
13. Guidance regarding restricted stock in reorganizations.
14. Guidance regarding the application of section 368(a)(1)(D) when assets are transferred by the transferee to a subsidiary.
15. Guidance under section 368(a)(1)(F).
16. Guidance regarding attribute reduction for cancellation of indebtedness.
17. Guidance under section 1374 regarding liquidations of C corporations.
18. Guidance regarding mergers of insolvent corporations.

EMPLOYEE BENEFITS

A. Retirement Benefits

1. Guidance under section 72(t) regarding substantially equal periodic payments.
2. Final regulations relating to plan loans under section 72(p).
3. Final regulations under section 401(a)(9) on required minimum distributions.
4. Guidance under section 401(a)(17) regarding whether the increase in the allowable compensation limit enacted by EGTRRA may be applied to former employees.
5. Guidance under section 401(a)(28) regarding valuation timeliness and procedural requirements.
6. Guidance relating to cash or deferred arrangements under section 401(k) and relating to section 401(m).
7. Guidance relating to annuity plans under section 403(b).
8. Final regulations relating to the calculation of net income attributable to returned or recharacterized IRA contributions.
9. Guidance under section 408(d) regarding how to request the discretionary 60 day rollover period related to disasters.

10. Guidance under section 408(q).
11. Guidance relating to cash balance pension plans.
12. Guidance relating to the application of section 411(d)(6).
13. Guidance on the use of aggregate entry age normal funding method under section 412.
14. Guidance under section 412(c)(9).
15. Guidance relating to the definition of highly compensated employee.
16. Final regulations under section 414(v) on catch up contributions for individuals age 50 or over.
17. Guidance on disclosure to participants regarding their distributions from pension plans.
18. Final regulations relating to the application of the retroactive annuity starting date provisions under section 417(a)(7).
19. Final regulations relating to section 457 plans.
20. Guidance on reporting and withholding for section 457 plans.
21. Guidance under section 1042 regarding statements of purchase of replacement property.
22. Final regulations relating to section 4980F on notice of significant reduction in the rate of future benefit accrual.
23. Revenue procedure amending and restating employee plans compliance resolution system (EPCRS).

B. Executive Compensation, Health Care and Other Benefits, and Employment Taxes

1. Guidance under section 83 and 162 on compensation expense deductions relating to stock options outstanding at the time of a corporate buy-out.
2. Guidance under sections 83 and 451 regarding non-statutory stock option converted to nonqualified deferred compensation.
3. Guidance under sections 83, 451 and 1032 regarding a rabbi trust established by a parent corporation to satisfy the nonqualified deferred compensation obligations of the parent and its subsidiary.

4. Guidance on whether accident and health plan reimbursements for medical expenses incurred before the inception of the plan are excludable from the recipient's gross income under section 105(b).
5. Guidance under section 105(b) on self-insured medical flexible spending arrangements that pay the full amount of the maximum benefit at the beginning of the plan year.
6. Guidance under sections 105(b) and 125 on use of debit cards for flexible spending arrangements.
7. Final regulations on golden parachute rules under section 280G.
8. Final regulations under section 419A(f)(6).
9. Guidance on incentive stock options under section 422.
10. Revision of standards set forth in Rev. Proc. 71-19 regarding nonqualified deferred compensation.
11. Guidance under section 3121 regarding the definition of "salary reduction arrangement".
12. Guidance on the employment tax treatment of bonuses paid to employees on the signing of a collectively bargained agreement.
13. Guidance on FICA and FUTA tax with respect to incentive stock options under section 422 and employee stock purchase plans under section 423.
14. Guidance on the employment taxation and reporting requirements applicable to interests in nonstatutory stock options and deferred compensation transferred to a former spouse incident to a divorce.
15. Guidance regarding application of the Hospital Insurance tax to employees covered under section 3121(b)(7)(F).
16. Guidance under section 3504.
17. Final regulations under section 9801 relating to HIPAA.

EXCISE TAXES

1. Guidance under sections 4041 and 4081 regarding biodiesel.
2. Final regulations under section 4051 regarding the definition of highway vehicle in regulation sections 145.4051 and 48.4061(a)-1.

3. Proposed regulations regarding the definition of highway tractors subject to the heavy truck tax under section 4051.
4. Final regulations under section 4081 relating to the revision of the definition of diesel fuel.
5. Guidance under section 4221 regarding fuel used in foreign trade.
6. Guidance under section 4261(e)(3) regarding the purchase of the right to provide mileage awards.
7. Proposed regulations under section 6416(a)(4) regarding claims for gasoline tax.

EXEMPT ORGANIZATIONS

1. Guidance on joint ventures between exempt organizations and for-profit companies.
2. Guidance on section 501(c)(4) organizations.
3. Guidance under section 501(c)(12).
4. Guidance on private foundation terminations.
5. Guidance on the application of existing UBIT rules to the Internet activities of exempt organizations.
6. Regulations under section 529 regarding qualified tuition programs.
7. Guidance on split interest trusts.

FINANCIAL INSTITUTIONS AND PRODUCTS

1. Guidance regarding accruals on sales of REMIC regular interests between payment dates.
2. Regulations under section 263(g).
3. Guidance under section 265(a)(2).
4. Guidance on derivative contracts.
5. Final regulations under section 475.
6. Guidance addressing valuation under section 475.

7. Guidance on the treatment of certain obligations backed by Treasury securities for RIC diversification purposes.
8. Guidance on the treatment under section 856(c)(4)(A) of certain loans secured by interests in real estate partnerships.
9. Guidance on customary services performed by REITs.
10. Guidance addressing the treatment of inducement fees for REMIC residual interests.
11. Guidance under section 7872.

GENERAL TAX ISSUES

1. Proposed regulations under section 21 regarding the credit for household and dependent care expenses.
2. Guidance under section 23 regarding the credit for adoption expenses.
3. Final regulations under section 25A regarding the Hope Scholarship and Lifetime Learning credits.
4. Guidance under section 32 regarding temporary absences and the abode requirement.
5. Other guidance under section 32.
6. Guidance under section 41 regarding the research credit.
7. Regulations under section 41 regarding the computation of the research tax credit in a controlled group.
8. Proposed regulations under sections 1.42-6 and 1.42-14 to conform to statutory changes.
9. Guidance under section 42 regarding the Rent Supplemental Payment Program/Rental Assistance Payment Program.
10. Guidance under section 43 regarding enhanced oil recovery.
11. Guidance under section 45D regarding the new markets tax credit.
12. Proposed regulations under sections 46 and 167 relating to normalization.
13. Guidance under section 61 regarding trusts for minors.

14. Final regulations under section 121 regarding the exclusion of gain on the sale of a principal residence.
15. Guidance under section 126 regarding the Soil and Water Conservation Program.
16. Guidance under section 126 regarding the Agricultural Management Assistance Program.
17. Guidance under section 126 regarding the Conservation Reserve Program.
18. Guidance under section 162 regarding substantiation of the amount of expenses for meals furnished by child care providers.
19. Guidance under sections 162 and 274 regarding the deduction for travel expenses while away from home.
20. Guidance under section 165 regarding the deduction for worthless stock of subsidiaries for which an election under the check-the-box regulations has been made.
21. Final regulations under section 167 regarding the income forecast method.
22. Proposed regulations under section 168 relating to like-kind exchanges.
23. Guidance under section 168 regarding depreciation of property for which the use changes.
24. Guidance under sections 168 and 1400L regarding special depreciation allowance.
25. Guidance under section 168 regarding the depreciation of cable television systems.
26. Guidance under section 168 regarding the recovery period on depreciation of gasoline pump canopies.
27. Guidance under section 170 regarding the deduction for vehicles donated to charities.
28. Final regulations under section 221 regarding interest on education loans.
29. Guidance under section 280F regarding vans and light trucks.
30. Proposed regulations under section 465 regarding interest other than as a creditor.

31. Final regulations under section 469 regarding self-charged interest.
32. Guidance under section 1031 regarding ongoing multiple exchanges of property.
33. Final regulations under section 1041 regarding when transfers of property to third parties are made "on behalf of" the nontransferring spouse.
34. Guidance on corporations chartered under Indian tribal law.

GIFTS, ESTATES AND TRUSTS

1. Final regulations under section 643 regarding state law definition of income for trust purposes.
2. Final regulations under section 645 regarding an election by certain revocable trusts to be treated as part of the associated estate.
3. Update revenue procedures under section 664 containing sample charitable remainder annuity trust provisions.
4. Update revenue procedures under section 664 containing sample charitable remainder unitrust provisions.
5. Guidance under section 664 regarding capital gains for charitable remainder trusts.
6. Final regulations under section 671 regarding reporting requirements for widely held fixed investment trusts.
7. Guidance under sections 671 and 2036 regarding tax reimbursement provisions in grantor trusts.
8. Guidance under sections 2033 and 2039 regarding New York City and New York State Accidental Death Benefits
9. Final regulations under sections 2055 and 2522 based on the Boeshore decision.
10. Regulations under section 2519 regarding net gifts.
11. Guidance under section 2642 regarding issues relating to the generation-skipping transfer tax exemption.
12. Guidance under section 2702 providing model qualified personal residence trust provisions.

INSURANCE COMPANIES AND PRODUCTS

1. Guidance on the treatment of certain captive insurance companies.
2. Final regulations under section 817A.
3. Guidance regarding basis when annuity contracts are divided and exchanged under section 1035.
4. Guidance regarding split-dollar life insurance.

INTERNATIONAL ISSUES**A. Subpart F/Deferral**

1. Guidance on previously taxed earnings and profits under section 959.
2. Guidance on PFIC provisions.
3. Final regulations relating to commodities hedging/foreign currency gain or loss under section 954.

B. Inbound Transactions

1. Final regulations under sections 874(a) and 882(c).
2. Guidance under section 1441.
3. Guidance on securities lending.
4. Final regulations relating to ITINs on expedited basis.
5. Regulations relating to TINs under section 1445.
6. Guidance under section 1503(d).
7. Regulations relating to the reporting of bank deposit interest.

C. Outbound Transactions

1. Guidance on international restructurings.
2. Guidance on "extraordinary transactions".

D. Foreign Tax Credits

1. Final regulations under sections 902 and 904.
2. Guidance on change of taxable year and foreign tax credits.
3. Guidance on 10/50 company look-through.

E. Transfer Pricing

1. Regulations relating to stock option compensation under section 482.
2. Guidance on treatment of cross-border services.
3. Guidance on cost sharing under section 482.
4. Guidance on APA process (see Rev. Proc. 96-53).
5. Guidance on global dealing.

F. Sourcing and Expense Allocation

1. Guidance on interest expense apportionment.
2. Guidance relating to the treatment of fringe benefits.
3. Regulations under section 883.
4. Guidance under section 863(d) and (e).

G. Other

1. Guidance on the taxation of foreign insurance companies.
2. Guidance on taxation of individuals in the possessions.
3. Guidance concerning the treatment of currency gain or loss.
4. Proposed regulations under section 1446.

PARTNERSHIPS

1. Proposed regulations under section 460 regarding partnership transactions for long-term contracts.
2. Guidance under section 704(b) regarding capital account book-up.

3. Guidance under section 704(b) regarding the allocation of foreign tax credits.
4. Final regulations under section 705 regarding the determination of basis of partner's interest.
5. Guidance on synthetic tax-exempt bonds.
6. Guidance regarding partnerships options and convertible instruments.
7. Proposed regulations under section 752 regarding the assumption of partnership liabilities.
8. Guidance regarding disregarded entities and collection issues.
9. Final regulations regarding the coordination of sections 755 and 1060.
10. Guidance regarding entity classification and community property owners.
11. Guidance under section 7701 regarding late check-the-box elections.

SUBCHAPTER S

1. Final regulations under section 1361 regarding the time for beneficiary to make a QSST election.
2. Guidance under section 1362 regarding ESOP rollover to IRA.
3. Guidance under section 1362 regarding late S corporation elections.
4. Guidance under section 1367 regarding the basis of S corporation stock held by ESOP.

TAX ACCOUNTING

1. Guidance regarding the treatment of costs incurred for railroad track maintenance.
2. Guidance on deduction and capitalization of costs incurred by utilities to maintain assets used to generate power.
3. Proposed regulations under sections 162 and 263 regarding deduction and capitalization of expenditures.
4. Guidance under sections 162, 165, and 263 on the treatment of preproduction costs of creative property.

5. Revenue ruling under sections 164 and 461 on the accrual of the deduction for franchise tax payments under California law.
6. Revenue procedure under section 442 regarding automatic annual accounting period change procedures for individuals.
7. Revenue procedure under section 446 to clarify procedures applicable to voluntary changes in methods of accounting.
8. Proposed regulations under section 448 regarding the nonaccrual experience method.
9. Guidance under section 451 regarding the treatment of advance payments.
10. Guidance under section 451 regarding the accrual of tax refunds.
11. Guidance under section 451 regarding the accrual of amounts in dispute by vendors and retailers.
12. Guidance under section 461 on the proper treatment of Medicaid rebates paid by pharmaceutical companies.
13. Final regulations under section 468B regarding certain escrow funds.
14. Final regulations under section 471 regarding the unit livestock price method of accounting.
15. Guidance under section 471 regarding the valuation of core inventory under the lower of cost or market method.
16. Guidance under section 1341 regarding claim of right.

TAX ADMINISTRATION

1. Final regulations implementing section 66(c) regarding innocent spouse relief in community property jurisdictions.
2. Final regulations under section 3406 clarifying the counting of notices to payors when multiple notices are received.
3. Modification of Rev. Proc. 97-31 regarding the TIN matching program for federal agencies to expand the scope of reporting agents included.
4. Proposed regulations under section 5891 on structured settlement factoring transactions.
5. Final regulations regarding electronic payee statements.

6. Proposed regulations under section 6011 to remove impediments to electronic filing of certain business returns.
7. Update Rev. Proc. 96-17 to provide the current requirements for completing and submitting Form 8655, Reporting Agent Authorization for Magnetic Tape / Electronic Filers.
8. Guidance under section 6011 regarding the disclosure of certain large transactions.
9. Annual compilation of Tax Shelter Listed Transactions under section 6011.
10. Guidance under section 6111 regarding corporate tax shelter registration.
11. Guidance under section 6112 regarding list of tax shelter investors.
12. Update Rev. Proc. 2000-15 regarding equitable relief under sections 6015(f) and 66(c).
13. Revenue procedure allowing a nonrequesting spouse to file a protest with Appeals regarding an innocent spouse claim under section 6015.
14. Guidance regarding information reporting and backup withholding for purchasing card transactions.
15. Proposed regulations under section 6045 regarding information reporting relating to taxable stock transactions.
16. Final regulations under section 6050S regarding information reporting for qualified tuition and related expenses.
17. Proposed regulations under section 6081 to remove the signature requirement for filing Form 8809.
18. Final regulations under section 6103 regarding nonwritten (oral) consents.
19. Proposed regulations under section 6103 regarding the disclosure of unrelated third party tax information in tax proceedings.
20. Proposed regulations under section 6103 regarding disclosures for investigative purposes.
21. Proposed regulations regarding the ability of a return preparer to furnish a completed copy of an income tax return to the taxpayer using a medium other than paper.
22. Proposed regulations under section 6159 regarding installment agreements.

23. Guidance regarding the use of summary assessment procedures with respect to claimed Black Reparations and similar credits.
24. Regulations under section 6213 regarding math error assessments based on a Form W-2.
25. Proposed regulations under section 6334 regarding seizures of principal residences and certain business assets.
26. Proposed regulations regarding the suspension of the statute of limitations for noncompliance with a designated summons.
27. Proposed regulations under section 6655 regarding estimated tax payments by corporations.
28. Reconsideration of Rev. Rul. 75-191 regarding the failure-to-deposit penalty where employment taxes should have been withheld but were not.
29. Proposed regulations regarding a waiver of information reporting penalties when errors are rectified promptly.
30. Final regulations regarding offers-in-compromise.
31. Proposed regulations imposing a user fee for offers-in-compromise.
32. Revenue Procedure regarding the LMSB Fast Track Program.
33. Guidance necessary to facilitate electronic tax administration.
34. Final regulations under section 7430 regarding qualified offers.
35. Proposed regulations under section 7430 regarding miscellaneous changes made by TRA 97 and RRA 98.
36. Revenue ruling regarding the application of section 7503 with respect to the filing of returns as well as claims for credit or refund.
37. Final regulations under section 7602(c) regarding third party contacts.
38. Proposed regulations regarding third party and John Doe summonses.
39. Final regulations excluding certain low-income taxpayer clinics from the definition of income tax return preparers.
40. Revisions to Circular 230 regarding practice before the IRS.
41. Update Rev. Proc. 87-24 regarding docketed Tax Court cases.

42. Proposed regulations regarding testimony authorizations and requests for IRS information.
43. Guidance under section 301.9100-1 on the extension of time to make elections.
44. Update Statement of Procedural Regulations regarding the Freedom of Information Act.

TAX EXEMPT BONDS

1. Regulations under section 141 regarding allocation and accounting provisions.
2. Regulations under section 141 regarding refundings.
3. Final regulations under section 141 regarding output facilities.
4. Notice under section 141 regarding allocation and accounting rules for output facilities.
5. Final regulations under sections 141 and 148 regarding prepayments.
6. Regulations under section 142 regarding solid waste disposal facilities.
7. Regulations under section 148 regarding brokers' commissions and similar fees.
8. Guidance on procedures for requesting an extension of time to file information returns required by section 149(e).
9. Guidance under section 150 regarding change in use provisions.
10. Guidance on correction alternatives and voluntary compliance for tax-exempt bond provisions.

APPENDIX - Regularly Scheduled Publications

JULY 2002

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288, and 7520.

2. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in July 2002.
3. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.

AUGUST 2002

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288, and 7520.
2. Revenue procedure providing the amounts of unused housing credit carryover allocated to qualified states under section 42(h)(3)(D) for the calendar year.
3. Notice providing the inflation adjustment factor to be used in determining the enhanced oil recovery credit under section 43 for tax years beginning in the calendar year.
4. Notice providing the applicable percentage to be used in determining percentage depleting for marginal properties under section 613A for the calendar year.
5. Revenue ruling setting forth the terminal charge and the standard industry fare level (SIFL) cents-per-mile rates for the second half of 2002 for use in valuing personal flights on employer-provided aircraft.
6. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in August 2002.
7. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.
8. Update Notice 2001-62 to add approved applicants for designated private delivery service status under section 7502(f). Will be published only if any new applicants are approved.

SEPTEMBER 2002

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288, and 7520.

2. Revenue ruling providing the monthly bond factor amounts to be used by taxpayers who dispose of qualified low-income buildings or interests therein during the period July through September, 2002.
3. Revenue ruling under section 6621 regarding the applicable interest rates for overpayments and underpayments of tax for the period October through December, 2002.
4. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in September 2002.
5. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.
6. Revenue procedure under section 62 regarding the deduction and deemed substantiation of federal standard mileage amounts.
7. Announcement on whether the number of Archer MSAs has exceeded the applicable statutory limits.
8. Revenue procedure under section 62 regarding the deduction and deemed substantiation of federal travel per diem amounts.

OCTOBER 2002

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288, and 7520.
2. News release setting forth cost-of-living adjustments effective January 1, 2003, applicable to the dollar limits on benefits under qualified defined benefit pension plans and other provisions affecting certain plans of deferred compensation.
3. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in October 2002.
4. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.
5. Revenue procedure under section 1 and other sections of the Code regarding the inflation adjusted items for 2003.

6. Revenue procedure providing the loss payment patterns and discount factors for the 2002 accident year to be used for computing unpaid losses under section 846.
7. Revenue procedure providing the salvage discount factors for the 2002 accident year to be used for computing discounted estimated salvage recoverable under section 832.
8. Update of Rev. Proc. 2001-53 listing the tax deadlines that may be extended by the Commissioner under section 7508A in the event of a Presidentially-declared disaster or terrorist attack.

NOVEMBER 2002

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288, and 7520.
2. Revenue ruling providing the "base period T-Bill rate" as required by section 995(f)(4).
3. Revenue ruling setting forth covered compensation tables for the 2003 calendar year for determining contributions to defined benefit plans and permitted disparity.
4. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in November 2002.
5. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.
6. Update of Rev. Proc. 2001-52 regarding adequate disclosure for purposes of the section 6662 substantial understatement penalty and the section 6694 preparer penalty.

DECEMBER 2002

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288, and 7520.
2. Revenue ruling providing the monthly bond factor amounts to be used by taxpayers who dispose of qualified low-income buildings or interests therein during the period October through December, 2002.

3. Revenue ruling under section 6621 regarding the applicable interest rates for overpayments and underpayments of tax for the period January through March, 2003.
4. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in December 2002.
5. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.
6. Revenue procedure setting forth, pursuant to section 1397E, the maximum face amount of Qualified Zone Academy Bonds that may be issued for each state during 2003.

JANUARY 2003

1. Revenue procedure updating the procedures for issuing private letter rulings, determination letters, and information letters on specific issues under the jurisdiction of the Chief Counsel.
2. Revenue procedure updating the procedures for furnishing technical advice to certain IRS offices, in the areas under the jurisdiction of the Chief Counsel.
3. Revenue procedure updating the previously published list of "no-rule" issues under the jurisdiction of certain Associates Chief Counsel other than the Associate Chief Counsel (International) on which advance letter rulings or determination letters will not be issued.
4. Revenue procedure updating the previously published list of "no-rule" issues under the jurisdiction of the Associate Chief Counsel (International) on which advance letter rulings or determination letters will not be issued.
5. Revenue procedure updating procedures for furnishing letter rulings, general information letters, etc. in employee plans and exempt organization matters relating to sections of the Code under the jurisdiction of the Office of the Commissioner, Tax Exempt and Government Entities Division.
6. Revenue procedure updating procedures for furnishing technical advice in employee plans and exempt organization matters under the jurisdiction of the Commissioner, Tax Exempt and Government Entities Division.
7. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288, and 7520.

8. Revenue ruling setting forth the prevailing state assumed interest rates provided for the determination of reserves under section 807 for contracts issued in 2002 and 2003.
9. Revenue ruling providing the dollar amounts, increased by the 2002 inflation adjustment for section 1274A.
10. Revenue ruling setting forth the amount that section 7872 permits a taxpayer to lend to a qualified continuing care facility without incurring imputed interest, adjusted for inflation.
11. Revenue procedure providing procedures for limitations on depreciation deductions for owners of passenger automobiles first placed in service during the calendar year; amounts to be included in income by lessees of passenger automobiles first leased during the calendar year; and the maximum allowable value of employer-provided automobiles first made available to employees for personal use in the calendar year.
12. Revenue procedure providing the domestic asset/liability percentages and the domestic investment yield percentages for taxable years beginning after December 31, 2001, for foreign companies conducting insurance business in the U.S.
13. Revenue procedure updating procedures for issuing determination letters on the qualified status of employee plans under sections 401(a), 403(a), 409, and 4975.
14. Revenue procedure updating the user fee program as it pertains to requests for letter rulings, determination letters, etc. in employee plans and exempt organizations matters under the jurisdiction of the Office of the Commissioner, Tax Exempt and Government Entities Division.
15. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in January 2003.
16. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.

FEBRUARY 2003

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288, and 7520.
2. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.

3. Revenue ruling under section 165 listing the Presidentially declared major disaster areas for the preceding calendar year.
4. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in February 2003.

MARCH 2003

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288, and 7520.
2. Notice providing resident population of the states for determining the calendar year state housing credit ceiling under section 42(h), the private activity bond volume cap under section 146, and the qualified public educational facility bond volume cap under section 142(k).
3. Revenue ruling providing the monthly bond factor amounts to be used by taxpayers who dispose of qualified low-income buildings or interests therein during the period January through March, 2003.
4. Revenue ruling under section 6621 regarding the applicable interest rates for overpayments and underpayments of tax for the period April through June, 2003.
5. Revenue ruling setting forth the terminal charge and the standard industry fare level (SIFL) cents-per-mile rates for the first half of 2003 for use in valuing personal flights on employer-provided aircraft.
6. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in March 2003.
7. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.

APRIL 2003

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288, and 7520.
2. Revenue ruling providing the average annual effective interest rates charged by each Farm Credit Bank District.

3. Notice providing the inflation adjustment factor, nonconventional fuel source credit, and reference price for the calendar year that determines the availability of the credit for producing fuel from a nonconventional source under section 29.
4. Revenue procedure providing a current list of countries and the dates those countries are subject to the section 911(d)(4) waiver and guidance to individuals who fail to meet the eligibility requirements of section 911(d)(1) because of adverse conditions in a foreign country.
5. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in April 2003.
6. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.

MAY 2003

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288, and 7520.
2. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in May 2003.
3. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.
4. Revenue procedure providing guidance for use of the national and area median gross income figures by issuers of qualified mortgage bonds and mortgage credit certificates in determining the housing cost/income ratio under section 145.

JUNE 2003

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288, and 7520.
2. Revenue ruling providing the monthly bond factor amounts to be used by taxpayers who dispose of qualified low-income buildings or interests therein during the period April through June, 2003.

3. Revenue ruling under section 6621 regarding the applicable interest rates for overpayments and underpayments of tax for the period July through September 2003.
4. Notice providing the calendar year inflation adjustment factor and reference prices for the renewable electricity production credit under section 45.
5. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in June 2003.
6. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.

TREASURY



NEWS

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

Embargoed Until 12:20 PM
July 10, 2002

Contact: Michele Davis
(202) 622-2920

**Treasury Secretary Paul H. O'Neill
Remarks to the U.S. Chamber of Commerce
"Rebuilding Trust in Corporate America"
Washington, DC**

Good afternoon. Thank you for your kind introduction, Tom (Donahue, CEO of U.S. Chamber of Commerce).

The United States economy today is the strongest and most resilient in the world, and the strongest and most resilient of any economy in history.

Our economy surged at a 6.1 percent annual rate in the first quarter, the fastest pace in more than two years, and a phenomenal performance compared to forecasters' expectations. Although the second quarter is not likely to match the first, there are continuing signs of strength in this recovery. New home sales set a record level in May, consumer spending remains high, and there is evidence that non-defense capital goods investment rose in the second quarter, ending nearly a year and a half of declines.

The fundamentals are sound, with inflation low and productivity booming. Business profits are up, real wages are growing, and industrial production is increasing. In June, the number of new jobs went up for the second month in a row. Thanks in part to low interest rates and President Bush's tax cuts, this recovery is well underway. I continue to believe that by the end of this year we will see 3 to 3-1/2 percent growth.

Sometimes we forget, especially in Washington, that the foundation beneath our economic strength is the everyday hard work of business owners and employees throughout this country, many of whom are represented in this Chamber of Commerce. I'm talking about the kind of people who get up at the crack of dawn, unlock the store, and spend their days smiling at customers, (even when they'd rather throttle them). People who spend their nights and weekends minding the books, so they can pay their bills, make their payroll, and get their kids through school. People who have built this country, one product, one sale, and one job at a time.

PO-3241

These Americans, whether they work in a store, a factory, a farm, or an office tower, are investing their time in an honest day's work, building a future for themselves, their families and this country. And when they choose to put their hard-earned wages into shares of public companies, they are investing in this country again.

They are entrusting their savings – the down payment for a first home, the money for an engagement ring and a wedding, college tuition, funds for a family vacation, their retirement, in short, their financial freedom and independence – to corporate managers, whom they expect to be just as honest and straightforward. Our citizens trust that public companies will respect the savings in their care, working to maximize their return by creating real value.

Through much of the past decade, that trust paid well. New technologies boosted productivity, profits grew and the stock market soared. But amidst that exuberance, some people seem to have started believing that anything goes.

We've learned recently that certain corporate leaders, abetted by their auditors, violated the public's trust. In their greed and their gluttony, these crooks sacrificed the retirement years of teachers, truck drivers, nurses and farmers to enrich themselves.

Just as bad, they have disgraced the institutions that have allowed our nation to prosper, and brought shame on freedom itself.

I am furious. President Bush is furious. And we are going to make sure these thieves face consequences. These guys are not going to spend those stolen retirement years on balmy islands, swatting golf balls. The President has said that CEOs who cook the books will forfeit their ill-gotten gains, and they will go to jail.

Since the earliest days of these corporate scandals, President Bush has been advancing a reform agenda to find and punish corruption; hold corporate officers accountable; protect small investors; clean up accounting practices; strengthen the corporate audit system; and provide honest and accurate information to investors. The President's ten-point plan to improve corporate governance and disclosure, which he proposed on March 7, is now coming into place, thanks to aggressive leadership by Harvey Pitt and the SEC.

The plan requires that chief executives and chief financial officers personally certify the accuracy, timeliness and completeness of their companies' public disclosures and financial statements. In fact, Harvey Pitt has already written letters to the top 1,000 CEOs, requesting that they do just that – personally review and recertify their recent financial statements.

With the highest position in a company comes the highest responsibility, both to know what is going on in the firm, and to give investors an honest and accurate picture of the company's situation. Outside auditors should have to make the same independent certifications.

The SEC has also issued new rules to keep investors better informed. Companies will have to illustrate the impact of their accounting choices on their financial statements, and they will inform investors more quickly and clearly about significant events. The SEC has already put teeth in its policy that technical GAAP compliance is not the same as sufficient disclosure.

And for those who don't live up to the standards of honesty and accuracy, the President is insisting on stiff punishment, doubling the penalties for financial fraud. Under today's laws, a kid caught with a half a gram of marijuana gets a stiffer sentence than a corporate chief who steals millions from investors. That's not right.

The President requested months ago that Congress provide major increases in budget and personnel for the SEC, so our law enforcement officers can get the job done. Already, the SEC has doubled the rate of executive disgorgement cases this year over the rate in 2001. Working through the courts, the SEC has also stepped up bans of corrupt directors and officers, preventing them from serving in other companies.

Finally, the President made strong recommendations to align compensation plans, including stock options, with the long-term interest of stockholders. On television these days we see executives at scandal-ridden companies who pumped up share prices and cashed out their options before the axe fell. And then we see faithful employees and duped shareholders and pension funds left behind to gape at their losses. That's wrong, and it must not continue.

When I was at Alcoa I never sold a single share of Alcoa stock. I wanted my financial success and the company's success inextricably linked. Other executives should do the same. Stock options are not a short-term reward, they are a long-term incentive to do the right thing.

The President has called on the nation's stock markets to require that listed companies receive shareholder approval of all stock option plans. And he called on CEOs to explain how their compensation packages are in the best interest of shareholders. Well-informed shareholders, not the government, are in the right position to decide what compensation plan will best align management interests with the long-term interest of the shareholders.

We are improving the system on every front. The SEC's proposals are moving forward. The stock markets are beefing up corporate governance requirements for listed companies. And Congress is developing legislation to ensure corporations and their auditors meet standards for accuracy, honesty and timeliness. The House has already acted, and the Senate is working at this very moment.

We support the intentions of the Senate bill, but we have reservations as well. In particular, contrary to the President's request, the Senate bill does not provide the SEC with the authority to bar individuals who engage in serious misconduct from serving as officers and directors of any public company. The SEC needs this new authority to punish those that have proven themselves unworthy to serve shareholders.

We are also concerned that the Senate proposal gives the power to enforce securities laws to an unaccountable private body, which is not consistent with our sense of responsible law enforcement. Moreover, this new "accounting oversight board" would be redundant and competitive with the SEC. We do not need that kind of bureaucratic confusion undercutting enforcement efforts, and letting villains off the hook.

Instead, the Administration believes that a two-tiered regulatory framework will best protect investors. The SEC recently suggested an independent accounting oversight board to set, oversee, and enforce professional audit and ethics standards. The SEC itself would continue to investigate and enforce violations of the securities laws. These clear lines of authority will ensure that the Accounting Board and SEC are both fully accountable.

I'm eager to work with the Congress to get legislation to the President before the August recess to restore accountability and integrity to our corporate governance and disclosure system. But new laws alone cannot make a perfect world. We have laws against bank robbery, but we still have bank robbers. We need the other institutions of our free market system to reinforce the call for higher standards. That is why I applaud actions by private organizations, such as the New York Stock Exchange and the National Association of Securities Dealers, to create better rules for their membership, independent of our work in Washington.

Most of all, I call on true corporate leaders, those who cherish their freedom and the success our system has allowed them, to stand up and defend the values of honesty, integrity, and accountability. I believe that most executives accept and live up to the principle that with the big job comes big responsibilities. Leadership means more than keeping your head down and following the rules. It means instilling a value system that runs throughout your company.

Most of the things being proposed for regulation and legislation are things that you and I and most of the CEOs we know have practiced for years, because they are common sense and they are the right things to do.

No government can compensate for a lack of an articulated value structure from the top. Face it: the 90s are over. Now is the time for sober virtue. Investors are demanding information, and because our system works, they are going to get it. Companies that take steps now to examine their practices – from disclosure, to accounting, to compensation – will ensure that they meet shareholder expectations.

By getting accurate, timely, plain-English information to investors and employees they will earn the public's trust anew. People across this nation will again feel confident that they can safely invest their life-savings in American business. And acting individually to do what's right, corporate leaders will collectively strengthen the U.S. economic system.

Our economic system remains the envy of the world. Together the President's proposed reforms and leadership in the corporate world will make that system even better.

Thank you.

PUBLIC DEBT NEWS

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



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

FOR IMMEDIATE RELEASE
July 10, 2002

CONTACT: Office of Financing
202-691-3550

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

Interest Rate: 3% Issue Date: July 15, 2002
Series: C-2012 Dated Date: July 15, 2002
CUSIP No: 912828AF7 Maturity Date: July 15, 2012
TIIN Conversion Factor per \$1,000 = 8.342602892 1/

High Yield: 3.099% Price: 99.154

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 81.62%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
-----	-----	-----
Competitive	\$ 21,574,406	\$ 8,714,096
Noncompetitive	285,905	285,905
FIMA (noncompetitive)	0	0
-----	-----	-----
SUBTOTAL	21,860,311	9,000,001 2/
Federal Reserve	1,010,394	1,010,394
-----	-----	-----
TOTAL	\$ 22,870,705	\$ 10,010,395

Median yield 3.049%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 3.000%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 21,860,311 / 9,000,001 = 2.43

1/ This factor is used to calculate the Adjusted Values for any TIIN face amount and will be maintained to 2-decimals on Book-entry systems.

2/ Awards to TREASURY DIRECT = \$90,782,000

<http://www.publicdebt.treas.gov>

'0-3242



U.S. International Reserve Position 07/10/02

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled \$74,233 million at the end of the latest week, compared to \$74,846 million at the end of the prior week.

(in US millions)

I. Official U.S. Reserve Assets	TOTAL	June 28, 2002			July 5, 2002		
			74,846		74,233		
1. Foreign Currency Reserves ¹							
		Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities		6,201	11,790	17,991	6,122	11,756	17,878
<i>Of which, issuer headquartered in the U.S.</i>				0			0
b. Total deposits with:							
<i>b.i. Other central banks and BIS</i>		10,356	3,970	14,325	10,230	3,958	14,189
<i>b.ii. Banks headquartered in the U.S.</i>				0			0
b.ii. Of which, banks located abroad				0			0
<i>b.iii. Banks headquartered outside the U.S.</i>				0			0
b.iii. Of which, banks located in the U.S.				0			0
IMF Reserve Position				19,841			19,612
Special Drawing Rights (SDRs) ²				11,645			11,511
Gold Stock ³				11,044			11,044
Other Reserve Assets				0			0

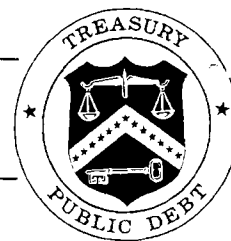
^{1/} Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values.

^{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.

PUBLIC DEBT NEWS

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



FOR IMMEDIATE RELEASE
July 11, 2002

Contact: Office of Financing
(202) 691-3550

TREASURY'S 10-YEAR INFLATION-INDEXED NOTES JULY REFERENCE CPI NUMBERS AND DAILY INDEX RATIOS

Public Debt announced today the reference Consumer Price Index (CPI) numbers and the daily index ratios for the month of July for the 10-year Treasury inflation-indexed notes of Series C-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 numbers (Ref CPI's) 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 3244. 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.

o0o

Attachment

PO-3244

<http://www.publicdebt.treas.gov>

3% TREASURY 10-YEAR INFLATION-INDEXED NOTES

DESCRIPTION:	Series C-2012
CUSIP NUMBER:	912828AF7
AUCTION DATE:	July 10, 2002
DATED DATE:	July 15, 2002
ORIGINAL ISSUE DATE:	July 15, 2002
MATURITY DATE:	July 15, 2012
Ref CPI on DATED DATE:	179.80000
TABLE FOR MONTH OF:	July 2002
NUMBER OF DAYS IN MONTH:	31
CPI-U (NSA) March 2002	178.8
CPI-U (NSA) April 2002	179.8
CPI-U (NSA) May 2002	179.8

Ref CPI and Index Ratios for July 2002:

Month	Calendar Day	Year	Ref CPI	Index Ratio
July	1	2002	179.80000	
July	2	2002	179.80000	
July	3	2002	179.80000	
July	4	2002	179.80000	
July	5	2002	179.80000	
July	6	2002	179.80000	
July	7	2002	179.80000	
July	8	2002	179.80000	
July	9	2002	179.80000	
July	10	2002	179.80000	
July	11	2002	179.80000	
July	12	2002	179.80000	
July	13	2002	179.80000	
July	14	2002	179.80000	
July	15	2002	179.80000	1.00000
July	16	2002	179.80000	1.00000
July	17	2002	179.80000	1.00000
July	18	2002	179.80000	1.00000
July	19	2002	179.80000	1.00000
July	20	2002	179.80000	1.00000
July	21	2002	179.80000	1.00000
July	22	2002	179.80000	1.00000
July	23	2002	179.80000	1.00000
July	24	2002	179.80000	1.00000
July	25	2002	179.80000	1.00000
July	26	2002	179.80000	1.00000
July	27	2002	179.80000	1.00000
July	28	2002	179.80000	1.00000
July	29	2002	179.80000	1.00000
July	30	2002	179.80000	1.00000
July	31	2002	179.80000	1.00000



FOR IMMEDIATE RELEASE
MONDAY, JULY 2, 2002

CONTACT: TONY FRATTO
(202) 622-2960

UNDER SECRETARY JOHN B. TAYLOR VISIT TO EL SALVADOR

U.S. Treasury Under Secretary John B. Taylor met today with the Minister of Finance and Technical Secretary of the President, Dr. Juan Jose Daboub, and with the President of the Central Bank, Mr. Rafael Barraza, to discuss themes of common interest in the context of aid and financing for development.

Dr. Taylor is touring Central America to discuss the importance of the private sector in generating economic growth and raising standards of living. This visit also coincides with internal discussions regarding the Bush Administration's Millennium Challenge Account, which has the goal of encouraging the practices of ruling justly, investing in people, and economic freedom in developing countries.

Dr. Taylor will also visit the export processing zone, Miramar, an Infocentro training center, and a school, the Centro Escolar in the Milagro district in the city of San Marcos. The Under Secretary will also meet with the country's principal business leaders during a working lunch. The goal of these visits is to provide him with an integrated panorama of the reality and challenges facing El Salvador. In his tour of the isthmus, Dr. Taylor will also visit Honduras and Nicaragua.

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PO-3245





FOR IMMEDIATE RELEASE
July 10, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

**AIR TRANSPORTATION STABILIZATION BOARD CONDITIONALLY
APPROVES APPLICATION BY US AIRWAYS, INC.**

The Air Transportation Stabilization Board today announced its conditional approval of the application by US Airways, Inc. for a loan guarantee under the Air Transportation Safety and System Stabilization Act and implementing regulations promulgated by the Office of Management and Budget. The Board's decision was unanimous. The Board's approval is subject to several conditions set out in the Board's letter to US Airways, which is attached.

The Board noted the disciplined and comprehensive approach that US Airways brought to its restructuring, as reflected in its business plan. US Airways' proposal is based on reasonable assumptions and includes substantial cost savings. The Board, however, has notified US Airways that it requires more compensation than has been offered and will continue discussions with the company.

Attachment:

Board's letter to US Airways, Inc. (2 pages)

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PO-3246



AIR TRANSPORTATION STABILIZATION BOARD

July 10, 2002

David N. Siegel
President and Chief Executive Officer
US Airways, Inc.
Crystal Park Four
2345 Crystal Drive
Arlington, VA 22227

Re: Application for a Loan Guarantee Under the Air
Transportation Safety and System Stabilization Act

Dear Mr. Siegel:

We refer to the application of US Airways, Inc. (the "Applicant"), dated June 7, 2002 and supplemented on June 27, 2002 (the "Application"), for a Federal loan guarantee under the Air Transportation Safety and System Stabilization Act, Pub. L. No. 107-42, 115 Stat. 230 (the "Act") and the regulations promulgated thereunder, 14 CFR Part 1300 (the "Regulations"). The Applicant has requested a Federal guarantee in connection with a \$1 billion financing. The Air Transportation Stabilization Board (the "Board") is asked to participate by providing a Federal government guarantee of \$900 million, representing 90 percent of the total financing.

The Board has carefully considered the Application under the standards set out in the Act and Regulations. The Board's consideration has included a review and analysis of the Application by the Board's staff and the Board's financial and industry consultants. Based on its review, the Board has determined that, except as noted below, the Application meets the requirements for a Federal loan guarantee under the Act and the Regulations. In particular, the Board has determined that the Applicant has demonstrated a reasonable assurance that it will be able to repay the loan according to its terms. Among other factors, the Board's determination is based on the proposed achievement of substantial cost savings and the reasonable assumptions that underlie the business plan submitted. In addition, the Board notes favorably the Applicant's disciplined approach to executing its restructuring plan.

Relying upon the information set forth in the Application and information conveyed to Board staff during recent discussions with the Applicant, the Board has determined to extend an offer of a guarantee, subject to satisfaction, as determined by the Board in its sole discretion, of all the conditions in the Act and the Regulations and the following:

- > The Applicant must conclude legally binding agreements, satisfactory to the Board, regarding the concessions and initiatives described in the business plan.

Mr. David N. Siegel
July 10, 2002
Page 2

- > The Board does not consider the stock purchase warrants described in the Application to represent sufficient participation in the Applicant's potential future gains. The Board must receive additional warrants in an amount and at a strike price acceptable to the Board.
- > Certain issues as to collateral (including slots and gates) must be resolved.
- > Final loan documents, including related collateral security documents and filings, affiliate guarantees, certifications, the warrant and registration rights agreement, and appropriate opinions of counsel, all in form and substance satisfactory to the Board, remain to be negotiated by the Board. We note that the Board may require control rights, representations, warranties, covenants (including, without limitation, covenants relating to the Applicant's financial ratios), anti-dilution protections and registration rights in connection with the warrants, and other customary lending provisions which are different from or in addition to those described in the Summary of Indicative Terms and Conditions included in the Application. All the conditions referred to in the Summary of Indicative Terms and Conditions must be satisfied.

The Board will continue to perform business and legal due diligence as the transaction progresses. The Board's willingness to issue the guarantee, and the specific terms it may require in the loan documents, are subject, therefore, to on-going due diligence and the Board's satisfaction with the results thereof. In the event that the Board discovers any materially negative information concerning the Applicant not currently known to it, the Board in its sole discretion may decline to issue its guarantee. The issuance of the Board's guarantee is subject also to the absence, in the sole judgement of the Board, of any material adverse change in the condition (financial or otherwise), business, property, operations, prospects, assets or liabilities of the Applicant, or in the Applicant's ability to repay the loan, or in the value of the collateral between the date of the Application and the date the guarantee is issued.

The Board and Board staff look forward to working with you toward the successful completion of this transaction and are prepared to devote all of the resources necessary to accomplish this end.

Sincerely,

Daniel G. Montgomery
Executive Director

Cc: Edward Gramlich
Kirk Van Tine
Peter Fisher



EMBARGOED UNTIL 10:00 a.m. EDT
Thursday, July 11, 2002

Contact: Michele Davis
(202) 622-2920

STATEMENT OF PAUL H. O'NEILL
Secretary, Department of the Treasury
Before the Select Committee on Homeland Security
U.S. House of Representatives

Mr. Chairman, thank you for the opportunity to address the Select Committee today. I am pleased to address the Committee on behalf of the President's proposal to establish a new Department of Homeland Security and to offer my wholehearted support for transforming our government in order to fight terrorism more effectively and protect our nation.

During my tenure at Alcoa, we constantly sought to rethink the way we did business. Throughout the company, we tried to adjust our methods and models to changing circumstances. Companies that survive, decade after decade, do so through constant adaptation. In a sense, they exemplify a deep-rooted corporate tradition—and, truly, a deep-rooted American tradition—of questioning every tradition.

Change, of course, is often difficult, whether in a business or in government. Some people worry that change will require too much from them, or that it will deprive them of too much clout. President Truman faced such forces in 1947 when he set out to reorganize the military. The entrenched interests argued that the American military had just defeated the Axis; why change what worked? But President Truman recognized that the nature of warfare was changing. The intense and relatively brief fighting of World War II was giving way to the Cold War, which entailed decades of surrogate warfare, positioning for global supremacy, and the constant possibility of total war. Not all of this was apparent in 1947, but President Truman recognized enough of it to realize that things had to change: It was time for a joint or unified command. He was right.

Now, the nature of warfare has changed once again. The enemy is no longer necessarily a state. Instead, we face individuals and small groups, sometimes aided by a state, but not necessarily clad in its uniform or following its flag. Indeed, that is the great challenge of the new form of warfare—knowing who our enemies are. As the investigation into the attacks of September 11 has demonstrated, they walk among us.

PO-3247



Only their violent and misguided ideology distinguishes them from our fellow citizens, and, not surprisingly, they keep that ideology to themselves. Their weaponry, too, is different. Before September 11, passenger jetliners had never been weapons of war.

But our weapons have also changed. Technology is giving us tools for tracking the possible terrorists among us. Flight manifest and passenger information, once recorded manually, now is automated through APIS, the Advanced Passenger Information System. This provides a system for tracking individuals entering our country. Technology also gives us the ability to integrate our databases and rapidly communicate our information. Thanks to new powers that Congress provided under the USA Patriot Act, Treasury's Financial Crimes Enforcement Network can blast-fax information about suspected terrorists to hundreds of financial institutions, which in turn can provide any pertinent information back to us. An investigation that might have taken weeks a few decades ago now takes hours.

September 11 has forced on us the sort of creative thinking that President Truman did in 1947. We have had to ask ourselves how this could have happened, what might happen next, and how we can prevent any further attacks. And the conclusion is clear: We cannot fight this war using structures designed for the Cold War, at the military level, and the varieties of indigenous and foreign crimes, at the law-enforcement level. Now, as then, new threats require new structures and new responses.

Today, responsibility for homeland security is scattered across the government. Lines of communication are not always open; lines of authority are not always sharply defined; and redundancies and inefficiencies are built in. One law-enforcement agency sometimes launches an operation and then must step aside—not because it finds no evidence of criminality, but rather because it finds evidence of the wrong sort of criminality. Last week, for example, the Customs Service stopped a suspicious boat and searched it for illegal drugs and other contraband. However, the Customs agents found illegal aliens. Customs transferred the aliens to the Coast Guard – currently part of the Department of Transportation. The Coast Guard, upon reaching land, then turned over the aliens to the Immigration and Naturalization Service – currently part of the Department of Justice. Under the President's reorganization proposal, a single entity would be responsible for all border issues.

The new Department will have homeland security as its primary mission. It will bring together within one Department the key entities to fight the war on terrorism, and ensure that we have a unified, coherent plan for protecting our citizens and our borders against the new breed of threats. And, crucially, it will be accountable. Citizens and public servants will know where the responsibility lies.

All the parts must work together at the same time and under the same direction to get things done. We cannot respond to the terrorist threats simply by pledging more cooperation or by making marginal changes.

We must be willing to make a dramatic transformation in light of the dramatic threats we face. Indeed, this Select Committee provides a good example. Although many committees have jurisdiction over the issues covered by the proposed new Department, you realized that responsibility could not be parceled out as before. This Select Committee centralizes authority. We must engage in this type of fresh thinking in order to respond to the new threats.

Yes, the challenge is great. To defend our freedom in this new era, we must work together as never before. We must put aside notions of turf and tradition and the-way-we've-always-done-it, and work collectively for the common security. In some cases, we must say goodbye to valued colleagues. I have deeply enjoyed my time working alongside the fine public servants in the Customs Service and the Secret Service, for example, two Treasury agencies that, under the President's proposal, will be part of the new Department. But by and large, these hard-working people recognize the wisdom in centralizing responsibility for homeland security. They are excited over the prospect of helping start the new Department.

We know that you in the Congress are faced with an exceedingly difficult task. We at the Treasury Department pledge to do all we can to help, in accordance with our common commitment to combat these new terrorist threats. During the past few weeks, we have worked closely with several of the House Committees in drafting legislation to create a new Department of Homeland Security. We have shared our concerns and provided our comments. We will continue to provide our input to ensure that the final bill:

- leverages the strengths of the many component parts,
- provides clear and workable lines of authority, and
- creates the most efficient possible structure.

The importance of our work demands nothing less.

Thank you for your commitment to this fight, Mr. Chairman and members of this Select Committee, and thank you for the opportunity to address you.

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

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For immediate release
Wednesday, July 10, 2002

Contact: Michele Davis
(202) 622-2920

**Statement of Secretary Paul O'Neill following his meeting with Dr. Arminio Fraga,
Governor of the Central Bank of Brazil:**

I welcomed the opportunity to have a full discussion of the economic situation and policy strategy in Brazil. I remain convinced that Governor Fraga and the Brazilian Government are pursuing sound, forward-looking policies that lay the basis for economic and financial stability. We are in full support of their efforts and intentions.

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PO-3248

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federal financing bank NEWS

WASHINGTON, D.C. 20220

Press 202-622-2960
FFB 202-622-2450

FEDERAL FINANCING BANK June 20, 2002

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

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled \$37.2 billion on May 31, 2002, posting a decrease of \$463.9 million from the level on April 30, 2002. This net change was the result of a decrease in holdings of agency assets of \$580.0 million and an increase in holdings of government-guaranteed loans of \$116.1 million. The FFB made 44 disbursements and received 12 prepayments during the month of May.

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

FEDERAL FINANCING BANK
MAY 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
GOVERNMENT-GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Atlanta CDC Lab	5/22	\$50,834.23	1/30/31	5.796% S/A
San Francisco OB	5/23	\$254,233.32	8/01/05	3.997% S/A
San Francisco OB	5/31	\$98,529.25	8/01/05	3.923% S/A
DEPARTMENT OF EDUCATION				
Virginia Union Univ.	5/01	\$3,038,906.53	1/02/32	5.595% S/A
Barber-Scotia College	5/02	\$146,600.53	3/01/30	5.554% S/A
Barber-Scotia College	5/13	\$269,459.00	3/01/30	5.622% S/A
Virginia Union Univ.	5/14	\$373,969.20	1/02/32	5.712% S/A
Barber-Scotia College	5/31	\$233,586.42	3/01/30	5.584% S/A
Livingstone College	5/31	\$360,400.74	7/01/31	5.590% S/A
RURAL UTILITIES SERVICE				
Cherokee Electric #562	5/01	\$2,000,000.00	7/02/07	4.504% Qtr
Thumb Electric #767	5/01	\$350,000.00	9/30/09	4.858% Qtr
Comanche County Elec. #765	5/02	\$640,000.00	12/31/35	5.558% Qtr
Lorain-Medina Electric #760	5/03	\$785,000.00	12/31/35	5.592% Qtr
Sac Osage Electric Coop. #815	5/03	\$2,434,000.00	12/31/36	5.602% Qtr
San Patricio Elec. #676	5/03	\$804,000.00	1/02/35	5.582% Qtr
Alabama Electric #695	5/07	\$11,272,000.00	12/31/25	5.404% Qtr
Bartlett Elec. #535	5/07	\$750,000.00	1/03/34	5.609% Qtr
East Central Energy #660	5/07	\$6,000,000.00	1/02/35	5.542% Qtr
Medina Electric #622	5/09	\$2,857,000.00	6/30/03	2.518% Qtr
Ellerby Telephone #635	5/10	\$226,522.00	7/02/12	5.026% Qtr
French Broad Elec. #809	5/10	\$5,000,000.00	12/31/35	5.659% Qtr
Scenic Rivers Energy #677	5/10	\$831,000.00	9/30/05	3.943% Qtr
Arkansas Elec. #812	5/15	\$25,000,000.00	12/31/31	5.743% Qtr
E. Iowa Coop. #807	5/15	\$2,000,000.00	12/31/36	5.777% Qtr
Northern Neck Elec. #713	5/15	\$1,000,000.00	10/01/07	4.678% Qtr
Tri-County Elec. TN #647	5/15	\$522,000.00	1/03/33	5.747% Qtr
Council Grove Telephone #821	5/16	\$3,713,000.00	12/31/13	4.980% Qtr
San Carlos Apache Tele. #729	5/16	\$952,044.00	1/02/24	6.083% Qtr
Goodhue County #672	5/17	\$525,000.00	1/02/35	5.694% Qtr
Meeker Cooperative #699	5/17	\$1,013,000.00	1/02/35	5.694% Qtr
Upsala Coop. Tele. #429	5/21	\$62,228.00	9/30/02	1.959% Qtr
Brazos Electric #561	5/22	\$10,324,000.00	9/30/04	3.458% Qtr
Brazos Electric #561	5/22	\$10,324,000.00	9/30/05	3.921% Qtr
Adams Rural Electric #706	5/23	\$500,000.00	1/02/35	5.630% Qtr
Lynches River Elec. #634	5/23	\$450,000.00	9/30/04	3.404% Qtr
Pennyrile Elec. #513	5/23	\$6,000,000.00	9/30/02	1.912% Qtr
Ashley-Chicot Elec. #829	5/29	\$6,240,000.00	12/31/35	5.674% Qtr
Duck River E.M.C. #656	5/29	\$785,000.00	7/02/12	5.090% Qtr
Roanoke Electric Mem. #820	5/29	\$3,961,030.00	12/31/36	5.682% Qtr

FEDERAL FINANCING BANK
MAY 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
Sangre De Cristo Elec. #732	5/29	\$500,000.00	7/02/07	4.433% Qtr.
Irwin Electric #715	5/30	\$1,600,000.00	1/02/35	5.626% Qtr.
Tri-State #808	5/30	\$20,173,000.00	12/31/31	5.599% Qtr.
Orange County Elec. #771	5/31	\$235,000.00	12/31/35	5.472% Qtr.
Southwestern Elec. #726	5/31	\$700,000.00	12/31/35	5.470% Qtr.

S/A is a Semiannual rate.

Qtr. is a Quarterly rate.

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	May 31, 2002	April 30, 2002	Monthly Net Change 5/1/02- 5/31/02	Fiscal Year Net Change 10/1/01- 5/31/02
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	\$1,440.0	\$1,730.0	-\$290.0	-\$995.0
FmHA-RHIF	\$3,835.0	\$4,125.0	-\$290.0	-\$540.0
Rural Utilities Service-CBO	\$4,270.2	\$4,270.2	\$0.0	\$0.0
Subtotal*	\$9,545.2	\$10,125.2	-\$580.0	-\$1,535.0
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	\$2,024.0	\$2,036.9	-\$12.9	-\$132.7
DoEd-HBCU+	\$57.3	\$52.8	\$4.4	\$25.9
DHUD-Community Dev. Block Grant	\$6.6	\$6.7	-\$0.1	-\$1.2
DHUD-Public Housing Notes	\$1,207.3	\$1,207.3	\$0.0	-\$71.4
General Services Administration+	\$2,233.1	\$2,236.4	-\$3.3	-\$34.9
DOI-Virgin Islands	\$11.9	\$11.9	\$0.0	-\$1.2
DON-Ship Lease Financing	\$841.2	\$841.2	\$0.0	-\$100.0
Rural Utilities Service	\$14,183.8	\$14,053.3	\$130.5	\$584.6
SBA-State/Local Development Cos.	\$111.2	\$113.7	-\$2.5	-\$20.8
DOT-Section 511	\$3.3	\$3.3	\$0.0	-\$0.1
Subtotal*	\$20,679.6	\$20,563.5	\$116.1	\$248.3
Grand total*	\$37,174.8	\$37,638.7	-\$463.9	-\$5,649.7

* figures may not total due to rounding

+ does not include capitalized interest

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 2:30 P.M.
July 11, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling \$33,000 million to refund an estimated \$22,715 million of publicly held 13-week and 26-week Treasury bills maturing July 18, 2002, and to raise new cash of approximately \$10,285 million. Also maturing is an estimated \$18,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced July 15, 2002.

The Federal Reserve System holds \$10,817 million of the Treasury bills maturing on July 18, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders either in these auctions or the 4-week Treasury bill auction to be held July 16, 2002. Amounts awarded to SOMA will be in addition to the offering amount.

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

TreasuryDirect customers have requested that we reinvest their maturing holdings of approximately \$950 million into the 13-week bill and \$899 million into the 26-week bill.

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

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

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

oOo

Attachment

0-3250

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HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED JULY 18, 2002

July 11, 2002

<u>Offering Amount</u>	\$17,000 million	\$16,000 million
<u>Public Offering</u>	\$17,000 million	\$16,000 million
<u>NLP Exclusion Amount</u>	\$ 3,300 million	None

Description of Offering:

Term and type of security	91-day bill	182-day bill
CUSIP number	912795 LF 6	912795 LU 3
Auction date	July 15, 2002	July 15, 2002
Issue date	July 18, 2002	July 18, 2002
Maturity date	October 17, 2002	January 16, 2003
Original issue date	April 18, 2002	July 18, 2002
Currently outstanding	\$13,897 million	---
Minimum bid amount and multiples	\$1,000	\$1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

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

Competitive bids:

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

Maximum Recognized Bid at a Single Rate35% of public offering

Maximum Award35% 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.



Embargoed until 12:30 pm local time
July 12, 2002

Contact: Rob Nichols
(202) 415-2692

**Remarks by United States Treasury Secretary Paul H. O'Neill
"Accelerating Growth in Eastern Europe and Central Asia"
Kiev, Ukraine**

Good afternoon.

The nations that have emerged from the former Soviet Union are among the most promising and dynamic in the world, teeming with human talent and economic potential. On my tour this week through several of those nations – Ukraine, the Kyrgyz Republic, Uzbekistan, and Georgia – I plan to see for myself the results of a decade of economic and political reform, and see the considerable challenges that remain. I expect to see gains, and also disappointments.

By coming here, I hope to understand how the United States and our international partners can best help your leadership to build on those gains, and overcome the great challenges that remain, so that the people of Eastern Europe and Central Asia can enjoy the rewards of the global economy, and build prosperity at last.

I am not here to write prescriptions, or give a "how-to" course on economic development – there's no such thing, and I wouldn't presume to have the answers. I am here to listen, and learn from your experience. At the same time, I want to share what we have learned from around the world, and help apply those lessons to your unique situations. In particular, I want to emphasize the key principles of economic development: just rule, economic freedom, and investment in people.

Your nations – your people – are important to the United States. We hold a mutual interest in international security, including the war on terrorism and the fight against weapons of mass destruction. And true security depends on more than military might, intelligence, and arms control – it depends on a shared stake in the future of the global economy, ties of trade, investment, and enterprise. It depends on common values of political and economic freedom, even as we respect diverse cultures and appreciate historical traditions.

There are many differences among our nations, and great differences among the many nations of this part of the world. But in my travels to every part of this globe, as a private sector leader and a government official, I have witnessed three common principles that are beyond dispute.

PO-3251

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The first was best expressed in the American Declaration of Independence, which we celebrated last week: all people are created equal. It is self-evident. People everywhere can do great things when they have the tools and incentives for success.

The second is that with leadership – honest, accountable, and committed to progress – everything is possible. Without leadership, nothing is possible.

The third is that a flourishing private sector drives sustainable growth, higher incomes, and a rising standard of living for everyone. Governments can create environments for growth, but the private sector drives it.

Knowing these principles, I can also say this: the gap between the enormous potential of this region compared to real performance has been unacceptable. Goals can and should be set high. A few points of growth each year or spurts of high growth interspersed with declines are not enough to achieve prosperity.

The road from the former Soviet Union has been difficult. After more than ten years of transition experience, this is the time to take stock, to look critically at what has worked and what has not. This is the time for accountability and results. This is the time for leadership.

My visits this week and next will include meetings with national leaders. I will also visit businesses, large and small, nongovernmental organizations, schools, banks, farms, and Peace Corps projects. I will visit a village water project in the Kyrgyz Republic, a dam in Uzbekistan, and a maternity hospital in Georgia.

In these visits and others, I will be looking for examples of just rule, economic freedom, and human investment, especially in clean water, primary education, and health care. I will also look for examples of new private enterprise, which drives economic growth. I will look for civic engagement which is fundamental to a vibrant democracy. These are the ingredients for success that I saw in my recent trip to Africa and my previous trips to Russia and Romania, and while the details will vary in Europe, Africa and Asia, the principles are constant.

Today I will focus my remarks on Ukraine's progress in these areas.

Governing Justly

First, regarding just rule. Countries that want to unleash private sector productivity and raise living standards practice good governance. They enforce law and contracts, respect human rights and property rights, and they fight corruption. The facts show that low income, high poverty rates, and low foreign direct investment correlate strongly with excessive regulation and government intervention, and weak property rights.

In some areas, Ukraine has taken bold steps. A little more than two years ago, Ukraine's government failed to pay for goods and services. Businesses followed that example and failed to pay taxes.

The government bartered its obligations for taxes. The result was an impossibly opaque and distorted economic system and low tax compliance, while wages and pensions went unpaid.

When the government took steps toward reducing barter and insisting on cash payments for taxes and energy, we saw a huge response in the economy, which started to confront budget constraints, market forces, and the need to create real value.

Ukraine's government is now pursuing the next items on the good governance agenda: a fair, predictable tax system with low rates, uniformly applied, additional budget accountability, and judicial reform and contract enforcement. The word "contract," incidentally, does not appear in basic Ukrainian laws. Contracts must have meaning and courts must enforce them. When businesses must rely on special actions from political leaders to solve disputes, the whole country suffers.

Economic Freedom

Second, countries seeking economic growth must encourage and protect economic freedom. This includes removing barriers to trade – both internal and external – and opening the national economy to investment. It also includes allowing companies – especially small and medium size companies – to compete without excessive government interference.

Surely, the fall of the Soviet Union proved the folly of putting central planning over economic freedom, which is the heart of the free enterprise system.

Ukraine has made progress on improving the climate for the creation and growth of small and medium enterprises through deregulation and reduced inspections. As a result, the number of small businesses has grown by about 140,000 between 1999 and 2001 – an increase of 31%. But Ukraine still has a long way to go in improving economic freedom throughout the country.

Two areas are especially critical to establishing a foundation for prosperity: land reform and banking reform. A market-oriented banking system allocates capital based on creditworthiness, far more efficient than allocation based on political connections. Ukraine has made progress reducing state ownership of land, and largely as a result agricultural production has soared in recent years. Yet the potential is so much higher, here in the Bread Basket of Europe.

Investing in People

The third essential component of development is investment in people. That means targeting government spending where it can make the greatest difference for people, thereby enabling them to achieve their potential in the free enterprise system. Governments need to invest in clean water, primary education, and health care – especially the fight against AIDS.

These are the facts for Ukraine: The percentage of children completing primary education in Ukraine is 58%, about the same as in Kenya. Health care is weak. Life expectancy for men fell by three years between 1990 and 1999, and the rate of HIV infection is now 1.29%, already above the global average, and soaring rapidly. Intervention right now could avert disastrous infection levels.

Still, there is progress. Tomorrow I will visit a project to fight trafficking in women. Projects like these are encouraging because it shows that the Ukrainian people are willing to protect women and give them better alternatives so that they can achieve their potential.

In addition, through the Agency for International Development, the United States has been working with the Ukrainian government and various nongovernmental organizations to stem the rise of tuberculosis and HIV/AIDS. The fight against tuberculosis has focused on identifying systemic problems in drug management and health care diagnostic systems. For HIV/AIDS, we are helping to develop a national prevention program in Ukraine, which includes new programs for reaching at-risk youths in cities and distant regions.

Challenges in the Caucasus and Central Asia

Tomorrow I will leave here to visit three more countries: the Kyrgyz Republic, Uzbekistan and Georgia. While unique in culture and history, these countries share a Soviet past with Ukraine, and know the social and economic challenges of charting a new, independent course.

In the Kyrgyz Republic, 49% of the population lives on less than \$2 per day; in Georgia and Uzbekistan 24% and 22% do. In the Kyrgyz Republic, just 66% of the rural population has access to clean water. In Georgia, secondary school enrollment has fallen sharply – by 30 percentage points between 1980 and 1998.

Each of these countries needs a healthy private sector, especially new small businesses and foreign investment, to move ahead. Former state enterprises cannot drive an economy. And without good governance, smaller businesses hide in the shadows, staying small to avoid attention from corrupt officials. Weak rule of law, corruption, and poor enforcement of contracts scare away domestic and foreign capital, and prevent individuals lacking political connections from making their full contribution to economic growth. And these countries need to think differently about water and energy. Reforms in these sectors will bring higher productivity and regional integration.

When I visit these countries I will address those issues, as well as call attention to local success stories.

But I will also point to Ukraine. Ukraine, at the nexus of Europe and Russia and on the cusp of Central Asia, is an important country in the region, especially with respect to its transition experience. Ukraine's successes and setbacks can be important lessons for these countries to draw upon.

I will also emphasize how transition economies as different as China and Hungary have relied on trade to grow. Not just trade with rich countries such as the United States, but regional trade with their neighbors. Central Asia was once a crossroads for half the world, the center of the old Silk Road, and a hub for trade in all directions. It must become so again.

What the U.S. is doing

Over the last decade, the United States has worked with the international community to support the transition of Ukraine and all of the former Soviet states to market economies, with market institutions, and representative, democratic governments. Multilateral and bilateral assistance has helped put an end to hyperinflation, stabilize Ukraine's economy, and lay the foundations for essential structural reform in agriculture, energy, banking, and the business environment. But substantial work remains to be done.

The United States, our partners, and the multilateral institutions cannot dictate solutions to local problems—not in Ukraine, or anywhere – we can only support dedicated local and national leaders as they make difficult decisions – decisions that are in the interest of the majority of the Ukrainian people, and not just for a privileged few.

I have long believed that small and medium businesses play an important role in this process -- not just in creating jobs and generating growth, but also in building institutions and shaping democracy.

It is for these reasons that official development aid and financial assistance programs must target well-managed businesses that would not otherwise have access to capital. In particular, the European Bank for Reconstruction and Development is supporting micro and small lending operations in Ukraine, such as the creation of a dedicated microfinance bank in 2001. The U.S. has contributed \$4 million to support the start-up of this bank and other partner banks. In 18 months, the Microfinance Bank has extended loans totaling \$111 million. I will have the privilege of opening a branch of this bank tomorrow in Donetsk. By the end of 2003, our hope is that this branch will have made 7,500 loans totaling \$55 million. The United States believes so strongly in this endeavor that it is mobilizing \$3.4M for the expansion of these operations elsewhere in the region – to Georgia, the Kyrgyz Republic, and Uzbekistan.

Other U.S. initiatives, like our enterprise fund in Ukraine, make direct investments in business ventures and are making a big difference here. But success requires good corporate governance and strong shareholder rights, which the government must address. And private financial institutions in Ukraine have far more potential than they can realize today. This country lacks a legal basis for asset-backed lending such as mortgages and equipment leases.

But just as concrete results require tough decisions and good leadership on the part of the country, so too do they require responsibility on the part of the international community to insist that aid makes a meaningful contribution to the lives of the people it serves.

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. In Ukraine, the focus on results in recent years has in fact produced results. The international community worked with Ukraine to set explicit targets for cash collections in energy and for reducing wage and pension arrears. Reaching these targets brought real improvements in Ukraine's budget and energy sector and set the stage for strong growth.

Conclusions

We know from simple observation that the people of Eastern Europe and Central Asia have the potential to reach a level of fulfillment and economic prosperity that matches the highest attainment in the world. But in the ten years since the break up of the Soviet Union the transition to that condition has been painfully slow. In some places, democracy and private enterprise are seedlings, their roots still shallow. Instability and extremism still threaten them.

But the attention of the world, and the United States, has turned to these regions, their vast potential for growth, and our common security interests. We are ready to help where responsible, accountable leadership is committed to sound policies: ruling justly, encouraging economic freedom, and investing in people. We also appreciate your efforts to fight the war against terror.

I believe that Ukraine can again be the breadbasket of Europe; and Central Asia can again be a hub for trade in all directions. Working together to achieve real results, we can unleash the human potential – we will not be satisfied with anything less.

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

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FOR IMMEDIATE RELEASE
Friday, July 12, 2002

**TREASURY SECRETARY PAUL O'NEILL TO VISIT
BRAZIL AND ARGENTINA**

Treasury Secretary Paul O'Neill plans to visit Brazil and Argentina at the end of this month. He will take this opportunity to meet with the governments of both countries on their economic direction and prospects. He will also spend time on this trip visiting businesses, schools, health clinics, infrastructure projects, and grass roots organizations to develop a better understanding of the real economy, social issues, and civil society. Further details will be forthcoming.

-30-

PO-3252

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





FOR IMMEDIATE RELEASE
JULY 12, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

**Statement of Treasury Secretary Paul H. O'Neill
on GSE Voluntary Disclosure Compliance**

“I applaud today's announcement of Fannie Mae and Freddie Mac's self-initiated compliance with the corporate disclosure requirements of the Securities Exchange Act of 1934. The President has called on corporate leaders across the nation to examine their disclosure practices and ensure that they are doing everything they can to provide investors with accurate, timely and useful information consistent with best practices. Frank Raines and Leland Brendsel are stepping up to that challenge.

“As a result of their actions, the Administration is not prepared to support repeal of the GSEs exemption from the Securities Act of 1933 and the Office of Federal Housing Enterprise Oversight is not pursuing a securities' registration regime for Fannie Mae and Freddie Mac.

“The Treasury, the Securities and Exchange Commission and the Office of Federal Housing Enterprise Oversight will be conducting a joint study of disclosure regarding mortgage-backed securities with a view to ensuring that investors in all mortgage-backed securities are provided with the information that they should have.”

-30-

PO-3253



DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 11:30 A.M.
July 15, 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 \$18,000 million of publicly held 4-week Treasury bills maturing July 18, 2002, and to raise new cash of 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 \$10,817 million of the Treasury bills maturing on July 18, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders in this auction up to the balance of the amount not awarded in today's 13-week and 26-week Treasury bill auctions. Amounts awarded to SOMA will be in addition to the offering amount.

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

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

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

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

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Attachment

PO-3254

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HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED JULY 18, 2002

July 15, 2002

Offering Amount\$20,000 million
Public Offering\$20,000 million
NLP Exclusion Amount\$10,700 million

Description of Offering:

Term and type of security28-day bill
CUSIP number912795 KW 0
Auction dateJuly 16, 2002
Issue dateJuly 18, 2002
Maturity dateAugust 15, 2002
Original issue dateFebruary 14, 2002
Currently outstanding\$42,413 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 non-competitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed \$1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the \$1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.

Competitive bids:

- (1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 4.215%.
- (2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$1 billion or greater.
- (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

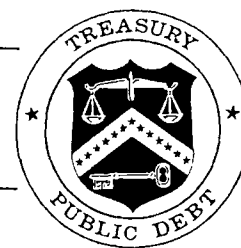
Competitive tenders:

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.

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FOR IMMEDIATE RELEASE

July 15, 2002

CONTACT: Peter Hollenbach
202/691-3502

TREASURY CALLS 7-7/8 PERCENT BONDS OF 2002-07

The Treasury today announced the call for redemption at par on November 15, 2002, of the 7-7/8% Treasury Bonds of 2002-07, issued November 15, 1977, due November 15, 2007 (CUSIP No. 912810BZ0). There are \$1,495 million of these bonds outstanding, of which \$1,022 million are held by private investors. Securities not redeemed on November 15, 2002, will stop earning interest.

These bonds are being called to reduce the cost of debt financing. The 7-7/8% interest rate is significantly above the current cost of securing financing for the five years remaining to their maturity. In current market conditions, Treasury estimates that interest savings from the call and refinancing will be about \$150 million.

Payment will be made automatically by the Treasury for bonds in book-entry form, whether held on the books of the Federal Reserve Banks or in *TreasuryDirect* accounts. Bonds held in coupon or registered form should be presented for redemption to financial institutions or mailed directly to the Bureau of the Public Debt, Definitives Section, P.O. Box 426, Parkersburg, WV 26106-0426.

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PO-3255

FACT SHEET - TREASURY BOND CALLS JULY 15, 2002

What is a callable bond?

A callable bond is a security that may be redeemed prior to maturity at the option of the issuer. A “call” feature is included in the bond indenture, and the “cost” of this feature is included in the price of the security. Treasury began regularly issuing securities redeemable prior to maturity in 1917 with the First Liberty Loan Bonds (3½ % of 6/15/32 – 47). The last callable Treasury bond was issued in November 1984. All 30-year bonds issued since then are non-callable in order to facilitate security stripping in Treasury’s STRIPS Program.

Currently, only 15 Treasury bonds containing a call provision remain outstanding. The face amount of these securities totals \$70.5 billion (2.1% of debt held by the public). The terms of the call provision, contained in the offering circular released at the time each of these securities was issued, allow Treasury to redeem these bonds (1) on a regular interest payment date, (2) up to five years prior to maturity, (3) with four months’ notice to investors.

Why are you announcing the call today?

Treasury must give investors 4 months’ notice of its decision to call a bond. Today’s announcement is effective July 15, 2002, and fulfills our advance notice requirement in the original offering circular.

When was the last time Treasury issued a bond call?

Treasury exercises call options whenever it is in Treasury’s economic interest to do so. Between October 15, 1991 and January 14, 2001, Treasury exercised the call option contained in the offering circulars of eight outstanding Treasury bonds. The last time Treasury issued a bond call was October 15, 2001. Information regarding the past nine bond calls follows.

- Oct 15, 1991: announced the call of the 7 ½% Treasury Bonds of 1988 – 93 on Feb 15, 1992
- Jan 13, 1993: announced the call of the 4 1/8% Treasury Bonds of 1989 – 94 on May 15, 1993
- Jan 13, 1993: announced the call of the 7% Treasury Bonds of 1993 – 98 on May 15, 1993
- Jan 11, 1994: announced the call of the 8 ½% Treasury Bonds of 1994 – 99 on May 15, 1994
- Oct 12, 1994: announced the call of the 7 7/8% Treasury Bonds of 1995 – 00 on Feb 15, 1995
- Apr 11, 1995: announced the call of the 8 3/8% Treasury Bonds of 1995 – 00 on Aug 15, 1995
- Apr 11, 1996: announced the call of the 8% Treasury Bonds of 1996 – 01 on Aug 15, 1996
- Jan 14, 2000: announced the call of the 8 ¼% Treasury Bonds of 2000 – 05 on May 15, 2000

- Oct 15, 2001: announced the call of the 7 5/8% Treasury Bonds of 2002 – 07 on Feb 15, 2002

Prior to February 15, 1992, Treasury had not called a bond since December 15, 1962. Research shows that in this 30-year period, it was not in Treasury's economic interest to exercise a call option.

When is the next time Treasury can call a bond?

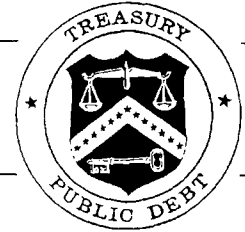
The 8 3/8% Treasury Bonds of 2003 – 08 will be eligible to be called on August 15, 2003. If Treasury decides to exercise the call option on these securities, its intentions must be announced by April 15, 2003.

What is the difference between a bond call and a buy-back?

A bond call is simply Treasury exercising its contractual right to redeem a security at par prior to maturity. Treasury has been routinely calling eligible issues since 1991. A call is not voluntary to the holder of a called security. The called bond stops earning interest as of the date of the call, in this case November 15, 2002.

Participation in a buy-back operation is voluntary to the holder of a security. Treasury announces its intention to buy-back, and the market determines the price. Investors have the option of offering to sell all or part of their holdings. Callable bonds may also be eligible for repurchase in a buy-back operation.

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

FOR IMMEDIATE RELEASE
July 15, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term: 91-Day Bill
Issue Date: July 18, 2002
Maturity Date: October 17, 2002
CUSIP Number: 912795LF6

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 26.88%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 31,469,505	\$ 15,426,825
Noncompetitive	1,383,318	1,383,318
FLMA (noncompetitive)	190,000	190,000
SUBTOTAL	33,042,823	17,000,143 2/
Federal Reserve	4,663,389	4,663,389
TOTAL	\$ 37,706,212	\$ 21,663,532

Median rate 1.660%: 50% of the amount of accepted competitive tenders tendered at or below that rate. Low rate 1.630%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

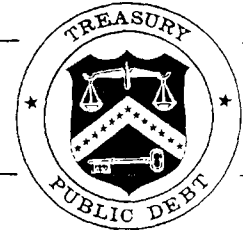
1-to-Cover Ratio = $33,042,823 / 17,000,143 = 1.94$

Equivalent coupon-issue yield.

Awards to TREASURY DIRECT = \$1,071,677,000

<http://www.publicdebt.treas.gov>

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

FOR IMMEDIATE RELEASE
July 15, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term: 182-Day Bill
Issue Date: July 18, 2002
Maturity Date: January 16, 2003
CUSIP Number: 912795LU3

High Rate: 1.675% Investment Rate 1/: 1.713% Price: 99.153

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 71.02%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 30,409,250	\$ 14,679,860
Noncompetitive	1,270,167	1,270,167
FIMA (noncompetitive)	50,000	50,000
SUBTOTAL	31,729,417	16,000,027 2/
Federal Reserve	5,492,353	5,492,353
TOTAL	\$ 37,221,770	\$ 21,492,380

Median rate 1.660%: 50% of the amount of accepted competitive tenders tendered at or below that rate. Low rate 1.620%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

d-to-Cover Ratio = 31,729,417 / 16,000,027 = 1.98

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = \$981,587,000

<http://www.publicdebt.treas.gov>



Embargoed Until 10:00 a.m. EDT
Tuesday, July 16, 2002

Contact: Tasia Scolinos
(202) 622-2960

**Statement of Deputy Secretary Kenneth Dam
Department of the Treasury
Before the
Senate Finance Committee
“The New Department of Homeland Defense”**

Chairman Baucus, Ranking Member Grassley, and Members of the Committee. Thank you for the opportunity to testify before you today on this matter of national urgency.

Last month, the President announced a comprehensive plan to create a Department of Homeland Security to respond to the new and ominous threat of terrorism. Among other things, President Bush’s proposal would move, in their entirety, the U.S. Customs Service and the U.S. Secret Service from the Department of Treasury into the new Department. As Secretary O’Neill testified last week, we in the Treasury Department fully support the President’s proposal. Though it has been both an honor and a pleasure to serve alongside the dedicated Customs and Secret Service employees, we believe that consolidation within the new Department of Homeland Security will substantially enhance our ability to safeguard the American people.

The need for this new Department is clear. Today, responsibility for homeland security is scattered among many different government agencies. Lines of communication are not always open; lines of authority are not always sharply defined; and redundancies and inefficiencies are built in. The new Department, however, will have primary responsibility for all homeland security matters. It will consolidate within one Department the key entities for securing and policing our borders, ports, airports, and territorial waters.

Such a Department must include the Customs Service -- an agency whose mission is entirely border-related -- and an agency who plays a front-line role in guarding our borders and confiscating illegal contraband. By consolidating these entities within the new Department, we can ensure that we have a unified, coherent plan for protecting our citizens and our borders against the new breed of threats.

PO-3258

But this consolidation must also be a matter of substance and not just form. I want to echo Secretary O'Neill's statements before the House Select Committee last week: to make this enterprise worthwhile, it is imperative that you grant the new Secretary substantial flexibility. We need a Department that is both accountable and creative, and this requires a new structure allowing flexibility. This structure needs to not only address the current threat, but must also be capable of adjusting as necessary when new and as-yet unforeseen threats appear. Simply rearranging current functions among departments will not capture the essential value-added that is at the heart of the President's proposal. We need flexibility to respond quickly to changing threats.

The necessity for the new Secretary to have that kind of flexibility becomes obvious when we consider numerous changes that have been implemented within the Customs Service since September 11. Customs has made averting terrorism its top priority, while still moving goods and people efficiently across the border. With their existing statutory flexibility, Treasury and Customs have been able to rearrange resources and engage in fresh thinking to address these twin objectives.

This was especially true along the Northern Border. Because we had the flexibility to reassign resources, Customs was able to immediately make nonpermanent redeployments of personnel. This ability to move manpower and resources quickly, without restrictive requirements, has been an essential element of our response effort to date, and will continue to be so. It is crucial that the Secretary of Homeland Security have similar freedom to manage throughout the new Department.

The flexibility also allowed us to develop new programs in response to the new threats. On April 16th of this year, Governor Ridge, Secretary O'Neill, and Commissioner Bonner announced 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. Over 300 companies currently participate in the program, including some of the nation's largest. We are working to increase that number and have opened participation to air, sea, and rail carriers. It makes a real difference. For example, at the Ambassador Bridge in Detroit, it can take up to an average of 54 minutes for a non-participating importer to be cleared across the bridge. Because of the existing flexibility to redesign processes, now, for a C-TPAT participant, the average time is 17 seconds. This benefits the importers by allowing them to have their goods processed more quickly, and benefits government by getting greater security and allowing Customs to focus on higher-risk shipments.

With the Container Security Initiative (CSI), Customs is working with foreign seaports to prescreen sea containers, targeting potentially risky containers before they are shipped to our ports. Governments in the Netherlands, Belgium, and France have formally agreed to participate in CSI. Singapore, which operates one of the largest ports in Asia, has indicated that it will also participate. In four of the top 20 mega-ports -- Rotterdam, Antwerp, LeHavre, and Singapore -- U.S. Customs and the host government soon will be prescreening all cargo containers bound for the United States.

But this consolidation must also be a matter of substance and not just form. I want to echo Secretary O'Neill's statements before the House Select Committee last week: to make this enterprise worthwhile, it is imperative that you grant the new Secretary substantial flexibility. We need a Department that is both accountable and creative, and this requires a new structure allowing flexibility. This structure needs to not only address the current threat, but must also be capable of adjusting as necessary when new and as-yet unforeseen threats appear. Simply rearranging current functions among departments will not capture the essential value-added that is at the heart of the President's proposal. We need flexibility to respond quickly to changing threats.

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I anticipate agreements with additional governments in the near future.

In both cases, Customs has leveraged its broad duties and flexibility to make immediate changes. These programs underscore how Customs can make trade-offs and reach agreements that increase security at the borders while facilitating the flow of trade into and out of the United States.

These are important interim steps, but they are not enough for the long term. The new Secretary, with the flexibility envisioned in the President's plan, needs to be able to create even larger and more dynamic synergies to respond to the changing threats. This need is not be limited to the Customs Service, but should extend to the entire approach to border security -- the President's goal of "one face at the border" -- one-stop shopping for shipments and people seeking to enter the United States.

This illustrates the essential point behind creating a new cabinet Department. There is no other option. We cannot respond to the terrorist threats simply by rearranging the deck chairs. The dramatic reality requires a dramatic transformation in our homeland defense: one based on flexibility, consolidation, and integration of functions.

Without question, major change is never easy. Some have suggested that critical functions, particularly trade, ought to be walled off in the new Department and kept separate from other functions. The worry is that, in a department dedicated to homeland security, trade and other vital functions may get short shrift. And that's a healthy reminder for all of us: even as we secure the home front, we must also guarantee the American people that the myriad current tasks performed by the agencies moving to Homeland Security will continue.

I understand the instinct to wall off some of these vital non-security functions, or to keep them out of the new Department altogether--but such approaches ultimately miss the mark. Rather, such an approach would unduly limit the latitude and accountability of the new Secretary's ability to manage the new Department. It would also diminish the effectiveness of the non-security functions, trade or otherwise, that originally give rise to the concern, by locking current inefficiencies into place. Clearly we must find some middle ground.

Customs' widely varied trade and enforcement functions remain broad, yet wholly intertwined. Customs inspectors, import specialists, and special agents work closely together to enforce trade and anti-smuggling laws.

The same is true in border-related enforcement matters. Collaboration between inspectors on the border and special agents in the field operates more smoothly as a result of Customs' dual missions. In intellectual property piracy, for instance, what begins as an infringement identification often becomes an investigative effort.

Given this vast array of functional interconnectedness, we face the substantial danger of undermining current synergies and successes if some Customs functions are split off from the others.

Instead, to protect these working relationships, the President proposed that the entire Customs Service be transferred into the new Department of Homeland Security. Such a transfer will permit these close working relationships to continue and allow Customs to perform the tasks it has carried out so ably over the years. It will protect our borders from terrorists, administer and enforce our Customs laws, and assist the flow of legitimate commerce. No mission will be left behind. The President's plan strikes the appropriate balance between enforcement and trade facilitation, both of which are critical to our nation's economy and security.

We know that you in the Congress face an exceedingly difficult task under a tight timeframe. We want to work closely with you as you develop the legislation. During the past few weeks, we have worked with several House Committees. The President's proposal will provide the Secretary of Homeland Security enough flexibility to leverage the strengths of the many component parts, provide accountability through clear and workable lines of authority, and create the most efficient possible structure. We will continue to offer our guidance, to share our experience, and to provide any assistance we can.

Thank you again, Mr. Chairman and the members of the Committee, for this opportunity to testify. I am happy to answer any questions you may have.

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Embargoed Until 2:00 P.M. EDT
July 16, 2002

Contact: Betsy Holahan
202-622-2960

**Testimony of Peter R. Fisher
Under Secretary for Domestic Finance
U.S. Department of the Treasury**

**Before the Subcommittee on Capital Markets,
Insurance and Government Sponsored Enterprises
United States House of Representatives**

**GOVERNMENT SPONSORED ENTERPRISES
AND FINANCIAL DISCLOSURE**

Mr. Chairman, Representative Kanjorski, and Members of the Committee, I appreciate the opportunity to provide the Administration's views on government sponsored enterprises (GSEs), in general, and H.R. 4071, the Uniform Securities Disclosure Act, in particular.

I want to commend you, Mr. Chairman, and Members of the Committee for your careful consideration of GSE issues in recent years. You have recognized that, in a constantly changing financial world, we need to pay continuous attention to ensure these organizations continue to serve our objectives as effectively over the coming years as they have in the past.

We share the concerns of the authors of H.R. 4071 about the importance of providing investors with assurance as to the comparability, consistency and sufficiency of GSE financial disclosures. But the Administration cannot support H.R. 4071 because it focuses too narrowly on only two of the GSEs and because we are not prepared to support repeal of their exemptions from the Securities Act of 1933.

The Administration believes that all GSEs should comply with the same corporate disclosure requirements of the Securities Exchange Act of 1934, as interpreted and applied by the Securities and Exchange Commission (SEC). The Administration believes that this can be accomplished without the necessity of legislation.

PO-3259



For this reason, the Administration is pleased that Fannie Mae and Freddie Mac agreed to voluntarily register their common stock under Section 12(g) of the '34 Act, which will ensure that they are required as a matter of federal law to meet current and future SEC requirements for financial disclosure under the '34 Act. Their disclosures will be subject to the regulatory framework established by the SEC and the Office of Federal Housing Enterprise Oversight (OFHEO). We are requesting that other currently exempt GSEs make similar arrangements to voluntarily register with the SEC under the '34 Act.

Last Friday's announcement was made possible by the leadership of Chairman Pitt and Director Falcon and also by Frank Raines and Leland Brendsel. It seems to me though, that this accomplishment would not have been possible without the leadership that you, Mr. Chairman, and the members of this Subcommittee have shown over the last several years on GSE issues.

The Challenge of Multiple Objectives

This Administration is committed to the objective of affordable housing for all Americans and, as a means to that end, to improving homeownership opportunities for minorities. This Administration is also committed to the objective of a sound and resilient financial system and, as a means to that end, to protecting investors by improving the clarity of disclosures about the risks and the rewards to which their investments are exposed. The question is not whether we are committed to either of these objectives but, rather, how we strive to achieve them both simultaneously.

To do this we look to mobilize the private sector to bring even more capital to bear both in creating housing opportunities and in the financial intermediation that supports and prices the relevant risks and rewards. If we are going to rely on private capital to achieve these objectives then we need to work even harder to improve the quality of the information that shareholders and creditors receive. And if we are going to rely, in part, on the vehicle of GSEs, we have no less of a need to inspire confidence in the sufficiency and comparability of the disclosures by GSEs to the investors whose capital we seek to employ.

The GSEs are privately owned but federally-chartered companies, created by Congress to help overcome barriers to the flow of credit into certain segments of the economy – housing, agriculture, and education. They are private companies that are not backed by the full faith and credit of the federal government. Today, the largest GSEs – Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System – are focused on housing. Two other GSEs – Farmer Mac and the Farm Credit System – are focused on agriculture. One GSE – the Student Loan Marketing Association – is focused on education and is now in the process of a congressionally mandated transition to full privatization.

Although GSEs were created to help bring the capital of private investors to bear on these societal goals, only Farmer Mac – the most recently created GSE – is fully subject to the disclosure regime that informs investors and is administered by the SEC under our nation's securities laws.

Given the size and importance of each of the GSE's operations in our capital markets and banking system, continued operation outside of the SEC-administered corporate disclosure regime is inconsistent with our objective for investor protection and for a sound and resilient financial system and will only hamper our efforts to bring even more capital to bear on the objective of affordable housing and, more generally, on all the objectives served by GSEs.

In sum, the GSEs – and particularly the three housing GSEs – are no longer modest experiments on the fringes of our financial system. They are large, rapidly growing and important players in our capital markets and in our banking system. As such, they need to be role models for our system of investor protection, not exceptions to it.

All GSEs Should Be In Compliance With the '34 Act

H.R. 4071 – the Uniform Securities Disclosure Act – would repeal Fannie Mae's and Freddie Mac's exemptions from both the Securities Act of 1933 and the Securities Exchange Act of 1934. The '33 Act requires a public company to submit a registration statement and prospectus when bringing new issues to market. Registration under the '34 Act triggers periodic disclosure requirements about the financial condition and management of companies that issue securities.

We do not see a basis for removing the '34 Act exemptions only for Fannie Mae and Freddie Mac. Instead, we support the application of the '34 Act disclosure requirements to all currently exempt GSEs, triggered by their voluntary registration under the '34 Act.

Fannie Mae and Freddie Mac are two well run companies that have done much in recent years to provide their investors with high quality financial disclosures. However, as they have recognized and the Administration has agreed, the time has come for their investors to be assured that the level and quality of the corporate disclosures they receive are the same as those that are made by any other company that actively participates in our capital markets.

The only way to achieve this assurance of comparability is to have each GSE agree to comply with the disclosure requirements of the '34 Act as interpreted and applied by the SEC. This ensures that investors will receive the benefit of knowing that GSE disclosures are consistent with those of other companies as determined by the SEC, consistent with the changes in disclosure requirements as they are implemented over time by the SEC, and that GSE disclosures are available on a consistent basis through the SEC's EDGAR system. To accomplish this, the Administration is requesting that each of the GSEs initiate a process with the SEC that will result in the application of the disclosures required under the '34 Act.

The Administration is pleased that Fannie Mae and Freddie Mac reached agreement last Friday with the SEC and the OFHEO to do exactly this – to establish a regulatory framework that will ensure their complete compliance with the requirements of the '34 Act. As Secretary O'Neill said, we applaud "Fannie Mae and Freddie Mac's self-initiated compliance with the corporate disclosure requirements of the Securities Exchange Act of 1934.

The President has called on corporate leaders across the nation to examine their disclosure practices and ensure that they are doing everything they can to provide investors with accurate, timely and useful information consistent with best practices. Frank Raines and Leland Brendsel are stepping up to that challenge."

Under Section 12(g) of the '34 Act an issuer that is not otherwise subject to the requirements of the Act may register its common stock with the SEC, thereby triggering obligations under Section 13 of the Act to file periodic financial and material event disclosures with the SEC on an ongoing basis. The Section 13 disclosure requirements include filing 10-K annual reports, 10-Q quarterly reports, and 8-K material event reports.

Although the process begins at the initiative of the company, once the initial filing is made, the issuer is henceforth required to make all the appropriate filings, reports and disclosures in the same manner as any other company subject to the '34 Act. Fannie Mae and Freddie Mac have agreed with the SEC to register their common stock under Section 12(g) of the '34 Act.

In addition, to ensure compliance with all of the provisions of the '34 Act, as part of the regulatory framework agreed last week, OFHEO has agreed to promulgate a rule requiring that Fannie Mae and Freddie Mac, and their respective officers and directors, file all statements, reports and forms required by Sections 14 and 16 of the '34 Act with the SEC (and concurrently with OFHEO). The effect of this rule will be that Fannie Mae and Freddie Mac will have to comply with the SEC's requirements that officers and directors report any purchases or sales of common stock of the companies, that the companies file with the SEC proxy statements relating to annual or special shareholder meetings, and that their proxy statements be subject to review and comment by the staff of the SEC. As SEC Chairman Pitt said on Friday, "[t]his agreement also reflects a commitment to the goals the President has called upon us to meet, and toward which we are working: exemplary corporate governance, complete transparency of financial information and full and fair disclosure."

The SEC and OFHEO, and Fannie Mae and Freddie Mac, have worked hard so that this framework can provide a role model for smart, efficient regulation. This arrangement reinforces the principle of functional regulation, ensuring that the SEC administers and enforces our regime for investor protection, that OFHEO maintains its responsibilities for the safety and soundness of the housing enterprises' operations and that there will no duplication or overlap between them.

It should be noted that OFHEO, of course, retains its own authority to require such public disclosures of Fannie Mae and Freddie Mac as it deems necessary or appropriate under its safety and soundness mandate to regulate the enterprises. This is an area of some considerable interest to me, having worked on several projects to develop enhanced risk disclosures for financial intermediaries prior to my service at the Treasury. I look forward to working with Director Falcon to consider whether and how enhanced risk disclosure concepts might be applied to the housing enterprises.

We have requested the other GSEs to begin working with the SEC and their regulators to achieve a comparable arrangement with the SEC that would subject them to the same set of disclosure requirements.

A Study of Initial Offering Disclosures for All Issuers of Mortgage-Backed Securities

The Administration is not prepared to support repeal of the GSEs' exemptions from the '33 Act, and the Office of Federal Housing Enterprise Oversight is not pursuing a securities registration regime for Fannie Mae and Freddie Mac.

However, the Administration would like to promote a more level-playing field with respect to initial offering disclosures between GSE and non-GSE mortgage-backed securities (MBS) issuers and wants to ensure the adequacy of disclosures to investors in all mortgage-backed securities. As announced last Friday, the Treasury, SEC, and OFHEO will conduct a study of how this can best be achieved consistent with the Administration's objectives for both affordable housing and a sound and resilient financial system. The three agencies will study the disclosures now provided by MBS issuers with a view to ensuring that our MBS market continues to function smoothly, that investors receive the information they need to price these instruments, and that issuers do not face duplicative requirements. We will study how we can create a more level playing field and greater comparability of disclosures.

Requiring the GSEs to register their securities under the '33 Act could have certain benefits, including uniformity and consistency of disclosures for new offerings. But such a change has the potential for disrupting a large and well-functioning market and imposing burdens and added costs. Consequently, application of the '33 Act to the GSEs mortgage-backed market without much greater consideration of the costs of moving from one regime to the other would likely, in the short run, compromise our objectives for both affordable housing and for a sound and resilient financial system.

At present, out of a total mortgage-backed market of \$3.9 trillion, there are over \$2.3 trillion in GSE issued mortgage-backed securities outstanding that have come into the market completely outside of the requirements of the '33 Act. There are also, at present, \$916 billion in mortgage-backed securities issued by non-GSEs that are subject to some but not all of the provisions of the '33 Act, under certain limited exemptions for "mortgage-related securities."

We would like to take a fresh look at the initial offering materials of mortgage-backed securities. To do this, the Treasury, SEC, and OFHEO will conduct a joint study. Together we will listen carefully to the securities industry, investors, Fannie Mae, Freddie Mac, Ginnie Mae, private-label issuers and others in the regulatory community to gain a fuller understanding of the market structure, the nature of competition, and the risks being priced and transferred. This will serve as background to a fundamental reconsideration of the initial offering disclosures that would best serve all of the participants in mortgage-backed markets and be most consistent with our twin objectives for affordable housing and a sound and resilient financial system. Our overall aim will be to recommend how investors can receive clear, concise and useful information about the risks and rewards of MBS.

We will complete our review of initial offering disclosures of all MBS issuers, and report back to this Committee, and other interested congressional committees, early in the first session of the next Congress.

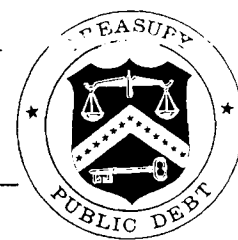
Conclusion

Our system of regulating securities markets has served our country well for almost seventy years. That does not mean that we can be content. Our financial markets and financial institutions have evolved and expanded in ways that were unimaginable just a few decades ago. Constant attention is necessary to ensure that our system of investor protection and our system of government sponsored enterprises continues to serve us as well in the future as they have in the past.

Thank you again for providing me with the opportunity to discuss these important issues with the Committee today.

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
July 16, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term: 28-Day Bill
Issue Date: July 18, 2002
Maturity Date: August 15, 2002
CUSIP Number: 912795KW0

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 65.94%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 50,731,000	\$ 19,971,570
Noncompetitive	28,627	28,627
FIMA (noncompetitive)	0	0
SUBTOTAL	50,759,627	20,000,197
Federal Reserve	660,788	660,788
TOTAL	\$ 51,420,415	\$ 20,660,985

Median rate 1.685%: 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 = 50,759,627 / 20,000,197 = 2.54

1/ Equivalent coupon-issue yield.

<http://www.publicdebt.treas.gov>

PO-3260

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NEWS

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For Immediate Release
Wednesday, July 17, 2002

Contact: Tasia Scolinos
(202) 622-2960

**Statement from Treasury Secretary Paul O'Neill in Support of
President Bush's National Strategy on Homeland Security**

"Today President Bush outlined for the country a comprehensive strategy to protect our country from future terrorist attacks. The strategy focuses on utilizing new technologies and improving coordination between existing government resources to better protect Americans. The President is already moving forward to implement these important goals, proposing last month to integrate our border security agencies. Today's strategy articulates specific steps to strengthen our nation's security by reducing the redundancy and duplications which limit the efficiency and effectiveness of our current system."

-30-

PO-3261

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For Immediate Release
Wednesday, July 17, 2002

Contact: Tasia Scolinos
(202) 622-2960

**Statement from Treasury Under Secretary Jimmy Gurulé in Support of
President Bush's National Strategy on Homeland Security**

"Today's strategy reinforces the importance of the President's proposed reorganization of the security agencies tasked with protecting America's borders. By placing Customs, the Coast Guard, INS and TSA under the same department we will be one step closer toward creating the smart border of the future. Today's rollout makes it clear to the terrorists and to the world that we have not forgotten September 11th. We are more committed than ever to protecting our borders and securing our citizens with every resource we have available to us."

-30-

PO-3262

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FOR IMMEDIATE RELEASE
WEDNESDAY, JULY 17, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

**Treasury and Federal Financial Regulators Issue
Patriot Act Regulations on Customer Identification**

The Department of the Treasury and seven federal financial regulators today issued proposed rules that would require certain financial institutions to establish minimum procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Written comments on the proposed rules may be submitted within 45 days of their publication in the Federal Register, which is expected to occur later this week.

These proposed rules implement section 326 of the USA PATRIOT Act, which directs the issuance of regulations requiring financial institutions to implement reasonable procedures for (1) verifying the identity of any person seeking to open an account, to the extent reasonable and practicable; (2) maintaining records of the information used to verify the person's identity and; (3) determining whether the person appears on any list of known or suspected terrorists or terrorist organizations. Final rules implementing section 326 must be effective by October 25, 2002.

The proposed rules seek to protect the U.S. financial system from money laundering and terrorist financing. Additionally, by requiring identity verification procedures for all new accounts opened after the effective date of the final rules, the rules could also protect consumers against various forms of fraud, including identity theft.

The proposed rules were developed jointly by the Treasury Department, Treasury's Financial Crimes Enforcement Network and seven federal financial regulators, including the Board of Governors of the Federal Reserve System, Commodity Futures Trading Commission, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, Office of Thrift Supervision, and Securities and Exchange Commission.

PO-3263

The proposed rules outline requirements for the following financial institutions: banks and trust companies, savings associations, credit unions, securities brokers and dealers, mutual funds, futures commission merchants, and futures introducing brokers.

The financial institutions subject to the proposed rules would be required to establish programs specifying procedures for obtaining identifying information from customers seeking to open new accounts. This identifying information would be essentially the same information currently obtained by most financial institutions and for individual customers generally, including the customer's name, address, date of birth and an identification number (for U.S. persons, a social security number and for non-U.S. persons, a similar number from a government-issued document). Customers with signature authority over business accounts would furnish substantially similar information.

A financial institution's program would also have to contain procedures to verify the identity of customers within a reasonable period of time. The proposed rules contemplate that financial institutions will generally use the same forms of identity verification that are already in place, such as examining driver's licenses, passports, credit reports, and other similar means.

While every program must meet these minimum elements, the proposed rules give financial institutions the flexibility to tailor their procedures as appropriate, taking into consideration an individual institution's size, location, and type of business. In developing these regulations, the importance of many factors was taken into account, including the need to guard the U.S. financial system against terrorist financing and money laundering, the legitimate privacy interests of customers, and the need for these regulations to be effectively integrated into the daily operations of financial institutions.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Embargoed Until 11:45 A.M. EDT
WEDNESDAY, JULY 17, 2002

CONTACT: BETSY HOLAHAN (TREASURY)
202-622-2960
JIM COURTNEY (SSA)
410-965-8904

Treasury Department and Social Security Administration Announce Plans to Develop ID Verification System to Help Fight Identity Fraud

The Treasury Department and the Social Security Administration (SSA) today announced an agreement to develop and implement a system by which financial institutions may access a database to verify the authenticity of Social Security Numbers provided by customers at account opening.

Details of the system are still being worked out. The agencies plan to develop a system where checks could be done through online access after the customer has consented to such a check.

Verifying the authenticity of a Social Security Number does not ensure that the person who provided the information is in fact that person. Guidelines would be set to determine what proof of identification would be required by financial institutions.

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PO-3264

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NEWS

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EMBARGOED UNTIL 2:30 P.M.
July 17, 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 \$21,052 million of publicly held notes maturing July 31, 2002, and to raise new cash of approximately \$5,948 million.

In addition to the public holdings, Federal Reserve Banks hold \$6,237 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 \$772 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-3265

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

July 17, 2002

Offering Amount \$27,000 million
Public Offering \$27,000 million

Description of Offering:

Term and type of security 2-year notes
Series Q-2004
CUSIP number 912828 AG 5
Auction date July 24, 2002
Issue date July 31, 2002
Dated date July 31, 2002
Maturity date July 31, 2004
Interest rate Determined based on the highest
accepted competitive bid
Yield Determined at auction
Interest payment dates January 31 and July 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 HD 2
Due date(s) and CUSIP number(s)
for additional TINT(s) July 31, 2004 - - 912833 YX 2

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.

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EMBARGOED UNTIL 2:30 P.M.
July 18, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling \$32,000 million to refund an estimated \$23,321 million of publicly held 13-week and 26-week Treasury bills maturing July 25, 2002, and to raise new cash of approximately \$8,679 million. Also maturing is an estimated \$16,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced July 22, 2002.

The Federal Reserve System holds \$11,219 million of the Treasury bills maturing on July 25, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders either in these auctions or the 4-week Treasury bill auction to be held July 23, 2002. Amounts awarded to SOMA will be in addition to the offering amount.

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

TreasuryDirect customers have requested that we reinvest their maturing holdings of approximately \$1,052 million into the 13-week bill and \$700 million into the 26-week bill.

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

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

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

oOo

Attachment

0-3266

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HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED JULY 25, 2002

July 18, 2002

<u>Offering Amount</u>	\$16,000 million	\$16,000 million
<u>Public Offering</u>	\$16,000 million	\$16,000 million
<u>NLP Exclusion Amount</u>	\$ 3,800 million	None

Description of Offering:

Term and type of security.....	91-day bill	182-day bill
CUSIP number.....	912795 LG 4	912795 LV 1
Auction date.....	July 22, 2002	July 22, 2002
Issue date.....	July 25, 2002	July 25, 2002
Maturity date.....	October 24, 2002	January 23, 2003
Original issue date.....	April 25, 2002	July 25, 2002
Currently outstanding.....	\$15,431 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.

FEDERAL FINANCING BANK July 31, 2002

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

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled \$37.1 billion on June 30, 2002, posting a decrease of \$84.2 million from the level on May 31, 2002. This net change was the result of a decrease in holdings of agency assets of \$165.0 million and an increase in holdings of government-guaranteed loans of \$80.8 million. The FFB made 48 disbursements and received 14 prepayments during the month of June.

Attached to this release are tables presenting FFB June loan activity and FFB holdings as of June 30, 2002.

FEDERAL FINANCING BANK
JUNE 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
GOVERNMENT-GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Atlanta CDC Lab	6/05	\$38,348.78	1/30/31	5.705% S/A
Atlanta CDC Lab	6/13	\$21,377.35	1/30/31	5.639% S/A
Atlanta CDC Lab	6/19	\$30,829.30	1/30/31	5.556% S/A
San Francisco OB	6/24	\$50,674.62	8/01/05	3.554% S/A
DEPARTMENT OF EDUCATION				
Barber-Scotia College	6/07	\$247,924.00	3/01/30	5.592% S/A
Duskegee Univ.	6/10	\$1,738,872.86	1/02/32	5.672% S/A
Livingstone College	6/17	\$282,667.37	7/01/31	5.393% S/A
Virginia Union Univ.	6/17	\$1,380,379.03	1/02/32	5.401% S/A
Lincoln University	6/21	\$329,687.37	1/02/15	4.608% S/A
Livingstone College	6/21	\$61,100.16	7/01/31	5.435% S/A
Livingstone College	6/21	\$407,551.26	7/01/31	5.435% S/A
Virginia Union Univ.	6/24	\$603,814.71	1/02/32	5.384% S/A
RURAL UTILITIES SERVICE				
East Kentucky Power #753	6/04	\$6,000,000.00	12/31/30	5.553% Qtr.
Southside Electric #786	6/04	\$2,500,000.00	12/31/35	5.614% Qtr.
Great River Energy #738	6/06	\$13,637,000.00	12/31/14	5.119% Qtr.
Victory Electric #782	6/07	\$1,000,000.00	12/31/35	5.609% Qtr.
Ataula Electric #585	6/11	\$600,000.00	7/02/12	4.993% Qtr.
Madison Valley Datanet #833	6/12	\$5,000,000.00	9/30/02	1.756% Qtr.
Madison Valley Datanet #833	6/12	\$3,648,000.00	3/31/04	2.952% Qtr.
Madison Valley Datanet #833	6/12	\$5,000,000.00	4/02/07	4.176% Qtr.
Wavalli #641	6/12	\$695,000.00	10/01/12	4.946% Qtr.
Wierlands Elec. #621	6/13	\$723,000.00	1/03/34	5.512% Qtr.
Wright-County Elec. Coop. #646	6/13	\$2,500,000.00	1/02/35	5.523% Qtr.
Atlantic Telephone Mem. #805	6/14	\$5,931,000.00	9/30/02	1.725% Qtr.
Home Power #480	6/14	\$4,400,000.00	12/31/31	5.454% Qtr.
Illinois Power #792	6/14	\$1,010,000.00	1/02/35	5.492% Qtr.
North Central Elec. #638	6/17	\$1,500,000.00	9/30/03	2.403% Qtr.
Howie-Cass Electric Coop. #835	6/18	\$7,000,000.00	1/02/35	5.327% Qtr.
Warren Telephone Co. #719	6/18	\$273,000.00	9/30/02	1.747% Qtr.
Little Ocmulgee Electric #816	6/20	\$2,500,000.00	12/31/36	5.394% Qtr.
Phono O'odham Util. #597	6/21	\$350,000.00	1/03/34	5.429% Qtr.
Frontier Power #667	6/25	\$1,172,000.00	1/02/35	5.443% Qtr.
Madison Valley Datanet #833	6/26	\$2,000,000.00	9/30/02	1.727% Qtr.
South Miss. Elec. #691	6/26	\$6,759,000.00	12/31/30	5.406% Qtr.
Marroll Elec. #618	6/27	\$300,000.00	1/03/34	5.366% Qtr.
W.S. & O Rural Elec. #839	6/27	\$2,380,000.00	12/31/36	5.407% Qtr.
Wynches River Elec. #634	6/27	\$600,000.00	9/30/04	2.875% Qtr.
National Power #788	6/27	\$3,792,000.00	12/31/30	5.174% Qtr.
National Power #789	6/27	\$16,881,000.00	12/31/30	5.174% Qtr.

FEDERAL FINANCING BANK
JUNE 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
Washington Electric #655	6/27	\$1,000,000.00	1/02/35	5.380% Qtr.
Agralite Elec. #543	6/28	\$650,000.00	1/03/34	5.458% Qtr.
Basin Electric #425	6/28	\$13,550,000.00	9/30/02	1.826% Qtr.
Butler County Rural Elec. #832	6/28	\$1,311,000.00	9/30/02	1.697% Qtr.
Central Elec. Power #424	6/28	\$425,000.00	1/03/28	5.341% Qtr.
Charles Mix Elec. #630	6/28	\$255,000.00	12/31/30	5.407% Qtr.
Southeastern Indiana #496	6/28	\$950,000.00	1/03/33	5.417% Qtr.
Sho-Me Power #480	6/28	\$666,000.00	12/31/31	5.426% Qtr.
Wild Rice Elec. #806	6/28	\$350,000.00	12/31/35	5.485% Qtr.

S/A is a Semiannual rate.
Qtr. is a Quarterly rate.

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	June 30, 2002	May 31, 2002	Monthly Net Change 6/1/02- 6/30/02	Fiscal Year Net Change 10/1/01- 6/30/02
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	\$1,275.0	\$1,440.0	-\$165.0	-\$1,160.0
FmHA-RHIF	\$3,835.0	\$3,835.0	\$0.0	-\$540.0
Rural Utilities Service-CBO	\$4,270.2	\$4,270.2	\$0.0	\$0.0
Subtotal*	\$9,380.2	\$9,545.2	-\$165.0	-\$1,700.0
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	\$2,004.3	\$2,024.0	-\$19.6	-\$152.3
DoEd-HBCU+	\$62.3	\$57.3	\$5.1	\$31.0
DHUD-Community Dev. Block Grant	\$6.6	\$6.6	\$0.0	-\$1.2
DHUD-Public Housing Notes	\$1,207.3	\$1,207.3	\$0.0	-\$71.4
General Services Administration+	\$2,214.2	\$2,233.1	-\$18.9	-\$53.8
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	\$14,301.1	\$14,183.8	\$117.3	\$701.9
SBA-State/Local Development Cos.	\$108.1	\$111.2	-\$3.1	-\$23.8
DOT-Section 511	\$3.3	\$3.3	\$0.0	-\$0.1
Subtotal*	\$20,760.4	\$20,679.6	\$80.8	\$329.0
Grand total*	\$37,090.6	\$37,174.8	-\$84.2	-\$5,734.0

* figures may not total due to rounding

+ does not include capitalized interest

TREASURY



NEWS

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FOR IMMEDIATE RELEASE
July 19, 2002

Contact: Tasia Scolinos
(202) 622-2960

Treasury Under Secretary Jimmy Gurulé Addresses NOBLE on the New Department of Homeland Security

WHAT: Treasury Under Secretary Jimmy Gurulé will be delivering the keynote address to the National Organization of Black Law Enforcement Executives (NOBLE) on the new Department of Homeland Security and terrorist financing.

WHEN: Monday, July 22, 12:00 p.m.

WHERE: Tampa Convention Center 333 South Franklin Street Tampa, FL 33602

DETAILS: The speech will be open to the press and the Under Secretary will be available after the speech at the Convention Center's press room to answer any follow up questions. Please call Tasia Scolinos at (202) 622-2960 or (202) 622-1260 with any follow up questions.

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PO-3269





FOR IMMEDIATE RELEASE
JULY 19, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Treasury Issues Guidance on the USA PATRIOT Act, Pending Issuance of Final Rule

The Department of the Treasury and Treasury's Financial Crimes Enforcement Network (FinCEN) today issued an interim rule advising financial institutions on how to comply with the statutory provisions of section 312 of the USA PATRIOT Act, pending issuance of the final rule that will be published by October 25, 2002.

Section 312, which takes effect on July 23, 2002, requires due diligence and enhanced due diligence for correspondent and private banking accounts maintained for non-U.S. persons. Under the interim rule, banks, savings associations, and credit unions must comply with the terms of section 312. Securities brokers and dealers, futures commission merchants, and introducing brokers will be required to comply with section 312 with regard to private banking accounts for non-U.S. persons. Finally, Treasury is deferring application of section 312 to all other financial institutions until the Department outlines the extent of their obligations in the final rule.

The interim rule contains guidance for banks, savings associations, credit unions, securities brokers and dealers, futures commission merchants, and introducing brokers that must comply with some or all provisions of section 312 prior to publication of a final rule. This interim guidance will remain in effect until Treasury issues a final rule. The interim guidance does not reflect the full range of due diligence procedures that will be required of financial institutions by the final rule.

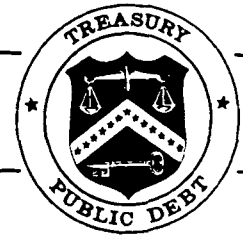
Treasury previously issued a proposed rule on May 30, 2002, proposing to apply the broad statutory provisions contained in section 312 to a wide array of financial institutions. The proposed requirements under that rule are significant, and public comments have raised substantial and important concerns about the scope of the regulation, the types of financial institutions to which it applies, and the major definitions applicable to this section. For example, comments consistently noted that the definition of "correspondent account," which is central to section 312, is overly broad and difficult to implement. Moreover, Treasury is responsible for drafting definitions for key terms applicable to financial institutions other than banks. Additional time is necessary to give proper consideration to these definitions and the text of the proposed rule in light of the comments received.

PO-3270

Treasury is issuing this interim rule to clarify the obligations of financial institutions pending issuance of a final rule.

PUBLIC DEBT NEWS

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



FOR IMMEDIATE RELEASE
July 19, 2002

Contact: Office of Financing
202-691-3550

TREASURY'S INFLATION-INDEXED SECURITIES AUGUST 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 August for the following Treasury inflation-indexed securities:

- (1) 3-3/8% 10-year notes due January 15, 2007
- (2) 3-5/8% 10-year notes due January 15, 2008
- (3) 3-5/8% 30-year bonds due April 15, 2028
- (4) 3-7/8% 10-year notes due January 15, 2009
- (5) 3-7/8% 30-year bonds due April 15, 2029
- (6) 4-1/4% 10-year notes due January 15, 2010
- (7) 3-1/2% 10-year notes due January 15, 2011
- (8) 3-3/8% 30-1/2-year bonds due April 15, 2032
- (9) 3-3/8% 10-year notes due January 15, 2012
- (10) 3% 10-year notes due July 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 3267. The information is also available on the Internet at Public Debt's website (<http://www.publicdebt.treas.gov>).

The information for September is expected to be released on August 16, 2002.

o0o

Attachment

PA-567

PO-3271

<http://www.publicdebt.treas.gov>

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

Security:		3-3/8% 10-Year Notes	3-5/8% 10-Year Notes	3-5/8% 30-Year Bonds	3-7/8% 10-Year Notes
Description:		Series A-2007	Series A-2008	Bonds of April 2028	Series A-2009
CUSIP Number:		9128272M3	9128273T7	912810FD5	9128274Y5
Dated Date:		January 15, 1997	January 15, 1998	April 15, 1998	January 15, 1999
Original Issue Date:		February 6, 1997	January 15, 1998	April 15, 1998	January 15, 1999
Additional Issue Date(s):		April 15, 1997	October 15, 1998	July 15, 1998	July 15, 1999
Maturity Date:		January 15, 2007	January 15, 2008	April 15, 2028	January 15, 2009
Ref CPI on Dated Date:		158.43548	161.55484	161.74000	164.00000
Date	Ref CPI	Index Ratio	Index Ratio	Index Ratio	Index Ratio
Aug. 1 2002	179.80000	1.13485	1.11293	1.11166	1.09634
Aug. 2 2002	179.80323	1.13487	1.11295	1.11168	1.09636
Aug. 3 2002	179.80645	1.13489	1.11297	1.11170	1.09638
Aug. 4 2002	179.80968	1.13491	1.11299	1.11172	1.09640
Aug. 5 2002	179.81290	1.13493	1.11301	1.11174	1.09642
Aug. 6 2002	179.81613	1.13495	1.11303	1.11176	1.09644
Aug. 7 2002	179.81935	1.13497	1.11305	1.11178	1.09646
Aug. 8 2002	179.82258	1.13499	1.11307	1.11180	1.09648
Aug. 9 2002	179.82581	1.13501	1.11309	1.11182	1.09650
Aug. 10 2002	179.82903	1.13503	1.11311	1.11184	1.09652
Aug. 11 2002	179.83226	1.13505	1.11313	1.11186	1.09654
Aug. 12 2002	179.83548	1.13507	1.11315	1.11188	1.09656
Aug. 13 2002	179.83871	1.13509	1.11317	1.11190	1.09658
Aug. 14 2002	179.84194	1.13511	1.11319	1.11192	1.09660
Aug. 15 2002	179.84516	1.13513	1.11321	1.11194	1.09662
Aug. 16 2002	179.84839	1.13515	1.11323	1.11196	1.09664
Aug. 17 2002	179.85161	1.13517	1.11325	1.11198	1.09666
Aug. 18 2002	179.85484	1.13519	1.11327	1.11200	1.09668
Aug. 19 2002	179.85806	1.13521	1.11329	1.11202	1.09670
Aug. 20 2002	179.86129	1.13523	1.11331	1.11204	1.09672
Aug. 21 2002	179.86452	1.13525	1.11333	1.11206	1.09673
Aug. 22 2002	179.86774	1.13527	1.11335	1.11208	1.09675
Aug. 23 2002	179.87097	1.13529	1.11337	1.11210	1.09677
Aug. 24 2002	179.87419	1.13532	1.11339	1.11212	1.09679
Aug. 25 2002	179.87742	1.13534	1.11341	1.11214	1.09681
Aug. 26 2002	179.88065	1.13536	1.11343	1.11216	1.09683
Aug. 27 2002	179.88387	1.13538	1.11345	1.11218	1.09685
Aug. 28 2002	179.88710	1.13540	1.11347	1.11220	1.09687
Aug. 29 2002	179.89032	1.13542	1.11349	1.11222	1.09689
Aug. 30 2002	179.89355	1.13544	1.11351	1.11224	1.09691
Aug. 31 2002	179.89677	1.13546	1.11353	1.11226	1.09693
CPI-U (NSA) for :		April 2002 179.8	May 2002 179.8	June 2002 179.9	

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

Security:		3-7/8% 30-Year Bonds	4-1/4% 10-Year Notes	3-1/2% 10-Year Notes	3-3/8% 30-1/2-Year Bonds
Description:		Bonds of April 2029	Series A-2010	Series A-2011	Bonds of April 2032
CUSIP Number:		912810FH6	9128275W8	9128276R8	912810FQ6
Dated Date:		April 15, 1999	January 15, 2000	January 15, 2001	October 15, 2001
Original Issue Date:		April 15, 1999	January 18, 2000	January 16, 2001	October 15, 2001
Additional Issue Date(s):		October 15, 1999 October 15, 2000	July 15, 2000	July 16, 2001	
Maturity Date:		April 15, 2029	January 15, 2010	January 15, 2011	April 15, 2032
Ref CPI on Dated Date:		164.39333	168.24516	174.04516	177.50000
Date	Ref CPI	Index Ratio	Index Ratio	Index Ratio	Index Ratio
Aug. 1 2002	179.80000	1.09372	1.06868	1.03307	1.01296
Aug. 2 2002	179.80323	1.09374	1.06870	1.03308	1.01298
Aug. 3 2002	179.80645	1.09376	1.06872	1.03310	1.01299
Aug. 4 2002	179.80968	1.09378	1.06874	1.03312	1.01301
Aug. 5 2002	179.81290	1.09380	1.06876	1.03314	1.01303
Aug. 6 2002	179.81613	1.09382	1.06877	1.03316	1.01305
Aug. 7 2002	179.81935	1.09384	1.06879	1.03318	1.01307
Aug. 8 2002	179.82258	1.09386	1.06881	1.03319	1.01308
Aug. 9 2002	179.82581	1.09388	1.06883	1.03321	1.01310
Aug. 10 2002	179.82903	1.09389	1.06885	1.03323	1.01312
Aug. 11 2002	179.83226	1.09391	1.06887	1.03325	1.01314
Aug. 12 2002	179.83548	1.09393	1.06889	1.03327	1.01316
Aug. 13 2002	179.83871	1.09395	1.06891	1.03329	1.01318
Aug. 14 2002	179.84194	1.09397	1.06893	1.03331	1.01319
Aug. 15 2002	179.84516	1.09399	1.06895	1.03332	1.01321
Aug. 16 2002	179.84839	1.09401	1.06897	1.03334	1.01323
Aug. 17 2002	179.85161	1.09403	1.06899	1.03336	1.01325
Aug. 18 2002	179.85484	1.09405	1.06900	1.03338	1.01327
Aug. 19 2002	179.85806	1.09407	1.06902	1.03340	1.01328
Aug. 20 2002	179.86129	1.09409	1.06904	1.03342	1.01330
Aug. 21 2002	179.86452	1.09411	1.06906	1.03344	1.01332
Aug. 22 2002	179.86774	1.09413	1.06908	1.03345	1.01334
Aug. 23 2002	179.87097	1.09415	1.06910	1.03347	1.01336
Aug. 24 2002	179.87419	1.09417	1.06912	1.03349	1.01338
Aug. 25 2002	179.87742	1.09419	1.06914	1.03351	1.01339
Aug. 26 2002	179.88065	1.09421	1.06916	1.03353	1.01341
Aug. 27 2002	179.88387	1.09423	1.06918	1.03355	1.01343
Aug. 28 2002	179.88710	1.09425	1.06920	1.03357	1.01345
Aug. 29 2002	179.89032	1.09427	1.06922	1.03358	1.01347
Aug. 30 2002	179.89355	1.09429	1.06923	1.03360	1.01348
Aug. 31 2002	179.89677	1.09431	1.06925	1.03362	1.01350
CPI-U (NSA) for :		April 2002 179.8	May 2002 179.8	June 2002 179.9	

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

Security: Description: CUSIP Number: Dated Date: Original Issue Date: Additional Issue Date(s): Maturity Date: Ref CPI on Dated Date:		3-3/8% 10-Year Notes Series A-2012 9128277J5 January 15, 2002 January 15, 2002 January 15, 2012 177.56452	3% 10-Year Notes Series C-2012 912828AF7 July 15, 2002 July 15, 2002 July 15, 2012 179.80000		
	Date	Ref CPI	Index Ratio	Index Ratio	
	Aug. 1 2002	179.80000	1.01259	1.00000	
	Aug. 2 2002	179.80323	1.01261	1.00002	
	Aug. 3 2002	179.80645	1.01263	1.00004	
	Aug. 4 2002	179.80968	1.01264	1.00005	
	Aug. 5 2002	179.81290	1.01266	1.00007	
	Aug. 6 2002	179.81613	1.01268	1.00009	
	Aug. 7 2002	179.81935	1.01270	1.00011	
	Aug. 8 2002	179.82258	1.01272	1.00013	
	Aug. 9 2002	179.82581	1.01274	1.00014	
	Aug. 10 2002	179.82903	1.01275	1.00016	
	Aug. 11 2002	179.83226	1.01277	1.00018	
	Aug. 12 2002	179.83548	1.01279	1.00020	
	Aug. 13 2002	179.83871	1.01281	1.00022	
	Aug. 14 2002	179.84194	1.01283	1.00023	
	Aug. 15 2002	179.84516	1.01284	1.00025	
	Aug. 16 2002	179.84839	1.01286	1.00027	
	Aug. 17 2002	179.85161	1.01288	1.00029	
	Aug. 18 2002	179.85484	1.01290	1.00031	
	Aug. 19 2002	179.85806	1.01292	1.00032	
	Aug. 20 2002	179.86129	1.01293	1.00034	
	Aug. 21 2002	179.86452	1.01295	1.00036	
	Aug. 22 2002	179.86774	1.01297	1.00038	
	Aug. 23 2002	179.87097	1.01299	1.00039	
	Aug. 24 2002	179.87419	1.01301	1.00041	
	Aug. 25 2002	179.87742	1.01303	1.00043	
	Aug. 26 2002	179.88065	1.01304	1.00045	
	Aug. 27 2002	179.88387	1.01306	1.00047	
	Aug. 28 2002	179.88710	1.01308	1.00048	
	Aug. 29 2002	179.89032	1.01310	1.00050	
	Aug. 30 2002	179.89355	1.01312	1.00052	
	Aug. 31 2002	179.89677	1.01313	1.00054	
CPI-U (NSA) for :		April 2002	179.8	May 2002	179.8
				June 2002	179.9

TREASURY



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For Immediate Release
July 22, 2002

Contact: Tara Bradshaw
(202) 622-2014

**UNITED STATES AND UNITED KINGDOM SIGN
PROTOCOL TO INCOME TAX CONVENTION**

The Treasury Department announces that a Protocol to the Income Tax Convention between the United States and the United Kingdom was signed at the State Department on July 19, 2002.

The Protocol amends the income tax treaty signed last year between the United States and the United Kingdom. The Protocol provides technical clarification of certain provisions of the proposed treaty and reinstates the article of the existing income tax treaty that provides benefits to teachers participating in cross-border exchange programs.

Following completion of ratification procedures in both countries, the proposed Convention, as amended by the Protocol, will replace the existing tax treaty between the United States and the United Kingdom, which has been in effect since 1980. In the United States, the proposed Convention and Protocol are subject to the Senate's advice and consent to ratification.

The text of the Protocol is attached.

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PO-3272



BILLING CODE 4810-02

DEPARTMENT OF THE TREASURY

31 CFR Part 103

RIN 1506-AA29

Financial Crimes Enforcement Network; Anti-Money Laundering Programs; Special Due Diligence Programs for Certain Foreign Accounts.

AGENCY: Financial Crimes Enforcement Network (FinCEN), Treasury.

ACTION: Interim final rule.

SUMMARY: Treasury and FinCEN are issuing an interim final rule temporarily deferring for certain financial institutions (as defined in the Bank Secrecy Act) the application of the requirements contained in section 5318(i) of title 31, United States Code, added by section 312 of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (USA PATRIOT Act) of 2001 (the Act). Section 5318(i) requires U.S. financial institutions to establish due diligence policies, procedures, and controls reasonably designed to detect and report money laundering through correspondent accounts and private banking accounts that U.S. financial institutions establish or maintain for non-U.S. persons. Section 312 takes effect on July 23, 2002, whether or not Treasury has issued a final rule implementing that provision. Additionally, this interim final rule provides guidance, pending issuance of a final rule, to those financial institutions for which compliance with section 5318(i) has not been deferred.

DATES: This interim final rule is effective July 23, 2002. Written comments may be submitted on or before [INSERT DATE THAT IS 30 DAYS AFTER PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: Submit comments (preferably an original and four copies) to FinCEN, P.O. Box 39, Vienna, VA 22183, Attn: Section 312 Interim Regulations. Comments may also be submitted by electronic mail to regcomments@fincen.treas.gov with the caption in the body of the text, "Attention: Section 312 Interim Regulations." Comments may be inspected at FinCEN between 10 a.m. and 4 p.m. in the FinCEN Reading Room in Washington, D.C. Persons wishing to inspect the comments submitted must request an appointment by telephoning (202) 354-6400 (not a toll-free number).

FOR FURTHER INFORMATION CONTACT: Office of the Assistant General Counsel for Banking & Finance (Treasury), (202) 622-0480; the Office of the Assistant General Counsel for Enforcement (Treasury), (202) 622-1927; or the Office of the Chief Counsel (FinCEN), (703) 905-3590 (not toll-free numbers).

SUPPLEMENTARY INFORMATION: Treasury and FinCEN are exercising the authority under 31 U.S.C. 5318(a)(6) to temporarily defer the application of 31 U.S.C. 5318(i) to certain financial institutions pending issuance by Treasury and FinCEN of a final rule outlining the scope of coverage, duties, and obligations under that provision. Additionally, for those financial institutions for which compliance with section 5318(i) has not been deferred entirely, interim guidance is provided for compliance with the statute pending issuance of a final rule. Although this interim final rule and the guidance contained herein may be relied upon by financial institutions until superseded by a final regulation or subsequent guidance, no inference may be drawn from this rule concerning the scope and substance of the final regulation that Treasury will issue concerning section 5318(i).

I. Background

Section 312 of the Act adds new subsection (i) to 31 U.S.C. 5318, the Bank Secrecy Act (BSA). This provision requires each U.S. financial institution that establishes, maintains,

administers, or manages a private banking account or a correspondent account in the United States for a non-U.S. person to take certain anti-money laundering measures with respect to such accounts. In particular, financial institutions must establish appropriate, specific, and, where necessary, enhanced, due diligence policies, procedures and controls that are reasonably designed to enable the financial institution to detect and report instances of money laundering through those accounts.

In addition to this general requirement, which applies to all correspondent and private banking accounts for non-U.S. persons, section 312 of the Act specifies additional standards for correspondent accounts maintained for certain foreign banks. For a correspondent account maintained for a foreign bank operating under an offshore license or a license granted by a jurisdiction designated as being of concern for money laundering, a financial institution must take reasonable steps to identify the owners of the foreign bank, to conduct enhanced scrutiny of the correspondent account to guard against money laundering, and to ascertain whether the foreign bank provides correspondent accounts to other foreign banks and, if so, to conduct appropriate related due diligence.

Section 312 also sets forth minimum standards for the due diligence requirements for a private banking account for a non-U.S. person. Specifically, a financial institution must take reasonable steps to ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, the private banking account, as necessary to guard against money laundering. The institution must also conduct enhanced scrutiny of private banking accounts requested or maintained by or on behalf of senior foreign political figures (or their family members or close associates). Enhanced scrutiny must be reasonably designed to detect and report transactions that may involve the proceeds of foreign corruption.

Section 312(b)(2) provides that subsection 5318(i) takes effect on July 23, 2002, regardless of

whether Treasury has issued a final rule by that date. Furthermore, it indicates that subsection 5318(i) applies to all accounts, regardless of when they were opened.

1. The Proposed Rule

On May 30, 2002, Treasury and FinCEN published in the Federal Register a proposed rule implementing section 312. *See* 67 Fed. Reg. 37,736 (May 30, 2002). In that proposed rule, Treasury sought to take the broad statutory mandate of section 312 and translate it into specific regulatory directives for financial institutions to apply. Like the statute itself, the rule proposed by Treasury is far reaching, seeking to require a wide range of U.S. financial institutions¹ to apply due diligence and enhanced due diligence procedures to a diverse array of foreign financial institutions² that maintain “correspondent accounts” or “private banking accounts” in the U.S. The proposed rule sets forth a series of due diligence procedures that financial institutions covered by the rule may, and in many cases must, apply to correspondent accounts and private banking accounts. Because section 5318(i) takes effect on July 23, 2002, regardless of whether Treasury has issued a final implementing regulation, Treasury imposed a 30-day period in which public comments on the proposed rule would be accepted.

2. The Final Rule

A final rule implementing section 312 cannot reasonably be completed by the statutory effective date of July 23, 2002. Without question, the proposed rule implementing section 312 is

¹ Treasury proposed that the following financial institutions would be covered by the regulation: An insured bank (as defined in section 3(h) of the Federal Deposit Insurance Act (12 U.S.C. 1813(h))); a commercial bank; an agency or branch of a foreign bank in the United States; a federally insured credit union; a thrift institution; a corporation acting under section 25A of the Federal Reserve Act (12 U.S.C. 611 *et seq.*); a broker or dealer registered, or required to register, with the Securities and Exchange Commission under the Securities Exchange Act of 1934 (15 U.S.C. 78a *et seq.*); a futures commission merchant registered, or required to register, under, and an introducing broker as defined in § 1a23 of, the Commodity Exchange Act (7 U.S.C. 1 *et seq.*); a casino (as defined in § 103.11(n)(5)); a mutual fund (as defined in § 103.130); a money services business (as defined in § 103.11(uu)); and an operator of a credit card system (as defined in § 103.135).

² Foreign financial institutions include foreign banks and any other foreign person that, if organized in the United States,

the furthest reaching proposed regulation issued under Title III of the Act thus far. The requirements placed on financial institutions under this provision are significant, and commenters have raised substantial and important concerns about the scope of the regulation as well as the major definitions applicable to this section. For example, commenters consistently noted that the definitions of “correspondent account,” “covered financial institution,” and “foreign financial institution,” were overly broad and difficult to implement. Likewise, commenters expressed concerns regarding the definition of “senior foreign political figure.” Moreover, the statute does not define many important terms with respect to financial institutions other than banks, leaving the task for Treasury and FinCEN. Additional time is necessary to consider carefully these definitions and the text of the proposed rule in light of comments received to determine whether these terms should be further defined with respect to each financial institution.

Treasury anticipates issuing a final rule no later than October 25, 2002.

3. Deferral of Application to Certain Financial Institutions

Although section 312 is self-executing, in the absence of a final rule, many classes of financial institutions, in particular, non-bank financial institutions, would not have clear notice of, or guidance regarding, their compliance obligations. More pointedly, without regulations defining key terms for financial institutions other than banks, these financial institutions would not have sufficient guidance to comply with all facets of section 312. This situation necessarily stems from the fact that the statute seeks to cover a diverse universe of financial institutions and seeks to address a multitude of issues arising from the panoply of financial relationships that can exist with various foreign financial institutions. Treasury’s role in this process is to draft a regulation, after obtaining public comment, that provides clear and unequivocal direction to financial institutions covered by

would be required to establish an anti-money laundering program pursuant to §§ 103.120 through 103.169 of this part.

the provision. Without clarifying appropriate terms for the various industries, enforcement of section 5318(i) against the full range of financial institutions proposed to be covered by section 312 will be difficult. Therefore, deferral is necessary and appropriate.

Nor would it be appropriate for Treasury to insist on compliance with the terms of the proposed rule pending the completion of a final rule. We are still reviewing and analyzing the comments received and formulating the terms and scope of the final rule. Were Treasury to require strict compliance with the proposed rule, not only would it undermine the administrative process, but also it might require financial institutions to incur substantial costs to comply with provisions of the proposed rule that may be altered or eliminated.³ Without suggesting that such changes will be made, such a result is untenable.

Accordingly, invoking the authority under section 5318(a)(6) of the BSA, this interim final rule defers the application of all provisions of section 5318(i) to financial institutions other than banks, securities brokers and dealers, futures commission merchants, and introducing brokers.⁴ Banks must comply with all provisions of section 5318(i). Securities brokers and dealers, futures commission merchants, and introducing brokers must comply with the provisions of section 5318(i) relating to due diligence and enhanced due diligence for “private banking accounts,” but they are exempted from provisions related to correspondent accounts. The reason for this distinction is a practical one—the Act does not define a “correspondent account” for financial institutions other than banks, and Treasury needs time to consider whether the definition in the proposed rule is appropriate. In contrast, the definition of a private banking account in section 5318(i) is not limited to banks and is both applicable and commonly understood with the securities and futures industries. Moreover,

³ Cf. *CFTC v. Schor*, 478 U.S. 833, 845 (1986) (noting the important distinction between a proposed rule and a final rule drafted based on a review of public comment).

⁴ “Introducing brokers” refers to those registered, or required to register, with the Commodity Futures Trading

to the extent these financial institutions offer this type of account, the risks of money laundering are similar to the risks posed by banks offering such accounts. As a result, they will be required to comply with the provisions of section 5318(i) regarding private banking accounts pending Treasury's issuance of a final rule, consistent with the guidance set forth below.

In summary:

- Banks must comply with section 5318(i) pending Treasury's issuance of a final rule. For the purposes of this interim final rule, these include: An insured bank (as defined in section 3(h) of the Federal Deposit Insurance Act (12 U.S.C. 1813(h)))⁵; a commercial bank; an agency or branch of a foreign bank in the United States; a federally insured credit union; a thrift institution; and a corporation acting under section 25A of the Federal Reserve Act (12 U.S.C. 611 *et seq.*)⁶.
- Securities brokers and dealers registered, or required to register, with the Securities and Exchange Commission (SEC), and futures commission merchants and introducing brokers registered, or required to register, with the Commodity Futures Trading Commission (CFTC) must comply with provisions relating to private banking accounts, but their compliance with the remaining provisions of section 5318(i) is deferred.
- Financial institutions subject to deferment of all obligations under section 5318(i) include: Casinos; money services businesses; mutual funds; operators of credit card systems; and all remaining financial institutions defined in the BSA that are not banks, securities brokers and

Commission.

⁵ This group of covered entities was drawn from the list of "covered financial institutions" in the proposed rule. Treasury is evaluating whether to add uninsured national trust banks to this list at the final rule stage as these entities are currently required to have anti-money laundering programs. See 12 CFR 21.21. Treasury also will consider whether non-federally regulated, state chartered, uninsured trust companies and trust banks, and non-federally insured credit unions should be added to the list to the extent that they maintain correspondent or private banking accounts for non-U.S. persons.

⁶ For purposes of complying with section 5318(i) pending Treasury's issuance of a final rule, foreign branches of

dealers, futures commission merchants, or introducing brokers.⁷

II. Compliance Obligations Pending Publication of the Final Rule

Under the Act, Treasury is authorized to interpret and administer section 312. This interim final rule provides guidance to those financial institutions for which the application of section 5318(i) has not been deferred. Pending issuance of a final rule, Treasury expects compliance with section 5318(i) as set forth below. Treasury does not expect compliance with the terms and conditions of the proposed rule except to the extent they coincide with the express requirements of the statute. However, the interim compliance measures set forth in this guidance should not be construed as an indication of the obligations that will be imposed by the final rule.

1. Due Diligence for Correspondent Accounts—Banks Only

With respect to correspondent accounts, section 5318(i)(1) requires U.S. financial institutions to establish due diligence policies, procedures, and controls reasonably designed to detect and report money laundering through correspondent accounts established, maintained, administered, or managed in the United States for a foreign financial institution. In the interim period before the issuance of a final rule, a due diligence program under section 5318(i)(1) will be reasonable in Treasury's view if it focuses compliance efforts on the correspondent accounts that pose a high risk of money laundering based on an overall assessment of the money laundering risks posed by the foreign correspondent institution. It is the expectation of Treasury that a bank will accord priority to conducting due diligence on high-risk foreign banks for which it maintains correspondent deposit accounts or their equivalents, and will focus foremost on correspondent accounts used to provide

insured banks are deemed to be foreign banks rather than covered financial institutions.

⁷ The remaining financial institutions include: dealers in precious metals, stones, or jewels; pawnbrokers; loan or finance companies; private bankers; trust companies; state chartered credit unions that are not federally regulated; insurance companies; travel agencies; telegraph companies; sellers of vehicles, including automobiles, airplanes, and boats; persons engaged in real estate closings and settlements; investment companies; commodity pool operators; and commodity

services to third parties. Treasury also expects banks to give priority to conducting due diligence on high-risk correspondent accounts maintained for foreign financial institutions other than foreign banks, such as money transmitters. In all cases, Treasury expects that a bank will accord priority in applying due diligence to accounts opened on or after July 23, 2002.

Treasury acknowledges that, as a practical matter, banks will be unable to craft and implement final comprehensive due diligence policies and procedures pursuant to the dictates of section 5318(i)(1) until Treasury issues a final rule. However, in the interim, a reasonable due diligence policy, in Treasury's view, is one that comports with existing best practices standards for banks that maintain correspondent accounts for foreign banks,⁸ and evidences good faith efforts to incorporate due diligence procedures for correspondent accounts maintained for foreign financial institutions posing an increased risk of money laundering.

2. Enhanced Due Diligence for High Risk Foreign Banks—Banks Only

Section 5318(i)(2) requires U.S. financial institutions to establish enhanced due diligence policies and procedures applicable when opening or maintaining a correspondent account in the United States for certain foreign banks designated as high risk. Sections 5318(i)(2)(B)(i) through (iii) further specify requirements that must be incorporated into a financial institution's enhanced due diligence policies and procedures.

trading advisors.

⁸ See, e.g., New York Clearing House Association, L.L.C., "Guidelines for Counter Money Laundering Policies and Procedures in Correspondent Banking," (March 2002) at www.nych.org; Basel Committee on Banking Supervision, "Customer Due Diligence for Banks" (October 2001) at www.bis.org. A due diligence program that does not adopt all of the best practices and standards described in industry and other available guidance also could be considered reasonable if there is a justifiable basis for not adopting a particular best practice or standard, based on the particular type of accounts held by the institution.

An enhanced due diligence program will be reasonable under section 5318(i)(2)(B), in Treasury's view, if first, it comports with existing best practice standards for banks that maintain correspondent accounts for foreign banks.⁹ Second, the program must also focus enhanced due diligence measures on those correspondent accounts that are maintained by a foreign correspondent bank deemed high risk by section 5318(i)(2)(A) posing a particularly high risk of money laundering based on the bank's overall assessment of the risk posed by the foreign correspondent bank. As with the previous provision, it is the expectation of Treasury that a bank will accord priority in applying enhanced due diligence to accounts opened on or after July 23, 2002.

Within these priorities, as required by the statute, banks must take reasonable steps to comply with directives described in sections 5318(i)(2)(B)(i) through (iii). For purposes of section 5318(i)(2)(B)(i), an owner is deemed to be any person who directly or indirectly owns, controls, or has voting power over 5 percent or more of any class of securities of a foreign bank, the shares of which are not publicly traded.

3. Due Diligence for Private Banking Accounts—Banks, Securities Brokers and Dealers, Futures Commission Merchants, and Introducing Brokers

Sections 5318(i)(1) and (3) set forth due diligence requirements for U.S. financial institutions that maintain private banking accounts in the United States for non-U.S. persons.¹⁰ Under the Act, a private banking account is an account (or any combination of accounts) that requires minimum aggregate deposits of at least \$1 million, that is established for one or more individuals, and that is assigned to or administered or managed by, in whole or in part, an officer, employee, or agent of a financial institution acting as liaison between the financial institution and the direct or beneficial owner of the account. Section 5318(i)(3)(A) requires financial institutions, as needed to guard

⁹ See *supra* note 7.

¹⁰ For purposes of this interim final rule, a non-U.S. person means an individual who is neither a United States citizen

against money laundering, to take reasonable steps to ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, the account. Additionally, the statute requires enhanced scrutiny of private banking accounts maintained by or on behalf of senior foreign political figures, an immediate family member, or close associate, to guard against laundering the proceeds of foreign corruption.

As with the requirements for correspondent accounts, a private banking due diligence program under sections 5318(i)(1) and (3) must be reasonably designed to detect and report money laundering and the existence of the proceeds of foreign corruption. Treasury believes that a due diligence private banking program would be reasonable, pending adoption of final regulations to implement section 5318(i), if the program is focused on those private banking accounts that present a high risk of money laundering. A program that is consistent with applicable government guidance on private banking accounts, such as the guidance on sound practices for private banking issued by the Federal Reserve (SR 97-19 (SUP) "Private Banking Activities" (June 30, 1997) at www.federalreserve.gov) and the guidance on enhanced scrutiny for transactions that may involve the proceeds of foreign corruption issued jointly by Treasury, the bank regulators, and the State Department in January 2001 (at <http://www.treas.gov/press/releases/docs/guidance.htm>) would be reasonable, so long as it incorporates the requirements of section 5318(i)(3).¹¹ Treasury expects that an institution will accord priority in applying enhanced due diligence to accounts opened on or after July 23, 2002.

nor a lawful permanent resident as defined in 26 U.S.C. 7701(b)(6).

¹¹ See also, Wolfsberg Group, "Global Anti-Money-Laundering Guidelines for Private Banking: Wolfsberg AML Principles" (1st Revision May 2002) at www.wolfsberg-principles.com. A program that does not follow all of the best practices outlined in this government guidance would be reasonable if there is a justifiable basis, based on the particular circumstances of the institution involved, for not following these practices.

III. Analysis of the Interim Final Rule

A. Banks, Savings Associations, and Credit Unions – Section 103.181

The following financial institutions are not subject to the deferral contained in this interim final rule and must take steps, in light of the guidance provided above, to comply with the requirements of section 5318(i) pending issuance of a final implementing regulation: An insured bank (as defined in section 3(h) of the Federal Deposit Insurance Act (12 U.S.C. 1813(h))); a commercial bank; an agency or branch of a foreign bank in the United States; a federally insured credit union; a thrift institution; and a corporation acting under section 25A of the Federal Reserve Act (12 U.S.C. 611 *et seq.*).

B. Securities Brokers and Dealers, Futures Commission Merchants, and Introducing Brokers – Section 103.182

Securities brokers and dealers registered, or required to register, with the SEC, and futures commission merchants and introducing brokers registered, or required to register, with the CFTC under the Commodity Exchange Act (7 U.S.C. 1 *et seq.*) are subject to the requirements of section 5318(i) relating to due diligence and enhanced due diligence relating to private banking accounts.

They must take steps, in light of the guidance provided above, to comply with the requirements of section 5318(i) relating to private banking accounts pending issuance of a final implementing regulation. Treasury and FinCEN are exercising the authority under BSA section 5318(a)(6) to temporarily defer the application of all other requirements contained in section 5318(i) for securities brokers and dealers, futures commission merchants, and introducing brokers.

C. All Other BSA Financial Institutions – Section 103.183

Treasury and FinCEN are exercising the authority under BSA section 5318(a)(6) to temporarily

defer the application of all requirements contained in section 5318(i) for all other financial institutions. This temporary deferment applies to casinos; money services businesses; mutual funds; operators of credit card systems; dealers in precious metals, stones, or jewels; pawnbrokers; loan or finance companies; private bankers;¹² trust companies; state chartered credit unions that are not federally insured; insurance companies; travel agencies; telegraph companies; sellers of vehicles, including automobiles, airplanes, and boats; persons engaged in real estate closings and settlements; investment companies; commodity pool operators; and commodity trading advisors.

This temporary deferral does not in any way relieve any financial institution from compliance with the existing anti-money laundering and anti-terrorism requirements imposed by law, regulation, or rule of a self-regulatory organization. Quite to the contrary, the obligations contemplated by section 312 will serve to augment and improve the existing anti-money laundering activities of financial institutions. To that end, Treasury and FinCEN expect financial institutions proposed to be subject to the regulation implementing section 312 to begin immediately the process of evaluating their due diligence procedures when correspondent accounts or private banking accounts are opened or maintained on behalf of non-U.S. persons.

IV. Administrative Procedure Act

The provisions of 31 U.S.C. 5318(i), requiring due diligence programs for certain foreign accounts, become effective July 23, 2002. This interim rule exempts certain financial institutions from these requirements and provides interim compliance guidance for those financial institutions not exempted. Accordingly, good cause is found to dispense with notice and public procedure as unnecessary and contrary to the public interest, pursuant to 5 U.S.C. 553(b)(B), and to make the

¹² A private banker under the BSA refers to state chartered banking entities that are not organized as a corporation. Generally, such entities are organized as partnerships. A private banker does not refer to those who offer private banking accounts.

provisions of the interim rule effective in less than 30 days pursuant to 5 U.S.C. 553(d)(1) and (3).

V. Regulatory Flexibility Act

Because no notice of proposed rulemaking is required for this interim final rule, the provisions of the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*) do not apply.

VI. Executive Order 12866

This interim final rule is not a “significant regulatory action” as defined in Executive Order 12866. Accordingly, a regulatory assessment is not required.

List of Subjects in 31 CFR Part 103

Banks, banking, Brokers, Counter money laundering, Counter-terrorism, Currency, Foreign banking, Reporting and recordkeeping requirements.

Authority and Issuance

For the reasons set forth in the preamble, 31 CFR Part 103 is amended as follows:

PART 103—FINANCIAL RECORDKEEPING AND REPORTING OF CURRENCY AND FOREIGN TRANSACTIONS

1. The authority citation for part 103 is revised to read as follows:

Authority: 12 U.S.C. 1829b and 1951-1959; 31 U.S.C. 5311-5332; title III, secs. 312, 314, 352, Pub. L. 107-56, 115 Stat. 307.

2. Add new undesignated centerheading “ANTI-MONEY LAUNDERING PROGRAMS” to subpart I immediately before § 103.120.

3. Add new undesignated centerheading and §§103.181 through 103.183 to subpart I to read as follows:

**SPECIAL DUE DILIGENCE FOR CORRESPONDENT ACCOUNTS
AND PRIVATE BANKING ACCOUNTS**

103.181 Special due diligence programs for banks, savings associations, and credit unions.

**103.182 Special due diligence programs for securities brokers and dealers, futures
commission merchants, and introducing brokers.**

103.183 Deferred due diligence programs for other financial institutions.

**SPECIAL DUE DILIGENCE FOR CORRESPONDENT ACCOUNTS
AND PRIVATE BANKING ACCOUNTS**

§ 103.181 Special due diligence programs for banks, savings associations, and credit unions.

The requirements of 31 U.S.C. 5318(i) shall apply, effective July 23, 2002, to a financial institution that is:

(a) An insured bank (as defined in section 3(h) of the Federal Deposit Insurance Act (12 U.S.C. 1813(h)));

(b) A commercial bank;

(c) An agency or branch of a foreign bank in the United States;

(d) A federally insured credit union;

(e) A thrift institution; or

(f) A corporation acting under section 25A of the Federal Reserve Act (12 U.S.C. 611 *et seq.*).

**§ 103.182 Special due diligence programs for securities brokers and dealers, futures
commission merchants, and introducing brokers.**

(a) Private banking accounts. The requirements of 31 U.S.C. 5318(i) relating to due diligence and enhanced due diligence for private banking accounts shall apply, effective July 23, 2002, to a financial institution that is:

(1) A broker or dealer registered, or required to register, with the Securities and Exchange Commission under the Securities Exchange Act of 1934 (15 U.S.C. 78a *et seq.*); or

(2) A futures commission merchant or introducing broker registered, or required to register, with the Commodity Futures Trading Commission under the Commodity Exchange Act (7 U.S.C. 1 *et seq.*).

(b) Correspondent accounts. A financial institution described in paragraph (a) of this section is exempt from the requirements of 31 U.S.C. 5318(i) relating to due diligence and enhanced due diligence for certain correspondent accounts.

(c) Other compliance obligations of financial institutions unaffected. Nothing in this section shall be construed to relieve a financial institution from its responsibility to comply with any other applicable requirement of law or regulation, including title 31 of the United States Code and this part.

§ 103.183 Deferred due diligence programs for other financial institutions.

(a) Exempt financial institutions. Except as provided in § 103.181 and § 103.182, a financial institution defined in 31 U.S.C. 5312(a)(2) and (c)(1) or § 103.11(n) is exempt from the requirements of 31 U.S.C. 5318(i).

(b) Other compliance obligations of financial institutions unaffected. Nothing in this section shall be construed to relieve a financial institution from its responsibility to comply with any other applicable requirement of law or regulation, including title 31 of the United States Code and this part.

DATED: July 19, 2002

James F. Sloan
Director, Financial Crimes Enforcement Network

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U.S. International Reserve Position

July 22, 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 \$75,567 million at the end of the latest week, compared to \$74,597 million at the end of the prior week.

(in US millions)

Official U.S. Reserve Assets	TOTAL	July 5, 2002			July 12, 2002		
		Euro	Yen	TOTAL	Euro	Yen	TOTAL
				74,597			75,567
Foreign Currency Reserves ¹							
a. Securities		6,122	11,756	17,878	6,248	12,105	18,353
<i>Of which, issuer headquartered in the U.S.</i>				0			0
b. Total deposits with:							
<i>b.i. Other central banks and BIS</i>		10,230	3,958	14,189	10,420	4,076	14,496
<i>b.ii. Banks headquartered in the U.S.</i>				0			0
<i>b.ii. Of which, banks located abroad</i>				0			0
<i>b.iii. Banks headquartered outside the U.S.</i>				0			0
<i>b.iii. Of which, banks located in the U.S.</i>				0			0
IMF Reserve Position ²				19,841			20,037
Special Drawing Rights (SDRs) ²				11,645			11,637
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 dollars 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.

Official Reserve Assets Worksheet
(actual US dollar amounts)

Enter Dates Here	Last Week 5-Jul-02	This Week 12-Jul-02
------------------	-----------------------	------------------------

Foreign Currency	5-Jul-02	12-Jul-02
Euro Securities	\$6,121,853,066.78	\$6,248,188,573.30
Yen Securities	\$11,756,157,974.87	\$12,104,627,011.05
<i>Sec. Total</i>	\$17,878,011,041.66	\$18,352,815,584.35
Euro Deposits	\$10,230,497,555.58	\$10,419,973,654.99
Yen Deposits	\$3,958,330,906.35	\$4,075,674,004.05
<i>Deposit Total</i>	\$14,188,828,461.92	\$14,495,647,659.04
Total	\$32,066,839,503.58	\$32,848,463,243.40
Euro Rate	\$0.9730	\$0.9904
Yen Rate	120.19	116.73

Change

Source: NY Fed (fax)
copy and paste data into last week
and put new data from fax
into right column

IMF	5-Jul-02	12-Jul-02
		<i>(prelim, with adjust.)</i>
Reserve Tranche	19,840,939,336.09	20,037,377,176.14
GAB	0.00	0.00
NAB	0.00	0.00
Total	19,840,939,336.09	20,037,377,176.14
SDR	11,645,315,227.04	11,637,310,499.19

Source: IMF (email)
put actual dollar figures in for last week.

as of 10/31/01	5-Jul-02	12-Jul-02
Gold	11,043,723,652.64	11,043,707,102.46

Source : FMS website
<http://www.fms.treas.gov/gold>

	5-Jul-02	12-Jul-02
Other Res.Assets	0	0

TOTAL	74,596,817,719.35	75,566,858,021.19
--------------	--------------------------	--------------------------

970,040,301.84

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

Prelim. IMF Data Calculation Section	IN SDRs		SDR rate for		
	5-Jul-02	Adjustments	12-Jul-02	In USD	
Reserve Tranche	15,070,792,645		15,070,792,645	0.752134	\$20,037,377,176.14
GAB	0		0		\$0.00
NAB	0		0		\$0.00
			15,070,792,645	Total =	\$20,037,377,176.14
SDRs	8,752,816.895		8,752,816.895	SDRs =	\$11,637,310,499.19

Source:

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

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EMBARGOED UNTIL 11:30 A.M.
July 22, 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 \$16,000 million of publicly held 4-week Treasury bills maturing July 25, 2002, and to raise new cash of approximately \$4,000 million.

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

The Federal Reserve System holds \$11,219 million of the Treasury bills maturing on July 25, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders in this auction up to the balance of the amount not awarded in today's 13-week and 26-week Treasury bill auctions. Amounts awarded to SOMA will be in addition to the offering amount.

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

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

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

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

oOo

Attachment

'0-3274

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

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED JULY 25, 2002

July 22, 2002

Offering Amount\$20,000 million
Public Offering\$20,000 million
NLP Exclusion Amount\$10,800 million

Description of Offering:

Term and type of security28-day bill
CUSIP number912795 KX 8
Auction dateJuly 23, 2002
Issue dateJuly 25, 2002
Maturity dateAugust 22, 2002
Original issue dateFebruary 21, 2002
Currently outstanding\$42,868 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:

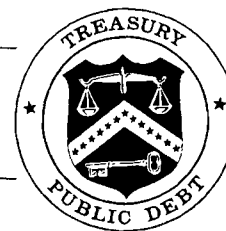
Prior to 12:00 noon eastern daylight saving time on auction day

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
July 22, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term: 91-Day Bill
Issue Date: July 25, 2002
Maturity Date: October 24, 2002
CUSIP Number: 912795LG4

High Rate: 1.660% Investment Rate 1/: 1.692% Price: 99.580

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 91.23%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 37,713,800	\$ 14,262,871
Noncompetitive	1,466,813	1,466,813
FIMA (noncompetitive)	271,000	271,000
SUBTOTAL	39,451,613	16,000,684 2/
Federal Reserve	4,820,509	4,820,509
TOTAL	\$ 44,272,122	\$ 20,821,193

Median rate 1.660%: 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 = 39,451,613 / 16,000,684 = 2.47

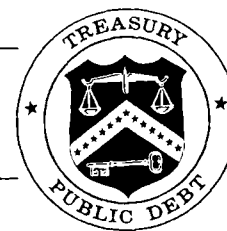
1/ Equivalent coupon-issue yield.

2/ Awards to TREASURY DIRECT = \$1,172,827,000

<http://www.publicdebt.treas.gov>

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
July 22, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term: 182-Day Bill
Issue Date: July 25, 2002
Maturity Date: January 23, 2003
CUSIP Number: 912795LV1

High Rate: 1.675% Investment Rate 1/: 1.713% Price: 99.153

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 96.31%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 33,221,750	\$ 14,941,835
Noncompetitive	1,058,185	1,058,185
FIMA (noncompetitive)	0	0
SUBTOTAL	34,279,935	16,000,020 2/
Federal Reserve	5,613,917	5,613,917
TOTAL	\$ 39,893,852	\$ 21,613,937

Median rate 1.660%: 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 = 34,279,935 / 16,000,020 = 2.14

1/ Equivalent coupon-issue yield.

2/ Awards to TREASURY DIRECT = \$774,599,000

<http://www.publicdebt.treas.gov>

PO-3276



For Immediate Release
Monday, July 22, 2002

Contact: Tasia Scolinos
(202) 622-2960

**Under Secretary Jimmy Gurule
Speech Before National Organization of Black Law Enforcement Executives**

Good afternoon and thank you for the opportunity to be here with you today. Mayor Greco and Administrator Hutchinson it is a special honor to share the podium with you this afternoon. The National Organization of Black Law Enforcement Executives (NOBLE) is an organization that has stood united for 26 years with an unwavering commitment to bettering law enforcement across the nation. Your membership is a testament to your hard work and dedication to making our great nation a safer place. All that you do reflects your commitment to your valued members. The name, "NOBLE," is most befitting.

Today, we gather to acknowledge your efforts and to give due recognition to those chosen to receive scholarship awards. The students who will be honored are special in deed. They have proven through their achievements that they are deserving. Entitled to both the praise and support that comes with the pursuit of excellence.

I want to thank you, Ebony Ellis, Alicia Jane Johnson and Yvette Strong-Banks for exemplifying the traits that have made this country strong: dedication, determination, and an unbending spirit.

Ebony, your role as Vice President of the sophomore class and as a tutor of Project Discovery, speaks to your concern for making a difference. Alicia, your desire to open forensic labs in inner cities attests to your compassion and interest helping those disadvantaged economically. Yvette, as a former award recipient of the Humanitarian National Concerned Officers Organization, it is evident that your character is wealthy in kindness and a true concern for others. I applaud all of you.

In this free society, your beginnings do not dictate your endings- hard work creates its own rewards. This is simply your beginning. I encourage all of you to consider how, as American citizens, you can contribute to the well being of your nation. Clearly you have not been fearful of being put to the test your accomplishments speak to this. NOBLE has aided you in your progress and supported your efforts.

PO-3277

Just as you have been guided by caring public servants, so too must our country be guided. We need the contributions of those truly interested in this nation's well being. You can continue the path of giving and providing service to your country.

You can do this individually or through organizations like the President's USA Freedom Corps. Through the USA Freedom Corps the President wants to help every American answer to the call to service. By strengthening and expanding service opportunities, the Freedom Corps offers programs to Americans of all ages who are looking for ways to service their community, our country and the world. The USA Freedom Corps fosters an American culture. The opportunity to help our fellow citizens is the essence of the Corps. I encourage you to participate in the effort and lend a hand in spreading American compassion around the globe.

Our country needs energetic and creative minds that can assist in the resolution of critical national and domestic issues. It needs courageous and bright personalities to accomplish our nation's objectives. It needs talent and people not afraid of challenge. As you transition from high school into the collegiate environment, it is not too soon to begin thinking of your future and all that you desire for it to hold. Deciding what it is you wish to do once you have completed your education will undoubtedly be an item of much contemplation. As you begin thinking about your future and what career you may wish to pursue, I ask that you consider public service. The benefits of serving your country are many. The people who serve, the best that our land has to offer- they are concerned, conscientious, and selfless.

Just take a look at our gracious hosts here today. There are heroes amongst us. These officers personify those traits that I speak of. They are the courageous men and women of law enforcement who risk their lives in order to protect us from danger and ensure domestic tranquility. I want to thank all of our officers- local, state and federal- for conducting your duties with integrity and professionalism. Thank you for reaching out to your communities and giving back. Thank you for remembering roads once walked while paving the way for those who follow.

I know that since the attacks of September 11th, your workloads intensified and the burdens have grown. I want to recognize your efforts and commend your perseverance and loyalty. On that horrific day when our peace and sense of safety were so viciously attacked, the world changed forever in a fundamental way. Our national security is now under siege from a stateless enemy willing to use catastrophic means to create terror.

The United States will not permit our enemies to prevail in their quest to destroy the security of this country. Treasury Enforcement is dedicated to ensuring the disruption of terrorist financing, both proactively and preventatively. We are not wait for more lives to be lost, we are taking action now. We have gathered all of our experts in the intelligence, law enforcement, regulatory and financial arenas together. We have called upon them to ferret out those who support, facilitate, and fuel the activities of terrorist groups. With each passing day, we are making it more difficult for them to operate.

While twisted ideology fuel their fanaticism, money is the lifeblood of their activities. By freezing their funds we are striking at the heart of their operations. We must employ all of our assets to track and disrupt the financing of al-Qaida and other terrorist groups. On September 23, 2001, the President issued Executive Order 13224 granting the Secretary of the treasury broad powers to freeze the assets of terrorist financiers and their supporters. This authority has given us the ability to attack the financial substructure of terrorist groups- not with bombs or prosecutions, but with financial actions based on the President's constitutional authorities.

We have acted judiciously. From taskforce to strike force, we have moved to swiftly freeze the assets of 211 individuals and entities which comprise the support network for terrorism. World-wide we have frozen over \$112 million of terrorist related funds and have cut channels of funding for future acts of violence and destruction. These blocking actions have been the most purloin of our activities and we think they have proven effective. We have received the support of nearly the entire world in this effort. Currently, 167 countries have blocking order 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. The process of identifying and investigating targets is ongoing. Until the al-Qaida and other terrorist factions are brought to justice, we cannot, and will not relent.

We live in perilous times which require new, creative strategies to secure our homeland. A new chapter in government is about to be opened. Good governance is the foundation of the President's proposed New Department of Homeland Security. It is a practical and necessary approach to securing our borders with the full coordination of all of our assets. It is an important and critical step toward protecting our country from future attacks.

As the President noted, the U.S. government has no more important mission than protecting the homeland from future terrorist attacks. Yet the country has never had a comprehensive and shared vision of how best to achieve this goal." In order to address the needs of the country more effectively, the President announced June 6th the creation of a new Department of Homeland Security.

The definition of "Homeland Security" is as follows: "concerted national effort to prevent terrorist attacks within the United States, reduce America's vulnerability to terrorism, and minimize the damage from attacks that do occur." President Bush has been clear about what this means. "The terrorist threat to America takes many forms, has many places to hide, and is often invisible. Yet the need for homeland security is tied to our enduring vulnerability. Terrorists wish to attack us and exploit our vulnerabilities because of the freedoms we hold dear . . . We must rally our entire society to overcome a new and very complex challenge. Homeland security is a shared responsibility.

To meet this challenge, the Office of Homeland Security, at the President's direction, has developed a National Strategy.

The National Strategy is built on six critical mission areas. These areas are: 1) improving our intelligence and warning capabilities; 2) toughening our border and transportation security; 3) strengthening our efforts to prevent domestic terrorism; 4) protecting our critical infrastructure; 5) defending against weapons of mass destruction; and 6) improving our ability to respond to emergencies.

The strategy highlights the importance of capitalizing on the synergy between state, local and federal resources. It also points out several key areas for long-term improvement, including using new technologies to better protect our homeland and launching a new emphasis on research and development in the fields of bioterrorism and detection of weapons of mass destruction.

The duplication of efforts will be eliminated, as will unnecessary jurisdictional disputes. Information sharing, a critical component of our war on terrorism, will be fostered and open communication will be a by-product of this new infrastructure. Enhanced cooperation and a one-team approach will facilitate the ultimate goal - saving the lives of the American people.

Congress is working on a fast track bill for the President's signature as early as September 11th- the 1st year anniversary of the attacks. But enhancing homeland security cannot be accomplished through legislation alone. Soon you will be called upon to meet the demands that come with change and reorganization. I recognize that in these somewhat uncertain times, many of you may feel a degree of anxiety but rest assured that change that leads to improved government benefits all.

In order to ensure that this undertaking is successful, we must stand as a unified law enforcement front- a front free of territorial strife and fragmentation. Crucial to the protection of this great nation is cohesiveness and strength.

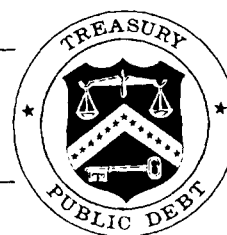
Each and every one of us can play a role in securing our nation and caring for our society. We must leave our children and generations to come with a country protected and safe. You are men and women who have honorably chosen to dedicate yourselves to the protection of your fellow man. I know that you will meet these new expectations with the fervor and skill that you have always exemplified. The goal of this mission is the same as that of your prestigious organization, "justice by action."

It is imperative that we remain a strong force- transcending all obstacles impeding unification and therefore progress. We must not allow terrorist penetration into the fiber of America. We cannot be allowed to join us as neighbors next door waiting to prey on our weakness and bring ruin to our great country.

Again, I thank you for the opportunity to be here with you today. It has truly been a privilege. NOBLE has been, and I am confident will continue to be, a leading force in the representation of law enforcement officers across our nation. I thank you for your efforts and I wish you continued success.

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
July 23, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term: 28-Day Bill
Issue Date: July 25, 2002
Maturity Date: August 22, 2002
CUSIP Number: 912795KX8

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 53.74%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 47,181,600	\$ 19,964,435
Noncompetitive	35,700	35,700
FIMA (noncompetitive)	0	0
SUBTOTAL	47,217,300	20,000,135
Federal Reserve	784,125	784,125
TOTAL	\$ 48,001,425	\$ 20,784,260

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 of accepted competitive tenders was tendered at or below that rate.

bid-to-Cover Ratio = 47,217,300 / 20,000,135 = 2.36

/ Equivalent coupon-issue yield.

<http://www.publicdebt.treas.gov>

PO-3278

TREASURY



NEWS

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For Immediate Release
Wednesday, July 24, 2002

Contact: Tony Fratto
(202) 622-2960

Treasury Secretary Visit to South America Delayed

Secretary O'Neill's trip to Brazil, Uruguay and Argentina has been rescheduled for August 5-7. The Secretary has decided to delay his trip by one week, as Congress is at a critical juncture in completing work on corporate accountability, Trade Promotion Authority, and homeland security -- three important components of the President's agenda to strengthen our economic recovery.

Because Brazil, Argentina, and Uruguay are important US partners, this delay is as brief as possible.

-30-

PO-3279



DEPARTMENT OF THE TREASURY

TREASURY



NEWS

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U.S. International Reserve Position 07/24/02

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled \$69,870 million at the end of the latest week, compared to \$69,681 million at the end of the prior week.

(in US millions)

Official U.S. Reserve Assets	May 31, 2002			June 7, 2002		
	TOTAL					TOTAL
		69,681				69,870
Foreign Currency Reserves ¹			TOTAL			TOTAL
a. Securities	Euro	Yen		Euro	Yen	
	5,814	11,383	17,197	5,900	11,350	17,250
<i>Of which, issuer headquartered in the U.S.</i>			0			0
b. Total deposits with:						
<i>b.i. Other central banks and BIS</i>	9,812	3,833	13,644	9,927	3,822	13,749
<i>b.ii. Banks headquartered in the U.S.</i>			0			0
<i>b.ii. Of which, banks located abroad</i>			0			0
<i>b.iii. Banks headquartered outside the U.S.</i>			0			0
<i>b.iii. Of which, banks located in the U.S.</i>			0			0
IMF Reserve Position ²			16,498			16,517
Special Drawing Rights (SDRs) ²			11,297			11,310
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 dollars 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.

Gold stock is valued monthly at \$42.2222 per fine troy ounce.

Official Reserve Assets Worksheet
(actual US dollar amounts)

Enter Dates Here	Last Week 31-May-02	This Week 7-Jun-02
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Foreign Currency	31-May-02	7-Jun-02	Change
Euro Securities	\$5,814,218,613.46	\$5,899,627,469.20	85,408,856
Yen Securities	\$11,383,070,748.41	\$11,349,963,209.90	-33,107,539
Sec. Total	\$17,197,289,361.87	\$17,249,590,679.09	52,301,317
Euro Deposits	\$9,811,892,586.91	\$9,926,988,671.88	115,096,085
Yen Deposits	\$3,832,606,336.65	\$3,821,534,996.07	-11,071,341
Deposit Total	\$13,644,498,923.55	\$13,748,523,667.95	104,024,744
Total	\$30,841,788,285.42	\$30,998,114,347.04	156,326,062
Euro Rate	\$0.9339	\$0.9449	
Yen Rate	124.13	124.49	

Source: NY Fed (fax)
copy and paste data into last week
and put new data from fax
into right column

IMF	31-May-02	7-Jun-02	Change
		<i>(prelim, with adjust.)</i>	
Reserve Tranche	16,497,842,197.20	16,517,412,439.91	19,570,242.71
GAB	0.00	0.00	0.00
NAB	0.00	0.00	0.00
Total	16,497,842,197.20	16,517,412,439.91	19,570,242.71
SDR	11,296,901,766.65	11,310,302,495.22	13,400,728.57
			-414,597.72

Source: IMF (email)
put actual dollar figures in for last week;

as of 10/31/01	31-May-02	7-Jun-02	Change
Gold	11,044,405,898.89	11,043,991,301.17	-414,597.72
			0

Source : FMS website
<http://www.fms.treas.gov/gold>

Other Res.Assets	31-May-02	7-Jun-02	Change
	0	0	

TOTAL	69,680,938,148.16	69,869,820,583.34	188,882,435.18
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Adjustments to IMF and SDR data, translated at current exchange rates

Prelim. IMF Data	IN SDRs		SDR rate for		
Calculation Section	31-May-02	Adjustments	7-Jun-02	In USD	
Reserve Tranche	12,782,495,139		12,782,495,139	0.773880	\$16,517,412,439.91
GAB	0		0		\$0.00
NAB	0		0		\$0.00
			12,782,495,139	Total =	\$16,517,412,439.91
SDRs	8,752,816,895		8,752,816,895	SDRs =	\$11,310,302,495.22

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

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U.S. International Reserve Position 7/24/02

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled \$69,931 million at the end of the latest week, compared to \$69,759 million at the end of the prior week.

(in US millions)

Official U.S. Reserve Assets	June 7, 2002			June 14, 2002			
	TOTAL					TOTAL	
			69,759			69,931	
Foreign Currency Reserves ¹							
		Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities		5,900	11,350	17,250	5,915	11,372	17,287
<i>Of which, issuer headquartered in the U.S.</i>				0			0
b. Total deposits with:							
<i>b.i. Other central banks and BIS</i>		9,927	3,822	13,749	9,932	3,829	13,761
<i>b.ii. Banks headquartered in the U.S.</i>				0			0
<i>b.ii. Of which, banks located abroad</i>				0			0
<i>b.iii. Banks headquartered outside the U.S.</i>				0			0
<i>b.iii. Of which, banks located in the U.S.</i>				0			0
IMF Reserve Position ²				16,436			16,500
Special Drawing Rights (SDRs) ²				11,280			11,340
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.

The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollars 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.

Gold stock is valued monthly at \$42,222 per fine troy ounce.

Official Reserve Assets Worksheet
(actual US dollar amounts)

Enter Dates Here	Last Week 7-Jun-02	This Week 14-Jun-02
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Foreign Currency	7-Jun-02	14-Jun-02	Change
Euro Securities	\$5,899,627,469.20	\$5,915,376,655.44	15,749,186
Yen Securities	\$11,349,963,209.90	\$11,371,917,971.83	21,954,762
<i>Sec. Total</i>	\$17,249,590,679.09	\$17,287,294,627.28	37,703,948
Euro Deposits	\$9,926,988,671.88	\$9,931,697,224.66	4,708,553
Yen Deposits	\$3,821,534,996.07	\$3,828,938,766.62	7,403,771
<i>Deposit Total</i>	\$13,748,523,667.95	\$13,760,635,991.29	12,112,323
Total	\$30,998,114,347.04	\$31,047,930,618.56	49,816,272
<i>Euro Rate</i>	\$0.9449	\$0.9448	
<i>Yen Rate</i>	124.49	124.25	

Source: NY Fed (fax)
copy and paste data into last week
and put new data from fax
into right column

IMF	7-Jun-02	14-Jun-02 (prelim, with adjust.)	Change
Reserve Tranche	16,436,035,363.63	16,499,636,366.35	63,601,002.72
GAB	0.00	0.00	0.00
NAB	0.00	0.00	0.00
Total	16,436,035,363.63	16,499,636,366.35	63,601,002.72
SDR	11,280,057,342.24	11,339,711,189.54	59,653,847.30
			-414,597.72

Source: IMF (email)
put actual dollar figures in for last week;

as of 10/31/01	7-Jun-02	14-Jun-02	Change
Gold	11,044,405,898.89	11,043,991,301.17	-414,597.72
			0

Source : FMS website
<http://www.fms.treas.gov/gold>

Other Res.Assets	7-Jun-02	14-Jun-02
	0	0

TOTAL	69,758,612,951.80	69,931,269,475.61	172,656,523.81
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Adjustments to IMF and SDR data, translated at current exchange rates

Prelim. IMF Data Calculation Section	IN SDRs		SDR rate for		
	7-Jun-02	Adjustments	14-Jun-02	In USD	
Reserve Tranche	12,735,623,821		12,735,623,821	0.771873	\$16,499,636,366.35
GAB	0		0		\$0.00
NAB	0		0		\$0.00
			12,735,623,821	Total =	\$16,499,636,366.35
SDRs	8,752,816,895		8,752,816,895	SDRs =	\$11,339,711,189.54

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

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NEWS

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U.S. International Reserve Position 7/24/02

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled \$70,942 million at the end of the latest week, compared to \$69,767 million at the end of the prior week.

(in US millions)

Official U.S. Reserve Assets	June 14, 2002			June 21, 2002			
	TOTAL	69,767		70,942			
Foreign Currency Reserves ¹		Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities		5,915	11,372	17,287	6,078	11,655	17,733
<i>Of which, issuer headquartered in the U.S.</i>				0			0
b. Total deposits with:							
b.i. <i>Other central banks and BIS</i>		9,932	3,829	13,761	10,209	3,924	14,133
b.ii. <i>Banks headquartered in the U.S.</i>				0			0
b.ii. <i>Of which, banks located abroad</i>				0			0
b.iii. <i>Banks headquartered outside the U.S.</i>				0			0
b.iii. <i>Of which, banks located in the U.S.</i>				0			0
IMF Reserve Position ²				16,383			16,594
Special Drawing Rights (SDRs) ²				11,292			11,437
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.

The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollars 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.

Gold stock is valued monthly at \$42.2222 per fine troy ounce.

Official Reserve Assets Worksheet
(actual US dollar amounts)

	Last Week	This Week
Enter Dates Here	14-Jun-02	21-Jun-02

	14-Jun-02	21-Jun-02	Change
Foreign Currency			
Euro Securities	\$5,915,376,655.44	\$6,078,212,484.29	162,835,829
Yen Securities	\$11,371,917,971.83	\$11,655,178,784.13	283,260,812
<i>Sec. Total</i>	\$17,287,294,627.28	\$17,733,300,268.42	446,005,641
Euro Deposits	\$9,931,697,224.66	\$10,208,642,334.73	276,945,110
Yen Deposits	\$3,828,938,766.62	\$3,924,348,072.63	95,409,306
<i>Deposit Total</i>	\$13,760,635,991.29	\$13,132,990,407.36	-627,645,584
Total	\$31,047,930,618.56	\$31,866,290,675.78	818,360,057
<i>Euro Rate</i>	\$0.9448	\$0.9705	
<i>Yen Rate</i>	124.25	121.23	

Source: NY Fed (fax)
copy and paste data into last week
and put new data from fax
into right column

	14-Jun-02	21-Jun-02	
IMF		<i>(prelim, with adjust.)</i>	
Reserve Tranche	16,383,228,134.08	16,594,414,554.85	211,186,420.77
GAB	0.00	0.00	0.00
NAB	0.00	0.00	0.00
Total	16,383,228,134.08	16,594,414,554.85	211,186,420.77
SDR	11,291,582,409.12	11,437,135,462.26	145,553,053.14
			-682,246.25

Source: IMF (email)
put actual dollar figures in for last week:

	14-Jun-02	21-Jun-02	
as of 10/31/01			
Gold	11,044,405,898.89	11,043,723,652.64	-682,246.25
			0

Source : FMS website
<http://www.fms.treas.gov/gold>

	14-Jun-02	21-Jun-02
Other Res.Assets	0	0

TOTAL	69,767,147,060.65	70,941,564,345.54	1,174,417,284.89
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Adjustments to IMF and SDR data, translated at current exchange rates

Prelim. IMF Data Calculation Section	IN SDRs		SDR rate for		
	14-Jun-02	Adjustments	21-Jun-02	In USD	
Reserve Tranche	12,699,672,270		12,699,672,270	0.765298	\$16,594,414,554.85
GAB	0		0		\$0.00
NAB	0		0		\$0.00
			12,699,672,270	Total =	\$16,594,414,554.85
SDRs	8,752,816,895		8,752,816,895	SDRs =	\$11,437,135,462.26

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

DEPARTMENT OF THE TREASURY

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NEWS

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U.S. International Reserve Position 7/24/02

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled \$74,846 million at the end of the latest week, compared to \$73,737 million at the end of the prior week.

in US millions)

Official U.S. Reserve Assets	June 21, 2002			June 28, 2002			
	TOTAL	73,737		74,846			
Foreign Currency Reserves: ¹		Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities		6,078	11,655	17,733	6,201	11,790	17,991
<i>Of which, issuer headquartered in the U.S.</i>				0			0
b. Total deposits with:							
<i>b.i. Other central banks and BIS</i>		10,209	3,924	14,133	10,356	3,970	14,325
<i>b.ii. Banks headquartered in the U.S.</i>				0			0
<i>b.ii. Of which, banks located abroad</i>				0			0
<i>b.iii. Banks headquartered outside the U.S.</i>				0			0
<i>b.iii. Of which, banks located in the U.S.</i>				0			0
IMF Reserve Position ²				19,430			19,841
Special Drawing Rights (SDRs) ²				11,396			11,645
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.

The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollars 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.

Gold stock is valued monthly at \$42.2222 per fine troy ounce.

Official Reserve Assets Worksheet
(actual US dollar amounts)

	Last Week	This Week
Enter Dates Here	21-Jun-02	28-Jun-02

Foreign Currency	21-Jun-02	28-Jun-02	Change
Euro Securities	\$6,078,212,484.29	\$6,201,247,365.30	123,034,881
Yen Securities	\$11,655,178,784.13	\$11,789,509,653.73	134,330,870
Sec. Total	\$17,733,300,268.42	\$17,990,757,019.04	257,456,751
Euro Deposits	\$10,208,642,334.73	\$10,355,929,341.33	147,287,007
Yen Deposits	\$3,924,348,072.63	\$3,969,560,216.42	45,212,144
Deposit Total	\$14,132,480,144.21	\$14,325,489,557.75	193,009,414
Total	\$31,865,290,675.78	\$32,316,246,576.79	450,955,901
Euro Rate	\$0.9705	\$0.9856	
Yen Rate	121.23	119.85	

Source: NY Fed (fax)
copy and paste data into last week
and put new data from fax
into right column

IMF	21-Jun-02	28-Jun-02	Change
		<i>(prelim, with adjust.)</i>	
Reserve Tranche	19,430,123,577.22	19,840,868,062.67	410,744,485.45
GAB	0.00	0.00	0.00
NAB	0.00	0.00	0.00
Total	19,430,123,577.22	19,840,868,062.67	410,744,485.45
SDR	11,395,754,455.61	11,645,273,394.24	249,518,938.63

Source: IMF (email)
put actual dollar figures in for last week;

as of 10/31/01	21-Jun-02	28-Jun-02	Change
Gold	11,044,405,898.89	11,043,723,652.64	-682,246.25

Source : FMS website
<http://www.fms.treas.gov/gold>
0

Other Res.Assets	21-Jun-02	28-Jun-02
	0	0

TOTAL	73,735,574,607.50	74,846,111,686.34	1,110,537,078.84
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Adjustments to IMF and SDR data, translated at current exchange rates

Prelim. IMF Data	IN SDRs		SDR rate for		
Calculation Section	21-Jun-02	Adjustments	28-Jun-02	In USD	
Reserve Tranche	14,912,787,301		14,912,787,301	0.751620	\$19,840,868,062.67
GAB	0		0		\$0.00
NAB	0		0		\$0.00
			14,912,787,301	Total =	\$19,840,868,062.67
SDRs	8,752,816,895		8,752,816,895	SDRs =	\$11,645,273,394.24

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

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NEWS

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MEDIA ADVISORY

The Department of Treasury Unveils New 2002 Money Laundering Strategy

- What:** Treasury Deputy Secretary Ken Dam and Under Secretary for Enforcement Jimmy Gurulé will hold a press briefing to discuss the Administration's new *2002 National Money Laundering Strategy*. They will be discussing the new terrorist financing components of the *Strategy* and also the new metrics section.
- Where:** The Treasury Department
The Diplomatic Room, 3rd Floor
Please enter at the Pennsylvania Street Entrance
Cameras please use the moat entrance. Contact the number below for an escort.
- When:** Thursday, July 25th, 2002
3:00 PM
- Contact:** Media without Treasury or White House press credentials planning to attend Should contact Treasury's Office of Public Affairs at (202) 622-2960 with the following information: name, social security number and date of birth. This information may also be faxed to (202) 622-1999.

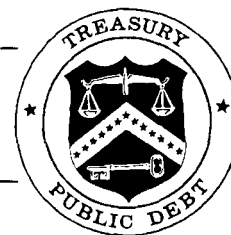
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PO-3285

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



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
July 24, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate:	2 1/4%	Issue Date:	July 31, 2002
Series:	Q-2004	Dated Date:	July 31, 2002
CUSIP No:	912828AG5	Maturity Date:	July 31, 2004

High Yield: 2.270% Price: 99.961

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 11.10%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 40,800,977	\$ 25,623,505
Noncompetitive	1,376,524	1,376,524
FIMA (noncompetitive)	0	0
SUBTOTAL	42,177,501	27,000,029 1/
Federal Reserve	6,236,933	6,236,933
TOTAL	\$ 48,414,434	\$ 33,236,962

Median yield 2.220%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 2.100%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 42,177,501 / 27,000,029 = 1.56

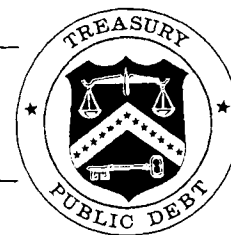
1/ Awards to TREASURY DIRECT = \$1,065,402,000

<http://www.publicdebt.treas.gov>

PO-3286

PUBLIC DEBT NEWS

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



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<http://www.publicdebt.treas.gov>

PO-3286



EMBARGOED UNTIL 3:00 P.M. EDT
Thursday, July 25, 2002

Contact: Tasia Scolinos
(202) 622-2960

Remarks of Under Secretary Jimmy Gurulé
2002 National Money Laundering Strategy Roll Out

Thank you, Deputy Secretary Dam. I want to thank you and Secretary O'Neill for your leadership and support in the development of the *2002 Money Laundering Strategy*.

This is an important day and an important document.

The preparation of the *National Money Laundering Strategy* is an enormous undertaking. The active support and participation of a number of federal agencies contributed to the final project. I would like to thank the representatives here today of all the other bureaus and agencies who have contributed to the *2002 Strategy*. This is truly a collaborative process reflecting the input of all the relevant players.

I would also like to thank Deputy Assistant Secretary for Money Laundering and Financial Crimes, Julie Myers, for spearheading the preparation of this *Strategy* and the Treasury Executive Office of Asset Forfeiture for the valuable role they played in assisting DAS Myers.

When I was sworn in as Under Secretary, I pledged to make anti-money laundering enforcement one of my primary goals. I am here today to tell you that it has become a priority of Treasury Enforcement for one critical reason. Attacking the financial structures of criminal organizations – their lifeblood – is one of the best ways to dismantle sophisticated criminal enterprises. Let me explain why.

If our law enforcement agents pick-up a drug mule carrying narcotics across the border that helps to fight crime but it doesn't leave a permanent impact on the criminal organization. The criminal gang will simply go down the block and find another willing participant to take their incarcerated colleague's place. But if you penetrate the financial underpinnings of a criminal organization replacement is not so easy. The criminals can't just pick up the phone and find another sophisticated accountant or professional money handler who understands global banking systems and is willing risk their white collar lifestyle to tread into illegal waters. As Treasury agents recognized long ago, if you get Al Capone's money, you get Al Capone.

PO-3287

That rationale also applies to attacking the financial underpinnings of terrorist groups. These networks of murderers are mercenaries who require hard money to finance their deadly acts of terror. If we can shut down their financial structures, we save innocent lives.

I am pleased to tell you that our efforts are making a difference. We have blocked the assets of 211 terrorist entities and individuals. \$34.3 million has been blocked domestically and \$77.9 million has been blocked by our allies, for a total of over \$112 million that is not going to support terrorist training camps and to purchase weapons of death.

At the same time, we are making solid progress on our more traditional money laundering case investigations. For the first time, the *2002 Strategy* reports on some of the significant money laundering cases that the federal government has investigated and prosecuted in the last year.

For example, last month, Customs agents in New Jersey arrested an Assistant Vice-President of a bank who was operating an illegal money transmitting business that moved approximately a half billion dollars in eight months. The Assistant VP maintained over 250 accounts at the bank, 44 of which were in the names of non-existent companies and people that were fronts for currency exchange firms in Brazil. Customs received substantial assistance from IRS-CI and DEA in the case, which is now being prosecuted by the U.S. Attorney's Office in Newark.

I would also like to highlight a few other cases that illustrate the progress we are making on the money-laundering front:

- Last month, a jury in North Carolina convicted Mohamad Hammoud and his brother Chawki, for providing material support to the terrorist group Hezbollah through racketeering, conspiracy, and conspiracy to commit money laundering by funneling profits from a cigarette smuggling operation to purchase military equipment for the Hezbollah terrorists. In March 2002, several of the Hammoud's co-defendants pled guilty to a number of charges including conspiracy to commit money laundering. That case began when West Virginia State Police seized a significant quantity of contraband cigarettes and notified Treasury agents at ATF. The Financial Crimes Enforcement Network or FinCEN, from the early stages of this investigation, supplied and networked over 300 Bank Secrecy Act leads to the FBI and ATF.
- A New York City policeman pled guilty in March to laundering between \$6 and \$10 million obtained from the sale of drugs in the New York City metropolitan area. Colombian narcotics traffickers shipped sixty tons of cocaine to the New York City area over a two-year period. After the cocaine was sold, the defendants received instructions to pick up the drug money, and would meet the drug dealers at various locations on the streets of New York City where they received bags containing between \$100,000 and \$500,000 in cash. The defendants rented cars and drove the drug proceeds to Miami, Florida. Once in Miami, the defendants delivered the money to various Miami area businesses, which accepted the drug money as payment for goods, such as video games, calculators, print cartridges, bicycle parts and tires, which they subsequently exported to Colombia -- transactions consistent with the operation of the trade-based BMPE laundering system frequently employed by Colombian narcotics traffickers.

- The Customs Service, in conjunction with DEA and Colombia's Departamento Administrativo de Seguridad arrested 37 individuals in January 2002 as a result of *Operation Wire Cutter*, a 2 1/2 year undercover investigation of Colombian peso brokers and their money laundering organizations. These individuals are believed to have laundered money for several Colombian narcotics cartels. The peso brokers contacted undercover Customs agents and directed them to pick-up currency in New York, Miami, Chicago, Los Angeles, and San Juan, Puerto Rico that had been generated from narcotics transactions. The brokers subsequently directed the undercover agents to wire these proceeds to specified accounts in U.S. financial institutions that were often in the name of Colombian companies or banks that had a correspondent account with a U.S. bank. Laundered monies were subsequently withdrawn from banks in Colombia in Colombian pesos. Investigators seized over \$8 million in cash, 400 kilos of cocaine, 100 kilos of marijuana, 6.5 kilos of heroin, nine firearms, and six vehicles.

I should also note the long-standing "El Dorado" Task Force, which is led by U.S. Customs and IRS in New York. Comprised of 185 individuals from 29 federal, state, and local agencies, the "El Dorado" Task Force is one of the nation's largest and most successful financial crimes task forces, having seized \$425 million and arrested 1,500 individuals since its inception in 1992. In addition the HIFCA Task Forces (High Intensity Financial Crimes Areas) have also made significant progress. They initiated over 100 new money laundering investigations during 2001 alone. Finally, in 2001, law enforcement agents of the Departments of Treasury and Justice seized over \$1 billion in criminal funds – about 38% of which was related to money laundering investigations. The Departments forfeited over \$241 million in criminal assets in FY 2001 relating to money laundering.

But we can and must do even better. Good government requires creative problem solving to successfully address the problems this country faces today. The *2002 National Money Laundering Strategy* is a blueprint of how the Administration will address critical issues surrounding the enforcement of financial crimes.

With that in mind, I would like to walk you through some of the key points of the *2002 Strategy* and then take some of your questions.

Terrorist Financing

The *2002 Strategy* calls on the Departments of State, Treasury, and Justice and the intelligence community to enhance the level of cooperation currently received from our partners abroad.

There is a special emphasis placed on continued involvement in multi-national bodies such as FATF and also in joint designations with other countries. Furthermore we are also working on agreements with our allies that would allow us to partner with law enforcement agencies abroad to jointly investigate financial links to terrorists.

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Charities and Improper Use of NGOs

The *2002 Strategy* focuses on “high impact” targets and systems, including corrupt charities, the misuse of alternative remittance systems, which include hawalas, and bulk-cash smuggling. The enactment of the USA Patriot Act has made it more difficult for terrorist financiers to transfer money through traditional Western banking system. Thus terrorists have resorted to alternative means of moving and hiding money. FinCEN has been conducting a study on the use of these alternative systems that will be completed in October.

Treasury will lead an interagency process to develop a set of internationally accepted standards or “best practices” for the alternative remittance industry. This goal will be pursued in the context of the Financial Action Task Force (FATF) Special Recommendations on Terrorist Financing and the Asia Pacific Group (APG) recommendations on Alternative Remittance and Underground Banking Systems, both of which call for enhanced regulatory oversight.

The use of non-governmental organizations (NGOs), including charities, to raise funds in support of terrorist groups is an area that demands further attention from the U.S. Government. Though these NGOs may be offering humanitarian services here or abroad, funds raised by certain charities have been diverted to terrorist causes. This scheme is particularly troubling because these funds are earmarked for good and they are being grossly perverted to fund acts of evil against innocent civilians.

The United States will work to help develop international “best practices” on how to regulate charities to prevent their abuse and infiltration by terrorists and their supporters. At the June 2002 FATF Plenary meeting, the United States presented a paper that will form the basis for a discussion of international standards. As part of this effort, the U.S. government will identify high-risk areas and deploy multi-agency teams to assist host governments in applying charitable regulation “best practices”.

Creation of Targeting Team

Officials at both the Department of the Treasury and the Department of Justice recognize that it is vitally important to cooperate and coordinate with one another to investigate priority targets whenever it is possible to do so. The strategy addresses the importance of making joint decisions about what major money laundering organizations and systems to target and how to investigate and prosecute them before those investigations are initiated. To address this concern, the Departments of the Treasury and Justice will co-lead an interagency effort to identify potential money laundering-related targets, and then deploy the necessary assets to attack those agreed upon targets.

We will establish an interagency targeting team to help focus our efforts and resources against the most significant money laundering organizations and systems, such as individuals who smuggle bulk cash and terrorist groups. In addition the *Strategy* calls for more jail time for the money-laundering masterminds.

USA PATRIOT Act

Information is a critical weapon in the war against terrorist financing. The new information-sharing provisions of the USA PATRIOT Act afford financial institutions greater flexibility in evaluating potential risks and sharing their concerns with both the federal government and amongst themselves. We are working with FinCEN to draft regulations to implement some of the anti-money laundering provisions of the PATRIOT Act, and are evaluating comments submitted to the regulations we proposed to implement other sections.

Highlights of our major accomplishments over the past nine months include:

- Issuing customer identification and verification regulations jointly with the federal regulators to ensure that all federally regulated financial institutions employ basic procedures to identify and verify the identity of their customers.
- Providing immediate guidance for complying with an important provision of the Act that cuts unregulated foreign shell banks off from our financial system.
- Expanding our basic anti-money laundering program requirement to the major financial services sectors, such as broker-dealers, and
- Developing a proposed rule to implement a comprehensive statutory provision that seeks to minimize risks presented by correspondent banking and private banking accounts.

Metrics

The *2002 Strategy* is a groundbreaking document. It provides, for the first time in a *National Money Laundering Strategy*, baseline facts and figures that can help determine how well the federal government is succeeding in its efforts to detect, prevent, and deter money laundering – a major goal of Secretary O’Neill.

The *2002 Strategy* publishes data collected by the U.S. Sentencing Commission in Fiscal Year 2000 concerning defendants in federal cases that went to jail for committing a money laundering offense. Although the Sentencing Commission data is incomplete by itself, analysis of this data is instructive and provides a starting point for meaningful baselines and metrics.

- We now know that over 80% of all money launderers that were sentenced did not receive a leadership enhancement.
- We now know that almost 80% of those sentenced laundered less than \$1 million.
- We know that some districts, even densely populated districts, prosecuted a limited number of money laundering cases.

These statistics show that we can improve our ability to focus on major money laundering prosecutions and target large organizations.

Of course, it is not enough merely to pledge to do better. We must have ways to meaningfully quantify our efforts. With these articulated baselines, we will be able to develop metrics to evaluate our progress. We are also seeking to develop new baselines within the *Strategy* by measuring our investment in money laundering enforcement and developing a uniform case reporting system. These efforts will take time, and, if done right, should show some real results.

For instance by tracking the commission rate charged in money laundering transactions we will be able to ascertain if our efforts are making a difference over a period of years.

FATF/International

On the ever important international front, we will continue to work with the international financial institutions, such as the World Bank and International Monetary Fund, and the multinational Financial Action Task Force to improve and monitor anti-money laundering compliance efforts throughout the world. The *Strategy* reports on the efforts and results achieved by all the countries that have appeared on the FATF list. FATF periodically revises the Forty Recommendations to address new anti-money laundering challenges. The U.S., under Treasury leadership, is playing an active role in this effort. In May 2002, FATF finalized a consultation paper that presents options and seeks the views of non-FATF members and the private sector on these possible revisions. FinCEN has also been instrumental through the Egmont Group of financial intelligence units (FIUs) in enhancing the exchange of financial information in support of criminal investigations including terrorist-related financing.

I would be happy to answer any questions that you have on the *2002 Strategy*.

TREASURY



NEWS

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

Embargoed Until 1:30 p.m. EDT
Thursday, July 25, 2002

Contact Tony Fratto
(202) 622-2960

**TREASURY UNDER SECRETARY JOHN B. TAYLOR
TESTIMONY BEFORE THE SUBCOMMITTEE ON
INTERNATIONAL MONETARY POLICY AND TRADE OF THE
HOUSE COMMITTEE ON FINANCIAL SERVICES**

Chairman Bereuter, Ranking Member Sanders, Members of the Subcommittee, thank you for the opportunity to testify today on the achievements made to date on the Administration's Multilateral Development Bank (MDB) reform agenda and our specific authorization requests.

Reform of the MDBs has been one of the highest priorities of the Bush Administration's international economic agenda. The MDBs are important instruments in helping to raise economic growth and prosperity around the world. But the effectiveness of the institutions in making a difference in the lives of the poor can be substantially improved. The MDBs can and must do a better job. From the start of the Administration, three hallmark reforms have been pursued – a greater focus by the institutions on increasing productivity growth; an insistence on measurable results; and an increased proportion of assistance to the poorest countries delivered in the form of grants rather than loans.

Steady progress has been made on all these fronts since the start of the Administration, and this progress provides the grounds for today's request for authorization to replenish the International Development Association (IDA-13) and the African Development Fund (AfDF-9). An authorization request is pending for the replenishment of the Asian Development Fund (AsDF-8) and negotiations are still underway for replenishment of the Global Environment Facility (GEF-3), for which authorization is provided by prior legislation. The Administration is also seeking authorization to implement certain reforms of the North American Development Bank (NADBank), along the lines agreed by Presidents Bush and Fox.

President Bush's appropriations request for the MDBs in FY03 totals \$1.437 billion. In the case of the increment for IDA, the authorization request is an 18% increase over prior replenishment requests. Importantly, the requested increase entails a new focus on measuring and achieving results from IDA funding. In fact, for the first time ever, part of the replenishment is contingent on achieving real results on the ground. Absent achievement of progress towards stated objectives, the Administration will not seek appropriations for that additional funding.

PO-3288

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IDA-13: Reforms to Raise Economic Growth in Poor Countries

Negotiations for the thirteenth replenishment of IDA concluded earlier this month. This replenishment will enable the organization to provide a total of \$23 billion in loans and grants to the poorest countries over the next three years. The Administration is requesting authorization to contribute up to \$2.850 billion over the next three years. The FY03 appropriations request consists of \$850 million for the first payment under IDA-13 and \$24 million to clear one-third of U.S. arrears.

As part of the IDA replenishment, the United States achieved three sweeping reforms fully reflective of the Bush Administration's MDB reform priorities:

- A significant increase in grant funding for the poorest countries;
- A contribution scheme that allows shareholders to link the contribution of additional resources to the achievement of results; and
- A greater focus of IDA resources on key productivity-driving activities, including private sector development.

First, the IDA replenishment achieves the President's vision of 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." In fact, this landmark agreement means that IDA will provide nearly 100% of its assistance on grant terms for education, health, nutrition, potable water and sanitation in countries whose people live on less than a dollar a day. All of IDA's assistance for HIV/AIDS will be in grant form for all IDA-only countries, and up to 25% of such assistance to blend countries (those eligible for both IBRD and IDA) will also be in the form of grants. 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.

This is a significant achievement in terms of meeting the Administration's policy objective of helping poor countries make productive investments without saddling them with ever-larger debt burdens. Equally important, this approach will make a real difference in meeting the basic needs of poor people around the globe without significant costs to IDA.

While an increase in the amount of grants will mean a reduction in IDA repayments over the next 40 years, it is important to note that for the recipient countries, these additional saved "costs" – which are better referred to as "foregone debt repayments" – provide real and material benefits. Even in terms of foregone repayments, the amounts are modest and spread out over an extended period of time. Given the grace period attached to regular IDA funding, there is virtually no reduction in the amount of IDA resources available to support borrowing countries over the first ten years.

It will not take much to offset these foregone repayments even after the first ten years. In their recent study on IDA grants, the U.S. General Accounting Office (GAO) produced an excellent analysis, which was very helpful. I referred to it many times as a way to explain the financial impact of the grants proposal to other donors. It estimated that donors would have to increase their contributions at an annual rate less than the rate of inflation to offset the costs of grants – that is a decline in real terms.

Second, another key achievement in the IDA replenishment is a contribution structure that allows donors to increase their levels of funding if concrete measurable results are achieved. Donors and developing countries will benefit from routinely quantifying development achievements and understanding the reasons for success and failure. This will increase learning and accountability for development results.

Donors agreed to measure progress towards two sets of results. The first set is needed to get the new measurable results system started. It requires that this system be established and that other analytical underpinnings of IDA's work be expanded. Timely and high quality diagnostic analyses, such as public expenditure reviews, financial accountability assessments, and investment climate assessments, are important tools for identifying the strengths and weaknesses in a country's ability to make the most effective use of IDA resources. The U.S. will provide an additional \$100 million if IDA makes concrete progress in this area.

The second set of results is in the areas of education, health, and private sector development. After careful consideration of both measurability (do the data exist in most IDA countries?) and relevance (do they reflect IDA's productivity growth and poverty reduction mandate?), progress will be tracked toward the following results:

- *Education:* Increase in aggregate primary school completion rates across IDA countries as well as an increase in the number of countries that have raised their completion rates.
- *Health:* Increase in measles immunization coverage across IDA countries as well as an increase in the number of countries with 80 percent coverage.
- *Private Sector Development:* Reductions in both the number of days and the official costs required to start businesses in IDA countries.

Reflective of the importance of human capital investment and vibrant private sectors to increasing productivity, the U.S. will provide an additional \$200 million if satisfactory results are achieved in the above areas.

It is important to keep in mind that this is just the start of a fundamental shift of focus in the MDBs to measurable results. A new measurement system must be created to implement the results approach; it will begin with a small but important set of indicators.

And it will evolve over time as the quality of data and evaluation systems in recipient countries are strengthened and as the MDBs, other shareholders, and developing countries realize that the U.S. priority on measuring results reflects a genuine desire to ensure that the lessons – both successes and failures – of 50 years of development assistance result in more effective assistance and less poverty around the world.

More broadly, pursuing a results-based approach in IDA and the other MDBs will require real changes in operating style. It means stating in quantitative terms the expected results of individual projects and overall country assistance before providing funding. It means measuring progress towards stated results and assessing the reasons for success and failure. It means structuring projects in a way that steps up or cuts back funding contingent on achieving results.

Third, IDA will devote significant resources over the next three years to projects and programs that raise productivity. The logic behind this approach rests in the simple fact that countries are poor because productivity is low. This requires concentrating IDA funding on addressing the basic causes of low productivity such as inadequate education, low business investment, and inadequate health care. For the first time, IDA funds can be used in the private sector, including increased collaboration with the International Finance Corporation (IFC), the arm of the World Bank Group that provides financial products to private sector projects in developing countries.

African Development Fund

Negotiations for the ninth replenishment of the African Development Fund (AfDF-9) are not yet complete. With strong U.S. leadership, the AfDF negotiators have already agreed on an important set of policy reforms including an enhanced focus on measurable results, an improved link between financial support and results, and deepened coordination with the World Bank and bilateral donors. The AfDF has a good record of providing information, and Management has committed to improving disclosure policies. The institution is also developing specific expertise in the areas of regional integration and governance, and will be adopting a new private sector strategy this year.

Two issues remain – the overall size of the replenishment and the proportion of assistance to be provided as grants. The AfDF is expected to adopt a grants program which is similar to the agreement on grants reached in IDA, with an emphasis on grants for urgent human needs such as education, health, and water and sanitation, linked to country performance and commitment to economic reforms. Discussions to date project a replenishment size of \$2.9-3.2 billion to fund AfDF operations over the next 3 years. The Administration is requesting authorization to contribute \$354 million over the next three years. This represents an 18 percent increase in funding over AfDF-8.

The AfDF has been using its comparative advantage as a regional MDB to participate actively in the on-going elaboration of the New Partnership for African Development (NEPAD) initiated by African Heads of State. The NEPAD framework contains a peer review mechanism to assess individual country performance.

However, since the specific modalities of a performance-based or competitive ranking system do not yet exist, they could not inform the AfDF replenishment negotiations.

Asian Development Fund

Important achievements were made during the last replenishment negotiations on the Asian Development Fund (AsDF), including a performance-based system for allocating resources and a Memorandum of Understanding with the World Bank to strengthen collaboration and minimize duplication.

The AsDB, including the AsDF, has moved quickly to assist Afghanistan, by participating in the multi-donor trust fund and by pledging support to finance the country's urgent reconstruction needs. AsDB has approved \$15 million in grants to support critical capacity-building in key ministries, such as health, education, and agriculture, and to assist with disaster preparedness.

The Bush Administration intends to implement its MDB reform agenda for the AsDF, much as it has with IDA including the use of grants. Our ability to influence the policy direction of the institution will be helped over time by a reduction in our arrears.

Global Environment Facility

Negotiations for the third replenishment of the Global Environment Facility (GEF) are currently scheduled to conclude in Washington next month. As contained in the President's Budget for FY2003, the United States is prepared to pledge \$430 million over four years for the replenishment, or \$107.5 million per year, which is equal to our GEF-2 commitment. The FY03 budget request includes the first installment of this pledge. In addition, the Administration proposed a three-year plan to clear \$210.9 million in U.S. arrears to GEF, and requested \$70.3 million for the first payment in FY03. The U.S. is the largest contributor to the GEF, but also the only donor with substantial arrears to the institution, and it is very important to meet our commitments in order to continue to exercise effective leadership and pursue our interests.

The GEF is an effective institution that fills an important niche. An independent review concluded that the GEF has produced significant positive impacts and has laid the foundation for even more substantial results in the future. The Administration is trying to improve the effectiveness of GEF assistance, including agreement to establish a transparent performance-based allocation system that emphasizes country policies and institutional structures essential to effective assistance. Currently, such an allocation system does not exist. Consensus has also been reached on the use of measurable results over the replenishment period. There is also a consensus in the negotiations on the need to develop a private sector strategy, create an independent monitoring and evaluation unit, and open competition for GEF projects by providing implementing agencies with direct access to GEF funding. Finally, agreement was reached to fully segregate Kyoto Protocol funds from the regular GEF programs funded by U.S. contributions.

These reforms, if fully implemented, will sharply improve the impact of GEF projects, thereby providing donors with greater confidence that GEF funds are being used effectively.

North American Development Bank

In March, President Bush and President Fox agreed to reforms to improve the ability of the North American Development Bank (NADBank), and its sister institution, the Border Environment Cooperation Facility (BECC), to address the environmental infrastructure needs of U.S. and Mexican communities along the shared border. These reforms were developed through a broad consultation process and include measures to allow NADBank to increase its low interest rate lending and grant-making activities, to expand the geographic scope for BECC-NADBank operations in Mexico, and to replace the separate BECC and NADBank Boards of Directors with a single board, including federal and non-federal representation. Both presidents also agreed that a comprehensive “business process review” should be conducted to identify ways to improve the overall project design, certification, and implementation process.

These reforms will improve the performance of both institutions in several ways. The financial reforms will make NADBank financing more affordable and thus promote an increase in the Bank’s project financing activities. The geographic expansion will give NADBank opportunities to address a greater scope of important environmental issues that affect communities on both sides of the border. The single Board of Directors should improve coordination and accountability in NADBank and BECC.

Implementation of these reforms is moving forward. Congressional authorization is needed to implement two key reforms – the ability to use NADBank’s paid-in capital for grants and expansion of the institutions’ geographic scope of operations in Mexico. The Administration hopes that the Congress will act on this legislation quickly to enable both governments to implement the agreed reforms and improve the ability of BECC and NADBank to address the serious environmental needs of the people of the border region.

Conclusion

MDB reform has been a priority of the Administration from the outset. I believe that steady progress is being made in achieving our key objectives within each of the institutions and that these reauthorizations will allow us to make further progress. Working with the international affairs staff at Treasury, I will endeavor to be demanding and to set high standards for the MDBs in order to make them more effective in raising living standards around the world.

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EMBARGOED UNTIL 3:00 P.M. EDT
Thursday, July 25, 2002

Contact: Tasia Scolinos
(202) 622-2960

Remarks of Deputy Secretary Ken Dam
2002 National Money Laundering Strategy Roll Out

Thank you all for coming.

I am delighted to be here today with representatives from federal law enforcement and the federal financial regulatory community to unveil the Administration's 2002 *National Money Laundering Strategy*.

It is imperative that the federal government continue to vigorously pursue the financial underpinnings of crime, including the financing of terrorist groups.

The *2002 Strategy* is precedent setting. It lays out, for the first time, a comprehensive national strategy to attack the financing of terrorist groups.

It sets another important precedent too, a precedent about accountability, and we have the leadership of Secretary O'Neill to thank for this.

For the very first time, the *Money Laundering Strategy* presents some hard facts and figures to help assess how the federal government is doing in its ongoing battle to combat money laundering. You will hear more about what these figures say shortly.

Secretary O'Neill understands that we need more than anecdotal evidence to drive policy making, and that the effective and efficient measurement of results is critical to make informed decisions and to direct resources appropriately.

The *Strategy* also continues our multi-year effort to safeguard the integrity of the world's financial system and to reduce the vulnerability of the U.S. financial institutions to criminal activities. I am especially proud of our efforts to implement the anti-money laundering provisions of the USA PATRIOT Act, which you will also hear more about shortly.

PO-3289

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It is only by working cooperatively that we will be able to cut off the lifeblood that criminals and terrorists rely on to finance their illegal acts. The *2002 Strategy* is an important step in this direction, and, on behalf of the President and his Administration, I am proud to endorse its ambitious goals and objectives.

I would now like Treasury Under Secretary for Enforcement Jimmy Gurulé to talk about the specifics of the new *2002 Money Laundering Strategy*.

DEPARTMENT OF THE TREASURY

TREASURY



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EMBARGOED UNTIL 2:30 P.M.
July 25, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling \$32,000 million to refund an estimated \$26,373 million of publicly held 13-week and 26-week Treasury bills maturing August 1, 2002, and to raise new cash of approximately \$5,627 million. Also maturing is an estimated \$18,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced July 29, 2002.

The Federal Reserve System holds \$12,162 million of the Treasury bills maturing on August 1, 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 30, 2002. Amounts awarded to SOMA will be in addition to the offering amount.

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

TreasuryDirect customers have requested that we reinvest their maturing holdings of approximately \$1,137 million into the 13-week bill and \$995 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-3290

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HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED AUGUST 1, 2002

July 25, 2002

<u>Offering Amount</u>	\$16,000 million	\$16,000 million
<u>Public Offering</u>	\$16,000 million	\$16,000 million
<u>NLP Exclusion Amount</u>	\$ 4,500 million	None

Description of Offering:

Term and type of security.....	91-day bill	182-day bill
CUSIP number.....	912795 LH 2	912795 LW 9
Auction date.....	July 29, 2002	July 29, 2002
Issue date.....	August 1, 2002	August 1, 2002
Maturity date.....	October 31, 2002	January 30, 2003
Original issue date.....	May 2, 2002	August 1, 2002
Currently outstanding.....	\$18,253 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.

TREASURY



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For Immediate Release
July 26, 2002

Contact: Tara Bradshaw
(202) 622-2014

**TREASURY AND IRS PROPOSE CHANGES TO
THE TREATMENT OF COMPENSATORY STOCK OPTIONS
IN COST SHARING ARRANGEMENTS**

Today, the Treasury Department and the IRS issued proposed regulations on the tax treatment of compensatory stock options under the related party transfer pricing rules governing cost-sharing arrangements.

“The proposed regulations address a significant international tax issue - the treatment of compensatory stock options as a cost to be taken into account by related taxpayers participating in a cost-sharing arrangement for the joint development of intangible assets,” stated Acting Assistant Secretary (Tax Policy) Pamela Olson. “The rules governing cost sharing arrangements are critically important. The proposed regulations represent a first step in ensuring that the rules regarding the treatment of cost-sharing arrangements reach appropriate results.”

Participants in cost sharing arrangements are required to share all costs related to the development of intangibles in the same proportion as they share the reasonably anticipated benefits attributable to the intangible development. The proposed regulations clarify that compensatory stock options, like other compensation, are taken into account in determining the costs of a participant. The proposed regulations also provide rules for measuring the cost associated with stock-based compensation, generally allowing taxpayers a choice of measuring the cost based on the stock price at the date of exercise or the “fair value”, as noted in financial statements, at the date of grant.

The text of the proposed regulations is attached.

-30-

PO-3291



[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG-106359-02]

RIN 1545-BA57

Compensatory Stock Options Under Section 482

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking and notice of public hearing.

SUMMARY: This document contains proposed regulations that provide guidance regarding the application of the rules of section 482 governing qualified cost sharing arrangements. These proposed regulations provide guidance regarding the treatment of stock-based compensation for purposes of the rules governing qualified cost sharing arrangements and for purposes of the comparability factors to be considered under the comparable profits method. This document also provides notice of a public hearing on these proposed regulations.

DATES: Written or electronic comments must be received by October 28, 2002.

Requests to speak and outlines of topics to be discussed at the public hearing scheduled for November 20, 2002, must be received by October 30, 2002.

ADDRESSES: Send submissions to: CC:ITA:RU (REG-106359-02), room 5226, Internal Revenue Service, POB 7604, Ben Franklin Station, Washington, DC 20044.

Submissions may be hand-delivered between the hours of 8 a.m. and 5 p.m. to CC:ITA:RU (REG-106359-02), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, NW., Washington, DC. Alternatively, taxpayers may submit comments electronically directly to the IRS Internet site at www.irs.gov/regs. The public hearing will be held in Room 4718, Internal Revenue Building, 1111 Constitution Avenue, NW., Washington, DC.

FOR FURTHER INFORMATION CONTACT: Concerning the regulations, Douglas Giblen, (202) 874-1490; concerning submissions of comments, the hearing, and/or to be placed on the building access list to attend the hearing, LaNita Van Dyke, (202) 622-7180 (not toll-free numbers).

SUPPLEMENTARY INFORMATION

Paperwork Reduction Act

The collection of information contained in this notice of proposed rulemaking has been submitted to the Office of Management and Budget for review in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3507(d)). Comments on the collection of information should be sent to the **Office of Management and Budget**, Attn: Desk Officer for the Department of the Treasury, Office of Information and Regulatory Affairs, Washington, DC 20503, with copies to the **Internal Revenue Service**, Attn: IRS Reports Clearance Officer, W:CAR:MP:FP:S, Washington, DC 20224. Comments on the collection of information should be received by September 27, 2002. Comments are specifically requested concerning:

Whether the proposed collection of information is necessary for the proper performance of the functions of the Internal Revenue Service, including whether the information will have practical utility;

The accuracy of the estimated burden associated with the proposed collection of information (see below);

How the quality, utility, and clarity of the information to be collected may be enhanced;

How the burden of complying with the proposed collection of information may be minimized, including through the application of automated collection techniques or other forms of information technology; and

Estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information.

The collection of information requirements are in proposed §§1.482-7(d)(2)(iii)(B) and 1.482-7(j)(2)(i)(F). This information is required by the IRS to monitor compliance with the federal tax rules for determining stock-based compensation costs related to intangible development to be shared among controlled participants in qualified cost sharing arrangements. The likely respondents are taxpayers who enter into these arrangements. Responses to this collection of information are required to determine these taxpayers' proper shares of stock-based compensation costs incurred with respect to these arrangements.

Section 1.482-7(d)(2)(iii)(B) of the proposed regulations provides that controlled participants may elect an alternative method of measurement of certain stock-based compensation by clearly referring to the election in the written cost sharing agreement required under existing regulations or by amending a cost sharing agreement already in effect to refer to the election. Section 1.482-7(j)(2)(i)(F) requires controlled participants to maintain documentation necessary to establish the amount taken into account as operating expenses attributable to stock-based compensation, including the method of measurement and timing used in computing that amount, and the data, as of the date of grant, used to identify stock-based compensation related to the development of intangibles.

Estimated total annual reporting and/or recordkeeping burden: 2,000 hours.

Estimated average annual burden hours per respondent and/or recordkeeper:

The estimated annual burden per respondent varies from 2 hours to 7 hours, depending on individual circumstances, with an estimated average of 4 hours.

Estimated number of respondents and/or recordkeepers: 500.

Estimated frequency of responses: Annually.

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

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

Background

Section 482 of the Internal Revenue Code generally provides that the Secretary may allocate gross income, deductions and credits between or among two or more taxpayers owned or controlled by the same interests in order to prevent evasion of taxes or clearly to reflect income. On July 8, 1994, Treasury and the IRS published in the **Federal Register** (59 FR 34988) final regulations (T.D. 8552, 1994-2 C.B. 93) under section 482 in areas other than cost sharing. On December 20, 1995, Treasury and the IRS published in the **Federal Register** (60 FR 65553) final cost sharing regulations (T.D. 8632, 1996-1 C.B. 85), effective for taxable years beginning on or after January 1, 1996. Amendments to T.D. 8632 were published in the **Federal Register** on May 13, 1996, at 61 FR 21955 (T.D. 8670, 1996-1 C.B. 99), and on January 3, 2001, at 66 FR 280 (T.D. 8930, 2001-1 I.R.B. 433).

The 1994 final regulations under section 482 contain general provisions at §1.482-1 describing the arm's length standard and the best method rule. The final cost sharing regulations at §1.482-7 generally require that controlled participants in a qualified cost sharing arrangement share intangible development costs in proportion to their shares of the reasonably anticipated benefits attributable to the development of the intangibles covered by the arrangement. These proposed regulations clarify that stock-based compensation is taken into account in determining the operating expenses treated as a controlled participant's intangible development costs for purposes of the cost sharing provisions; provide rules for measuring the cost associated with stock-based compensation; clarify that the utilization and treatment of stock-based compensation is appropriately taken into account as a comparability factor for purposes

of the comparable profits method under §1.482-5; and clarify the coordination of the cost sharing rules of §1.482-7 with the arm's length standard as set forth in §1.482-1.

Explanation of Provisions

Overview

_____ The Tax Reform Act of 1986, Public Law 99-514, 100 Stat. 2085, 2561 et seq. (reprinted at 1986-3 C.B. (Vol 1) 1, 478) (the Act), amended section 482 to require that consideration for intangible property transferred in a controlled transaction be commensurate with the income attributable to the intangible. The legislative history of the Act indicated that in adding this commensurate with income standard to section 482, Congress did not intend to preclude the use of bona fide research and development cost sharing arrangements as an appropriate method of allocating income attributable to intangibles among related parties, "if and to the extent such agreements are consistent with the purpose of this provision that the income allocated among the parties reasonably reflect the actual economic activity undertaken by each. Under such a bona fide cost-sharing arrangement, the cost-sharer would be expected to bear its portion of all research and development costs. . . ." H.R. Rep. No. 99-841, at II-638 (1986) (the Conference Report).

The Conference Report recommended that the IRS conduct a comprehensive study and consider whether the regulations under section 482 (issued in 1968) should be modified in any respect. In response to this directive, on October 18, 1988, Treasury and the IRS issued a study of intercompany pricing (the White Paper), published as Notice 88-123, 1988-2 C.B. 458. With respect to cost sharing arrangements, the White Paper observed that Congress intended such arrangements to produce results consistent with the purposes of the commensurate with income standard in section 482, and in particular that allocations of income among the participants reasonably reflect the participants' respective economic activity. 1988-2 C.B. at 459, 495. The White Paper further observed that Congress intended that Treasury and the IRS apply and interpret

the commensurate with income standard consistently with the arm's length standard. 1988-2 C.B. at 458, 477.

Section 1.482-1 of the 1994 final regulations provides that a controlled transaction meets the arm's length standard if the results of the transaction are consistent with the results that would have been realized if uncontrolled taxpayers had engaged in the same transaction under the same circumstances. A method selected under the best method rule is used to determine whether a controlled transaction produces an arm's length result. The regulations reference §§1.482-2 through 1.482-6 as providing specific methods to be used in this determination.

Section 1.482-7 of the 1995 final regulations implements the commensurate with income standard in the context of cost sharing arrangements. The final cost sharing regulations require that controlled participants in a qualified cost sharing arrangement share all costs incurred that are related to the development of intangibles in proportion to their shares of the reasonably anticipated benefits attributable to that development. Section 1.482-7(d)(1) defines these intangible development costs as including operating expenses as defined in §1.482-5(d)(3), other than depreciation or amortization, plus an arm's length rental charge determined under §1.482-2(c) for the use of any tangible property made available to the qualified cost sharing arrangement. Section 1.482-5(d)(3) defines operating expenses, for purposes of the comparable profits method under section 482, as including all expenses not included in cost of goods sold except for interest expense, foreign and domestic income taxes, and any other expenses not related to the operation of the relevant business activity. In the context of cost sharing, the relevant business activity is the development of intangibles covered by the cost sharing arrangement.

Since the promulgation of the final cost sharing regulations in 1995, the issue has been raised whether operating expenses within the meaning of §1.482-7(d)(1) include compensation provided by a controlled participant in the form of stock options. Related

questions have been posed in this context regarding the interaction between the arm's length standard and the cost sharing regulations.

These proposed regulations amend the final regulations to clarify that stock-based compensation must be taken into account in determining operating expenses under §1.482-7(d)(1) and to provide rules for measuring stock-based compensation costs. These proposed regulations also clarify that stock-based compensation should be taken into account in comparability determinations pursuant to the comparable profits method under §1.482-5. Finally, the proposed regulations amend the final regulations to include express provisions to coordinate the cost sharing rules of §1.482-7 with the arm's length standard as set forth in §1.482-1.

Inclusion of Stock-Based Compensation in Intangible Development Costs

_____ The proposed regulations provide that in determining a controlled participant's operating expenses within the meaning of §1.482-7(d)(1), all compensation, including stock-based compensation, must be taken into account. The proposed regulations also provide rules for measuring the operating expenses attributable to stock-based compensation.

The definition of stock-based compensation for purposes of these proposed regulations is broad, comprising any compensation provided by a controlled participant to an employee or independent contractor in the form of equity instruments, stock options, or rights in (or determined by reference to) such instruments or options, regardless of whether the compensation ultimately is settled in the form of cash, stock, or other property. Thus, these proposed regulations are intended to reach such forms of compensation as restricted stock, nonstatutory stock options, statutory stock options (incentive stock options described in section 422(b) and options granted under an employee stock purchase plan described in section 423(b)), stock appreciation rights, and phantom stock. Statutory stock options are within the scope of the definition

regardless of whether the employer is entitled to an income tax deduction with respect to those options.

The proposed regulations provide that the determination of whether stock-based compensation is related to the development of intangibles covered by the qualified cost sharing arrangement is to be made as of the date the stock-based compensation is granted. For example, controlled participants must share the costs attributable to stock-based compensation that is granted to an employee who, at the time of grant, is performing research services related to the qualified cost sharing arrangement. Treasury and the IRS believe that this rule appropriately identifies the stock-based compensation to be shared because the grant of compensation generally is the economic event most closely associated in time with the services being compensated. Because a controlled participant may choose whether to provide stock-based or cash compensation, this rule also promotes neutrality of treatment as among various forms of compensation. Finally, because the grant-date identification rule applies irrespective of the method used by the controlled participant to measure or determine the timing of inclusion of stock-based compensation in the intangible development costs to be shared, the rule ensures that the same items of stock-based compensation will be taken into account under any method, thus promoting neutrality in the choice of measurement method afforded by the proposed regulations.

In applying the grant-date identification rule in cases where a stock option is repriced or otherwise modified, the rules of section 424(h) and related regulations will be used to determine whether the grant of a new stock option has occurred.

Treasury and the IRS recognize that tax and other accounting principles permit the cost associated with stock-based compensation to be measured and taken into account as of different points in time and under various methodologies for different purposes. For example, for general income tax purposes, the amount of compensation taxed to an employee and deductible by an employer upon exercise of a stock option

not governed by sections 421-424 (commonly referred to as a nonstatutory stock option) generally is measured by the "spread" between the option price and the fair market value of the underlying stock at the date of exercise. See §§ 83(a), 83(h), 1.83-1(a)(1), 1.83-6(a)(1).

For various other tax purposes, however, the IRS has adopted modified versions of economic pricing models, such as the Black-Scholes model, for valuing stock options at specific points in time prior to exercise. See Rev. Proc. 98-34, 1998-1 C.B. 983 (estate and gift tax valuation); Rev. Proc. 2002-13, 2002-8 I.R.B. 549, as modified by Rev. Proc. 2002-45, 2002-27 I.R.B. 40 (measurement of stock-option-based golden parachute payments under sections 280G and 4999). Pricing models also have been adopted in the context of financial accounting. The Financial Accounting Standards Board (FASB) refers to pricing models for measurement of the stock-based compensation expense that a company is required to report at "fair value," either as a charge to income or, at the company's option, in a pro forma footnote disclosure. See FASB Statement 123, Accounting for Stock-Based Compensation (October 1995).

Generally accepted pricing models can be applied at the date of grant to estimate the economic cost of a stock option to the issuer. General support for the use of economic measures of cost in the transfer pricing context may be found in the legislative history of the commensurate with income standard and in the White Paper, which state that to be consistent with the commensurate with income standard, cost sharing arrangements must "reflect the actual economic activity" of participants. Conference Report at II-638 and White Paper at 1988-2 C.B. 495.

In establishing rules for measurement of the operating expenses attributable to stock-based compensation for cost sharing purposes, Treasury and the IRS believe that due regard must be given to the emphasis placed on economic factors in the legislative history of the commensurate with income standard and in the White Paper. Treasury and the IRS also recognize the importance of providing rules that are administrable.

The proposed regulations prescribe a general rule of measurement based primarily on the amount and timing of the income tax deduction associated with stock-based compensation, while in certain cases permitting controlled participants in a qualified cost sharing arrangement to elect a rule of measurement with respect to stock options based on the amount and timing of the fair value of the option that is required to be computed for purposes of financial accounting in accordance with United States generally accepted accounting principles (U.S. GAAP).

To provide for uniform measurement of the cost associated with both statutory and nonstatutory stock options, the general deduction-based measurement rule is applied as if section 421 did not apply upon the exercise of a statutory stock option. Thus, although section 421 generally disallows compensation deductions with respect to the exercise of statutory stock options except in the case of certain disqualifying dispositions, the proposed regulations treat the exercise of a statutory stock option as giving rise to a deduction for purposes of the deduction-based measurement rule. Consequently, the operating expense with respect to all stock options, whether statutory or nonstatutory, generally will be measured by the "spread" and taken into account as of the date the stock option is exercised.

To place a foreign controlled participant on an equal footing with a United States controlled participant, an amount is treated as deductible by a foreign controlled participant, solely for purposes of the general deduction-based measurement rule, as if the amount were paid or incurred by a United States taxpayer, even if the foreign controlled participant is not subject to United States taxing jurisdiction and so would not otherwise be entitled to a deduction under United States income tax law.

Solely for purposes of the general deduction-based measurement rule, any item of stock-based compensation that is eligible to be exercised and that remains outstanding on the expiration or termination of a qualified cost sharing arrangement will be treated as being exercised immediately before the expiration or termination, provided

that the fair market value of the underlying stock at that time exceeds the price at which the stock-based compensation is exercisable. The result of this treatment is that the excess of the fair market value of the underlying stock over the price at which the stock-based compensation is exercisable is taken into account as an operating expense for the taxable year in which the qualified cost sharing arrangement expires or terminates. This special rule would apply, for example, in the case of a currently exercisable statutory stock option or a substantially vested nonstatutory stock option where the fair market value of the underlying stock exceeds the option price at the time the qualified cost sharing arrangement is terminated. The rule ensures that controlled participants take into account for cost sharing purposes all stock-based compensation that is attributable to the development of intangibles and has become exercisable during the term of the cost sharing arrangement. In cases where significant amounts of stock-based compensation have been granted, but are not exercisable at the time of the termination of the arrangement, the IRS anticipates that factual issues regarding the termination of the qualified cost sharing arrangement will arise if the arrangement is reinstated.

A similar rule applies if, during the term of the qualified cost sharing arrangement, a newly granted stock option is determined to result from a repricing or other modification of another stock option and is not related to the development of intangibles at the time of the modification. In this situation, an amount is taken into account for purposes of the general deduction-based measurement rule as if the original stock option had been exercised immediately before the modification.

The proposed regulations permit an elective method of measurement and timing with respect to options on publicly traded stock of companies subject to financial reporting under U.S. GAAP, provided that the stock is traded on a United States securities market.

Under the election, the amount of the operating expense associated with compensatory stock options is their "fair value," generally measured by reference to economic pricing models as of the date of grant, as reflected either as a charge against income or as a footnote disclosure in the company's audited financial statements, in compliance with current U.S. GAAP. Where the election is made with respect to stock in a company that does not take stock-based compensation expense as a charge against income for financial accounting purposes but rather chooses, as permitted by current U.S. GAAP (for example, FASB Statement 123), to disclose such compensation in a footnote to the financial statements, stock-based compensation is taken into account in the same amount, and as of the same time, as the pro forma fair value figures reflected in the footnote.

The election to measure the operating expense associated with compensatory stock options in accordance with financial accounting rules must be clearly referenced in the written cost sharing agreement required under §1.482-7(b)(4) and must bind all controlled participants. A transition rule permits controlled participants to amend pre-existing cost sharing agreements not later than the latest due date (without regard to extensions) for an income tax return of a controlled participant for the first taxable year beginning after the effective date of final regulations incorporating this rule.

The proposed regulations contain consistency rules to ensure that all controlled participants in a qualified cost sharing arrangement normally will use the same method of measurement for all options on publicly traded stock with respect to that arrangement. Once a method of measurement has been adopted with respect to stock options granted in a taxable year following the effective date of the proposed regulations, the method of measurement may not be changed for those stock options. With respect to subsequently granted stock options to which the transition rule does not apply, the proposed regulations provide that a method of measurement different from

that adopted following the effective date of the proposed regulations may be adopted only with the consent of the Commissioner.

To ensure that taxpayers maintain documentation supporting all amounts taken into account as operating expenses attributable to stock-based compensation, these proposed regulations add to the documentation requirements of §1.482-7(j)(2)(i) an item specifically relating to stock-based compensation.

Treatment of Stock-Based Compensation Under Other Provisions

_____ The treatment of stock-based compensation as a cost or operating expense for purposes of the transfer pricing of services and for purposes of applying the comparable profits method will be considered by Treasury and the IRS in a separate regulation project. Accordingly, these regulations do not propose amendments to the definitions of cost or operating expense in §1.482-2(b) or §1.482-5(d)(3). However, these proposed regulations amend §1.482-5(c)(2)(iv) to clarify that in applying the comparable profits method, material differences among the tested party and uncontrolled comparables with respect to the utilization or treatment of stock-based compensation are an appropriate basis for comparability adjustments.

Coordination of Cost Sharing With the Arm's Length Standard

_____ These proposed regulations add express provisions coordinating the cost sharing rules of §1.482-7 with the arm's length standard as set forth in §1.482-1. New §1.482-7(a)(3) clarifies that in order for a qualified cost sharing arrangement to produce results consistent with an arm's length result within the meaning of §1.482-1(b)(1), all requirements of §1.482-7 must be met, including the requirement that each controlled participant's share of intangible development costs equal its share of reasonably anticipated benefits attributable to the development of intangibles. The proposed regulations also make amendments to §1.482-1 to clarify that §1.482-7 provides the specific method to be used to evaluate whether a qualified cost sharing arrangement produces results consistent with an arm's length result, and to clarify that under the best

method rule, the provisions of §1.482-7 set forth the applicable method with respect to qualified cost sharing arrangements.

Through these new provisions, Treasury and the IRS intend to clarify that all of the specific rules necessary to the determination of costs, reasonably anticipated benefits and other aspects of qualified cost sharing arrangements are either contained or cross-referenced within §1.482-7. Thus, for example, regarding buy-in payments with respect to pre-existing intangibles made available to qualified cost sharing arrangements, §§1.482-7(a)(2) and 1.482-7(g) cross-reference various other sections of the regulations under section 482. For the determination of reasonably anticipated benefits, § 1.482-7(f)(3) expressly requires that certain comparability factors described in §1.482-1(c)(2)(ii) under the best method rule be considered. With respect to identification of the costs to be shared, the rules are contained within §1.482-7(d)(1), which refers to "all" intangible development costs and cross-references the definition of operating expenses in §1.482-5(d)(3) and the provisions of §1.482-2(c) governing determination of arm's length rental charges for tangible property. The §1.482-7(d)(1) definition of intangible development costs is supplemented by the provisions of §1.482-7(c)(2), which cross-references the provisions of §1.482-4(f)(3)(iii) to determine arm's length consideration for research assistance performed by a controlled taxpayer that is not a controlled participant.

Proposed Effective Date

These regulations are proposed to apply to stock-based compensation granted in taxable years beginning on or after the date these regulations are published as a Treasury Decision promulgating final regulations in the **Federal Register**.

Notwithstanding this prospective effective date, Treasury and the IRS intend that taxpayers may rely on these proposed regulations until the effective date of the final regulations. No inference is intended with respect to the treatment of stock-based

compensation granted in taxable years beginning before the effective date of the final regulations.

Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It has also been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations. It is hereby certified that the collections of information in these regulations will not have a significant economic impact on a substantial number of small entities. This certification is based upon the fact that few small entities are expected to enter into qualified cost sharing arrangements involving stock-based compensation, and that for those who do, the burdens imposed under §§1.482-7(d)(2)(iii)(B) and 1.482-7(j)(2)(i)(F) will be minimal. Therefore, a Regulatory Flexibility Analysis under the Regulatory Flexibility Act (5 U.S.C. chapter 6) is not required. Pursuant to section 7805(f), this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Comments and Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any electronic or written comments (a signed original and eight (8) copies) that are submitted timely to the IRS. Treasury and the IRS specifically request comments on the clarity of the proposed regulations and how they may be made easier to understand. All comments will be available for public inspection and copying.

A public hearing has been scheduled for October 21, 2002, at 10 a.m., in Room 4718, Internal Revenue Building, 1111 Constitution Avenue, NW., Washington, DC. Because of access restrictions, visitors will not be admitted beyond the building lobby

more than 30 minutes before the hearing starts. For information about having your name placed on the building access list to attend the hearing, see the "FOR FURTHER INFORMATION CONTACT" section of this preamble.

The rules of 26 CFR 601.601(a)(3) apply to the hearing. Persons who wish to present oral comments at the hearing must submit written comments and an outline of the topics to be discussed and the time to be devoted to each topic (signed original and eight (8) copies) by September 30, 2002. A period of 10 minutes will be allotted to each person for making comments.

An agenda showing the scheduling of the speakers will be prepared after the deadline for receiving outlines has passed. Copies of the agenda will be available free of charge at the hearing.

Drafting Information

The principal author of these proposed regulations is Douglas Giblen of the Office of Associate Chief Counsel (International). However, other personnel from Treasury and the IRS participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Proposed Amendments to the Regulations

Accordingly, 26 CFR Part 1 is proposed to be amended as follows:

PART 1 -- INCOME TAXES

Paragraph 1. The authority citation for part 1 continues to read in part as follows:

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

Sections 1.482-1, 1.482-5 and 1.482-7 also issued under 26 U.S.C. 482. * * *

Par. 2. Section 1.482-0 is amended by:

1. Redesignating the entry for §1.482-7(a)(3) as the caption for §1.482-7(a)(4).
2. Adding a new entry for §1.482-7(a)(3).
3. Redesignating the entry for §1.482-7(d)(2) as the caption for §1.482-7(d)(3).

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The rules of 26 CFR 601.601(a)(3) apply to the hearing. Persons who wish to present oral comments at the hearing must submit written comments and an outline of the topics to be discussed and the time to be devoted to each topic (signed original and eight (8) copies) by September 30, 2002. A period of 10 minutes will be allotted to each person for making comments.

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1. Redesignating the entry for §1.482-7(a)(3) as the caption for §1.482-7(a)(4).
2. Adding a new entry for §1.482-7(a)(3).
3. Redesignating the entry for §1.482-7(d)(2) as the caption for §1.482-7(d)(3).

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The rules of 26 CFR 601.601(a)(3) apply to the hearing. Persons who wish to present oral comments at the hearing must submit written comments and an outline of the topics to be discussed and the time to be devoted to each topic (signed original and eight (8) copies) by September 30, 2002. A period of 10 minutes will be allotted to each person for making comments.

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Sections 1.482-1, 1.482-5 and 1.482-7 also issued under 26 U.S.C. 482. * * *

Par. 2. Section 1.482-0 is amended by:

1. Redesignating the entry for §1.482-7(a)(3) as the caption for §1.482-7(a)(4).
2. Adding a new entry for §1.482-7(a)(3).
3. Redesignating the entry for §1.482-7(d)(2) as the caption for §1.482-7(d)(3).

4. Adding new entries for §1.482-7(d)(2).

The additions and revisions read as follows:

§1.482-0 Outline of regulations under section 482.

§1.482-7 Sharing of costs.

(a) In general.

(3) Coordination with §1.482-1.

(4) Cross references.

(d) Costs.

(2) Stock-based compensation.

(i) In general.

(ii) Identification of stock-based compensation related to intangible development.

(iii) Measurement and timing of stock-based compensation expense.

(A) In general.

(1) Transfers to which section 421 applies.

(2) Deductions of foreign controlled participants.

(3) Modification of stock option.

(4) Expiration or termination of qualified cost sharing arrangement.

(B) Election with respect to options on publicly traded stock.

(C) Consistency.

(3) Examples.

Par. 3. Section 1.482-1 is amended by:

1. Revising the sixth sentence of paragraph (a)(1).
2. Adding a sentence following the sixth sentence of paragraph (a)(1).
3. Adding a sentence at the end of paragraph (b)(2)(i).
4. Adding a sentence at the end of paragraph (c)(1).
5. Adding paragraph (j)(5).

The additions and revisions read as follows:

§1.482-1 Allocation of income and deductions among taxpayers.

(a) ***

(1) * * * Section 1.482-7T sets forth the cost sharing provisions applicable to taxable years beginning on or after October 6, 1994, and before January 1, 1996. Section 1.482-7 sets forth the cost sharing provisions applicable to taxable years beginning on or after January 1, 1996. * * *

* * * * *

(b) * * *

(2) * * *

(i) * * * Section 1.482-7 provides the specific method to be used to evaluate whether a qualified cost sharing arrangement produces results consistent with an arm's length result.

* * * * *

(c) * * *

(1) * * * See §1.482-7 for the applicable method in the case of a qualified cost sharing arrangement.

* * * * *

(j) * * *

(5) The last sentences of paragraphs (b)(2)(i) and (c)(1) of this section and of paragraph (c)(2)(iv) of §1.482-5 are effective for taxable years beginning on or after the date of publication of the Treasury Decision incorporating those sentences into final regulations in the **Federal Register**.

Par. 4. Section 1.482-5 is amended by adding a sentence to paragraph (c)(2)(iv) to read as follows:

§1.482-5 Comparable profits method.

* * * * *

(c) * * *

(2) * * *

(iv) * * * As another example, it may be appropriate to adjust the operating profit of a party to account for material differences in the utilization of or accounting for stock-based compensation (as defined by §1.482-7(d)(2)(i)) among the tested party and comparable parties.

* * * * *

Par. 5. Section 1.482-7 is amended by:

1. Redesignating paragraph (a)(3) as paragraph (a)(4).
2. Adding paragraph (a)(3).
3. Redesignating paragraph (d)(2) as paragraph (d)(3).
4. Adding paragraph (d)(2).
5. Removing the word "and" at the end of paragraph (j)(2)(i)(D).
6. Removing the period and adding a semicolon and adding the word

"and"

at the end of paragraph (j)(2)(i)(E).

7. Adding paragraph (j)(2)(i)(F).
8. Revising paragraph (k).

The additions and revisions read as follows:

§1.482-7 Sharing of costs.

(a) * * *

(3) Coordination with §1.482-1. A qualified cost sharing arrangement produces results that are consistent with an arm's length result within the meaning of §1.482-1(b)(1) if, and only if, each controlled participant's share of the costs (as determined under paragraph (d) of this section) of intangible development under the qualified cost sharing arrangement equals its share of reasonably anticipated benefits attributable to such development (as required by paragraph (a)(2) of this section) and all other requirements of this section are satisfied.

(4) Cross references. * * *

* * * * *

(d) * * *

(2) Stock-based compensation.--(i) In general. For purposes of this section, a controlled participant's operating expenses include all costs attributable to compensation, including stock-based compensation. As used in this section, the term stock-based compensation means any compensation provided by a controlled participant to an employee or independent contractor in the form of equity instruments, options to acquire stock (stock options), or rights with respect to (or determined by reference to) equity instruments or stock options, including but not limited to property to which section 83 applies and stock options to which section 421 applies, regardless of whether ultimately settled in the form of cash, stock, or other property.

(ii) Identification of stock-based compensation related to intangible development.

The determination of whether stock-based compensation is related to the intangible development area within the meaning of paragraph (d)(1) of this section is made as of the date that the stock-based compensation is granted. Accordingly, all stock-based compensation that is granted during the term of the qualified cost sharing arrangement and is related at date of grant to the development of intangibles covered by the arrangement is included as an intangible development cost under paragraph (d)(1) of this section. In the case of a repricing or other modification of a stock option, the determination of whether the repricing or other modification constitutes the grant of a new stock option for purposes of this paragraph (d)(2)(ii) will be made in accordance with the rules of section 424(h) and related regulations.

(iii) Measurement and timing of stock-based compensation expense.--(A) In general. Except as otherwise provided in this paragraph (d)(2)(iii), the operating expense attributable to stock-based compensation is equal to the amount allowable to the controlled participant as a deduction for federal income tax purposes with respect to that stock-based compensation (for example, under section 83(h)) and is taken into

account as an operating expense under this section for the taxable year for which the deduction is allowable.

(1) Transfers to which section 421 applies. Solely for purposes of this paragraph (d)(2)(iii)(A), section 421 does not apply to the transfer of stock pursuant to the exercise of an option that meets the requirements of section 422(a) or 423(a).

(2) Deductions of foreign controlled participants. Solely for purposes of this paragraph (d)(2)(iii)(A), an amount is treated as deductible by a foreign controlled participant otherwise not entitled to a deduction under United States income tax law as if the amount were paid or incurred by a United States taxpayer.

(3) Modification of stock option. Solely for purposes of this paragraph (d)(2)(iii)(A), if the repricing or other modification of a stock option is determined, under paragraph (d)(2)(ii) of this section, to constitute the grant of a new stock option not related to the development of intangibles, the stock option that is repriced or otherwise modified will be treated as being exercised immediately before the modification, provided that the stock option is then substantially vested within the meaning of §1.83-3(b) (or, in the case of stock options to which section 421 applies, exercisable) and the fair market value of the underlying stock then exceeds the price at which the stock option is exercisable. Accordingly, the amount of the deduction that would be allowable (or treated as allowable under this paragraph (d)(2)(iii)(A)) to the controlled participant upon exercise of the stock option immediately before the modification must be taken into account as an operating expense as of the date of the modification.

(4) Expiration or termination of qualified cost sharing arrangement. Solely for purposes of this paragraph (d)(2)(iii)(A), if an item of stock-based compensation related to the development of intangibles is not exercised during the term of a qualified cost sharing arrangement, that item of stock-based compensation will be treated as being exercised immediately before the expiration or termination of the qualified cost sharing arrangement, provided that the stock-based compensation is then substantially vested

within the meaning of §1.83-3(b) (or, in the case of stock options to which section 421 applies, exercisable) and the fair market value of the underlying stock then exceeds the price at which the stock-based compensation is exercisable. Accordingly, the amount of the deduction that would be allowable (or treated as allowable under this paragraph (d)(2)(iii)(A)) to the controlled participant upon exercise of the stock-based compensation must be taken into account as an operating expense as of the date of the expiration or termination of the qualified cost sharing arrangement.

(B) Election with respect to options on publicly traded stock. With respect to stock-based compensation in the form of options on publicly traded stock, the controlled participants in a qualified cost sharing arrangement may elect to take into account all operating expenses attributable to those stock options in the same amount, and as of the same time, as the fair value of the stock options reflected as a charge against income in audited financial statements or disclosed in footnotes to such financial statements, prepared in accordance with United States generally accepted accounting principles by or on behalf of the company issuing the publicly traded stock. As used in this section, the term publicly traded stock means stock that is regularly traded on an established United States securities market and is issued by a company whose financial statements are prepared in accordance with United States generally accepted accounting principles for the taxable year. The election described in this paragraph (d)(2)(iii)(B) is made by an explicit reference to the election in the written cost sharing agreement required by paragraph (b)(4) of this section or in a written amendment to the cost sharing agreement entered into with the consent of the Commissioner pursuant to paragraph (d)(2)(iii)(C) of this section. In the case of a qualified cost sharing arrangement in existence on the effective date of this paragraph (d)(2)(iii)(B), the election must be made by written amendment to the cost sharing agreement not later than the latest due date (without regard to extensions) of a federal income tax return of

any controlled participant for the first taxable year beginning after the effective date of this paragraph, and the consent of the Commissioner is not required.

(C) Consistency. Generally, all controlled participants in a qualified cost sharing arrangement taking options on publicly traded stock into account under paragraph (d)(2)(iii)(A) or (d)(2)(iii)(B) of this section must use that same method of measurement and timing for all options on publicly traded stock with respect to that qualified cost sharing arrangement. Controlled participants may change their method only with the consent of the Commissioner and only with respect to stock options granted during taxable years subsequent to the taxable year in which the Commissioner's consent is obtained. All controlled participants in the qualified cost sharing arrangement must join in requests for the Commissioner's consent under this paragraph. Thus, for example, if the controlled participants make the election described in paragraph (d)(2)(iii)(B) of this section upon the formation of the qualified cost sharing arrangement, the election may be revoked only with the consent of the Commissioner, and the consent will apply only to stock options granted in taxable years subsequent to the taxable year in which consent is obtained. Similarly, if controlled participants already have granted stock options that have been or will be taken into account under the general rule of paragraph (d)(2)(iii)(A) of this section, then except in cases specified in the last sentence of paragraph (d)(2)(iii)(B) of this section, the controlled participants may make the election described in paragraph (d)(2)(iii)(B) of this section only with the consent of the Commissioner, and the consent will apply only to stock options granted in taxable years subsequent to the taxable year in which consent is obtained.

(3) Examples. * * *

* * * * *

(j) * * *

(2) * * *

(i) * * *

(F) The amount taken into account as operating expenses attributable to stock-based compensation, including the method of measurement and timing used with respect to that amount as well as the data, as of date of grant, used to identify stock-based compensation related to the development of intangibles covered by the qualified cost sharing arrangement.

* * * * *

(k) Effective date. This section is generally effective for taxable years beginning on or after January 1, 1996. However, paragraphs (a)(3), (d)(2) and (j)(2)(i)(F) of this section are effective for taxable years beginning on or after the date of publication of the Treasury Decision adopting those rules as final regulations in the **Federal Register**.

Deputy Commissioner of Internal Revenue
Robert E. Wenzel

TREASURY



NEWS

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EMBARGOED UNTIL 3:00 P.M.
July 29, 2002

CONTACT: Betsy Holahan
(202) 622-2960

TREASURY ANNOUNCES MARKET FINANCING ESTIMATES

The Treasury Department announced today that it expects to borrow \$76 billion in marketable debt during the July - September 2002 quarter and to target a cash balance of \$45 billion on September 30. In the quarterly announcement on April 29, Treasury announced that it expected to borrow \$55 billion in marketable debt and to target an end-of-quarter cash balance of \$50 billion. The increase in financing is due to lower receipts and higher outlays.

Treasury also announced that it expects to borrow \$71 billion in marketable debt during the October - December 2002 quarter and to target a cash balance of \$35 billion on December 31.

During the April - June 2002 quarter, Treasury borrowed \$15 billion in marketable debt and ended with a cash balance of \$40 billion on June 30. This included borrowing of \$19 billion in marketable Treasury securities and buybacks of \$4 billion in outstanding marketable Treasury securities. On April 29, Treasury announced that it expected to borrow \$1 billion in marketable debt and to target an end-of-quarter cash balance of \$45 billion. The increase in borrowing was primarily the result of lower receipts.

Additional financing details relating to Treasury's Quarterly Refunding will be released at 9:00 A.M. on Wednesday, July 31.

PO-3292



TREASURY



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Text as Prepared for Delivery
Tuesday, July 30, 2002

Contact: Betsy Holahan
(202) 622-2960

**ASSISTANT SECRETARY RICHARD CLARIDA
REMARKS TO THE TREASURY BORROWING ADVISORY COMMITTEE
OF THE BOND MARKET ASSOCIATION**

In the three months since we last met, the U.S. economy has, by all indications, experienced continued solid growth. While in the second quarter the pace of activity seems to have tapered off from the unsustainably rapid rate of growth in the first, the real economy appears poised to continue a healthy expansion as we enter the third quarter.

At the same time, equity markets – both here and abroad – have been highly volatile. The drop in valuations has caused us in Treasury to put our ‘real time’ economic tools to work, making phone call to expert industry contacts, and updating on a daily basis our tracking model of GDP, final sales, and investment. Our view, shared by most private forecasters, is that the economy is on a solid growth path and the recovery is proceeding as expected.

The first half of the year is now history, and our focus is currently directed toward the future. A number of indicators suggest a solid start to the third quarter. Average weekly earnings rose 0.6 percent in real terms in June and were up 2.8 percent over the past twelve months. Both auto and nonauto retail sales closed the second quarter on a high note. Evidence for July suggests that consumers responded enthusiastically to the revival of the auto industry’s zero-percent financing programs. In June, new home sales broached the 1-million mark for the first time in history, and industrial output rose 0.8 percent, a sixth straight increase and the largest gain since October 1999. Inventory-sales ratios remain historically low, pointing to future increases in industrial output.

PO-3293



The news on labor markets is also becoming more encouraging. Payroll employment rose for a second straight month in June and we are heartened by a drop in initial claims for unemployment insurance in mid July to the lowest level since before the recession.

In addition, productivity and inflation data are extremely positive. Productivity has surged by 4.2 percent over the past year, helping to reduce unit costs, boost wages, and restore growth in corporate profits. I note in particular that, as of last week, more than 85 percent of S&P 500 companies reporting earnings met or beat expectations in the second quarter. These indicators all suggest to me an economy on solid ground.

Finally, the unparalleled flexibility and resilience of U.S. capital markets was and is one of the important sources of the economy's durability. After September 11, the Federal Reserve continued to cut short-term interest rates. Then, long-term bond yields fell, reflecting a flight to quality in response to increased uncertainty and financial volatility. Mortgage rates came down, triggering a wave of refinancings that put billions of dollars into the hands of households. In this low interest rate environment, auto companies were able to offer zero-percent financing which boosted sales to near record levels.

It is important to note that a similar development is taking place today. In fact, in recent weeks as stock prices have adjusted downward in the face concerns about corporate accounting and earnings reports, the government bond market has rallied sharply. Domestic and foreign funds previously held in equities appear to be flowing into US government bonds, pushing long-term rates lower. Last week, conventional 30-year mortgage rates reached a 30 year low of 6.3 percent. Applications for home equity loans shot upward, providing additional support for consumption going forward.

All in all, it appears that the economy is well positioned to meet the Administration's current forecast of 2.6 percent real growth this year. That forecast, released two weeks ago as part of the Mid-Session Budget Review, was much higher than expected in the February Budget but still below private-sector forecasts. With the latest Budget Review, however, we found ourselves in the unusual position of both announcing much stronger real growth expectations and a deeper deficit. The estimate for the Federal deficit for FY-2002 was raised from \$106 billion to \$165 billion, which represents a deficit of 1.6 percent of GDP. As we discuss in our Mid Session Review released July 15th,

- The reason for the wider deficit is that last year's recession and stock market weakness took a much heavier toll on Federal revenues than previously thought. Non-withheld incomes and capital gains realizations were reduced substantially.
- The considerable change in circumstances from surpluses previously estimated to deficit is largely the result of the recession. We estimate that it accounts for two-thirds of the shift. Another 19 percent reduction was attributable to the vital needs of homeland security and the war effort. Finally, the tax cuts enacted last year account for only 14 percent of the budget deterioration.

- Even without the tax cut, the budget would still have been in deficit.
- The combination of sustained economic growth and strong fiscal discipline can restore the budget to balance by 2005. If we make the tough choices to slow spending in later years, we project a return to growing unified surpluses thereafter.

The broad array of economic indicators that I regularly examine suggests to me that the economy is on a path to sustained growth. The fundamentals – high productivity, low inflation, low inventories – set the stage for a future of extended expansion. I am convinced that when investors are able to return their attention to the economic fundamentals, those fundamentals will be judged positively.

DEPARTMENT OF THE TREASURY

TREASURY



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FOR IMMEDIATE RELEASE
JULY 30, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

ATSB Decision On Vanguard Airlines

The Air Transportation Stabilization Board (ATSB) announced today that it has denied the application of Vanguard Airlines, Inc. for a Federal guarantee of a \$8 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.

Additional information about the ATSB is available on its web site, www.treas.gov/atsb.

PO-3294

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





Embargoed Until Delivery
July 30, 2002

Contact: Tara Bradshaw
(202) 622-2014

**TESTIMONY OF KENNETH W. DAM
DEPUTY SECRETARY
UNITED STATES DEPARTMENT OF THE TREASURY
BEFORE THE SENATE COMMITTEE ON FINANCE
REGARDING THE WTO DECISION ON THE EXTRATERRITORIAL INCOME
EXCLUSION PROVISIONS AND INTERNATIONAL COMPETITIVENESS**

Introduction

Mr. Chairman, Senator Grassley, and distinguished Members of the Committee, I appreciate the opportunity to appear today at this hearing regarding the World Trade Organization (WTO) decision with respect to the extraterritorial income exclusion (ETI) provisions of U.S. tax law and the implications for international competitiveness. I commend the Committee for holding this hearing on this matter of vital importance to U.S. workers and U.S. businesses in today's global marketplace.

On January 29, 2002, the WTO Dispute Settlement Body adopted a final report finding that the ETI provisions are inconsistent with the United States' obligations under the WTO. That decision is the culmination of a challenge brought by the European Union in late 1997 against the foreign sales corporation (FSC) provisions then contained in the U.S. tax law. However, the origins of this dispute go back almost 30 years, predating the World Trade Organization itself. The United States has vigorously pursued this matter and defended its laws because of the importance of the provisions and principles at stake.

A WTO arbitration panel currently is considering the European Union's request for authority from the WTO to impose trade sanctions on \$4.043 billion worth of U.S. exports. The arbitration panel is expected to issue its report on the appropriate level of trade sanctions in the next few weeks. Following the issuance of that report, the European Union will be in a position to receive authority to begin imposing trade sanctions on U.S. exports up to the level set by the arbitrators and the authority for such sanctions will continue until the United States rectifies the WTO violation.

PO-3295



This is an urgent matter that requires our immediate attention. The threat of substantial retaliatory sanctions against U.S. exports is not something that any of us takes lightly. Such sanctions, if imposed, would do real damage to U.S. businesses and American workers. And the imposition of such sanctions would have serious adverse consequences for the overall trade relationship between the United States and the European Union beyond those sectors directly targeted with sanctions, which would have a direct and detrimental effect on U.S. consumers. Of course the urgency is not just about the critical need to avert costly retaliation. The WTO has issued its final decision in this case, and we must comply with that decision. That is a matter of principle.

The President has spoken on this and his message is clear. The United States will honor its WTO obligations and will come into compliance with the recent WTO decision. To do so will require legislation to change our tax law. The Administration is committed to working closely with the Congress in the development and enactment of the legislation necessary to bring the United States into compliance with WTO rules.

The analysis of the current WTO rules reflected in the decision in the FSC/ETI case makes it apparent that legislation attempting to replicate FSC or ETI benefits will not pass muster in the WTO. Nor can we satisfy our WTO obligations and comply with WTO rules through “tweaks” to the ETI provisions. The WTO Appellate Body made clear that a benefit tied to export activity, such as is provided through the ETI provisions, is not permitted. Therefore, it will not be fruitful to pursue again a replacement of the ETI provisions.

Addressing the WTO decision through the tax law will require real and meaningful changes to our current international tax laws. While the WTO decision is a bitter pill, we must look forward and take a fresh look at our tax laws and the extent to which they enhance or harm the position of the U.S. in the global marketplace. As we evaluate the changes we might consider, it is imperative that we make choices that will enhance – and not adversely affect - the competitive position of American workers and U.S.-based businesses in today’s global marketplace.

In stating his commitment to compliance in this case, the President has said we must focus on enhancing America’s competitiveness in the global marketplace because that is the key to protecting American jobs. At its core, this case raises fundamental questions regarding a level global playing field with respect to tax policy. The ETI provisions, like the FSC provisions that preceded them, represent an integral part of our larger system of international tax rules. These provisions were designed to help level the global playing field for U.S.-based businesses that are subject to those international tax rules. In modifying our tax laws to comply with this decision, we must not lose sight of that objective and what it means: the health of the US economy and the jobs of American workers.

Much can be done to rationalize our international tax rules through reforms both small and large. The need for reform of our international tax rules is something I know you recognize, Mr. Chairman. You have lead the way on a bipartisan basis with proposals to reform our international tax rules.

The U.S. international tax rules can operate to impose a burden on U.S.-based companies 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. The recent activity involving so-called corporate inversion transactions is 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. Foreign acquisition of U.S. multinationals that arises out of distortions created by our international tax system raises similar concerns. We must address these tax disadvantages to reduce the tilt away from American workers and U.S.-based companies. And as we consider appropriate reform of our system of international tax rules, we should not underestimate the benefits to be gained from reducing the complexity of the current rules.

The bottom line is clear and simple. Our economy is truly global. U.S.-based companies must be able to compete in today's global marketplace. Our system of international tax rules should not disadvantage them in that competition. If we allow our international tax rules to act as an impediment to successful competition, the cost will be measured in lost opportunities and lost jobs here at home.

While we work toward the needed changes to our international tax rules, we must continue a dialogue with the European Union. We must take every step needed to ensure that this dispute does not further escalate to the detriment of the global trading environment. It is essential that we achieve a resolution of this matter that is clear, fair and final – a resolution that protects America's interests and satisfies our obligations under the WTO.

As I said in opening, resolving this case is an urgent matter that requires our immediate attention. We must work toward enactment of legislation that will bring us into compliance with the international WTO rules and protect the interests of American workers and businesses. On this there can be no delay – we must make real progress now.

However, this case highlights significant issues requiring further consideration as the discussions regarding WTO matters continue in the new round. As I said in my opening statement in the WTO appellate proceeding in this case in Geneva last November, "few things are as central to a country's sovereignty as how it raises revenue." The WTO Appellate Body in its report in the FSC case stated that the WTO rules do not "compel Members to choose a particular kind of tax system." That is a critically important point.

Compliance with the WTO decision in this case will require that we make meaningful changes to our tax law. We have an obligation to U.S. workers and businesses not simply to eliminate the ETI provisions. Our commitment to the American worker requires that we protect the competitive position of our businesses. We must couple the changes needed to address the WTO decision with needed reforms of our tax rules that will help level the playing field for U.S.-based businesses that must compete in today's global marketplace. The reforms that are needed address basic inequities in our international tax rules, rules that are out of step with those of our major trading partners. Such reform to the U.S. international tax system is not a matter in which there is any role for the WTO to play.

This case has been about the application of WTO rules to a particular aspect of the U.S. income tax system. However, there is a much more fundamental question regarding the treatment of taxes under the WTO rules that demands our careful consideration. The WTO rules on prohibited export subsidies make a distinction between direct taxes, such as income taxes, and indirect taxes, such as value added taxes. Under the WTO agreements, direct taxes are not permitted to be border adjustable. Therefore, the U.S. income tax is not rebatable on export under these rules. In contrast, indirect taxes are permitted to be border adjustable under the WTO rules. Accordingly, the European value added taxes may be, and are, rebated at the border consistent with WTO rules.

This disparity in treatment between direct and indirect taxes dates back formally to a 1960 GATT working party and its informal origins date back even farther. Notwithstanding this long history, there is no compelling rationale for disparate treatment of direct and indirect taxes. Reconsideration of this distinction in the treatment of direct and indirect taxes under the WTO rules will be part of the discussion of WTO matters in the new round. These negotiations, however, are not a strategy for addressing the compliance obligation we face in this case today.

I would like to turn now to a brief history of the WTO case and our tax provisions that have been the subject of this protracted litigation. I will conclude with a discussion of the international competitiveness issues that must be a central focus in formulating the tax law changes needed to satisfy our WTO obligations and protect the interests of U.S. businesses and workers.

Overview of the History of the WTO Case

The FSC provisions were enacted in 1984. They provided an exemption from U.S. tax for a portion of the income earned from export transactions. This partial exemption from tax was intended to provide U.S. exporters with tax treatment that was more comparable to the treatment provided to exporters under the tax systems common in other countries.

The FSC provisions were enacted to resolve a General Agreement on Tariffs and Trade (GATT) dispute involving a prior U.S. tax regime – the domestic international sales corporation (DISC) provisions enacted in 1971. Following a challenge to the DISC provisions brought by the European Union and a counter-challenge to several European tax regimes brought by the United States, a GATT panel in 1976 ruled against all the contested tax measures. This decision led to a stalemate that was resolved with a GATT Council Understanding adopted in 1981 (the “1981 Understanding”). Pursuant to this 1981 Understanding regarding the treatment of tax measures under the trade agreements, the United States repealed the DISC provisions and enacted the FSC provisions.

The European Union formally challenged the FSC provisions in the WTO in November 1997. Consultations to resolve the matter were unsuccessful, and the EU challenge was referred to a WTO dispute resolution panel. In October 1999, the WTO panel issued a report finding that the FSC provisions constituted a violation of WTO rules. The United States appealed the panel report; the European Union also appealed the report. In February 2000, the WTO Appellate Body issued its report substantially upholding the findings of the panel.

Although the United States argued forcefully that the FSC provisions were blessed by the 1981 Understanding, the WTO panel disagreed, concluding that the 1981 Understanding had no continuing relevance in the interpretation of current WTO rules. The panel's analysis focused mainly on the application of the WTO Agreement on Subsidies and Countervailing Measures. The panel found that the FSC provisions constituted a prohibited export subsidy under the Subsidies Agreement.

In response to the WTO decision against the FSC provisions, the FSC Repeal and Extraterritorial Income Exclusion Act was enacted on November 15, 2000. The legislation repealed the FSC provisions and adopted in their place the ETI provisions. The legislation was intended to bring the United States into compliance with WTO rules by addressing the analysis reflected in the WTO decision. At the same time, the legislation also was intended to ensure that U.S. businesses not be foreclosed from opportunities in the global marketplace because of differences in the U.S. tax laws as compared to the laws of other countries.

Immediately following the enactment of the ETI Act, the European Union brought a challenge in the WTO. In August 2001, a WTO panel issued a report finding that the ETI provisions also violate WTO rules. The panel report contained sweeping language and conclusory statements that had broad implications beyond the case at hand. Because of the importance of the issues involved and the troubling implications of the panel's analysis, the United States appealed the panel report. The WTO Appellate Body generally affirmed the panel's findings, although it modified and narrowed the panel's analysis in some respects. The Dispute Settlement Body adopted the report as modified by the Appellate Body on January 29, 2002.

The Appellate Body report makes four main findings with respect to the ETI provisions: (1) the ETI provisions constitute a prohibited export subsidy under the WTO Subsidies Agreement; (2) the ETI provisions constitute a prohibited export subsidy under the WTO Agriculture Agreement; (3) the limitation on foreign content contained in the ETI provisions violate the national treatment provisions of Article III:4 of GATT; and (4) the transition rules contained in the ETI Act violate the WTO's prior recommendation that the FSC subsidy be withdrawn with effect from November 1, 2000.

When it challenged the ETI Act in November 2000, the European Union simultaneously requested authority from the WTO to impose trade sanctions on \$4.043 billion worth of U.S. exports. The United States responded by initiating a WTO arbitration proceeding on the grounds that the amount of trade sanctions requested by the European Union was excessive under WTO standards. This arbitration was suspended pending the outcome of the European Union's challenge to the WTO-consistency of the ETI Act, and resumed on January 29th with the Dispute Settlement Body's adoption of its final report. As I noted at the outset, the arbitration panel is expected to issue its report on the appropriate level of trade sanctions in the next few weeks and, following the issuance of that report, the European Union will be in a position to be authorized to begin imposing trade sanctions on U.S. exports up to the level set by the arbitrators.

Competitiveness and U.S. Tax Policy

The U.S. international tax rules have developed in a patchwork fashion, beginning during the 1950s and 1960s. They are founded on policies and principles developed during 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.

Multinational corporations are a vital part of the United States economy. The ability of U.S. multinational corporations to compete successfully abroad leads directly to their employment of American workers at home. They employ over 20 million people in the United States, or about one in every six American workers. Approximately one fourth of the output produced by U.S. workers and U.S.-owned companies is produced by U.S. non-bank multinationals, either at home or abroad. Multinationals in the manufacturing sector produce over half of all U.S. gross manufactured product.

U.S. multinationals also participate substantially in international trade. Their merchandise exports account for about two-thirds of overall U.S. merchandise exports. Their merchandise imports account for about 40 percent of all U.S. merchandise imports. On balance, the operations of these companies showed a net trade surplus of \$64 billion in 1999.

Multinational companies compete abroad to increase their sales in foreign markets, which increases their worldwide earnings. Much of their foreign activities are aimed at providing services that cannot be exported and selling goods that are costly to export due to transportation costs, tariffs, and local content requirements. About one third of the gross product of foreign affiliates of U.S. multinationals is produced by affiliates in the service sector, including distribution, marketing, and servicing U.S. exports. Foreign investment is also undertaken to obtain access to natural resources abroad.

Among the most important assets of U.S. multinationals is their technical and scientific expertise. Their foreign investments broaden the opportunities to benefit from such expertise and thus encourage them to spend more on research and development. Spending on research and development allows the United States to maintain its competitive advantage in business and be unrivaled as the world leader in scientific and technological know-how. In 1999, non-financial U.S. multinationals performed \$142 billion of research and development. Nearly 90 percent of this activity was located in the United States. It accounted for more than two thirds of all research and development conducted by companies in the United States.

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 has the potential to 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 upfront investment, but once completed it can be employed around the world by its developer 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 provides incentives to undertake greater domestic investment in developing these sources of competitive advantage.

There are many reasons to believe that the principles that guided U.S. international tax policy 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 that U.S. workers achieve higher living standards, we must ensure the U.S. tax rules do not hinder the ability of the U.S. businesses that employ them to compete on a global scale. If U.S. workers and businesses are to succeed in the global economy, the U.S. tax system must not generate a bias against their ability to compete effectively with foreign-based companies.

To understand the effect of U.S. tax policy on the competitiveness of U.S. business, we must consider how U.S. businesses compete in today's global marketplace. A U.S. business operating at home and abroad must compete in several ways for capital and customers. 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 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. Ensuring the ability of U.S. multinationals to compete in foreign markets thus provides direct opportunities at home for American workers.

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.

U.S. Worldwide Tax System

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.

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 investment-type income. 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. The key difference between the two systems is which tax rate – source country or home country – applies to foreign-source income. 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. The effect of this difference depends on how the tax rate in the country where the income is earned compares to the tax rate in the company’s home country. The effect on U.S.-based businesses depends upon their mix of foreign-source income, but the imposition of residual U.S. tax on income earned abroad can impose a cost for U.S. businesses that is not imposed on their foreign competitors. Differences between these systems also can affect decisions about whether and when to repatriate earnings, which in turn affect investment decisions in the United States.

It is important to note that both worldwide and territorial systems involve the taxation of income. 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.

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.

Comparison with Other Worldwide Tax Systems

As described above, about half of the OECD countries employ a worldwide tax system as does the United States. However, the details of our system are such that U.S. multinationals may be disadvantaged when competing abroad against multinational companies established in other countries using a worldwide tax system. This is because the United States employs a worldwide tax system that, unlike other worldwide systems, taxes active forms of business income earned abroad before it has been repatriated and more strictly limits 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. The effect of these rules is to force U.S.-based companies either to structure their operations in a manner that is less than optimal from a business perspective or to incur current U.S. tax in addition to the local tax. The foreign-based companies against which our companies must compete do not face this same tradeoff.

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. 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. This increases the cost of selling goods that are produced in the United States.

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. These rules operate to subject U.S.-based companies to an additional tax cost on some classes of income arising from active business operations structured and located in a particular country for business reasons wholly unrelated to any 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. Moreover, the U.S. foreign tax credit regime requires the allocation of U.S. interest expense against foreign-source income in a manner that reduces the foreign tax credit limitation by understating foreign income. The practical effect of these interest allocation rules can be the denial of a deduction for interest expense incurred in the United States, which increases the cost of investment and expansion here at home.

Other countries do not have restrictions and limitations on foreign tax credits that are nearly as extensive as our rules. 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. The result is that U.S.-based companies are subject to just the double taxation that the foreign tax credit is 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 more difficult for the U.S. company to compete successfully against a foreign competitor.

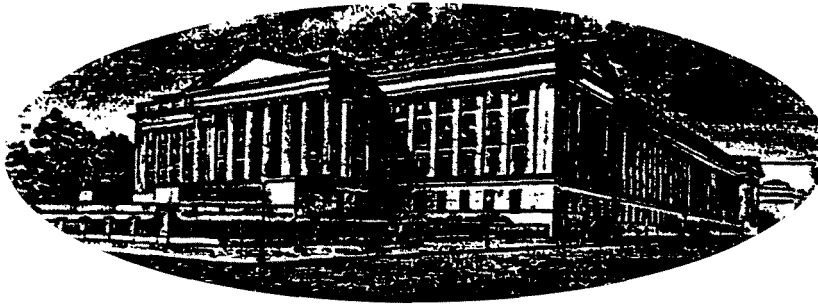
As noted above, most OECD countries offer some form of tax relief for corporate profits. This integration typically is provided by reducing personal income tax payments on corporate distributions rather than by reducing corporate level tax payments. International comparisons of corporate tax burdens, 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.

Closing Thoughts

The U.S. economy is an integral part of the global marketplace, and the activities of U.S. businesses in the global marketplace are a critical part of America’s economic success. Accordingly, we must ensure that U.S. tax rules do not adversely impact the ability of American workers and U.S. businesses to compete successfully around the world. Relative to the tax systems of our major trading partners, the U.S. international tax rules can impose significantly heavier burdens on domestically based companies. As we make the changes to our tax law that are needed to comply with WTO rules, we must keep our focus on the objectives served by the FSC and ETI provisions and look to removing biases against the ability of U.S. businesses to compete in today’s global economy. Such reforms will allow the United States to retain its world economic leadership to the benefit of American workers.

The Administration is committed to working with Congress to satisfy the twin objectives of meeting our WTO obligations and ensuring that we protect the competitive position of American workers and businesses.

-30-



DEPARTMENT OF THE TREASURY OFFICE OF PUBLIC AFFAIRS

**EMBARGOED UNTIL 9:00AM
July 31, 2002**

**CONTACT: Betsy Holahan
or Tony Fratto
at (202) 622-2960**

**Assistant Secretary for Financial Markets
Brian C. Roseboro
August 2002 Quarterly Refunding Statement**

The quarterly refunding process is an important part of our efforts to fulfill our mission of financing government borrowing needs at the lowest cost over time. We believe that Treasury's policy of issuing debt in a regular pattern and in predictable quantities fulfills this mission. The risks to regular and predictable issuance are the result of unexpected changes in our borrowing requirements, changes in the demand for our securities, and anything that inhibits timely sales of our securities. To reduce these risks, we closely monitor economic conditions, fiscal policy and market activity, and, when necessary, respond with changes in debt issuance that are based on thorough analysis and discussions with market participants. We also seek to lower our borrowing costs by ensuring timely, reliable sales of our securities through continuous improvement in the auction process.

The Department of the Treasury announced its quarterly refunding needs and related financing changes today. We are offering \$40 billion of notes to refund approximately \$18.8 billion of privately held notes maturing on August 15, raising approximately \$21.2 billion. The securities are:

1. A new 5-year note in the amount of \$22 billion, maturing August 15, 2007.
2. A new 10-year note in the amount of \$18 billion, maturing August 15, 2012.

These securities will be auctioned on a yield basis at 1:00 p.m. Eastern time on Tuesday, August 6, and Wednesday, August 7, respectively. The balance of our financing requirements will be met through 10-year inflation-indexed note, 2-year note and bill offerings.

In the current quarter, Treasury may issue an off-cycle cash management bill due to seasonal cash swings in early September.

Re-opening Policy

Treasury is discontinuing the re-opening policy for 10-year notes. Like the discontinuation of the re-opening policy for 5-year notes announced on May 1, this decision for 10-year notes is part of our longer term efforts to smooth the maturity distribution of our issuance. In addition to smoothing the distribution of maturities, discontinuing the 10-year re-opening policy allows for slightly larger auction sizes. Going forward, our policy will be to auction a new 10-year note each quarter.

Changes to Auction Announcement Times

As part of Treasury's broader efforts to improve the auction process, all Treasury auction announcements, except quarterly refunding announcements, will be released at 11:00 a.m Eastern time. This policy will apply to all regular issues of Treasury bills, 2-year notes and inflation-indexed securities. It will take effect with regular weekly bill auction announcements scheduled for August 8.

Treasury is also shortening the when-issued period for 2-year notes. Beginning with the announcement of the August 2-year note, the auction announcement will be released two business days prior to the scheduled auction. For details on auction and announcement dates, see <http://www.treas.gov/offices/domestic-finance/debt-management/auctions/auctions.pdf>.

Buyback Operations

Treasury will not be conducting buybacks this quarter.

Net Long Position Reporting

Following public comment on application of Net Long Position (NLP) reporting in auctions, Treasury announced that the reporting threshold for NLP reporting will soon be raised to 35 percent of the security's offering amount. This change, which will be issued as a final amendment to the Uniform Offering Circular (31 CFR Part 356, also referred to as the auction rules), will reduce the costs of complying with Treasury auction rules for some auction participants. No other changes to NLP reporting are under active consideration at this time. Treasury will continue to work to reduce the burden of complying with NLP reporting.

Once this change is implemented, Treasury will provide the specific dollar threshold on each offering announcement.

Large Position Reporting – Proposed Changes

Treasury also proposed changes to the large position rules (17 CFR Part 420) applying to those who hold very large positions. These holders are subject to infrequent, on-demand reporting requirements designed to provide regulators with information to assess whether a market participant is exercising market power. Specifically, we propose to:

- separate reporting of certain components of “net trading position” and “gross financing position”
- separate reporting by maturity classification of the par amount of securities delivered through repurchase agreements as a memorandum item
- reporting of the gross par amount of “fails to deliver” as a new memorandum item, and
- eliminating the optional exclusion in the calculation of the amount of securities received through certain financing transactions as part of “gross financing position.”

Details of these proposed modifications are described in today’s *Federal Register*. The comment period on this proposal ends September 16.

Policy Issues Under Discussion

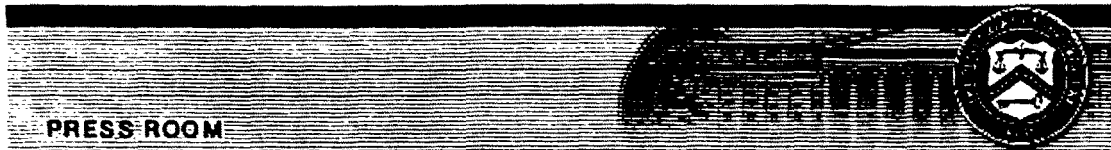
We are studying the advantages and disadvantages of moving auction times earlier in the day. Previous announced policy issues that remain under discussion include Treasury’s efforts to:

- promote investor interest in inflation-indexed securities.
- reduce the costs associated with short-term fluctuations in cash balances.
- study the effects of heightened volatility on debt issuance.

Please send comments and suggestions on these subjects or others relating to debt management to debt.management@do.treas.gov.

Auction Performance Reporting

We are committed to improving the auction process by simplifying bidding procedures and speeding up auction results release times. As part of the chart package released Monday, July 29, 2002, we have included information on progress towards our goal of consistently shorter results release times.



FROM THE OFFICE OF PUBLIC AFFAIRS

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July 31, 2002
PO-3297

**Minutes Of The Meeting Of The Treasury Borrowing Advisory Committee Of
The Bond Market Association**

The Committee convened at 9:00 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present except Mr Anderson, Mr. Lyski and Mr. Marsico. The Federal Register announcement of the meeting and a list of Committee members are attached.

The Committee was welcomed by Timothy Bitsberger, Deputy Assistant Secretary for Federal Finance. Richard Clarida, Assistant Secretary for Economic Policy, summarized the current state of the U.S. economy (statement attached). Fred Pietrangeli, a senior economist for the Office of Market Finance, presented the chart show, updating Treasury borrowing estimates, and debt statistics.

The public meeting ended at 9:25 a.m.

The Committee reconvened in closed session at the Madison Hotel at 12:20 p.m. All members were present except Mr. Anderson, Mr. Lyski and Mr. Marsico. The Chairman read the charge, which is also attached.

The Committee discussed the advantages and disadvantages of continuing the re-opening policy for 10-year notes. The continuation or discontinuation of the re-opening policy was discussed simulataneoulsy with increasing 10-year note issuance.

Committee members supporting the re-opening policy cited the lack of long-term financing needs in the recent administration forecast. Committee members supporting discontinuation of the re-opening policy cited inaccuracies in past fiscal forecasts, the value that single issue securities in smoothing the distribution of outstanding Treasuries, the benefits of increased diversification from issuing larger quantities of 10-year notes, and the likely demand for additional long-term Treasury securities. It was pointed out that the 10-year note, while not as attractive to the swaps market as the 5-year note, plays an increasingly important role in risk transfer. Based on this attractiveness, the market would be receptive to greater issuance of 10-year notes.

Some members noted Treasury's heavy reliance on bills and 2-year notes. There is evidence that 2-year notes, in particular, have given up some of the premium that new Treasury issues generally receive. Others argued that, given Treasury's long-term view, the Treasury should not be overly concerned with the small concession paid for large 2-year note issue sizes.

A more general argument for additional issuance of 10-year notes, given the current sizes of 2-year note auctions, was that additional diversification of coupon borrowing would be prudent. In particular, it was noted that signs of a strong economic recovery would be exceptionally costly for 2-year notes given auction sizes and the current steepness of the yield curve.

The Committee voted 14 to 3 in favor of discontinuing the re-opening policy for the

10-year note.

The Committee briefly discussed the status of the 10-year inflation-indexed security in light of the vote on the 10-year nominal note. Members noted that the IIS is not a hedging vehicle and changes in IIS issuance are not expected by the market. If Treasury considers changes to the IIS calendar, members said that Treasury should review the Committee's advice on moving the IIS to the quarterly cycle. In addition, whatever the merits of adding additional IIS CUSIPS, Committee members stressed that there should be no change so soon after the establishment of the current IIS calendar.

The Committee then discussed the Treasury auction announcement and auction times. Members cited the advantages of earlier times for European investors. Members saw no downside risk for earlier announcement times but the advantage of moving to earlier auction times was questioned.

Members cited greater convenience for European investors and greater activity in the financing market as potential advantages in moving to earlier auction times. Members generally felt that those advantages were outweighed by the potential loss of dealer underwriting at earlier auction times. Less important, earlier auction times could lead to greater volatility due to overlaps with data releases.

The Committee generally favored shortening the when-issued period for 2-year notes. Members noted there has been a fall-off in WI trading and Treasury could help to reduce volatility from speculative accounts with a shorter WI period.

Committee members were generally skeptical of the advantages of moving to smaller, more frequent auctions in response to heightened volatility. The current auction calendar gives Treasury securities an event premium and the current calendar was viewed by some members as already well diversified.

The meeting adjourned at 1:20 p.m.

The Committee reconvened at the Madison Hotel at 5:35 p.m. All members were present except Mr. Anderson, Mr. Lyski and Mr. Marsico. The Chairman presented the Committee report to the Assistant Secretary for Financial Markets, Brian Roseboro and Deputy Assistant Secretary for Federal Finance, Tim Bitsberger. A brief discussion followed the Chairman's presentation, but did not raise significant questions regarding the report's content.

The meeting adjourned at 6:15 p.m.

Paul F. Malvey
Director
Office of Market Finance
July 30, 2002

Certified by:

Timothy W. Jay, Chairman
Treasury Borrowing Advisory Committee
of The Bond Market Association
July 30, 2002

July 30, 2002

Committee Charge

The Treasury Department would like the Committee's advice on the following:

- The composition of 5- and 10-year notes to refund \$18.8 billion of privately held notes maturing on August 15. What do you recommend regarding the regular reopening policy for 10-year notes.
- The composition of Treasury marketable financing for the remainder of the July-September quarter, including cash management bills if necessary.
- The composition of Treasury marketable financing for the October-December quarter.
- Treasury regularly announces auctions for marketable securities at 2:30 p.m. on a given day and conducts auctions at 1:00 p.m. a few days later. Would it benefit Treasury to conduct announcements and auctions earlier in the day? Also, would it benefit Treasury to reduce the time between announcement and auction of any of its regularly scheduled securities? For example, 2-year notes are announced on a Wednesday and auctioned the following Wednesday. In October, the 2-year note is scheduled to be announced on October 16, auctioned on October 23, and settled on October 30.
- The Committee noted last April a higher level of volatility is probably a permanent feature of the credit markets. In a higher volatility environment, is Treasury's debt current issuance pattern and calendar well placed to meet our objective of low cost borrowing over time? In particular, do the sizes and frequencies of current coupon offerings adequately mitigate the risks associated with episodes of high volatility? Should the Treasury offer coupon securities more frequently or should it offer a wider range of securities?

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July 31, 2002
PO-3298

**Report To The Secretary Of The Treasury From The Treasury Borrowing
Advisory Committee**

Dear Mr. Secretary:

Since the Committee's last meeting on April 30th, the economic recovery has continued to unfold, but the risk of collateral damage from the stock market has grown. Economic indicators remain positive. The labor market shows signs of moderate growth. Consumer spending has remained solid. Spending on both housing and motor vehicles remains at elevated levels. The pace of inventory decline continues to slow. And there are even tentative signs of a pick-up in business spending. However, financial conditions have worsened noticeably. Credit markets continue to tighten, with wider spreads and reduced supply. The S&P 500 has fallen nearly 25% since mid-May, cutting household wealth by more than \$3 trillion. This negative shock has been partially offset by a 10% or so decline in the trade-weighted dollar and falling interest rates. Overall, the risks to second half growth have increased, although there is considerable disagreement among economists about the amount of collateral economic damage from the drop in the stock market. Meanwhile, inflation indicators remain subdued.

Interest rates have fallen sharply since our last meeting. Despite improvements in the economic data, ongoing weakness in the equity markets helped push 2-year yields down roughly 100 basis points since April 30th while the 10-year note has fallen roughly 75 over the same period.

In the credit markets there has been a flight to quality. Mortgage-backed option adjusted spreads narrowed from 50 basis points on April 30th, to 45 basis points on July 24th. Going down the credit spectrum spreads widened. Aa rated industrial bond spreads widened marginally from 85 basis points to 100 basis points. Baa spreads widened from 275 basis points to 330 basis points. High-yield spreads widened from 692 basis points to 937 basis points. In this last, lowest rated class, the arrival of large new downgraded issues was a particularly heavy burden.

The market focus on accounting issues has intensified further since April. Several high-profile firms have acknowledged bookkeeping irregularities and sentiment in the market has turned sharply negative despite healthy economic news. As a result, equity market averages are down across the board. The Dow Jones Industrial average has fallen 20%, the S&P 500 has fallen 25%, and the NASDAQ is down 27%.

The budget situation has continued to deteriorate as increased security-related spending and decreased tax receipts should result in a budget deficit of \$165 billion in FY2002, almost double the estimate reported by this Committee in April. Deficit estimates for FY2003 reflect the continued uncertainty regarding the true cost of both the Administration's policy towards the war on terrorism and the recent equity market downturn. At present, budget deficit estimates for FY2003 run between \$150 billion and \$200 billion.

Against this economic and financial backdrop, the Committee began consideration

of various debt management questions posed by Treasury including the composition of financing to refund \$18.8 billion of privately held notes maturing on August 15.

Before tackling the broader refunding question, the Committee first addressed the question regarding the regular reopening policy for 10-year notes. Some Committee members felt that because Treasury forecasts are predicting a return to budget surplus by 2005, Treasury would be premature to end the reopening policy. Under most scenarios Treasury could borrow at least through the end of 2003, without increasing their 10-year issuance. This could be achieved by continuing to focus increased issuance in treasury bills, 2-year notes and 5-year notes. Some members thought that a change in the 10-year reopening policy at this point would lead some market participants to surmise that Treasury had pushed surplus projections further into the future. Treasury securities might suffer under this scenario as the market braced unnecessarily for added supply.

The majority of members, however, felt that ending the reopening now made sense for a number of reasons. First, by many estimates incremental issuance in maturities less than five years would be costly to Treasury on a relative value basis as these sectors had moved to historically cheap levels versus other asset classes, and against similar maturity off the run issues. Second, single cusip 10 years would be a more attractive hedging vehicle as duration drift would prove less of an obstacle. This in turn would probably lead to higher trading volumes, more underlying repurchase agreement activity and more advantageous pricing for Treasury. In addition, some members felt that given the questionable accuracy of deficit forecasting as well as the somewhat asymmetric risk regarding higher deficits over the next year, moving to single cusip 10-year issuance now would add flexibility to Treasury debt management. In this light, the Committee voted 14 to 3 to recommend ending the automatic reopening in the 10-year note with the current refunding announcement.

In response to Treasury's question regarding the minimum size of single cusip 10-years, most members felt that from both the prospective of risk transferral at auction and liquidity to support the benchmark status of the sector, \$15 billion represented the appropriate minimum size.

The Committee then turned to the question involving the composition of five and ten year notes to refund \$18.8 billion of privately held notes maturing August 15, the composition of Treasury marketable financing for the remainder of the July-September quarter, including cash management bills if necessary, and the composition of the marketable financing for the October-December quarter.

The Committee recommends a new \$24 billion 5-year note due August 15, 2007 and a new \$15 billion 10-year note due August 15, 2012. For the remainder of the quarter, the Committee recommends two \$27 billion 2-year notes to be auctioned on August 28 and September 25. The Committee does not recommend any cash management bills projecting that any increased short-term cash needs be satisfied by adjusting up the size of 4-week bills to a high of \$25 billion in mid August as shown on the attached table.

For the October-December quarter the Committee's recommended financing is contained in the attached table. Relevant features include three \$28 billion 2-year notes and one \$25 billion 5-year note, all slightly larger than in the previous quarter. The Committee further recommended a \$15 billion single cusip 10-year note and \$6 billion of a reopened Treasury Inflation Protected Security due July 10, 2112 which follows Treasury's previous guidance regarding TIPS issuance. Again, in this quarter no cash management bills are recommended.

Treasury currently announces auctions for marketable securities at 2:30 p.m. and conducts auctions at 1:00 p.m. a few days later. The Treasury asked the Committee if debt management would benefit from moving announcements and auctions to earlier in the day and from reducing the time between announcements, auctions and settlements.

Regarding moving auction announcements forward, most members felt that informing as many participants as possible during active morning trading would lead to increased liquidity. Additionally, it would benefit overseas participants without significantly affecting domestic participants. As a result, the Committee felt there was little downside to making the change and recommended moving the announcement time forward to 11:00 a.m.

Members of the Committee were resistant to moving the timing of the auction process forward. Some Committee members felt there was a clear value to Treasury owning the 1:00 p.m. time slot for underwriting securities. Many suggested that any move to a new time slot might undermine the underwriting process most of which occurs on the actual auction day. Ultimately, the Committee felt that the vast majority of actual underwriting continues to be done by the primary dealer community and as a result, Treasury auctions should remain in the 1:00p.m. time slot.

A reduction in time between the announcement and the settlement of securities was also discussed by the Committee. This is a topic the Committee has been in favor of in the past, as it reduces systemic counterparty risk as a result of a narrower time frame for the underwriting and auction processes. It was suggested that the amount of when-issued trading volume (ex-rolls) has been contracting consistently over the past several quarters, making this period less relevant. As a result a shorter period could be considered. With treasury bills, the time period between announcement and auction has successfully been shortened, and the Committee felt the announcement to auction period for coupons could be shortened as well. The result would reduce systemic risk without sacrificing adequate underwriting opportunity.

The Committee noted at their prior meeting in April that a higher level of volatility is probably a permanent feature of the credit markets. Treasury asked the Committee if they felt Treasury's current issuance pattern and calendar was well placed to meet their objective of low cost borrowing over time. Specifically, do sizes and frequency of issuance mitigate the risks associated with episodes of high volatility, and should Treasury consider offering coupon securities more frequently or in a wider range of securities.

Committee members felt that the effect of smaller size and more frequent issuance patterns could have a negative effect on coupon markets. By reducing the size of auctions, the potential for less liquid benchmarks would exist possibly leading to higher borrowing costs to Treasury. The Committee also felt the smaller issuance size could have the effect of driving participants away from the auction process, as issuance size would be less relevant to their portfolios. Additionally, by spreading out their issuance across a wider set of auctions, Treasury might appear to be timing the markets, which has not been the policy of the Treasury debt management in the past. Finally, one member suggested that maintaining the current issuance pattern left the calendar relatively free for other market participants such as corporates, supranationals and federal agencies to access the primary market. As a result the Committee recommends that Treasury maintain its current policy of a larger, less frequent issuance calendar.

Respectfully submitted,
Timothy Jay
Chairman

Mark Werner
Vice Chairman

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For Immediate Release
Tuesday, July 30, 2002

Contact: Tasia Scolinos
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Remarks of Under Secretary Jimmy Gurulé
2002 OCDETF Conference

Thank you for that gracious introduction. As a former federal prosecutor I am especially pleased to be here with you today to commemorate OCDETF's Twentieth Anniversary. During my years as an Assistant United States Attorney, and Deputy Chief of the Major Narcotics Unit in Los Angeles, I worked with the task force on a number of different cases. I was impressed with the expertise and professionalism that was the hallmark of OCDETF prosecutors and agents. You are all to be commended for the important role you play in combating the scourge of illicit drug trafficking.

When I was sworn in as Treasury Under Secretary for Enforcement last August, I pledged to make anti-money laundering enforcement one of my primary goals. I am here today to tell you that it has become the top priority of Treasury Enforcement for one critical reason. Attacking the financial structures of criminal organizations – their lifeblood – is one of the best ways to dismantle sophisticated criminal enterprises. The reasoning is straightforward and well known to the crowd assembled here today. If you want to hit criminal organizations where it hurts, go after the money. These complex criminal organizations exist for one purpose and one purpose only: to make a profit.

If our law enforcement agents arrest a drug mule carrying narcotics across the border, while it certainly cannot be ignored, it doesn't make a permanent impact on the criminal organization. The drug gang will simply go down the block and find another willing participant to take his place. This goes for leaders of the drug cartel. When a drug cartel leader is arrested, prosecuted, and convicted, the victory is short-lived for there is always someone ready and anxious to step forward and fill the void. In short, the members of the drug cartel are easily replaceable.

However, if you penetrate the financial underpinnings of a criminal organization the impact can be profound. Simply stated, the members of the drug cartel cannot easily replace the corrupt accountant or bank official with knowledge of the global banking systems who is able to quickly disguise and move funds through a labyrinth of foreign bank accounts.

PO-3299

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My goal at the Treasury Department has been to implement a new philosophy with respect to financial crimes. A philosophy that recognizes that shutting down the money flow means shutting down the entire criminal enterprise.

I am pleased to tell you that our efforts thus far to refocus our priorities are making a difference. In 2001, law enforcement agents of the Departments of Treasury and Justice seized over \$1 billion in criminal funds – about 38% of which was related to money laundering investigations. The Departments forfeited over \$241 million in criminal assets in FY 2001 relating to money laundering. In addition, several major money-laundering operations have been dismantled through efforts such as *Operation Wire Cutter* and *Operation Oasis*. Between October 2001 and February 2002, members of Treasury's Operation Green Quest made over 200 bulk cash seizures totaling over \$10 million dollars. In addition, the Treasury Department has established six "super" financial crime task forces (HIFCAs). These task forces have initiated over 100 new money-laundering investigations during 2001 alone.

On the terrorist financing front, we have blocked the assets of 211 terrorist entities and individuals. \$34.3 million has been blocked domestically and \$77.9 million have been blocked by our allies abroad. A total of over \$112 million that is not going to support terrorist training camps and to purchase weapons of death.

But we can and must do even better. With that in mind, I would like to summarize some of the key points of the *2002 National Money Laundering Strategy*.

TERRORIST FINANCING

The *2002 Strategy* recognizes that our anti-money laundering efforts are making more difficult for terrorist and terrorism sympathizers to move money through traditional financial institutions. Thus terrorists are resorting to alternative means to transfer money globally. The *2002 Strategy* is responsive to this challenge by emphasizing blocking the assets of "high impact" targets such as corrupt charities that in the name of humanity raise money to support terrorism. The Strategy also focuses on dismantling hawalas and other alternative remittance systems.

CREATION OF TARGETING TEAM

The *Strategy* further addresses the importance of interagency coordination and making joint decisions about what money laundering organizations to target. To address this concern, the Departments of the Treasury and Justice will co-lead an interagency effort to identify "high-impact" money laundering-related targets. An interagency targeting team will focus our efforts and resources against the most significant money laundering organizations and systems, such as bulk cash smugglers and terrorist groups. In addition the *Strategy* calls for more jail time for the money-laundering masterminds.

USA PATRIOT ACT

Information is a critical weapon in the war against terrorist financing. The new information-sharing provisions of the USA PATRIOT Act afford financial institutions greater flexibility in evaluating potential risks.

Highlights of our major accomplishments over the past nine months include:

- Requiring securities brokers-dealers to file suspicious activity reports.
- Requiring Banks to verify the identity of customers seeking to open new bank accounts. Such names will also be compared against government “watch lists.”
- Requiring a broad range of financial institutions to develop anti-money laundering programs.
- Prohibiting banks from doing business with “shell” banks.

METRICS

The *2002 Strategy* is a groundbreaking document. For the first time, it provides baseline facts and figures that can help determine how well the federal government is succeeding in its efforts to detect and deter money laundering.

For example, the *2002 Strategy* publishes data collected by the U.S. Sentencing Commission in Fiscal Year 2000. The data tracks defendants sentenced in federal court where money laundering was the principal offense. Although the Sentencing Commission data is incomplete by itself, analysis of this data is instructive and provides a starting point for meaningful baselines and metrics. For example:

- We now know that over 80% of all money launderers that were sentenced did not receive an enhanced sentence for their leadership role in the offense.
- We now know that almost 80% of those sentenced laundered less than \$1 million.
- We know that some districts, even densely populated districts, prosecuted a limited number of money laundering cases.
- We know that the median sentence imposed was 38 months.

These statistics show that we can improve our ability to focus on major money laundering prosecutions and target large-scale organizations.

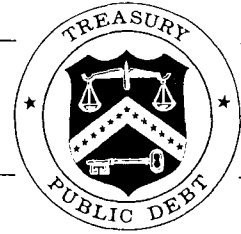
Of course, it is not enough merely to pledge to do better. We must have ways to meaningfully evaluate our efforts. We are also seeking to develop new baselines within the *Strategy* by measuring our investment in money laundering enforcement and developing a uniform reporting system. These efforts will take time, and, if done right, should show some real results.

For instance by tracking the commission rate charged in money laundering transactions, we will be able to ascertain if our efforts are making a difference over a period of years.

Thank you again for the invitation to be with you here today. As you can tell I am encouraged by the progress we have made thus far with respect to money-laundering investigations. I thank you all in advance for your continued dedication to these important issues in the coming months and years.

PUBLIC DEBT NEWS

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



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

IMMEDIATE RELEASE
July 30, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term: 28-Day Bill
Issue Date: August 01, 2002
Maturity Date: August 29, 2002
CUSIP Number: 912795KY6

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 accepted 91.10%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 38,039,000	\$ 19,961,444
Noncompetitive	38,906	38,906
FIMA (noncompetitive)	0	0
SUBTOTAL	38,077,906	20,000,350
Federal Reserve	874,469	874,469
TOTAL	\$ 38,952,375	\$ 20,874,819

Median rate 1.695%: 50% of the amount of accepted competitive tenders tendered at or below that rate. Low rate 1.650%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

Over-Cover Ratio = 38,077,906 / 20,000,350 = 1.90

Equivalent coupon-issue yield.

<http://www.publicdebt.treas.gov>

TREASURY



NEWS

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FOR IMMEDIATE RELEASE
July 30, 2002

Contact: Tara Bradshaw
(202) 622-2014

**TREASURY WITHDRAWS AND REPROPOSES REGULATIONS ON REPORTING OF
BANK DEPOSIT INTEREST PAID TO NONRESIDENT ALIENS**

Today the Treasury Department withdrew January 2001 proposed regulations that would have required reporting to the IRS for bank deposit interest paid to all nonresident alien individuals and issued new proposed regulations that will require reporting on a more limited basis.

Under the new proposed regulations, interest on bank deposits would be reported to the IRS only for nonresident alien individuals who are residents of certain specified countries. The specified countries are Australia, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, and the United Kingdom. Existing regulations require similar reporting with respect to residents of Canada

“The prior proposed regulations were roundly criticized as being overly broad,” stated Pam Olson, Acting Assistant Secretary for Tax Policy. “We have taken the concerns expressed very seriously. The new proposed regulations are carefully tailored to facilitate the goals of ensuring compliance with U.S. tax laws by permitting appropriate information exchange in appropriate circumstances without unduly burdening U.S. banks.”

The regulation is being issued in proposed form, which will provide affected parties an opportunity to comment before the regulation is finalized.

The text of the proposed regulations is attached.

-30-

PO-3301





FOR IMMEDIATE RELEASE
July 30, 2002

Contact: Tara Bradshaw
(202) 622-2014

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PO-3301



DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
July 30, 2002

CONTACT: Tony Fratto
(202) 622-2960

Treasury Department Statement Regarding Uruguay

The U.S. government is in close consultation with the Uruguayan authorities and the International Monetary Fund regarding a comprehensive solution to the recent economic difficulties.

In furtherance of that solution, the U.S. government stands ready to support additional assistance for Uruguay from the IMF and other international financial institutions.

Uruguay has been a strong performer in Latin America and deserves the ongoing support of the international financial community for its commitment to sound economic policy.

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PO-3302

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DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 9:00 A.M.
July 31, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY AUGUST QUARTERLY FINANCING

The Treasury will auction \$22,000 million of 5-year notes and \$18,000 million of 10-year notes to refund \$18,819 million of publicly held notes maturing August 15, 2002, and to raise about \$21,181 million of new cash.

In addition to the public holdings, Federal Reserve Banks, for their own accounts, hold \$5,040 million of the maturing notes, which may be refunded by issuing additional amounts of the new securities.

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

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately \$50 million into the 5-year note and \$20 million into the 10-year note.

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

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

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

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

oOo

Attachment

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**HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC
AUGUST 2002 QUARTERLY FINANCING**

July 31, 2002

<u>Offering Amount</u>	\$22,000 million	\$18,000 million
<u>Public Offering</u>	\$22,000 million	\$18,000 million
<u>NLP Exclusion Amount</u>	None	None

Description of Offering:

Term and type of security	5-year notes	10-year notes
Series	F-2007	D-2012
CUSIP number	912828 AH 3	912828 AJ 9
Auction date	August 6, 2002	August 7, 2002
Issue date	August 15, 2002	August 15, 2002
Dated date	August 15, 2002	August 15, 2002
Maturity date	August 15, 2007	August 15, 2012
Interest rate	Determined based on the highest accepted competitive bid	Determined based on the highest accepted competitive bid
Amount currently outstanding	Not applicable	Not applicable
Yield	Determined at auction	Determined at auction
Interest payment dates	February 15 and August 15	February 15 and August 15
Minimum bid amount and multiples	\$1,000	\$1,000
Accrued interest payable by investor	None	None
Premium or discount	Determined at auction	Determined at auction

STRIPS Information:

Minimum amount required	\$1,000	\$1,000
Corpus CUSIP number	912820 HE 0	912820 HF 7
Due date(s) and CUSIP number(s) for additional TINT(s)	Not applicable	Not applicable

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids: Accepted in full up to \$5,000,000 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 (NLP) 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.



FOR IMMEDIATE RELEASE
July 31, 2002

Contact: Michele Davis
(202) 622-2960

Statement by Secretary O'Neill on Today's Second Quarter GDP Estimates

Today's numbers show that our economic recovery is continuing. We are still on track to reach a growth rate of 3 to 3.5% by the end of this year.

The data show that the economy is on a solid growth path and the recovery is proceeding as expected. Consumers continued to spend in the second quarter. Both auto and non-auto retail sales closed the second quarter on a high note. New home sales and new home construction are booming. And mortgage refinancing is again surging. Inventory-sales ratios remain historically low, pointing to future increases in industrial output. According to today's new data, business investment in equipment and software rose for the first time in nearly 2 years. And exports increased by 11.7%.

Another indicator of future growth is that, as of last week, more than 85 percent of S&P 500 companies reporting earnings met or beat expectations in the second quarter.

The revisions to last year's numbers confirm what many Americans felt at the time in their household budgets. Our economy was operating at very sluggish levels for the first three quarters of 2001. The combined efforts of the Federal Reserve in cutting interest rates and President Bush in pressing Congress for quick action to cut taxes reversed the downturn and put us on a path to renewed growth.

While our recovery is continuing, we are eager to quicken its pace. For months, President Bush has been calling on Congress to give him Trade Promotion Authority, enact terrorism risk insurance and pass his energy plan, all of which will create jobs and increase economic growth. We'll continue to work with Congress to complete the President's economic growth agenda as quickly as possible.

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PO-3304





**DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS**

**EMBARGOED UNTIL 2:00 P.M. EDT
JULY 31, 2002**

**CONTACT: BETSY HOLAHAN
202-622-2960**

BACK TO BASICS: CREDIT MATTERS

**BRIEF REMARKS OF
TREASURY UNDERSECRETARY PETER R. FISHER
TO THE FDIC SYMPOSIUM
THE RISE OF RISK MANAGEMENT: BASEL AND BEYOND**

**Credit Suisse First Boston
New York, New York
July 31, 2002**

For most of the last twenty years, the rise of the science of risk management in banking has ironically coincided with a corresponding decline in attention to the basics of credit analysis. There are macro-economic reasons why this occurred and why these trends are now reversing themselves.

The volatility of our capital markets over the last five years, and over the last five weeks, should be serving as a wake up call to those who have paid too little attention to credit analysis – to assessing the particular probabilities that individual borrowers may not be able to sustain the cash flow necessary to meet their obligations.

Credit matters and it matters more now than it did just a few years ago. This is a natural consequence of the transition we have been experiencing from a world of more volatile output and inflation to a world of more stable output and more stable prices.

In a financial environment dominating by sharp swings in real output and in inflation expectations money is made (or lost) in debt markets by anticipating (or failing to anticipate) the

corresponding changes in real and nominal interest rates. This is precisely the environment experienced by the financial markets from the late 1970s to the early 1990s.

In that setting, the big macro-economic events were *relatively more important* than the particular circumstances of individual borrowers. It was good enough for bankers and bond traders to form a consensus on credit by using rough rules of thumb for spreads and for credit rating categories, so long as they could hang on for the ride while 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 macro-economic conditions and *relatively more important* to assess accurately the credit standing of individual borrowers. In the recent downturn and recovery now underway, while we have seen some spectacular volatility in the financial markets, we have seen much less volatility in real output and prices than most observers expected.

In this environment we have all discovered that the risks of lending money (or, I would add, investing money) is a little bit less about macro-economics and a little bit more about micro-economics – about whether behind the balance sheet and the income statement, the borrower has the cash flow to meet its payment obligations.

The science of risk management, developed in response to the macro-volatility of the previous decades, has helped financial institutions control risks that were previously unidentified or incompletely understood. The models, the simulations, the statistical and probabilistic discipline that have been applied represent an extraordinary improvement in the management of financial risk. However, this process has coincided with the outsourcing of basic credit analysis either to the rating agencies or to the designers of the indexes used as benchmarks.

So as not to belabor the point, permit one anecdote to tell the story.

A money manager recently told one of my colleagues that duration shifts in his portfolio are quickly flagged by risk management controls and require him to explain himself to management up and down. However, if he were to fill a single credit category in his portfolio solely with the bonds of a single company, nobody in risk management would even notice.

Since the Asian crisis of 1997, credit spreads been repeatedly shocked to wider and wider levels and, most importantly, the “spread of spreads” has been widening as market participants have come to differentiate more carefully among borrowers. The events of '97, '98, and of the last two years have been mistakenly, in my view, seen through the prism of “market risk” as if they were exogenous shocks. I think they are better understood as a series of credit events in which the quality of certain borrowers came to be better understood.

Whether sovereigns, central banks, foreign banking systems, hedge funds, or seemingly blue chip companies, over the past five years we have been learning the importance of differentiating between those with real cash flows and those without, between those that have honestly and transparently disclosed their risks and those that have not.

The challenge for policymakers now is to help the banking industry retool itself to deal with an environment in which credit matters.



FOR IMMEDIATE RELEASE
July 31, 2002

Contact: Tara Bradshaw
(202) 622-2960

Proposed New Agreement Allows 78 Million Americans to File Taxes Online at No Cost

O'Neill, Daniels Hail E-filing Partnership as Step in Right Direction

Washington, DC –As many as 78 million Americans will be able to file their taxes online at no cost next year thanks to a proposed new agreement announced today by the Department of the Treasury and Office of Management and Budget (OMB). The agreement provides easier, secure, and free opportunities for Americans to file their taxes via the Internet. The text of the proposed agreement will be published in the Federal Register and is attached.

“Our current tax code is needlessly time consuming and confusing. We need to make it easier to understand and easier to comply. This new e-filing partnership is one positive step forward. We’re taking advantage of technology to reduce the cost and the hassle of filing for millions of taxpayers,” stated Treasury Secretary Paul O’Neill.

“Paying taxes is burden enough. It’s our duty to do anything we can to make the process simpler and easier,” said OMB Director Mitchell E. Daniels, Jr.

According to the proposed agreement, a consortium of private sector companies will work together to offer free online tax filing services, an option that could benefit some 60 percent of taxpayers. Taxpayers will find links to the online tax filing services through a single, centrally-located Web portal at www.irs.gov and available through www.firstgov.gov.

The proposed agreement will produce significant advantages for both citizens and their government.

- 78 million will no longer have to pay to file their tax returns online. Currently, taxpayers who choose to file online can pay an average of \$12.50 in filing fees in addition to the cost of purchasing tax preparation software.
- Taxpayers who file electronically will get their refund checks twice as fast on average as those who file on paper.
- Electronic filing reduces government processing costs and improves efficiency.

PO-3307



The terms of the proposed agreement will be published shortly for public comment. After a 30-day comment period, all suggestions will be reviewed. The new free tax filing consortium Web page is slated to be online by December 31, in anticipation of the 2003 filing season.

This project fulfills one of the President Bush's 24 E-government initiatives and was proposed in his February 2002 budget. The President also proposed a 15 day filing extension for all taxpayers who file electronically, including those under this initiative. That proposal awaits final Congressional action.

E-government is an integral part of the President's Management Agenda to make it easier for citizens and businesses to interact with the government, save taxpayer dollars and streamline citizen-to-government transactions. A copy of the president's E-government strategy, which includes information on each of the 24 E-government initiatives, is available on the OMB Web site at www.omb.gov.

Commissioner Rossotti's statement is attached.

The text of the agreement is attached.

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FOR IMMEDIATE RELEASE
July 31, 2002

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

MEDIA ADVISORY

Treasury Secretary O'Neill to Discuss Trip to South American Nations

On Thursday, August 1, Treasury Secretary Paul O'Neill will host a press conference in advance of his visits to Brazil, Uruguay, and Argentina next week. The press conference will be held at the Department of the Treasury's Diplomatic Reception Room at 2:30 PM.

Members of the media not holding Treasury or White House press credentials should contact the Office of Public Affairs at 202-622-2960 and provide full name, date of birth, and social security number for security clearance to the Treasury Building.

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PO-3308



TREASURY



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FOR IMMEDIATE RELEASE
Thursday, August 1, 2002

Contact: Tasia Scolinos
(202) 622-1996

Connie Patrick Named as New Director of FLETC

Today the Treasury Department appointed Connie Patrick as the first woman director to head the Federal Law Enforcement Training Center (FLETC). "Connie has accepted the position during a critical juncture in FLETC's history," said Under Secretary Jimmy Gurulé. "Her extensive experience and commitment to law enforcement will be an invaluable asset to the FLETC in the coming months and years."

Ms. Patrick has been with FLETC for six and a half years. She has served as Associate Director in three capacities at FLETC including Training, Administration, and Planning and Development. Ms. Patrick has also worked closely with the Department of Treasury in the development of new training programs and has overseen the implementation of new FLETC programs and technologies to advance consolidated law enforcement training for the Federal government. Before joining FLETC in 1996, Ms. Patrick worked for the State of Florida's Department of Law Enforcement for thirteen years, retiring as Director of the Division of Human Resources and Training.

The FLETC, located in Glynco, Georgia, serves as an interagency law enforcement training organization for more than 70 Federal agencies with personnel located throughout the United States and its territories. This year, nearly 50,000 students will be trained in the principles of law, investigation, ethics, financial crimes, and behavioral sciences. The Center also provides training services to state, local, and international law enforcement agencies.

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PO-3309

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U.S. International Reserve Position 8/1/02

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled \$76,538 million at the end of the latest week, compared to \$75,567 million at the end of the prior week.

(US millions)

Official U.S. Reserve Assets	TOTAL	July 12, 2002			July 19, 2002		
		75,567			76,538		
Foreign Currency Reserves ¹		Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities		6,248	12,105	18,353	6,416	12,209	18,625
<i>Of which, issuer headquartered in the U.S.</i>				0			0
b. Total deposits with:							
<i>b.i. Other central banks and BIS</i>		10,420	4,076	14,496	10,692	4,111	14,803
<i>b.ii. Banks headquartered in the U.S.</i>				0			0
<i>b.ii. Of which, banks located abroad</i>				0			0
<i>b.iii. Banks headquartered outside the U.S.</i>				0			0
<i>b.iii. Of which, banks located in the U.S.</i>				0			0
IMF Reserve Position ²				20,037			20,292
Special Drawing Rights (SDRs) ²				11,637			11,775
Gold Stock ³				11,044			11,044
Other Reserve Assets				0			0

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

The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollars 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.

Gold stock is valued monthly at \$42.2222 per fine troy ounce.

Official Reserve Assets Worksheet
(actual US dollar amounts)

	Last Week	This Week
Enter Dates Here	12-Jul-02	19-Jul-02

Foreign Currency	12-Jul-02	19-Jul-02	Change
Euro Securities	\$6,248,188,573.30	\$6,415,820,962.28	167,632,389
Yen Securities	\$12,104,627,011.05	\$12,209,268,296.90	104,641,286
Sec. Total	\$18,352,815,584.35	\$18,625,089,259.18	272,273,675
Euro Deposits	\$10,419,973,654.99	\$10,691,804,833.17	271,831,178
Yen Deposits	\$4,075,674,004.05	\$4,110,891,096.39	35,217,092
Deposit Total	\$14,495,647,659.04	\$14,802,695,929.55	307,048,271
Total	\$32,848,463,243.40	\$33,427,785,188.73	579,321,945
Euro Rate	\$0.9904	\$1.0156	
Yen Rate	116.73	115.73	

Source: NY Fed (fax)
copy and paste data into last week
and put new data from fax
into right column

IMF	12-Jul-02	19-Jul-02	Change
		<i>(prelim. with adjust.)</i>	
Reserve Tranche	20,037,377,176.14	20,291,700,748.64	254,323,572.50
GAB	0.00	0.00	0.00
NAB	0.00	0.00	0.00
Total	20,037,377,176.14	20,291,700,748.64	254,323,572.50
SDR	11,637,310,499.19	11,774,905,185.34	137,594,686.15
			0.00

Source: IMF (email)
put actual dollar figures in for last week;

as of 10/31/01	12-Jul-02	19-Jul-02	Change
Gold	11,043,707,102.45	11,043,707,102.45	0.00
			0

Source : FMS website
<http://www.fms.treas.gov/gold>

	12-Jul-02	19-Jul-02
Other Res.Assets	0	0

TOTAL	75,566,858,021.18	76,538,098,225.17	971,240,203.99
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Adjustments to IMF and SDR data, translated at current exchange rates

Prelim. IMF Data Calculation Section	IN SDRs		SDR rate for		
	12-Jul-02	Adjustments	19-Jul-02	In USD	
Reserve Tranche	15,083,734,293		15,083,734,293	0.743345	\$20,291,700,748.64
GAB	0		0		\$0.00
NAB	0		0		\$0.00
			15,083,734,293	Total =	\$20,291,700,748.64
SDRs	8,752,816,895		8,752,816,895	SDRs =	\$11,774,905,185.34

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



U.S. International Reserve Position 8/1/02

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled \$75,511 million at the end of the latest week, compared to \$76,538 million at the end of the prior week.

(US millions)

Official U.S. Reserve Assets	TOTAL	July 19, 2002			July 26, 2002		
				76,538			75,511
Foreign Currency Reserves ¹							
<i>a. Securities</i>		Euro	Yen	TOTAL	Euro	Yen	TOTAL
<i>Of which, issuer headquartered in the U.S.</i>		6,416	12,209	18,625	6,261	12,569	18,830
<i>a. Total deposits with:</i>							
<i>b.I. Other central banks and BIS</i>		10,692	4,111	14,803	10,410	3,332	13,742
<i>b.II. Banks headquartered in the U.S.</i>				0			0
<i>b.II. Of which, banks located abroad</i>				0			0
<i>b.III. Banks headquartered outside the U.S.</i>				0			0
<i>b.III. Of which, banks located in the U.S.</i>				0			0
IMF Reserve Position ²				20,292			20,184
Special Drawing Rights (SDRs) ²				11,775			11,712
Gold Stock ³				11,044			11,044
Other Reserve Assets				0			0

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

The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollars 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.

Gold stock is valued monthly at \$42.2222 per fine troy ounce.

Official Reserve Assets Worksheet
(actual US dollar amounts)

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

	19-Jul-02	26-Jul-02	Change
Foreign Currency			
Euro Securities	\$6,415,820,962.28	\$6,261,000,000.00	-154,820,962
Yen Securities	\$12,209,268,296.90	\$12,569,000,000.00	359,731,703
Sec. Total	\$18,625,089,259.18	\$18,830,000,000.00	204,910,741
Euro Deposits	\$10,691,804,833.17	\$10,410,000,000.00	-281,804,833
Yen Deposits	\$4,110,891,096.39	\$3,332,000,000.00	-778,891,096
Deposit Total	\$14,802,695,929.55	\$13,742,000,000.00	-1,060,695,930
Total	\$33,427,785,188.73	\$32,572,000,000.00	-855,785,189
Euro Rate	\$1.0156	\$0.9882	
Yen Rate	115.73	118.78	

Source: NY Fed (fax)
copy and paste data into last week
and put new data from fax
into right column

IMF	19-Jul-02	26-Jul-02	
		<i>(prelim, with adjust.)</i>	
Reserve Tranche	20,291,700,748.64	20,183,552,995.47	-108,147,753.17
GAB	0.00	0.00	0.00
NAB	0.00	0.00	0.00
Total	20,291,700,748.64	20,183,552,995.47	-108,147,753.17
SDR	11,774,905,185.34	11,712,149,009.54	-62,756,175.80
			0.00

Source: IMF (email)
put actual dollar figures in for last week:

as of 10/31/01	19-Jul-02	26-Jul-02	
Gold	11,043,707,102.45	11,043,707,102.45	0.00
			0

Source : FMS website
<http://www.fms.treas.gov/gold>

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

TOTAL	76,538,098,225.16	76,367,194,296.19	-170,903,928.97
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Adjustments to IMF and SDR data, translated at current exchange rates

Prelim. IMF Data Calculation Section	IN SDRs		SDR rate for		
	19-Jul-02	Adjustments	26-Jul-02	In USD	
Reserve Tranche	15,083,734,293		15,083,734,293	0.747328	\$20,183,552,995.47
GAB	0		0		\$0.00
NAB	0		0		\$0.00
			15,083,734,293	Total =	\$20,183,552,995.47
SDRs	8,752,816,895		8,752,816,895	SDRs =	\$11,712,149,009.54

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



**For Immediate Releases
Thursday, August 1, 2002**

**Contact: Michele Davis
(202) 622-2920**

Statement of Secretary Paul O'Neill on Upcoming Trip to Brazil, Uruguay and Argentina

I will be leaving on Sunday to travel to Brazil, Uruguay and Argentina. Each of these nations is a close friend and ally of the United States. I look forward to talking with government officials in Brazil, Uruguay and Argentina about their economic direction and prospects.

The United States has a long history of cooperation with the nations of Latin America. President Bush is eager to build on that history, and with the passage of Trade Promotion Authority we will forge ahead with a free trade agreement that would span the entire hemisphere. Free trade binds us together and creates opportunity and prosperity. Together, we will use the power of the market to improve standards of living for people throughout the hemisphere.

The future of our nation is closely tied to the success and the security of our closest neighbors. Prosperity throughout the hemisphere benefits all the peoples of the Americas. As President Bush has said, our Administration's central goal for the Americas is to continue the momentum of progress, building a hemisphere that lives in liberty, trades in freedom and grows in prosperity. No one wants to see successful, growing economies in this region more than President Bush and this Administration. And these economies – these people – will succeed. Having traveled often to Latin America in my 23 years in the private sector I witnessed first hand the talented people and excellent resources there. With the right policies, they will succeed.

In Brazil, I look forward to meeting with President Cardoso, Minister Malan and Governor Fraga. The economic team in Brazil has done a remarkable job of maintaining sound fiscal and monetary policies. I continue to favor support for Brazil and other nations that take appropriate policy steps to build sound, sustainable and growing economies. I will take the opportunity in Brazil to visit with entrepreneurs to see first hand how the sound and forward-looking policies adopted by the Brazilian Government have formed a strong foundation upon which real economic activity has developed and will continue to flourish.

In Uruguay, the government is taking strong and difficult steps to rebuild the banking sector in the wake of major external shocks.

PO-3313

I will meet with President Batlle and his economic team and reiterate my support for additional assistance for Uruguay from the IMF and other international financial institutions as part of a comprehensive solution to the recent economic difficulties there. Uruguay deserves the ongoing support of the international financial community for its commitment to sound economic policy.

In Argentina, I will visit with President Duhalde and Minister Lavagna to review the government's progress in implementing a sustainable economic program. I will also visit businesses and health facilities and talk with local entrepreneurs and employers to develop a better understanding of the real economy, social issues and civil society. The people of Argentina have suffered from the economic turmoil there, and we are eager to see that nation return to a position of strength and stability.

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.
August 1, 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 \$27,421 million of publicly held 13-week and 26-week Treasury bills maturing August 8, 2002, and to raise new cash of approximately \$4,579 million. Also maturing is an estimated \$20,001 million of publicly held 4-week Treasury bills, the disposition of which will be announced August 5, 2002.

The Federal Reserve System holds \$11,863 million of the Treasury bills maturing on August 8, 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 August 6, 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 \$1,104 million into the 13-week bill and \$725 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-3314

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

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED AUGUST 8, 2002

August 1, 2002

<u>Offering Amount</u>	\$16,000 million	\$16,000 million
<u>Public Offering</u>	\$16,000 million	\$16,000 million
<u>NLP Exclusion Amount</u>	\$ 5,000 million	None

Description of Offering:

Term and type of security.....	91-day bill	182-day bill
CUSIP number.....	912795 LJ 8	912795 LX 7
Auction date.....	August 5, 2002	August 5, 2002
Issue date.....	August 8, 2002	August 8, 2002
Maturity date.....	November 7, 2002	February 6, 2003
Original issue date.....	May 9, 2002	August 8, 2002
Currently outstanding.....	\$20,761 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

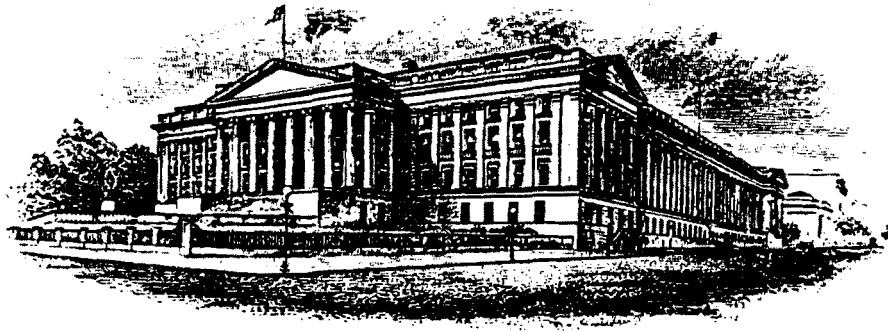
Maximum Award..... 35% of public offering

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 OFFICE OF PUBLIC AFFAIRS

**Testimony of
Kenneth W. Dam
Deputy Secretary, Department of the Treasury
before the
Senate Committee on Banking, Housing, and Urban Affairs
Subcommittee on International Trade and Finance
August 1, 2002**

Chairman Bayh and distinguished members of the Senate Subcommittee on International Trade and Finance, thank you for inviting me to testify about the misuse of charities by terrorist organizations to raise and move money. This is an important and complex issue. I applaud the Subcommittee for focusing on it. And I appreciate the leadership you have provided, Mr. Chairman, on this and related issues.

The financial front of the war on terror is a particularly important issue for the Treasury Department. Secretary O'Neill is the Administration's principal spokesman for the financial front of the war. As his Deputy, I chair a high-level interagency committee that sets strategic priorities for the financial front. Our General Counsel, David Aufhauser, chairs the National Security Council's interagency policy coordination committee on terrorist finance. Our Under Secretary for Enforcement, Jimmy Gurulé, leads our enforcement bureaus including the United States Customs Service, the United States Secret Service, and FinCEN, as well as our Office of Foreign Assets Control as they fight terrorist financing. Our Under Secretary for International Affairs, John Taylor, works to build and maintain the international coalition against terrorist finances. Our Under Secretary for Domestic Finance, Peter Fisher, also works to help implement the USA PATRIOT Act, and to help protect our nation's critical financial infrastructure. And, of course, we have many, many employees who are working hard and, in some cases, putting their lives at risk to fight the financing of terror.

Our first actions after the tragedy of September 11 were to identify known terrorists and terrorist entities, freeze their assets in the US, and work with our allies to extend those freezes world wide. As you know, we have obtained significant results in this effort, blocking over \$112 million dollars globally and forging a coalition of support that includes all but a handful of countries.

PO-3315

Since these first actions, our fight against the financing of terror has expanded to the abuse of charities. As Secretary O'Neill has said, few actions are more reprehensible than diverting money intended for charity and using it to support hatred and cruelty. Such abuse corrupts the sanctity of charitable giving, diverts funds and resources from those in need, betrays the trust and goodwill of donors, and is a danger to us all.

We are addressing this problem at several levels. We are stopping the flow of funds by freezing the assets of charities that are supporting terrorist groups as well as aggressively investigating suspected abuses of charities. We also work with countries around the world to help raise standards of oversight and accountability for charities. In this work we are guided always by two principles: (1) preventing the abuse of charities for terrorist purposes; and (2) preserving the important role that charities play throughout the world.

Before I detail these efforts and address the specific topics raised in your invitation letter, allow me to update you briefly on the efforts the Treasury Department has taken, in cooperation with our sister agencies and departments, to combat terrorist financing.

ACHIEVEMENTS IN FINANCIAL ASPECTS OF U.S. ANTI-TERRORISM INITIATIVES

As you know, our priority is to prevent terrorist attacks by disrupting terrorist finances. As the President has said, we seek to "starve the terrorists of funding."

I just noted that, since September 11th, the United States and other countries have frozen more than \$112 million in terrorist-related assets. More importantly, we have cut the flow of terrorist money through funding pipelines, as in the case of Al-Barakaat's worldwide network which was channeling as much as \$15 to \$20 million to al Qaida a year. Where warranted, we have also unblocked funds. For example, \$350 million in Afghan government assets that had been protectively frozen in connection with the Taliban sanctions, mostly before September 11, have now been returned to the legitimate Afghanistan government.

We have received strong international cooperation in this effort. All but a handful of countries and jurisdictions have pledged support for our efforts, over 160 countries have blocking orders in force, hundreds of accounts worth more than \$70 million have been blocked abroad, and foreign law enforcement have acted swiftly to shut down terrorist financing networks. The United States has often led these efforts, but there have also been important independent and shared initiatives. On March 11, 2002, the United States and Saudi Arabia jointly designated two branches of a charity, and on April 19, 2002, the G7 jointly designated nine individuals and one entity. These efforts have been bolstered by actions from the European Union which has issued three lists of designated terrorists and terrorist groups for blocking.

In addition to these efforts, we work with countries daily to get more information about their efforts and to ensure that the cooperation is as deep as it is broad. We are also providing technical assistance to a number of countries to help them develop the legal and enforcement infrastructure they need to find and freeze terrorist assets.

We have also had success pursuing international cooperation through multilateral forums including the U.N., the G7, the G20, the Financial Action Task Force (FATF), the Egmont Group, and the international financial institutions to combat terrorist financing on a global scale. In particular, Treasury continues to play a strong leadership role in FATF, a 31-member organization dedicated to the international fight against money laundering. As this Committee knows, in late October 2001, the United States hosted an Extraordinary FATF Plenary session, at which FATF established eight Special Recommendations on Terrorist Financing, including a recommendation regarding the need to regulate non-profit organizations. These

recommendations quickly became the international standard on how countries can ensure that their financial regimes are not being abused by terrorist financiers.

Our law enforcement efforts also have proven fruitful. Treasury's Operation Green Quest, a multi-agency terrorist financing task force, was established in October 2001 to identify, disrupt, and dismantle terrorist financing networks by bringing together the financial expertise from Treasury and other branches of the government. Through their investigations, Operation Green Quest agents have been targeting a wide variety of systems that may be used by terrorists to raise and move funds. These systems include illegal enterprises, as well as legitimate enterprises, and charity/relief organizations (in which donations may be diverted to terrorist groups). Green Quest's work, in cooperation with the Department of Justice, has led to 38 arrests, 26 indictments, the seizure of approximately \$6.8 million domestically, and seizures of over \$16 million in outbound currency at the borders, including more than \$7 million in bulk cash being smuggled illegally to Middle Eastern destinations. Recently, Customs, United States Secret Service, and FBI agents apprehended and subsequently indicted Jordanian-born Omar Shishani in Detroit for smuggling \$12 million in forged cashier's checks into the United States. The detention and arrest of Shishani is highly significant as it resulted from the Customs Service's cross-indexing of various databases, including information obtained by the U.S. military in Afghanistan. That information was entered into Custom's "watch list," which, when cross-checked against inbound flight manifests, identified Shishani. In addition, Green Quest agents, along with the FBI and other government agencies, have traveled abroad to follow leads and examine documents.

We are confident that our efforts are having real-world effects. What I can tell you in open session is that we believe that al Qaida and other terrorist organizations are suffering financially as a result of our actions. We also believe that potential donors are being more cautious about giving money to organizations where they fear that the money might wind up in the hands of terrorists. In addition, greater regulatory scrutiny in financial systems around the world is further marginalizing those who would support terrorist groups and activities. This deterrent effect, though perhaps not quantifiable, is an essential effect of our efforts.

At the same time, I must tell you that we have much to do. Although we believe we have had a considerable impact on al Qaida's finances, we also believe that al Qaida's financial needs are greatly reduced. They no longer bear the expenses of supporting the Taliban government or of running training camps, for example. We have no reason to believe that al Qaida does not have the financing it needs to conduct at least a substantial number of additional attacks. In short, a great deal remains to be done.

The Misuse of Charities and Non-Profit Organizations

Your invitation letter requested my thoughts about the scope of the problem of terrorist abuse of charities and non-profits. Unfortunately, this is not an issue on which precise measurement is possible. We do know that the mechanism of charitable giving – *i.e.*, the collection of resources from willing donors and its redistribution to persons in need – has been used to provide a cover for the financing of terror and that it has been a significant source of funds. In certain instances the charity itself was a mere sham that existed simply to funnel money to terrorists. However, the abuse often occurred without the knowledge of donors, or even of some members of the management and staff of the charity itself. Allow me to provide some examples.

Examples of Abuse of Charities by Terrorist Groups

Example 1: Afghan Support Committee (ASC)

On January 9, 2002, the United States designated the Afghan Support Committee (ASC), a purported charity, as an al Qaida supporting entity. The ASC operated by soliciting donations from local charities in Arab countries, in addition to fundraising efforts conducted at its headquarters in Jalalabad, Afghanistan, and subsequently in Pakistan. The ASC falsely asserted that the funds collected were destined for widows and orphans. In fact, the financial chief of the ASC served as the head of organized fundraising for Osama bin Laden. Rather than providing support for widows and orphans, funds collected by the ASC were turned over to al Qaida operatives. With our blocking action on January 9, 2002, we publicly identified the scheme being used by ASC and disrupted this flow of funds to al Qaida.

Example 2: Revival of Islamic Heritage Society (RIHS)

Also on January 9, 2002, we designated the Pakistani and Afghan offices of the Revival of Islamic Heritage Society (RIHS). The RIHS is an example of an entity whose charitable intentions were subverted by terrorist financiers. The RIHS was a Kuwaiti-based charity with offices in Pakistan and Afghanistan. The Peshawar, Pakistan office director for RIHS also served as the ASC manager in Peshawar. The RIHS Peshawar office defrauded donors to fund terrorism. In order to obtain additional funds from the Kuwait RIHS headquarters, the RIHS Peshawar office padded the number of orphans it claimed to care for by providing names of orphans that did not exist or who had died. Funds sent for the purpose of caring for the non-existent or dead orphans were instead diverted to al Qaida terrorists. In this instance, we do not currently have evidence that this financing was done with the knowledge of RIHS headquarters in Kuwait.

Example 3: Al-Haramain Islamic Foundation

On March 11, 2002, the United States and Saudi Arabia jointly designated the Somali and Bosnian offices of the Saudi-based Al-Haramain organization. Al-Haramain is a Saudi Arabian-based charity with offices in many countries. Prior to designation, we compiled evidence showing clear links demonstrating that the Somali and Bosnian branch offices were supporting al Qaida. For example, we uncovered a history of ties between Al-Haramain Somalia and al-Qaida, the designated organization Al-Itihaad al-Islamiya (AIAI), and other associated entities and individuals. Over the past few years, Al-Haramain Somalia has provided a means of funneling money to AIAI by disguising funds allegedly intended to be used for orphanage projects or the construction of Islamic schools and mosques. The organization has also employed AIAI members. Al-Haramain Somalia has continued to provide financial support to AIAI even after AIAI was designated as a terrorist organization by the United States and the United Nations. In late-December 2001, Al-Haramain was facilitating the travel of AIAI members in Somalia to Saudi Arabia. The joint action by the United States and Saudi Arabia exposed these operations.

Preserving and Safeguarding Charities and Charitable Giving

As I stated earlier, our goal is to guard charities against abuse without chilling legitimate charitable works. Our strategic approach, as set forth in the recently published 2002 National Money Laundering Strategy, involves domestic and international efforts to ensure that there is proper oversight of charitable activities as well as transparency in the administration and functioning of the charities. It also involves greater coordination with the private sector to develop partnerships that include mechanisms for self-policing by the charitable and non-governmental organization sectors.

Domestic Front

Here at home, we are working to stem the flow of funds to terrorists through all channels. As mentioned above, we have issued blocking orders against charities and branches of charities providing support to terrorists. The three examples I cited previously all represent such blocking actions. In addition, we have blocked the assets of several other charities or groups that claimed to be providing charitable services. For example, on December 4, 2001, we blocked the assets of the Holy Land Foundation for Relief and Development, which describes itself as the largest Islamic charity in the United States. It operates as a U.S. fundraising arm of the Palestinian terrorist organization Hamas. We have also designated as terrorist supporters the Makhtab al-Khimamat/Al Kifah, a clearinghouse for Islamic charities financed directly by Usama bin Ladin and party to the 1993 World Trade Center attack; the Al Rashid Trust; the Wafa Humanitarian Organization; and the Rabita trust -- all Pakistan based al Qaida financier organizations; and the Ummah Tameer E-Nau, a Pakistani NGO which provided nuclear, biological and chemical weapons expertise to al Qaida.

In addition, we have blocked the assets of the Global Relief Foundation and the Benevolence International Foundation, under the provisions of the USA PATRIOT Act to assist the ongoing investigation of alleged links to terrorism.

Another aspect of our domestic strategy is to work within the U.S. regulatory system to ensure that charities are transparent to the maximum extent practical. In the United States, the transparency of the charitable sector is a concern of both federal and state officials, as well as of private organizations representing donors and charitable organizations. As this committee well knows, the Internal Revenue Service is the primary federal agency with oversight responsibility for charities. The IRS's responsibilities have expanded as the tax law has changed to keep up with the growth of the nonprofit sector, which now consists of more than 1.5 million tax-exempt organizations, including nearly 800,000 charities and 350,000 religiously-affiliated organizations that control \$2 trillion in assets.

Under U.S. law, any person or group may establish an organization with charitable purposes, and the creators of the organization are free to choose any charitable endeavor they wish to pursue. If the organization applies to the IRS for recognition of tax-exempt status, and shows that it meets the requirements of Section 501(c)(3) of the Internal Revenue Code (IRC), it will be recognized exempt until it ceases to exist or until the IRS determines it no longer meets the requirements and revokes exempt status. A charity may have its Section 501(c)(3) application denied or its existing tax-exempt status revoked by the IRS if it does not comply with these standards. A "revocation" means that the organization becomes taxable and that donors will receive no tax benefits from contributions to the organization. Revocation may also cause the state in which the charity is organized to take action to ensure its assets are used for charitable purposes.

While its primary functions in this sphere are to recognize and regulate tax-exempt status and to implement those provisions of the tax code that derive from that status, the IRS also performs a crucial role in the development and dissemination of information about those charities that fall under its jurisdiction. Most IRC 501(c)(3) organizations (except for churches and certain small organizations) are required to file annual information returns showing the income, expenses, assets, and liabilities of the organization, as well as information about its programs. 501(c)(3) organizations must make their returns available to anyone who asks (except for the names of contributors) by publishing them in readily accessible electronic and hard-copy formats. The availability of information about charities' operations helps stimulate oversight by donors, the media, academia, and private organizations.

Also, State Attorneys General have statutory jurisdiction over the charitable assets of these organizations and over fundraising activities of charities. Oversight responsibilities and practices vary from state to state, but most states exercise regulatory oversight over all organizations that raise money in their state, excluding churches, synagogues, and mosques, regardless of where the charity is domiciled. State charities officials have formed a national-level organization, the National Association of State Charities Officials (NASCO - www.nasconet.org). Among other things, NASCO has promoted harmonization in registration requirements among the states, and has advanced a “Model Act Concerning the Solicitation of Funds for Charitable Purposes.”

The United States also has private, non-profit organizations that work to safeguard our tradition of charitable giving. One such organization is Independent Sector, a coalition of more than 700 national organizations, foundations, and corporate philanthropy programs that collectively represent many thousands more organizations throughout the United States. Its many research activities include defining and addressing ways to improve accountability in the charitable sector. Other organizations focus on particular segments of the charitable sector. The Council on Foundations focuses on issues affecting private foundations. The Evangelical Council for Financial Accountability serves a major segment of the religious community as an accreditation organization that either grants or withholds membership based on an examination of the financial practices and accomplishments of charitable organizations that apply. It provides public disclosure of its more than 900 members' financial practices and accomplishments, including on its website, www.ecfa.org. ECFA is also the United States member of the International Committee for Fundraising Organizations (ICFO), an umbrella organization that links the accreditation organization of 10 countries (US, UK, Canada, Norway, Sweden, France, Germany, Switzerland, Austria, and the Netherlands).

Other organizations promoting transparency include the Philanthropic Research Institute, whose Guidestar organization maintains a database containing IRS filings and other financial information of over 200,000 charities. Any interested individual can access the information through its www.guidestar.org website. Another donor-information organization, the Better Business Bureau (BBB) Wise Giving Alliance, focuses on organizations that conduct broad-based fund-raising appeals. It collects and distributes information about the programs, governance, fundraising practices, and finances of hundreds of nationally soliciting charitable organizations that are the subject of donor inquiries. It asks the selected organizations for information about their programs, governance, fund raising practices, and finances, and measures the results against general guidelines and standards it has developed for measuring organizational efficiency and effectiveness. It publishes the results, including whether the selected organization refused to supply information, on its website at www.give.org.

While we are continually assessing ways to attack terrorist finances, there is no current Treasury Department proposal under consideration to modify the federal tax code for the purpose of blocking terrorist finance through charities. However, we are working with state charities officials and the private sector watchdog agencies to widen their horizons from the pursuit of fraud to the fight against terrorist finance.

International Efforts

As on all issues related to terrorist financing, our efforts to prevent the abuse of charities by terrorists can only be successful if we have international cooperation and support. As I have stated before, we cannot bomb foreign bank accounts. We need the cooperation of foreign

governments to investigate and block them. The blocking actions we have taken to date were not isolated U.S. actions, as seen in the March 11, 2002, joint designation with Saudi Arabia. Each of the blocking actions we have taken to combat the abuse of charities – with the exception of the freezes in aid of US-based investigations – has been backed and echoed by our allies. I am very proud of the work that has gone into building the international coalition against financial terrorism, and would like to take this opportunity to give credit to the other agencies of the US government – including the State Department, the intelligence community, the FBI and the Department of Justice – that have helped us keep that coalition in place.

Moreover, we are working with other countries to strengthen their own internal charitable regulation regimes so that they can feel confident that their charitable communities are not being abused. We have pursued these discussions both bilaterally and multilaterally, in the Middle East, South East Asia, and Europe, as well as in the G7 and G8 processes and especially through the Financial Action Task Force (FATF). Secretary O'Neill has raised this issue directly with his counterparts on his visits to the Persian Gulf and Europe. Other countries, especially those whose cultures incorporate, encourage, and require charitable giving, are as concerned as we are that the good deeds of well-intentioned donors should not be hijacked by terrorists.

They are making progress, as even a cursory review of foreign press reports indicates. For example, on March 21, the Saudi press reported that the Saudi government had issued a regulatory decision requiring charitable societies to submit to the Saudi Foreign Ministry the details of projects they intend to finance abroad. Also in March, the Pakistani press reported on the Pakistan Center for Philanthropy, an independent, non-profit organization dedicated to improving philanthropic regulation. According to these reports, the Pakistani government asked the center to develop recommendations for a new law governing charities, NGO's, and other civil society organizations. In May, the Azerbaijani press reported that the government had submitted to parliament a new law further regulating the funding of charities and other NGO's. And in June, the Egyptian press reported that a draft law expanding government oversight of non-governmental and charitable organizations was submitted to parliament.

There is not a single correct approach to ensuring appropriate transparency and oversight of charitable organizations. Different countries attempt to do so using a variety of approaches. In some, independent charity commissions have an oversight role. In other countries, government ministries are directly involved. Moreover, in many jurisdictions, the focus of oversight has been combating fraud rather than terrorist financing. Many of the same regimes and mechanisms, however, can assist in the fight against terrorist finance as well.

We are attempting, bilaterally and multilaterally, to ensure that all jurisdictions treat the regulation of charitable institutions with the seriousness it deserves. As I mentioned earlier, one of the eight special counter-terrorism recommendations adopted at the October 2001 plenary session of FATF specifically called on member countries to ensure that charities and other NGOs should not be abused for the furtherance of terror, and the United States is taking the lead within FATF to develop specific best practices to ensure transparency, accountability, and enforcement of regulations over charities.

ADDITIONAL AUTHORITY TO PREVENT THE MISUSE OF CHARITIES

Mr. Chairman, your invitation letter inquires whether the Administration needs additional authorities to prevent the abuse of charities. As you know, on December 20, 2001, Congress passed the "Victims of Terrorism Tax Relief Act of 2001" in which there were revisions of some

elements of the tax code. An important change in the tax-related laws involved the expansion of the availability of tax returns and return information under Section 6103 for purposes of investigating terrorist incidents, threats, or activities, and for analyzing intelligence concerning terrorist incidents, threats, or activities. The ability to access and consolidate all relevant financial information in order to uncover terrorist networks and support cells is crucial to our overall efforts. In this context, it is important to our efforts to ensure that charities are not being abused by terrorist groups and supporters.

Though we are exploring ways to make our efforts more efficient and effective, we do not see a particularized need at this time to ask this Committee and Congress for additional authority. We look forward to working with you when we identify necessary changes to make our efforts most effective.

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 the Administration's goals and policies regarding the abuse of charities by terrorist organizations as well as other issues related to terrorist financing.



FROM THE OFFICE OF PUBLIC AFFAIRS

August 1, 2002
PO-3316

**PAMELA F. OLSON
NOMINEE FOR ASSISTANT SECRETARY OF THE TREASURY (TAX POLICY)
BEFORE THE COMMITTEE ON FINANCE
UNITED STATES SENATE**

Mr. Chairman, Senator Grassley, and Members of the Senate Finance Committee:

I am honored to appear before this Committee as President Bush's nominee to serve as Assistant Secretary of the Treasury for Tax Policy. I am humbled by the confidence that the President and Secretary O'Neill have placed in me by giving me the opportunity to serve my country in this capacity. I am especially grateful for the courtesy extended to me by this Committee.

The Committee holds a special place for me because of my husband Grant Aldonas' service as Chief Trade Counsel for the Committee prior to his appointment as Undersecretary of Commerce. His admiration and respect for the Members of this Committee only increased as he observed first hand the difficult issues you face, the tough decisions you make, and the grace with which you discuss your differences and serve the country.

Eighteen months ago, I accepted Secretary O'Neill's offer to return to government service as Deputy Assistant Secretary of the Treasury for Tax Policy. During the past 18 months, I have had the opportunity to work with Committee Members and staff. I want to compliment you on the talented staff you have assembled to assist and advise you. The cooperative and bipartisan manner in which the Members and the staff work benefits the country. I pledge to work with the Committee in the same cooperative spirit if confirmed by the Senate.

Difficult issues are routine for this Committee, but I believe the tax system faces several critical issues in the coming years. I hope to have the opportunity to assist the Committee in addressing them. I want to mention just two of these important issues – two that I believe are closely linked: tax complexity and tax compliance.

Emperor Joseph II once said of Mozart's composition, it has "too many notes, my dear Mozart." A similar observation may be fairly made of our tax laws. Unfortunately, while we may reserve Mozart's compositions for talented and trained musicians, being a virtuoso is not a prerequisite for complying with the tax law. Rather ordinary folks must deal with it, and those ordinary folks can no longer handle the complexity. Of course, much complexity may be attributed to the complicated world in which we live and the difficulties inherent in properly defining and measuring income. But that is not the sole source of complexity, and we have not always done all we could to minimize it. Complexity burdens the economy, hinders tax administration, leads to unintended results, feeds the proliferation of tax shelters, and weakens our self-assessment system. I know complexity is a concern of this Committee, and if I am confirmed, I pledge to make it a high priority during my tenure.

This Committee has shown particular leadership in addressing tax compliance concerns. In 1998, the Committee's work resulted in a significant restructuring of the Internal Revenue Service. While the restructuring was painful even to the outside observer of the organization, fundamental change was necessary, and I believe we will see the fruits of that change in the years ahead in the form of

increased taxpayer service and better-focused compliance programs.

At the same time, there is much to be done on the compliance front. This Committee has shown thoughtful leadership by keeping compliance front and center. Chairman Baucus and Senator Grassley were among the first to shine the light on the problem of tax shelters. During my 18 months at Treasury, I have been pleased to work with Committee staff in considering many difficult compliance questions, particularly issues related to abusive tax avoidance transactions, and the most effective ways of addressing them. Working together with former Assistant Secretary Mark Weinberger, Commissioner Rossotti, and Chief Counsel B. John Williams, we have endeavored to resolve and remove from contention other issues – issues more appropriately resolved with published guidance – that absorb too many Internal Revenue Service enforcement resources and distract from far more significant compliance issues.

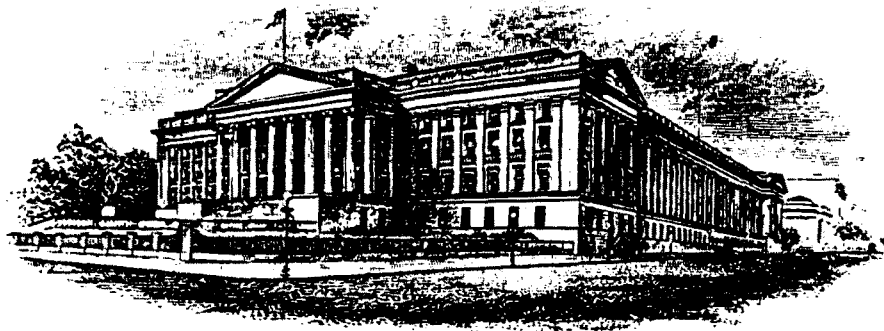
I believe our self-assessment system is strong, but keeping it strong requires the confidence of the citizenry. Complexity is an important component of compliance. The belief that the tax laws bestow on certain taxpayers opportunities to minimize their taxes has a corrosive effect on our tax system. It leads taxpayers to question its fairness. The complexity in our tax laws and the many targeted provisions contribute to taxpayers' concerns that somebody got something they didn't but should have. It also creates crevices and shadows where those who would cut corners can hide. This should concern us all. Research by social scientists suggests that, when it comes to complying with the law, the belief that the laws are legitimate and ought to be complied with has a stronger motivating effect than the fear of being caught.

I hope to have the opportunity to continue to work with the Committee on both of these important issues and the many others that confront the tax system.

I look forward to continuing to serve in the Office of Tax Policy. The staff in the Office of Tax Policy is an extraordinarily talented and dedicated team. Like the staff of this Committee, they have chosen the long hours of public service over the more lucrative opportunities of the private sector.

Finally, I want to recognize the most important people in the world to me, my family. My husband, Grant needs no introduction to this Committee. He has been my mentor, my coach, my compass, my best friend, and my partner in all for nearly 25 years. There is no one whose judgment I would rather have on any difficult issue. My daughters Nicole and Kirsten and son Noah have put up with my long hours, interrupted vacations, and missed dinners. I am so very grateful for their support and the rarity of complaints. I also want to recognize my mother, Inga Olson, who is here today and taught me life's most important lesson – the difference between right and wrong and the importance of doing what's right.

I would be pleased to answer any questions.



**DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS**

**FOR IMMEDIATE RELEASE
August 1, 2002**

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

**STATEMENT BY TREASURY SECRETARY PAUL O'NEILL FOLLOWING SENATE
PASSAGE OF TRADE PROMOTION AUTHORITY**

Today's bipartisan passage of Trade Promotion Authority (TPA) is a major victory on behalf of working Americans. TPA will allow President Bush to open markets that will create high paying jobs and provide new opportunities for America's farmers and workers to compete and win in international trade.

Trade is a critical component of our economy and TPA will help quicken the pace of our recovery. Trade now represents more than one quarter of our economy and trade has created millions of jobs that pay above-average wages. It has fueled competition and innovation, and helped sustain growth with little inflation. Just as important, it has helped promote the truly global growth and prosperity upon which America's own growth and prosperity will ultimately depend.

I thank the House and Senate for passing TPA.

-30-

PO-3317

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
July 29, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term: 182-Day Bill
Issue Date: August 01, 2002
Maturity Date: January 30, 2003
CUSIP Number: 912795LW9

High Rate: 1.690% Investment Rate 1/: 1.727% Price: 99.146

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 34.36%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 26,486,275	\$ 14,222,315
Noncompetitive	1,383,699	1,383,699
FIMA (noncompetitive)	394,000	394,000
SUBTOTAL	28,263,974	16,000,014 2/
Federal Reserve	5,965,160	5,965,160
TOTAL	\$ 34,229,134	\$ 21,965,174

Median rate 1.675%: 50% of the amount of accepted competitive tenders is tendered at or below that rate. Low rate 1.610%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

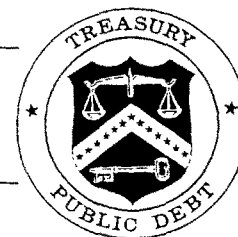
d-to-Cover Ratio = 28,263,974 / 16,000,014 = 1.77

Equivalent coupon-issue yield.

Awards to TREASURY DIRECT = \$1,081,472,000

<http://www.publicdebt.treas.gov>

PUBLIC DEBT NEWS



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

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

FOR IMMEDIATE RELEASE
July 29, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term: 91-Day Bill
Issue Date: August 01, 2002
Maturity Date: October 31, 2002
CUSIP Number: 912795LH2

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 48.08%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 27,121,994	\$ 14,105,054
Noncompetitive	1,587,967	1,587,967
FIMA (noncompetitive)	307,000	307,000
SUBTOTAL	29,016,961	16,000,021 2/
Federal Reserve	5,322,068	5,322,068
TOTAL	\$ 34,339,029	\$ 21,322,089

Median rate 1.660%: 50% of the amount of accepted competitive tenders tendered at or below that rate. Low rate 1.630%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

d-to-Cover Ratio = 29,016,961 / 16,000,021 = 1.81

Equivalent coupon-issue yield.

Awards to TREASURY DIRECT = \$1,286,475,000

<http://www.publicdebt.treas.gov>

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.
July 29, 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 \$18,000 million of publicly held 4-week Treasury bills maturing August 1, 2002, and to raise new cash of 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 \$12,162 million of the Treasury bills maturing on August 1, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders in this auction up to the balance of the amount not awarded in today's 13-week and 26-week Treasury bill auctions. Amounts awarded to SOMA will be in addition to the offering amount.

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

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

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

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

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Attachment

PO-3320

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

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED AUGUST 1, 2002

July 29, 2002

Offering Amount..... \$20,000 million
Public Offering..... \$20,000 million
NLP Exclusion Amount..... \$10,700 million

Description of Offering:

Term and type of security..... 28-day bill
CUSIP number..... 912795 KY 6
Auction date..... July 30, 2002
Issue date..... August 1, 2002
Maturity date..... August 29, 2002
Original issue date..... February 28, 2002
Currently outstanding..... \$43,282 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 non-competitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed \$1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the \$1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.

Competitive bids:

- (1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 4.215%.
- (2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$1 billion or greater.
- (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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
July 24, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate: 2 1/4% Issue Date: July 31, 2002
Series: Q-2004 Dated Date: July 31, 2002
CUSIP No: 912828AG5 Maturity Date: July 31, 2004

High Yield: 2.270% Price: 99.961

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 11.10%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 40,800,977	\$ 25,623,505
Noncompetitive	1,376,524	1,376,524
FIMA (noncompetitive)	0	0
SUBTOTAL	42,177,501	27,000,029 1/
Federal Reserve	6,236,933	6,236,933
TOTAL	\$ 48,414,434	\$ 33,236,962

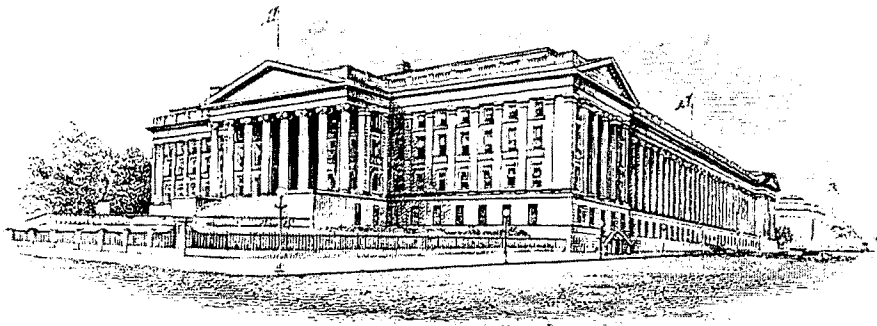
Median yield 2.220%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 2.100%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

bid-to-Cover Ratio = 42,177,501 / 27,000,029 = 1.56

/ Awards to TREASURY DIRECT = \$1,065,402,000

0-3321

<http://www.publicdebt.treas.gov>



DEPARTMENT OF THE TREASURY OFFICE OF PUBLIC AFFAIRS

FOR IMMEDIATE RELEASE
August 4, 2002

CONTACT: Tony Fratto
(202) 622-2016

STATEMENT OF SECRETARY PAUL O'NEILL

The United States Government strongly supports the recommendation to advance \$1.5bn and to increase to a total of \$3.8bn financing for Uruguay from the IMF, World Bank, and Inter-American Development Bank. We are confident that this enhanced program will help Uruguay address the intense external pressures it has faced in recent months. This confidence stems from the extraordinary actions and commitments by the Uruguayan authorities to address these pressures.

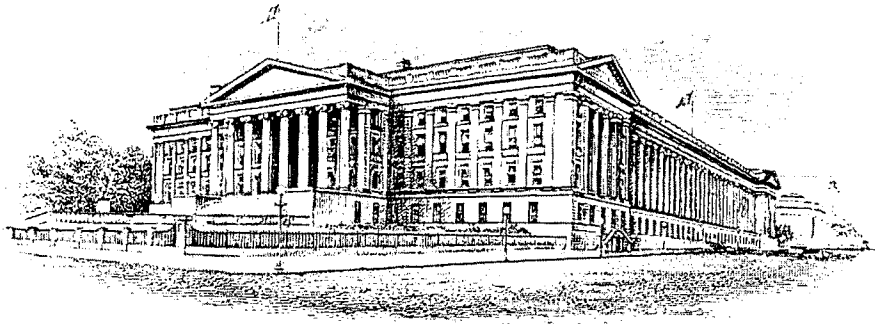
In order to provide rapid financing to the Uruguayan government in support of the banking system, the United States government has agreed to provide up to \$1.5 billion in short-term bridge financing from the Exchange Stabilization Fund (ESF) to Uruguay's central bank during the brief period until international financial institution loans are disbursed. This is consistent with past use of the ESF.

100% of all dollar-denominated sight and savings deposits in both public and private domestic banks will be fully backed with the help of these new funds. It is essential for the Uruguayan people and business community to have access to these deposits to preserve the payments system in the economy.

For some time, Uruguay has effectively implemented sound economic policies and embraced free markets, liberalizing trade and maintaining low inflation. President Batlle's administration has made courageous commitments to ensure that Uruguay remains a strong financial center.

These commitments include the difficult but necessary steps of closing unsustainable banks and strengthening the supervisory and regulatory framework and bank management in the remaining financial institutions. Uruguay's approach to bank reform should encourage confidence of depositors in the financial system. Foreign banks have played an important role in the banking system, and we expect that role to continue.

PO-3322



DEPARTMENT OF THE TREASURY OFFICE OF PUBLIC AFFAIRS

FOR IMMEDIATE RELEASE
August 4, 2002

CONTACT: Tony Fratto
(202) 622-2016

STATEMENT OF SECRETARY PAUL O'NEILL

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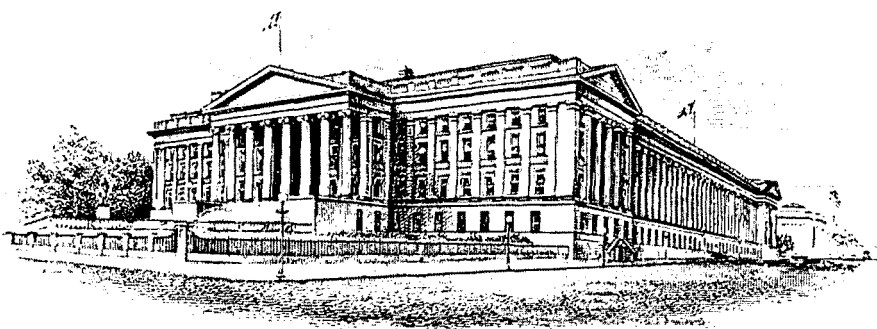
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PO-3322

A government that puts in place and follows through on such strong economic policies merits the consistent support of the international financial institutions and the United States.

I look forward to meeting with President Batlle and his economic team next week in Montevideo.



DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS
202-622-2960

FOR IMMEDIATE RELEASE
August 5, 2002

Contact: Tony Fratto
(202) 622-2960

Statement of Secretary Paul O'Neill following meeting with Brazilian President Cardoso

Let me thank President Cardoso for taking the time to meet with me today to share with me his views on current economic and financial conditions and policy issues. This meeting, as well as my meeting last night with Economy Minister Malan, Central Bank Governor Fraga and Chief of Staff Parente, was cordial and very useful in understanding the challenges at hand and the policies needed to address those challenges.

In both my meetings, I repeated President Bush's strong support for Brazil. Brazil has the right economic policies in place to maintain stability so that the economy can continue to grow. The United States stands ready to support Brazil as it continues to implement these policies. We support the discussions Brazil's authorities are now having with the IMF.

As the largest economy in Latin America, Brazil's success is important to the economic success of the entire hemisphere. Having traveled to Brazil often during my 23 years in the private sector, I have seen this nation's progress firsthand. Brazil has invested in its people and embraced economic freedom, expanding competition and opening trade, which has improved living standards. In the last 10 years, infant mortality has fallen, literacy has improved, and primary school enrollment has risen from just 80% of children starting primary school in 1990 to 96% starting in 2000. The people here have the ingenuity and the resources to succeed.

President Bush has said many times that the prosperity of all the people of the Americas is inextricably linked. With passage of Trade Promotion Authority by our Congress, President Bush and the Administration now have a crucial tool needed to complete the Free Trade Area of the Americas, increasing the flow of goods and ideas between our citizens and improving economic conditions throughout our hemisphere. The United States and Brazil assume co-chairmanship of the FTAA negotiations beginning in November. We are eager to move forward together, creating growth and opportunities for all our citizens.

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PO-3324

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
August 05, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term: 91-Day Bill
Issue Date: August 08, 2002
Maturity Date: November 07, 2002
CUSIP Number: 912795LJ8

High Rate: 1.600% Investment Rate 1/: 1.627% Price: 99.596

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 65.15%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 33,019,625	\$ 14,362,761
Noncompetitive	1,522,442	1,522,442
FIMA (noncompetitive)	115,000	115,000
SUBTOTAL	34,657,067	16,000,203 2/
Federal Reserve	4,543,259	4,543,259
TOTAL	\$ 39,200,326	\$ 20,543,462

Median rate 1.580%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.550%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

bid-to-Cover Ratio = 34,657,067 / 16,000,203 = 2.17

/ Equivalent coupon-issue yield.

/ Awards to TREASURY DIRECT = \$1,215,112,000

<http://www.publicdebt.treas.gov>

PUBLIC DEBT NEWS



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

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

FOR IMMEDIATE RELEASE
August 05, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term: 182-Day Bill
Issue Date: August 08, 2002
Maturity Date: February 06, 2003
CUSIP Number: 912795LX7

High Rate: 1.555% Investment Rate 1/: 1.589% Price: 99.214

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 48.09%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 34,368,264	\$ 14,765,854
Noncompetitive	1,084,653	1,084,653
FIMA (noncompetitive)	150,000	150,000
SUBTOTAL	35,602,917	16,000,507 2/
Federal Reserve	5,872,483	5,872,483
TOTAL	\$ 41,475,400	\$ 21,872,990

Median rate 1.545%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.520%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

bid-to-Cover Ratio = 35,602,917 / 16,000,507 = 2.23

/ Equivalent coupon-issue yield.

/ Awards to TREASURY DIRECT = \$810,763,000

<http://www.publicdebt.treas.gov>

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.
August 5, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling \$22,000 million to refund an estimated \$20,001 million of publicly held 4-week Treasury bills maturing August 8, 2002, and to raise new cash of approximately \$1,999 million.

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

The Federal Reserve System holds \$11,863 million of the Treasury bills maturing on August 8, 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-3328

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

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED AUGUST 8, 2002

August 5, 2002

Offering Amount \$22,000 million
Public Offering \$22,000 million
NLP Exclusion Amount \$10,300 million

Description of Offering:

Term and type of security 28-day bill
CUSIP number 912795 KZ 3
Auction date August 6, 2002
Issue date August 8, 2002
Maturity date September 5, 2002
Original issue date March 7, 2002
Currently outstanding \$40,974 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 non-competitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed \$1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the \$1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.

Competitive bids:

- (1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 4.215%.
- (2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$1 billion or greater.
- (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

Receipt of Tenders:

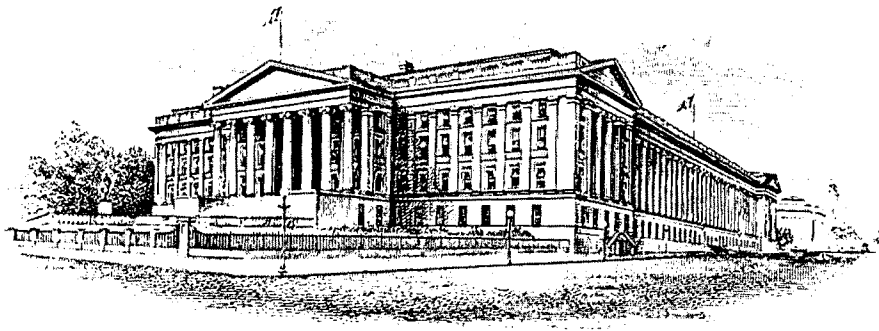
Noncompetitive tenders:

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 OFFICE OF PUBLIC AFFAIRS

**FOR IMMEDIATE RELEASE
AUGUST 6, 2002**

**CONTACT: ROB NICHOLS
202-622-2910**

STATEMENT BY TREASURY SECRETARY PAUL O'NEILL ON PRESIDENT BUSH SIGNING THE TRADE ACT OF 2002 WHICH GIVES THE PRESIDENT TRADE PROMOTION AUTHORITY

Trade Promotion Authority (TPA) is a major victory on behalf of working Americans. TPA will allow President Bush to open markets that will create higher paying jobs and provide new opportunities for America's farmers and workers to compete and win in international trade. This is yet another major accomplishment for the President's economic agenda.

Trade is a critical component of our economy and TPA will help quicken the pace of our recovery. Trade now represents more than one quarter of our economy and trade has created millions of jobs that pay above-average wages. It has fueled competition and innovation, and helped sustain growth with little inflation. Just as important, it has helped promote the truly global growth and prosperity upon which America's own growth and prosperity will ultimately depend.

President Bush today said it best when he remarked, "Free trade is also a proven strategy for building global prosperity and adding to the momentum of political freedom. Trade is an engine of economic growth. It uses the power of markets to meet the needs of the poor. In our lifetime, trade has helped lift millions of people, and whole nations, and entire regions, out of poverty and put them on the path to prosperity."

-30-

PO-3329



August 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 \$75,296 million at the end of the latest week, compared to \$75,504 million at the end of the prior week.

(in US millions)

I. Official U.S. Reserve Assets	TOTAL	July 26, 2002			August 2, 2002		
		75,504			75,296		
1. Foreign Currency Reserves ¹		Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities		6,261	12,569	18,830	6,275	12,548	18,823
<i>Of which, issuer headquartered in the U.S.</i>				0			0
b. Total deposits with:							
<i>b.i. Other central banks and BIS</i>		10,410	3,332	13,742	10,416	3,326	13,743
<i>b.ii. Banks headquartered in the U.S.</i>				0			0
<i>b.ii. Of which, banks located abroad</i>				0			0
<i>b.iii. Banks headquartered outside the U.S.</i>				0			0
<i>b.iii. Of which, banks located in the U.S.</i>				0			0
2. IMF Reserve Position ²				20,176			20,048
3. Special Drawing Rights (SDRs) ²				11,712			11,638
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-3330

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



Official Reserve Assets Worksheet
(actual US dollar amounts)

Enter Dates Here	Last Week 26-Jul-02	This Week 2-Aug-02
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	26-Jul-02	2-Aug-02	Change
Foreign Currency			
Euro Securities	\$6,261,000,000.00	\$6,275,000,000.00	14,000,000
Yen Securities	\$12,569,000,000.00	\$12,548,000,000.00	-21,000,000
<i>Sec. Total</i>	\$18,830,000,000.00	\$18,823,000,000.00	-7,000,000
Euro Deposits	\$10,410,000,000.00	\$10,416,000,000.00	6,000,000
Yen Deposits	\$3,332,000,000.00	\$3,326,000,000.00	-6,000,000
<i>Deposit Total</i>	\$13,742,000,000.00	\$13,743,000,000.00	1,000,000
Total	\$32,572,000,000.00	\$32,566,000,000.00	-6,000,000
<i>Euro Rate</i>	\$0.9882	\$0.9882	0
<i>Yen Rate</i>	118.78	118.98	0.2

Source: NY Fed (fax)
copy and paste data into last week
and put new data from fax
into right column

IMF	26-Jul-02	2-Aug-02	
		<i>(prelim, with adjust.)</i>	
Reserve Tranche	20,176,485,168.49	20,048,467,368.70	-128,017,799.79
GAB	0.00	0.00	0.00
NAB	0.00	0.00	0.00
Total	20,176,485,168.49	20,048,467,368.70	-128,017,799.79
SDR	11,712,149,009.54	11,637,836,584.23	-74,312,425.31

Source: IMF (email)
put actual dollar figures in for last week:

	26-Jul-02	2-Aug-02	
as of 10/31/01			
Gold	11,043,707,102.46	11,043,707,102.46	0.00

Source : FMS website
<http://www.fms.treas.gov/gold>

	26-Jul-02	2-Aug-02	
Other Res.Assets	0	0	

TOTAL	75,504,341,280.49	75,296,011,055.39	-208,330,225.10
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Adjustments to IMF and SDR data, translated at current exchange rates

Prelim. IMF Data Calculation Section	IN SDRs		SDR rate for		
	26-Jul-02	Adjustments	2-Aug-02	In USD	
Reserve Tranche	15,078,452,308		15,078,452,308	0.752100	\$20,048,467,368.70
GAB	0		0		\$0.00
NAB	0		0		\$0.00
			15,078,452,308	Total =	\$20,048,467,368.70
SDRs	8,752,816,895		8,752,816,895	SDRs =	\$11,637,836,584.23

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



FOR RELEASE AT 3:00 PM
August 6, 2002

Contact: Peter Hollenbach
(202) 691-3502

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

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

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	\$2,125,437,329
Held in Unstripped Form	\$1,954,852,546
Held in Stripped Form	\$170,584,783
Reconstituted in July	\$16,393,841

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-568

www.publicdebt.treas.gov

PO-3331

TABLE V - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, JULY 31, 2002

Loan Description	Corpus STRIP CUSIP	Maturity Date	Amount Outstanding in Thousands			Reconstituted This Month	
			Total Outstanding	Portion Held in Unstripped Form	Portion Held in Stripped Form		
Treasury Bonds:							
CUSIP:	Interest Rate:						
912810 DM7	11-5/8	912803 AB9	11/15/04	8,301,806	4,722,207	3,579,599	243,600
DQ8	12	AD5	05/15/05	4,260,758	1,921,705	2,339,053	35,400
DR6	10-3/4	AG8	08/15/05	9,269,713	5,998,281	3,271,432	28,800
DU9	9-3/8	AJ2	02/15/06	4,755,916	4,282,651	473,265	4,600
DN5	11-3/4	912800 AA7	11/15/14	5,015,284	1,936,100	3,079,184	20,000
DP0	11-1/4	912803 AA1	02/15/15	10,520,299	9,513,555	1,006,744	1,245,105
DS4	10-5/8	AC7	08/15/15	4,023,916	3,278,545	745,371	157,215
DT2	9-7/8	AE3	11/15/15	5,584,859	3,886,778	1,698,081	793,815
DV7	9-1/4	AF0	02/15/16	5,431,754	5,352,019	79,735	296,571
DW5	7-1/4	AH6	05/15/16	18,823,551	18,482,518	341,033	48,000
DX3	7-1/2	AK9	11/15/16	18,787,448	17,583,468	1,203,980	172,240
DY1	8-3/4	AL7	05/15/17	15,559,169	7,437,460	8,121,709	536,380
DZ8	8-7/8	AM5	08/15/17	10,968,358	8,146,113	2,822,245	612,800
EA2	9-1/8	AN3	05/15/18	6,717,439	2,779,348	3,938,091	476,509
EB0	9	AP8	11/15/18	7,174,470	2,736,581	4,437,889	78,800
EC8	8-7/8	AQ6	02/15/19	13,090,498	6,874,969	6,215,529	1,207,498
ED6	8-1/8	AR4	08/15/19	18,940,932	17,908,348	1,032,584	442,617
EE4	8-1/2	AS2	02/15/20	9,476,268	7,008,735	2,467,533	280,627
EF1	8-3/4	AT0	05/15/20	7,582,183	2,897,708	4,684,475	39,720
EG9	8-3/4	AU7	08/15/20	17,059,306	6,943,929	10,115,377	859,407
EH7	7-7/8	AV5	02/15/21	10,075,573	9,084,493	991,080	152,800
EJ3	8-1/8	AW3	05/15/21	10,066,788	3,936,539	6,130,249	151,040
EK0	8-1/8	AX1	08/15/21	9,506,382	6,779,352	2,727,030	300,840
EL8	8	AY9	11/15/21	30,632,194	15,200,368	15,431,826	2,493,045
EM6	7-1/4	AZ6	08/15/22	10,127,790	8,926,791	1,200,999	142,000
EN4	7-5/8	BA0	11/15/22	7,423,626	3,129,031	4,294,595	244,800
EP9	7-1/8	BB8	02/15/23	15,782,061	10,593,889	5,188,172	544,400
EQ7	6-1/4	BC6	08/15/23	22,659,044	19,500,484	3,158,560	432,304
ES3	7-1/2	BD4	11/15/24	9,604,162	3,732,082	5,872,080	74,320
ET1	7-5/8	BE2	02/15/25	9,509,170	3,901,369	5,607,801	70,400
EV6	6-7/8	BF9	08/15/25	11,187,207	7,778,565	3,408,642	226,400
EW4	6	BG7	02/15/26	12,837,916	11,581,557	1,256,359	568,600
EX2	6-3/4	BH5	08/15/26	8,810,418	6,197,500	2,612,918	153,900
EY0	6-1/2	BJ1	11/15/26	10,860,177	4,784,765	6,075,412	278,800
EZ7	6-5/8	BK8	02/15/27	9,521,971	6,718,914	2,803,057	464,198
FA1	6-3/8	BL6	08/15/27	9,196,756	6,857,026	2,339,730	137,870
FB9	6-1/8	BM4	11/15/27	22,021,339	10,473,239	11,548,100	534,400
FE3	5-1/2	BP7	08/15/28	11,776,201	10,838,101	938,100	64,500
FF0	5-1/4	BV4	11/15/28	10,947,052	10,249,322	697,730	175,800
FG8	5-1/4	BW2	02/15/29	11,350,341	10,831,845	518,496	0
FJ2	6-1/8	CG6	08/15/29	11,178,580	10,348,980	829,600	12,000
FM5	6-1/4	CH4	05/15/30	17,043,162	16,241,474	801,688	143,600
FP8	5-3/8	CK7	02/15/31	16,427,648	16,218,048	209,600	0
Total Treasury Bonds.....				499,889,485	353,594,752	146,294,733	14,945,721
Treasury Inflation-Indexed Notes:							
CUSIP:	Series:	Interest Rate:					
912827 2M3	A	3-3/8	912820 BV9	01/15/07	17,882,933	17,882,933	0
3T7	A	3-5/8	CL9	01/15/08	18,710,078	18,598,785	111,293
4Y5	A	3-7/8	DN4	01/15/09	17,434,434	17,434,434	0
5W8	A	4-1/4	EK9	01/15/10	12,098,487	12,098,487	0
6R8	A	3-1/2	GA9	01/15/11	11,364,840	11,364,840	0
7J5	A	3-3/8	GT8	01/15/12	6,079,877	6,079,877	0
912828 AF7	C	3	HC4	07/15/12	10,015,031	10,015,031	0
Total Inflation-Indexed Notes.....				93,585,681	93,474,388	111,293	0
Treasury Inflation-Indexed Bonds:							
CUSIP:	Interest Rate:						
912810 FD5	3-5/8	912803 BN2	04/15/28	18,657,521	18,651,963	5,558	0
FH6	3-7/8	CF8	04/15/29	21,324,154	21,187,439	136,715	0
FQ6	3-3/8	CL5	04/15/32	5,077,194	5,077,194	0	0
Total Inflation-Indexed Bonds.....				45,058,869	44,916,595	142,273	0

TABLE V - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, JULY 31, 2008 **Continued**

Loan Description			Corpus STRIP CUSIP	Maturity Date	Amount Outstanding in Thousands			Reconstituted This Month
					Total Outstanding	Portion Held in Unstripped Form	Portion Held in Stripped Form	
Treasury Notes								
CUSIP	Series	Interest Rate						
912827	G55 B	6-3/8	912820 BE6	08/15/02	23,859,015	19,775,785	4,083,230	704,000
	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	12,730,014	76,800	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	26,497,892	96,000	0
	3Q3 P	5-3/4	CH8	11/30/02	12,120,580	11,734,380	386,200	3,600
	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	13,088,640	12,000	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	21,736,463	1,826,228	13,792
	3Z3 D	5-1/2	CS4	02/28/03	13,670,354	13,623,154	47,200	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	14,136,092	36,800	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	12,537,248	36,000	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	13,068,643	63,600	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	13,081,979	44,800	0
	6Z0 R	3-7/8	GJ0	06/30/03	14,671,070	14,671,070	0	0
	7A4 S	3-7/8	GK7	07/31/03	16,003,270	16,001,670	1,600	0
	L83 B	5-3/4	BG1	08/15/03	28,011,028	25,556,202	2,454,826	50,000
	4N9 J	5-1/4	DE4	08/15/03	19,852,263	19,783,263	69,000	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	17,299,856	1,325,929	8,000
	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	12,127,730	827,347	4,000
	5A6 E	4-3/4	DQ7	02/15/04	17,823,228	17,811,228	12,000	5,600
	7M8 K	3	GW1	02/29/04	31,746,067	31,746,067	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	32,654,971	32,654,971	0	0
912827	P89 B	7-1/4	BJ5	05/15/04	14,440,372	13,420,539	1,019,833	8,800
	5F5 F	5-1/4	DUB	05/15/04	18,925,383	18,925,383	0	0
912828	AD2 N	3-1/4	HAA	05/31/04	33,297,400	33,297,400	0	0
	AE0 P	2-7/8	HB6	06/30/04	34,050,042	34,050,042	0	0
	AG5 Q	2-1/4	HD2	07/31/04	33,254,505	33,254,505	0	0
912827	Q38 C	7-1/4	BK2	08/15/04	13,346,467	11,201,436	2,145,031	22,718
	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	14,362,760	11,000	1,200
	5S7 H	5-7/8	EE3	11/15/04	32,658,145	32,658,145	0	0
	S86 A	7-1/2	BM8	02/15/05	13,834,754	13,205,339	629,415	2,000
	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	28,465,770	96,600	48,000
	UR3 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	14,707,129	502,791	10,400
	6N7 F	5-3/4	FX0	11/15/05	28,062,797	27,704,397	358,400	1,600
	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	14,846,679	1,168,796	215,600
	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	22,626,446	114,000	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	34,622,373	757,756	40,600
	2J0 B	6-1/4	BW6	02/15/07	13,103,678	12,324,060	779,618	89,490
	2U5 C	6-5/8	BX4	05/15/07	13,958,186	12,283,658	1,674,528	147,200
912828	AC4 E	4-3/8	GZ4	05/15/07	24,351,431	24,351,431	0	0
912827	3E0 D	6-1/8	CA3	08/15/07	25,636,803	24,034,964	1,601,839	16,600
	3X6 B	5-1/2	CQ8	02/15/08	13,583,412	13,556,112	27,300	0
	4F6 C	5-5/8	CY1	05/15/08	27,190,961	27,123,441	67,520	35,920
	4V1 D	4-3/4	DK0	11/15/08	25,083,125	24,970,377	112,748	7,000
	5G3 B	5-1/2	DV5	05/15/09	14,794,790	14,736,190	58,600	0
	5N8 C	6	EA1	08/15/09	27,399,894	26,891,985	507,909	12,000
	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	22,433,194	4,400	0
	6T4 B	5	GC5	02/15/11	23,436,329	23,429,569	6,760	0
	7B2 C	5	GL5	08/15/11	26,635,316	26,628,396	6,920	0
	7L0 B	4-7/8	GV3	02/15/12	24,779,838	24,778,838	1,000	0
Total Treasury Notes					1,486,903,295	1,462,866,811	24,036,484	1,448,120
Grand Total					2,125,437,329	1,954,852,546	170,584,783	16,393,841

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
August 06, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term: 28-Day Bill
Issue Date: August 08, 2002
Maturity Date: September 05, 2002
CUSIP Number: 912795KZ3

High Rate: 1.675% Investment Rate 1/: 1.697% Price: 99.870

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 30.61%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 53,339,543	\$ 21,961,993
Noncompetitive	38,043	38,043
FIMA (noncompetitive)	0	0
SUBTOTAL	53,377,586	22,000,036
Federal Reserve	1,446,764	1,446,764
TOTAL	\$ 54,824,350	\$ 23,446,800

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 = 53,377,586 / 22,000,036 = 2.43

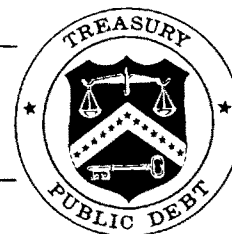
/ Equivalent coupon-issue yield.

<http://www.publicdebt.treas.gov>

PO-3332

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
August 06, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Interest Rate:	3 1/4%	Issue Date:	August 15, 2002
Series:	F-2007	Dated Date:	August 15, 2002
CUSIP No:	912828AH3	Maturity Date:	August 15, 2007

High Yield: 3.348% Price: 99.552

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 82.67%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 38,358,220	\$ 21,605,825
Noncompetitive	394,251	394,251
FIMA (noncompetitive)	0	0
SUBTOTAL	38,752,471	22,000,076 1/
Federal Reserve	3,395,800	3,395,800
TOTAL	\$ 42,148,271	\$ 25,395,876

Median yield 3.319%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 3.230%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

bid-to-Cover Ratio = 38,752,471 / 22,000,076 = 1.76

/ Awards to TREASURY DIRECT = \$243,815,000

<http://www.publicdebt.treas.gov>

PO-3333

TREASURY



NEWS

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FOR IMMEDIATE RELEASE
August 6, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Remarks by Rosario Marin
Treasurer of the United States
August 6, 2002
Nacional Financiera, Mexico City

Good afternoon.

Thank you, Señor Laborin, for hosting this important event. Thank you, Governor Monreal, Governor Morales, and Governor Nuñez for being with us today. Thank you all for coming.

On September 6, 2001, President Bush and President Fox launched the Partnership for Prosperity to promote growth in the parts of Mexico where growth has lagged and fueled migration. The two Presidents instructed us to come up with an action plan of concrete proposals that would deepen the economic ties between our two countries in a way that spreads prosperity to more and more of our people. They wanted real solutions for real people.

Today, we celebrate real, common-sense solutions for real people.

Señor Laborin, NAFIN, and the state governors have been hard at work trying to make sure that the hard earned wages of Mexicans in the United States find their way to productive uses in Mexico. What could be better, than using the money to start small business or to build a house.

For example, everyone knows that Mexico needs more houses. And, as more young Mexicans start families of their own, still more new families will need houses.

But houses costs money. Where is the money to come from?

President Bush says that most money for development does not come from official aid. It comes from savings, investment, and trade.

PO-3334



TREASURY



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PO-3334



So where is the money for new houses to come from? We must look to savings, investment, and trade.

Indeed, that's where the money is. According to the Inter-American Development Bank, last year Mexicans in the United States sent \$9.3 billion dollars back to friends and family in Mexico. \$9.3 billion dollars. I don't know about you, but to me that is a lot of money.

Today, we are celebrating a new, easy way for Mexicans in the United States to take some of that money and use it to pay for a house in Mexico.

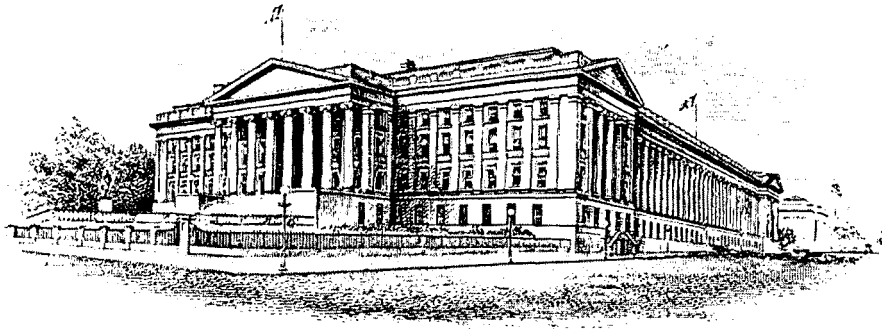
I am very excited about this.

Now, no one pretends that this will meet all of Mexico's need for new houses. But it is a step in the right direction. After all, you build a thousand houses the same way you build a single house – brick by brick. Every brick counts.

Also, I am very excited with the *Tres por Uno* initiative, by which every remittance dollar used for a productive project in Mexico, is matched by both, the Mexican Federal Government and the state governments, multiplying by three community investment. Definitely, this is a grate way to add up efforts.

So, today we celebrate exactly the sort of common sense solution that President Bush and President Fox asked us to find when they launched the Partnership for Prosperity. We still have much work to do, but I am very pleased to be here to celebrate this first step.

Thank you.



DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS
202-622-2960

FOR IMMEDIATE RELEASE
August 7, 2002

CONTACT: Tony Fratto
(202) 622-2960

Statement of Secretary Paul O'Neill after meeting with Economy Minister Lavagna:

I enjoyed meeting with Economy Minister Lavagna this morning for a detailed discussion of the current economic conditions and challenges in Argentina. And I would like to thank President Duhalde for spending time with me yesterday afternoon to discuss the challenges Argentina faces and plans for overcoming them.

We in the United States have the highest hopes for success and prosperity throughout Latin America, because it is good for all the people of our hemisphere. President Bush envisions a hemisphere linked closely by shared commerce and shared ideas. Just yesterday, the President signed Trade Promotion Authority, enabling him to proceed immediately to expand trade with all the nations of Latin America, increasing our ties and creating opportunities for success for people in all of our nations.

My hopes for the people of Argentina are high. I traveled to Buenos Aires and Patagonia during my years in the private sector, and I know that with the right policies in place, the people of Argentina will succeed. Following my discussions with Minister Lavagna, I am confident that the government of Argentina recognizes the importance of resolving fiscal issues, establishing a clear monetary policy and re-establishing a sound financial sector so that payments can flow normally in the economy and fuel trade and growth.

We welcome Argentina's continued discussions with the IMF over policy steps necessary to create a sustainable economic environment. We in the United States are glad to work through the international financial institutions to support nations that embrace sustainable, growth-creating economic policies.

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FOR IMMEDIATE RELEASE
August 7, 2002

Contact Tony Fratto
(202) 622-2960

U.S. Pledges \$500 Million for Fund to Combat Global Environmental Threats

The Bush Administration today pledged a significant increase in funding for a fund to help developing countries mitigate environmental problems with potential global impact.

At replenishment talks that concluded today in Washington, the United States pledged \$500 million over the next four years for the Global Environment Facility (GEF). The commitment is a 16% increase over its contribution to the previous replenishment. This in turn will help leverage about \$2.2 billion in total new donor contributions.

The GEF, established in 1991, funds projects that promote clean and efficient energy use (including reduction of greenhouse gases), conserve biodiversity, clean up international waters and phase out ozone-depleting chemicals. New focal areas to be included in the upcoming replenishment period will help combat problems caused by persistent organic pollutants, which pose a particular threat in areas in the northern U.S., and fight land degradation with a focus on desertification and deforestation in some of the world's poorest countries. The United States is the largest contributor to GEF.

"President Bush wants to ensure that the Global Environment Facility has the funding it needs to meet its program priorities and the policies in place to use those funds effectively," said John Taylor, Under Secretary of the Treasury. "This pledge, and the policy reforms and performance targets that have been agreed by donors, are vitally important steps forward in meeting these critical objectives."

The U.S. pledge includes \$107.5 million per year for each of the four years of the replenishment period, plus another \$70 million in the fourth year if the GEF meets a set of performance measurements agreed by donors. In addition, the Administration is requesting \$70.3 million from Congress annually for the next three years to pay off U.S. arrears accumulated during the previous replenishment period.

PO-3336

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During the replenishment negotiations, the Administration actively pursued measures to improve the effectiveness of GEF assistance, and reached agreement to establish a transparent performance-based allocation system that emphasizes country policies and institutional structures essential to effective assistance. Consensus was also reached on projecting and tracking measurable results, developing a private sector strategy, creating an independent monitoring and evaluation unit, and opening up competition for GEF projects.

DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
August 7, 2002

Contact: Tony Fratto
(202) 622-2960

Treasury Statement Regarding Brazil

Brazil has the right economic policies in place to maintain stability so that the economy can continue to grow. The United States stands ready to support Brazil as it continues to implement these policies. We are pleased with today's announcement.

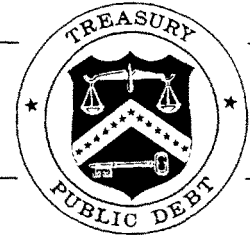
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PO-3337

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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
August 07, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 10-YEAR NOTES

Interest Rate:	4 3/8%	Issue Date:	August 15, 2002
Series:	D-2012	Dated Date:	August 15, 2002
CUSIP No:	912828AJ9	Maturity Date:	August 15, 2012

High Yield: 4.390% Price: 99.880

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 49.47%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 23,017,281	\$ 17,809,550
Noncompetitive	190,474	190,474
FIMA (noncompetitive)	0	0
SUBTOTAL	23,207,755	18,000,024 1/
Federal Reserve	1,644,600	1,644,600
TOTAL	\$ 24,852,355	\$ 19,644,624

Median yield 4.300%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 4.250%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

End-to-Cover Ratio = 23,207,755 / 18,000,024 = 1.29

Awards to TREASURY DIRECT = \$125,010,000

<http://www.publicdebt.treas.gov>

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 11:00 A.M.
August 8, 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 \$31,000 million to refund an estimated \$30,533 million of publicly held 13-week and 26-week Treasury bills maturing August 15, 2002, and to raise new cash of approximately \$467 million. Also maturing is an estimated \$20,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced August 12, 2002.

The Federal Reserve System holds \$12,541 million of the Treasury bills maturing on August 15, 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 August 13, 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 \$1,093 million into the 13-week bill and \$922 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-3339

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HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED AUGUST 15, 2002

August 8, 2002

<u>Offering Amount</u>	\$16,000 million	\$15,000 million
<u>Public Offering</u>	\$16,000 million	\$15,000 million
<u>NLP Exclusion Amount</u>	\$ 5,200 million	None

Description of Offering:

Term and type of security	91-day bill	182-day bill
CUSIP number	912795 LK 5	912795 LY 5
Auction date	August 12, 2002	August 12, 2002
Issue date	August 15, 2002	August 15, 2002
Maturity date	November 14, 2002	February 13, 2003
Original issue date	May 16, 2002	August 15, 2002
Currently outstanding	\$20,595 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 Rate35% of public offering

Maximum Award35% 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.

TREASURY



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FOR IMMEDIATE RELEASE
August 8, 2002

Contact: Tasia Scolinos
(202) 622-2960

**Treasury Department Statement in Response to Holy Land Foundation Court
Ruling**

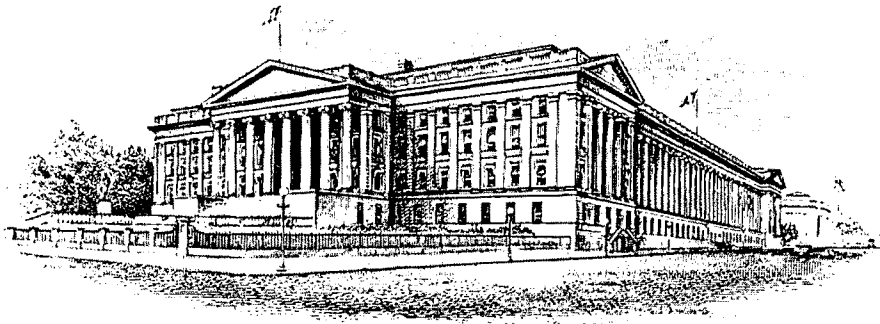
The Treasury Department is committed to exposing, isolating and incapacitating the financial infrastructure of terrorist organizations worldwide. Today's decision once again affirms the President's authority to freeze the assets of those who finance terrorism and is a substantial victory in the continuing war against terrorism.

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PO-3340

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DEPARTMENT OF THE TREASURY OFFICE OF PUBLIC AFFAIRS

**FOR IMMEDIATE RELEASE
August 12, 2002**

**Contact: Tara Bradshaw
(202) 622-2014**

CATHERINE HUGHES JOINS TREASURY'S OFFICE OF TAX POLICY AS ESTATE AND GIFT TAX ATTORNEY ADVISOR

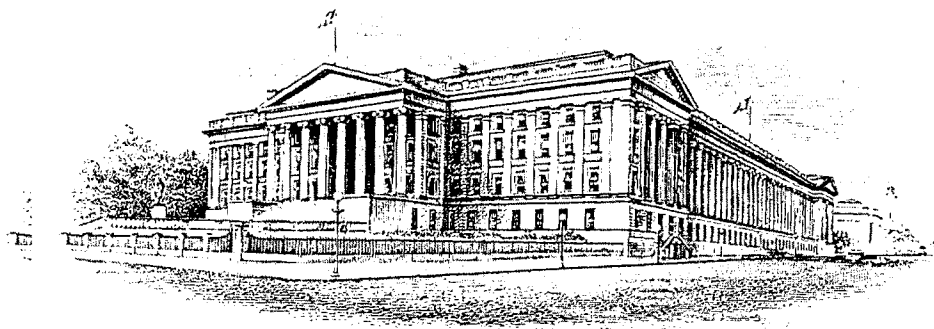
Treasury Acting Assistant Secretary for Tax Policy Pam Olson today announced that Catherine Veihmeyer Hughes has joined the Office of Tax Policy as the Estate and Gift Tax Attorney Advisor.

“Cathy has more than 20 years of experience in estate and gift planning, and is the former Chair of the ABA Tax Section Estate & Gift Tax Committee. Treasury is extremely fortunate to have someone of her caliber join the Office of Tax Policy,” stated Pam Olson, Acting Assistant Secretary for Tax Policy.

Most recently, Ms. Hughes was a Partner in the McLean, Virginia, office of McGuireWoods LLP, where she managed the firm's Estate Planning and Administration Practice in Northern Virginia, Maryland, and the District of Columbia. She has broad and extensive experience dealing with sophisticated estate planning, transfer tax issues, estate and trust administration, and related fiduciary and tax matters.

Ms. Hughes is a Fellow of the American College of Trust and Estate Counsel, and (until her acceptance of her position at Treasury) was serving as the Chair of the Estate and Gift Tax Committee of the ABA Section of Taxation. She is a former Chair of the Estates, Trusts and Probate Law Section of the D.C. Bar. Ms. Hughes is admitted to practice in Virginia, Maryland and the District of Columbia.

Ms. Hughes received a B.A. in Mathematics from the University of Dayton and a J.D. from Catholic University of America.



DEPARTMENT OF THE TREASURY OFFICE OF PUBLIC AFFAIRS

AIR TRANSPORTATION STABILIZATION BOARD

**FOR IMMEDIATE RELEASE
August 11, 2002**

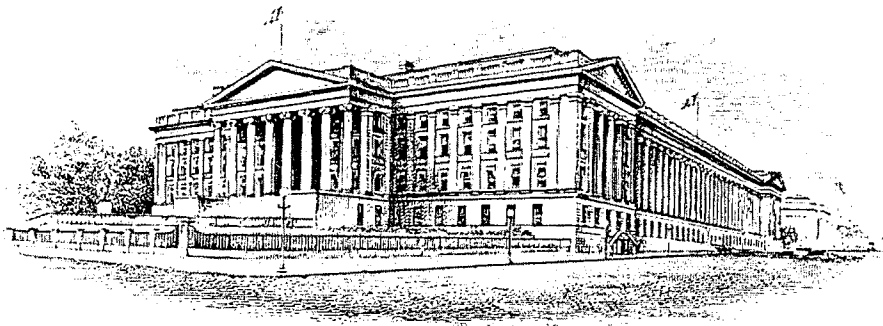
**Contact: Betsy Holahan
202-622-2960**

Air Transportation Stabilization Board's Statement on US Airways' Plan for Chapter 11 Reorganization

US Airways, Inc. ("US Airways") has announced that it has filed a petition for reorganization under Chapter 11 of the United States Bankruptcy Code. On July 10, 2002, the Air Transportation Stabilization Board (the "Board") conditionally approved the application by US Airways for a Federal loan guarantee under the Air Transportation Safety and System Stabilization Act (the "Act"). The Board's guarantee would cover \$900 million of a proposed \$1 billion loan. At the time the conditional approval was granted, the Board recognized the possibility of a Chapter 11 filing by US Airways.

The Board's conditional approval of US Airways' application for a Federal loan guarantee remains in effect subject to the conditions set forth in the Board's July 10 letter to US Airways and to the bankruptcy court's confirmation of a plan of reorganization. The Board will review the reorganization plan when presented and will determine whether it meets the conditions for issuance of a guarantee.

The Board, established as part of the Act signed into law September 22, 2001, 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.



DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

FOR IMMEDIATE RELEASE
August 12, 2002

Contact: Rob Nichols
(202) 622-2960

**TREASURY SECRETARY PAUL O'NEILL TRAVELS TO WESTERN STATES TO
DISCUSS ECONOMY**

On the heels of the President's Economic forum in Waco, Texas, Treasury Secretary Paul O'Neill will travel to three Western States to discuss the economy.

During visits this week to Portland, OR, Seattle, WA, and Denver, CO, the Secretary will meet with employers and workers to hear about local economic conditions and will discuss President Bush's efforts to strengthen the economic recovery, from cutting taxes last year and enacting a stimulus package this spring to advancing free trade now that the President has trade promotion authority and repeating the President's call on Congress to enact terrorism risk insurance and pension security.

The Secretary will depart on this three state swing directly from the President's Economic Forum taking place on August 13, in Waco, TX. At the Forum, the Secretary will chair a panel titled, "Economic Recovery & Job Creation" which will discuss the best ways to sustain economic recovery, promote long-term growth and create new jobs. The Forum's objective is to meet with people on the front lines of the American economy - small business owners, employees, individual investors, business leaders, economists and farmers - to discuss where our economy stands, the impact of the policies we have put in place, and the steps we are taking as we move forward.

In all three Western States, the Secretary will meet with local employers and visit a local business where he will speak to employees. This trip is one of several the Secretary has made and will continue to make throughout the fall to gauge economic growth in localities across the nation and discuss the President's agenda to strengthen the economic recovery and create jobs.

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

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EMBARGOED UNTIL 11:00 A.M.
August 12, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling \$26,000 million to refund an estimated \$20,000 million of publicly held 4-week Treasury bills maturing August 15, 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 \$12,541 million of the Treasury bills maturing on August 15, 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-3344

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



HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED AUGUST 15, 2002

August 12, 2002

Offering Amount \$26,000 million
Public Offering \$26,000 million
NLP Exclusion Amount \$ 9,900 million

Description of Offering:

Term and type of security 28-day bill
CUSIP number 912795 LA 7
Auction date August 13, 2002
Issue date August 15, 2002
Maturity date September 12, 2002
Original issue date March 14, 2002
Currently outstanding \$40,254 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 non-competitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed \$1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the \$1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.

Competitive bids:

- (1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 4.215%.
- (2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$1 billion or greater.
- (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

Receipt of Tenders:

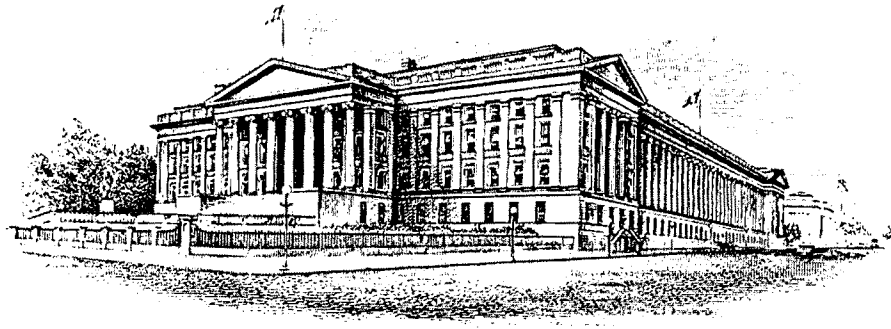
Noncompetitive tenders:

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 OFFICE OF PUBLIC AFFAIRS

**FOR IMMEDIATE RELEASE
August 12, 2002**

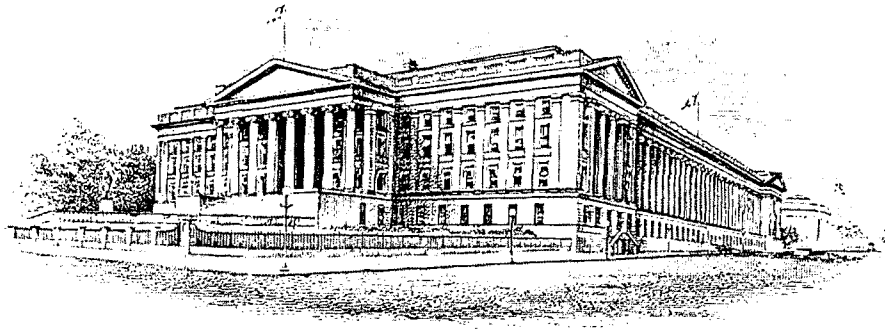
**Contact: Rob Nichols
(202) 622-2910**

TREASURY STATEMENT REGARDING URUGUAY

The United States was pleased to assist in the Government of Uruguay's backing of 100 percent of dollar-denominated sight and savings deposits in public and private domestic banks. Timely support enabling Uruguayan banks to open Monday, August 5, 2002, came through the Exchange Stabilization Fund (ESF) in the form of a bridge loan to the disbursement of funds from the IMF, the World Bank, and the Inter-American Development Bank. Uruguay drew \$1,466,000,000 on Monday, August 5, from the bridge loan and completed full repayment plus \$271,351 in interest payments on Friday, August 9. Support from the IMF, the IDB and the World Bank, along with the reform commitment of the Uruguayan authorities, helped increase confidence in Uruguay's financial sector.

-30-

PO-3345



DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

**EMBARGOED UNTIL 10:00 am [Eastern]
August 13, 2002**

**Contact: Rob Nichols
(202) 622-2960**

Treasury Secretary Paul O'Neill

Remarks at the President's Economic Forum

During the Panel Discussion Chaired by the Secretary

Titled, "Economic Recovery and Job Creation"

Baylor University, Waco, Texas

August 13, 2002

[TEXT AS PREPARED]

Thank you all for coming out to the President's Economic Forum today. I want to be clear up front: this session on the economic recovery is not about official Washington coming to preach. That's not why any of us came here. This is a chance for us to listen, to have an open discussion about our economy, and for Washington to get a dose of common sense from you. We want to know what's been working and what hasn't, beyond the numbers. We want to hear it from the people who really make things happen in our economy - people who get out there, make decisions, and work every day - that's why all of us are here.

The past eighteen months have seen some tough times for the American economy. We've suffered through a bursting stock market bubble, terrorist attacks on our financial and political capitals, and revelations of corporate fraud. Some people have lost jobs, others have watched their retirement accounts disappear. It's no wonder that Americans are concerned about economic security.

PO-3346

President Bush had economic security at the forefront his agenda, before any of these shocks hit. From the beginning of his Administration, he has embraced economic freedom and individual accountability as the foundation for continuing prosperity. His economic plan creates jobs, improves education and expands opportunities to save and invest.

Our job in Washington is to protect and expand Americans' ability to create a better life for ourselves, our children, and our nation. And we will not be satisfied until every American who wants a job, has a job.

That's what we've been working on, and we have some accomplishments to show for it. First, the President's historic tax relief program last summer reduced taxes for the average family of four by \$1,040 a year. Then in March of this year, he signed the Job Creation Act to stimulate investment in our economy, a second major accomplishment. By the end of 2002, these two tax relief programs will have let Americans create nearly one million new jobs with resources that would otherwise have gone to Washington. Our estimates now show that without that tax relief, the recession would have been deeper and the recovery slower.

Our third victory for the economy has been new standards for corporate accountability. These ensure that people saving for their future can get accurate information for sound investment decisions. We are holding corporations accountable for telling the truth to investors and employees, so Americans can save for college tuitions and comfortable retirements with greater confidence.

Another major accomplishment for our nation's prosperity is winning Trade Promotion Authority, which the President will use to open international markets to US exports, creating jobs here at home. Nearly one in 11 working Americans - 12 million people - already works at a job that depends on exports. A stable, blossoming world economy, founded on freer trade, will expand exports further while reducing costs for consumers, and will enhance our long-term prosperity.

Today, key economic indicators such as inflation, real wages, productivity, interest rates, business profits, and the housing sector are all strong because of the resilience and determination of the American people. To a lot of folks out there, it doesn't feel like a recovery yet. But the economists who study the numbers all say the recovery is underway. After last year's recession, our country pulled together to do what we've always done - confront our problems, solve them, and move forward.

There's more to be done. Since the attacks of September 11, the President has been asking Congress to enact terrorism risk insurance. There are construction projects stalling out there because the owners cannot get insurance protection against the risk of another attack. Some have said that the lack of terrorism risk insurance is costing us a full percentage point in economic growth - that's thousands of jobs. We also need to enact the President's energy plan to secure our economy against possible energy price shocks. And we need President Bush's Homeland Security plan, because the physical security of our nation is essential to prosperity.

We'll also work with Congress to restrain wasteful government spending, because overspending in Washington burdens our economy. And the President has called on Congress to protect individuals' control over their 401(k) holdings.

I think we're moving in the right direction. But we're not where we want to be - not yet. All Americans deserve the greatest possible opportunity to live the life we dream of: pursuing our chosen professions, owning a home, raising our children to be happy and successful, engaging in our communities, and attaining financial independence. Working together, we can make that a reality.



August 13, 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 \$74,766 million at the end of the latest week, compared to \$75,117 million at the end of the prior week.

n US millions)

Official U.S. Reserve Assets	TOTAL	August 2, 2002			August 9, 2002		
				75,117			74,766
Foreign Currency Reserves ¹		Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities		6,275	12,548	18,823	6,177	12,426	18,603
<i>Of which, issuer headquartered in the U.S.</i>				0			0
b. Total deposits with:							
<i>b.i. Other central banks and BIS</i>		10,416	3,326	13,743	10,246	3,294	13,540
<i>b.ii. Banks headquartered in the U.S.</i>				0			0
<i>b.ii. Of which, banks located abroad</i>				0			0
<i>b.iii. Banks headquartered outside the U.S.</i>				0			0
<i>b.iii. Of which, banks located in the U.S.</i>				0			0
IMF Reserve Position ²				19,870			20,064
Special Drawing Rights (SDRs) ²				11,638			11,517
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 dollars 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-3347



Official Reserve Assets Worksheet
(actual US dollar amounts)

	Last Week	This Week	
Enter Dates Here	2-Aug-02	9-Aug-02	Change
Foreign Currency	<u>2-Aug-02</u>	<u>9-Aug-02</u>	
Euro Securities	\$6,275,000,000.00	\$6,177,000,000.00	-98,000,000
Yen Securities	\$12,548,000,000.00	\$12,426,000,000.00	-122,000,000
<i>Sec. Total</i>	\$18,823,000,000.00	\$18,603,000,000.00	-220,000,000
Euro Deposits	\$10,416,000,000.00	\$10,246,000,000.00	-170,000,000
Yen Deposits	\$3,326,000,000.00	\$3,294,000,000.00	-32,000,000
<i>Deposit Total</i>	\$13,743,000,000.00	\$13,540,000,000.00	-203,000,000
Total	\$32,566,000,000.00	\$32,142,000,000.00	-424,000,000
Euro Rate	\$0.9882	\$0.9714	-0.0168
Yen Rate	118.98	120.15	1.17

Source: NY Fed (fax)
copy and paste data into last week
and put new data from fax
into right column

IMF	2-Aug-02	9-Aug-02	
		<i>(prelim, with adjust.)</i>	
Reserve Tranche	19,869,787,674.51	20,063,981,450.54	194,193,776.03
GAB	0.00	0.00	0.00
NAB	0.00	0.00	0.00
Total	<u>19,869,787,674.51</u>	<u>20,063,981,450.54</u>	194,193,776.03
SDR	11,637,836,584.00	11,516,530,962.26	-121,305,621.74

Source: IMF (email)
put actual dollar figures in for last week:

as of 10/31/01	2-Aug-02	9-Aug-02	
Gold	11,043,707,102.46	11,043,707,102.46	0.00

Source : FMS website
<http://www.fms.treas.gov/gold>

	2-Aug-02	9-Aug-02	
Other Res.Assets	0	0	

TOTAL	75,117,331,360.97	74,766,219,515.26	-351,111,845.71
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Adjustments to IMF and SDR data, translated at current exchange rates

Prelim. IMF Data Calculation Section	IN SDRs		SDR rate for		
	2-Aug-02	Adjustments	9-Aug-02	In USD	
Reserve Tranche	14,944,067,310	305,000,000	15,249,067,310	0.760022	\$20,063,981,450.54
GAB	0		0		\$0.00
NAB	0		0		\$0.00
			15,249,067,310	Total =	\$20,063,981,450.54
SDRs	8,752,816,895		8,752,816,895	SDRs =	\$11,516,530,962.26

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
August 12, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term: 91-Day Bill
Issue Date: August 15, 2002
Maturity Date: November 14, 2002
CUSIP Number: 912795LK5

High Rate: 1.630% Investment Rate 1/: 1.659% Price: 99.588

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 75.47%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 27,548,850	\$ 14,394,745
Noncompetitive	1,505,369	1,505,369
FIMA (noncompetitive)	100,000	100,000
SUBTOTAL	29,154,219	16,000,114 2/
Federal Reserve	5,868,389	5,868,389
TOTAL	\$ 35,022,608	\$ 21,868,503

Median rate 1.610%: 50% of the amount of accepted competitive tenders tendered at or below that rate. Low rate 1.560%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

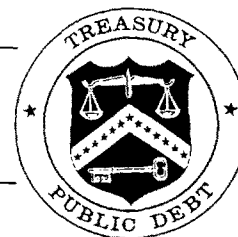
d-to-Cover Ratio = 29,154,219 / 16,000,114 = 1.82

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = \$1,214,821,000

<http://www.publicdebt.treas.gov>

PO-3348

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
August 12, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term: 182-Day Bill
Issue Date: August 15, 2002
Maturity Date: February 13, 2003
CUSIP Number: 912795LY5

High Rate: 1.590% Investment Rate 1/: 1.625% Price: 99.196

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 96.82%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
-----	-----	-----
Competitive	\$ 24,283,905	\$ 13,652,585
Noncompetitive	1,322,586	1,322,586
FIMA (noncompetitive)	25,000	25,000
-----	-----	-----
SUBTOTAL	25,631,491	15,000,171 2/
Federal Reserve	5,648,833	5,648,833
-----	-----	-----
TOTAL	\$ 31,280,324	\$ 20,649,004

Median rate 1.570%: 50% of the amount of accepted competitive tenders tendered at or below that rate. Low rate 1.520%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

1-to-Cover Ratio = 25,631,491 / 15,000,171 = 1.71

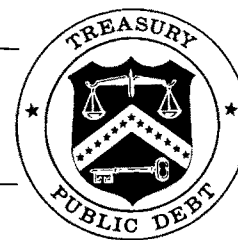
Equivalent coupon-issue yield.

Awards to TREASURY DIRECT = \$992,457,000

<http://www.publicdebt.treas.gov>

PO-3349

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
August 13, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term: 28-Day Bill
Issue Date: August 15, 2002
Maturity Date: September 12, 2002
CUSIP Number: 912795LA7

High Rate: 1.670% Investment Rate 1/: 1.697% Price: 99.870

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 2.66%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 62,782,000	\$ 25,968,395
Noncompetitive	32,305	32,305
FIMA (noncompetitive)	0	0
SUBTOTAL	62,814,305	26,000,700
Federal Reserve	1,023,543	1,023,543
TOTAL	\$ 63,837,848	\$ 27,024,243

Median rate 1.650%: 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.

End-to-Cover Ratio = 62,814,305 / 26,000,700 = 2.42

Equivalent coupon-issue yield.

<http://www.publicdebt.treas.gov>

PO-3350

TREASURY



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EMBARGOED UNTIL 1:30 P.M. EST
August 14, 2002

Contact: Rob Nichols
(202) 622-2910

Treasury Secretary Paul H. O'Neill

Remarks to the Portland Business Alliance

Portland, Oregon

August 14, 2002

10:30 am pacific

Good morning. Thank you, Senator Smith, for that kind introduction. It is a pleasure to join the Portland Business Alliance today. After too much time in Washington talking about the economy, there's nothing more refreshing for me than meeting with the people who do more than talk, and actually make our economy happen - people who get out there, make decisions, and work every day.

I had a chance to do that with the President in Texas yesterday, and today it's Oregon. We're traveling the country to get perspective on the economic recovery from outside Washington, to tell you about what we've been doing to support your efforts on the front lines, and ask what we can do better.

The past eighteen months have seen some tough times for the American economy. We've suffered through a bursting stock market bubble, terrorist attacks on our financial and political capitals, and revelations of corporate fraud. People have lost jobs, and some retirement accounts are in the dumps. It's no wonder Americans are concerned about economic security.

President Bush had economic security at the forefront his agenda, before any of these shocks hit. From the beginning of his Administration, he has embraced economic freedom and individual accountability as the foundation for continuing prosperity. His economic plan creates jobs, improves education and expands opportunities to save and invest.

PO-3351



Our job in Washington is to protect and expand Americans' ability to create a better life for ourselves, our children, and our nation. And we will not be satisfied until every American who wants a job has a job.

That's what we've been working on, and we have four significant accomplishments to show for it. First, the President's historic tax relief program last summer reduced taxes for the average family of four by \$1,040 a year.

Then in March, he signed the Job Creation Act to stimulate investment in our economy - a second major accomplishment. By the end of 2002, these two tax relief programs will have allowed the private sector to create an additional one million jobs with resources that would otherwise have gone to Washington. Our estimates now show that without that tax relief, the recession would have been deeper, and the recovery slower.

Our third victory for the economy has been new standards for corporate accountability. These ensure that people saving for their future can get accurate information for sound investment decisions. We are holding corporations accountable for telling the truth to investors and employees, so Americans can save for college tuitions and comfortable retirements with greater confidence.

And the most recent major accomplishment for our nation's prosperity is winning Trade Promotion Authority, which the President will use to open international markets to US exports, creating jobs here at home. One in eleven working Americans - 12 million people - already work at jobs that depend on exports. A stable, blossoming world economy, founded on freer trade, will expand exports further and will enhance our long-term prosperity.

World competition also spurs American companies to higher levels of productivity and innovation, even as it reduces product costs and raises quality for American consumers. Lower trade barriers work the same way as any other tax cut - by one estimate, reducing trade barriers by one-third would save \$2,500 a year for every family of four in America.

Today, key economic fundamentals such as inflation, real wages, productivity, interest rates, business profits, and the housing sector are all strong because of the resilience and determination of the American people. To a lot of folks out there watching, it doesn't feel like a recovery yet. But the economists who study the numbers all say the recovery is underway.

There's more to be done. Since the attacks of September 11, the President has been asking Congress to enact terrorism risk insurance. There are construction projects stalling out there because they can't get insurance protection against the risk of another attack. We need to enact the President's energy plan to secure our economy against possible energy price shocks.

And we need President Bush's Homeland Security plan, because the physical security of our nation is essential to prosperity. The brief economic freeze immediately following September 11 demonstrated that reality all too well. We are working with congress to complete the new Department of Homeland Security, which would better organize and deploy our resources toward preventing further attacks.

We'll also work with Congress to restrain wasteful government spending, because overspending in Washington burdens our economy with higher debts and taxes. And the President has called on Congress to protect individuals' control over their 401(k) holdings without undue constraints from employers. Your retirement nest egg is yours alone - you earned it, and you should have full legal rights to control it.

As we emerge from the turbulence of last year's recession, we're gaining new perspective on the recent past, and we're applying that perspective to the decade still beginning. In short, we are facing our problems, dealing with them as a nation, and moving forward.

The question for our new era is not whether we can or should continue the economic success we enjoyed in the 1990s. The question is how leaders of business and government should incorporate the best aspects of the 90s - growth, productivity, and innovation - into the emerging decade, while actively working to make this new era a time of both personal responsibility and public integrity. How can we reaffirm the link between value and values, and restore public confidence in American enterprise?

In my view, the answer is simple: honest, accountable leadership. With leadership, everything is possible; without it, nothing is possible. That is as true for American corporations, and the American government, as it is for developing nations in Africa. In my experience, the example from the top becomes the model for everyone below.

In the economic domain, I believe the connection between creating value and affirming values in American business has always been strong. Far away from the headlines, most business leaders, from mom and pop shop-owners to corporate chiefs, have always treated their shareholders and employees with honesty and fairness. Today, however, doing your job with competence is not enough. Leaders must stand up and set an example not just for their employees, but for the general public as well. Honesty in business is the new patriotism. There is nothing better business leaders can do for this country right now than restore faith in the system that has made it great.

Let me give you an example from when I served as Chairman and CEO of Alcoa.

Over the course of my career in business and with the government, I have come to believe that people everywhere need three things to be happy in their jobs. Each person needs to be treated with dignity and respect at all times; Each needs the tools to make a meaningful contribution to his or her organization; and each person needs to be recognized for the contributions that he or she makes. With that in mind, my first priority at Alcoa was to improve safety for all our 55,000 employees. Not just improve it - I wanted to make it perfect. I didn't have a profit calculation in mind - I just knew it was the right thing to do. Workplace safety is a key element of treating people with dignity and respect.

By 2000, when I retired, our injury rate was one-tenth of what it was in 1987. And as we improved safety, we nearly tripled in size, creating thousands of new jobs and increasing shareholder value from \$4 billion to \$32 billion.

We didn't do that by managing quarterly earnings, abusing tax rules or playing accounting tricks. Anyone who tried to sell me on those games twice was out of a job. We did it by focusing on our people, making sure they had the tools and incentives to get their jobs done right, and done safely. And when people have those tools and incentives, they can do anything. We focused on the fundamentals: creating value and producing results. The rest followed. That's the truth in every company, and that's the truth in our economy.

President Bush's economic policies parallel the rules I applied at Alcoa. We are focusing on the fundamentals, because, given the right tools, the American people produce results. They always have. And as President Bush has said, we trust the American people, which means strengthening and expanding economic freedom, and treating them with the respect and dignity they deserve.

The President's policies for further reducing and simplifying taxes, strengthening security, expanding trade, and restraining the growth of government will ensure that Americans have the greatest possible opportunity to live the lives we dream of: pursuing our chosen professions, owning a home, raising our children to be happy and successful, engaging in our communities, and attaining financial independence. Working together, we can make that a reality.

Thank you.

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FOR IMMEDIATE RELEASE
AUGUST 14, 2002

CONTACT: BETSY HOLAHAN
202-622-2960

Secretary O'Neill Points to Key Indicator as Good News for Economy

Today after the yield on the 10 year note hit a 39 year low, Treasury Secretary Paul H. O'Neill made the following comment:

"Low interest rates are fueling a housing boom in our country. Yesterday at the President's economic forum, the head of a homebuilders association said he expected new home sales this year to top last year's record level. And today in Portland, I met a housing developer who said he expected record sales this year. Low interest rates will continue to keep housing strong, and will enable owners to refinance so they have more cash in their pockets. That's good news for the US economy."

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PO-3352



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Air Transportation Stabilization Board

FOR IMMEDIATE RELEASE
August 14, 2002

Contact: Betsy Holahan
(202) 622-2960

ATSB Decision On National Airlines

WASHINGTON, DC – The Air Transportation Stabilization Board (Board) announced today that it has denied the application of National Airlines, Inc. for a Federal guarantee of \$50.5 million on a \$60 million loan pursuant to the Air Transportation Safety and System Stabilization Act (Act) and implementing regulations promulgated by the Office of Management and Budget (Regulations). The Board concluded its review based on the standards set out in the Act and the Regulations and determined that National's application did not meet the applicable standards for the reasons described in the attached letter. The vote to deny the application was unanimous.

Additional information about the ATSB is available on its web site, www.treas.gov/atsb.

Attachment: [National Decision Letter](#)

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PO-3353





Air Transportation Stabilization Board

FOR IMMEDIATE RELEASE
August 15, 2002

Contact: Betsy Holahan
(202) 622-2960

ATSB Decision On Spirit Airlines

WASHINGTON, DC – The Air Transportation Stabilization Board (Board) announced today that it has denied the application of Spirit Airlines, Inc. for a Federal guarantee of \$54.0 million on a \$60 million loan pursuant to the Air Transportation Safety and System Stabilization Act (Act) and implementing regulations promulgated by the Office of Management and Budget (Regulations). The Board concluded its review based on the standards set out in the Act and the Regulations and determined that Spirit's application did not meet the applicable standards for the reasons described in the attached letter. The vote to deny the application was 2-1, with Department of Transportation General Counsel Kirk K. Van Tine dissenting.

Additional information about the ATSB is available on its web site, www.treas.gov/atsb.

Attachment: Spirit Airlines Decision Letter

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PO-3354





FOR IMMEDIATE RELEASE
August 15, 2002

Contact: Tara Bradshaw
(202) 622-2960

**SPELTZ SWORN IN AS U.S. EXECUTIVE DIRECTOR
ASIAN DEVELOPMENT BANK**

Treasury Secretary Paul O'Neill swore Paul Speltz in August 9, 2002 as U.S. Executive Director of the Asian Development Bank. The Senate voted by unanimous consent to confirm Speltz on August 1, 2002. President Bush nominated Speltz for this position on June 4, 2002.

The Asian Development Bank (ADB) is a multilateral development finance institution working to increase economic growth and reduce poverty in 60 Asian and Pacific countries through public sector lending. Speltz represents the United States as a voting member on the ADB Board of Directors. This position carries the rank of Ambassador.

Paul Speltz has over 25 years experience as a prominent member and mentor to the international business community. Mr. Speltz is a Senior Level corporate and entrepreneurial international manager with a strong record in Asian business development, market strategy, and implementation. After joining Bluestone Capital in March 2000, Mr. Speltz focused on building out the Asia Pacific Group and launched the bank's successful online Wealth Management System. He was then named Co-Executive Managing Director of Global Operations in November. From late 1998-1999, he was a Senior Director and Advisor on Asian geopolitical activities for the United Technologies Corporation, a Fortune "50" Multinational Leader in high technology. In 1981 Mr. Speltz founded ATC International, an Asia-based marketing and consulting company. He directed his company as Chairman and CEO for 17 years, inclusive of managing the operations when it was sold and was a subsidiary of Citicorp from 1985 through 1987. In 1986 he co-founded the International Chamber of Commerce in Beijing, China, where he served as president until 1989. Before starting his own company, he advised various firms on Asian business affairs.

Prior to earning his BSBA from the University of Connecticut in 1969, Mr. Speltz founded the university's chapter of the National Business Fraternity, Delta Sigma Pi. While working for a Japanese trading and consulting firm, he continued his education at Connecticut and graduated in 1971 with an MBA in International Business. He has sat on the Board of Directors for the university's School of Business since 1998 and also serves as an advisor on Asian affairs.

PO-3355



Mr. Speltz is a resident of Houston, Texas, temporarily based at his summer home in New Hampshire with his wife Renee. He has three grown children: Matthew, Alec, and Jessica.



FOR IMMEDIATE RELEASE
AUGUST 15, 2002

Contact: Rob Nichols
(202) 622-2910

Treasury Secretary Paul H. O'Neill
Remarks to South Metro Denver Chamber of Commerce
Denver, Colorado
August 15, 2002

[TEXT AS PREPARED]

Good afternoon. It is a pleasure to join the South Metro Denver Chamber of Commerce today. There's nothing more refreshing for me than getting away from Washington and meeting with the people who actually make our economy happen - people who get out there, make decisions, and work every day.

I had a chance to do that with the President in Texas on Tuesday, and today I'm in Denver, as I continue to travel the country to see for myself how the economic recovery is progressing outside Washington. I want to tell you about what we've been doing to support your efforts on the front lines of our economy, and ask what we can do better.

The past eighteen months have seen some tough times for the American economy. We've suffered through a bursting stock market bubble, terrorist attacks on our financial and political capitals, and revelations of corporate fraud. People have lost jobs, and some retirement accounts are in the dumps. It's no wonder Americans are concerned about economic security.

President Bush had economic security at the forefront his agenda, before any of these shocks hit. From the beginning of his Administration, he has embraced economic freedom and individual accountability as the foundation for continuing prosperity. His economic plan creates jobs, improves education and expands opportunities to save and invest.

That's what we've been working on, and we have four significant accomplishments to show for it. First, the President's historic tax relief program last summer reduced taxes for the average family of four by \$1,040 a year.

PO-3356

Then in March, he signed the Job Creation Act to stimulate investment in our economy - a second major accomplishment. By the end of 2002, these two tax relief programs will have allowed the private sector to create an additional one million jobs with resources that would otherwise have gone to Washington. Our estimates now show that without that tax relief, the recession would have been deeper, and the recovery slower.

Our third victory for the economy has been new standards for corporate accountability. These ensure that people saving for their future can get accurate information for sound investment decisions. We are holding corporations accountable for telling the truth to investors and employees, so Americans can save for college tuitions and comfortable retirements with greater confidence.

And the most recent major accomplishment for our nation's prosperity is winning Trade Promotion Authority, which the President will use to open international markets to US exports, creating jobs here at home. One in eleven working Americans - 12 million people - already work at jobs that depend on exports. World competition also spurs American companies to higher levels of productivity and innovation, even as it reduces product costs and raises quality for American consumers. Lower trade barriers work the same way as any other tax cut - by one estimate, reducing trade barriers by one-third would save \$2,500 a year for every family of four in America.

Today, the economists who study the numbers all say our economic recovery is underway. Key economic fundamentals such as inflation, real wages, productivity, interest rates, business profits, and the housing sector are all strong because of the resilience and determination of the American people. But to a lot of folks out there watching, it doesn't feel like a recovery yet. And the President won't be satisfied until everyone who wants a job has a job. He's advancing the rest of his economic agenda to strengthen the recovery.

Since the attacks of September 11, the President has been asking Congress to enact terrorism risk insurance. At the President's Forum in Waco, the President of the Carpenter's Union told me that \$8 billion in construction projects are on hold because the financing is stalled for lack of insurance against terrorist attacks. That's thousands of guys in hardhats who aren't working because Congress hasn't passed that bill.

And we need President Bush's Homeland Security plan, because the physical security of our nation is essential to prosperity. The brief economic freeze immediately following September 11 demonstrated that reality all too well. We are working with Congress to complete the new Department of Homeland Security, which would better organize and deploy our resources toward preventing further attacks.

We'll also work with Congress to restrain wasteful government spending, because overspending in Washington burdens our economy with higher debts and taxes. The President took a stand on that on Tuesday, when he said no to \$5 billion of new spending sent to him by the Congress -- \$5 billion he didn't ask for and couldn't justify at a time when we are determined to keep ourselves on the path back to budget surpluses.

And the President has called on Congress to protect individuals' control over their 401(k) holdings without undue constraints from employers. Your retirement nest egg is yours alone - you earned it, and you should have full legal rights to control it.

As we emerge from the turbulence of last year's recession, we're gaining new perspective on the recent past, and we're applying that perspective to the decade still beginning. In short, we are facing our problems, dealing with them as a nation, and moving forward.

The question for our new era is not whether we can or should continue the economic success we enjoyed in the 1990s. The question is how leaders of business and government should incorporate the best aspects of the 90s - growth, productivity, and innovation - into the emerging decade, while actively working to make this new era a time of both personal responsibility and public integrity. How can we reaffirm the link between value and values, and restore public confidence in American enterprise?

In my view, the answer is simple: honest, accountable leadership. With leadership, everything is possible; without it, nothing is possible. That is as true for American corporations, and the American government, as it is for developing nations in Africa. In my experience, the example from the top becomes the model for everyone below.

In the economic domain, I believe the connection between creating value and affirming values in American business has always been strong. Far away from the headlines, most business leaders, from mom and pop shop-owners to corporate chiefs, have always treated their shareholders and employees with honesty and fairness. Today, however, doing your job with competence is not enough. Leaders must stand up and set an example not just for their employees, but for the general public as well. Honesty in business is the new patriotism. There is nothing better business leaders can do for this country right now than restore faith in the system that has made it great.

Let me give you an example from when I served as Chairman and CEO of Alcoa.

Over the course of my career in business and with the government, I have come to believe that people everywhere need three things to be happy in their jobs. Each person needs to be treated with dignity and respect at all times; Each needs the tools to make a meaningful contribution to his or her organization; and each person needs to be recognized for the contributions that he or she makes. With that in mind, my first priority at Alcoa was to improve safety for all our 55,000 employees. Not just improve it - I wanted to make it perfect. I didn't have a profit calculation in mind - I just knew it was the right thing to do. Workplace safety is a key element of treating people with dignity and respect.

By 2000, when I retired, our injury rate was one-tenth of what it was in 1987. And as we improved safety, we nearly tripled in size, creating thousands of new jobs and increasing shareholder value from \$4 billion to \$32 billion.

We didn't do that by managing quarterly earnings, abusing tax rules or playing accounting tricks. Anyone who tried to sell me on those games twice was out of a job. We did it by focusing on our people, making sure they had the tools and incentives to get their jobs done right, and done safely. And when people have those tools and incentives, they can do anything. We focused on the fundamentals: creating value and producing results. The rest followed. That's the truth in every company, and that's the truth in our economy.

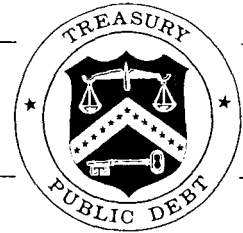
President Bush's economic policies parallel the rules I applied at Alcoa. We are focusing on the fundamentals, because, given the right tools, the American people produce results. They always have. By expanding economic freedom, we treat all Americans with the respect and dignity they deserve, and we expand Americans' ability to create a better life for ourselves, our children, and our nation.

The President's policies for further reducing and simplifying taxes, strengthening security, expanding trade, and restraining the growth of government will ensure that Americans have the greatest possible opportunity to live the lives we dream of: pursuing our chosen professions, owning a home, raising our children to be happy and successful, engaging in our communities, and attaining financial independence.

Thank you.

PUBLIC DEBT NEWS

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



FOR IMMEDIATE RELEASE
August 16, 2002

Contact: Office of Financing
202-691-3550

TREASURY'S INFLATION-INDEXED SECURITIES SEPTEMBER 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 September for the following Treasury inflation-indexed securities:

- (1) 3-3/8% 10-year notes due January 15, 2007
- (2) 3-5/8% 10-year notes due January 15, 2008
- (3) 3-5/8% 30-year bonds due April 15, 2028
- (4) 3-7/8% 10-year notes due January 15, 2009
- (5) 3-7/8% 30-year bonds due April 15, 2029
- (6) 4-1/4% 10-year notes due January 15, 2010
- (7) 3-1/2% 10-year notes due January 15, 2011
- (8) 3-3/8% 30-1/2-year bonds due April 15, 2032
- (9) 3-3/8% 10-year notes due January 15, 2012
- (10) 3% 10-year notes due July 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 3357. The information is also available on the Internet at Public Debt's website (<http://www.publicdebt.treas.gov>).

The information for October is expected to be released on September 18, 2002.

o0o

Attachment

PA-569

PO-3357

<http://www.publicdebt.treas.gov>

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

Security:		3-3/8% 10-Year Notes	3-5/8% 10-Year Notes	3-5/8% 30-Year Bonds	3-7/8% 10-Year Notes
Description:		Series A-2007	Series A-2008	Bonds of April 2028	Series A-2009
CUSIP Number:		9128272M3	9128273T7	912810FD5	9128274Y5
Dated Date:		January 15, 1997	January 15, 1998	April 15, 1998	January 15, 1999
Original Issue Date:		February 6, 1997	January 15, 1998	April 15, 1998	January 15, 1999
Additional Issue Date(s):		April 15, 1997	October 15, 1998	July 15, 1998	July 15, 1999
Maturity Date:		January 15, 2007	January 15, 2008	April 15, 2028	January 15, 2009
Ref CPI on Dated Date:		158.43548	161.55484	161.74000	164.00000
Date	Ref CPI	Index Ratio	Index Ratio	Index Ratio	Index Ratio
Sept. 1 2002	179.90000	1.13548	1.11355	1.11228	1.09695
Sept. 2 2002	179.90667	1.13552	1.11360	1.11232	1.09699
Sept. 3 2002	179.91333	1.13556	1.11364	1.11236	1.09703
Sept. 4 2002	179.92000	1.13560	1.11368	1.11240	1.09707
Sept. 5 2002	179.92667	1.13565	1.11372	1.11244	1.09711
Sept. 6 2002	179.93333	1.13569	1.11376	1.11249	1.09715
Sept. 7 2002	179.94000	1.13573	1.11380	1.11253	1.09720
Sept. 8 2002	179.94667	1.13577	1.11384	1.11257	1.09724
Sept. 9 2002	179.95333	1.13581	1.11388	1.11261	1.09728
Sept. 10 2002	179.96000	1.13586	1.11393	1.11265	1.09732
Sept. 11 2002	179.96667	1.13590	1.11397	1.11269	1.09736
Sept. 12 2002	179.97333	1.13594	1.11401	1.11273	1.09740
Sept. 13 2002	179.98000	1.13598	1.11405	1.11277	1.09744
Sept. 14 2002	179.98667	1.13603	1.11409	1.11281	1.09748
Sept. 15 2002	179.99333	1.13607	1.11413	1.11286	1.09752
Sept. 16 2002	180.00000	1.13611	1.11417	1.11290	1.09756
Sept. 17 2002	180.00667	1.13615	1.11421	1.11294	1.09760
Sept. 18 2002	180.01333	1.13619	1.11426	1.11298	1.09764
Sept. 19 2002	180.02000	1.13624	1.11430	1.11302	1.09768
Sept. 20 2002	180.02667	1.13628	1.11434	1.11306	1.09772
Sept. 21 2002	180.03333	1.13632	1.11438	1.11310	1.09776
Sept. 22 2002	180.04000	1.13636	1.11442	1.11314	1.09780
Sept. 23 2002	180.04667	1.13640	1.11446	1.11319	1.09785
Sept. 24 2002	180.05333	1.13645	1.11450	1.11323	1.09789
Sept. 25 2002	180.06000	1.13649	1.11454	1.11327	1.09793
Sept. 26 2002	180.06667	1.13653	1.11459	1.11331	1.09797
Sept. 27 2002	180.07333	1.13657	1.11463	1.11335	1.09801
Sept. 28 2002	180.08000	1.13661	1.11467	1.11339	1.09805
Sept. 29 2002	180.08667	1.13666	1.11471	1.11343	1.09809
Sept. 30 2002	180.09333	1.13670	1.11475	1.11347	1.09813
CPI-U (NSA) for :		May 2002 179.8	June 2002 179.9	July 2002 180.1	

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

Security: Description: CUSIP Number: Dated Date: Original Issue Date: Additional Issue Date(s): Maturity Date: Ref CPI on Dated Date:		3-7/8% 30-Year Bonds Bonds of April 2029 912810FH6 April 15, 1999 April 15, 1999 October 15, 1999 October 15, 2000 April 15, 2029 164.39333	4-1/4% 10-Year Notes Series A-2010 9128275W8 January 15, 2000 January 18, 2000 July 15, 2000 January 15, 2010 168.24516	3-1/2% 10-Year Notes Series A-2011 9128276R8 January 15, 2001 January 16, 2001 July 16, 2001 January 15, 2011 174.04516	3-3/8% 30-1/2-Year Bonds Bonds of April 2032 912810FQ6 October 15, 2001 October 15, 2001 April 15, 2032 177.50000
Date	Ref CPI	Index Ratio	Index Ratio	Index Ratio	Index Ratio
Sept. 1 2002	179.90000	1.09433	1.06927	1.03364	1.01352
Sept. 2 2002	179.90667	1.09437	1.06931	1.03368	1.01356
Sept. 3 2002	179.91333	1.09441	1.06935	1.03372	1.01360
Sept. 4 2002	179.92000	1.09445	1.06939	1.03375	1.01363
Sept. 5 2002	179.92667	1.09449	1.06943	1.03379	1.01367
Sept. 6 2002	179.93333	1.09453	1.06947	1.03383	1.01371
Sept. 7 2002	179.94000	1.09457	1.06951	1.03387	1.01375
Sept. 8 2002	179.94667	1.09461	1.06955	1.03391	1.01378
Sept. 9 2002	179.95333	1.09465	1.06959	1.03395	1.01382
Sept. 10 2002	179.96000	1.09469	1.06963	1.03398	1.01386
Sept. 11 2002	179.96667	1.09473	1.06967	1.03402	1.01390
Sept. 12 2002	179.97333	1.09477	1.06971	1.03406	1.01393
Sept. 13 2002	179.98000	1.09481	1.06975	1.03410	1.01397
Sept. 14 2002	179.98667	1.09485	1.06979	1.03414	1.01401
Sept. 15 2002	179.99333	1.09489	1.06983	1.03418	1.01405
Sept. 16 2002	180.00000	1.09493	1.06987	1.03421	1.01408
Sept. 17 2002	180.00667	1.09498	1.06991	1.03425	1.01412
Sept. 18 2002	180.01333	1.09502	1.06995	1.03429	1.01416
Sept. 19 2002	180.02000	1.09506	1.06999	1.03433	1.01420
Sept. 20 2002	180.02667	1.09510	1.07003	1.03437	1.01423
Sept. 21 2002	180.03333	1.09514	1.07007	1.03441	1.01427
Sept. 22 2002	180.04000	1.09518	1.07011	1.03444	1.01431
Sept. 23 2002	180.04667	1.09522	1.07014	1.03448	1.01435
Sept. 24 2002	180.05333	1.09526	1.07018	1.03452	1.01438
Sept. 25 2002	180.06000	1.09530	1.07022	1.03456	1.01442
Sept. 26 2002	180.06667	1.09534	1.07026	1.03460	1.01446
Sept. 27 2002	180.07333	1.09538	1.07030	1.03464	1.01450
Sept. 28 2002	180.08000	1.09542	1.07034	1.03467	1.01454
Sept. 29 2002	180.08667	1.09546	1.07038	1.03471	1.01457
Sept. 30 2002	180.09333	1.09550	1.07042	1.03475	1.01461
CPI-U (NSA) for :		May 2002 179.8	June 2002 179.9	July 2002 180.1	

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

Date		Ref CPI	Index Ratio	Index Ratio			
Sept. 1	2002	179.90000	1.01315	1.00056			
Sept. 2	2002	179.90667	1.01319	1.00059			
Sept. 3	2002	179.91333	1.01323	1.00063			
Sept. 4	2002	179.92000	1.01327	1.00067			
Sept. 5	2002	179.92667	1.01330	1.00070			
Sept. 6	2002	179.93333	1.01334	1.00074			
Sept. 7	2002	179.94000	1.01338	1.00078			
Sept. 8	2002	179.94667	1.01342	1.00082			
Sept. 9	2002	179.95333	1.01345	1.00085			
Sept. 10	2002	179.96000	1.01349	1.00089			
Sept. 11	2002	179.96667	1.01353	1.00093			
Sept. 12	2002	179.97333	1.01357	1.00096			
Sept. 13	2002	179.98000	1.01360	1.00100			
Sept. 14	2002	179.98667	1.01364	1.00104			
Sept. 15	2002	179.99333	1.01368	1.00108			
Sept. 16	2002	180.00000	1.01372	1.00111			
Sept. 17	2002	180.00667	1.01375	1.00115			
Sept. 18	2002	180.01333	1.01379	1.00119			
Sept. 19	2002	180.02000	1.01383	1.00122			
Sept. 20	2002	180.02667	1.01387	1.00126			
Sept. 21	2002	180.03333	1.01390	1.00130			
Sept. 22	2002	180.04000	1.01394	1.00133			
Sept. 23	2002	180.04667	1.01398	1.00137			
Sept. 24	2002	180.05333	1.01402	1.00141			
Sept. 25	2002	180.06000	1.01405	1.00145			
Sept. 26	2002	180.06667	1.01409	1.00148			
Sept. 27	2002	180.07333	1.01413	1.00152			
Sept. 28	2002	180.08000	1.01417	1.00156			
Sept. 29	2002	180.08667	1.01420	1.00159			
Sept. 30	2002	180.09333	1.01424	1.00163			
CPI-U (NSA) for :		May 2002	179.8	June 2002	179.9	July 2002	180.1

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FOR IMMEDIATE RELEASE
August 15, 2002

Contact: Tara Bradshaw
(202) 622-2014

TREASURY STATEMENT ON NEW JOHN DOE SUMMONS

Today the Internal Revenue Service announced additional actions that have been taken to combat tax-evasion schemes involving credit cards issued by offshore banks. The IRS petitioned a federal court in Miami for approval to serve a John Doe summons on MasterCard for records on transactions using credit cards issued by banks in over 30 tax haven countries for 1999-2001.

“We support the IRS' continuing efforts to crack down on tax avoidance transactions through the issuance of John Doe summonses that will identify US taxpayers who may be evading US taxes,” stated Pamela Olson, Acting Assistant Secretary for Tax Policy. “The information obtained through these summonses will provide the IRS with the ability to pursue tax cheats. Treasury and the IRS will continue to use all available resources to enforce our tax laws.”

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PO-3358



DEPARTMENT OF THE TREASURY

TREASURY



NEWS

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

EMBARGOED UNTIL 11:00 A.M.
August 15, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling \$29,000 million to refund an estimated \$30,756 million of publicly held 13-week and 26-week Treasury bills maturing August 22, 2002, and to pay down approximately \$1,756 million. Also maturing is an estimated \$20,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced August 19, 2002.

The Federal Reserve System holds \$12,896 million of the Treasury bills maturing on August 22, 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 August 20, 2002. Amounts awarded to SOMA will be in addition to the offering amount.

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

TreasuryDirect customers have requested that we reinvest their maturing holdings of approximately \$1,051 million into the 13-week bill and \$685 million into the 26-week bill.

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

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

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

oOo

Attachment

PO-3359

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

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED AUGUST 22, 2002

August 15, 2002

<u>Offering Amount</u>	\$15,000 million	\$14,000 million
<u>Public Offering</u>	\$15,000 million	\$14,000 million
<u>NLP Exclusion Amount</u>	\$5,000 million	None

Description of Offering:

Term and type of security	91-day bill	182-day bill
CUSIP number	912795 LL 3	912795 LZ 2
Auction date	August 19, 2002	August 19, 2002
Issue date	August 22, 2002	August 22, 2002
Maturity date	November 21, 2002	February 20, 2003
Original issue date	May 23, 2002	August 22, 2002
Currently outstanding	\$20,850 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 Rate35% of public offering

Maximum Award35% 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.



FOR IMMEDIATE RELEASE
August 16, 2002

Contact: Tara Bradshaw
(202) 622-2014

**TREASURY AND IRS CRACK DOWN ON INAPPROPRIATE
SPLIT-DOLLAR LIFE INSURANCE ARRANGEMENTS**

Today, the Treasury Department and the IRS issued Notice 2002-59 to stop the spread of an abusive tax avoidance transaction using split-dollar life insurance.

A split-dollar life insurance arrangement involves two parties agreeing to split the premiums or benefits, or both, of a life insurance policy. These arrangements are used to compensate employees or to make gifts to one or more family members.

Notice 2002-59 deals with split-dollar life insurance arrangements (including so-called "reverse" split-dollar) where the parties attempt to avoid taxes by using inappropriately high current term insurance rates, prepayment of premiums, or other techniques to understate the value of taxable policy benefits.

"The Notice makes clear that using any scheme to understate the value of benefits for income or gift tax purposes won't be respected," according to Pamela F. Olson, Acting Assistant Secretary of the Treasury for Tax Policy.

The text of Notice 2002-59 is attached.

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PO-3360





August 20, 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 \$75,534 million at the end of the latest week, compared to \$74,755 million at the end of the prior week.

in US millions)

Official U.S. Reserve Assets	TOTAL	August 9, 2002			August 16, 2002		
		Euro	Yen	TOTAL	Euro	Yen	TOTAL
				74,755			75,534
Foreign Currency Reserves ¹							
a. Securities		6,177	12,426	18,603	6,251	12,705	18,957
<i>Of which, issuer headquartered in the U.S.</i>				0			0
b. Total deposits with:							
b.i. Other central banks and BIS		10,246	3,294	13,540	10,381	3,368	13,749
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				19,921			20,057
Special Drawing Rights (SDRs) ²				11,648			11,728
Gold Stock ³				11,044			11,044
Other Reserve Assets				0			0

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

The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollars 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.

Gold stock is valued monthly at \$42.2222 per fine troy ounce.

PO-3361

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



Official Reserve Assets Worksheet
(actual US dollar amounts)

	Last Week	This Week
Enter Dates Here	9-Aug-02	16-Aug-02

Foreign Currency	9-Aug-02	16-Aug-02	Change
Euro Securities	\$6,177,000,000.00	\$6,251,000,000.00	74,000,000
Yen Securities	\$12,426,000,000.00	\$12,705,000,000.00	279,000,000
<i>Sec. Total</i>	\$18,603,000,000.00	\$18,957,000,000.00	354,000,000
Euro Deposits	\$10,246,000,000.00	\$10,381,000,000.00	135,000,000
Yen Deposits	\$3,294,000,000.00	\$3,368,000,000.00	74,000,000
<i>Deposit Total</i>	\$13,540,000,000.00	\$13,749,000,000.00	209,000,000
Total	\$32,142,000,000.00	\$32,705,000,000.00	563,000,000
Euro Rate	\$0.9714	\$0.9836	0.0122
Yen Rate	120.15	117.51	-2.64

Source: NY Fed (fax)
copy and paste data into last week
and put new data from fax
into right column

IMF	9-Aug-02	16-Aug-02	
		<i>(prelim, with adjust.)</i>	
Reserve Tranche	19,921,251,984.81	20,057,193,493.96	135,941,509.15
GAB	0.00	0.00	0.00
NAB	0.00	0.00	0.00
Total	19,921,251,984.81	20,057,193,493.96	135,941,509.15
SDR	11,648,179,632.96	11,727,666,159.17	79,486,526.21
			0.00

Source: IMF (email)
put actual dollar figures in for last week:

as of 10/31/01	9-Aug-02	16-Aug-02	
Gold	11,043,707,102.46	11,043,707,102.46	0.00
			0

Source : FMS website
<http://www.fms.treas.gov/gold>

	9-Aug-02	16-Aug-02
Other Res.Assets	0	0

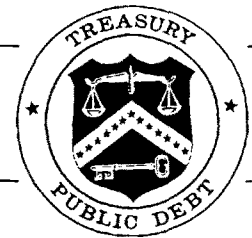
TOTAL	74,755,138,720.23	75,533,566,755.59	778,428,035.36
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Adjustments to IMF and SDR data, translated at current exchange rates

Prelim. IMF Data Calculation Section	IN SDRs		SDR rate for		
	9-Aug-02	Adjustments	16-Aug-02	In USD	
Reserve Tranche	15,140,589,776		15,140,589,776	0.754871	\$20,057,193,493.96
GAB	0		0		\$0.00
NAB	0		0		\$0.00
			15,140,589,776	Total =	\$20,057,193,493.96
SDRs	8,852,872,781		8,852,872,781	SDRs =	\$11,727,666,159.17

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
August 19, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term: 91-Day Bill
Issue Date: August 22, 2002
Maturity Date: November 21, 2002
CUSIP Number: 912795LL3

High Rate: 1.630% Investment Rate 1/: 1.659% Price: 99.588

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 65.62%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 31,059,633	\$ 13,434,888
Noncompetitive	1,415,154	1,415,154
FIMA (noncompetitive)	150,000	150,000
SUBTOTAL	32,624,787	15,000,042 2/
Federal Reserve	5,088,409	5,088,409
TOTAL	\$ 37,713,196	\$ 20,088,451

Median rate 1.620%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.600%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

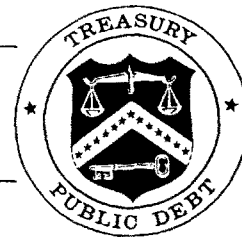
d-to-Cover Ratio = $32,624,787 / 15,000,042 = 2.17$

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = \$1,155,311,000

<http://www.publicdebt.treas.gov>

PO-3362

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
August 19, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term: 182-Day Bill
Issue Date: August 22, 2002
Maturity Date: February 20, 2003
CUSIP Number: 912795LZ2

High Rate: 1.630% Investment Rate 1/: 1.666% Price: 99.176

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 66.11%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 32,950,860	\$ 12,912,971
Noncompetitive	1,017,460	1,017,460
FIMA (noncompetitive)	70,000	70,000
SUBTOTAL	34,038,320	14,000,431 2/
Federal Reserve	5,500,213	5,500,213
TOTAL	\$ 39,538,533	\$ 19,500,644

Median rate 1.610%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.590%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Lead-to-Cover Ratio = 34,038,320 / 14,000,431 = 2.43

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = \$752,225,000

<http://www.publicdebt.treas.gov>

PO-3363

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
August 19, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term: 182-Day Bill
Issue Date: August 22, 2002
Maturity Date: February 20, 2003
CUSIP Number: 912795LZ2

High Rate: 1.630% Investment Rate 1/: 1.666% Price: 99.176

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 66.11%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 32,950,860	\$ 12,912,971
Noncompetitive	1,017,460	1,017,460
FIMA (noncompetitive)	70,000	70,000
SUBTOTAL	34,038,320	14,000,431 2/
Federal Reserve	5,500,213	5,500,213
TOTAL	\$ 39,538,533	\$ 19,500,644

Median rate 1.610%: 50% of the amount of accepted competitive tenders tendered at or below that rate. Low rate 1.590%: 5% of the amount accepted competitive tenders was tendered at or below that rate.

d-to-Cover Ratio = $34,038,320 / 14,000,431 = 2.43$

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = \$752,225,000

<http://www.publicdebt.treas.gov>

PO-3363



FOR IMMEDIATE RELEASE
August 14, 2002

Contact: Betsy Holohan
(202) 622-2960

U.S. Treasurer Rosario Marin
Remarks for Junior Achievement of New Mexico
August 14, 2002

Thank you Meredith Haney and Jay Heath for the beautiful introduction. And the all the people who served the food thank you so much.

I also want to thank you Ric Matthews, the Board Chair, and Mario Burgos, the President of Junior Achievement of New Mexico. I'd like to thank Julie, who is a teacher, for all of her efforts. Jennifer Thomas, from Bank of America, my sincerest thank you for all that you do. George Rivera, thank you – you will be a CEO one day. Mr. H, thank you and I definitely agree with you that we make a living by what we get but we make a life by what we give.

I also want to thank all the sponsors of Junior Achievement of New Mexico and its board of directors for inviting me to speak today and especially all the dedicated Junior Achievement volunteers who go into the classrooms to teach financial literacy to America's youth.

I would like to especially thank Congresswoman Heather Wilson who helped make my visit here possible. Her ardent support for financial education makes her a great friend of Junior Achievement and now especially a great friend of mine. And she made sure that I visit your chapter here in the great state of New Mexico because she knows how important it is to me.

PO-3364



I am delighted to be here at your board meeting. As many of you know, Junior Achievement holds a very special place in my heart because your organization does one of the most important jobs in this great nation. You have dedicated yourselves to educating young people about personal finances, business and our economic system. Your excellent curriculum and committed volunteers provide America's youth across the country with the tools they need to become successful in their careers and in their personal lives through the wise management of their personal finances. Financial literacy opens the door to their understanding of the many opportunities this country has to offer. You are not only making basic education fun for our kids to learn, but you are also putting in their hands the skill and knowledge that is the key to their financial independence, freedom, and more importantly, security.

And I want to thank all the volunteers. Many people spend their lives building careers. I know that as volunteers you spend your careers building lives. And I trust that you all experience the sacred joy of knowing that what you do is profoundly helpful to those you care for.

As we all know, the key that opens the door of opportunity for our youth is education.

I can tell you from my own experience that this is the land of opportunity... and with my education I was able to unlock it's magnificent doors.

In 10th grade, I was given an IQ test. Everybody had to take this test back when I attended high school. A score of 100 being average, mine came back with a score of 27. My friends and even my teacher laughed at me. But I knew then that the only thing that low score represented was the fact that I did not speak English. Far from making me angry or upset, it gave me resolve. I would learn English to the best of my ability ... and so I did. Three years later, I graduated from high school in the top 20 with honors.

Sadly, however, no one told me about scholarships or grants to attend college. Instead, I worked full time to help my family. But even back then, I knew the importance of education, so I attended ELAC part-time for four years to get my two-year degree and I spent three more years at CSULA to finish my bachelors at night. I can tell you, I am very proud of my diploma.

At the same time that I was earning my degree, I was working my way up the ranks of City National Bank where I had started as the assistant to the receptionist. I was about to be promoted to Assistant Vice President and I had just started my Masters Degree. I thought that my life was absolutely beautiful!

But God had other plans. My son Eric was born not just with Downs Syndrome but with a series of other medical complications that are too numerous to state.

I gave up my career at the bank and my MBA to take care of him. I even sold my house because we could no longer afford the mortgage.

The birth of my son led me down a path that I could not have imagined. To be an advocate for those who could not help themselves. But without an education and the skills that I had learned, I would not have been prepared for that path.

Eventually, my public advocacy led me to a career in public service.

I wanted to serve my community so I ran for public office and served on my local city council and later as mayor of the City of Huntington Park. And all of that led President George Bush to appoint me the 41st Treasurer of the United States.

But I could not have been Treasurer, nor could I have helped my son without a diploma. I credit my education with helping me to meet my challenges and preparing me for unimaginable opportunities.

Now, as Treasurer of the United States, I want to tackle a new challenge by promoting the importance of education, but more specifically, financial education. I want to make all Americans aware of the skills and knowledge they need to secure a financial future.

Many Americans lack knowledge and don't understand how to conduct their financial activities, which leads them to engage in ineffective and detrimental financial strategies. The cost of these ineffective strategies is high. Too many people work too hard for too many years and at the end of the day they do not reach the level of financial self-sufficiency that they deserve. What really saddens me is that the people who work the hardest and earn the least often pay the highest prices for financial services.

We have also seen that a poor grasp of personal finances can lead to bankruptcy, inadequate planning for retirement, vulnerability to predatory credit arrangements and other social problems such as divorce, depression and personal difficulties.

Here are some troubling facts that illustrate just how bad this problem is:

- When a group of Americans was given a 14 question test of their financial literacy, they scored an average of 42%. That means that they answered less than half the questions correctly.
- An average family carries \$8,123 in credit card debt with double digit interest rates. According to a recent article in [The Dallas Morning News](#), if that family pays the minimum amount, on a credit card with an 18% interest rate, it would take them approximately 53 years to pay off that debt. (That's because most of the payment goes toward interest.)
- 82% of high school seniors failed a 13 question quiz examining their knowledge of issues like interest rates, savings, loans, credit cards and calculating net worth.
- An estimated 10 million Americans have no relationship with a mainstream financial services provider.
- 40% of these "unbanked" are Hispanics.
- 75% of Hispanics have not accumulated enough savings for retirement.

- A major reason why millions of Americans do not set up checking or savings accounts is that they do not have any knowledge about how banks and other financial institutions work. So they just stay away.

These facts show a glimpse of why financial education is so important. That is why I am making it my mission to help remedy this dire situation by bringing the need for personal financial education to national attention.

At Treasury, we have already met with representatives from hundreds of private and public organizations to discuss their efforts to educate Americans of all ages about financial education.

Junior Achievement has been part of this discussion because you already have a successful track record of going into our local schools and providing financial literacy education to our youth.

I believe that we will have the most impact by providing financial education starting at an early age.

To that end, financial education must begin with basic literacy. A person must have reading skills to understand a credit card application or a Truth in Lending Disclosure form. A person must have math skills or he will never be able to balance a checkbook or compare credit card interest rates.

President Bush's "No Child Left Behind Act of 2001" ensures that our schools focus on those basics. The Bush Administration's support for financial education stems from our goals to provide opportunities for all Americans to be part of America's shining promise.

Financial literacy truly is the rising tide that lifts all boats and the swift current that guides them into the harbor of prosperity and success.

Of course, financial literacy and skills also greatly enhance opportunities to make wise financial investments; however, we must make sure that companies provide accurate information and honest financial statements to investors.

To achieve this and restore confidence in our investors, Congress passed and President Bush signed into law corporate accountability legislation, which has put into effect the toughest new restrictions on accounting practices since the 1930s. This legislation is one of the many important changes that have taken place since the financial scandals came to light. The SEC, the stock markets, and individual companies have taken steps to improve the timeliness and accuracy of corporate financial disclosures. Holding CEOs accountable and strengthening our auditing system will ensure investors that they have the necessary facts to make informed decisions.

President Bush and the U.S. Congress are united with the vast majority of reputable business leaders in their determination to restore faith in our financial and economic system for the reality is that the pillars of our economy are strong. As both Chairman of the Federal Reserve Alan Greenspan and Treasury Secretary Paul O'Neill have reiterated, the fundamentals for economic recovery are there. Interest rates and the inflation rate are low and the economy is growing.

We have the power to bring prosperity to our world, wealth to our nation and success to ourselves. To do so, we need to make sure that our youth are educated to understand the fundamentals of personal financial management, business and economics so that they can make wise choices for their future. And we need you!! Executives who are role models of integrity and responsibility and who are willing to instill those ideals and values into America's young people. And who are the examples of the very best that corporations have to offer our nation.

Our economic system has created opportunities for us that are undreamed of elsewhere. Our nation's strength and our economy's strength are one and the same. Both rely on the drive and creativity of American citizens who are well educated in the fundamentals of personal finances and sound business practices.

We are the envy of the world because an educated citizenry is the engine that produces freedom and prosperity in the world. Again, I would especially like to thank Junior Achievement for dedicating themselves to the goal of educating our nation's youth to appreciate and understand the importance of personal finances.

And I would like to thank Congresswoman Heather Wilson for her work in Congress to pass education and corporate responsibility legislation. She has been a stalwart supporter of financial education.

And thank you all for your efforts. I know that with your continued hard work to make financial education in the classroom a reality, and with President Bush's leadership, no child will be left behind when it comes to education and opportunity.

May God bless you. And may God bless the greatest country in the world, America.

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

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

EMBARGOED UNTIL 11:00 A.M.
August 19, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling \$26,000 million to refund an estimated \$20,000 million of publicly held 4-week Treasury bills maturing August 22, 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 \$12,896 million of the Treasury bills maturing on August 22, 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-3365

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

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED AUGUST 22, 2002

August 19, 2002

Offering Amount \$26,000 million
Public Offering \$26,000 million
NLP Exclusion Amount \$10,100 million

Description of Offering:

Term and type of security 28-day bill
CUSIP number 912795 LB 5
Auction date August 20, 2002
Issue date August 22, 2002
Maturity date September 19, 2002
Original issue date March 21, 2002
Currently outstanding \$40,439 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 non-competitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed \$1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the \$1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.

Competitive bids:

- (1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 4.215%.
- (2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$1 billion or greater.
- (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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
August 20, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term: 28-Day Bill
Issue Date: August 22, 2002
Maturity Date: September 19, 2002
CUSIP Number: 912795LB5

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

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 11.29%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 68,494,900	\$ 25,962,470
Noncompetitive	37,800	37,800
FIMA (noncompetitive)	0	0
SUBTOTAL	68,532,700	26,000,270
Federal Reserve	2,307,823	2,307,823
TOTAL	\$ 70,840,523	\$ 28,308,093

Median rate 1.650%: 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 = 68,532,700 / 26,000,270 = 2.64

/ Equivalent coupon-issue yield.

<http://www.publicdebt.treas.gov>

PO-3366

TREASURY



NEWS

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

FOR IMMEDIATE RELEASE
August 20, 2002

Contact:
Juan Antonio Flores
(210) 231-8000
jaflores@nadb.org

**NORTH AMERICAN DEVELOPMENT BANK AUTHORIZES \$80
MILLION FOR WATER CONSERVATION FUND, APPROVES \$11.8
MILLION FOR NEW PROJECT CONSTRUCTION**

(San Antonio, Texas) At its meeting today, the Board of Directors of the North American Development Bank (NADB) authorized the creation of an \$80 million Water Conservation Fund for financing of water conservation projects on both sides of the U.S.-Mexico border. In other actions, the Board also authorized an additional \$50 million for the NADB's Low Interest Rate Lending Facility (LIRF) and approved \$11.8 million in loans and grants for projects in Ciudad Acuña, Coahuila; San Luis Rio Colorado, Sonora; and Fabens, Texas.

"Today, the NADB Board made substantial progress in fulfilling the goals of President Bush and President Fox," stated John B. Taylor, Under Secretary of the Department of the Treasury and chairman of the NADB Board. "The reforms, the provision of grants for water conservation and the doubling of the size of the Low Interest Rate Lending Facility will make a real difference for people, communities and farms on our border."

The Water Conservation Fund, which in part is expected to help finance infrastructure improvement projects for irrigation districts impacting the Rio Grande, will be capitalized with a portion of the NADB's retained earnings. Funds will be equally distributed for projects on both sides of the border. The NADB Board of Directors proposed detailed guidelines for operation of the grant fund.

In anticipation of increased lending demand, the NADB Board of Directors also made an additional \$50 million in capital available for lending under the NADB's Low Interest Rate Lending Facility (LIRF). Under this program, border communities have access to NADB loans at lower-than-market interest rates. In addition to the funding increase, the Board also authorized the use of low interest rate loans for funding of water conservation projects.

PO-3367

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“With these actions the governments of Mexico and the United States, through the NADB, are seeking to promote a more efficient use of resources in the border region, while at the same time contributing to the fulfillment of the water treaty between the two countries,” commented Dr. Agustín Carstens, Mexico’s Under Secretary of Finance and Public Credit and co-chair of the NADB Board. “The Mexican government expects that the BECC will make a similar effort to achieve the results we are seeking.”

At the meeting, the Board also approved three loans under the LIRF totaling \$11.3 million, and a \$500,000 grant from its Solid Waste Environmental Program (SWEP). The communities receiving loans are Ciudad Acuña, Coahuila, for a municipal wastewater project; San Luis Río Colorado, Sonora, for a sanitary landfill project; and the El Paso County Water Control and Improvements District No. 4 in Fabens, Texas, for water and wastewater system improvements. The SWEP grant will go to the San Luis project.

In addition, the NADB Board implemented improvements to the NADB’s technical assistance programs, including turning the Solid Waste Project Development Program (SWPD) into the Project Development Program, thus making it available to all sectors in which the Bank operates. The NADB anticipates increasing its participation in these sectors as it pursues project opportunities under its expanded mandate.

The North American Development Bank, created under the auspices of NAFTA, is a financial institution established and capitalized in equal parts by the United States and Mexico for the purpose of financing environmental infrastructure projects along their common border. As a pioneer institution in its field, the Bank is working to develop integrated, sustainable and fiscally responsible projects with broad community support in a framework of close cooperation and coordination between Mexico and the United States.



FOR IMMEDIATE RELEASE
August 22, 2002

Contact: Tara Bradshaw
(202) 622-2014

**TREASURY AND IRS ISSUE HOME SALE EXCLUSION RULES FOR THOSE
AFFECTED BY THE SEPTEMBER 11TH TERRORIST ATTACKS**

Today the Treasury Department and the Internal Revenue Service announced that taxpayers affected by the September 11th terrorist attacks who sold a home before meeting the usual two-year requirements will be able to exclude some or all of that gain.

“This guidance provides clarification, and reassurance, that those affected by the September 11th terrorist attacks are entitled to exclude the gain from the sale of their principle residence,” stated Pam Olson, Acting Treasury Assistant Secretary for Tax Policy.

A taxpayer is considered “affected” for this purpose if:

- (1) a spouse, home co-owner, or person living with the taxpayer was killed,
- (2) the taxpayer’s principal residence was damaged,
- (3) the taxpayer or a person listed in (1) became eligible for unemployment compensation, or
- (4) the taxpayer or a person listed in (1) had a change in employment or self-employment that resulted in the taxpayer’s inability to pay reasonable basic living expenses for the household.

The tax law requires a person to own and use a home as a principal residence for two of the five years before the sale in order to exclude any gain, and allows an exclusion only once every two years. An exception applies if the sale is for reasons of health, change in employment, or, to the extent provided in IRS regulations, “unforeseen circumstances.”

Treasury and IRS expect to issue these regulations in the near future. The regulations will consider the death of the taxpayer’s spouse, man-made disasters, and acts of war as unforeseen circumstances, and will give the IRS Commissioner the discretion to determine other circumstances as unforeseen.

PO-3368

Under the exception, the maximum exclusion amount of \$250,000 (\$500,000 for a married couple filing jointly) is reduced to the proportion of the two-year period that the taxpayer fulfilled the law's requirements. Thus, a taxpayer who owns and occupies a home for one year (half the usual two-year period) – and who has not excluded gain on another home in that time – may exclude half the regular maximum amount, or up to \$125,000 of gain (\$250,000 for most joint returns). The proportion may be figured in days or months of use and ownership.

The text of Notice 2002-60 follows:

Part III - Administrative, Procedural, and Miscellaneous

Reduced Maximum Exclusion of Gain from Sale or Exchange of Principal Residence for Taxpayers Affected by the September 11, 2001, Terrorist Attacks

Notice 2002-60

This notice informs taxpayers affected by the September 11, 2001, terrorist attacks of the circumstances under which they may qualify for the reduced maximum exclusion of gain on the sale or exchange of a principal residence provided by § 121(c) of the Internal Revenue Code for taxpayers who have not owned and used their principal residence for 2 of the 5 years preceding the sale or exchange or who have applied § 121 to the sale or exchange of a principal residence in the last 2 years. This treatment is consistent with the approach the Service intends to take in final regulations under § 121.

Reduced Maximum Exclusion by Reason of Unforeseen Circumstances

Section 121 allows a taxpayer to exclude up to \$250,000 (\$500,000 for certain joint returns) of gain realized on the sale or exchange of the taxpayer's principal residence. For the maximum exclusion to apply, § 121(b) requires the taxpayer to have both owned and used the property as the taxpayer's principal residence for at least 2 years during the 5-year period ending on the date of the sale or exchange. Section 121(b)(3) allows the taxpayer to apply the maximum exclusion to only one sale or exchange in every 2-year period ending on the date of the sale or exchange. Section 121(c) provides that a taxpayer who fails to meet any of these conditions by reason of a change in place of employment, health, or, to the extent provided in regulations, unforeseen circumstances, is entitled to an exclusion in a reduced maximum amount.

On October 10, 2000, a notice of proposed rulemaking (REG-105235-99) under § 121 was published in the Federal Register (65 FR 60136). The proposed regulations requested comments regarding what circumstances should qualify as unforeseen for purposes of the reduced maximum exclusion. Comments suggested that, among others, the death of the taxpayer's spouse, man-made disasters, and acts of war should be considered unforeseen circumstances. The final regulations will adopt these comments. The final regulations will also provide the Commissioner with the discretion to determine that other circumstances qualify as unforeseen for purposes of the reduced maximum exclusion.

Recently, the Service has been asked whether taxpayers affected by the September 11, 2001, terrorist attacks are entitled to exclude the gain from the sale of a principal residence in a reduced maximum amount by reason of unforeseen circumstances. In response, the Commissioner has determined that taxpayers affected by the September 11, 2001, terrorist attacks are entitled to the reduced maximum exclusion. Therefore, a taxpayer may claim a reduced maximum exclusion of gain on a sale or exchange of the taxpayer's principal residence by reason of unforeseen circumstances if the taxpayer sells or exchanges the residence as a result of being affected by the attacks in one or more of the following ways:

- (1) A qualified individual (as defined below) was killed,
- (2) The taxpayer's principal residence was damaged (without regard to whether, under the taxpayer's circumstances, the taxpayer is entitled to a casualty loss deduction under § 165(h)),
- (3) A qualified individual (as defined below) lost employment and became eligible for unemployment compensation (as defined in § 85(b)), or
- (4) A qualified individual (as defined below) experienced a change in employment or self-employment that resulted in the taxpayer's inability to pay reasonable basic living expenses for the taxpayer's household (including amounts for food, clothing, housing and related expenses, medical expenses, taxes, transportation, court-ordered payments, and expenses reasonably necessary to production of income, but not for the maintenance of an affluent or luxurious standard of living).

For purposes of the preceding sentence, the term "qualified individual" means, as of September 11, 2001, (1) the taxpayer, (2) the taxpayer's spouse, (3) a co-owner of the residence, or (4) a person whose principal place of abode is in the same household as the taxpayer.

Taxpayers who qualify to claim a reduced maximum exclusion under this notice and have filed their returns for taxable year 2001 may file amended returns to claim the exclusion.

Computation of the Reduced Maximum Exclusion

The reduced maximum exclusion is computed by multiplying the maximum dollar limitation of \$250,000 (\$500,000 for certain joint filers) by a fraction. The numerator of the fraction is the shortest of the following periods: (1) the period of time that the taxpayer owned the property during the 5-year period ending on the date of the sale or exchange, (2) the period of time that the taxpayer used the property as the taxpayer's principal residence during the 5-year period ending on the date of the sale or exchange, or (3) the period of time between the date of a prior sale or exchange of property for which the taxpayer excluded gain under § 121 and the date of the current sale or exchange. The numerator of the fraction may be expressed in days or months. The denominator of the fraction is 730 days or 24 months (depending on the measure of time used in the numerator).

TREASURY



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FOR IMMEDIATE RELEASE
August 22, 2002

Contact: Betsy Holahan
(202) 622-2960

**Letter from Under Secretary Peter Fisher to Sallie Mae
on Financial Disclosure**

August 21, 2002

Ms. Marianne M. Keler
President and General Counsel
Student Loan Marketing Association
11600 Sallie Mae Drive
Reston, VA 20193

Dear Ms. Keler:

On July 16, 2002, I testified before the House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises (GSEs) to offer the Administration's views on GSEs, and in particular on the subject of their financial disclosures. As I stated in my testimony, the Administration believes that GSEs, through their financial disclosures, should be "role models for our system of investor protection, not exceptions to it." Given the size and importance of the GSEs' operations in our capital markets and banking system, continued operations outside of the Securities and Exchange Commission (SEC)-administered corporate disclosure regime is inconsistent with our goal of a sound and resilient financial system.

The Administration strongly supports the recent agreement between Fannie Mae and Freddie Mac, the SEC and the Office of Federal Housing Enterprise Oversight and believes that the disclosure requirements of the Securities Exchange Act of 1934 (1934 Act), as interpreted and applied by the SEC, should apply to all GSEs. The mechanism of voluntary registration of equity securities under section 12(g) of the 1934 Act is available to the Student Loan Marketing Association and other GSEs. As you and the Office of Sallie Mae Oversight discuss that and other disclosure initiatives, we trust that compliance with all applicable sections of the 1934 Act can be achieved.

PO-3369

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I encourage you to cooperate fully in making the Student Loan Marketing Association a role model for financial disclosure and investor protection.

Sincerely,

Peter R. Fisher
Under Secretary for Domestic Finance

cc: Colin Riley McMillan
Albert L. Lord
Thomas J. Fitzpatrick
John F. Remondi

TREASURY



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FOR IMMEDIATE RELEASE
August 22, 2002

Contact: Betsy Holahan
(202) 622-2960

**Letter from Under Secretary Peter Fisher
to all Federal Home Loan Banks
on Financial Disclosure**

August 21, 2002

Mr. Michael A. Jessee
Federal Home Bank of Boston
President and CEO
111 Huntington Avenue, 24th Floor
Boston, MA 02199

Dear Mr. Jessee:

On July 16, 2002, I testified before the House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises (GSEs) to offer the Administration's views on GSEs, and in particular on the subject of their financial disclosures. As I stated in my testimony, the Administration believes that GSEs, through their financial disclosures, should be "role models for our system of investor protection, not exceptions to it." Given the size and importance of the GSEs' operations in our capital markets and banking system, continued operations outside of the Securities and Exchange Commission (SEC)-administered corporate disclosure regime is inconsistent with our goal of a sound and resilient financial system.

I know that the Administration's goal is shared by the Federal Housing Finance Board and that Chairman Korsmo has begun working with you to enhance financial disclosures by the Federal Home Loan Bank (FHLBank) System.

The Administration strongly supports the recent agreement between Fannie Mae and Freddie Mac, the SEC and the Office of Federal Housing Enterprise Oversight and believes that the disclosure requirements of the Securities Exchange Act of 1934 (1934 Act), as interpreted and applied by the SEC, should apply to all GSEs. The mechanism of voluntary registration of equity securities under section 12(g) of the 1934 Act is available to you and other GSEs. As you and your regulator discuss that and other disclosure initiatives, we have asked Chairman Korsmo to include compliance with other sections of the 1934 Act in the rulemaking agenda.

PO-3370

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



Chairman Korsmo and I will continue to confer regularly on this matter and I encourage you to cooperate fully in making the FHLBank System a role model for financial disclosure and investor protection.

Sincerely,

Peter R. Fisher
Under Secretary for Domestic Finance

cc: Chairman Korsmo, Federal Housing Finance Board

DEPARTMENT OF THE TREASURY

TREASURY



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EMBARGOED UNTIL 11:00 A.M.
AUGUST 22, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling \$29,000 million to refund an estimated \$30,536 million of publicly held 13-week and 26-week Treasury bills maturing August 29, 2002, and to pay down approximately \$1,536 million. Also maturing is an estimated \$20,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced August 26, 2002.

The Federal Reserve System holds \$13,621 million of the Treasury bills maturing on August 29, 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 August 27, 2002. Amounts awarded to SOMA will be in addition to the offering amount.

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

TreasuryDirect customers have requested that we reinvest their maturing holdings of approximately \$1,074 million into the 13-week bill and \$1,071 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-3371

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

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED AUGUST 29, 2002

August 22, 2002

<u>Offering Amount</u>	\$15,000 million	\$14,000 million
<u>Public Offering</u>	\$15,000 million	\$14,000 million
<u>NLP Exclusion Amount</u>	\$ 5,300 million	None

Description of Offering:

Term and type of security	92-day bill	182-day bill
CUSIP number	912795 LM 1	912795 MA 6
Auction date	August 26, 2002	August 26, 2002
Issue date	August 29, 2002	August 29, 2002
Maturity date	November 29, 2002	February 27, 2003
Original issue date	May 30, 2002	August 29, 2002
Currently outstanding	\$21,022 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 Rate35% of public offering

Maximum Award35% 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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EMBARGOED UNTIL 11:00 A.M.
August 26, 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 \$20,267 million of publicly held notes maturing August 31, 2002, and to raise new cash of approximately \$6,733 million.

In addition to the public holdings, Federal Reserve Banks hold \$7,537 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 \$730 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-3372

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HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF
2-YEAR NOTES TO BE ISSUED SEPTEMBER 3, 2002

August 26, 2002

Offering Amount \$27,000 million
Public Offering \$27,000 million

Description of Offering:

Term and type of security 2-year notes
Series R-2004
CUSIP number 912828 AK 6
Auction date August 28, 2002
Issue date September 3, 2002
Dated date August 31, 2002
Maturity date August 31, 2004
Interest rate Determined based on the highest
accepted competitive bid
Yield Determined at auction
Interest payment dates The last day of February and August
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 HG 5
Due date(s) and CUSIP number(s)
for additional TINT(s) August 31, 2004 - - 912833 YY 0

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



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EMBARGOED UNTIL 11:00 A.M.
August 26, 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 \$20,000 million of publicly held 4-week Treasury bills maturing August 29, 2002 and to raise new cash of approximately \$5,000 million.

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

The Federal Reserve System holds \$13,621 million of the Treasury bills maturing on August 29, 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-3373

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

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED AUGUST 29, 2002

August 26, 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 LC 3
Auction date August 27, 2002
Issue date August 29, 2002
Maturity date September 26, 2002
Original issue date March 28, 2002
Currently outstanding \$40,008 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:

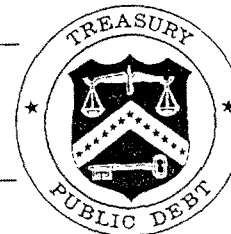
Prior to 12:00 noon eastern daylight saving time on auction day

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
August 26, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term: 92-Day Bill
Issue Date: August 29, 2002
Maturity Date: November 29, 2002
CUSIP Number: 912795LM1

High Rate: 1.630% Investment Rate 1/: 1.661% Price: 99.583

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 88.06%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 25,328,618	\$ 13,273,179
Noncompetitive	1,482,822	1,482,822
FIMA (noncompetitive)	244,000	244,000
SUBTOTAL	27,055,440	15,000,001 2/
Federal Reserve	5,755,423	5,755,423
TOTAL	\$ 32,810,863	\$ 20,755,424

Median rate 1.615%: 50% of the amount of accepted competitive tenders as tendered at or below that rate. Low rate 1.595%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

bid-to-Cover Ratio = 27,055,440 / 15,000,001 = 1.80

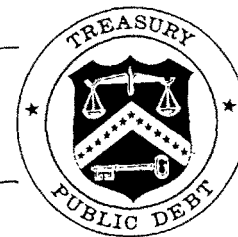
/ Equivalent coupon-issue yield.

/ Awards to TREASURY DIRECT = \$1,188,990,000

<http://www.publicdebt.treas.gov>

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PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
August 26, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term: 182-Day Bill
Issue Date: August 29, 2002
Maturity Date: February 27, 2003
CUSIP Number: 912795MA6

High Rate: 1.635% Investment Rate 1/: 1.672% Price: 99.173

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 69.85%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
-----	-----	-----
Competitive	\$ 23,106,408	\$ 12,093,708
Noncompetitive	1,590,330	1,590,330
FIMA (noncompetitive)	316,000	316,000
-----	-----	-----
SUBTOTAL	25,012,738	14,000,038 2/
Federal Reserve	5,490,949	5,490,949
-----	-----	-----
TOTAL	\$ 30,503,687	\$ 19,490,987

Median rate 1.610%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.580%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

End-to-Cover Ratio = 25,012,738 / 14,000,038 = 1.79

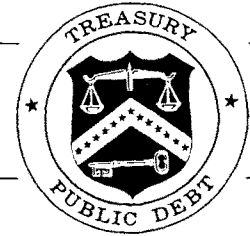
Equivalent coupon-issue yield.

Awards to TREASURY DIRECT = \$1,136,814,000

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PUBLIC DEBT NEWS



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

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

FOR IMMEDIATE RELEASE
August 27, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term: 28-Day Bill
Issue Date: August 29, 2002
Maturity Date: September 26, 2002
CUSIP Number: 912795LC3

High Rate: 1.685% 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 31.51%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 60,508,291	\$ 24,967,081
Noncompetitive	33,186	33,186
FIMA (noncompetitive)	0	0
SUBTOTAL	60,541,477	25,000,267
Federal Reserve	2,374,885	2,374,885
TOTAL	\$ 62,916,362	\$ 27,375,152

Median rate 1.670%: 50% of the amount of accepted competitive tenders as 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.

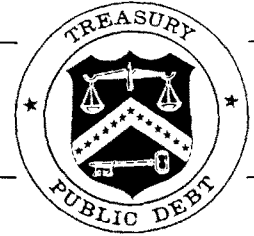
id-to-Cover Ratio = 60,541,477 / 25,000,267 = 2.42

/ Equivalent coupon-issue yield.

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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
August 28, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate:	2 1/8%	Issue Date:	September 03, 2002
Series:	R-2004	Dated Date:	August 31, 2002
CUSIP No:	912828AK6	Maturity Date:	August 31, 2004

High Yield: 2.220% Price: 99.816

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 6.14%. All tenders at lower yields were accepted in full.

Accrued interest of \$ 0.17610 per \$1,000 must be paid for the period from August 31, 2002 to September 03, 2002.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	\$ 59,742,200	\$ 25,849,003
Noncompetitive	1,151,194	1,151,194
FIMA (noncompetitive)	0	0
SUBTOTAL	60,893,394	27,000,197 1/
Federal Reserve	7,536,533	7,536,533
TOTAL	\$ 68,429,927	\$ 34,536,730

Median yield 2.200%: 50% of the amount of accepted competitive tenders as tendered at or below that rate. Low yield 2.150%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

bid-to-Cover Ratio = 60,893,394 / 27,000,197 = 2.26

1/ Awards to TREASURY DIRECT = \$904,030,000

1-3377

<http://www.publicdebt.treas.gov>

TREASURY



NEWS

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

For Immediate Release
August 28, 2002

Contact: Tony Fratto
(202) 622-2960

LORI FORMAN NAMED ALTERNATE EXECUTIVE DIRECTOR, ASIAN DEVELOPMENT BANK

Treasury Secretary Paul O'Neill announced today the appointment of Lori A. Forman as Alternate U.S. Executive Director of the Asian Development Bank, effective September 14. "We are delighted to have Lori in this position. With her strong background in Asia and development issues she will make an excellent contribution to the Administration's international finance team."

The Asian Development Bank (ADB) is a multilateral development finance institution working to increase economic growth and reduce poverty in 60 Asian and Pacific countries. The ADB is based in Manila, Philippines.

Prior to this appointment, Forman served as the Assistant Administrator for Asia and the Near East of the U.S. Agency for International Development (USAID). As head of the Bureau for Asia and the Near East, Forman was responsible for USAID programs in more than 30 countries ranging from the Mediterranean to the South Pacific. Forman also served at USAID from 1983 to 1990 in senior advisory positions in the Bureau for Asia and the Near East and the Bureau for Food for Peace and Voluntary Assistance. She was the agency's coordinator of the U.S.-Japan aid project from 1989 to 1990.

In between appointments at USAID, Forman was director of The Nature Conservancy's Japan Program from 1990 to 2001 in Arlington, Va., and Tokyo, Japan, where she was also a visiting professor on the Faculty of Law at Keio University. In early 1990, she was executive vice president of Pacific Management Resources Inc. in Honolulu.

Forman has written and presented extensively on development assistance, humanitarian aid, non-governmental organizations, and the environment.

PO-3378

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Among her awards are an Award of Appreciation, Asociacion Nacional para la Conservacion de la Naturaleza, Panama (1999); selection as international advisor, Keidanren Nature Conservation Committee, Tokyo (1995); and being named one of Ten Outstanding Young People of the Year, Osaka Junior Chamber of Commerce, Osaka, Japan.

A native of South Dakota, Forman has a bachelor's degree in political science from Augustana College in Sioux Falls and a master's of public policy from the John F. Kennedy School of Government at Harvard University.

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NEWS

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

For Immediate Release
Thursday, August 29, 2002

Contact: Tasia Scolinos
(202) 622-2960

Statement by U.S Treasury Secretary for Enforcement Jimmy Gurulé in Support of Today's New Terrorist Financing Designations

In a significant action in our ongoing campaign against terrorism, today, our two nations – the United States and Italy - are blocking the property of 25 individuals and entities based on their support for terrorism. This action furthers international efforts to shut down identified terrorist financing networks using targeted freezing actions under domestic and international law. In accordance with relevant United Nations procedures, we are submitting these names to the United Nations for listing by the UN 1267 Sanctions Committee because of the connections between these entities and individuals and Al Qaida.

Of the 25 new designations, the 11 individuals are related to the Salafist Group for Call and Combat ("GSPC"), a separatist faction of the Gruppo Islamico Armato ("GIA"). The GSPC, an Algerian-based terrorist organization that continues to operate in North Africa as well as Italy, is a lethal terrorist group and its members support and finance terrorism around the globe. The United States designated both the GSPC and the GIA on September 24, 2001, and the United Nations placed them both on the list of terrorist entities linked to Al-Qaida on October 8, 2002.

Fourteen of the 25 entities designated today are owned or controlled by either Ahmed Idris Nasreddin or Youssef Nada. Both of these individuals have been previously designated as supporters of terrorism and the Al Qaida network by the United States and the international community under U.N. Security Council Resolutions 1267, 1333 and 1390. Today's action is another step toward shutting down the terrorist-financing network orchestrated by Nada and Nasreddin. This designation of additional corporate holdings will further choke the flow of funds that facilitate the financing of terrorism.

The simultaneous blocking of the assets of these individuals and entities by Italy and the United States demonstrates the international commitment to choke off the sources of financing for terrorist acts. This particular designation is also unique, in that it is the direct result of the collaborative and cooperative efforts of not just two, but four nations - the United States, Italy, the Bahamas, and Luxembourg - working together toward a common goal.

All four of those nations provided financial information, investigative assistance, or key documents or support – which allowed us to make the case necessary for today's designation.

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Today's action demonstrates the commitment of the international coalition to the fight against terrorist financing.

We are confident that our efforts are having real-world effects. Al Qaida and other terrorist organizations are suffering financially as a result of our actions. We also believe that potential donors are being more cautious about giving money to organizations where they fear that the money might wind up in the hands of terrorists. In addition, greater regulatory scrutiny in financial systems around the world is further marginalizing those who would support terrorist groups and activities.

Our top priority is to prevent terrorist attacks by disrupting terrorist finances. As President Bush has said, we seek to "starve the terrorists of funding." Today's joint designation with Italy demonstrates our commitment to exposing, isolating and incapacitating the financial infrastructure of terrorist organizations worldwide. This action is one more measure that we and the international community are taking to attack terrorist financing.

We have a strong history of international cooperation in freezing terrorist-related assets. Over 160 countries have blocking orders in force, hundreds of accounts worth more than \$70 million have been blocked abroad, and foreign law enforcement have acted swiftly to shut down terrorist financing networks and arrest financiers. There have been other shared initiatives. On March 11, 2002, the United States and Saudi Arabia jointly designated two branches of a charity, and on April 19, 2002, the G7 jointly designated nine individuals and one entity. These efforts have been bolstered by actions from the European Union which has issued three lists of designated terrorists and terrorist groups for blocking. Since September 11th, the United States and other countries combined have frozen more than \$112 million in terrorist-related assets. As a result of our efforts – including today's action - 234 individuals and entities are currently designated as financiers of terror.

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NEWS

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For Immediate Release
Thursday, August 29, 2002

Contact: Tasia Scolinos
(202) 622-2960

The United States and Italy Designate Twenty-Five New Financiers of Terror

“The President’s September 23rd Executive Order made plain that those who underwrite violence bear equal culpability to those who perpetrate it. Feigned indifference, willful blindness, and the appearance of normalcy and status in the world of business or commerce will no longer provide cover or safe harbor – here or abroad. Today’s action makes clear that we are serious about shutting down any company or organization that is in the business of supporting terrorism.”

Treasury Secretary Paul O’Neill

Today, in a significant action in our ongoing campaign against terrorism, our two nations – the United States and Italy - are blocking the assets of twenty-five individuals and entities based on their support for terrorism. This action furthers international efforts to shut down identified terrorist financing networks using targeted freezing actions under domestic and international law. In accordance with relevant United Nations procedures, we are submitting these names to the United Nations for listing by the UN 1267 Sanctions Committee because of the connections between these entities and individuals and Al-Qaida.

Of today’s twenty-five designations, all eleven individuals are related to the Salafist Group for Call and Combat (“GSPC”), a separatist faction of the “Gruppo Islamico Armato (GIA).” The GSPC, an Algerian-based terrorist organization that continues to operate in North Africa, Spain and Italy, is a lethal terrorist group whose members support and finance terrorism around the globe. The United States designated both the GSPC and the GIA on September 24, 2001, and the United Nations placed them both on the list of terrorist entities linked to Al-Qaida on October 8, 2001.

Fourteen of the twenty-five are entities that are owned or controlled by either Ahmed Idris Nasreddin or Youssef Nada, both of whom have been previously designated as supporters of terrorism by the United States and the international community under U.N. Security Council Resolutions 1267, 1333 and 1390. These entities are part of an extensive financial network providing support to Al-Qaida and other terrorist related organizations.

PO-3380

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This designation of additional corporate holdings will further choke the flow of funds that facilitate the financing of terrorism by disrupting the sources of their funding through their financial network.

The simultaneous blocking of the assets of these individuals and entities by Italy and the United States demonstrates the international commitment to choke off the sources of financing for terrorist acts. This particular designation is also unique in that it is the direct result of the collaborative and cooperative efforts of not just two, but four nations - the United States, Italy, the Bahamas, and Luxembourg - working together toward a common purpose. All four of those nations provided financial information, investigative assistance, or key documents or support – which allowed us to make the case necessary for today’s designation.

Since September 11th, the United States and other countries have frozen more than \$112 million in terrorist-related assets. As a result of our efforts – including today’s action - 234 individuals and entities are currently designated as financiers of terror.

Information About the New Designations

I. Individuals Linked to the Salafist Group for Call and Combat

Italy and the United States have concluded that each of these eleven individuals are related to the Salafist Group for Call and Combat (“GSPC”), which has supported Al-Qaida activities. They are implicated in preparing or organizing terrorist acts in the following specific ways:

1. **Adel Ben Soltane**

Ben Soltane, a known member of the GSPC, has been convicted for criminal conspiracy on the following counts: trafficking in arms, explosives, and chemical weapons, receiving stolen goods, making and using false documents, and for facilitating the entry of illegal immigrants into Italy. Ben Soltane was also involved in and arrested for the preparation of an attack against the U.S. Embassy in Rome and for being in contact and communicating with other terrorist groups.

2. **Nabil Benattia**

Nabil Benattia has been charged with conspiracy of involvement with a criminal association and he is also under indictment for conspiracy to traffic in arms, explosives, chemical weapons and identity papers, and also for receiving stolen goods and aiding illegal immigration.

3. **Yassine Chekkouri**

Yassine Chekkouri has been charged with conspiracy of involvement with a criminal association and he is currently under arrest for conspiracy to traffic in arms, explosives, chemical weapons and identity papers, and also for receiving stolen goods and aiding illegal immigration. Italian authorities report that Scotland Yard investigators believe Chekkouri is “one of the highest” men in the Al Qaida organization.

4. **Riadh Jelassi**

Riadh Jelassi has been charged with conspiracy of involvement with a criminal association as a member of the GSPC. He has been sentenced to 4 years and 6 months in prison for criminal conspiracy to traffic in arms, receiving stolen goods, making and using false documents, and for facilitating the entry of illegal immigrants into Italy.

5. **Mehdi Kammoun**

Mehdi Kammoun has been charged with conspiracy of involvement with a criminal association as a member of the GSPC, and has been sentenced to a 5 year and 10 month term for having organized a cell in Gallarate tied to Al Qaida. Kammoun was also convicted for conspiracy to traffic in arms, explosives, and chemical weapons, for receiving stolen goods, making and using forged documents, and facilitating illegal immigration to Italy.

6. **Samir Kishk**

Samir Kishk has been charged with conspiracy of involvement with criminal association as a member of the GSPC. He has been indicted and is under arrest for participation in a criminal conspiracy to traffic in arms, explosives, chemical weapons, identity papers, receiving stolen goods and aiding illegal immigration.

7. **Tarek Ben Habib Maaroufi**

Tarek Ben Habib Maaroufi has been charged with conspiracy of involvement with a criminal association as a member of the GSPC, and is wanted by Italian authorities for participating in a criminal conspiracy to traffic in arms, explosives, weapons and identity papers. He is under arrest in Belgium for criminal conspiracy, criminal association (GSPC), counterfeiting identity papers, and recruiting for a foreign army or armed force. Maaroufi is suspected of having provided the counterfeit identity papers to one of the killers of anti-Taliban leader, Ahmed Shah Massoud.

8. **Abdelhalim Remadna**

Abdelhalim Remadna has been charged with conspiracy of involvement with criminal association and is under arrest for participation in a criminal conspiracy to traffic in arms, explosives, chemical weapons, identity papers, receiving stolen goods, and aiding illegal immigration. Italian authorities have indicated that they have proof of direct telephone contact between Remadna and Abu Jaafar, who is considered to be the number three leader within Al Qaida. Remadna is also identified by the Italian authorities as being an aide to Es Sayed, a previously designated SDGT.

9. **Mansour Thaer**

Mansour Thaer has been charged with conspiracy of involvement with criminal association and is under arrest in Germany. Thaer has been investigated in Italy for his links with a terrorist cell, and for participation in a criminal conspiracy to traffic in arms, explosives, chemical weapons, identity papers, receiving stolen goods and aiding illegal immigration.

10. **Lazhar Ben Mohammed Tlili**

Lazhar Ben Mohammed Tlili has been charged with conspiracy of involvement with criminal association and is wanted by Italian authorities for his participation in a criminal conspiracy to traffic in arms, explosives, chemical weapons, identity papers, receiving stolen goods and aiding illegal immigration.

11. **Habib Waddani**

Habib Waddani has been charged with conspiracy of involvement with a criminal association as a member of the GSPC. He has been indicted for participating in a criminal conspiracy to traffic in arms, explosives, chemical weapons, identity papers, receiving stolen goods and aiding illegal immigration.

II. Nada/Nasreddin Network

Based on information available to Italy and the United States, Youssef Nada ("Nada") and Ahmed Idris Nasreddin ("Nasreddin"), through commercial holdings, operate an extensive financial network providing support for terrorist related activities. In the case of Nada and Nasreddin, this involves an extensive conglomeration of businesses from which they derive their income or through which they conduct transactions. Based on evidence of their support of terrorism, Nada and Nasreddin were previously designated by the international community as financiers of terror. Nada was designated by the United States on November 7, 2001, and by the United Nations on November 9, 2001. Nasreddin was designated by the G7 on April 19, 2002, and by the United Nations on April 24, 2002. Nasreddin's corporate holdings and financial network provide direct support for Nada and Bank Al Taqwa, which was also previously designated by the United States on November 7, 2001, and the United Nations on November 9, 2001. This designation of fourteen additional entities owned or controlled by either Nada or Nasreddin will further restrict their assets and their network by precluding these companies from being used to provide funding or support for terrorism.

Nasreddin and Nada, who have worked closely together for many years, are both directors of Bank Al Taqwa and Akida Bank. Nada holds a controlling interest in Bank Al Taqwa and Nasreddin holds a controlling interest in Akida Bank. Bank Al Taqwa and Akida Bank are not functional banking institutions in the conventional sense. They are shell companies lacking a physical presence and sharing the same address in the Bahamas where they were licensed. For this reason the licenses of Bank Al Taqwa and Akida Bank have been revoked by the Bahamian government.

Bank Al Taqwa, for which Nasreddin is a director, was established in 1988 with significant backing from the Muslim Brotherhood. They have been involved in financing radical groups such as the Palestinian Hamas, Algeria's Islamic Salvation Front and Armed Islamic Group, Tunisia's An-Nahda, and Usama bin Laden and his Al Qaida organization. Bank Al Taqwa was established in the Bahamas and is a close affiliate of the Al Taqwa Management Organization, which changed its name in the spring of 2000 to the Nada Management Organization. In 1997, it was reported that the \$60 million collected annually for Hamas was moved to Bank Al Taqwa accounts. As of October 2000, Bank Al Taqwa appeared to be providing a clandestine line of credit to a close associate of Usama bin Laden and as of late September 2001, Usama bin Laden and his Al Qaida organization received financial assistance from Youssef M. Nada.

Nada and Nasreddin own or control a number of business entities through direct ownership, control, or in cooperation with each other. Fourteen of these entities are being designated in furtherance of the prior designations of these two individuals to disrupt their use of assets under their ownership or control that could be used to finance terrorist activities.

12. Akida Bank Private Limited

Nasreddin, who serves as Akida Bank's president, also serves on the board of directors of Akida Bank along with Youssef Nada. According to corporate documents, the Nasreddin Foundation, an entity proposed for designation, owns an overwhelming majority of shares of Akida Bank, affording Ahmed Idris Nasreddin and the Nasreddin Foundation ownership and control of Akida Bank.

13. Akida Investment Co. Ltd.

Akida Investment Co. Ltd. was incorporated in the Bahamas in March 2001. Corporate documents indicate that as of April 2001, all of the assets and liabilities of Akida Bank Private Limited have been transferred to Akida Investment Company.

14. Nasreddin Group International Holding Limited

According to corporate documents, Ahmed Idris Nasreddin is the Chairman of the Board of Directors of Nasreddin Group International Holding Limited. In addition, Nasreddin Group International Holding Limited is one of the few entities with which Akida Bank conducts business.

15. Nasco Nasreddin Holding A.S.

Fully 67.5 percent of the outstanding voting capital of Nasco Nasreddin Holding A.S. is owned by Nasreddin International Group Limited Holding, an entity owned or controlled by Nasreddin. In addition, Nasreddin also holds 1.875% of the voting capital in his own name. Nasco Nasreddin Holding A.S. is an affiliate of Akida Bank.

16. Nascotex S.A.

Nasreddin is the Chief Executive of Nascotex S.A., which is also an affiliate of Akida Bank and one of a few entities with which Akida Bank conducts business.

17. Nasreddin Foundation

According to corporate documents from 2000, the Nasreddin Foundation owns a vast majority of shares of Akida Bank, affording Ahmed Idris Nasreddin and the Nasreddin Foundation ownership and control of Akida Bank. Although the Nasreddin Foundation (a.k.a. Nasreddin Stiftung) has been dissolved since at least 1993, the company, or at least its name, has been used in business transactions as recently as 2000.

18. Ba Taqwa for Commerce and Real Estate Company Limited

Youssef Nada and Ali Ghaleb Himmat, both persons designated by the United States on November 7, 2001, and by the United Nations on November 9, 2001, are identified as principals of Ba Taqwa for Commerce and Real Estate Company Limited.

19. Miga-Malaysian Swiss, Gulf and African Chamber

Ahmed Idris Nasreddin is identified as the President of Miga-Malaysian Swiss, Gulf and African Chamber, and exercises sole signatory authority on behalf of the organization.

20. Gulf Center S.R.L.

Ahmed Idris Nasreddin is the Sole Administrator of Gulf Center S.R.L.

21. Nascoservice S.R.L.

Ahmed Idris Nasreddin is the Sole Administrator of Nascoservice S.R.L.

22. NASCO Business Residence Center SAS Di Nasreddin Ahmed Idris EC

Ahmed Idris Nasreddin is identified as the unlimited partner of NASCO Business Residence Center.

23. Nasreddin Company Nasco SAS Di Ahmed Idris Nasreddin EC

Ahmed Idris Nasreddin is the unlimited partner of Nasreddin Company Nasco SAS Di Ahmed Idris Nasreddin EC.

24. Nada International Anstalt

Youssef Nada and Ali Ghaleb Himmat, both persons designated by the United States on November 7, 2001, and by the United Nations on November 9, 2001, are identified as principals of Nada International Anstalt.

25. Nasreddin International Group Limited Holding

Ahmed Idris Nasreddin was an original member of the Board of Directors of Nasreddin International Group Limited Holding when the company was founded in 1977. Since the late 1980's the company has been administered by a holding company, though the company still bears Nasreddin's name. Nasreddin International Group Limited Holding is an affiliate of Akida Bank.



For Immediate Release
Thursday, August 29, 2002

Contact: Rob Nichols
(202) 622-2910

Treasury Statement on UN Terrorism Report

Since September 11th, the United States has been working very closely with the international community and the United Nations (UN) 1390 Sanctions Committee on targeted financial sanctions to freeze the assets of terrorists and their networks.

The United Nations and the Committee have taken this fight seriously, and it is again encouraging to see the UN focus on the threat Al Qaida poses to the international community of civilized nations. We agree with this sense of urgency and call on all countries, as we have done consistently since 9/11, to take preventative, proactive steps to attack the financial network of al Qaida and other terrorist groups.

That being said, the monitoring report from the 1390 Committee is limited in scope because it bases its analysis in large part on the reports submitted by countries pursuant to UNSCR 1373 and on research done by members of that committee. These reports and the committee's research, though very important, do not provide a complete picture of the success of our overall campaign to date. The report cited by the Washington Post today does not focus on other elements of the campaign against terrorist financing. As a result, it is an incomplete picture of the financial war against terrorism.

International cooperation has been strong and consistent. Since September 11th, the United States and other countries have frozen more than \$112 million in terrorist-related assets. As a result of our efforts - including today's action adding 25 additional individuals and entities to the list - 234 individuals and entities are currently designated as financiers of terror and their access to the international financial system is blocked. We have a strong history of international cooperation in freezing terrorist-related assets. Over 160 countries have blocking orders in force, hundreds of accounts worth more than \$70 million have been blocked abroad, and foreign law enforcement have acted swiftly to shut down terrorist financing networks and arrest financiers.

PO-3382



Shutting down Al Qaida finances is not just about sanctions. We are pleased with the success of the terrorist financing efforts, but dollars seized is the narrowest measure of success. The point isn't grabbing dollars in bank accounts when freezing orders go into place, it is destroying the financial infrastructure of terrorism. That means seizing money, but it also means dismantling the channels of funding, deterring those who would give aid and support to terrorists, and following the leads to terrorist cells. For example, the German government just yesterday charged a money handler for the 9/11 plots, and the U.S. government this week announced the indictment of 6 individuals suspected of conspiring to provide material support to terrorists. In addition, Operation Green Quest - a Treasury -led inner-agency task force - has seized over \$16 million in bulk cash being smuggled.

Our top priority is to prevent terrorist attacks by disrupting terrorist finances. We are committed to exposing, isolating and incapacitating the financial infrastructure of terrorist organizations worldwide. The President has made clear that this is a long, difficult struggle. The effort to shut down financial support is very difficult. We have made much progress, and much remains to be done.

We are confident that our efforts are having real-world effects. Al Qaida and other terrorist organizations are suffering financially as a result of our actions. We also believe that potential donors are being more cautious about giving money to organizations where they fear that the money might wind up in the hands of terrorists. In addition, greater regulatory scrutiny in financial systems around the world is further marginalizing those who would support terrorist groups and activities.

Admittedly, there is much more work to do, and we must do so with urgency. Since 9/11, the U.S. government and the world have been identifying gaps in our efforts and have been working diligently to deal with these issues, like the abuse of charities and hawalas. Our campaign against terrorist financing is a long term and complex endeavor that requires concrete actions from the international community. The fight against Al Qaida and terrorism demands this type of commitment.

TREASURY



NEWS

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STATEMENT OF DEPUTY TREASURY SECRETARY KEN DAM

As the President has stated, the United States will comply with the WTO decision in this case. Therefore, I am confident that today's findings regarding damages will be rendered moot by our coming into compliance. We look forward to working with the Congress to enact changes to our tax law that will preserve the competitiveness of U.S. businesses and American workers while honoring our WTO obligations.

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