Department of the Treasury

PRESS RELEASES

FROM THE OFFICE OF PUBLIC AFFAIRS

November 1, 2002
PO-3591

Media Advisory: United States and Jersey will sign Tax Information Exchange Agreement on Monday

Treasury Secretary Paul H. O'Neill will hold the United States-Jersey tax information exchange agreement signing ceremony at 4:00 p.m. EST on Monday, November 4, 2002 in the Treasury Department's Diplomatic Reception Room (Room 3311), 1500 Pennsylvania Avenue, NW. Treasury Secretary O'Neill and Senator Pierre Horsfall, President of Jersey's Policy and Resources Committee, will be signing the tax information exchange agreement.

The Room will be available for pre-set at 3:30 p.m.

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

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
November 04, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	November 07, 2002
Maturity Date:	February 06, 2003
CUSIP Number:	912795LX7

High Rate: 1.410% Investment Rate 1/: 1.433% Price: 99.644

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 72.15%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 38,210,590	$ 15,149,463
Noncompetitive	1,600,762	1,600,762
FIMA (noncompetitive)	250,000	250,000
SUBTOTAL	40,061,352	17,000,225 2/
Federal Reserve	5,795,696	5,795,696
TOTAL	$ 45,857,048	$ 22,795,921

Median rate 1.400%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.370%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 40,061,352 / 17,000,225 = 2.36

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,284,729,000

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 11:00 A.M.
November 4, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $16,000 million to refund an estimated $14,000 million of publicly held 4-week Treasury bills maturing November 7, 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 $13,282 million of the Treasury bills maturing on November 7, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders in this auction up to the balance of the amount not awarded in today's 13-week and 26-week Treasury bill auctions. Amounts awarded to SOMA will be in addition to the offering amount.

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

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

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

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

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

oOo

Attachment

PO-3594

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

November 4, 2002

Offering Amount .... $16,000 million
Public Offering .... $16,000 million
NLP Exclusion Amount .... $10,400 million

Description of Offering:
Term and type of security .... 28-day bill
CUSIP number .... 912795 LN 9
Auction date .... November 5, 2002
Issue date .... November 7, 2002
Maturity date .... December 5, 2002
Original issue date .... June 6, 2002
Currently outstanding .... $41,465 million
Minimum bid amount and multiples ... $1,000

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

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

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

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

FROM THE OFFICE OF PUBLIC AFFAIRS

November 4, 2002
PO-3595

Treasury Secretary O'Neill Signing Ceremony Statement
United States and Jersey Sign
Agreement to Exchange Tax Information

Today Treasury Secretary Paul O'Neill signed a new agreement with Jersey that will allow for exchange of information on tax matters between the United States and Jersey. The agreement was signed by Treasury Secretary Paul O'Neill and Senator Pierre Horsfall, President of the Policy and Resources Committee of the States of Jersey, the Island's parliament.
At the signing ceremony, Treasury Secretary Paul O'Neill delivered the following remarks:

I would like to thank you all for being here today and welcome our friends from Jersey, especially the President of Jersey's Policy and Resources Committee, Senator Pierre Horsfall. I also want to extend a very warm welcome to Mr. John Mills, who is chief executive to Jersey's Policy and Resources Department.

Today cooperation between governments is more important than ever before as we work to ensure that no safe haven exists anywhere in the world for the funds associated with illicit activities, including terrorism, money laundering, and tax evasion. The United States and Jersey already have a close and cooperative relationship on law enforcement matters, including criminal tax matters. We are well aware of Jersey's commitment to cooperation in targeting criminal abuse of the world's financial systems.
This new agreement will formalize and streamline our current cooperation in criminal tax matters and will allow exchange of information on specific request in civil tax matters as well. This agreement is an important development, and further demonstrates Jersey's long standing commitment to cooperating with the United States on law enforcement matters and to upholding international standards in this area.

I have spoken on numerous occasions about our obligation to enforce our tax laws, because failing to do so undermines the confidence of honest taxpayers in the fairness of our tax system. Access to needed information is vital to our efforts to ensure enforcement of our laws.

As many of you know, last summer I made a public commitment in Congressional testimony, to expand our network of tax information exchange relationships.

The significant progress we have made toward that goal, with recent agreements with the Cayman Islands, Antigua and Barbuda, The Bahamas, the British Virgin Islands, the Netherlands Antilles, Guernsey, and the Isle of Man, demonstrates the depth of our commitment.

Today's agreement with Jersey, an important financial center of Europe, further demonstrates our commitment to securing cooperation from around the world. We will continue to work vigorously to improve our tax information exchange relationships, and I look forward to gathering here again in the coming weeks to announce additional agreements with other countries.

text of agreement is attached

EMBARGOED UNTIL
4 PM Thursday November 4, 2002

AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE STATES OF JERSEY FOR THE EXCHANGE OF INFORMATION RELATING TO TAXES

Whereas Jersey has long been active in international efforts in the fight against financial and other crimes, including recent efforts involving terrorist financing;

Whereas the Internal Revenue Service of the United States has determined Jersey's "know your customer" rules to be acceptable for purposes of the Qualified Intermediary regime, which provides simplified withholding and reporting obligations for payments of income from the United States to an account holder through one or more foreign intermediaries;

Whereas the Government of the United States and the Government of the States of Jersey ("the parties") recognise that present legislation already provides for the exchange of information in criminal tax matters, which under current practice is conducted by the United States through the Department of Justice and by Jersey through its Attorney General;

Whereas the parties wish to establish the terms and conditions governing the exchange of information relating to taxes;

Now, therefore, the parties have agreed as follows:

ARTICLE 1
SCOPE OF THE AGREEMENT

The parties shall provide assistance through exchange of information that is foreseeably relevant to the administration and enforcement of the domestic laws of the parties concerning the taxes covered by this Agreement, including information that is foreseeably relevant to the determination, assessment, enforcement or collection of tax with respect to persons subject to such taxes, or to the investigation or prosecution of criminal matters in relation to such persons.

ARTICLE 2
JURISDICTION

To enable the scope of this Agreement to be implemented, information shall be provided in accordance with this Agreement by the competent authority of the requested party without regard to whether the person to whom the information relates is, or whether the information is held by, a resident of a party. A requested party is not obliged to provide information which is neither held by its authorities nor in the possession of persons who are within its territorial jurisdiction.

ARTICLE 3
TAXES COVERED

1. This Agreement shall apply to the following taxes imposed by the parties:
   (a) in the case of the United States, all federal taxes,
   (b) in the case of Jersey, all insular taxes.

2. This Agreement shall apply also to any identical or substantially similar taxes imposed after the date of signature of the Agreement in addition to or in place of the existing taxes if the parties so agree. The competent authority of each party shall notify the other of changes in laws which may affect the obligations of that party pursuant to this Agreement.

3. This Agreement shall not apply to the extent that an action or proceeding concerning taxes covered by this Agreement is barred by the requesting party's statute of limitations.

4. This Agreement shall not apply to taxes imposed by states, municipalities or other political subdivisions, or possessions of a party.

ARTICLE 4
DEFINITIONS

1. In this Agreement:

"competent authority" means, for the United States, the Secretary of the Treasury or his delegate, and for Jersey, the Comptroller of Income Tax or his delegate, except that until a date not later than January 1, 2006, Her Majesty's Attorney General for Jersey may act as the competent authority in respect of criminal tax matters;

"criminal laws" means all criminal laws designated as such under domestic law, irrespective of whether contained in the tax laws, the criminal code or other statutes;

"criminal tax matters" means tax matters involving intentional conduct which is liable to prosecution under the criminal laws of the requesting party;

"information gathering measures" means judicial, regulatory, criminal or administrative procedures enabling a requested party to obtain and provide the information requested;

"information" means any fact, statement, document or record in whatever form;

"person" means a natural person, a company or any other body or group of persons;

"requested party" means the party to this Agreement which is requested to provide or has provided information in response to a request;

"requesting party" means the party to this Agreement submitting a request for or having received information from the requested party;

"resident" means:

(a) in the case of the United States, any United States citizen and any legal person, partnership, corporation, trust, estate, association, or other entity deriving its status as such from the laws in force in the United States; and

(b) in the case of Jersey, any person resident in Jersey for the purposes of the Income Tax (Jersey) Law 1961, as amended.

"tax" means any tax covered by this Agreement.

2. For purposes of determining the geographical area within which jurisdiction to compel production of information may be exercised, the term "United States" means the United States of America, including Puerto Rico, the Virgin Islands, Guam, and any other United States possession or territory.

For purposes of determining the geographical area within which jurisdiction to compel production of information may be exercised, the term "Jersey" means the island of Jersey.

3. Any term not defined in this Agreement, unless the context otherwise requires or the competent authorities agree to a common meaning pursuant to the provisions of Article 10, shall have the meaning which it has under the laws of the parties relating to the taxes which are the subject of this Agreement.

ARTICLE 5
EXCHANGE OF INFORMATION UPON REQUEST

1. The competent authority of the requested party shall provide upon request by the requesting party information for the purposes referred to in Article 1. Such information shall be exchanged without regard to whether the requested party needs such information for its own tax purposes or the conduct being investigated would constitute a crime under the laws of the requested party if it had occurred in the territory of the requested party. The competent authority of the requesting party shall only make a request for information pursuant to this Article when it is unable to obtain the requested information by other means, except where recourse to such means would give rise to disproportionate difficulty.

2. If the information in the possession of the competent authority of the requested party is not sufficient to enable it to comply with the request for information, the requested party shall take all relevant information gathering measures to provide the requesting party with the information requested, notwithstanding that the requested party may not, at that time, need such information for its own tax purposes.

3. If specifically requested by the competent authority of the requesting party, the competent authority of the requested party shall provide information under this Article, to the extent allowable under its domestic laws, in the form of depositions of witnesses and authenticated copies of original records.

4. Each party shall ensure that it has the authority, for the purposes referred to in Article 1 of this Agreement and subject to Article 2 of this Agreement, to obtain and provide, through its competent authority and upon request:

(a) information held by banks, other financial institutions, and any person, including nominees and trustees, acting in an agency or fiduciary capacity;

(b) information regarding the beneficial ownership of companies, partnerships and other persons, including in the case of collective investment funds, information on shares, units and other interests; and in the case of trusts, information on settlors, trustees and beneficiaries, provided that this Agreement does not create an obligation for a party to obtain or provide ownership information with respect to publicly traded companies or public collective investment funds, unless such information can be obtained without giving rise to disproportionate difficulties.

5. Any request for information made by a party shall be framed with the greatest degree of specificity possible. In all cases, such requests shall specify in writing the following:

(a) the identity of the taxpayer under examination or investigation;

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

(c) the nature of the information requested and the form in which the requesting party would prefer to receive it;

(d) the matter under the requesting party's tax law with respect to which the information is sought;

(e) the reasons for believing that the information requested is foreseeably relevant or material to tax administration and enforcement of the requesting party, with respect to the person identified in subparagraph (a) of this paragraph;

(f) reasonable grounds for believing that the information requested is present in the requested party or is in the possession of a person within the jurisdiction of the requested party;

(g) to the extent known, the name and address of any person believed to be in possession or control of the information requested;

(h) a statement that the request conforms to the law and administrative practice of the requesting party and would be obtainable by the requesting party under its laws or in the normal course of administrative practice in similar circumstances, both for its own tax purposes and in response to a valid request from the requested party under this Agreement;

(i) a statement that the requesting party has pursued all reasonable means available in its own territory to obtain the information, except where that would give rise to disproportionate difficulty.

ARTICLE 6
TAX INVESTIGATIONS ABROAD

1. By reasonable notice given in advance, a party may request that the other party allow officials of the requesting party to enter the territory of the requested party, to the extent permitted under its domestic laws, to interview individuals and examine records with the prior written consent of the individuals concerned. The competent authority of the requesting party shall notify the competent authority of the requested party of the time and place of the intended meeting with the individuals concerned.

2. At the request of the competent authority of the requesting party, the competent authority of the requested party may permit representatives of the competent authority of the requesting party to attend a tax examination in the territory of the requested party.

3. If the request referred to in paragraph 2 is granted, the competent authority of the requested party conducting the examination shall, as soon as possible, notify the competent authority of the requesting party of the time and place of the examination, the authority or person authorised to carry out the examination and the procedures and conditions required by the requested party for the conduct of the examination. All decisions regarding the conduct of the examination shall be made by the requested party conducting the examination.

ARTICLE 7
POSSIBILITY OF DECLINING A REQUEST

1. The competent authority of the requested party may decline to assist:

(a) where the request is not made in conformity with this Agreement;

(b) where the requesting party has not pursued all means available in its own territory to obtain the information, except where recourse to such means would give rise to disproportionate difficulty; or

(c) where the disclosure of the information requested would be contrary to the public policy of the requested party.

2. This Agreement shall not impose upon a party any obligation:

(a) to provide items subject to legal privilege, nor any trade, business, industrial, commercial or professional secret or trade process, provided that information described in Article 5(4) shall not by reason of that fact alone be treated as such a secret or trade process; or

(b) to carry out administrative measures at variance with its laws and administrative practices, provided that nothing in this subparagraph shall affect the obligations of a party under Article 5(4).

3. A request for information shall not be refused on the ground that the tax liability giving rise to the request is disputed by the taxpayer.

4. The requested party shall not be required to obtain and provide information which the requesting party would be unable to obtain in similar circumstances under its own laws for the purpose of the administration/enforcement of its own tax laws or in response to a valid request from the requested party under this Agreement.

ARTICLE 8
CONFIDENTIALITY

1. All information provided and received by the competent authorities of the parties shall be kept confidential.

2. Information provided to the competent authority of a requesting party may not be used for any purpose other than for the purposes stated in Article 1, without the prior express written consent of the requested party.

3. Information provided shall be disclosed only to persons or authorities (including judicial, administrative and Congressional oversight authorities) officially concerned with the purposes specified in Article 1, and used by such persons or authorities only for such purposes or for oversight purposes, including the determination of any appeal. For these purposes, information may be disclosed in public court proceedings or in judicial proceedings.

4. Information provided to a requesting party under this Agreement may not be disclosed to any third party, including an agency or employee of any other government.

ARTICLE 9
COSTS

The requesting party shall reimburse the requested party for all direct costs incurred in providing information pursuant to this Agreement. The respective competent authorities shall consult from time to time with regard to this Article, and in particular the competent authority of the requested party shall consult with the competent authority of the requesting party if the costs of providing information with respect to a specific request are expected to be significant.

ARTICLE 10
MUTUAL AGREEMENT PROCEDURE

Where difficulties or doubts arise between the parties regarding the implementation or interpretation of this Agreement, the respective competent authorities shall use their best efforts to resolve the matter by mutual agreement.

ARTICLE 11
MUTUAL ASSISTANCE PROCEDURE

If both competent authorities of the parties consider it appropriate to do so they may agree to exchange technical know-how, develop new audit techniques, identify new areas of non-compliance, and jointly study non-compliance areas.

ARTICLE 12
ENTRY INTO FORCE

This Agreement shall enter into force when each party has notified the other of the completion of its necessary internal procedures for entry into force. Upon entry into force, it shall have effect for criminal tax matters forthwith and, in respect of other matters covered in Article 1, on January 1, 2006, or such earlier date as may be agreed in an exchange of letters by the competent authorities.

ARTICLE 13
TERMINATION

1. This Agreement shall remain in force until terminated by either party.

2. Either party may terminate this Agreement by giving notice of termination in writing. Such termination shall become effective on the first day of the month following the expiration of a period of three months after the date of receipt of notice of termination by the other party.

3. A party which terminates this Agreement shall remain bound by the provisions of Article 8 with respect to any information obtained under this Agreement.

IN WITNESS WHEREOF the undersigned being duly authorised in that behalf by the respective parties, have signed the Agreement.

DONE at Washington in duplicate this fourth day of November, 2002.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:	FOR THE GOVERNMENT OF THE STATES OF JERSEY:

FROM THE OFFICE OF PUBLIC AFFAIRS

November 4, 2002
PO-3596

James Carter Joins Treasury's Economic Team as Deputy Assistant Secretary for Policy Coordination

Treasury Assistant Secretary for Economic Policy Richard Clarida today announced that James Carter will join the Office of Economic Policy on Monday, November 4th as the Deputy Assistant Secretary for Policy Coordination.

"James brings an extensive background in economic policy to the Treasury Department," stated Richard Clarida, Assistant Secretary for Economic Policy. "His previous experience at the National Economic Council combined with his tenure on Capitol Hill makes him an invaluable asset to the Office of Economic Policy."

Most recently, Mr. Carter served as an Associate Director for the National Economic Council where he assisted with the formulation and implementation of economic policy. He also managed policy coalitions and served on a White House working group on government waste and business subsidies.

Before joining the NEC in February 2001, Mr. Carter served as a senior economist on the staff of Congress' Joint Economic Committee. He has also served as an economic and budget advisor to Senator John Ashcroft (R-MO) and RNC Chairman Haley Barbour. In early 2000, at the invitation of the Russian government, Mr. Carter traveled to Moscow as part of a small international advisory team to assist President Vladimir Putin's transition staff with economic and budget matters.

Mr. Carter's extensive writings have appeared in more than two dozen publications, including USA Today, The Washington Times, Investor's Business Daily, National Review, and The Weekly Standard.

He holds a B.S. in Political Science from Truman State University and a Master of Public Administration from George Mason University.

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 5, 2002
PO-3597

**Air Transportation Stabilization Board
Conditionally Approves Application by Aloha Airlines, Inc.**

WASHINGTON, DC - The Air Transportation Stabilization Board (the Board) announced today its conditional approval of the application by Aloha Airlines, Inc. for a $40.5 million 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, including certain structural and financial enhancements and other conditions identified in the Board's letter to Aloha Airlines, Inc., which is attached below.

Related Documents:

- Aloha. Letter

AIR TRANSPORTATION STABILIZATION BOARD

November 5, 2002

Mr. Glenn Zander
President
and Chief Executive Officer
Aloha Airlines, Inc.
Two Waterfront Plaza, Suite 500
500 Ala Moana Boulevard
Honolulu, Hawaii 96813

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

Dear Mr. Zander:

We refer to the application of Aloha Airlines, Inc. (the "Applicant"), dated June 27, 2002 as supplemented (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 $45 million financing. The Air Transportation Stabilization Board (the "Board") is asked to participate by providing a Federal government guarantee of $40.5 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. Some members of the Board also noted the Applicant's role in the unique Hawaiian aviation market.

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:

> Terms must include certain structural and financial enhancements acceptable to the Board.

> Final loan documents, 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.

Sincerely,

Daniel G. Montgomery
Executive Director

Cc: Edward Gramlich
Kirk Van Tine
Peter Fisher

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

To view or print the PDF content on this page, download the free Adobe® Acrobat® Reader®.

November 5, 2002
PO-3598

Air Transportation Stabilization Board
Conditionally Approves Application by Frontier Airlines, Inc.

WASHINGTON, DC - The Air Transportation Stabilization Board (the Board) announced today its conditional approval of the application by Frontier Airlines, Inc. for a $63 million 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, including increased fees and warrants and other conditions identified in the Board's letter to Frontier Airlines, Inc., which is attached below.

Related Documents:

- Frontier Letter

AIR TRANSPORTATION STABILIZATION BOARD

November 5, 2002

Mr. Paul Tate
Vice President
and Chief Financial Officer
Frontier Airlines, Inc.
7001 Tower Road
Denver, Colorado 80249

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

Dear Mr. Tate:

We refer to the application of Frontier Airlines, Inc. (the "Applicant"), dated June 28, 2002 as supplemented (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 $70 million financing. The Air Transportation Stabilization Board (the "Board") is asked to participate by providing a Federal government guarantee of $63 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.

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 Board must receive additional fees and warrants in amounts and on terms acceptable to the Board.

> Final loan documents, including related collateral security documents and filings, 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 Terms and Conditions included in the Application. All the conditions referred to in the Summary of 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.

Sincerely,

Daniel G. Montgomery
Executive Director

Cc: Edward Gramlich
Kirk Van Tine
Peter Fisher

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
November 05, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	November 07, 2002
Maturity Date:	December 05, 2002
CUSIP Number:	912795LN9

High Rate: 1.430% Investment Rate 1/: 1.449% Price: 99.889

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 39.07%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 46,119,400	$ 15,969,851
Noncompetitive	30,443	30,443
FIMA (noncompetitive)	0	0
SUBTOTAL	46,149,843	16,000,294
Federal Reserve	1,327,932	1,327,932
TOTAL	$ 47,477,775	$ 17,328,226

Median rate 1.420%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.400%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 46,149,843 / 16,000,294 = 2.88

1/ Equivalent coupon-issue yield.

http://www.publicdebt.treas.gov

PO-3599

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
November 05, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Interest Rate:	3%	Issue Date:	November 15, 2002
Series:	G-2007	Dated Date:	November 15, 2002
CUSIP No:	912828AN0	Maturity Date:	November 15, 2007

High Yield: 3.030% Price: 99.862

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 56.30%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 42,945,049	$ 21,829,019
Noncompetitive	171,044	171,044
FIMA (noncompetitive)	0	0
SUBTOTAL	43,116,093	22,000,063 1/
Federal Reserve	1,308,121	1,308,121
TOTAL	$ 44,424,214	$ 23,308,184

Median yield 2.990%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 2.945%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 43,116,093 / 22,000,063 = 1.96

1/ Awards to TREASURY DIRECT = $101,189,000

PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
November 6, 2002

Contact: Stephen Meyerhardt
(202) 691-3792

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

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

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$2,173,632,496
Held in Unstripped Form	$2,004,833,229
Held in Stripped Form	$168,799,266
Reconstituted in October	$16,238,413

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

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

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TABLE V - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, OCTOBER 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	4,847,127	3,454,679	89,400
DQ8		12	AD5	05/15/05	4,260,758	1,959,099	2,301,659	18,100
DR6		10-3/4	AG8	08/15/05	9,269,713	5,913,152	3,356,561	117,805
DU9		9-3/8	AJ2	02/15/06	4,755,916	4,188,587	567,329	25,880
DN5		11-3/4	912800 AA7	11/15/14	5,015,284	1,830,884	3,184,400	78,684
DP0		11-1/4	912803 AA1	02/15/15	10,520,299	9,131,809	1,388,490	321,500
DS4		10-5/8	AC7	08/15/15	4,023,916	3,448,395	575,521	198,840
DT2		9-7/8	AE3	11/15/15	5,584,859	3,516,878	2,067,981	266,800
DV7		9-1/4	AF0	02/15/16	5,431,754	4,607,414	824,340	133,795
DW5		7-1/4	AH6	05/15/16	18,823,551	18,449,438	374,113	194,120
DX3		7-1/2	AK9	11/15/16	18,787,448	17,685,499	1,101,949	536,391
DY1		8-3/4	AL7	05/15/17	15,559,169	8,455,570	7,103,599	1,337,580
DZ8		8-7/8	AM5	08/15/17	10,968,358	7,524,573	3,443,785	475,400
EA2		9-1/8	AN3	05/15/18	6,717,439	2,827,338	3,890,101	555,830
EB0		9	AP8	11/15/18	7,174,470	2,880,311	4,294,159	188,500
EC8		8-7/8	AQ6	02/15/19	13,090,498	7,856,999	5,233,499	622,400
ED6		8-1/8	AR4	08/15/19	18,940,932	17,803,748	1,137,184	183,360
EE4		8-1/2	AS2	02/15/20	9,476,268	6,512,465	2,963,803	80,400
EF1		8-3/4	AT0	05/15/20	7,582,183	3,105,754	4,476,429	313,795
EG9		8-3/4	AU7	08/15/20	17,059,306	8,388,269	8,671,037	733,400
EH7		7-7/8	AV5	02/15/21	10,075,573	8,876,783	1,198,790	102,800
EJ3		8-1/8	AW3	05/15/21	10,066,788	4,392,299	5,674,489	508,480
EK0		8-1/8	AX1	08/15/21	9,506,382	6,992,592	2,513,790	306,080
EL8		8	AY9	11/15/21	30,632,194	15,809,568	14,822,626	1,448,450
EM6		7-1/4	AZ6	08/15/22	10,127,790	9,434,380	693,410	308,400
EN4		7-5/8	BA0	11/15/22	7,423,626	4,035,482	3,388,144	792,400
EP9		7-1/8	BB8	02/15/23	15,782,061	10,629,047	5,153,014	829,200
EQ7		6-1/4	BC6	08/15/23	22,659,044	19,492,580	3,166,464	319,560
ES3		7-1/2	BD4	11/15/24	9,604,162	3,811,984	5,792,178	457,320
ET1		7-5/8	BE2	02/15/25	9,509,170	3,308,769	6,200,401	544,600
EV6		6-7/8	BF9	08/15/25	11,187,207	6,900,905	4,286,302	567,960
EW4		6	BG7	02/15/26	12,837,916	11,921,757	916,159	187,000
EX2		6-3/4	BH5	08/15/26	8,810,418	5,656,635	3,153,783	360,800
EY0		6-1/2	BJ1	11/15/26	10,860,177	4,794,865	6,065,312	601,400
EZ7		6-5/8	BK8	02/15/27	9,521,971	5,552,514	3,969,457	340,400
FA1		6-3/8	BL6	08/15/27	9,196,756	6,469,226	2,727,530	99,400
FB9		6-1/8	BM4	11/15/27	22,021,339	8,961,486	13,059,853	632,400
FE3		5-1/2	BP7	08/15/28	11,776,201	10,524,401	1,251,800	109,800
FF0		5-1/4	BV4	11/15/28	10,947,052	10,149,122	797,930	87,800
FG8		5-1/4	BW2	02/15/29	11,350,341	10,946,345	403,996	32,400
FJ2		6-1/8	CG6	08/15/29	11,178,580	10,379,580	799,000	108,880
FM5		6-1/4	CH4	05/15/30	17,043,162	16,176,818	866,344	19,180
FP8		5-3/8	CK7	02/15/31	16,427,648	16,215,248	212,400	0
Total Treasury Bonds..					499,889,485	352,365,695	147,523,790	15,236,690
Treasury Inflation-Indexed Notes:								
CUSIP:	Series:	Interest Rate:						
912827 2M3	A	3-3/8	912820 BV9	01/15/07	17,970,548	17,970,548	0	0
3T7	A	3-5/8	CL9	01/15/08	18,801,869	18,690,030	111,839	0
4Y5	A	3-7/8	DN4	01/15/09	17,519,830	17,519,830	0	0
5W8	A	4-1/4	EK9	01/15/10	12,157,695	12,157,695	0	0
6R8	A	3-1/2	GA9	01/15/11	11,420,506	11,420,506	0	0
7J5	A	3-3/8	GT8	01/15/12	6,109,658	6,109,658	0	0
912828 AF7	C	3	HC4	07/15/12	17,096,066	17,096,066	0	0
Total Inflation-Indexed Notes..............................					101,076,172	100,964,333	111,839	0
Treasury Inflation-Indexed Bonds:								
CUSIP:		Interest Rate:						
912810 FD5		3-5/8	912803 BN2	04/15/28	18,748,991	18,743,406	5,586	0
FH6		3-7/8	CF8	04/15/29	21,428,657	21,291,272	137,385	0
FQ6		3-3/8	CL5	04/15/32	5,102,054	5,102,054	0	0
Total Inflation-Indexed Bonds..............................					45,279,703	45,136,732	142,971	0

TABLE V - HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, OCTOBER 31, 2002 -- Continued

Loan Description			Corpus STRIP CUSIP	Maturity Date	Amount Outstanding in Thousands: Total Outstanding	Amount Outstanding in Thousands: Portion Held in Unstripped Form	Amount Outstanding in Thousands: Portion Held in Stripped Form	Reconstituted This Month
Treasury Notes:								
CUSIP:	Series:	Interest Rate:						
912827 3Q3	P	5-3/4	912820 CH8	11/30/02	12,120,580	11,685,380	435,200	0
6P2	AC	5-5/8	FY8	11/30/02	15,058,528	14,990,688	67,840	0
3S9	Q	5-5/8	CK1	12/31/02	12,052,433	11,638,993	413,440	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	13,087,040	13,600	0
6S6	L	4-3/4	GB7	01/31/03	15,452,604	15,427,004	25,600	0
J78	A	6-1/4	BF3	02/15/03	23,562,691	21,513,593	2,049,098	69,208
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	14,134,492	38,400	0
6V9	N	4-1/4	GE1	03/31/03	14,674,853	14,674,853	0	0
4D1	F	5-3/4	CW5	04/30/03	12,573,248	12,534,848	38,400	0
6W7	P	4	GF8	04/30/03	13,338,528	13,338,528	0	0
4H2	G	5-1/2	DA2	05/31/03	13,132,243	13,021,843	110,400	0
6Y3	Q	4-1/4	GH4	05/31/03	13,331,937	13,331,937	0	0
4K5	H	5-3/8	DC8	06/30/03	13,126,779	13,078,779	48,000	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	16,000,070	3,200	0
L83	B	5-3/4	BG1	08/15/03	28,011,028	25,223,746	2,787,282	57,500
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	17,192,929	1,432,856	1,000
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	12,097,828	857,249	15,500
5A6	E	4-3/4	DQ7	02/15/04	17,823,228	17,811,228	12,000	0
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	13,388,639	1,051,733	22,600
5F5	F	5-1/4	DJ8	05/15/04	18,925,383	18,925,383	0	0
912828 AD2	N	3-1/4	HA8	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	33,250,010	33,250,010	0	0
912827 Q88	C	7-1/4	BK2	08/15/04	13,346,467	11,110,671	2,235,796	40,300
5M0	G	6	DZ7	08/15/04	18,089,806	18,089,806	0	0
912828 AK6	R	2-1/8	HG5	08/31/04	34,541,397	34,541,397	0	0
AL4	S	1-7/8	HH3	09/30/04	34,655,535	34,655,535	0	0
AM2	T	2-1/8	HJ9	10/31/04	32,440,595	32,440,595	0	0
912827 R87	D	7-7/8	BL0	11/15/04	14,373,760	14,364,360	9,400	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	13,223,814	610,940	87,095
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	28,404,570	157,800	0
U83	C	6-1/2	BP1	08/15/05	15,002,580	15,002,180	400	0
V82	D	5-7/8	BQ9	11/15/05	15,209,920	14,575,569	634,351	320
6N7	F	5-3/4	FX0	11/15/05	28,062,797	27,741,197	321,600	800
W81	A	5-5/8	BR7	02/15/06	15,513,587	15,508,107	5,480	0
X80	B	6-7/8	BS5	05/15/06	16,015,475	14,858,715	1,156,760	61,240
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	22,395,675	64,000	0
7F3	F	3-1/2	GQ4	11/15/06	35,380,129	34,407,973	972,156	31,700
2J0	B	6-1/4	BW6	02/15/07	13,103,678	12,357,324	746,354	54,616
2U5	C	6-5/8	BX4	05/15/07	13,958,186	12,530,607	1,427,579	58,600
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	23,724,658	1,912,145	444,144
912828 AH3	F	3-1/4	HE0	08/15/07	25,410,844	25,410,844	0	0
912827 3X8	B	5-1/2	CQ8	02/15/08	13,583,412	13,556,512	26,900	35,600
4F6	C	5-5/8	CY1	05/15/08	27,190,961	27,123,091	67,870	0
4V1	D	4-3/4	DK0	11/15/08	25,083,125	25,011,877	71,248	1,500
5G3	B	5-1/2	DV6	05/15/09	14,794,790	14,748,290	46,500	12,300
5N8	C	6	EA1	08/15/09	27,399,894	26,892,485	507,409	1,000
5Z1	B	6-1/2	EM5	02/15/10	23,355,709	23,351,909	3,800	800
6J6	C	5-3/4	FT9	08/15/10	22,437,594	22,437,094	500	3,900
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	26,628,096	7,220	0
7L0	B	4-7/8	GV3	02/15/12	24,779,838	24,775,038	4,800	2,000
912828 AJ9	D	4-3/8	HF7	08/15/12	19,647,976	19,647,976	0	0
Total Treasury Notes					1,527,387,135	1,506,366,469	21,020,666	1,001,723
Grand Total					2,173,632,496	2,004,833,229	168,799,266	16,238,413

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 6, 2002
PO-3602

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 $76,146 million as of the end of that week, compared to $75,261 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	October 25, 2002			**November 1, 2002**		
TOTAL	**75,261**			**76,146**		
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	6,268	12,671	18,939	6,414	12,876	19,290
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,372	2,544	12,916	10,595	2,585	13,180
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
2. IMF Reserve Position [2]			20,719			20,892
3. Special Drawing Rights (SDRs) [2]			11,645			11,742
4. Gold Stock [3]			11,042			11,042
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	October 25, 2002			**November 1, 2002**		
	Euro	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
1. Foreign currency loans and securities			0			0
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the U.S. dollar:						
2.a. Short positions			0			0
2.b. Long positions			0			0
3. Other			0			0

III. Contingent Short-Term Net Drains on Foreign Currency Assets						
	October 25, 2002			**November 1, 2002**		

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

Notes:

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. Foreign Currency Reserves for the latest week may be subject to revision. Foreign Currency Reserves for the prior week are final.

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 for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to the prior week's IMF data. IMF data for the latest week may be subject to revision. 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

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

FOR IMMEDIATE RELEASE
November 06, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 10-YEAR NOTES

Interest Rate:	4%	Issue Date:	November 15, 2002
Series:	E-2012	Dated Date:	November 15, 2002
CUSIP No:	912828AP5	Maturity Date:	November 15, 2012

High Yield: 4.095% Price: 99.227

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 86.41%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 34,070,650	$ 17,888,970
Noncompetitive	111,061	111,061
FIMA (noncompetitive)	0	0
SUBTOTAL	34,181,711	18,000,031 1/
Federal Reserve	110,929	110,929
TOTAL	$ 34,292,640	$ 18,110,960

Median yield 4.070%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 4.020%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 34,181,711 / 18,000,031 = 1.90

1/ Awards to TREASURY DIRECT = $60,837,000

http://www.publicdebt.treas.gov

PO-3603

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 6, 2002
PO-3604

Air Transportation Stabilization Board Letter

November 6, 2002

Mr. Frederick Brace
Executive Vice President
and Chief Financial Officer
United Air Lines, Inc.
P.O. Box 66100
Chicago, IL 60666

Dear Mr. Brace:

We have received your supplemental materials, as well as the additional information presented at our meetings on October 28 and November 5 with the ATSB staff and the ATSB working group. The materials are currently under review by the ATSB staff, the ATSB working group, and the ATSB's outside consultants. As a result of the discussions and our review of the materials you have submitted, we would like to alert you to some of the areas that will require additional information before the ATSB can determine whether UAL qualifies for a federal loan guarantee:

1. The ATSB needs further explanation of the assumptions underlying the revenue forecasts in the company's business plan.

2. The ATSB needs additional detail on the components, status, and timing of the proposed labor cost savings that the company has identified.

3. The ATSB needs additional detail on the revenue enhancement elements of the company's proposed non-labor profit improvements.

4. The ATSB needs to follow up on the November 5 meeting on the cost savings elements of the company's proposed non-labor profit improvements.

5. The ATSB needs additional detail on the company's pension and post-retirement obligations, and alternatives for meeting funding requirements.

6. The ATSB needs additional detail on the company's current or future capital spending commitments related to airport infrastructure.

The ATSB staff is looking forward to meeting with you and your advisors to address these issues in the coming weeks. In the course of our ongoing analysis, we expect to develop specific questions based on the materials submitted and requested.

Sincerely,

Daniel Montgomery

Executive Director

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 7, 2002
PO-3605

United States Treasury Secretary Paul H. O'Neill
"Investing in Africa" Remarks to the AGOA Business Roundtable
Washington, DC

It is my pleasure to join you today to discuss the growing potential for closer trade and investment relations between the United States and Africa, as we look forward to convening the second annual US-Africa Trade and Investment Forum this January. .

In May, I had a remarkable experience in Africa, examining economic development first hand, identifying some of the challenges to accelerating growth, and seeing the potential successes now taking shape.

I also visited Africa on a number of occasions during the years I was a leader in the private sector, specifically to evaluate investment opportunities there, so I understand the concerns and incentives for those of you here today representing businesses.

I believe there are excellent business investment opportunities in Africa. There are great human and natural resources, enthusiastic and ambitious entrepreneurs, dedicated workers, and large untapped markets. It is certainly obvious to me that the people in Africa, as in every nation on Earth, are capable of achieving great things, and capable of performing value-adding work at world-competitive levels, in any industry -- if they are given the tools and the right environment in which to work.

While unlimited human potential exists throughout the continent, today's opportunities for investment lie in those nations where national and local leadership is serious about ruling justly, encouraging economic freedom, and investing in their people. In those nations, where leaders are fighting corruption, enforcing contracts, and protecting property rights, investment capital is valued and treated with respect, whether the capital originates from local savers or international investors.

In those nations, the long-term potential for growth is truly boundless. Private enterprise is rightly viewed as the engine for attaining greater freedom and prosperity. And the near-term potential for investor returns is far greater than in the developed world, because there is a tremendous opportunity to immediately deploy the best ideas from around the world, and raise the productivity of capital at a rapid rate.

Consider a few examples of successful investments I saw on my recent trip.

In Ghana I visited a successful U.S. investment, called Affiliated Computer Services – Business Process Solutions, Inc. ACS-BPS sells data processing services to insurance companies in the U.S. It opened its office there in 2000, and already it employs over 800 Ghanaians, paying an average of three times the average wage in Ghana. 80% of the employees are women. We were told that the operation is fully competitive with those the company has in Asia and elsewhere, and there are now plans to expand to four new sites in Ghana and to increase the Ghanaian workforce to over 1,000 people.

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

I also visited a cut-flowers operation in Uganda, where local entrepreneurs are diversifying Ugandan exports by growing roses and other fresh flowers and air-shipping them the same day to European markets. It's a great example of the opportunities for capitalizing on comparative advantage in trade.

In Ethiopia, an entrepreneur from Chicago invested in building a garment factory that makes sports clothing and ships it to the U.S. under AGOA. The company now employs about 200 workers, each earning between three and 21 times the average Ethiopian income. The entrepreneur also makes a very healthy return on his capital.

I believe there are countless opportunities for investments such as these. And even as individual companies in Africa achieve success with the help of foreign direct investment, many African nations are striving to achieve an investment grade credit rating for their sovereign debt. Countries that can establish investment grade credit ratings will be far more appealing to international financial markets, and they will be able to finance reasonable public spending needs at competitive rates. Furthermore, the same steps required for a strong credit rating, such as transparency and accountability in public spending, will make those governments more effective in meeting the needs of their people. The United States is assisting African nations that wish to pursue investment grade credit ratings.

The United States is also working with African leaders and our partners in the developed world to encourage the kinds of public investment in people that will maximize growth potential.

Investment in people means delivering clean water to more than 300 million Africans who now lack it. It means improving education performance, so that every ten year old can read, write, and compute at grade level. And it means building health care systems that end preventable, debilitating disease, and get proper treatment to those in need, especially those who suffer from AIDS. As President Bush's initiatives in these areas advance, driven whenever possible by private enterprise, the potential upside from investments in Africa will expand. Returns for investors will be faster, greater, and safer. And most importantly, Africans themselves will see a much faster increase in their living standards as basic services become more common, and the doors to achievement and prosperity open wider.

Finally, I would like to acknowledge the contributions made by Mauritius, which will host the AGOA Forum in January. In the past two decades, Mauritius has transformed itself from a poor and isolated backwater to an African success story. It has even become a source of job-creating investments in several of its poorer neighbors, such as Madagascar. The Mauritians have done it by combining the rule of law, economic freedom, investment in their people, and above all, democratic leadership in support of sound policies. They have set an example for the entire continent.

For too long, too many individuals in African nations have lacked an environment where they could pursue their ideas and flourish. I think we are beginning to see a change today, and I believe that change will spread across the continent, if we persist and work together. I urge those of you contemplating investment in Africa to do your homework, your due diligence, and then take that step. The time has never been better.

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 11:00 A.M.
November 7, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling $32,000 million to refund an estimated $30,857 million of publicly held 13-week and 26-week Treasury bills maturing November 14, 2002, and to raise new cash of approximately $1,143 million. Also maturing is an estimated $14,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced November 12, 2002.

The Federal Reserve System holds $13,022 million of the Treasury bills maturing on November 14, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders either in these auctions or the 4-week Treasury bill auction to be held November 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 $1,110 million into the 13-week bill and $663 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-3606

TO BE ISSUED NOVEMBER 14, 2002

November 7, 2002

Offering Amount	$16,000 million	$16,000 million
Public Offering	$16,000 million	$16,000 million
NLP Exclusion Amount	$ 5,200 million	None

Description of Offering:

Term and type of security	91-day bill	182-day bill
CUSIP number	912795 LY 5	912795 MM 0
Auction date	November 12, 2002	November 12, 2002
Issue date	November 14, 2002	November 14, 2002
Maturity date	February 13, 2003	May 15, 2003
Original issue date	August 15, 2002	November 14, 2002
Currently outstanding	$20,656 million	---
Minimum bid amount and multiples	$1,000	$1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

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

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

Competitive bids:

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

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

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

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

Maximum Award ....35% of public offering

Receipt of Tenders:

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

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

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

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 7, 2002
PO-3607

Response to Inquiries from Arab American and American Muslim Communities for Guidance on Charitable Best Practices

Recently, members of the Arab American and American Muslim communities have expressed concern to the U.S. Department of the Treasury about the decline of charitable giving in their communities in the aftermath of the Treasury Department's blocking actions against three of the communities' charities. They have asked for guidance on ways to enhance future charitable giving. In response, the Treasury Department has developed voluntary best practices guidelines for the U.S.-based charities in their communities, to assist those charities in avoiding any ties to terrorist organizations that might lead to further blocking actions.

During the past year, the U.S. Department of the Treasury has blocked the assets of three U.S.-based charities deemed to be tied to organizations officially designated by the U.S. Government as foreign terrorist organizations, namely, al-Qaeda and/or Hamas. The Treasury Department has not blocked the assets of any donor to those charities. Notwithstanding, some Arab American and American Muslim organizations have reported a reduction in charitable giving in their communities and an increased apprehension among donors as a consequence of the blocking orders.

The goal of blocking orders is to prevent financial resources from getting into the hands of terrorist organizations. It is important to prevent charities from being corrupted by terrorism. The blocking orders are not in any way intended to impede, restrict or scrutinize legitimate charitable giving. Indeed, the promotion of both faith-based and secular charitable giving is a central goal of this Administration. The Arab American and American Muslim communities share this goal, especially with the beginning of Ramadan and the approach of the holiday season. President Bush has expressed a strong interest in ensuring that Arab Americans and American Muslims feel comfortable maintaining their tradition of charitable giving.

Accordingly, in response to the recent requests for guidance, the Treasury Department has developed a voluntary set of best practices guidelines for U.S.-based charities intended to reduce the likelihood that charitable funds will be diverted for violent ends. If a U.S.-based charity follows these guidelines, and commits resources to implement them effectively, there will be a corresponding reduction in the likelihood of a blocking order against any such charity or donors who contribute to such charity in good faith, absent knowledge or intent to provide financing or support to terrorist organizations.

The guidelines focus on financial controls and the vetting of potential foreign recipients. They provide for rigorous financial oversight and, importantly, high levels of disclosure and transparency that will enhance donor community confidence in the professionalism and bona fides of the domestic charity. The guidelines are consistent with the principles espoused in both the private and international public sectors – e.g., the Better Business Bureau, the Evangelical Council for Financial Accountability and, most recently, the Financial Action Task Force, an international organization dedicated to combating money laundering through enhanced transparency in international financial transactions. By implementing the guidelines with sufficient resources, diligently adhering to them in practice, and immediately severing all ties to any foreign recipient associated with a terrorist organization (whether designated as such by the U.S. Government or discovered to be such by the domestic charity exercising due diligence), the domestic charity can enhance donor confidence and significantly reduce the risk of a blocking order.

U.S. Department of the Treasury Anti-Terrorist Financing Guidelines Voluntary Best Practices for U.S. Based Charities

U.S. DEPARTMENT OF THE TREASURY ANTI-TERRORIST FINANCING GUIDELINES: *VOLUNTARY* BEST PRACTICES FOR U.S.-BASED CHARITIES

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U.S. DEPARTMENT OF THE TREASURY ANTI-TERRORIST FINANCING GUIDELINES: VOLUNTARY BEST PRACTICES FOR U.S.-BASED CHARITIES

Compliance with these guidelines shall not be construed to preclude any criminal or civil sanctions by the Department of the Treasury or the Department of Justice against persons who provide material, financial, or technological support or resources to, or engage in prohibited transactions with, persons designated pursuant to the Antiterrorism and Effective Death Penalty Act of 1986, as amended, or the International Emergency Economic Powers Act, as amended.

I. **Governance: The charity should have an adequate governing structure.**

A. Governing Instruments: The charity should operate in accordance with governing instruments, *e.g.*, charter, articles of incorporation, bylaws, etc. The governing instruments should:

1. delineate the charity's basic goal(s) and purpose(s);

2. define the structure of the charity, including the composition of the board, how the board is selected and replaced, and the authority and responsibilities of the board;

3. set forth requirements concerning financial reporting, accountability, and practices for solicitation and distribution of funds; and

4. state that the charity shall comply with all applicable federal and state laws.

B. Board of Directors: The charity should be governed by a board of directors consisting of at least three members.

1. The board should be an active governing body, meeting at least three times annually with the majority of members attending in person.

2. The board should be an independent governing body, exercising effective and independent oversight of the charity's operations.

a. The charity should establish a conflict of interest policy for board members and employees. The policy should establish procedures that must be followed if a board member or employee has a conflict of interest or a perceived conflict of interest.

b. The charity should not engage in transactions with entities in which a board member has a conflict of interest.

c. The charity whose directly and/or indirectly compensated board members constitute more than one-fifth (20%) of the total voting membership of the board or of the executive committee will not be considered to have an independent governing body.

3. The board should maintain records of all decisions made. These records should be available for public inspection.

II. Disclosure/Transparency in Governance and Finances

A. Board of Directors

1. The charity should make publicly available a list of its board members and the salaries they are paid.

2. The charity should maintain records containing additional identifying information about its board members, such as home address, social security number, citizenship, etc.

3. The charity should maintain records containing identifying information for the board members of any subsidiary or affiliate receiving funds from the charity.

B. Key Employees

1. The charity should make publicly available a list of its five highest paid employees (the key employees) and the salaries and/or direct or indirect benefits they receive.

2. The charity should maintain records containing additional identifying information about its key employees, such as home address, social security number, etc.

3. The charity should maintain records containing identifying information for the key employees of any subsidiary or affiliate receiving funds from the charity.

C. Distribution of Funds

1. The charity should publicly identify any subsidiaries and/or affiliates that receive funds from the charity.

2. The charity should provide upon request an annual report. The annual report should describe the charity's purpose(s), programs, activities, tax exempt status, the structure and responsibility of the governing body of the charity, and financial information.

3. The charity should provide upon request complete annual financial statements. The financial statements should present the overall financial condition of the charity and its financial activities in accordance with generally accepted accounting principles and reporting practices.

D. Solicitations for Funds

1. The charity should clearly state its goals and purposes so that anyone examining its disbursement of funds can determine whether the charity is adhering to those goals.

2. Solicitations for donations should accurately and transparently tell donors how and where their donations are going to be expended.

3. The charity should substantiate on request that solicitations and informational materials, distributed by any means, are accurate, truthful, and not misleading, in whole or in part.

III. Financial Practice/Accountability

A. The charity should have a budget, adopted in advance on an annual basis that is overseen by the board.

B. The board of the charity should appoint one individual to serve as the financial/accounting officer who is ultimately responsible for the day to day control over the money of the charity.

C. If the charity's total annual gross income exceeds $250,000, the board of the charity should select an independent certified public accounting firm, which serves as an auditor and reviews the finances of the charity and issues a yearly audited financial statement. The yearly audited financial statement should be available for public inspection.

D. Receipt and Disbursement of Funds

1. The charity should account for all funds received and disbursed in accordance with generally accepted accounting principles and the requirements of the Internal Revenue Code. The charity should maintain records of the salaries it pays and the expenses it incurs.

2. The charity should include in its accounting of all charitable disbursements the name of each recipient and the amount disbursed.

3. The charity, after recording, should promptly deposit all received money into the bank account maintained by the charity. In particular, all cash donations should be promptly deposited into the charity's bank account.

4. The charity should make disbursements by check or wire transfer, but not in cash.

IV. Anti-Terrorist Financing Procedures: The charity should take the following steps before any charitable funds are distributed to foreign recipient organizations.

A. The charity should collect the following basic information about a foreign recipient organization:

1. The foreign recipient organization's name in English, in the language of origin, and any acronym or other names used to identify the foreign recipient organization.

2. The jurisdictions in which the foreign recipient organization maintains a physical presence.

3. The jurisdiction in which the foreign recipient organization is incorporated or formed.

4. The address and phone number of any place of business of the foreign recipient organization.

5. The principal purpose of the foreign recipient organization, including a detailed report of the recipient's projects and goals.

6. The names and addresses of organizations to which the foreign recipient organization currently provides or proposes to provide funding, services, or material support, to the extent known, as applicable.

7. The names and addresses of any subcontracting organizations utilized by the foreign recipient organization.

8. Copies of any public filings or releases made by the foreign recipient organization, including most recent official registry documents, annual reports, and annual filing with the pertinent government, as applicable.

9. The foreign recipient organization's existing sources of income, such as official grants, private endowments, and commercial activities.

B. The charity should conduct basic vetting of potential foreign recipient organizations as follows:

1. The charity should be able to demonstrate that it conducted a reasonable search of public information, including information available via the internet, to determine whether the foreign recipient organization is or has been implicated in any questionable activity.

2. The charity should be able to demonstrate that it verified that the foreign recipient organization does not appear on any list of the U.S. Government, the United Nations, or the European Union identifying it as having links to terrorism or money laundering. The charity should consult the Department of the Treasury's Office of Foreign Assets Control Specially Designated Nationals List, which will identify entities designated by the U.S. Government as Foreign Terrorist Organizations or as supporters of terrorism. The charity also should consult the U.S. Government's Terrorist Exclusion List maintained by the Department of Justice, the list promulgated by the United Nations pursuant to U.N. Security Council Resolutions 1267 and 1390, the list promulgated by the European Union pursuant to EU Regulation 2580, and any other official list available to the charity.

3. The charity should obtain the full name in English, in the language of origin, and any acronym or other names used, as well as nationality, citizenship, current country of residence, place and date of birth for key staff at the foreign recipient organization's principal place of business, such as board members, etc., and for senior employees at the recipient's

other locations. The charity should run the names through public databases and compare them to the lists noted above.

4. The charity should require foreign recipient organizations to certify that they do not employ or deal with any entities or individuals on the lists referenced above, or with any entities or individuals known to the foreign recipient organization to support terrorism.

C. The charity should review the financial operations of the foreign recipient organization as follows:

1. The charity should determine the identity of the financial institutions with which the foreign recipient organization maintains accounts. The charity should seek bank references and determine whether the financial institution is: (i) a shell bank; (ii) operating under an offshore license; (iii) licensed in a jurisdiction that has been determined to be non-cooperative in the international fight against money laundering; (iv) licensed in a jurisdiction that has been designated by the Secretary of the Treasury to be a primary money laundering concern; and (v) licensed in a jurisdiction that lacks adequate anti-money laundering controls and regulatory oversight.

2. The charity should require periodic reports from the foreign recipient organization on its operational activities and use of the disbursed funds.

3. The charity should require the foreign recipient organization to undertake reasonable steps to ensure that funds provided by the charity are not ultimately distributed to terrorist organizations. Periodically, the foreign recipient organization should apprise the charity of the steps it has taken to meet this goal.

4. The charity should perform routine, on-sight audits of foreign recipient organizations whenever possible, consistent with the size of the disbursement and the cost of the audit.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 8, 2002
PO-3608

Remarks of Treasury Deputy Assistant Secretary Timothy Bitsberger to The Bond Market Association Palm Beach Gardens, FL

One idea that is important to all of us at Treasury, from Secretary O'Neill on down, is that we must continuously seek to improve the services we provide. Today I would like to talk about a couple of initiatives very high on our list of priorities. First, I want to ensure that we have proper auction procedures, second I want to discuss direct bidding and third I will talk about TIPS. Though this sounds like a random list, they have a common thread—to help us achieve the lowest possible borrowing cost over time.

Auction Contingencies [Chart 1]
First I will talk about auctions. I believe that by reducing uncertainty around the auction process—both for treasury and the bidder—we can meet our primary objective, to borrow at the lowest cost, over time.

Within the auction process, I would like to talk to you about contingency plans when systems go down in the minutes before an auction closes.

First and foremost our goal is to do everything we can to get your bid into the auction before the auction close. I can not stress that enough – if we can't get your bid into an auction, we are unquestionably, unambiguously worse off.

As you know, we have a rules based auction system – we have no choice, our status as issuer depends on you having complete confidence in the integrity of the auction process and integrity means absolute consistency in how we handle bids. Through consistency, we provide greater transparency which translates into lower Treasury borrowing costs.

As we build better systems, work that obviously precedes and will follow this administration, we need to establish guidelines—not rules—for emergency bidding in the event that a system goes down up to and at an auction close.

Responding to such an event necessarily requires coordination of your efforts and ours.

It also requires judgment – no two problems are the same. We want to increase the flexibility with which we respond, but this will require you to be more flexible too.

Starting next week, if, and only if, you have connectivity problems in the last ten minutes before an auction close, call us and, using your judgment, consolidate your bids into a number that can be quickly entered into our auction system.

When I say, judgment, I mean that consolidation should vary depending on the number of bids you have and the time before an auction close. With eight minutes to close and five bids, you may have time to submit all your bids; with two minutes to close and 12 bids, you are unlikely to get them all in. With connectivity problems two minutes before the close, you will need to, in the vocabulary of the medical community, perform triage by consolidating bids to one or two large, single yield bids.

In any case, do not delay – you should submit any bid as soon as it is finalized. If you have customer bids ten minutes before an auction, submit them. If you have house bids that are finalized twenty minutes before an auction, submit them.

Under no circumstances, should the ability to phone in a bid give you or your customers extra leeway in bid submission. I am not here to tell you how to run your businesses, but it would be frustrating for Treasury and your customers to miss an auction because traders felt they were holding an option giving them the right to bid.

If you have connectivity problems, and if you consolidate bids, we will treat that consolidated bid as a house bid – you will be responsible for dispersing awards, we will effectively treat your customer awards as W.I. trades.

This relaxation of rules on our part only comes with genuine problems – we will verify that you had connectivity problems after the auction.

In working through this proposal, we considered formalizing the time prior to close when we would accept emergency bids, the number of emergency bids that could be submitted, and what rights and obligations you would have under emergency bidding procedures. Frankly, I was not comfortable with the inflexibility of a formal process. The small problems that are most likely to turn into big problems are those that would not occur to us in developing a formal process. Consequently, I am not going to pinpoint a time or number of bids that assures you enough time to telephone in a bid. But the NY Fed and Bureau of Public Debt are confident they can input one bid with 2 minutes to auction close. That is not a rule, nor are we bound to that 2 minutes. It is a guideline we are comfortable with and one that I hope, if a situation ever requires it, you will be comfortable with as well. Above all, I hope you will view this proposal in the context in which it is offered: as part of our goal to do everything we can to get your bid into the auction before the auction close.

As systems evolve and improve, I encourage all of you to keep a watchful eye on your Fedline terminals during auctions. The auction process is one of risk management, I want to make sure you give due emphasis to the operational as well as market risks. What I am proposing today is a way for you to prepare for system failures should they occur. I want no confusion over what you should do or whom you should call if you experience a systems failure. We will reinforce this emergency bidding process at our dealer visits and at formal training sessions.

Direct Bidding [Chart 2]

As many of you know, Treasury is promoting both auctions and the ability to bid direct to investors. I want to state right off the bat that we are not looking to disintermediate dealers. Your ability to take down and place our debt is immensely valuable to us and to the market as a whole.

However, in today's day and age, we should be able to provide investors with the technological and operational ability to bid directly if they choose. In today's environment, our debt may very well be distributed in the most cost-effective way possible. As market conditions dictate possible changes in risk management and as dealers consolidate, however, Treasury must start to think about a world in which the primary dealers in aggregate are somehow constrained from underwriting ¾ of our debt issuance.

In this past year we will have held about 185 auctions and distributed over $3 trillion in bills and notes. We all know that treasury can attractively issue debt under the current environment; we don't know the costs to treasury in an environment where there are fewer dealers and less capital allocated towards risk trading.

TIPS

• [Chart 3] By broadening our investor base and diversifying our funding sources, we believe we can reduce our borrowing costs over time.
• Tips can diversify Treasury's risk profile, as well.
• We believe that Tiis should be viewed as a different asset class. The market is still quite young—essentially five years old—and it is still evolving. In fact, a year or two ago, there were concerns that the Tips program was in jeopardy. I am here to put those fears to rest
• [Chart 4] Even though, I just said that Tips represent a different asset class, we issue TIPS the same way we do nominal bonds.
• At Treasury, we are committed to issuing large, liquid securities. We announced a new Tips policy in May of this year. In order to increase the number of auctions—without moving too fast and getting ahead of the market—we increase the number of auctions from two to three, with two reopenings.
• Reopenings can sometimes cost Treasury money because we don not capture the on-the-run premium. However, the benefits of large and liquid issuance provide a more stable secondary market.
• [Chart 5] The one point on this slide that I want to highlight is the deflation protection. Principal is guaranteed at maturity.
• [Chart 6]Our commitment is also evident in our issuance. We have become the world's largest IIS issuer with more than $140 billion outstanding.

• a much higher percentage of auction awards are allocated to investment funds, a further indication that the market has come to believe we are committed to TIPS.

• One of the reasons I am here today is try and grow the yellow slice of the pie. Penetration of the international market is surprisingly weak given there is such diversified European linker issuance.

• [Chart 7] Increased issuance and greater market acceptance has led to increased liquidity. Tips may never trade with the liquidity of nominal Treasuries, but that may not be the appropriate standard – by any other measure, liquidity is good and promises to get better.

• Over the 5 years we have been issuing inflation-indexed securities, some analysts have said they are a more expensive form of borrowing than the comparable nominal securities. It's too early to pass judgment on the cost effectiveness of these instruments. It takes time and effort to build a critical mass of liquidity. The right time to assess their cost-effectiveness is after they have worked their way through at least an entire interest rate cycle or two.
• [Chart 8] The decision to invest is yours and I do not want to encourage an investment that may or may not be appropriate for you. But I do want to point out a few things. These securities are of particular value to investors because their prices move differently frorp://www.treas.gov/press/releases/po3604.htmon unadjusted) price varies inversely with real U.S. interest rates, not nominal interest rates, making them very attractive for risk diversification. We also think that Treasury Inflation-Indexed Securities are a unique asset class – dollar-denominated, inflation- protected, backed by U.S. full faith and credit – that every diversified investor should own. As you can see they have lower risk than the Lehman index and 10-year note, both absolute and relative.
• [Chart 9] We believe there is and will be strong demand for inflation protected notes backed by the full faith and credit of the US Government. We are excited about the growth prospects for Tips. I would like to encourage everyone here to contact Treasury or myself should you have any suggestions in how to grow this asset class.

Thank you very much. I would be happy to take any questions

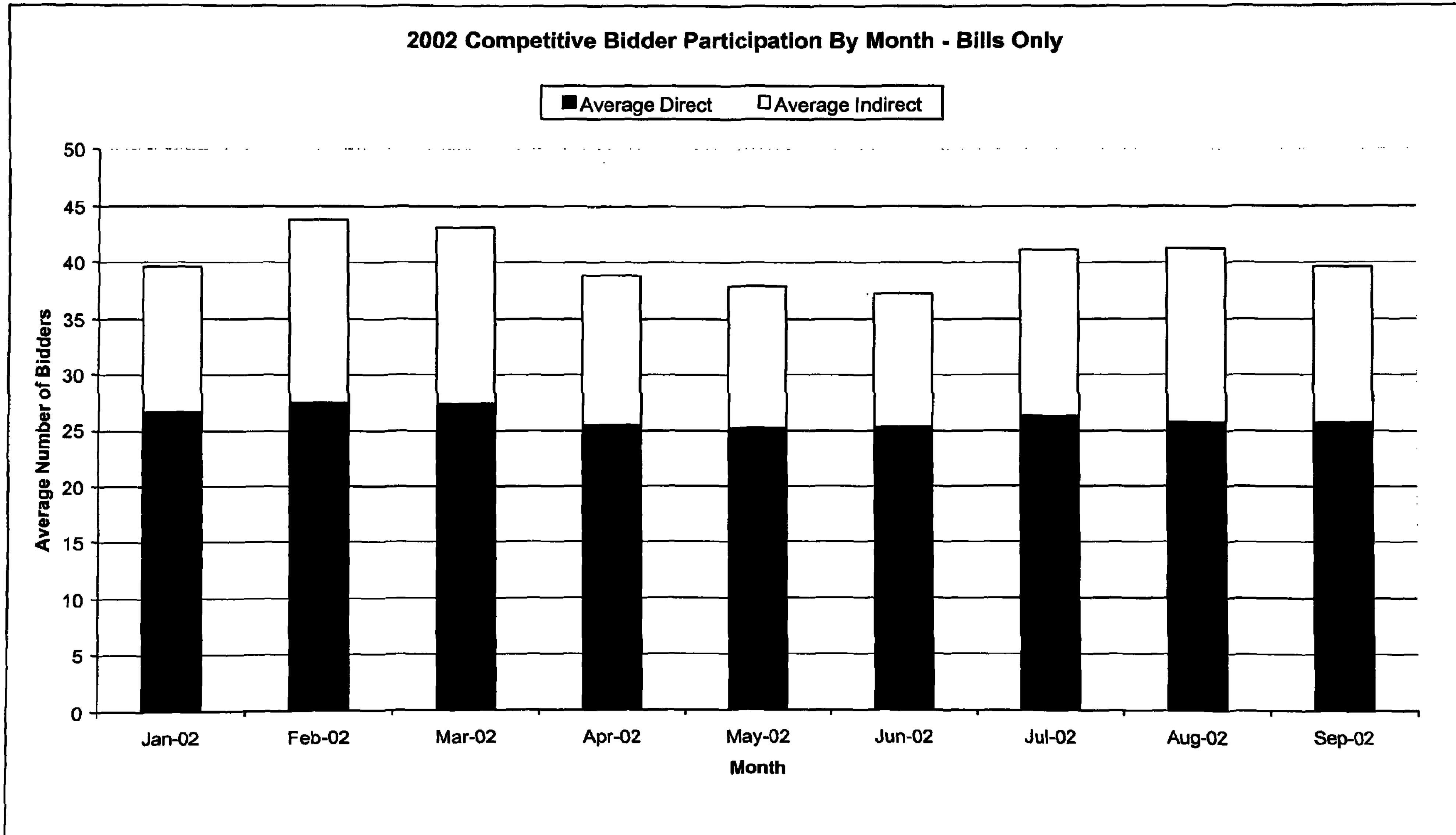
Treasury Debt Management

Timothy Bitsberger
Deputy Assistant Secretary
U.S. Treasury Department

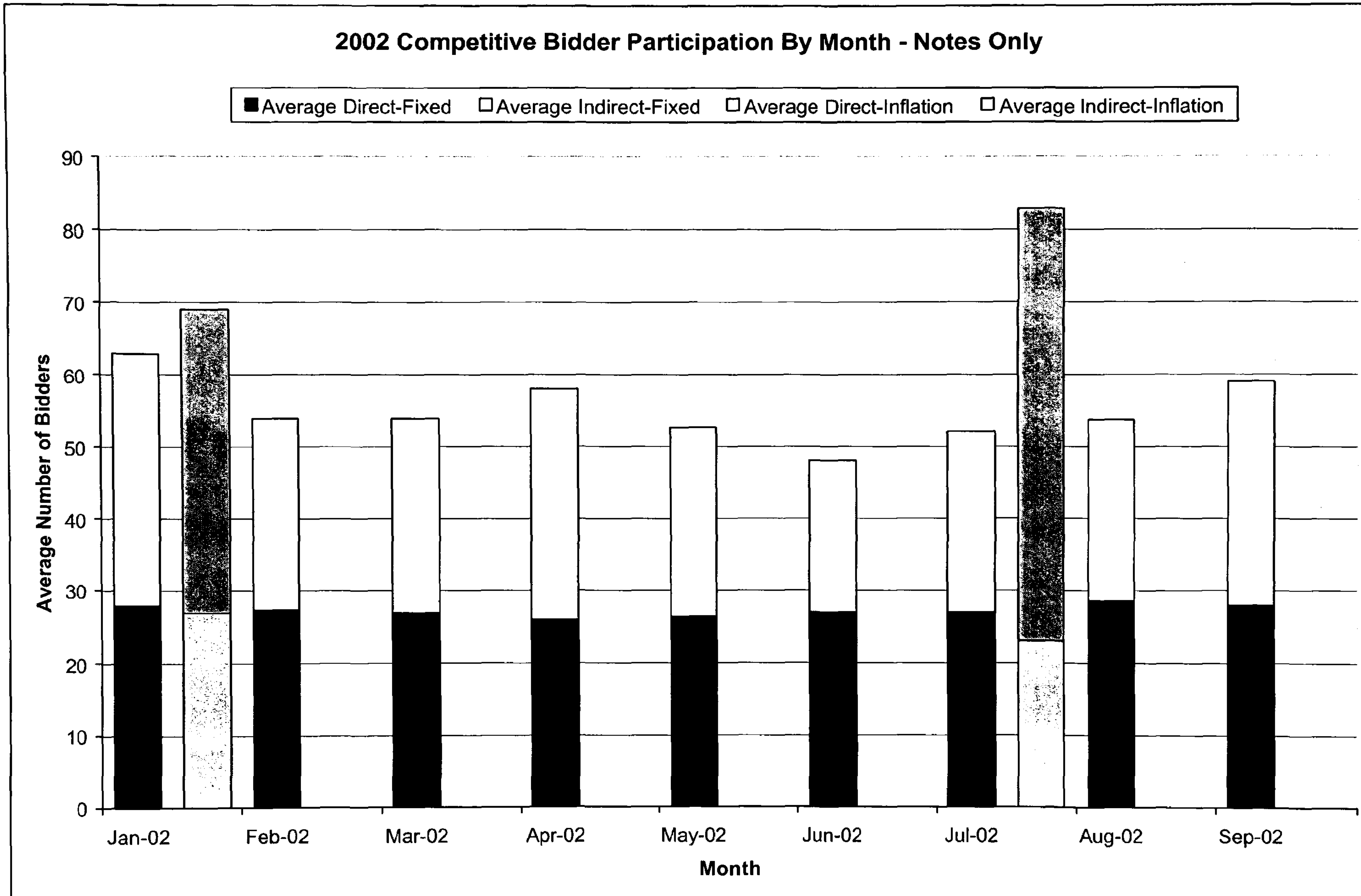
EMERGENCY BIDDING GUIDELINES

1. State your firm's name, your name, and phone number and advise us that you are calling in an emergency bid.
2. Indicate which auction the bid is for.
3. Indicate whether the bid is for the House or a Customer.
4. Provide Par, Yield, and NLP (if applicable).
5. We will attempt to enter the bid while you are on the phone. We will tell you if your bid was placed in the auction.

Under these emergency circumstances, an aggregate bid will be considered a House bid and will not be considered an auction violation. If you are required to report a NLP, you should report only the House NLP because we will consider this aggregate bid as a House bid under the auction rules.



2002 Competitive Bidder Participation By Month - Bills Only
Average Direct
Average Indirect
Average Number of Bidders
0
5
10
15
20
25
30
35
40
45
50
Jan-02
Feb-02
Mar-02
Apr-02
May-02
Jun-02
Jul-02
Aug-02
Sep-02
Month



2002 Competitive Bidder Participation By Month - Notes Only
Average Direct-Fixed
Average Indirect-Fixed
Average Direct-Inflation
Average Indirect-Inflation
90
80
70
60
50
40
30
20
10
0
Average Number of Bidders
Jan-02
Feb-02
Mar-02
Apr-02
May-02
Jun-02
Jul-02
Aug-02
Sep-02
Month

Treasury Issuance of Inflation-Indexed Securities

- Potential to reduce borrowing cost over time
  - Treasury spreads inflation risk
  - Broadens investor base
  - Diversifies funding risks
- Liquidity of nominal Treasuries is not an appropriate comparator
- Market still evolving

The Treasury is Committed to TIIS

- Same philosophy as nominal Treasuries: Regular and predictable issuance of large, benchmark issues.

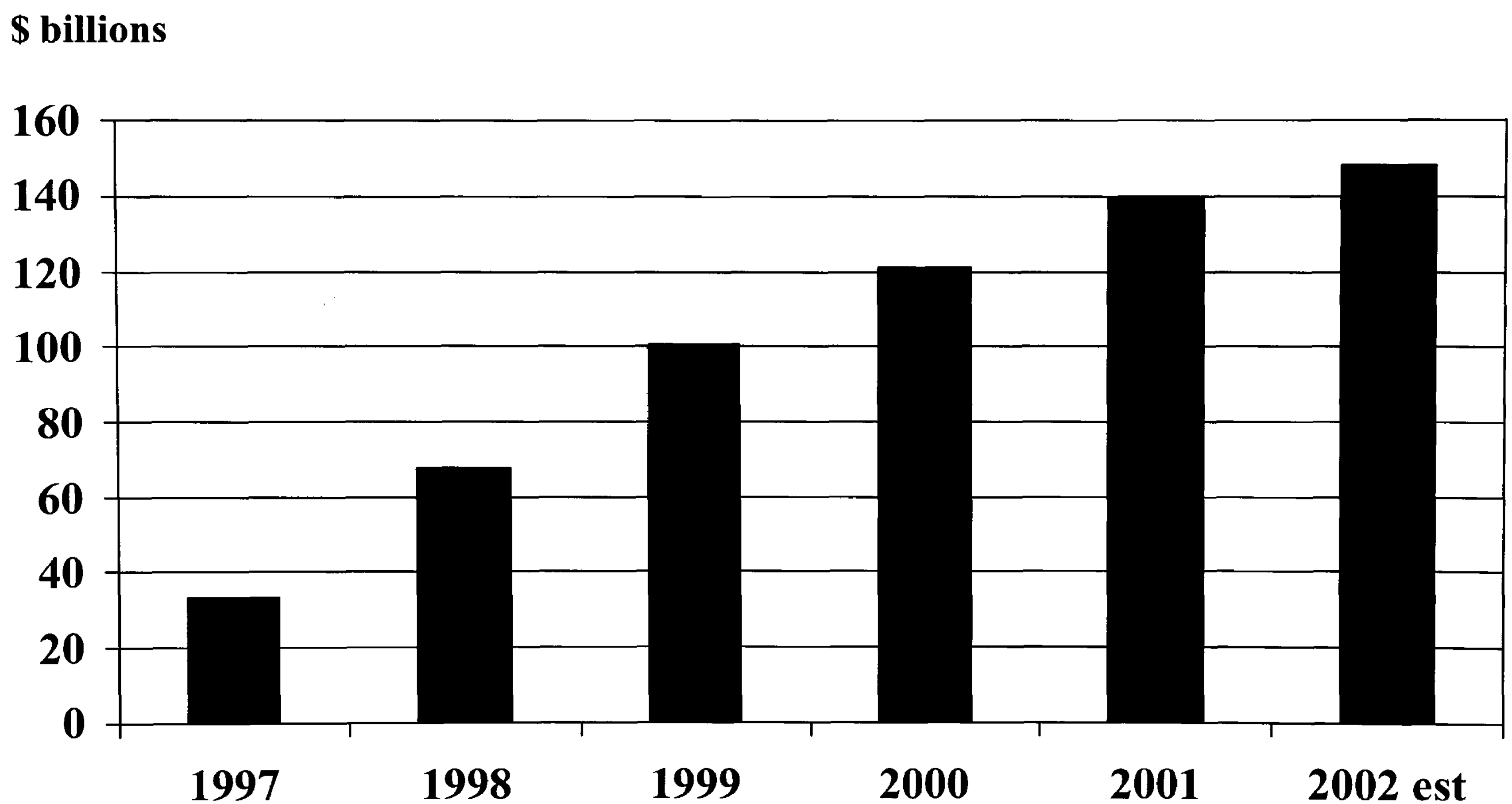
- Expanded auction schedule for the 10-year TIIS from two to three a year.

- Increased issuance size of TIIS. Through July, TIIS issuance is up 36% over last year.

TIIS Characteristics

- Fixed real coupon, paid semi-annually on inflation adjusted principal
- ⇒ Deflation-protected principal at maturity
- Principal adjusted for inflation daily, but paid at maturity
- Inflation accretion is referenced to the CPI-U NSA, set with a 3-month lag
- First issue January 1997; 10 issues ranging from 2007 to 2032
- $140 billion market capitalization; total Treasury market capitalization $3.1 trillion
- Three 10-year TIIS auctions this year, increased issuance
- Average daily trading volume over $2 billion

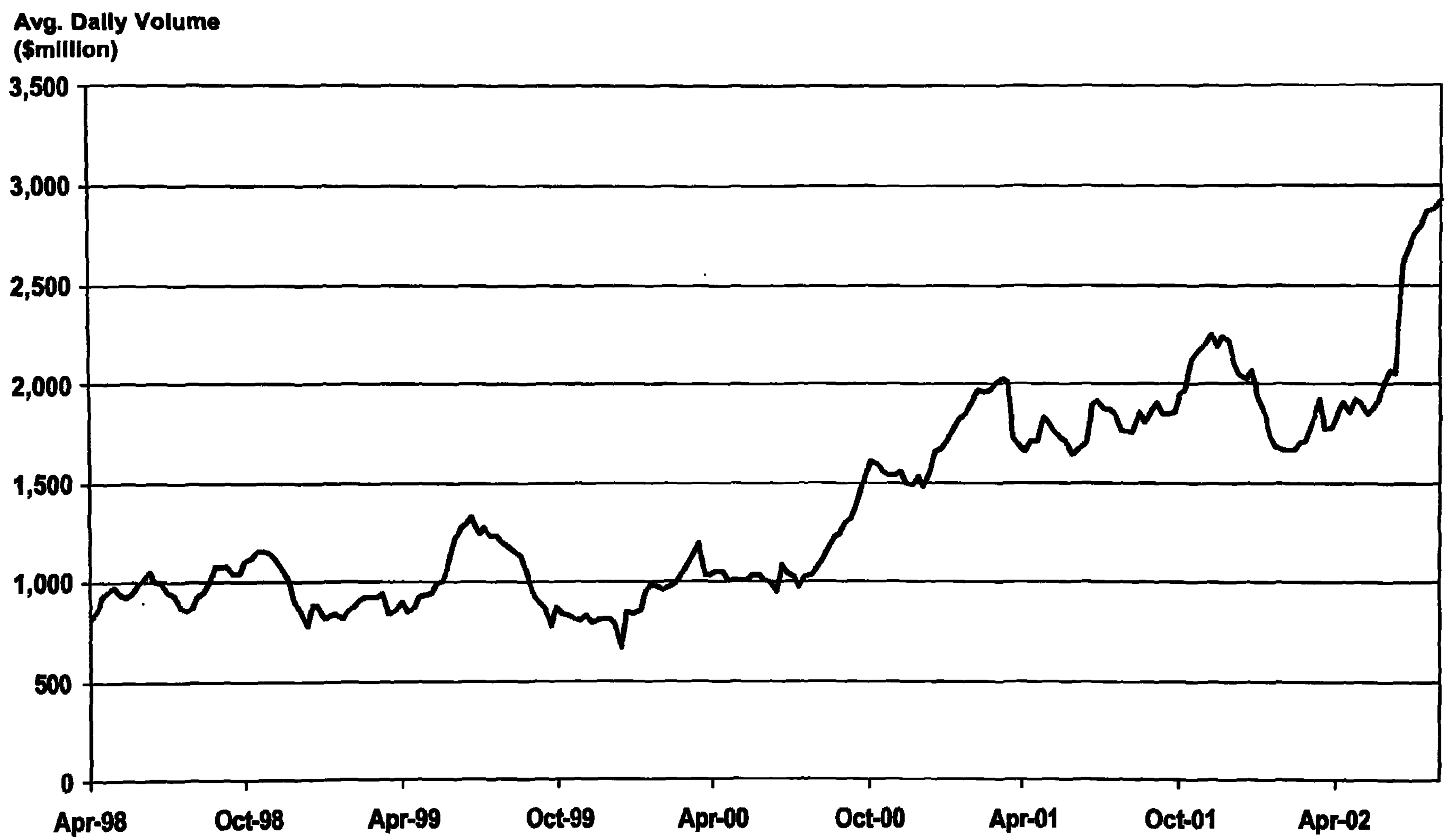
Outstanding Treasury Inflation-Indexed Securities



Source: US Treasury

Liquidity in TIIS

Dealer Transactions in TIIS, 3-month Moving Average of Daily Volume



Source: Federal Reserve Bank of New York

Return Profiles

(1997 - July 2002)

	Lehman Index	10-Year Treasury	10-Year IIS	S&P 500 Index w/dividends
Annualized Return	7.30%	8.33%	6.72%	4.09%
Monthly Volatility	1.21%	1.85%	0.94%	5.20%
Annual Volatility	6.03%	8.54%	4.70%	19.49%

Source: Barclays Capital

TIPS Benefit Investors

- Closest thing to a risk free asset for long-term investors, who ultimately should care only about the future real purchasing power of their savings
- Highest credit quality
- Low volatility and attractive returns improve portfolio efficiency
- Better match to inflation than real estate, commodities, or other real assets
- Attractive expected returns relative to nominal bonds currently

Structure

- Principal value is adjusted for inflation by multiplying the value at issuance by an index ratio which changes daily. Inflation adjustment is paid at maturity.
- Coupon payments are a fixed percentage, determined at auction, of the inflation- adjusted value of the principal on the semiannual interest payment dates.
- The index ratio for a particular valuation date is the index number for that date divided by the index number for the issue date.
- $$\text{Index Ratio}_{\text{Date}} = \frac{\text{Index number for value date}}{\text{Index number for dated date}}$$

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 8, 2002
PO-3609

Remarks of
Under Secretary of the Treasury Peter R. Fisher
To The Securities Industry Association
Boca Raton, Flordia

"Restoring Investor Confidence: The Key is Disclosure"

Restoring the vitality of our nation's securities markets is dependent upon improving the quality of information that investors receive. Nothing is more important.

Our securities markets are extremely efficient at pricing and allocating capital on the basis of all available information. Unfortunately, the important information is too often not available. When critical information is absent, or where great disparities exist in the quality of information available to different players, the power of markets is misdirected and the allocation of resources becomes skewed, mocking the claim - which both you and I make - that our securities markets are the most efficient means we have of converting our collective savings into investment.

Today, I want to ask you to promote the idea that investors have a fundamental right to see the companies in which they invest through the eyes of management. I think that you should work to ensure that investors see both the real, economic leverage and the key indicators of business value that are available to insiders. If we cannot find a way for companies to disclose these basic financial and business facts, I fear we will never align the interests of corporate insiders with those of their investors.

Public attention has focused on conflicts of interest borne by securities analysts. This is an important subject, worthy of your remedial efforts. But if neither analysts nor investors have the right information with which to price a company's securities, the mere removal of conflicts of interest between them will not get us as far as we need to go.

If we are incapable of putting both investors and analysts on the same footing as insiders, particularly with respect to companies' real, economic leverage, then I fear that the best days of the securities industry may be behind you.

If, however, we can find a way to provide investors with sufficient information to price a company's securities on the same basis as insiders, then I think that our traded capital markets can prosper.

We do have the best disclosure regime in the world. But this is the wrong comparison, and sets the bar too low, because we also have the most evolved - and rapidly evolving - capitalist economy in the world. As good as our disclosure regime is compared with other those of nations, it is not good enough compared with the quality, timeliness, and analytic rigor of internal management and financial information now available to corporate leaders. Disclosures to investors have not kept pace with the communications and data management revolution that has transformed American business over the last twenty years.

Investors should know two kinds of facts that corporate insiders know: first, the handful of key indicators of business value that management actually uses to assess the company's current performance and near-term prospects, and second, the company's real asset-liability ratio - the fundamental financial information about all of the company's contractually-obligated assets and liabilities, whether on- or off-balance sheet. The best businesses in America have already found ways to provide their shareholders and creditors with a clearer picture of the business and financial reality of their operations. These firms are the ones that we have not been reading about in recent months and whose credit spreads have narrowed rather than widened.

Dozens of times I have asked CEOs and other corporate leaders how they stay on top their large, complex businesses: "How do you know what's really going on in your company?" Invariably, I receive the clear answer that they have five or six - maybe 10 or 12 - key business indicators that they track daily or weekly. These indicators tell them what they need to know about their company's current performance and near-term prospects. Without notes or preparation, most CEOs can tell you in just a few minutes exactly what these indicators are and what the current numbers are telling them.

More often than not, the conversation takes an abrupt turn when I ask whether the company discloses these indicators in any way for shareholders. The same CEOs, who had just been explaining how simple it is for them to keep track of their businesses, now tell me how complicated these indicators are and that they would be too confusing and too difficult to provide, even in summary form, to their shareholders and creditors.

Why don't more firms disclose their core indicators of business performance? The claim is made that they don't want to aid competitors. I don't buy it, at least not for most of their business indicators and nearly all financial measures. Moreover, this claim simply reflects a value judgment that keeping secrets from competitors is more important than informing the owners - that investors are better off if they remain ignorant of what's going on inside the companies that they own. Our publicly-traded capital markets cannot function on so faulty a foundation.

The simple, observable fact is that management has lacked sufficient incentive to provide this information to investors. Their lack of incentive is a reflection of the much bigger problem that there are two completely different valuation methodologies at work in our economy today: one for those inside the temple of modern finance and who have access to insiders' data, and a different one for the outsiders who don't understand the basics of modern finance theory and who must rely only upon publicly-available data.

When a corporate CEO plans to buy or sell a subsidiary, or when a private equity firm considers purchasing a company, they don't begin by looking at trailing quarterly earnings. Instead, they hire an MBA with a spreadsheet who begins by identifying all of the firm's assets and liabilities. The MBA analyst discounts to present value all of the firm's contractually-obligated future cash out-flows, the firm's liabilities whether on- or off-balance sheet. Then the analyst discounts all of the firm's future, contractually obligated cash in-flows, their long-term customer contracts.

The little secret of capitalism is that it involves risk. In most cases, the net present value of the future streams of contractually-obligated outflows and inflows is negative. So the analyst will look to see where the revenues to close and exceed that gap could come from. Does the firm have particularly good customer prospects? A powerful brand name or customer loyalty? A leading inventory management system or whatever else would suggest the ability to generate the additional revenues needed to meet the company's liabilities and still leave a little something to reward the equity holder? The analyst will inevitably look at those core indicators of business value to complete the picture and put an overall valuation on the firm.

This valuation method is forward-looking. It takes no heed of the distinction between what's on and off the balance sheet and gives equal consideration to all contractual obligations. It appreciates the real economic leverage that the firm has employed. It focuses on the real drivers of value and ignores accountants' notions of earnings.

Unfortunately, the valuation method used by those outside the temple of finance theory, the method that we teach and reinforce in the public culture of our securities markets, is quite different.

This valuation method is backward-looking and fixated on trailing quarterly earnings. It is driven by accounting standards that are a function of habit and history, of often archaic and abstract principle, and of a short-sighted conviction that it is better to obscure rather than illuminate the real sources of earnings. It is grounded in the half-truths of the balance sheet. It leaves investors struggling through footnotes and appendices to calculate even crude approximations of the total, economic leverage employed through the use of off-balance sheet devices.

Let me be clear: there are lots of legitimate purposes for derivative instruments, structured finance and special purpose vehicles as means of transferring and pooling risk. But hiding a firm's total, economic leverage from its shareholders and its creditors is not one of them.

Investors should not tolerate this practice. Indeed, the low price-earning ratios of some of our leading companies, today, reflect the markets' intolerance for even the suspicion of hidden, off-balance sheet leverage. Corporate practice should catch up with where market prices have already gone.

As long as a gap exists between corporate insiders and investors, in both the method used and the data available to determine the firm's value, then the opportunity and the temptation for insiders to game the system will be too great. If fundamental information asymmetries are allowed to persist, whole armies of independent directors, accountants, auditors, and regulators will fail to align the interests of insiders and investors.

In the past twelve months, the Securities and Exchange Commission has made a series of proposals and statements aimed at transforming the quality of corporate disclosure. Bluntly put, the SEC has made clear that disclosure to investors is too important to be left to the accountants. It has restated - and enforced - the long-standing principle that GAAP compliance does not satisfy disclosure obligations under our securities laws. Last spring, the SEC proposed rules to require companies to highlight critical accounting policies and judgments and their impact on financial results, and to flag any significant changes in the application of accounting principles. It proposed real-time disclosure of material events. And just this week, following through on one of the provisions of the Sarbanes-Oxley bill, the SEC published proposed new rules on comprehensive disclosure of off-balance sheet items. Taken together, these efforts represent the most important pro-investor initiative that the SEC has taken in many years.

If you want our securities markets to prosper, if you want to remove the cloud of investor skepticism, you must support the SEC's proposals and you must also become genuine leaders in improving the quality of disclosures by publicly-traded companies. The federal government can set minimum standards for acceptable behavior and punish those who violate these standards. But if you want our securities markets to continue to play a vital role in our society, you cannot wait for the federal government to fix the current problems for you.

In the division of labor in our securities markets, too many have complacently accepted the status quo of corporate disclosure; too few have seen it as their responsibility to work systematically to improve the quality of information that investors receive. If you in the securities industry won't stand up for the idea that investors have a fundamental right to know the real economic leverage and the real indicators of business value, why should investors put their money at risk in the instruments you try to sell them?

I can understand why risk-averse CEOs, CFOs, directors, lawyers and accountants would prefer to maintain the status quo of different valuation methods for insiders and outsiders. But your stake in this should be self-evident. If investor confidence in the disclosures of publicly-traded companies is not restored, your industry cannot prosper.

You must breathe life into the fundamental right of investors to see the financial and business reality of the companies in which they invest through the eyes of corporate management. If you do this, if you speak up on behalf of the investor's right to quality information, you will restore investor confidence.

You will also make a reality of our claim that the securities markets are the most efficient means that we have of converting our savings into investment.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 8, 2002
PO-3610

A Half-Century of Changes in Monetary Policy
John B. Taylor Under Secretary of Treasury for International Affairs
Written Version of Remarks Delivered at the
Conference in Honor of Milton Friedman
University of Chicago
November 8, 2002

- Presentation slides for "A Half-Century of Changes in Monetary Policy" by John B. Taylor
- A Half-Century of Changes in Monetary Policy," Remarks by Under Secretary John B. Taylor

A Half Century of Changes in Monetary Policy

John B. Taylor
Under Secretary of Treasury for International Affairs

Conference in Honor of Milton Friedman
University of Chicago

November 8, 2002

Purpose

- Review monetary policy since World War II
  - United States and Rest of World
- Or since Milton Friedman's first papers on monetary economics—at U.S. Treasury?
- Intertwined with Milton Friedman's influential research and policy advice on:
  - Monetary policy rules
  - Case for flexible exchange rates
  - Natural rate theory
  - Money growth (Monetary History)

Dramatic Changes

- Accord of 1951
  - Fed must now decide about instrument setting
  - Start of Martin era
- End of fixed exchange rate system
  - Bundesbank, other central banks, must now decide about instrument setting
- Great variety now
  - Flexible exchange rates—inflation targets, systematic policy for instrument setting
  - Currency unions, dollarizations, currency boards
  - Managed pegs

Three Broad Developments

- Rise and fall of inflation
  - Price stability, Great Inflation, price stability
- More transparent, systematic, rule-like operations and analysis
  - Interest rate instrument
  - Changing coefficients
- Diffusion of monetary ideas, experiences

U.S. Inflation

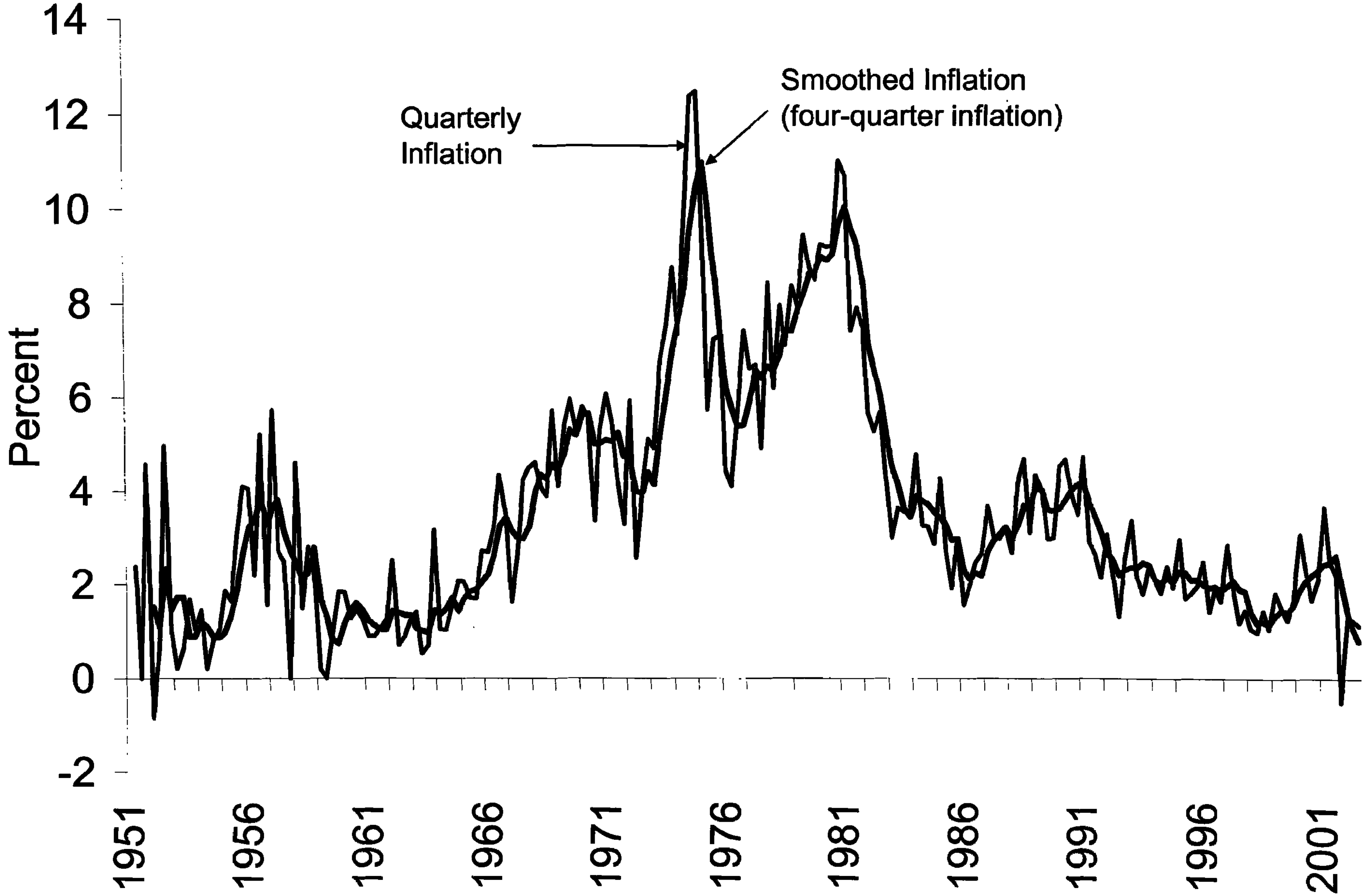


FIGURE 1

U.K. Inflation

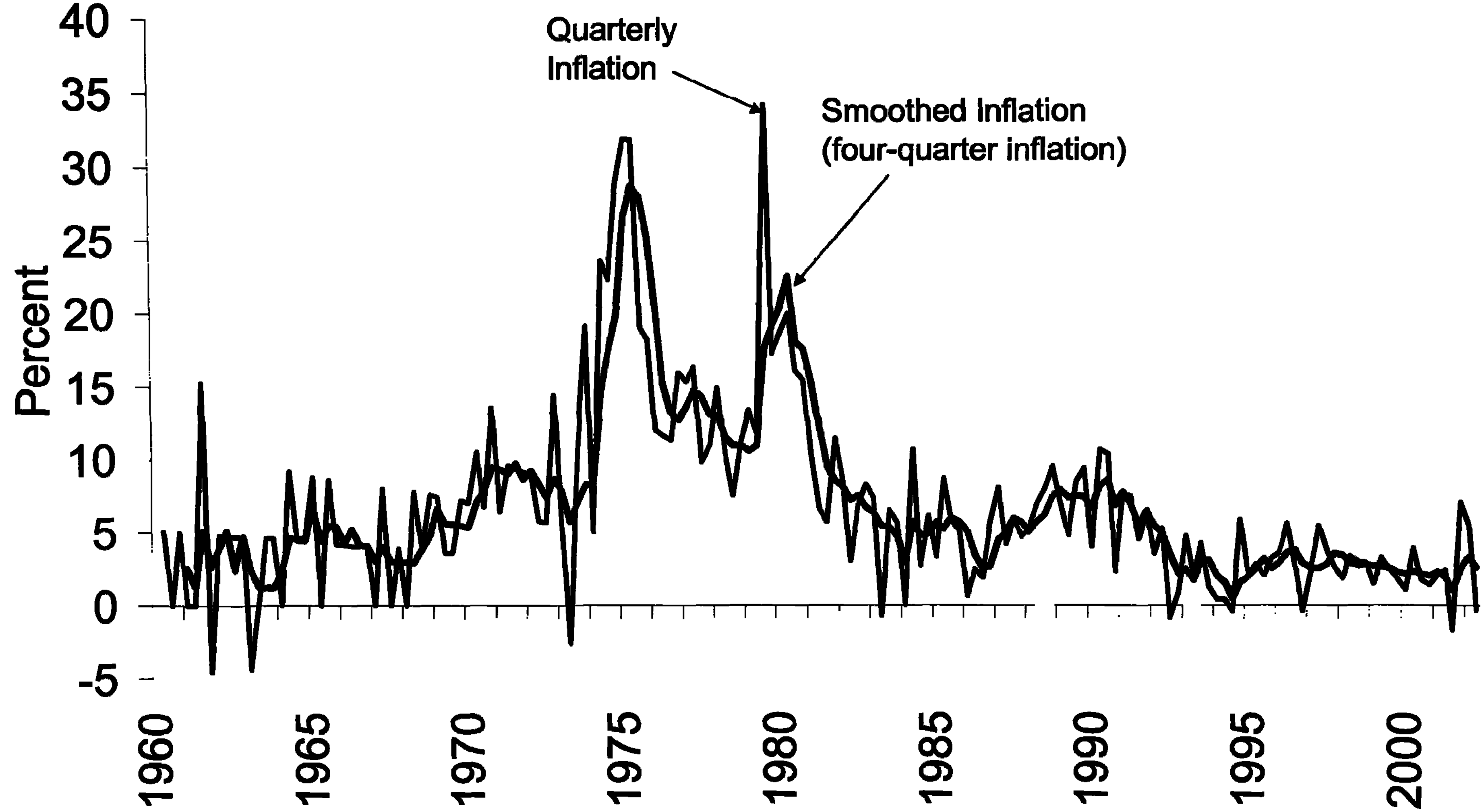


FIGURE 2

Australia Inflation

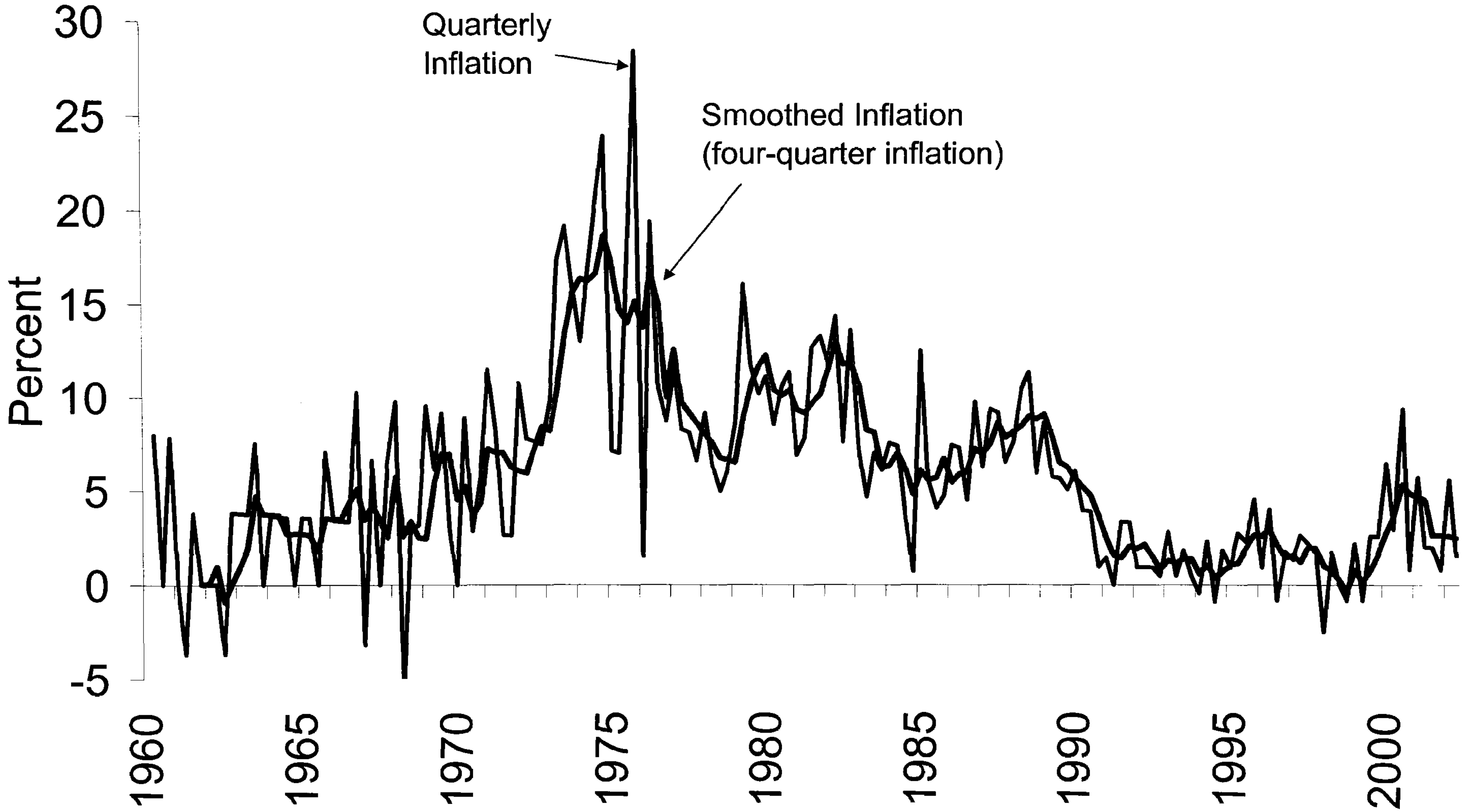


FIGURE 3

Canada Inflation

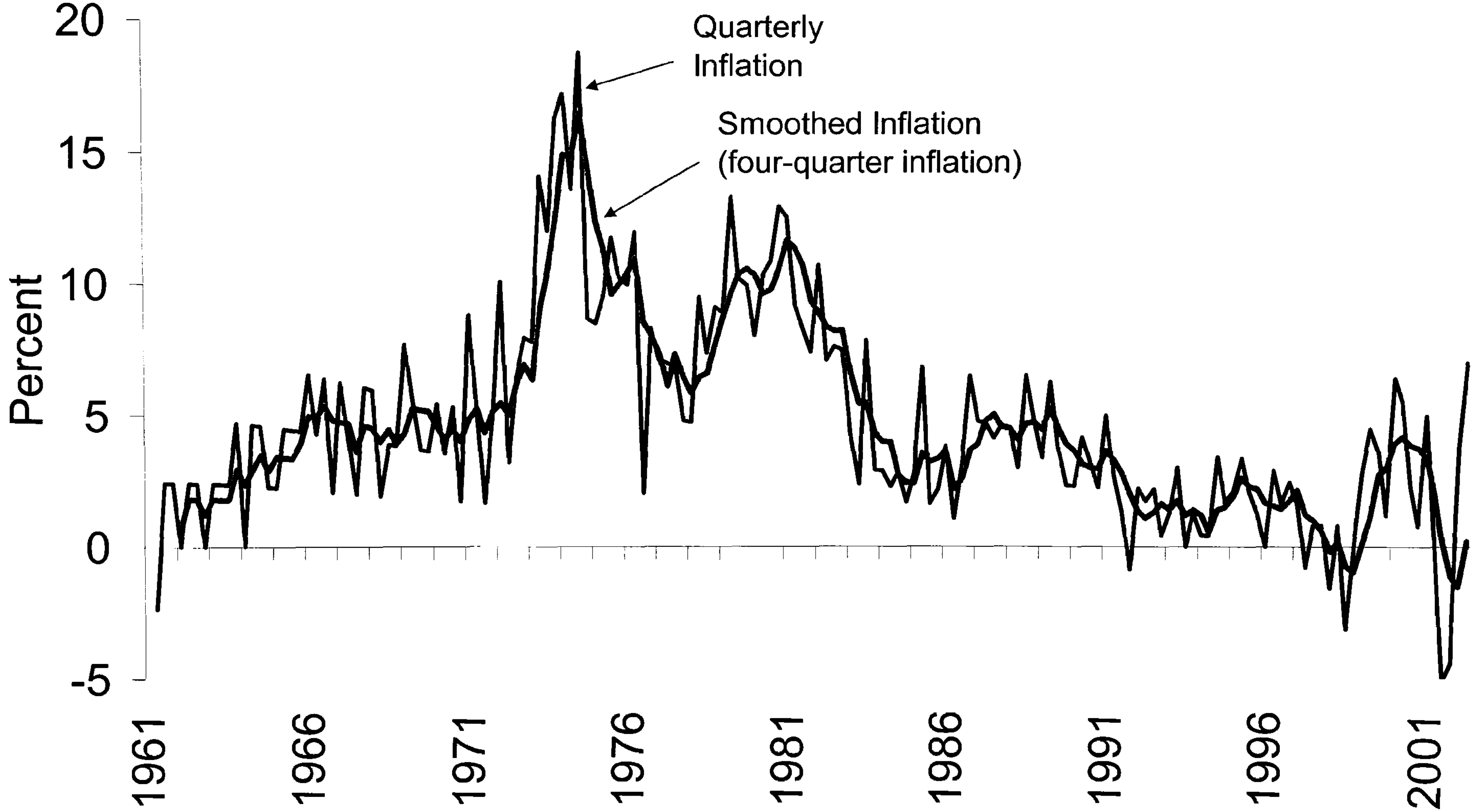
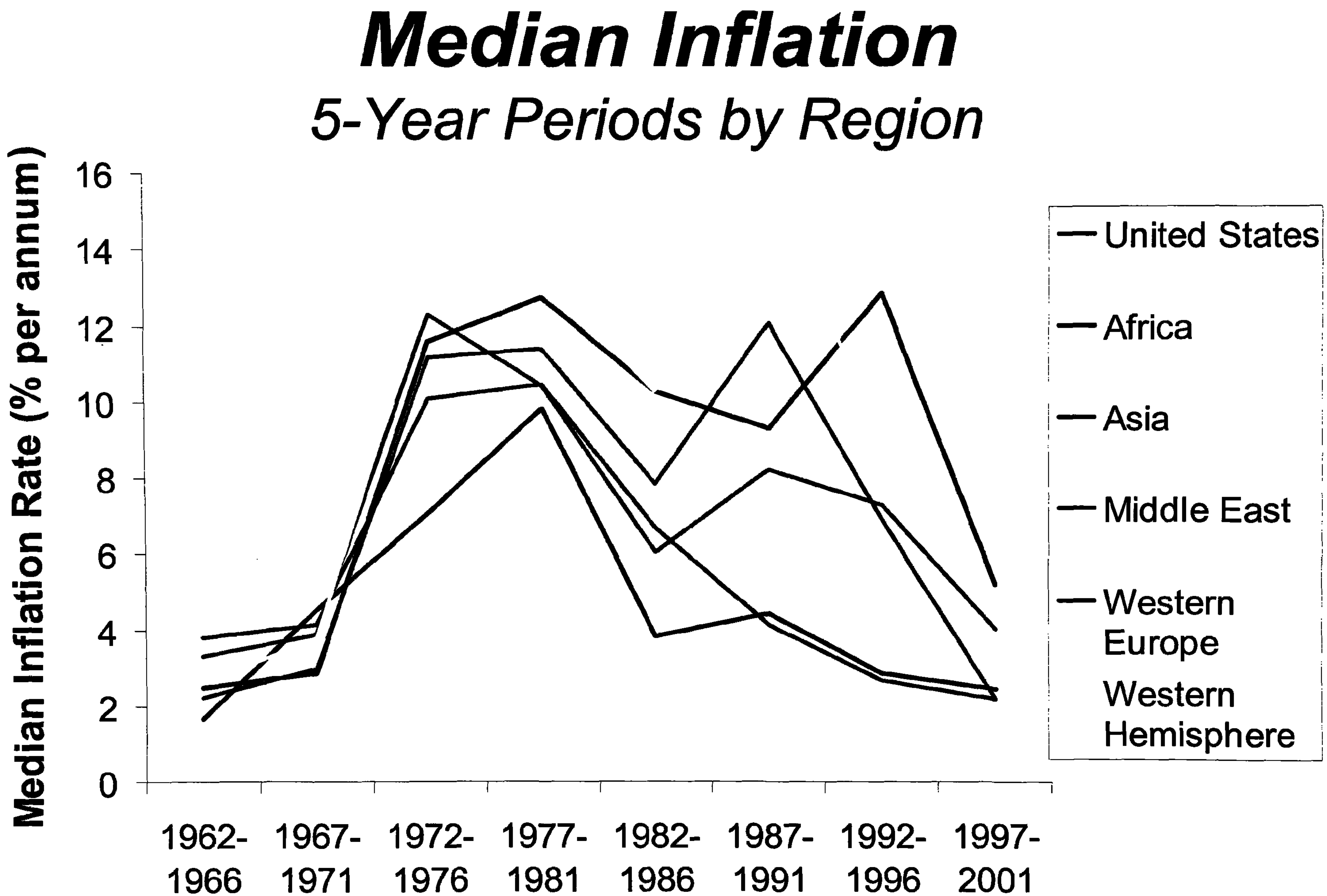


FIGURE 4



Median Inflation
5-Year Periods by Region
Median Inflation Rate (% per annum)
16
14
12
10
8
6
4
2
0
1962-1966
1967-1971
1972-1976
1977-1981
1982-1986
1987-1991
1992-1996
1997-2001
United States
Africa
Asia
Middle East
Western Europe
Western Hemisphere

FIGURE 5

Money Growth and Inflation

1971-2001

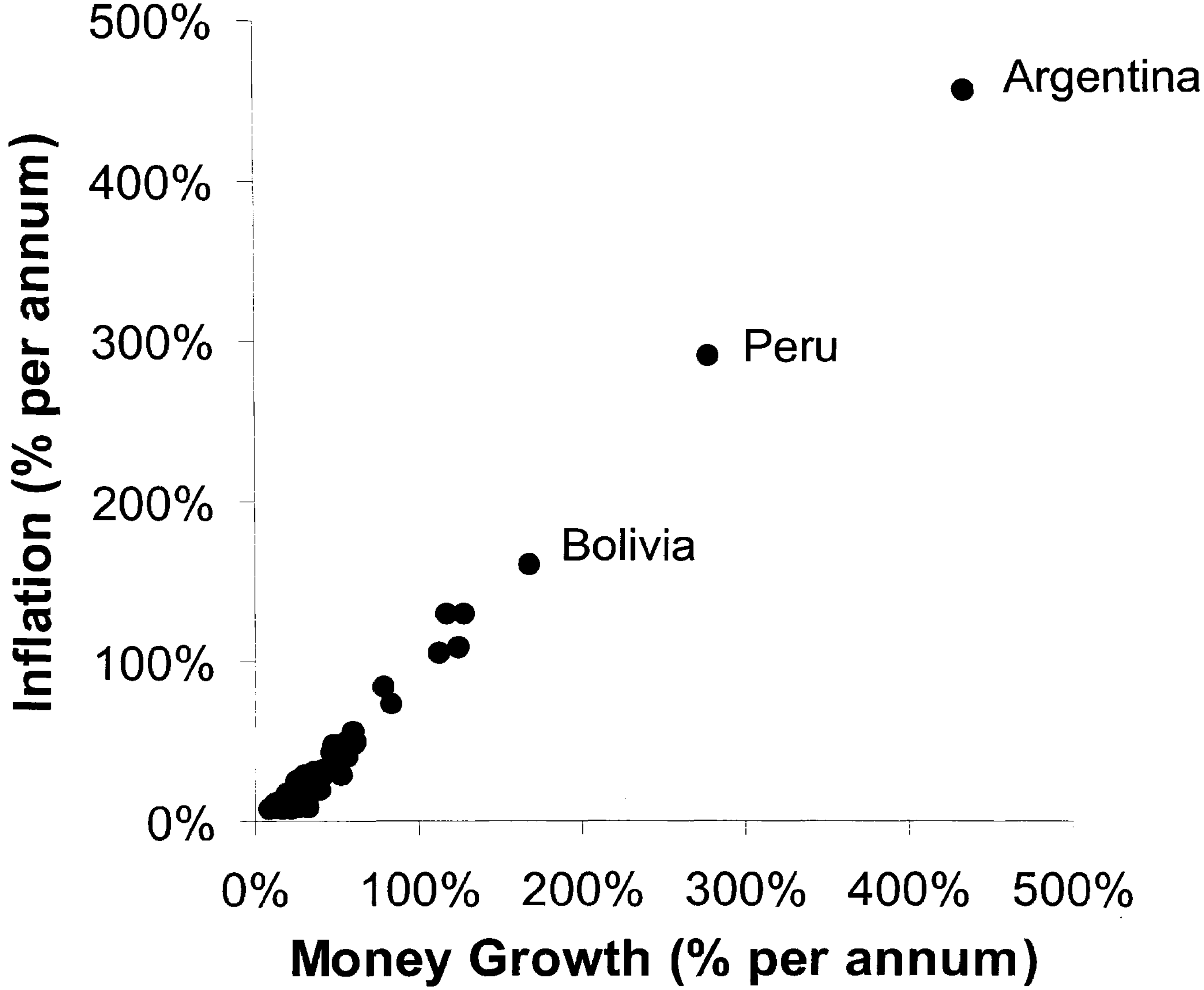


FIGURE 6A

Money Growth and Inflation

1971-2001 (close-up)

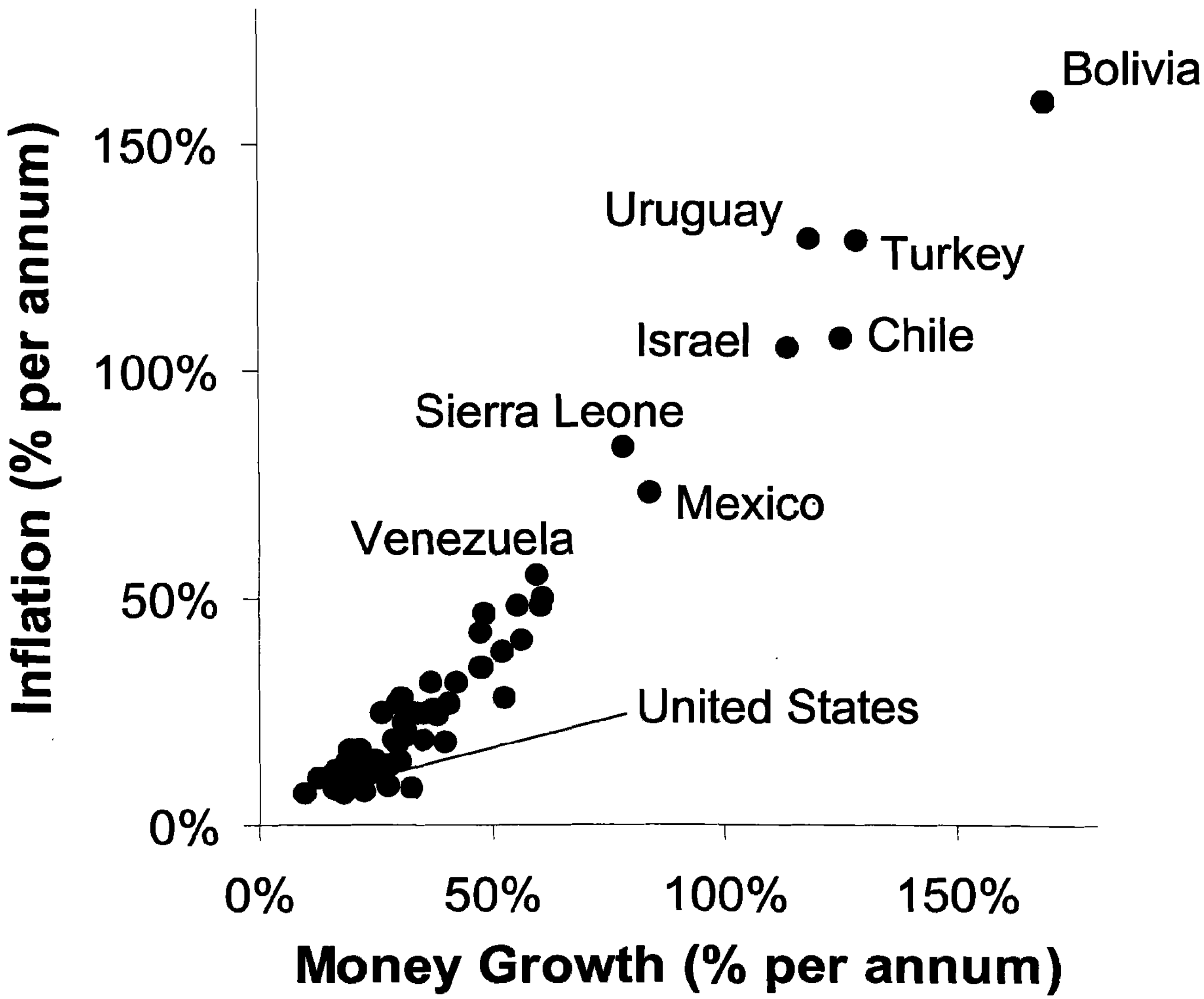


FIGURE 6B

Causes of the Great Inflation, Disinflation, and Price Stability

- Price shocks
  - Early explanation, but timing is off, and dependent on policy (later shocks, Japan)
- Historical bias from Great Depression
  - But why not in the 1950s?
- Time inconsistency bias
  - Theory of Kydland-Prescott, Barro-Gordon
  - Parkin version, Christiano et al version
- Over-estimates of potential GDP
  - Orphanides' real time approach, useful
  - But difficult to get real time estimate of potential
  - Official series unlikely to have been used by Burns

Change in Theories

- Phillips curve
  - 1958 paper, 1960s CEA, textbooks, everywhere!
- Friedman's natural rate theory
  - 1966 commentary, 1967 presidential address
  - Controversial, but then dramatic empirical validation
- Augmentation with <u>adaptive</u> expectations by early 1970s
  - Implies <u>large cost</u> of disinflation
  - 1974 White House conference
- Rational expectations
  - Lucas models
  - Sargent-Wallace, perfectly flexible prices, <u>zero cost</u> of disinflation
  - Staggered wage and price setting, <u>smaller cost</u> of disinflation
- Dangers of least squares learning without theory
  - Forgetting Sargent's a = 1 lesson when there is price stability

Leadership

- Changes in people—from Arthur Burns and Richard Nixon to Ronald Reagan—are the main cause
- Excerpts from an interview with Milton:

JBT: Why did inflation rise in the late 1960s and 1970s in the United States?

MF: Arthur Burns deserves a lot of the blame, and he deserves the blame because he know better.

JBT: What about the end of the Great Inflation?

MF: Well, there's no doubt what ended it. What ended it was Ronald Reagan….No other president in the post-war period would have accepted that [huge decline in public opinion in 1981 and 1982] without bringing pressure on the Fed to reverse course.

Changes in Operating Procedures and Rules

- Increased focus on the interest rate as the instrument
  - FOMC public statements about Fed Funds rate start in 1994
  - Similar for other central banks
  - Greater transparency
- Increased use of monetary policy rules with interest rate as the instrument
  - Motivated by rational expectations
  - Relation with Friedman's constant money growth rule
  - Need for "failsafe" money bounds for deflation, hyperinflation, and rudimentary financial systems

Changes in Monetary Policy Rules

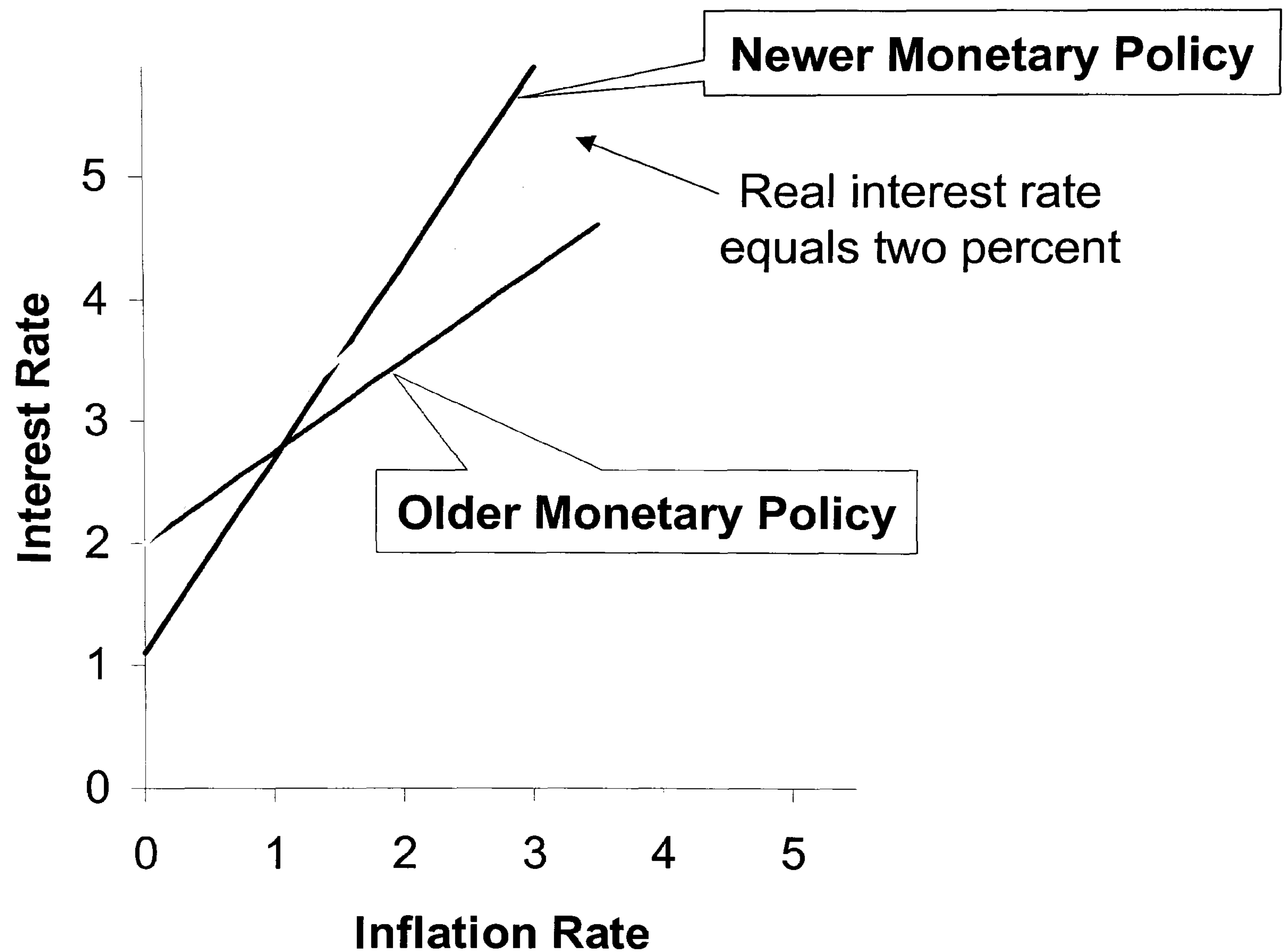


FIGURE 7

U.S. Inflation

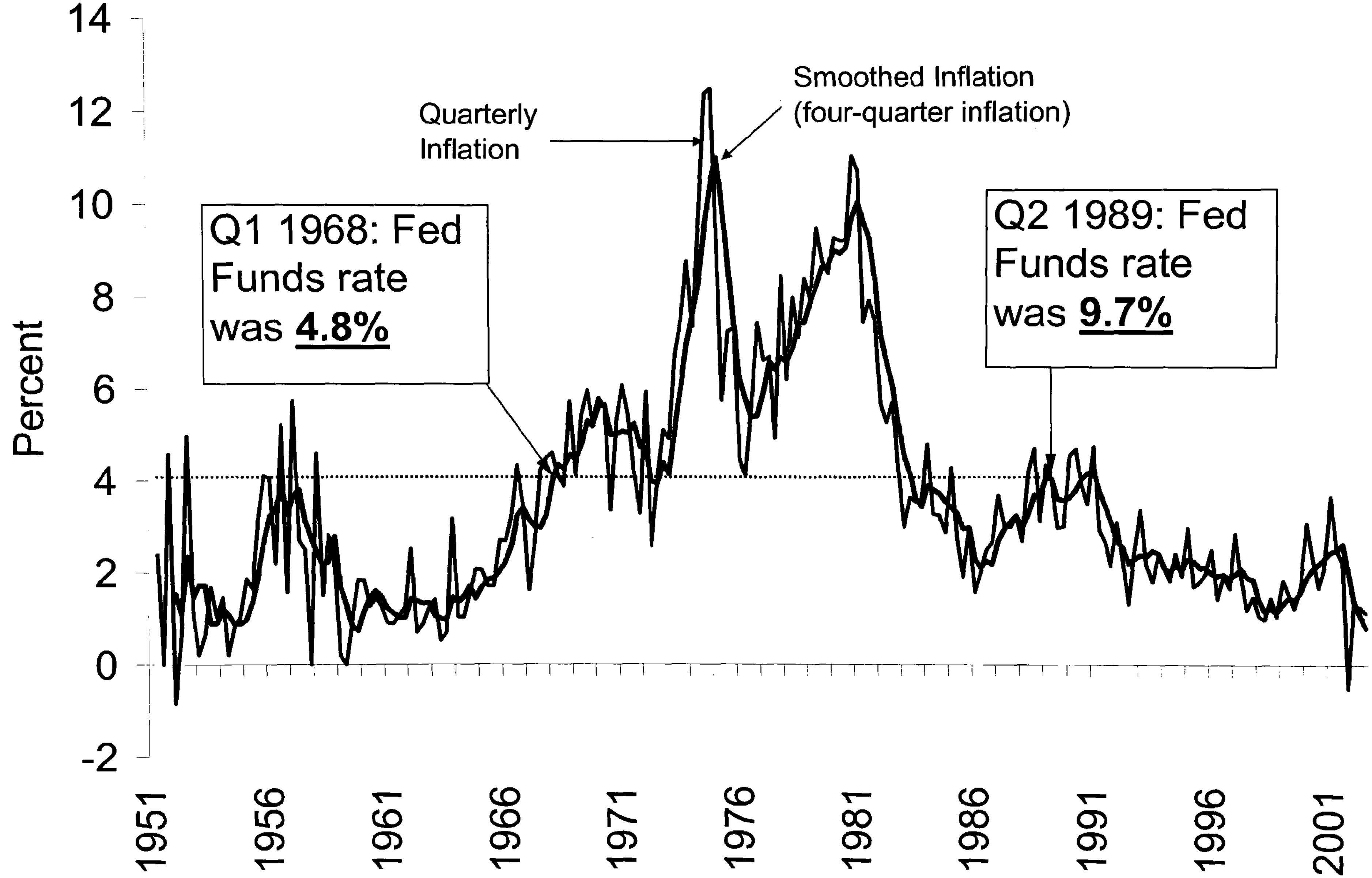


FIGURE 8

U.K. Inflation

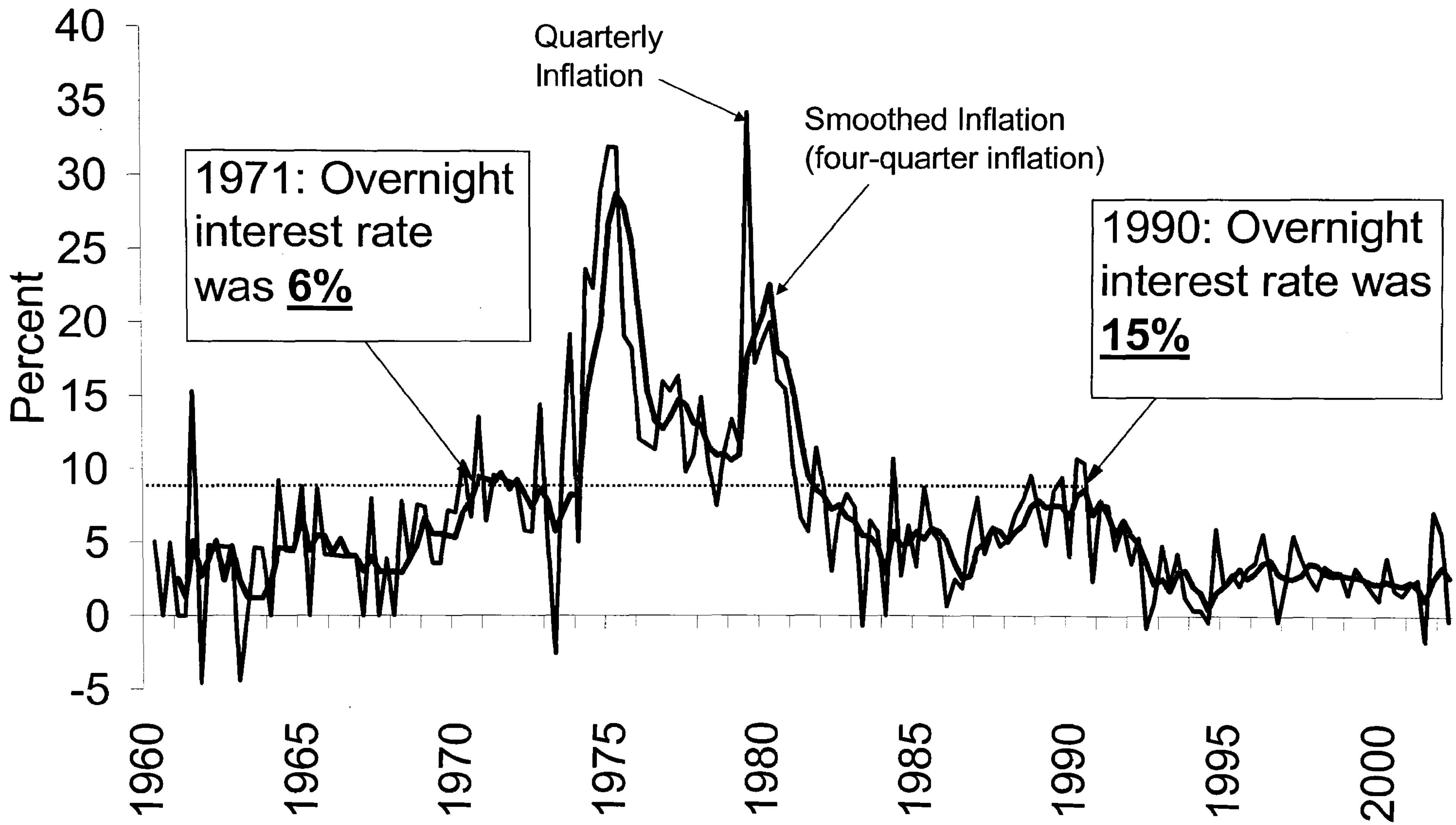


FIGURE 9

Australia Inflation

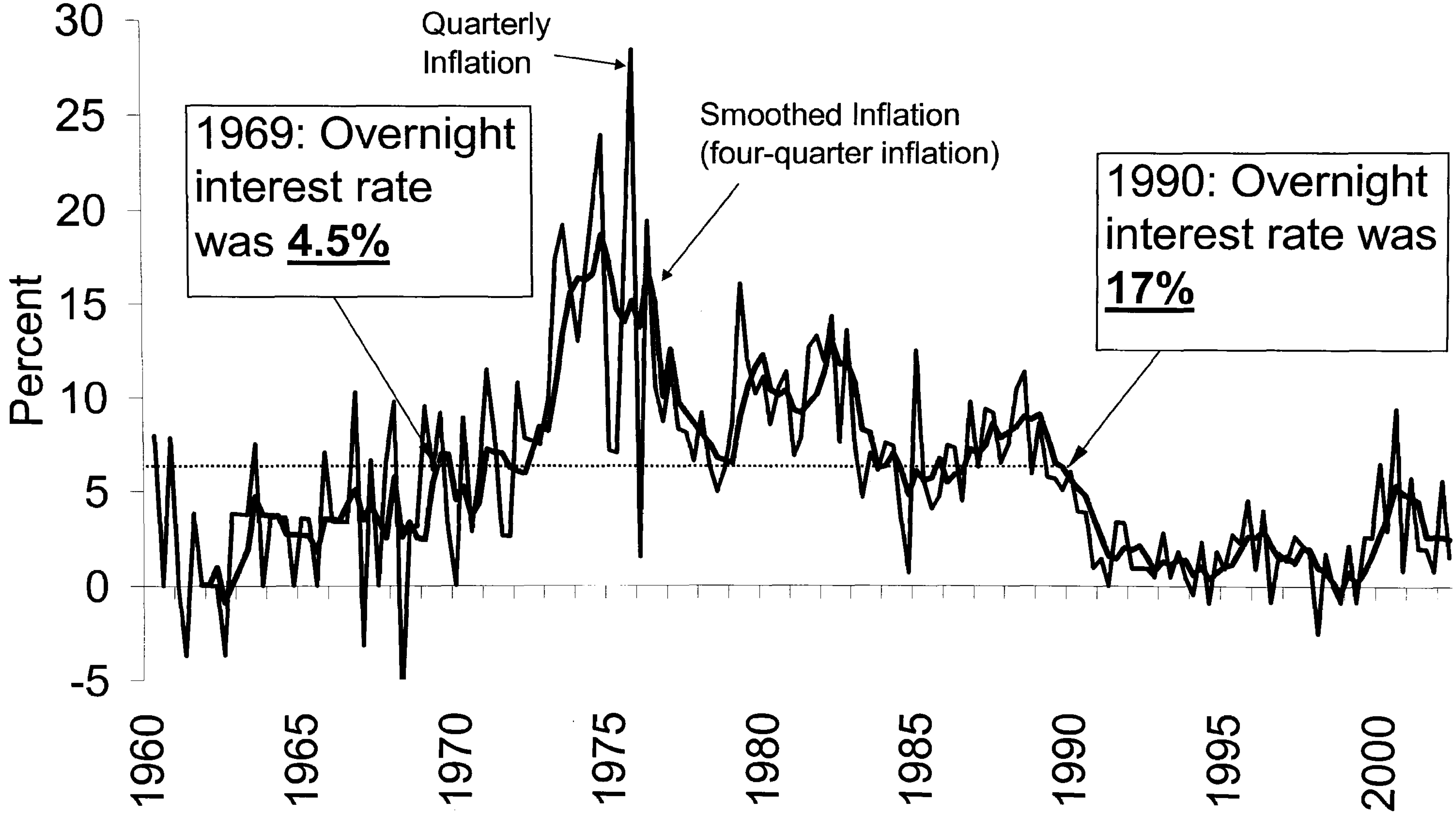


FIGURE 10

Canada Inflation

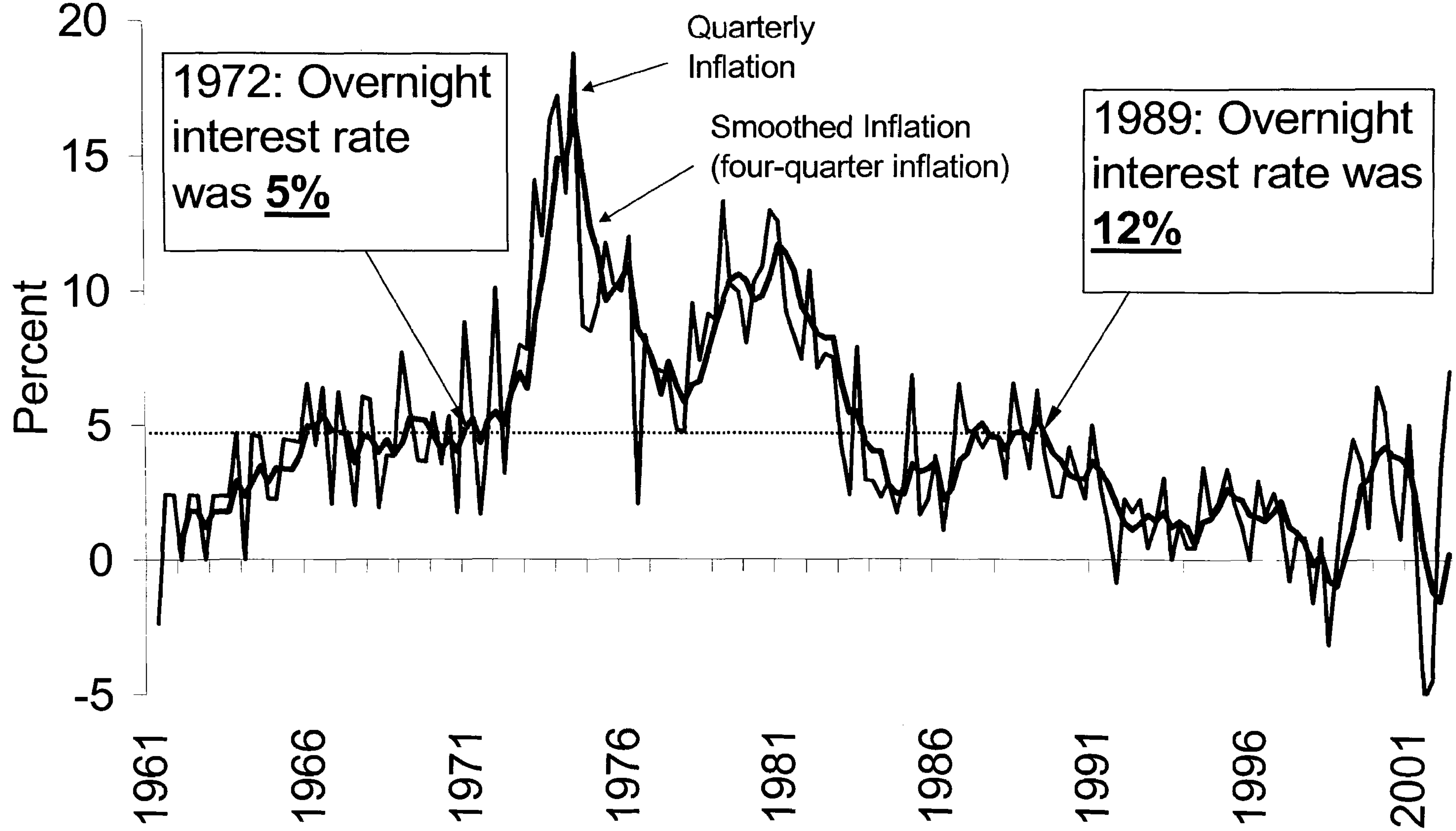


FIGURE 11

The Greater Than One Principle

- Response <u>less than one</u>:
  - Real interest rate declines when inflation increases
  - <u>Instability</u>
- Response <u>greater than one</u>:
  - Real interest rate rises when inflation increases
  - <u>Stability</u>
- Fact:
  - Coefficient less than one during Great Inflation

U.S. Real GDP

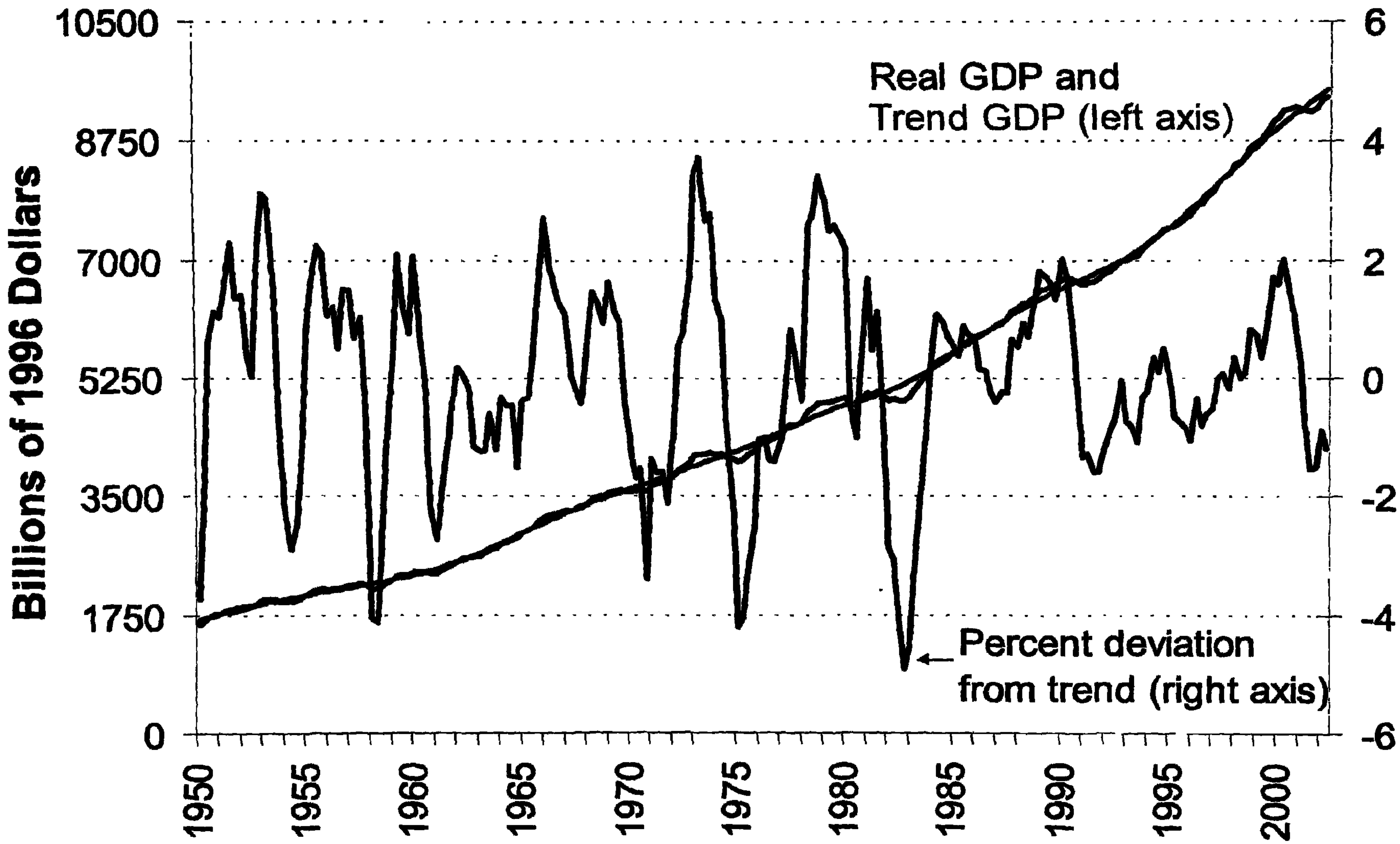


FIGURE 12

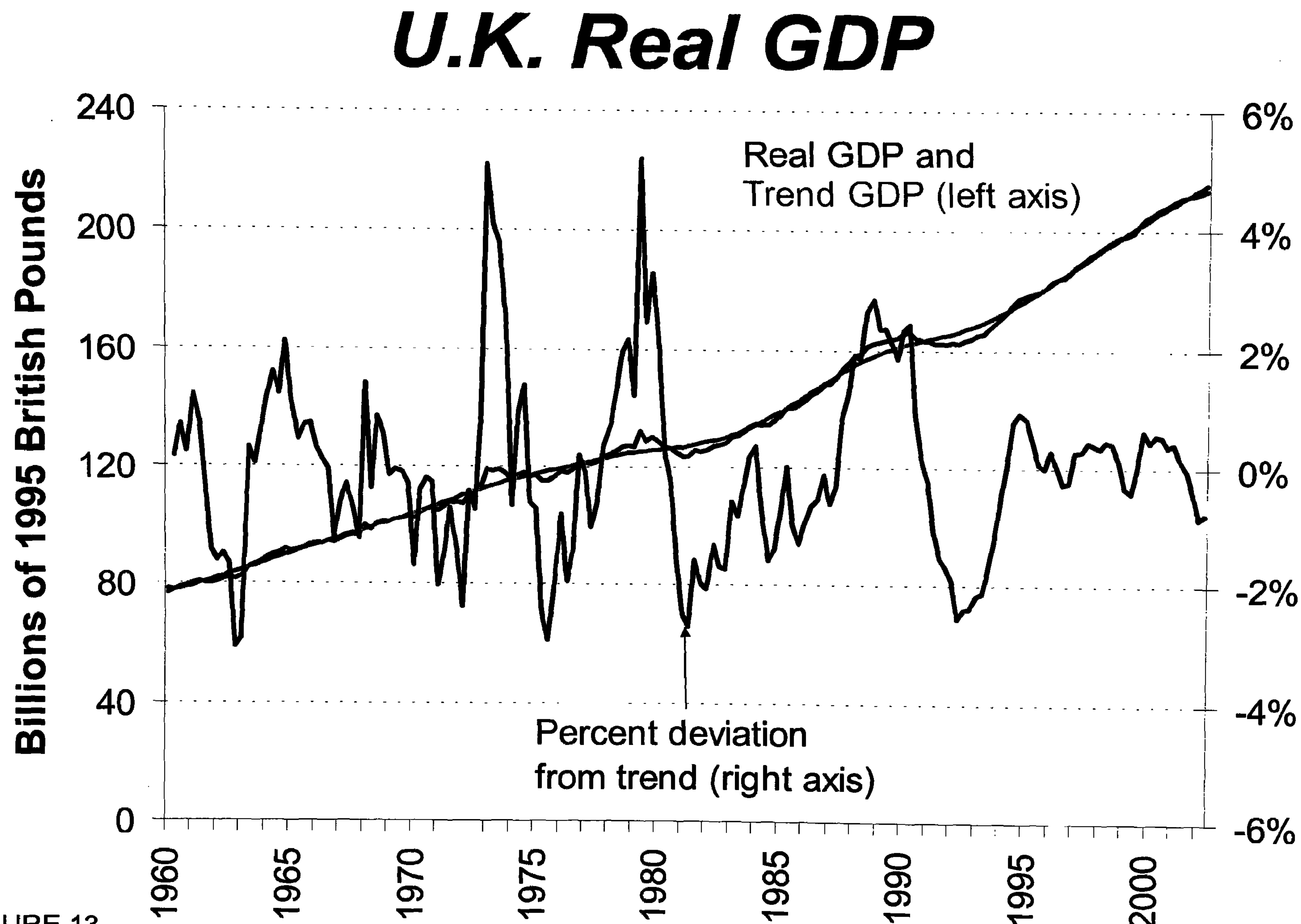

U.K. Real GDP
Real GDP and
Trend GDP (left axis)
Percent deviation
from trend (right axis)
Billions of 1995 British Pounds
240
200
160
120
80
40
0
6%
4%
2%
0%
-2%
-4%
-6%
1960
1965
1970
1975
1980
1985
1990
1995
2000

FIGURE 13

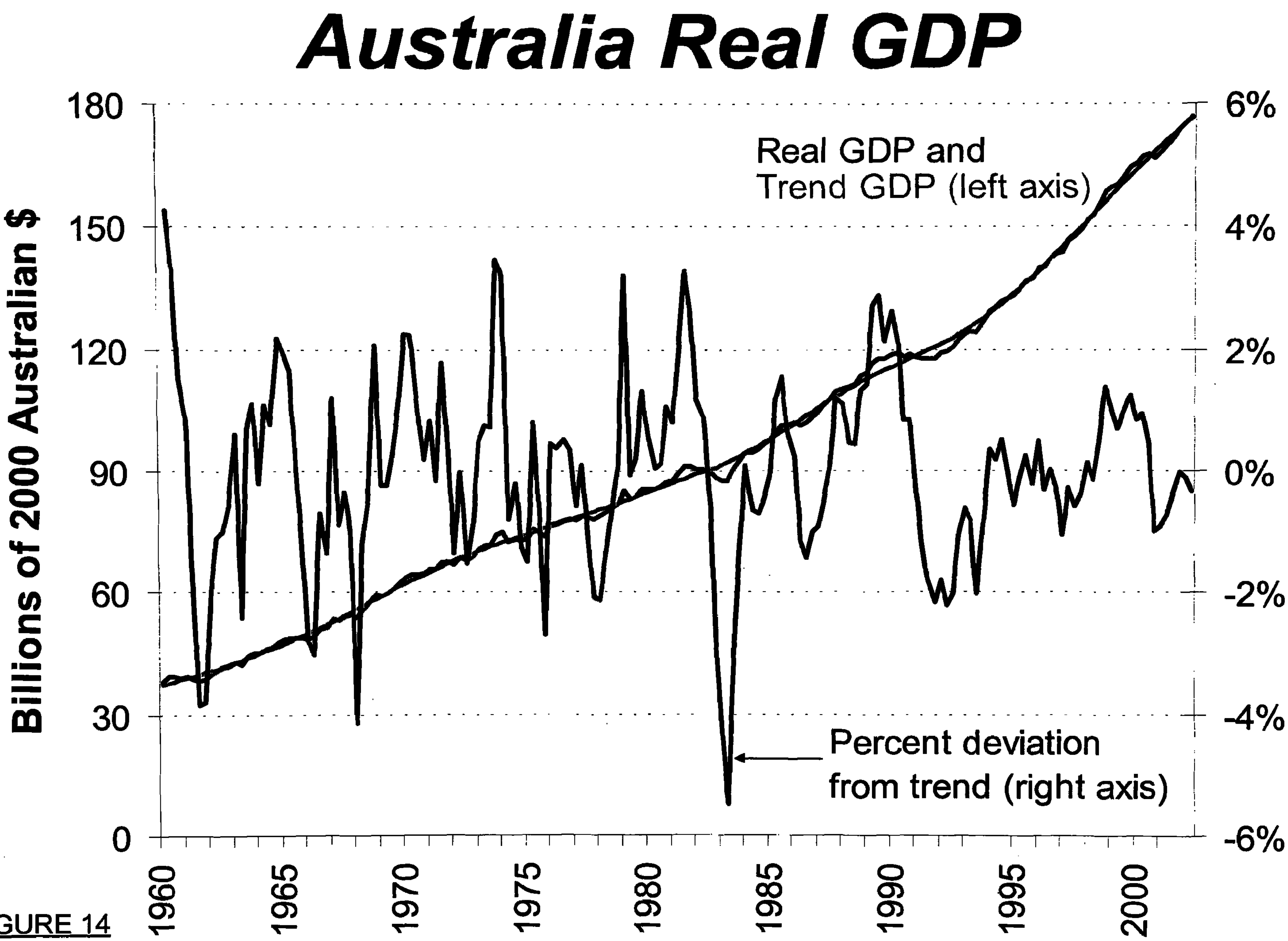

Australia Real GDP
180
150
120
90
60
30
0
Billions of 2000 Australian $
6%
4%
2%
0%
-2%
-4%
-6%
Real GDP and
Trend GDP (left axis)
Percent deviation
from trend (right axis)
1960
1965
1970
1975
1980
1985
1990
1995
2000

FIGURE 14

Canada Real GDP

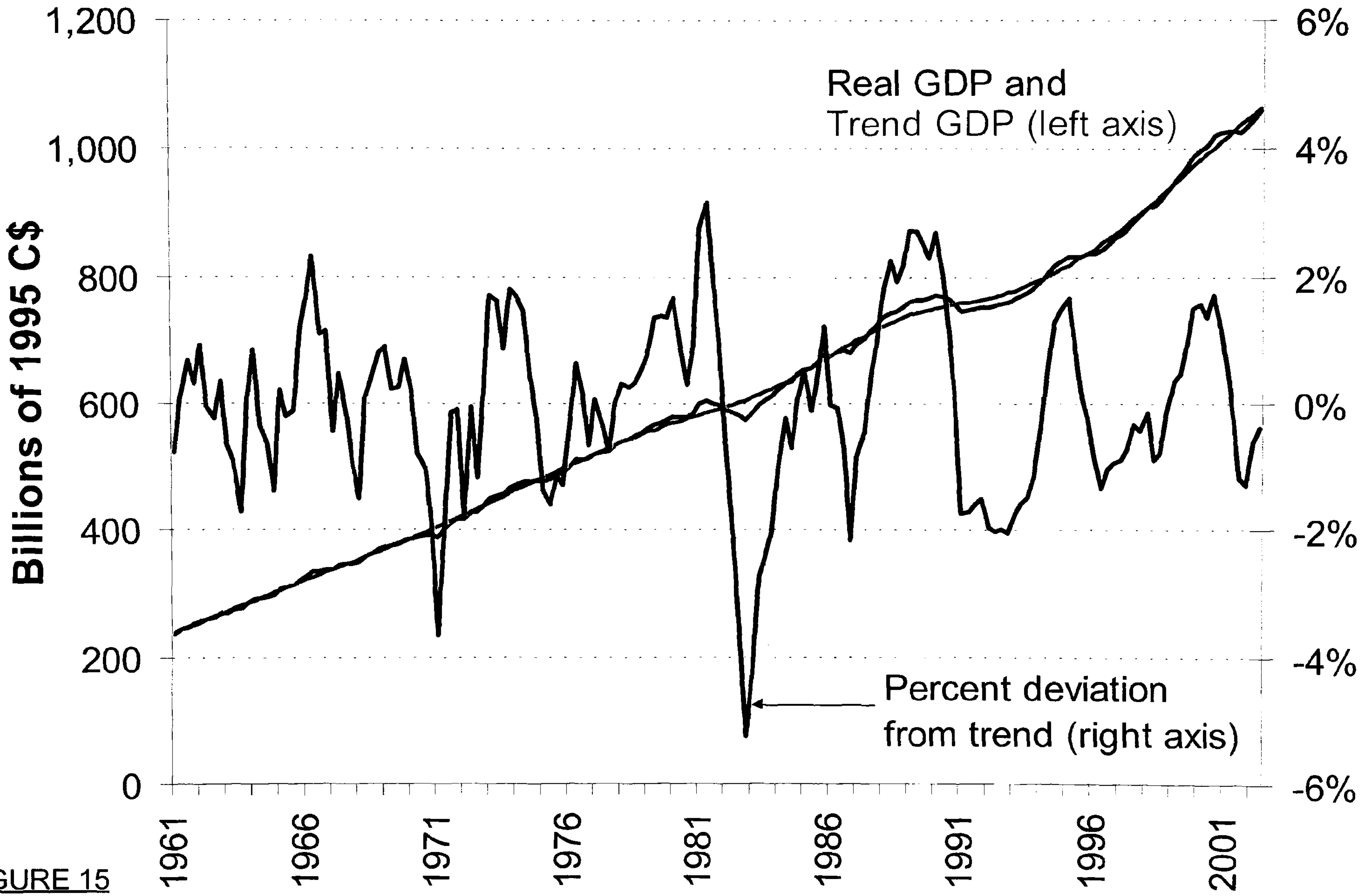


FIGURE 15

Learning about the Correct Response Coefficient

- Leaning against the wind was way too vague
  - Which instrument? Which wind?
  - When to lean? How much to lean?
- Maisel 1965:
  - "After 12 FOMC meetings I began to realize how far I was from understanding the theory the Fed used"
- Friedman, Schwartz, Meltzer, Jones, St. Louis Fed
  - Endeavor to specify with models, money data, and monetary history
- Emphasis on real interest rate
- Role of money growth in the disinflation
- Policy evaluation research with interest rate rules
  - New variability tradeoff
- Surprising benefits of newer policy rule:
  - ***Improved output stability <u>and</u> improved inflation stability***

International Diffusion of Ideas and Experience

- Great Inflation: "Change in theories" explanation works here too
  - First Phillips curve; but then natural rate, rational expectations ideas spread around the world
  - New Zealand adopts "measurable results" approach
- Inflation targeting frameworks spread
  - Svensson, Bernanke, central bank networks
- Monetary policy rules spread
  - McCallum, market analysts, flexible rates

Monetary Policy Today

- **47** countries with flexible exchange rates, inflation goals, and monetary policy instruments (interest rate or monetary base) aimed at the goals
- **50** countries either dollarized, in currency unions, or using currency boards
- **75** with fixed or heavily managed exchange rates
- **7** with multiple exchange rate regimes (way down)

A Half-Century of Changes in Monetary Policy

John B. Taylor
Under Secretary of Treasury for International Affairs

Written Version of Remarks Delivered at the
Conference in Honor of Milton Friedman
University of Chicago
November 8, 2002

It is a real pleasure for me to participate in this conference in honor of Milton Friedman. I have been asked to review changes in monetary policy since the end of World War II, or during the half-century or more since Milton Friedman first began writing on monetary economics.

Monetary policy changes during this period have been truly dramatic, not only in the United States, but also throughout the world. As every monetary economist knows, Milton Friedman's monetary research and policy advice—on monetary policy rules, on flexible exchange rates, on money growth, on the natural rate of unemployment, on the flaws in the Phillips curve, and on the real interest rate—had an enormous influence on these changes.

In the United States, the first big post-war change in monetary policy came in 1951 when the famous Accord was reached between the Treasury and the Federal Reserve. By freeing the Fed from the obligation to peg interest rates, that Accord allowed the Fed to make its own decisions about the instruments of monetary policy and to focus on key price stability goals. At nearly the same time, William McChesney Martin—who played an important role in negotiating the Accord—moved from the Treasury to the Fed and began implementing these goals. Since then we have seen many more changes in U.S. monetary policy, including a major transformation in how the instruments of policy are adjusted.

Similarly, but later on, the end of the Bretton Woods fixed exchange rate system freed central banks in the rest of the world to set their own instruments of monetary policy. And the changes have continued since then. Now the Bundesbank and other central banks of Europe are joined in a single central bank for all of Euroland with a single money supply and a single overnight interest rate. The international monetary system has been transformed into a system with a wide variety of monetary policies: (1) inflation targeting with a flexible exchange rate and a procedure for setting the policy instrument—usually the short-term interest rate, as in New Zealand, Chile, the United Kingdom, Sweden and Korea, (2) monetary unions—in western and central Africa and the eastern Caribbean as well as in western Europe, (3) dollarization—where the term refers both to the official use of Euros, as in Montenegro, and to the official use of dollars, as in El Salvador, (4) currency boards—as in Bulgaria or Bosnia, and (5) managed pegs—as in Singapore. One of the jobs of the International Affairs staff at the U.S. Treasury is to monitor monetary policy changes in other countries. I can attest that there have been a lot of changes to track.

For the most part these changes have resulted in better economic performance. There is greater monetary transparency and accountability in many countries, with explicit announcements of changes in policy instruments and published inflation and monetary policy reports. But unfortunately, not all has been good. In the midst of these positive changes, money mischief—to use the title of Milton Friedman's 1994 book—has continued, from hyperinflations in the early years of transition in the former Soviet bloc countries to multiple currencies in Afghanistan.

Three Broad Historical Developments

Clearly it is impossible to cover all these changes in one talk. But there are three broad historical developments during this period that provide a convenient organizing framework for reviewing the key monetary policy changes.

One development is the significant *rise and fall of inflation* during the post-World War II period. In the United States we went from price stability in the 1950s through the mid 1960s, to inflation from the late 1960s to the early 1980s, to disinflation in the early 1980s, to price stability in much of the period since then. Thus, the monetary history of this period consists of the Great Inflation flanked by two periods of relative price stability.

Another development—closely related to the first—concerns the procedures used at central banks for setting the instruments of monetary policy. The main change here is that decisions about the instruments of policy—frequently the overnight interest rate—are being approached and analyzed in a *more rule-like or systematic* fashion both in research and in practice. And when viewed in this more systemic fashion, one can detect a change in the responsiveness of the instruments of policy to inflation and to the real economy. In other words, the estimated coefficients in monetary policy rules have changed significantly.

A third development is the *diffusion of ideas and experience* about monetary policy around the world. The Great Inflation is frequently discussed as if it were solely an American inflation. But this same general pattern can be found in many countries and regions of the world. In recent years the diffusion of ideas and experience is found in the increasing number of central banks emphasizing targets for inflation, transparency, and independence in setting the instruments of policy.

Most changes in post-war monetary theory, history, and policy are best understood in the context these three historical developments. I'll now consider each in turn.

The Rise and Fall of Inflation

Figure 1 documents the rise and fall of inflation in the United States. Inflation began to rise in the late 1960s and fluctuated in a generally rising pattern until the disinflation in the early 1980s. By the mid 1980s inflation had been reduced substantially and a period of relative price stability began. That period of price stability has continued ever since with relatively small fluctuations.

Figures 2 through 4 show that a similar pattern of inflation occurred in the United Kingdom, Australia, and Canada, although the inflation ended somewhat earlier in the United States. Of course, not every single country in the world experienced precisely the same timing. Japan, for example, dealt with the inflation problem much earlier than the United States, and with the current deflation it has gone too far in reducing inflation. Nevertheless, there is a general global pattern, and Figure 5 endeavors to summarize the global pattern. It shows the median inflation rate over 5-year intervals in the major regions of the world. In each case we see a rise and fall of inflation. Not shown in Figure 5 is the experience of the transition economies that emerged from the Soviet bloc. These countries also experienced a rise and fall in inflation, but it was larger—reaching hyperinflation levels—and shorter—starting and ending in the 1990s.

What caused the Great Inflation? I will take as a given that inflation is a monetary phenomenon. Milton Friedman and Anna Schwartz provided convincing evidence of this long ago in their monetary history. In Figure 6, scatterplots of countries' money growth rate and inflation rate show that inflation is still a monetary phenomenon. There is a remarkably close association over time between inflation and money growth. The question is why central banks increased money growth during the period of high inflation. Monetary economists have offered a number of explanations.

Exogenous Oil Price Shocks and Monetary Accommodation

Long before the Great Inflation was over and long before it acquired its current name, people began focussing on "oil price shocks" as the cause of the rise in inflation. Alan Blinder, for example, stressed the importance of oil shocks in raising the rate of inflation. According to this explanation the shock-induced increase in inflation forced policymakers to accommodate the shock by raising money growth; the accommodation would prevent a decline in real money balances and avoid an increase in unemployment. If the shock were not accommodated, then unemployment would increase.

The passage of time and later experiences with oil shocks under different monetary regimes have raised questions about this view. Writing from the vantage point of 1997, Brad DeLong noted that the inflation was already underway in the late 1960s in the United States, well before 1972 when the oil price shocks began. Moreover, the experiences with later oil shocks in the United States and other countries were much different from the first shocks; these experiences suggest that a less accommodative monetary policy could prevent price shocks from getting imbedded in inflation without significant unemployment effects. Oil price shocks in the late 1970s had very small effects in Japan when a much less accommodative monetary policy was in place.

Historical Bias: Lessons from the Great Depression

In rejecting the price shock view, Brad DeLong provided another explanation for the Great Inflation. According to this explanation, the memory of very high unemployment in the Great Depression caused policymakers to err on the side of higher inflation. They were fearful of a return to high unemployment. He argues that policymakers and the public were willing to let inflation rise because, having recently experienced the high unemployment of the 1930s, they worried that maintaining price stability would lead to greater unemployment.

However, if the experience of the Great Depression caused the rise in inflation in the late 1960s and 1970s, then why did monetary policy leave the price level so nearly stable during the William McChesney Martin years of the 1950s and 1960s—a period much closer in time to the Great Depression? Shouldn't we have seen the inflation rate rise much earlier if the Great Depression had created such a bias in monetary policy?

Time-Inconsistency Bias: Expectations Traps

The time-inconsistency problem of Finn Kydland and Edward Prescott has also been frequently cited as a possible reason for the rise and fall of inflation. One version of the time-inconsistency explanation is due to Michael Parkin using the model of Robert Barro and David Gordon. In the basic time-inconsistency model of inflation and unemployment there are economic benefits from actual inflation being higher than expected inflation and there are economic costs from inflation itself. The model predicts that policymakers—who are unable to fully commit to policies—will eventually find themselves in a sub-optimal equilibrium. The unemployment rate is always equal to the natural unemployment rate in this equilibrium, no matter what the inflation rate is. The equilibrium is sub-optimal because, if policymakers could commit, it would be possible for them to achieve a lower inflation rate with the same rate of unemployment. Thus, time-inconsistency causes an inflationary bias in monetary policy.

This sub-optimal equilibrium has the property that the higher is the natural rate of unemployment, the higher is the equilibrium inflation rate. This property yields a possible explanation for the Great Inflation in the United States because the natural rate of unemployment rose in the 1970s. As the post-World War II baby boom generation entered the workforce, the fraction of young people, who typically have higher unemployment rates, rose. This caused the natural rate of unemployment to rise. Then, as the baby boom generation grew older in the 1980s, the natural rate of unemployment declined. Thus, with a rising and then falling natural rate of unemployment, the time-inconsistency model implies that the inflation rate should have risen and then fallen as well.

I have questioned whether policymakers—who are assumed in this story to be well aware of the time-inconsistency problem—could have dealt with it long ago. Wouldn't they have seen the sub-optimality of the equilibrium and dealt with it? In any case, even if Parkin's explanation applies here, it cannot explain the rise and fall of inflation in Europe and other parts of the world—see Figure 5—where the natural rate of unemployment did not follow the same pattern.

V.V. Chari, Lawrence Christiano, and Martin Eichenbaum developed another version of the time-inconsistency model that can be offered as an explanation of the Great Inflation. As described by Christiano and Christopher Gust the model is based on rational expectations with sticky prices rather than the imperfect information used by Kydland and Prescott. In this model a rise in people's expectations of inflation forces a choice on the central bank: either accommodate the increase in inflationary expectations by an increase in money growth, or do not accommodate the increase and let unemployment rise. Their version of the time-inconsistency problem is similar to the price shock explanation in the sense that the central bank is "forced" into increasing money growth in order to avoid a decline in real money balances and an increase in unemployment. To complete this explanation, Christiano and Gust note that expectations of inflation did rise in the late 1960s along with the increase in actual inflation. For this model to explain the *end* of the Great Inflation, however, more is needed—perhaps a sudden recognition by policymakers that this time-inconsistency problem exists and needs to be dealt with.

Poor Data: Overestimating Potential GDP

Athanasios Orphanides argues that an overestimate of potential GDP and a corresponding underestimate of the full-employment unemployment rate were factors that led monetary policymakers to provide too much monetary stimulus and cause the Great Inflation. His analysis is based on estimates of the actual data that existed in the 1970s. He feeds this data into standard monetary policy rules and finds that the setting of the interest rate is similar to the actual interest rates, which—certainly based on what we know today—were way too low and would be expected to lead to inflation, as they did.

Orphanides' work is a very useful reminder of the dangers that uncertainty about potential GDP can create for monetary policy procedures that use potential GDP. However, his estimates of real-time potential GDP have their own problems. In my view they exaggerate the size of the policy error that could be attributed to an overestimate of potential GDP. Most important is that the potential GDP series used by Orphanides was recognized at the time by monetary policy and business cycle experts to be flawed. In fact, plans were in place at the Council of Economic Advisers to publish a more realistic series for potential GDP. In any case, I doubt that an expert historian of the business cycle such as Federal Reserve Chairman Arthur Burns would have been confused by this estimate of potential GDP.

Ideas: The Development of Models of Inflation

The development of new economic ideas and the adoption of these ideas by policymakers and their staffs can obviously have an impact on economic policy. But not all new economic ideas are correct. In my view the idea—developed in the 1960s—that there was a long-run tradeoff between inflation and unemployment contributed greatly to the Great Inflation. Moreover, the discovery of flaws in those models by Milton Friedman and the development of new models by Edmund Phelps, Robert Lucas, and others in the 1970s and 1980s helped create the rationale for the disinflation and for the more recent period of price stability.

A.W. Phillips' paper was published in 1958, and by the mid 1960s the idea of a long-run Phillips curve tradeoff between inflation and unemployment regularly appeared in the *Economic Report of the President*. It appeared in textbooks and was widely discussed by the media. Of course, the monetary policy implication of the Phillips curve tradeoff was that unemployment could be permanently reduced if the central bank increased money growth and created a higher rate of inflation. The idea clearly had an impact on fiscal and monetary policy. Recent historical work by Christina Romer and David Romer finds evidence of this in the records of policymakers at the time. As the idea of a long-run Phillips curve gained acceptance, it led politicians to be less concerned about using monetary policy to overstimulate the economy.

As early as 1966 Milton Friedman was pointing out the theoretical flaws in the Phillips curve argument. He showed using basic economic theory that there could be no long-run tradeoff; excessive monetary expansion, which temporarily brought unemployment below the natural rate, would lead to accelerating inflation as people began to expect higher inflation. He put his natural rate theory before the whole American Economic Association in his presidential address in 1967. His model was very controversial at the time, but as the Great Inflation picked up steam and the inflation-unemployment facts started rolling in, the model was proven to be right on the mark. Soon his natural rate idea was being incorporated into econometric models used at the Fed and elsewhere.

Thomas Sargent's recent work on learning describes how the estimated econometric models of the Philips curve equations changed as the Great Inflation started and continued. With price stability in the 1950s and early 1960s, expectations of inflation were low and the expectations term in the Philips curve was small (certainly less than one). But as inflation picked up so did the coefficient on the expectations term, leading to confirmation of the Friedman model. One implication of Sargent's work is that now that the Great Inflation is over, the expectations term will decline again (which it has) and could again lead economists to think that there is a long-run tradeoff. That is why it is so important not to blindly run regressions, but rather to ground empirical work on good economic theory as Milton Friedman did.

At least in the early years of the Great Inflation, the Friedman model did not appear to have had a practical influence in leading to less inflationary monetary policies. The Great Inflation started and it continued. But the model did change the nature of the monetary policy debate in a profound way. Rather than arguing that higher inflation would lead to lower unemployment (the facts were not supporting such an argument), people started arguing that there would be great costs of *reducing* inflation. Such an argument was supported by the Friedman model when *combined* with slowly adaptive expectations—the so called "expectations augmented" Philips curve. If the Fed tried to reduce inflation, people argued, expectations of inflation would come down very slowly, and the gap between expected and actual inflation would raise unemployment. Thus the model was used to justify a policy of avoiding disinflation; such a reduction would be too costly. For example, George Perry calculated that it would cost 10 percent of GDP to reduce inflation by 1 percentage point.

The 1974 White House *Economists Conference on Inflation* is indicative of mainstream economic thinking at the time. Many distinguished economists attended the event. Virtually all of them stressed the high costs of disinflation. Walter Heller said "in bringing inflation to its knees, we will put the economy flat on its back." Paul Samuelson said we do not need a Winston Churchill-like "blood, sweat, and tears" program to reduce inflation. Among all these distinguished economists, only Milton Friedman argued unequivocally for inflation reduction. He said the "strength [of the U.S. economy] is currently being eroded by the disease of inflation. If that disease is not checked it will take a heavy toll including, in my opinion, the very likely destruction of our personal, political and economic freedoms....I heartily applaud, also, the expressed determination of the Federal Reserve to slow monetary growth...despite the cries of anguish about this table and elsewhere about tight money, the slowing has so far lasted two or three months so we cannot yet be sure the Fed has really departed from the ever more inflationary path it has been following for the past decade".

So once again Milton Friedman was the exception. The more common view among economists throughout the 1970s was that it was not worth the costs to reduce inflation. This common view was based on the expectations-augmented Phillips curve, not on the original Phillips curve.

What started to shift economists' thinking about disinflation, in my view, was the "rational expectations" revolution, and, in particular, the replacement of adaptive expectations with rational expectations in the "expectations-augmented" Phillips curve. Robert Lucas's 1972 paper laid out the basic theory. Thomas Sargent and Neil Wallace drew out the policy implications: the costs of disinflation were essentially zero for a credible policy of disinflation. Of course, these striking findings required the extreme assumption that prices and wages were perfectly flexible, but they certainly got people to think about alternative views.

At about the same time, models with staggered wage and price setting and rational expectations that preserved the long-run neutrality that Friedman required were also being developed. In these new sticky wage and price setting models the costs of disinflation also appeared to be much lower than previously thought. Using estimated econometric models that combined staggered price setting (rather than perfectly flexible prices) with rational expectations, I calculated in the late 1970s the disinflation costs: they were not zero but they were much smaller than those found using conventional models.

Changes in Leadership

So far the explanations I have mentioned focus on economic models, on shocks, on biases, and on data errors. Another explanation of the Great Inflation, its demise, and the recent period of price stability can be found in changes in economic and political leadership. Here, once again, Milton Friedman's insights are valuable. He argues that the Great Inflation occurred because of the political and economic officials who were in charge at the time that it started. And the Great Inflation ended because of the people who were in charge at the time that it ended. In fact, he places more importance on changes in leadership than on changes in knowledge. He notes the lack of economic leadership in the late 1960s and early 1970s, the re-emergence of leadership during the disinflation period in the early 1980s, and the continuation of good leadership while Alan Greenspan has been Fed Chairman.

I can do no better than to quote Milton Friedman on the role of leadership as a cause of the Great Inflation and its end. The quotes are excerpts from an interview I recently conducted.

Taylor: Why did inflation start to rise in the late 1960s and 1970s in the United States?

Friedman: Yes, the Great Inflation, the explanation for that is fundamentally political, not economic....I believe that Arthur Burns deserves a lot of blame, and he deserves the blame because he knew better. He testified before Congress that, if the money supply grew by more than 6 or 7 percent per year, we'd have inflation, and during his regime it grew by more than that. He believed in the quantity theory of money but he wasn't a strict monetarist at any time....

Taylor: Do you think Burns was part of the culture of the times in that he put less emphasis on inflation, or that he was willing to risk some inflation to keep unemployment low, based on the Philips curve?

Friedman: Not at all. You read all of Arthur's writings up to that point and one of his strongest points was the avoidance of inflation. He was not part of that Keynesian group at all....

Taylor: Another thing that people say now is that Burns was as confused as other people were about potential GDP, and that he thought the economy was either below capacity or that it was capable of growing more rapidly than it was. Do you think that was much of a factor?

Friedman: I don't think that was a major factor. I think it may have been a factor.

Taylor: What about the end of the Great Inflation?...

Friedman: Well, there's no doubt what ended it. What ended it was Ronald Reagan. If you recall the details, the election was in 1980. In October of 1979, Paul Volcker came back from a meeting in Belgrade, in which the U.S. had been criticized, and he announced that the Fed would shift from using interest rates as its operating instrument to using bank reserves or base money....Reagan was elected and Reagan was determined to stop the inflation and willing to take risks. In 1981, we go into a severe recession. Reagan's public opinion ratings went down, way down. I believe that no other president in the post-war period would have accepted that without bringing pressure on the Fed to reverse course. That's the one key step: Reagan did not. The recession went on in 1981 and 1982. In 1982 Volcker turned around and started to raise the money supply and at that point the recession came to an end.

The Evolution of Monetary Policy Rules

A second important strand in post-World War II monetary history is the change in the way the instruments of policy are set. To describe this change I need to first focus on what the instrument of monetary policy is. The choice is between the interest rate and the monetary base. (There is also the related question, which I am not addressing here, about whether there should be an intermediate target for a broader monetary aggregate or simply an inflation target.) There has been an increased focus on the interest rate in recent years. To some extent this has been a matter of increased transparency; in the past many central banks had been implicitly setting interest rate targets. In 1994 the Federal Open Market Committee (FOMC) began issuing public statements about its federal funds rate decisions. The FOMC now directs the Trading Desk in

New York to buy and sell securities so that conditions in the federal funds market are consistent with an average funds rate near its stated target. Similar developments occurred at other central banks with the overnight interest rate typically being determined by stated borrowing and lending rates as in New Zealand, Canada, and the European Central Bank.

Now, with the focus increasingly on the overnight interest rate as the instrument, there has been a shift in how monetary economists analyze central bank decisions. Rather than evaluate each decision as an isolated one-time adjustment, the evaluation is about the overall dynamic strategy for setting the instrument. In other words, policy analysis places greater emphasis on the coefficients of monetary policy rules. This change in emphasis is quite profound. It grew out of early work on monetary policy rules by Milton Friedman; the recent resurgence was motivated in part by endeavors to incorporate anticipatory behavior in markets into policy evaluation. Following Lucas, such forward-looking behavior has frequently been modeled by assuming rational expectations. In a rational expectations environment one cannot even evaluate monetary policy without thinking of a policy rule that lays out future contingencies. These were some of the motivations for the policy rule research that I was engaged in during the 1970s and 1980s and which resulted in the normative proposal in my 1993 "Rules versus Discretion in Practice" paper.

This change in thinking about monetary policy is observed both inside and outside of central banks. When economists evaluate monetary policy, they simulate models with policy rules inserted in them rather than simply simulating one-time changes in the instruments. When financial market analysts try to determine what a central bank should or should not do, they usually consider a monetary policy rule. And central banks frequently use policy rules as an input to their actual decisions.

An unexpected benefit of the monetary policy rule approach is that it has revealed changes in the decisionmaking processes at central banks. One important change is in how the federal funds rate has responded to events in the economy. The response can be measured by the coefficient in the policy rule. John Judd and Glenn Rudebusch discovered such a change for Federal Reserve policy by empirically estimating a policy rule for the federal funds rate. They found that the response of the federal funds rate to the inflation rate has increased over time. During the late 1960s and 1970s the coefficient was less than one; during the period since the mid 1980s the coefficient has been greater than one.

The difference in the estimates in the two time periods is illustrated in Figure 7; note how the slope of the interest rate response line has increased, holding the response to other variables constant. A more dramatic illustration of the change is shown in Figures 8 though 11 where the interest rate is shown at two different points in time. In the United States when the inflation rate approached four percent in 1968, the federal funds rate was about five percent. When the inflation rate approached four percent in 1989, the federal funds rate was about ten percent, clearly a much larger response. The same phenomenon is seen for the United Kingdom, Canada and Australia in Figures 9 through 11.

Whether the coefficient is greater than one or not is important. With the coefficient greater than one, the response of the nominal interest rate is of a large enough magnitude that the provide opportunities for many such exchanges. The web pages provided by central banks and monetary economists outside of central banks also help in the diffusion process.

There is another favorable development in the last few years. More countries have chosen to abandon pegged exchange rates and, instead, have chosen either to use a monetary policy based on flexible exchange rate or to permanently connect monetary policy to other countries through monetary union, dollarization, or a currency board. By our count at the U.S. Treasury, 47 countries operate a monetary policy with a flexible exchange rate and 50 countries are either dollarized, in monetary unions, or using currency boards. The number with fixed or heavily managed exchange rates is falling and is now at 75. Fortunately, there are only 7 countries with multiple exchange rates.

In sum, there are now 97 countries that have dollarized, joined a currency union, created a currency board, or floated their exchange rate. There is a common feature in all 97 countries. They are endeavoring to benefit from the progress made in the practice of monetary policy. They are either tying to a central bank with good price stability goals and instrument setting procedures, or they are trying to pursue an independent monetary policy using those goals and procedures themselves.

Conclusion

Before I finish this historical review I need to remind everyone about the many practical monetary problems that are still left in the world. For example:

Among the industrial nations, a serious monetary problem is the deflation in Japan. It has continued for seven years and appears to have become persistent. The Bank of Japan ran a good monetary policy based on price stability for much of the 1970s and 1980s. It was a policy based on keeping the growth rate of money steady. But declines in money growth in the 1990s led to deflation, which now needs to be addressed by increasing money growth and reforming the banking sector.

Among the emerging market countries, the currency mismatch problem—where banks, governments, and non-financial firms have liabilities in dollars and assets or income streams in local currencies—is a potential cause of instability. Without an adequate supply of dollar reserves central banks cannot provide lender of last resort facility for dollar deposits at banks.

And among the poor developing economies many still have yet to introduce transparent monetary policies aimed at price stability.

Nevertheless, as I have tried to emphasize in this review, great progress has been made in monetary economics and policy. I hope it is clear from all the references to Milton Friedman that he has made an enormous contribution to this progress. He is an inspiration for us all, but especially for those who work in the areas of monetary economics and policy.

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FIGURE 1

U.S. Inflation

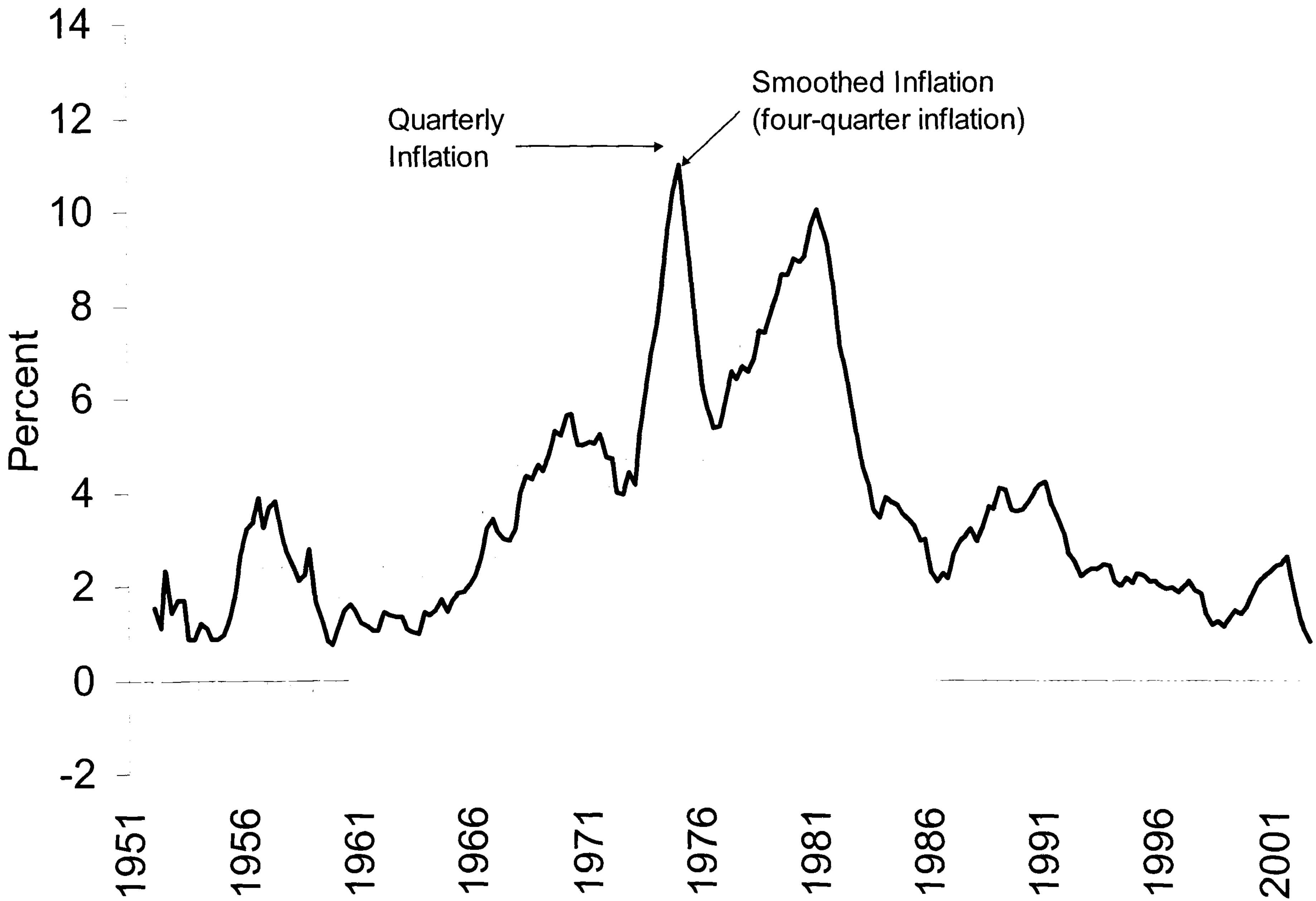


FIGURE 2

U.K. Inflation

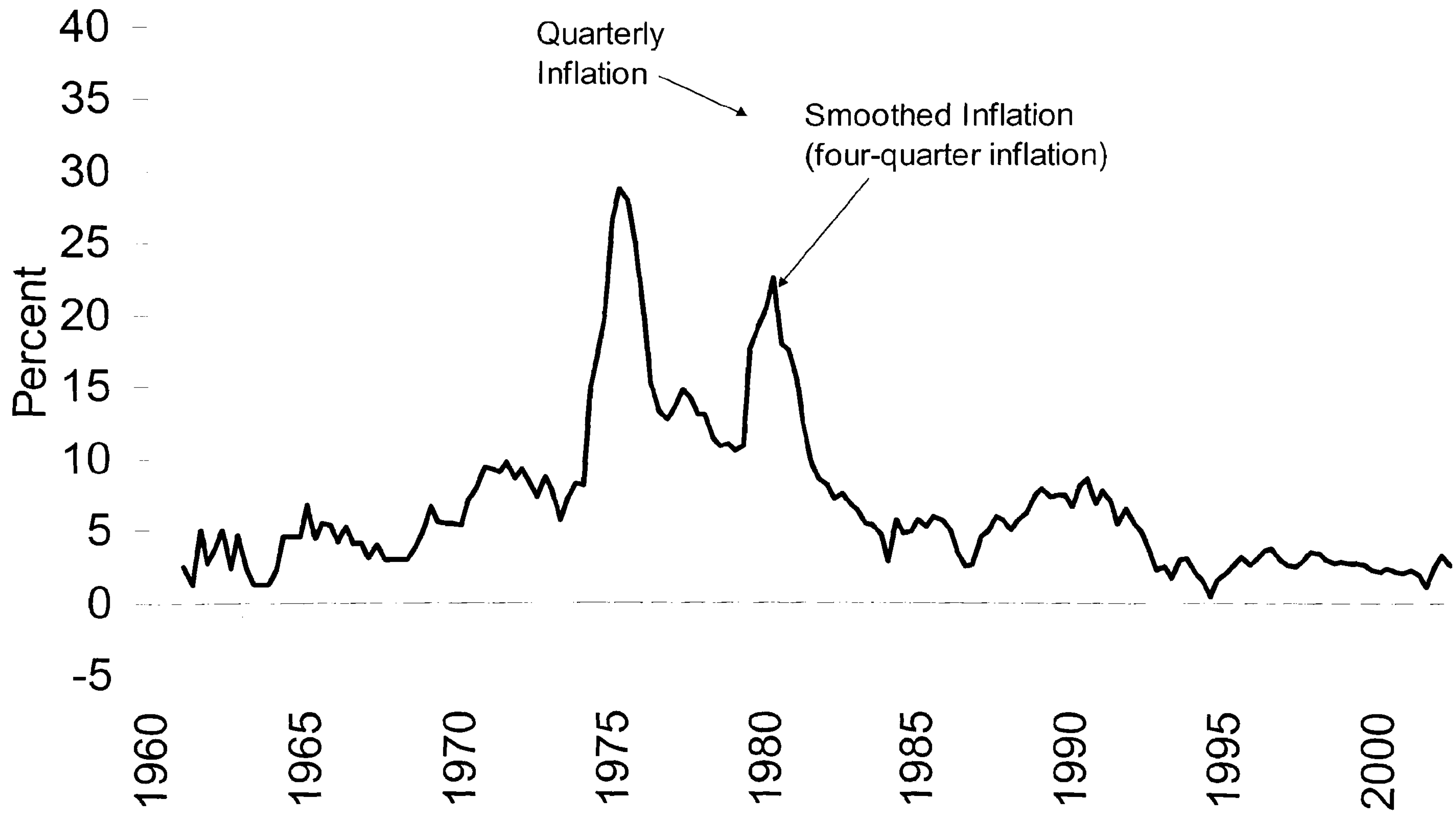


FIGURE 3

Australia Inflation

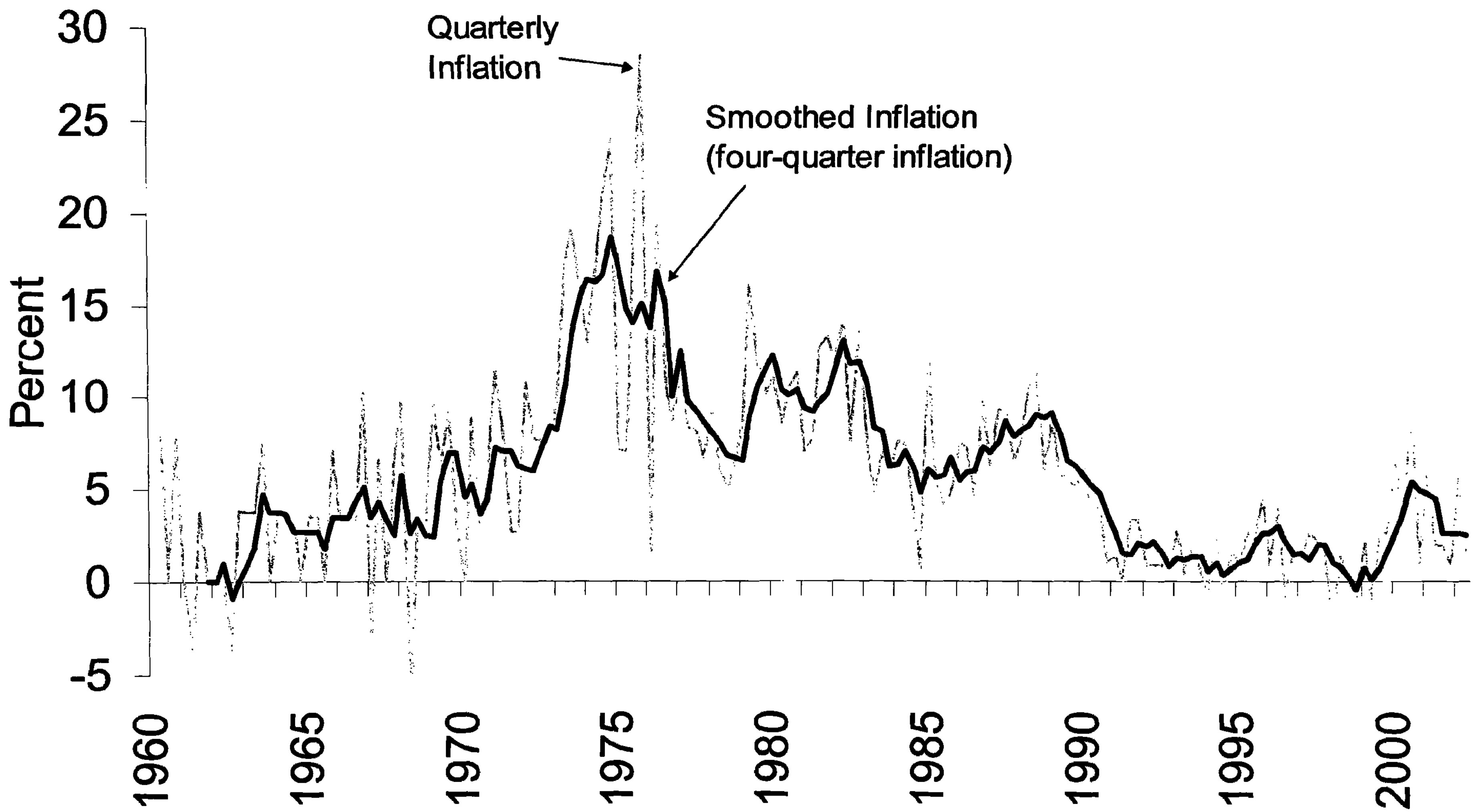


FIGURE 4

Canada Inflation

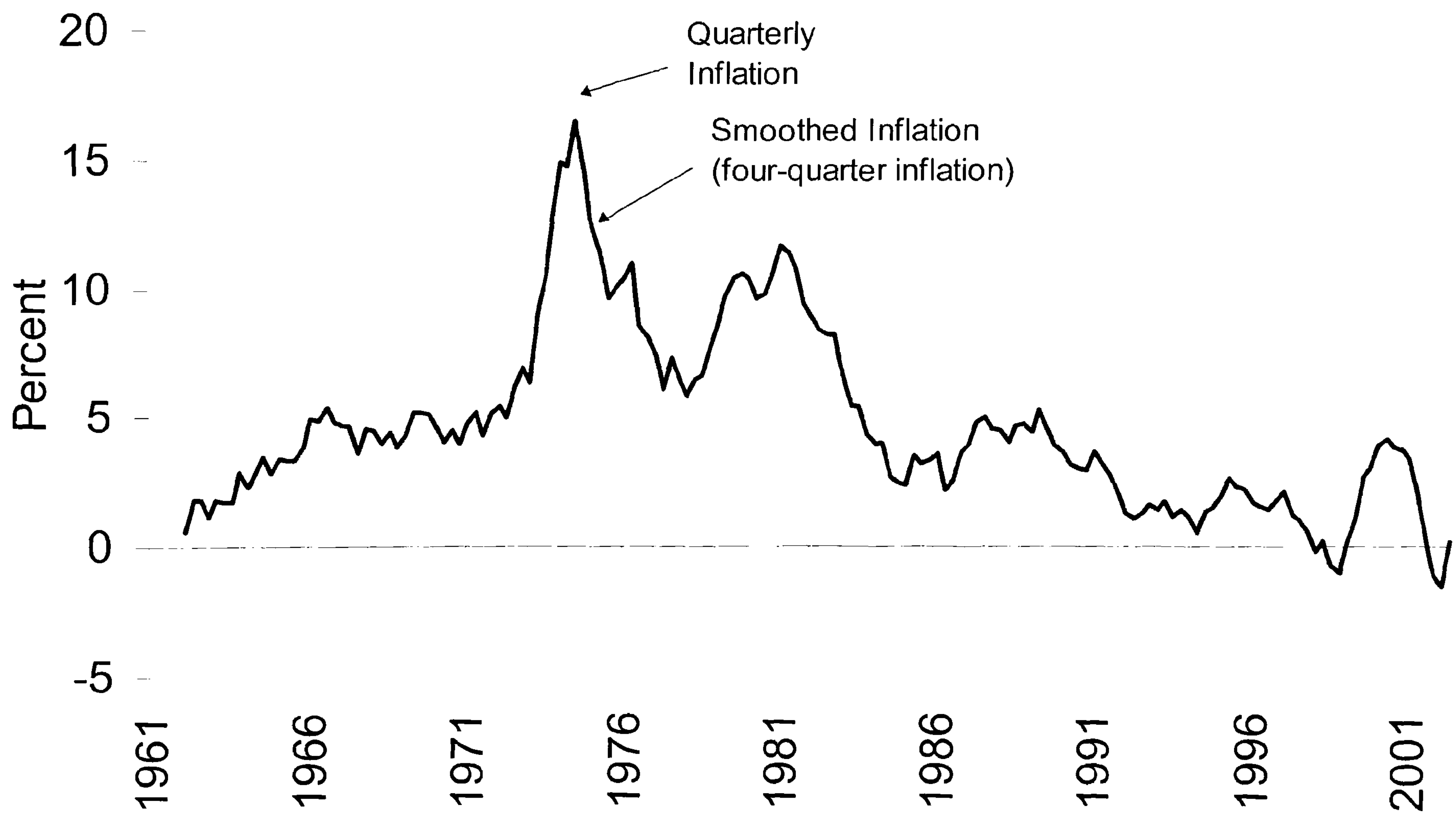
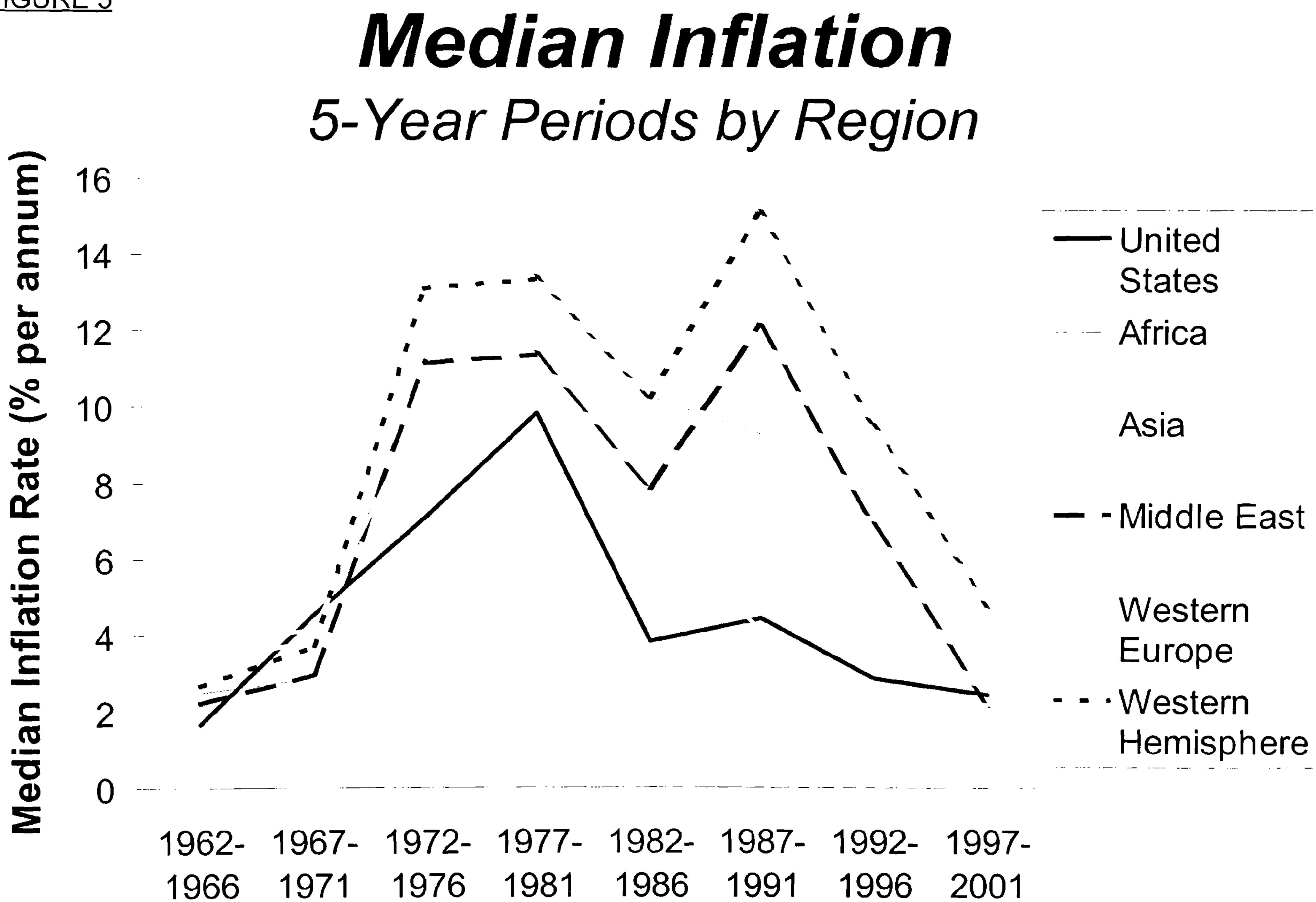


FIGURE 5



Median Inflation
5-Year Periods by Region
Median Inflation Rate (% per annum)
16
14
12
10
8
6
4
2
0
1962-1966
1967-1971
1972-1976
1977-1981
1982-1986
1987-1991
1992-1996
1997-2001
United States
Africa
Asia
Middle East
Western Europe
Western Hemisphere

FIGURE 6A

Money Growth and Inflation

1971-2001

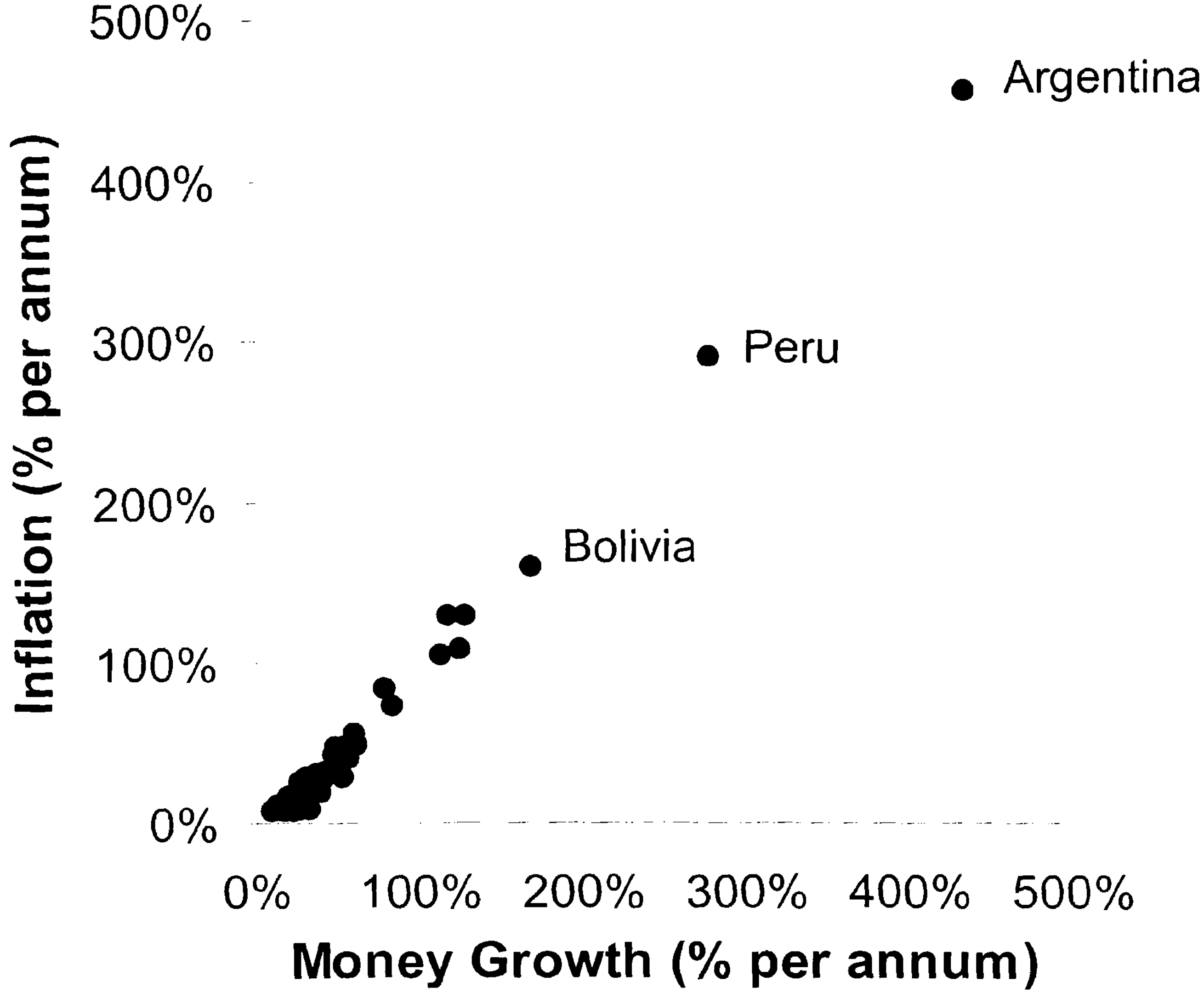


FIGURE 6B

Money Growth and Inflation

1971-2001 (close-up)

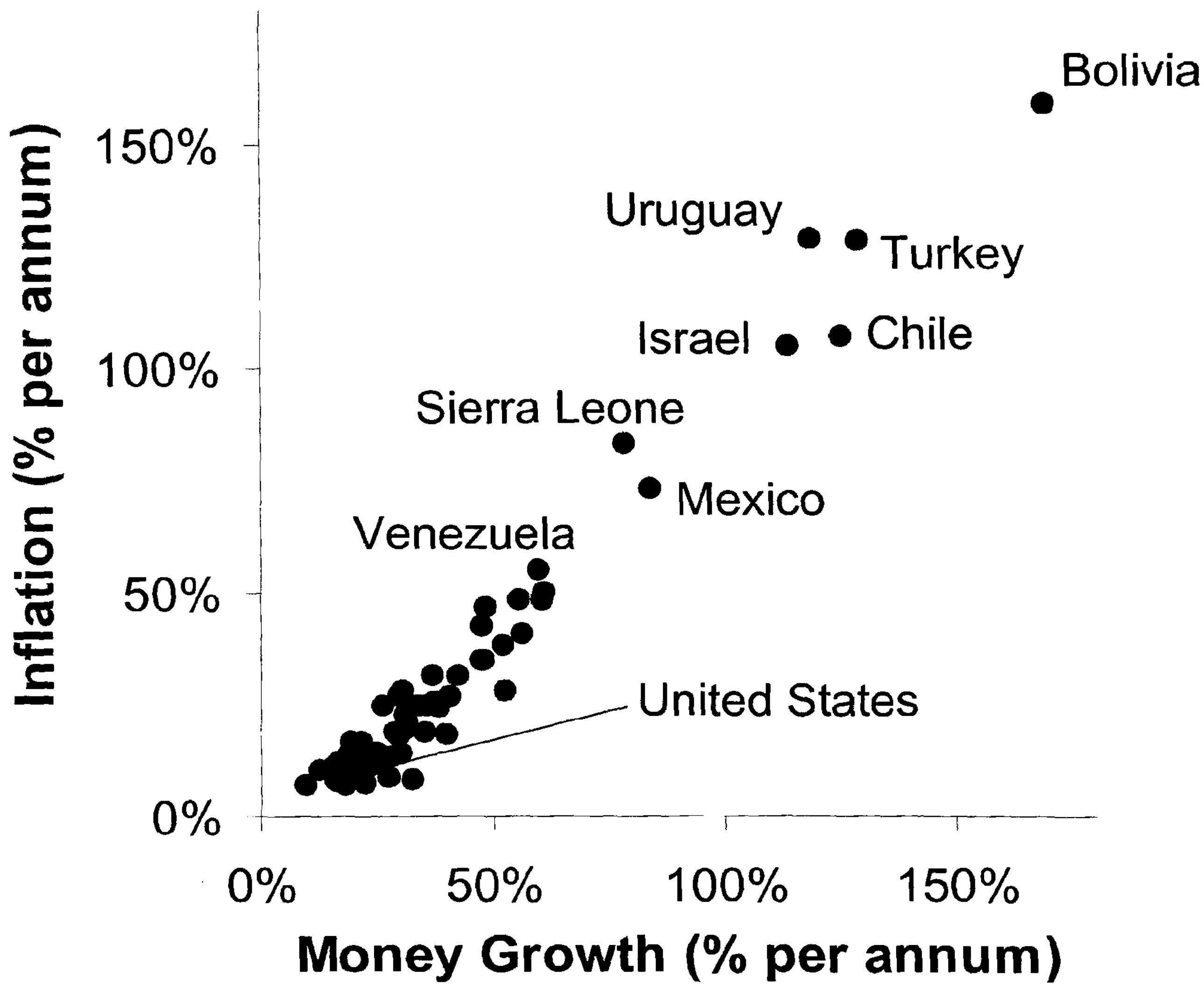


FIGURE 7

Monetary Policy Responses

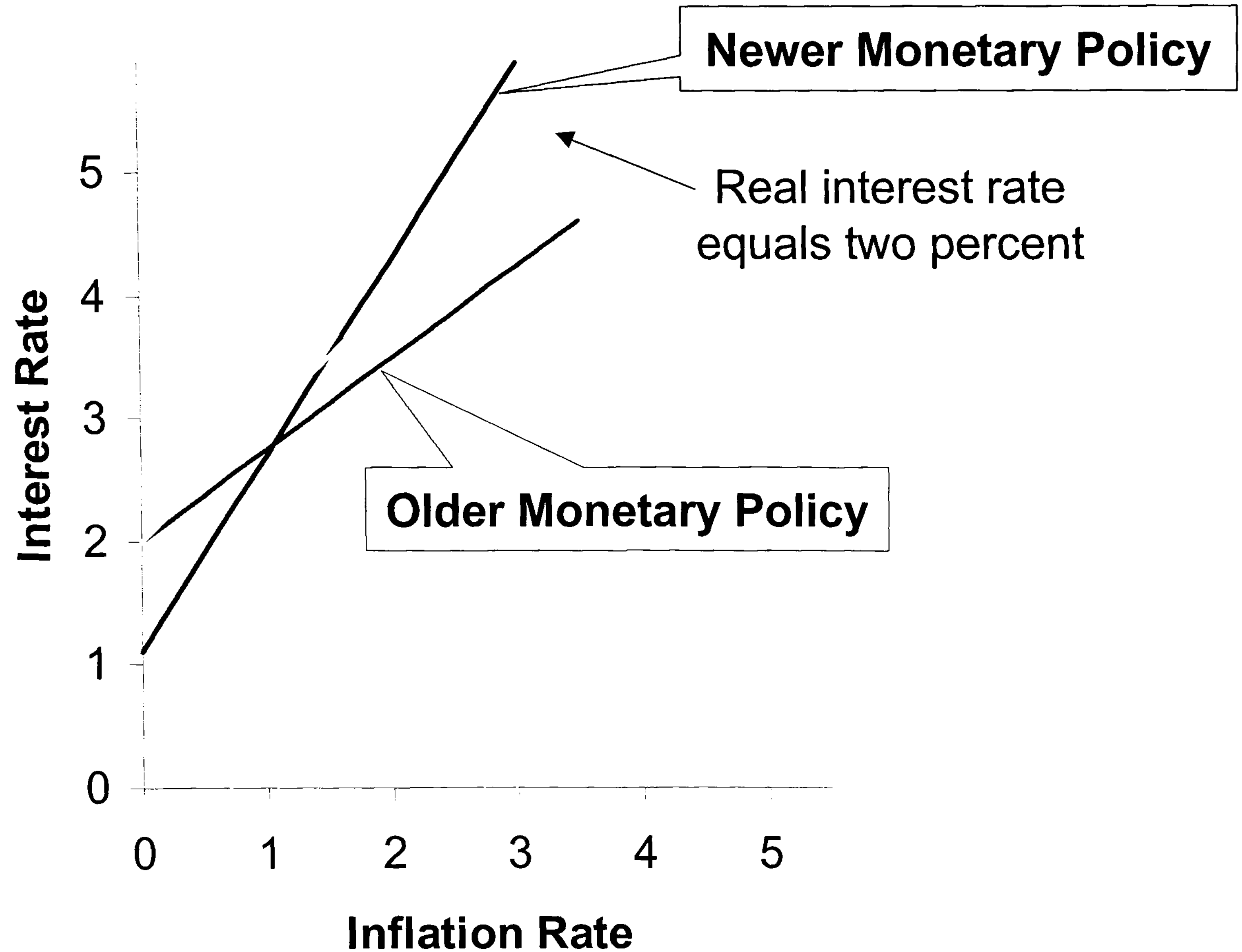


FIGURE 8

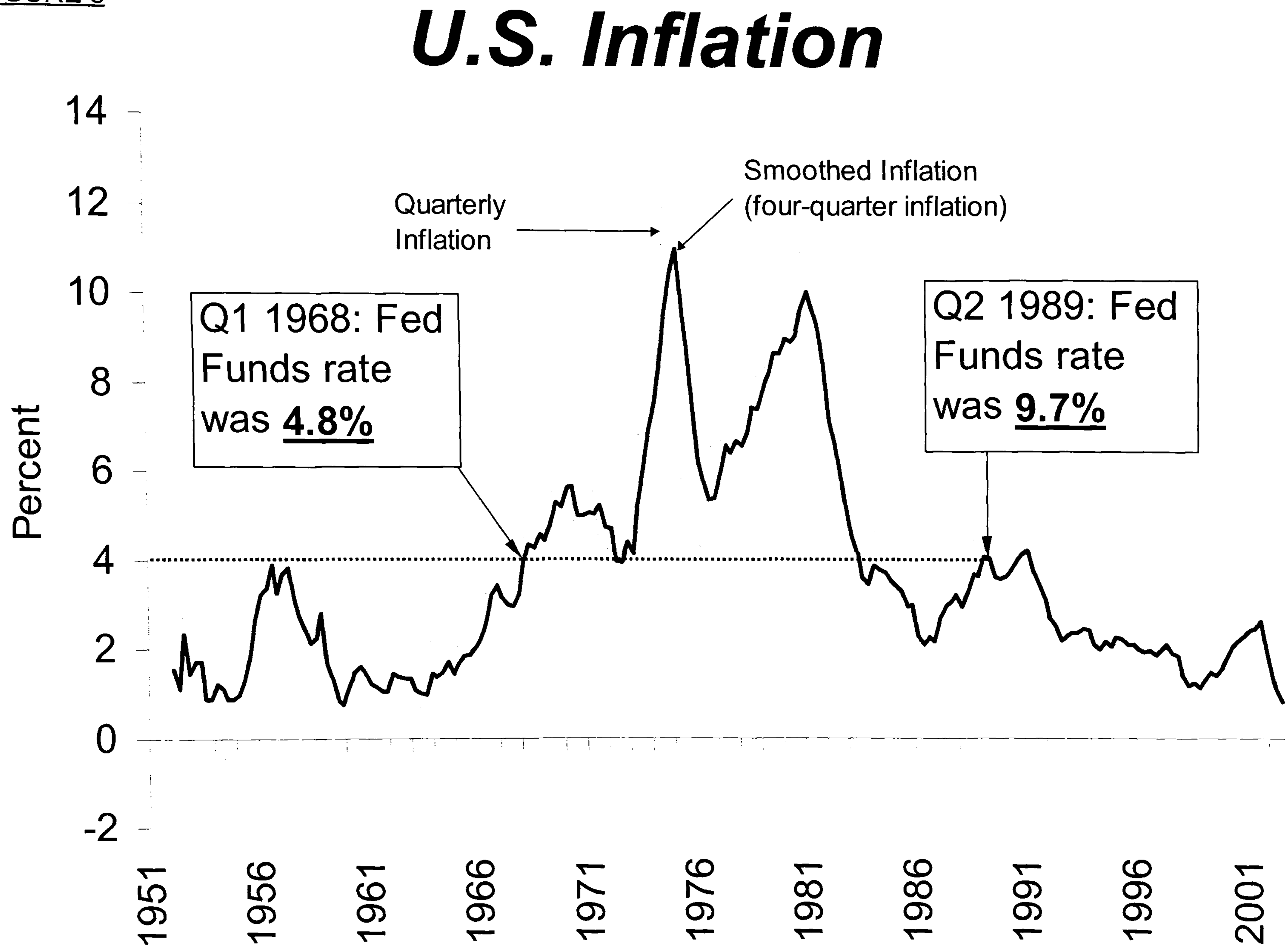

U.S. Inflation
14
12
10
8
6
4
2
0
-2
Percent
Quarterly Inflation
Smoothed Inflation (four-quarter inflation)
Q1 1968: Fed Funds rate was 4.8%
Q2 1989: Fed Funds rate was 9.7%
1951
1956
1961
1966
1971
1976
1981
1986
1991
1996
2001

FIGURE 9

U.K. Inflation

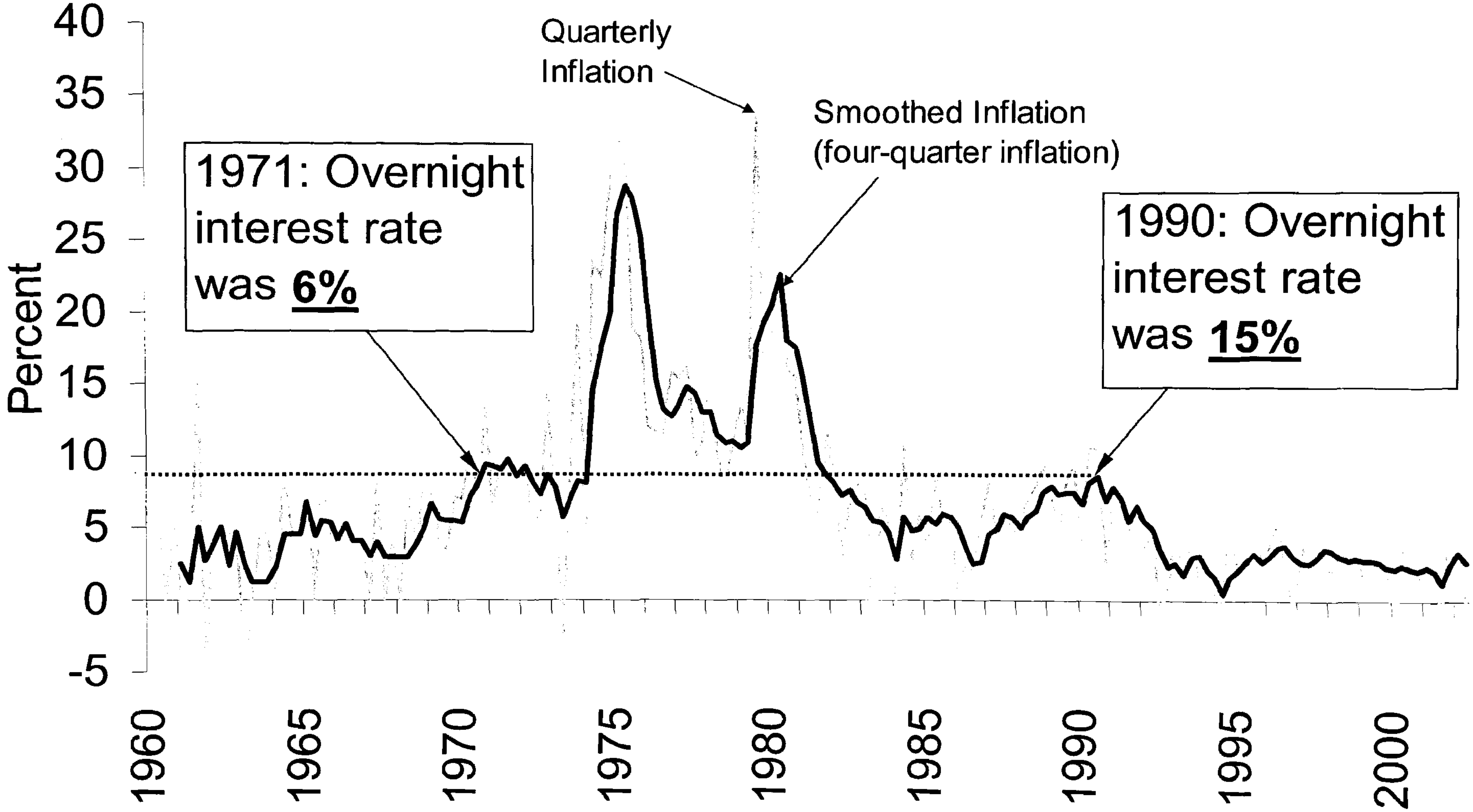


FIGURE 10

Australia Inflation

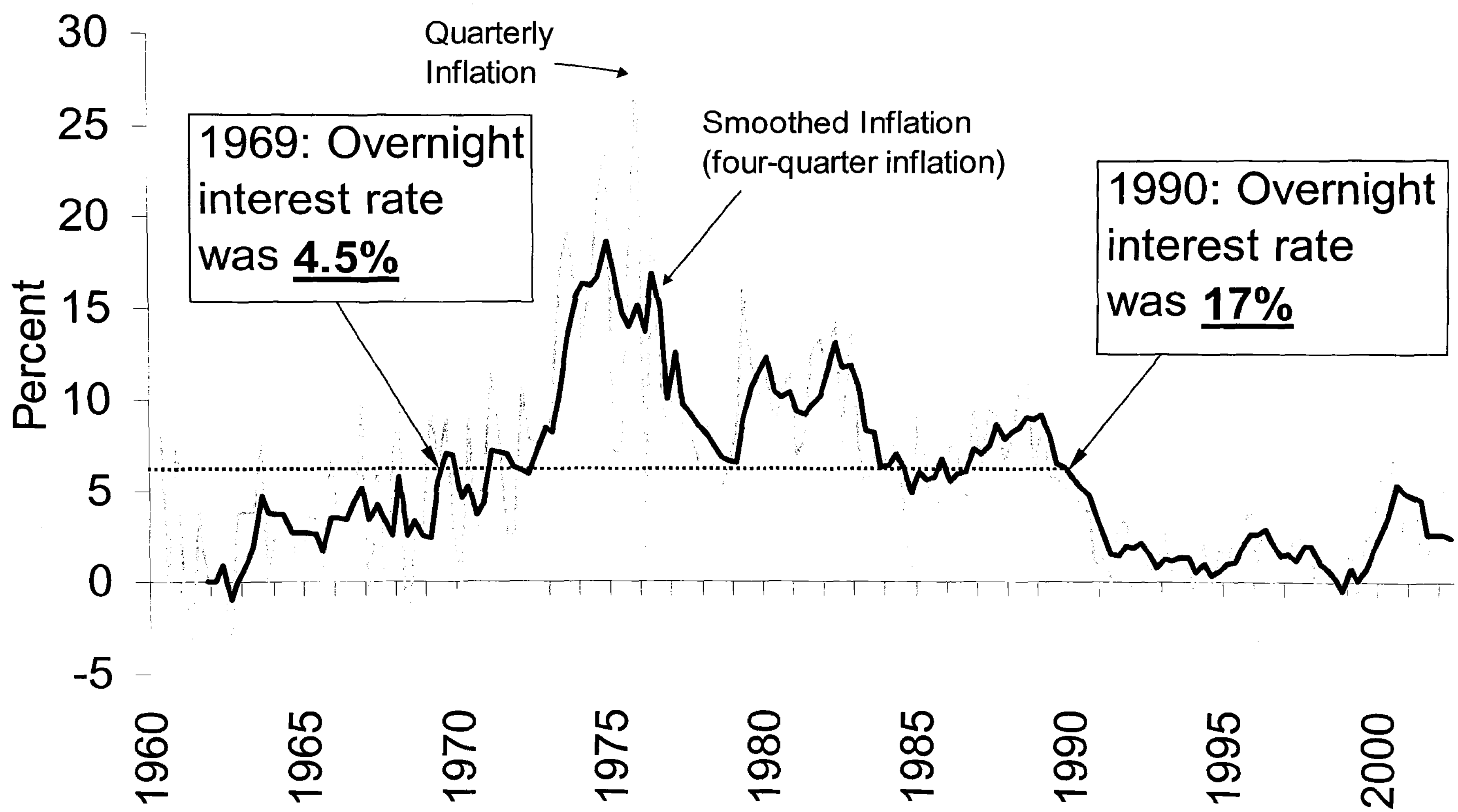


FIGURE 11

Canada Inflation

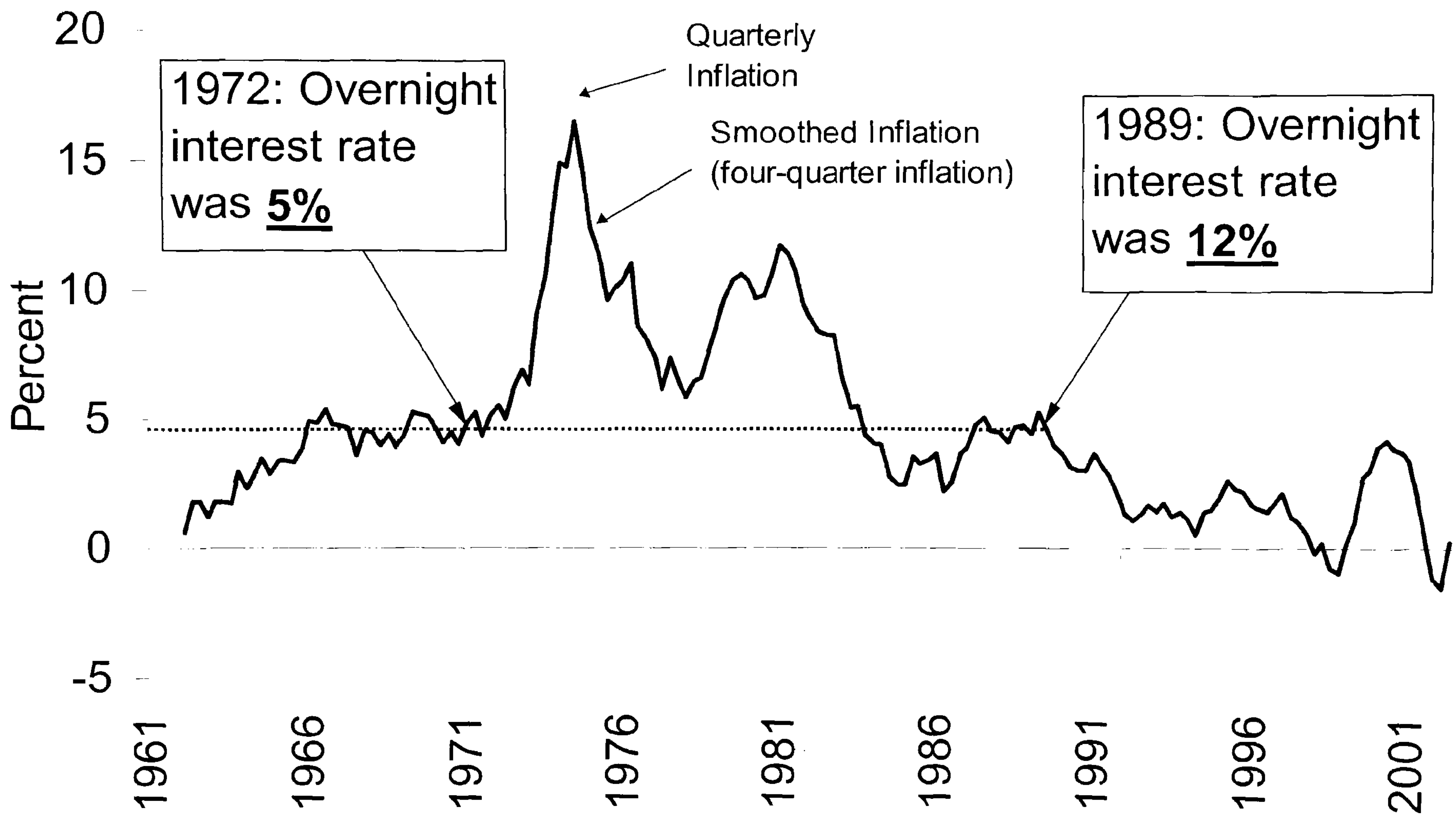


FIGURE 12

U.S. Real GDP

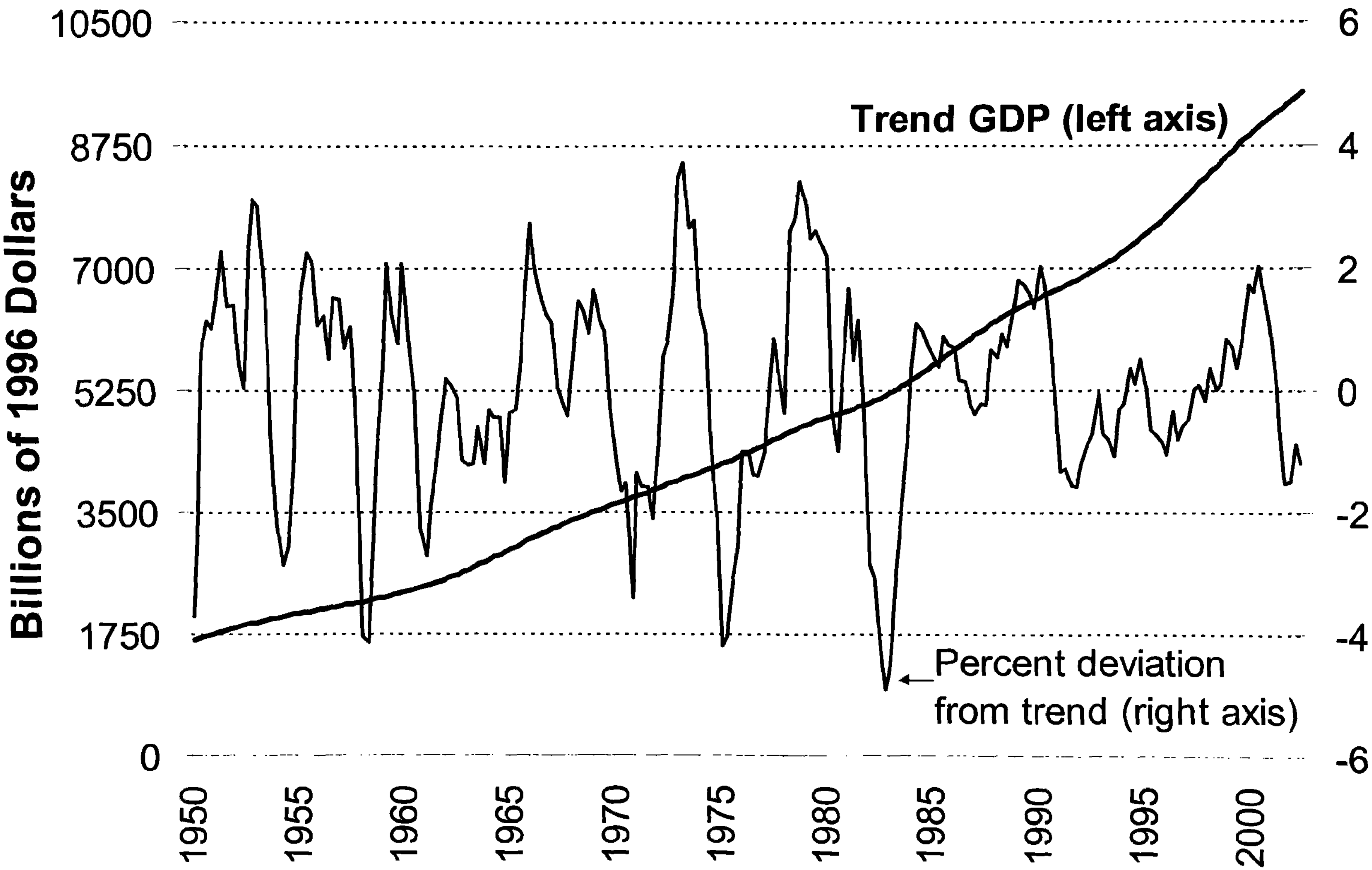


FIGURE 13

U.K. Real GDP

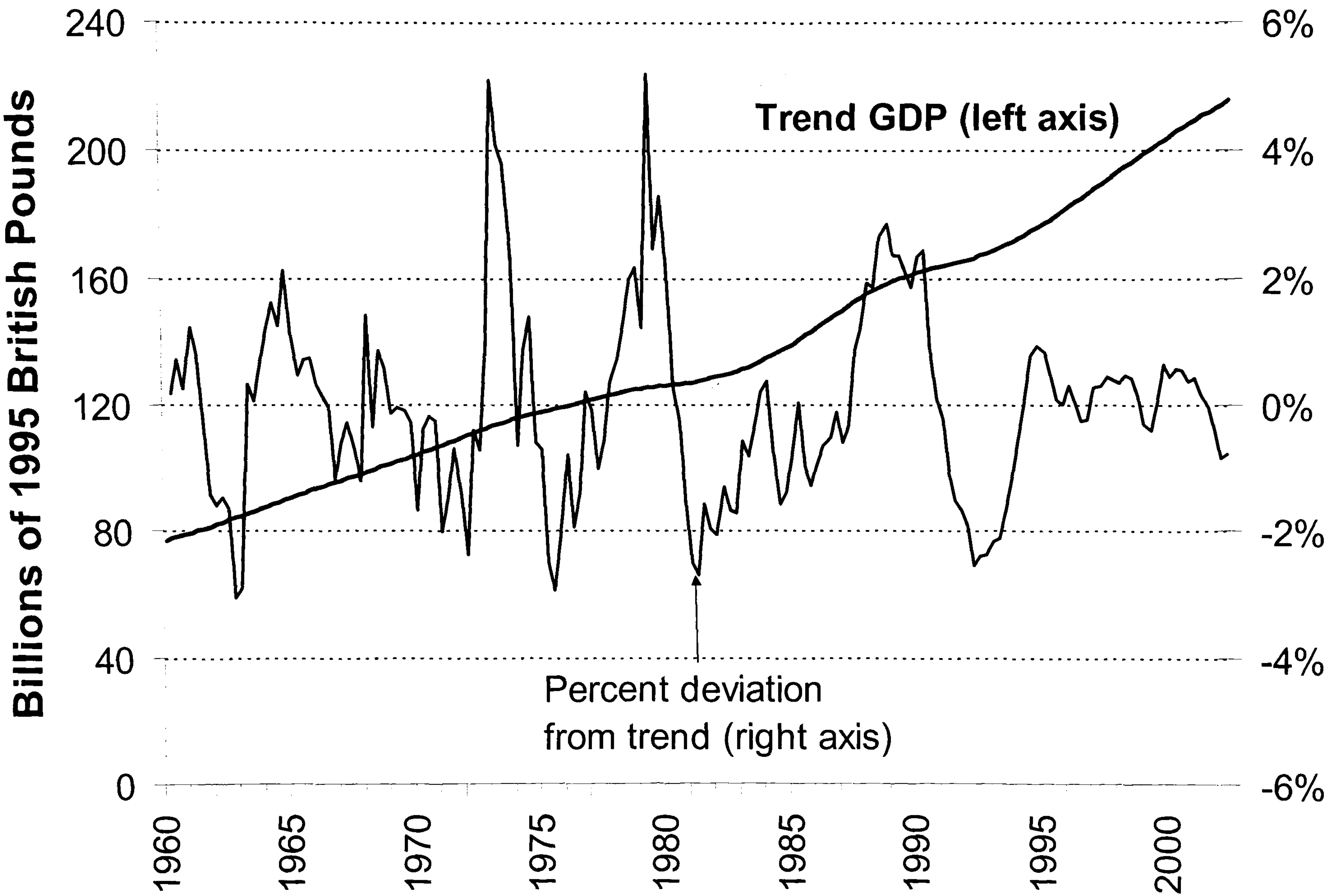


FIGURE 14

Australia Real GDP

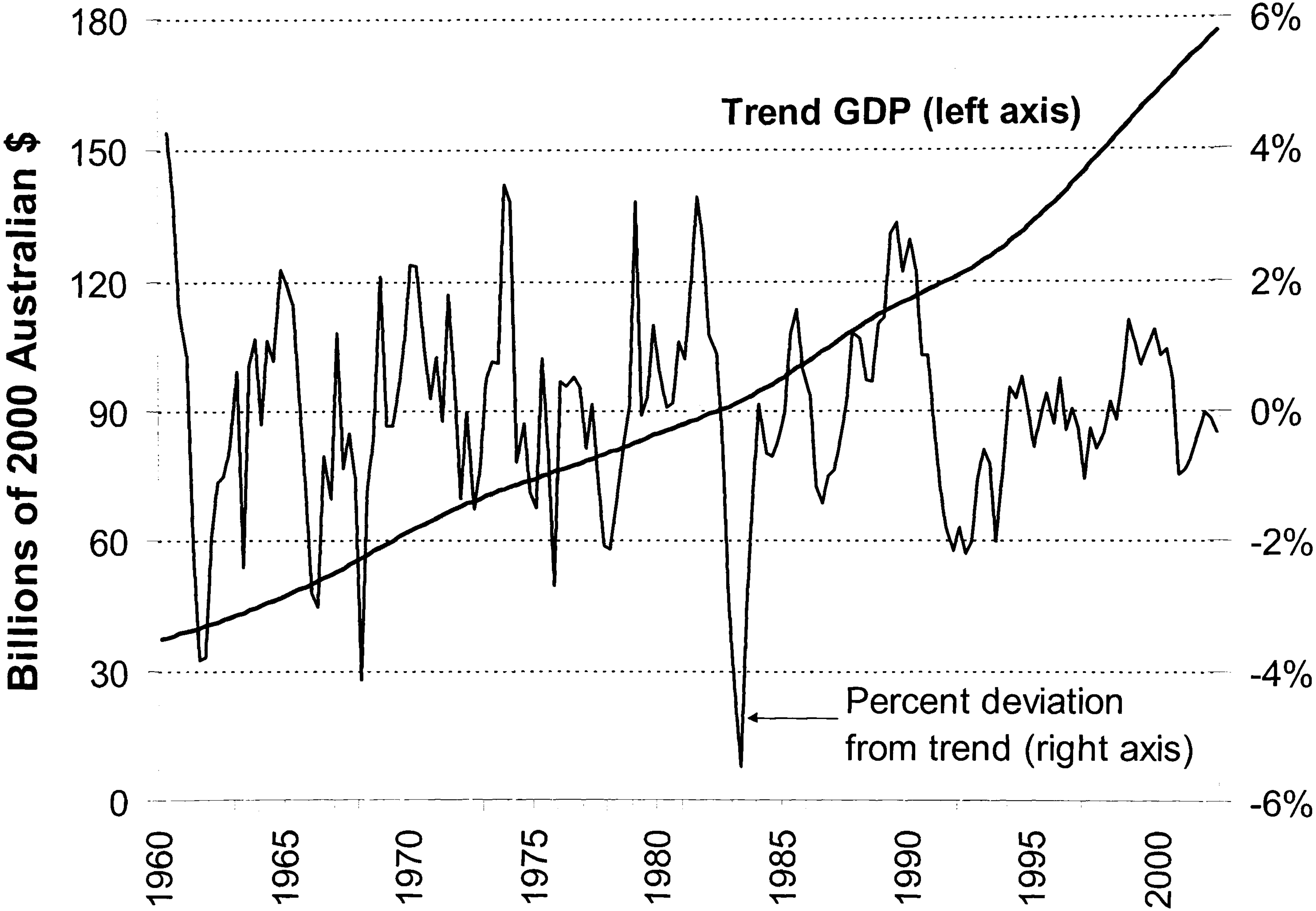
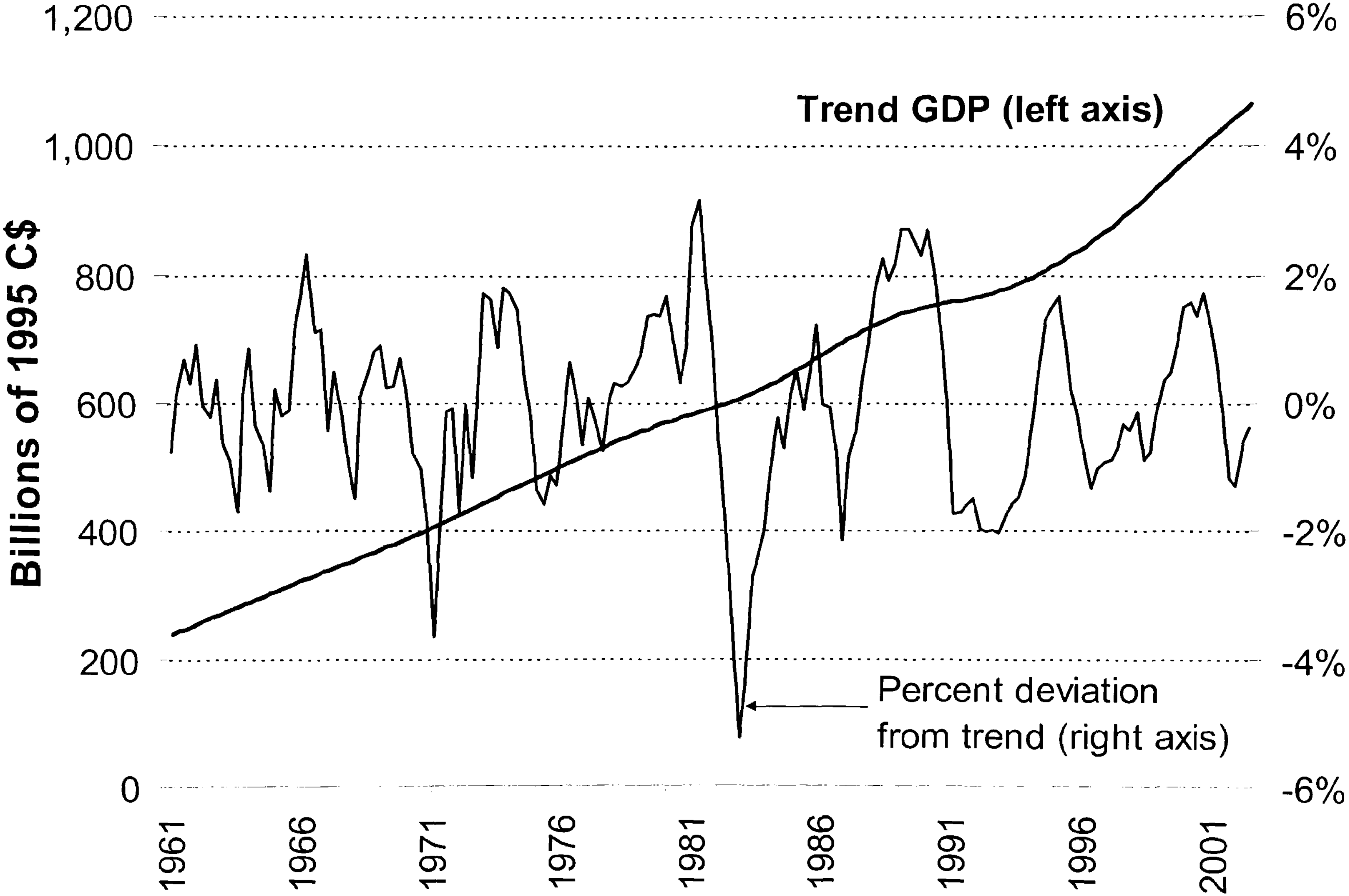


FIGURE 15

Canada Real GDP



PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 12, 2002
2002-11-12-15-42-22-14824

Report to Congress on International Economic and Exchange Rate Policies for the period January 1, 2002 through June 30, 2002

Major Findings:
· Countries around the world continue to use a variety of exchange rate policies, ranging from flexible
rates with no intervention to currency unions and full dollarization.
· There was no reversal of the trend toward greater flexibility observed since the mid 1990s. Treasury
continues to monitor the exchange rate practices of major U.S. trading partners and to encourage policies that
promote economic growth and economic stability.
· No major trading partners of the United States manipulated exchange rates under the terms of Section
3004 of the Act during the period January 1, 2002 to June 30, 20021.

Report(s):

- Report to Congress on International Economic and Exchange Rate Policies

Report to Congress on International Economic and Exchange Rate Policies

For the period January 1, 2002 through June 30, 2002

THIS REPORT IS REQUIRED UNDER SECTION 3005 OF THE OMNIBUS TRADE AND COMPETITIVENESS ACT OF 1988 (THE "ACT"). THIS REPORT REVIEWS DEVELOPMENTS IN U.S. INTERNATIONAL ECONOMIC POLICY, INCLUDING EXCHANGE RATE POLICY.

Major Findings:

- **Countries around the world continue to use a variety of exchange rate policies, ranging from flexible rates with no intervention to currency unions and full dollarization.**
- **There was no reversal of the trend toward greater flexibility observed since the mid 1990s.** Treasury continues to monitor the exchange rate practices of major U.S. trading partners and to encourage policies that promote economic growth and economic stability.
- **No major trading partners of the United States manipulated exchange rates under the terms of Section 3004 of the Act during the period January 1, 2002 to June 30, 2002[1].**

The United States:

Current Account

The U.S. current account deficit rose in the first and second quarters of 2002, reaching 4.4% and 5.0% of GDP in the respective quarters. The current account deficit had fallen to $393 billion, or 3.9% of GDP, in 2001 from $410 billion, or 4.2% of GDP, in 2000. Imports, particularly of capital goods, increased strongly. Export growth was sluggish as the recovery in foreign markets lagged that of the United States.

Financial Flows

Net financial flows into the United States remained strong through the period, although the composition of the flows shifted. A decline in net foreign purchases of equities was offset by increased purchases of private and public sector bonds. The inflows financed the U.S. current account deficit and reflected international investors' continued strong interest in investment opportunities in U.S. markets.

International Investment Position and Earnings

The negative net investment position of the United States at the end of 2001 widened to $2.3 trillion, when direct investment is valued on a market value basis, from a revised $1.6 trillion at the end of 2000. The U.S. nevertheless earned a net $21 billion on that position during 2001 as net receipts of $103 billion from direct investment offset net payments on portfolio investment.

U.S. Balance of Payments and Trade
($ billions. SA. unless otherwise indicated)

	2001	2001				2002	
		Q1	Q2	Q3	Q4	Q1	Q2
Balance on Currenct Account							
Billions of $	-393.4	-107.7	-99.2	-91.3	-95.1	-112.5	-130.0
Per Cent GDP	-3.9	-4.3	-4.0	-3.6	-3.8	-4.4	-5.0
Select Financial Flows (+=capital inflow)							
Net Bank Flows	-48.3	-97.1	44.1	23.2	-18.6	-9.3	-13.4
Net Direct Investment Flows	3.0	20.1	16.0	-27.5	-5.6	-13.1	-28.4
Net Securities Sales	342.7	101.9	37.3	77.0	126.6	73.3	117.8
Net Liabilities to Unaffiliated Foreigners by Non Banking Concerns	68.0	59.9	4.4	-34.6	38.4	32.4	-1.0
Memo: Statistical discrepancy	10.7	20.8	-2.5	48.3	-55.8	24.7	49.4
Trade in Goods							
Balance	-427.2	-113.0	-107.7	-105.8	-100.7	-106.4	-122.6
Total Exports	718.8	193.3	184.8	173.3	167.4	164.6	172.7
of which:							
Agricultural Products	54.9	13.6	13.6	13.6	14.0	13.8	13.5
Capital Goods Ex Autos	321.7	90.7	82.7	76.2	72.2	71.1	73.6
Automotive Products	75.4	18.3	19.3	19.3	18.6	18.5	20.1
Industrial Supplies *	160.2	42.8	41.5	38.3	37.5	36.8	39.9
Total Imports	1145.9	306.3	292.6	279.0	268.0	271.1	295.3
of which							
Petroleum and Products	103.6	29.2	28.5	25.6	20.2	19.2	27.2
Capital Goods ex Autos	298.0	84.6	75.4	69.9	68.1	69.3	72.3
Automotive Products	189.8	47.1	47.9	47.9	46.9	47.6	51.8
Advanced Technology (NSA)							
Balance	4.4	4.6	3.5	-1.2	-2.4	-2.0	-2.1
Exports	199.6	57.0	51.5	45.4	45.7	43.6	45.6
Imports	195.2	52.4	48.0	46.7	48.1	45.6	47.6

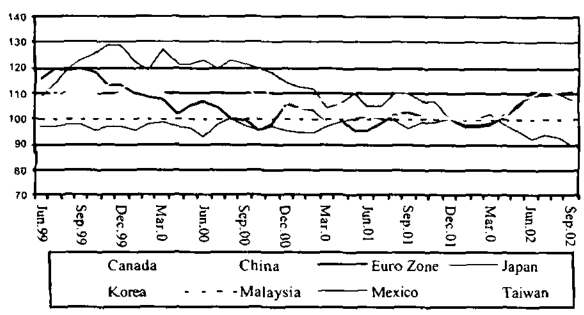
Source: BEA
* Including Petroleum & Products

[1] "The period" means January 1, 2002 through June 30, 2002 in this report unless otherwise indicated.

The Dollar in Foreign Exchange Markets

The dollar depreciated modestly, on a trade-weighted basis, over the period. The Federal Reserve Board's broad nominal dollar index indicated that the dollar depreciated by 2.7%, on a trade-weighted basis, over the six-month period, with most of the decline occurring in May and June.

Exchange Rates in Dollars
(December 2001 = 100)



A closer examination reveals a dichotomy in the dollar's performance against the component currency groupings in the broad index: the world's major currencies[2] and the currencies of the other important trading partners[3] (OITP) of the United States. During the six-month period the dollar depreciated 7.4% against the Federal Reserve Board's trade-weighted index of the world's seven major currencies. But over the same period, the dollar actually rose 3.2% against the Federal Reserve Broad's OITP trade-weighted index of the currencies of the United States' 19 important emerging market trading partners.

The appreciation of the dollar against the OITP currencies was largely due to currency depreciation in Latin America over the first half of 2002. The 22.5% depreciation of the Brazilian real, which carries a 4% weight in the OITP index, and the 9.6% depreciation of the Mexican peso, which carries a 22.9% weight in the index, more than offset significant appreciation of the currencies of several of the United States' emerging Asia trading partners.

During the period, G-7 Finance Ministers and Central Bank Governors referred to exchange rates among the major currencies in two communiqués (February 9 and April 20, 2002) each time saying: "We will continue to monitor exchange markets closely and cooperate as appropriate."

The United States did not intervene in foreign exchange markets during the period.

Major Industrial Economies

Euro Zone Countries

The Euro Zone current account surplus narrowed to 0.2% of GDP sa during the period from 0.4% of GDP in the second half of 2001. Dollar-denominated Euro Zone exports rose 3% in the period from the second half of 2001, while Euro Zone imports increased 0.2%. Increasing income and transfer payments offset the gain in the merchandise trade balance.

The euro appreciated 10.7% against the dollar, while the index of the euro's real effective exchange rate appreciated 4.6%, over the period.

Japan

The yen strengthened 10.3% against the dollar in the period, rising to 119.5 ¥/$ at the end of June 2002 from 131.8 ¥/$ at the end of December 2001. In real trade-weighted terms, the yen depreciated 1.8%. Japan's current account surplus rebounded in the period to $59 billion (3.1%/GDP) from $47 billion (2.3%/GDP) in the second half of 2001, reflecting an expanding merchandise trade and services surplus. The merchandise trade surplus reached $46.7 billion reflecting export growth of 2.4% and a 4.7% decline in imports. The U.S. bilateral trade deficit with Japan in the period narrowed slightly to $33.1 billion from $34.6 billion in the second half of 2001.

During the first half of 2002, Japan intervened eight times in the foreign exchange market (between late May and late June), selling $32.7 billion equivalent of yen. These interventions did not appear to have a lasting effect on the yen exchange rate, which continued to appreciate, from 124 ¥/$ at the time of the first intervention to 119.5 ¥/$ at the end of the intervention period.

Canada

In the period, the current account surplus fell to 1.8% of GDP from 2.8% of GDP in all of 2001. The current account balance has been below 2% for four consecutive quarters.

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[2] Defined by the Federal Reserve Board as currencies used broadly outside their country of issue. The major currencies account for 54.6% of the weight in Federal Reserve Board's Broad Index.

[3] The OITP are the important trading partners of the United States, whose currencies are not used broadly outside their country of issue. The OITP currencies account for 45.4% of the weight in the Fed's Broad Index.

The Canadian dollar rose 4.8% against the U.S. dollar during the period while the JP Morgan Broad Real Trade-Weighted Index of the Canadian dollar rose 2.7%. The Bank of Canada has identified movements in real non-energy commodity prices as a significant factor in explaining movements in the U.S.$/C$ exchange rate, and a price index tracking these commodities rose 3.3% during the period. The Canadian dollar floats freely. A 1998 study by the Bank of Canada of its foreign exchange intervention concluded that its prior policy of regular intervention had very limited impact. Canada has not intervened in foreign exchange markets since 1998, except to make a small contribution to the brief G7 intervention in support of the euro in September 2000.

Latin America

Access to international capital markets suffered from a decline in investor confidence: net bond issuance in the first half of the year was just $10 billion, compared to $33 billion in the same period in 2001. While the overall EMBI+ sovereign bond index started and ended the period at 799 bps over comparable U.S. Treasuries, it ranged from a mid-April low of 585 to a high of 843 in late June. Brazil's sub-index widened nearly 700 bps at its greatest and Mexico's rose as much as 321 bps after hitting a low of 230 bps in April. Pressure also increased on countries with floating exchange rates, while those with fixed exchange rate regimes experienced a significant depletion of international reserves. In June, Uruguay responded to these pressures by floating its currency.

Argentina

Significant economic, financial, and political turmoil erupted in Argentina at the end of 2001, culminating in a default on external obligations and an end to foreign exchange convertibility (pegging the peso to the dollar at 1:1) in January 2002. Following the decision to float, the peso depreciated from an initial level of 1.4 pesos per dollar to a low of 3.86 pesos per dollar in late June 2002. From July through mid-September, the peso was largely stable at about 3.6 pesos per dollar due in part to additional foreign exchange restrictions and seasonal export receipts. The Government imposed comprehensive deposit controls in early December 2001 that remain in place as of October 2002.

Argentina had a trade surplus of $8.2 billion in the first half of 2002, largely due to import compression, compared to a surplus of $6.3 billion for all of 2001. The current account balance registered a surplus of $1.5 billion in the first quarter of 2002, compared to a deficit of $3.1 billion in the first quarter of 2001. Foreign exchange reserves fell from $14.9 billion at end-December 2001 to $9.6 billion at end-June 2002.

Despite the economic crisis, the Merval stock index rose by 16% between the beginning of the year and end-August as investors looked to equities as a store of value. EMBI+ spreads widened by 2,000 bps end-December to end-August, to 6,435. Talks between Argentina and the IMF to reach agreement on an IMF program continued throughout the period.

Brazil

Although financial market sentiment continued to be favorable through the first quarter of 2002, investor confidence in Brazil began to deteriorate in the second quarter in the face of election uncertainty. In the first semester of 2002, EMBI spreads widened 696 bps and the currency depreciated 20%.

The substantial nominal exchange rate depreciation in the period, as well as the carryover effects of high inflation in late 2001, continued to apply upward pressure on prices. Consumer price inflation year-over-year was 7.7% in June 2002, the same level as in December 2001, despite the declining inflation targets of the Central Bank. The monetary authorities increased reserve requirements to control the growth in liquidity, and intermediation spreads widened restraining credit growth. However, the Central Bank did not increase sales of dollar-linked debt in net terms and refrained from substantial intervention in the spot foreign exchange market.

Higher trade surpluses due to the weaker real helped reduce Brazil's current account deficit to $8.3 billion, compared with $13.3 billion for the same period in 2001. More than fully financing the current account deficit, foreign direct investment (FDI) was $9.6 billion for the first six months of 2002 compared with $9.9 billion for the same period in 2001.

Net international reserves (net of IMF funds as reported by the Central Bank) decreased by $500 million during the period to $27.3 billion. Short-term external debt by residual maturity was 230% of net reserves.

Mexico

Although Mexican peso and sovereign bond spreads were affected in the first half of the year by emerging market turbulence and technical factors, economic fundamentals pointed to a modest recovery as real growth rose to 4.7% saar in the second quarter. The depreciated peso did not lead to significantly increased inflation, with the June y/y change in the CPI holding at 4.9%, compared with 4.4% in December 2001. The Bank of Mexico eased its monetary policy stance in April after a February tightening in response to unanticipated increases in energy and transportation costs.

In the first half of the year, foreign direct investment is estimated to have covered roughly two-thirds of the current account deficit, which narrowed to an estimated 2.5% of GDP. In the same period, net international reserves grew by $800 million, reaching $45.6 billion by end-June. This was equivalent to three-quarters of the gross external financing requirement, estimated at $61 billion, for 2002 and covered 125% of short-term debt.

The Mexican peso, which the government allows to float freely, depreciated 8.6% against the dollar over the period. Labor productivity rebounded during the first half of 2002 while unit labor costs moderated, consequently improving competitiveness. The real effective exchange rate (based on consumer prices) appreciated just 2% in the year to May.

Central and Eastern Europe

Countries in this region experienced very different exchange rate pressures. A recovery in oil prices early in 2002 again placed upward pressure on Russia's exchange rate during the period. While the ruble depreciated from 30.14R/$ at the end of 2001 to 31.4 R/$ at the end of June 2002, the ruble's real effective exchange rate was little changed in the period from the beginning of the year, compared to a 7% appreciation in 2001. Intervention in the foreign exchange market helped boost reserves $6 billion to $42.5 billion at end-June 2002. In Ukraine, the hryvnia remained stable in both nominal and real terms during the period, strengthening slightly from 5.4/$ to 5.32/$.

In the key Central European economies, the prospect of future EU membership and inflows of capital in the form of privatization payments and FDI have resulted in a continued, albeit slower, strengthening of the currencies in real terms. Both the Polish zloty and the Hungarian forint were relatively stable against the euro in the period, while strengthening somewhat against the dollar. In the Czech Republic, the main policy preoccupation during the period remained concern with continued crown appreciation in the face of the inflow of privatization receipts and EU accession-related funds, but the government did not undertake any significant steps to limit the strength of the crown. The strengthening of these three currencies helped to continue to control inflation in the region, with the average inflation rate in Poland falling to under 1.8%, while in the Czech Republic inflation was only 1.2% at the end of the period. Consumer price inflation in Hungary fell to 4.9% y/y in June 2002 and is expected to continue to decline through the rest of the year.

Asia

Asian economies showed significant recovery in the first half of 2002. Exports increased substantially throughout the region, especially information technology exports. Stronger domestic demand boosted imports as well, moderating improvements in current account balances.

Improved economic and financial prospects, as well as declining U.S. dollar interest rates relative to rates on local currency assets, made foreign investment in regional economies more attractive. This, in addition to the overall improvement in current account balances, added support to regional currencies. For those economies with fixed exchange rates, balance of payments surpluses led to an increase in reserves.

With inflation close to zero in many economies, those with floating but managed exchange rates intervened to slow the pace of exchange rate appreciation in order to reduce the risk of deflation. As a result, nominal exchange rates remained stable versus the dollar during the first quarter of 2002, while those not pegged to the dollar for the most part appreciated moderately in the second. Indonesia and Korea, which appreciated roughly 20% and 10% respectively, were exceptions. On the other hand the real effective value of Asian currencies typically depreciated as a globally weakening dollar carried currencies with nominal dollar parities or modest appreciation against the dollar along with it.

China

China's exports accelerated to 35% y/y growth, up from 5% y/y in the previous half-year. But imports also accelerated (to 28% y/y growth from 3% y/y in the previous period), so China's balance of trade in goods (FOB-CIF) rose only marginally to 2.5% of GDP from 2.4% in the previous half and 1.6% a year earlier. The current account surplus is estimated at roughly 2.0% of GDP, also marginally higher than in the previous half year. U.S. data show China's merchandise trade surplus with the U.S. was $43 billion in the period, compared to $37 billion in the same period a year earlier, as inputs from other emerging Asian countries are increasingly routed through China for assembly for export principally to the U.S. China has a significant deficit with nearly all its Asian trading partners, and half its exports come from coastal foreign-funded operations. Reported capital inflows also increased significantly during the reporting period as a result of stronger FDI inflows, which grew 21% y/y to $35 billion for the half-year period.

China maintains a *de facto* currency peg to the dollar, which it has kept within a tight band since 1995. As a result of the higher current account surplus and reported capital inflows, gross foreign reserves grew $31 billion to $243 billion. Gross reserves were 830% of short-term external debt (residual maturity) at end-December 2001. At the time of publication, similar data for end-June 2002 are not available. In real effective terms, the renminbi depreciated roughly 6% during this period, as the U.S. dollar weakened globally. China continues to maintain wide-ranging controls on both capital outflows and inflows.

Korea

Due to a boom in consumer credit supporting domestic demand, and a larger services deficit (despite Korea's hosting of the World Cup), the current account surplus as a percentage of GDP declined to 1.6%, down from 3.2% in the first half of 2001. Korea's merchandise trade surplus with the U.S. declined slightly to $6.1 billion from $6.4 billion during the same period in 2001. Korea had a small capital account surplus of 0.3% of GDP in the first half of 2002, as an increase in foreign currency borrowings by deposit banks and a reduction in foreign currency loans offset significant portfolio outflows. In May 2002, the Bank of Korea, concerned about potentially higher oil prices, a real estate boom, and strong domestic demand, raised its target policy rate by 25 basis points, which attracted further capital inflows.

Korea maintains a floating exchange rate, intervening only to curb what it views as excessive volatility. The won appreciated 9.3% against the U.S. dollar (on a nominal basis) and appreciated 4.7% (on a real effective basis.). Official intervention was modest. Gross reserves increased by $9.6 billion (9.4%) during the reporting period to $112.4 billion (26% of GDP) at the end of June, in part as a result of interest earnings and valuation adjustments as the dollar depreciated against other reserve currencies during this period. As of June 2002, reserves were approximately 235% of short-term external liabilities (residual maturity basis), a decrease from 263% at end-2001. Korea maintains relatively few restrictions on capital flows.

Malaysia

After falling 10% in 2001, export growth was flat over the first half of 2002 compared to the corresponding period in 2001. Meanwhile, expansionary fiscal policy and low interest rates provided a strong boost to domestic demand and hence imports. As a result, Malaysia's trade surplus contracted by 11.7% over the reporting period compared to the first half of 2001. The current account surplus, at 7.5% of GDP, fell from 8.3% of GDP in the first half of 2001. Malaysia's bilateral trade surplus with the United States rose to $6.0 billion in the period from $2.6 billion in the first half of 2001, reflecting increased U.S. demand for Malaysia's electronics exports.

Malaysia has maintained a fixed peg to the dollar since September 1998, when it also imposed capital controls. Controls have since been relaxed, but offshore trading of the ringgit remains prohibited and foreign portfolio investment by residents continues to be restricted. The Malaysian authorities have steadfastly maintained the peg despite alternating periods of downward and upward pressure on he ringgit. On a real trade-weighted basis, the ringgit depreciated 1.2% during the period, reflecting broad-based weakness of the U.S. dollar. Since the introduction of the peg, however, the ringgit has appreciated 16.7% in real trade-weighted terms. At the end of the period, reserves stood at $33 billion, equal to 275% of short-term external debt (residual maturity), up from $30 billion, or 258% of short-term external debt, at the end of 2001.

Taiwan

Taiwan's current account surplus grew to 9.6% of GDP in the period from 5.2% in the first half of 2001. However, the increase in Taiwan's global trade surplus was driven by the growth of exports to the region, especially Hong Kong (China). Taiwan's merchandise trade surplus with the U.S. declined to $6.7 billion from $7.5 billion during the same period in 2001.

As U.S. dollar interest rates fell relative to rates on New Taiwan dollar (NT$) assets, Taiwanese depositors shifted a greater share of their holdings to NT$ accounts. This led to a large net financial account inflow (6% of GDP) in the period. This, along with the large current account surplus, caused the NT$ to appreciate 3.7% on a nominal basis against the U.S. dollar and 0.4% on a real trade-weighted basis. Monetary authorities intervened significantly. Official reserves grew by US$26 billion in the period to US$148 billion, i.e., roughly 500% of total external debt.

Taiwanese authorities were reluctant to allow a sharp currency appreciation in the period, given macroeconomic conditions and policy constraints. Due to the openness of Taiwan's economy, exchange rate changes have relatively large impacts on inflation, inflationary expectations and real output. With inflation near zero, Taiwanese officials were concerned that a sharp appreciation could lead to an undesirable deflationary cycle. M2 was, in fact, within the Central Bank of China's 3½% to 8½% target range throughout the period. Tensions with China and lack of access to IMF resources may have also encouraged the accumulation of foreign exchange reserves.

Summary:

This report reveals a wide variety of exchange rate policies used by the major trading partners of the United States. Based on a broad review Treasury concluded that no major trading partners of the United States manipulated exchange rates under the terms of Section 3004 of the Act during the period.[4]

[4] Section 3004 of the Omnibus Trade and Competitiveness Act of 1988 requires the Treasury to analyze annually the exchange rate policies of foreign countries, in consultation with the IMF, and to consider whether countries manipulate the rate of exchange between their currency and the dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade. The Secretary of the Treasury is required to undertake negotiations with those manipulating countries that have material global current account surpluses and significant bilateral trade surpluses with the United States, unless such negotiations would have a serious detrimental impact on vital national economic and security interests.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 12, 2002
PO-3611

Media Advisory Press Conference to Discuss the Financial War on Terrorism

Treasury Department Undersecretary for Enforcement Jimmy Gurule
State Department Coordinator for Counterterrorism, Ambassador Frank Taylor
The Treasury Department Press Briefing Room (#4121)
1500 Pennsylvania Avenue NW
Washington, DC

Wednesday, November 13, 2002, 2:00 PM

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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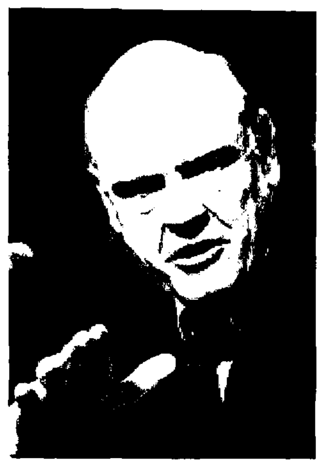
In Fiscal year 2002, the Department of the Treasury's Bureau of Engraving and Printing produced 2.88 billion bills of $1 denomination alone.

Learn more facts about Treasury's Currency production.



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NEWS

Secretary Snow in Europe this week encouraging economic growth
Treasury Secretary John Snow is in London, England and Frankfurt, Germany this week to discuss the state of the global economy, with particular attention to growth prospects in Europe. In addition to meetings with the official economic teams of the United Kingdom and Germany, he will meet separately with economists, and leaders in industry, banking and finance. Secretary Snow will emphasize the ... more

The President's Plan for Jobs and Growth

WEBCASTS

On Thursday, May 15 at 10:30 AM, John Taylor, Treasury Under Secretary for International Affairs, briefed reporters in advance of Secretary John Snow's participation in the G8 Pre-Summit Finance Ministers meeting held in Deauville, France.

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November 12, 2002
PO-3612

Treasury Issues Propsed Regulations on Inversion Transaction Reporting

Today the Treasury Department issued temporary regulations requiring corporations to notify the IRS and their shareholders when they move their headquarters offshore or are acquired by a foreign company. These regulations are part of Treasury's proposals to address corporate inversion transactions, which were unveiled by Treasury Assistant Secretary Pam Olson in testimony before the House Ways & Means Committee on June 6, 2002. Under the temporary regulations, corporations that inverted in 2002 will be required to furnish Form 1099s to their shareholders reporting the fair market value of any stock and other consideration received by the shareholders in the transaction.

The Treasury Department also issued proposed regulations that, when finalized, will require corporations to report to shareholders and the IRS other large corporate transactions in which the shareholders may be subject to tax. The proposed regulations will not apply if the information is already required to be reported under current law.
"The regulations issued today will serve to remind shareholders in taxable inversion transactions that they must report their gain from the transactions on their tax returns," stated Treasury Assistant Secretary for Tax Policy Pam Olson.

Background

On May 17, 2002, Treasury released a preliminary report on corporate inversion transactions. With respect to information reporting, the report concluded:

As an immediate matter, the information reporting rules in this area must be revisited. In this regard, many inversion transactions are taxable events at the shareholder level, with the company's U.S. shareholders required to recognize gain and pay tax thereon. However, unlike in the case of a typical disposition of stock for cash, there is no current obligation for Form 1099 reporting of the transaction to the IRS.

Requiring reporting of these transactions through Form 1099 would increase the IRS's access to information about these transactions and also would serve to remind shareholders of the tax consequences to them from the transaction the company undertook during the year and insure that the income is reported.

In testimony to the House Ways & Means Committee on June 6, 2002, Treasury Assistant Secretary for Tax Policy Pam Olson stated:

Reporting Requirements: In many inversion transactions the company's shareholders are required to recognize gain. Current Treasury regulations generally require Form 1099 reporting to the IRS of the gross proceeds from any sale for cash effected by a broker in the ordinary course of its business. However, there are no similar reporting obligations in the case of an inversion where a shareholder exchanges stock of one corporation for stock in another corporation. We intend to establish a Form 1099 reporting requirement for stock transfers in inversions and other taxable reorganization transactions. Requiring reporting of these transactions will increase the IRS's access to information about the transactions. It also will serve to remind shareholders of the tax consequences to them from the company's transaction and of their obligation to report any gain.

The texts of the temporary and proposed regulations are attached. They will be published in the Federal Register in the next few days and are subject to minor technical changes.

Related Documents:

- Proposed Regs
- Temporaryregs

[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG-143321-02]

RIN 1545-BB60

Information Reporting Relating to Taxable Stock Transactions

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking by cross-reference to temporary regulations and notice of public hearing.

SUMMARY: In the Rules and Regulations section of this issue of the **Federal Register**, the IRS is issuing temporary regulations relating to information reporting relating to taxable stock transactions. This document contains proposed regulations under section 6043(c) requiring information reporting by a corporation if control of the corporation is acquired or if the corporation has a recapitalization or other substantial change in capital structure. This document also contains proposed regulations under section 6045 concerning information reporting requirements for brokers with respect to transactions described in section 6043(c). The text of the temporary regulations serves as the text of these proposed regulations. This document also provides notice of a public hearing on these proposed regulations. DATES:

Written or electronic comments must be received by **[INSERT DATE THAT IS 90 DAYS AFTER PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER]**. Outlines of topics to be discussed at the public hearing scheduled for ___________, at ___________, must be received by **[INSERT DATE THAT IS 3 WEEKS BEFORE THE HEARING]**.

ADDRESSES: Send submissions to: CC:ITA:RU (REG-143321-02), 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-143321-02), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, NW., Washington, DC. Alternatively, taxpayers may submit electronic comments directly to the IRS Internet site at www.irs.gov/regs. The public hearing will be held in room ___________, Internal Revenue Building, 1111 Constitution Avenue, NW., Washington, DC.

FOR FURTHER INFORMATION CONTACT: Concerning the proposed regulations, Nancy L. Rose (202) 622-4910; concerning submissions of comments, the hearing, and/or to be placed on the building access list to attend the hearing, ___________ at (202) 622-7190 (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 **[INSERT DATE THAT IS 60 DAYS AFTER PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER]**. 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 service to provide information.

The collection of information in this proposed regulation is in 26 CFR 1.6043-4(a) and (b) and in 26 CFR 1.6045-3. The information is required be reported to ensure that shareholders properly recognize gain from corporate acquisitions and changes in capital structure. The collection of information is mandatory. The likely respondents are large corporations.

The estimated total annual reporting and recordkeeping burden in proposed §1.6043-4(a), requiring the filing of Form 8806, is 2 hours. The estimated total annual reporting and recordkeeping burden in proposed §§1.6043-4(b) and 1.6045-3 is 15 minutes for each Form 1099-CAP and 10 minutes for Form 1096.

The estimated annual burden per respondent and/or recordkeeper will vary dependent on the number of Forms 1099-CAP required to be filed.

The estimated number of respondents under the proposed regulations is 350. The estimated number of respondents under the temporary regulations, for transactions occurring after December 31, 2001, is 5.

The estimated annual frequency of reporting on Form 8806 and Form 1096 is 1. The estimated annual frequency of reporting on Form 1099-CAP is 1 for each shareholder.

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

Temporary regulations in the Rules and Regulations section of this issue of the Federal Register amend the Income Tax Regulations (26 CFR Part 1) relating to sections 6043 and 6045. The temporary regulations set forth information reporting requirements relating to acquisitions of control and substantial changes in capital structure. The text of those regulations also serves as the text of these proposed regulations. The preamble to the temporary regulations explains the amendments and these proposed regulations.

As set forth in the preamble to the temporary regulations, public comments are specifically invited with regard to the potential for duplicate reporting under these proposed regulations and with regard to the burden of compliance with the reporting requirements under the proposed regulations.

Proposed Effective Date

The provisions of these regulations under section 6043 are proposed to be applicable for any acquisition of control and change in capital structure occurring after the date on which these regulations are published in the **Federal Register** as final regulations. The provisions of these regulations under section 6045 are proposed to be applicable for any Form 1099-CAP received by a broker after the date on which these regulations are published in the **Federal Register** as 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, and because the regulations do not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. 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 businesses.

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. The IRS and Treasury Department request comments on the clarity of the proposed rules and how they can be made easier to understand. All comments will be available for public inspection and copying. A public hearing has been scheduled for ________, beginning at ______ in Room ____, Internal Revenue Building, 1111 Constitution Avenue, NW., Washington, DC. 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 portion of this preamble.

The rules of 26 CFR 601.601(a)(3) apply to the hearing. Persons who wish to present oral comments must submit electronic or written comments and an outline of the topics to be discussed and the time to be devoted to each topic (a signed original and eight (8) copies) by ___________. 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 reviewing outlines has passed. Copies of the agenda will be available free of charge at the hearing. **Drafting Information**

The principal author of this notice of proposed rulemaking is Nancy L. Rose, Office of Associate Chief Counsel (Procedure and Administration).

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* * *

Par. 2. Section 1.6043-4 is added to read as follows:

§1.6043-4 Information returns relating to certain acquisitions of control and changes in capital structure.

[The text of proposed §1.6043-4 is the same as the text of §1.6043-4T published elsewhere in this issue of the **Federal Register**]

Par. 3. Section 1.6045-3 is added to read as follows:

§1.6045-3 Information reporting for acquisitions of control or substantial changes in capital structure.

[The text of proposed §1.6045-3 is the same as the text of §1.6045-3T published elsewhere in this issue of the **Federal Register**]

Deputy Commissioner of Internal Revenue

[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Parts 1 and 602

[TD]

RIN 1545-BB40

Information Reporting Relating to Taxable Stock Transactions

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Temporary regulations.

SUMMARY: This document contains temporary regulations under section 6043(c) requiring information reporting by a corporation if control of the corporation is acquired or if the corporation has a recapitalization or other substantial change in capital structure. This document also contains temporary regulations under section 6045 concerning information reporting requirements for brokers with respect to transactions described in section 6043(c). The text of these temporary regulations also serves as the text of proposed regulations set forth in the Proposed Rules section of this issue of the **Federal Register**.

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

Applicability Dates: For dates of applicability, see

§§1.6043-4T(i) and 1.6045-3T(f).

FOR FURTHER INFORMATION CONTACT: Nancy Rose at (202) 622-4910 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

These regulations are being issued without prior notice and public procedure pursuant to the Administrative Procedure Act (5 U.S.C. 553). For this reason, the collection of information contained in these regulations has been reviewed and, pending receipt and evaluation of public comments, approved by the Office of Management and Budget under control number 1545-1812. Responses to this collection of information are mandatory.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid OMB control number.

For further information concerning this collection of information, and where to submit comments on the collection of information and the accuracy of the estimated burden, and suggestions for reducing this burden, please refer to the preamble to the cross-referencing notice of proposed rulemaking published in the Proposed Rules section of this issue of the **Federal Register**.

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

Section 6043(c) provides that if any person acquires control of a corporation, or if there is a recapitalization or other substantial change in capital structure of a corporation, the corporation, when required by the Secretary, shall make a return setting forth the identity of the parties to the transaction, the fees involved, the changes in the capital structure involved, and such other information as the Secretary may require with respect to such transaction.

Proposed regulations under section 6043(c) were previously published in the Federal Register on July 5, 1990 (55 FR 27648) (the 1990 proposed regulations). After considering issues raised in public comments and the reporting burdens placed on corporate taxpayers under the 1990 proposed regulations, the Internal Revenue Service decided to withdraw the 1990 proposed regulations on October 16, 1992 (57 FR 47428). At that time, the IRS stated that the value of the information that would be collected under the 1990 proposed regulations did not justify the burden to the public in complying with the rules. The IRS further stated that it might promulgate regulations under section 6043(c) if it became apparent that the information would be needed to administer the tax system properly.

At this time, the IRS believes that information reporting under section 6043(c) for certain large corporate transactions is appropriate. The transactions covered by this reporting requirement are acquisitions of control and substantial changes in the capital structure of a corporation. The temporary regulations require a corporation to attach a form to its income tax return describing these transactions, and to file information returns with respect to certain shareholders in such transactions. Duplicate reporting is not intended; thus, the regulations provide that no reporting is required under this section where reporting is required under another section. The text of these temporary regulations also serves as the text of the proposed regulations set forth in the cross-referencing notice of proposed rulemaking published in the Proposed Rules section of this issue of the **Federal Register**. The preamble to that notice of proposed rulemaking invites public comments with respect to the potential for duplicate reporting under this section. That preamble also invites comments with respect to the burden of compliance with the reporting requirements.

These temporary regulations require a domestic corporation involved in certain large taxable transactions to file Form 8806 reporting and describing such transactions. The corporation must attach Form 8806 to its timely filed income tax return. If Form 8806 is not available at least 90 days prior to the due date (including extensions) of the corporation's income tax return for the year in which the acquisition of control or the substantial change in capital structure occurs or at least 90 days before such return is timely filed (whichever is sooner), the regulation allows a corporation to make the report by attaching an interim statement to its return containing certain required information.

The temporary regulations define an acquisition of control of a corporation as a transaction or series of related transactions in which stock representing control of that corporation is distributed by a second corporation or in which stock representing control of that corporation is acquired (directly or indirectly) by a second corporation and the shareholders of the first corporation receive cash, stock or other property. For these purposes, control is determined in accordance with the first sentence of section 304(c)(1). With certain limitations, the constructive ownership rules of section 318(a) apply to determine ownership. Acquisitions of control within an affiliated group are excepted from this definition, as are acquisitions in which the fair market value of the stock acquired in the transaction or series of related transactions is less than $100,000,000.

Under the temporary regulations, a corporation has a substantial change in its capital structure if the corporation in a transaction or series of related transactions (a) undergoes a recapitalization with respect to its stock, (b) redeems its stock, (c) merges, consolidates or otherwise combines with another entity or transfers substantially all of its assets to one or more entities, (d) transfers all or part of its assets to another corporation in a title 11 or similar case and, in pursuance of the plan, distributes stock or securities of that corporation, or (e) changes its identity, form or place of organization. Transactions in which the amount of any cash plus the fair market value of any property (including stock) provided to shareholders of the corporation is less than $100,000,000 are excepted from this definition, as are transactions within an affiliated group.

The temporary regulations also require a domestic corporation involved in the specified transactions to issue, with respect to each of its shareholders, a Form 1099-CAP reporting the amount of any cash plus the fair market value of any property (including stock) provided to the shareholder in the transaction. Corporations are not required to report amounts distributed to certain exempt recipients or the fair market value of any stock provided to a shareholder if the corporation reasonably determines that the receipt of such stock would not cause the shareholder to recognize gain (if any). Further, transactions and distributions already reported under other sections are not subject to reporting under these regulations.

Penalties under section 6652(l) may be imposed for failing to file required returns under section 6043(c)(including failure to file on magnetic media, as required under section 6011(e) and §1.6011-2). The penalty under section 6652(l) is $500 for each day the failure continues, but the total amount imposed with respect to a return cannot exceed $100,000. The temporary regulations provide that the information returns required under these regulations shall be treated as one return for purposes of the section 6652(l) penalty, so that the penalty shall not exceed $500 per day ($100,000 in total) with respect to any acquisition of control or change in capital structure.

Further, as provided in section 6652(l), such penalty does not apply if the failure is due to reasonable cause. Until regulations are promulgated under section 6652(l) to set forth specific standards for determining reasonable cause, the IRS will use the reasonable cause standards set forth in §301.6724-1 of this chapter as a guideline for determining reasonable cause.

Section 1.6045-3T requires a broker who, as the record holder of stock, receives a Form 1099-CAP from a corporation pursuant to the reporting requirements of §1.6043-4T, to file a Form 1099-CAP with respect to the actual owner and furnish such Form 1099-CAP to the actual owner.

The temporary regulations are effective only for acquisitions of control and substantial changes of capital structure that occur after December 31, 2001, and for which the reporting corporation or any shareholder is required to recognize gain (if any) as a result of the application of section 367(a). The cross-referencing proposed regulations published in Proposed Rules section of this issue of the **Federal Register** will apply to all acquisitions of control and substantial changes in capital structure occurring after the date that such regulations are published as final regulations (regardless of whether section 367(a) applies).

Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It 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. For the applicability of the Regulatory Flexibility Act (5 U.S.C. chapter 6), refer to the Special Analyses section of the preamble to the cross-referencing notice of proposed rulemaking published in the Proposed Rules section of this issue of the **Federal Register.** Pursuant to section 7805(f) of the Internal Revenue Code, these temporary regulations will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small businesses.

Drafting Information

The principal author of these temporary regulations is Nancy L. Rose, Office of Associate Chief Counsel (Procedure and Administration).

List of Subjects

26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

26 CFR Part 602

Reporting and recordkeeping requirements.

Amendments to the Regulations

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

PART 1--INCOME TAXES

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

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

Par. 2. Section 1.6043-4T is added to read as follows:

§1.6043-4T Information returns relating to certain acquisitions of control and changes in capital structure (temporary).

(a) Information returns for an acquisition of control or a substantial change in capital structure-- (1) General rule. If there is an acquisition of control (as defined in paragraph (c) of this section) or a substantial change in the capital structure (as defined in paragraph (d) of this section) of a domestic corporation ("reporting corporation"), the reporting corporation must file a completed Form 8806 (or any successor form) in accordance with the instructions to that form. Form 8806 will request the information required in paragraphs (a)(1)(i) through (v) of this section.

(i) Reporting corporation. Provide the name, address, and taxpayer identification number (TIN) of the reporting corporation;

(ii) Common parent, if any, of the reporting corporation. If the reporting corporation was a subsidiary member of an affiliated group filing a consolidated return immediately prior to the acquisition of control or the substantial change in capital structure, provide the name, address, and TIN of the common parent of that affiliated group;

(iii) Acquiring corporation. Provide the name, address and TIN of any corporation that acquired control of the reporting corporation within the meaning of paragraph (c) of this section or combined with or received assets from the reporting corporation pursuant to a substantial change in capital structure within the meaning of paragraph (d) of this section ("acquiring corporation"). State whether the acquiring corporation is foreign (as defined in section 7701(a)(5)) or is a dual resident corporation (as defined in §1.1503-2(c)(2)). In either case, state whether the acquiring corporation was newly formed prior to its involvement in the transaction.

(iv) Common parent, if any, of acquiring corporation. If the acquiring corporation named in paragraph (a)(1)(iii) of this section was a subsidiary member of an affiliated group filing a consolidated return immediately prior to the acquisition of control or the substantial change in capital structure, provide the name, address, and TIN of the common parent of that affiliated group.

(v) Information about acquisition of control or substantial change in capital structure. Provide--

(A) A description of the transaction or transactions that gave rise to the acquisition of control or the substantial change in capital structure of the corporation;

(B) The date or dates of the transaction or transactions that gave rise to the acquisition of control or the substantial change in capital structure;

(C) A description of and a statement of the fair market value of any stock provided to the reporting corporation's shareholders in exchange for their stock if the reporting corporation reasonably determines that the shareholders are not required to recognize gain (if any) from the receipt of such stock for U.S. federal income tax purposes; and

(D) A statement of the aggregate amount of cash plus the fair market value of any property (including stock if the reporting corporation reasonably determines that its shareholders would be required to recognize gain (if any) on the receipt of such stock, but excluding stock described in paragraph (a)(1)(v)(C) of this section) provided to the reporting corporation's shareholders in exchange for their stock.

(2) Time for making return. Form 8806 (or an interim statement, as set forth in paragraph (a)(3) of this section) must be attached to the reporting corporation's timely filed income tax return (taking extensions into account) for the year in which the acquisition of control or substantial change in capital structure occurs.

(3) Interim statement. If Form 8806 has not been made available at least 90 days before the due date (including extensions) of the reporting corporation's income tax return for the year in which the acquisition of control or substantial change in capital structure occurs or at least 90 days before such return is timely filed (whichever is sooner), the reporting corporation shall attach a statement to its return containing the information described in paragraphs (a)(1)(i) through (v) of this section.

(4) Coordination with other sections. (i) No reporting is required under paragraph (a) of this section with respect to a transaction for which information is required to be filed pursuant to §§1.351-3(b), 1.355-5(a), or 1.368-3(a), provided the transaction is properly reported in accordance with those

sections.

(ii) No reporting is required under paragraph (a) of this section with respect to a transaction for which information is required to be reported pursuant to section 6043(a), provided the transaction is properly reported in accordance with that section.

(5) Exception where shareholders are exempt recipients. No reporting is required under paragraph (a) of this section if the reporting corporation reasonably determines that all of its shareholders who receive cash, stock or other property pursuant to the acquisition of control or substantial change in capital structure are exempt recipients under paragraph (b)(6) of this section.

(b) Information returns regarding shareholders--(1) General rule. A corporation that is required to file Form 8806 pursuant to paragraph (a)(1) of this section (or an interim statement under paragraph (a)(3) of this section) shall file a return of information on Forms 1096 and 1099-CAP with respect to each shareholder of record in the corporation (before or after the acquisition of control or the substantial change in capital structure) who receives cash, stock, or other property pursuant to the acquisition of control or the substantial change in capital structure.

(2) Additional requirement for information returns. A corporation that would have been required to file Form 8806 pursuant to paragraph (a) of this section (or an interim statement under paragraph (a)(3) of this section) but for the application of paragraph (a)(4)(i) of this section (relating to information provided under §§1.351-3(b), 1.355-5(a), or 1.368-3(a)) shall file a return of information on Forms 1096 and 1099-CAP with respect to each shareholder of record in the corporation (before or after the acquisition of control or the substantial change in capital structure) who receives cash, stock, or other property pursuant to the acquisition of control or the substantial change in capital structure.

(3) Time for making information returns. Forms 1096 and 1099-CAP must be filed on or before February 28 (March 31 if filed electronically) of the year following the calendar year in which the acquisition of control or the substantial change in capital structure occurs.

(4) Contents of return. A separate Form 1099-CAP must be filed with respect to amounts received by each shareholder (who is not an exempt recipient as defined in paragraph (b)(6) of this section) showing--

(i) The name, address, telephone number and TIN of the reporting corporation;

(ii) The name, address and TIN of the shareholder;

(iii) The number and class of shares in the reporting corporation exchanged by the shareholder;

(iv) The amount of cash and the fair market value of any stock (other than stock described in paragraph (a)(1)(v)(C)) of this section or other property provided to the shareholder in exchange for its stock; and

(v) Such other information as may be required by the instructions to Form 1099-CAP.

(5) Furnishing of forms to shareholders. The Form 1099-CAP filed with respect to each shareholder must be furnished to such shareholder on or before January 31 of the year following the calendar year in which the shareholder receives cash, stock, or other property as part of the acquisition of control or the substantial change in capital structure.

(6) Exempt recipients. A corporation is not required to file a Form 1099-CAP pursuant to this paragraph (b) of this section with respect to the following shareholders:

(i) Any shareholder who receives solely stock described in paragraph (a)(1)(v)(C) of this section in exchange for its stock in the corporation.

(ii) Any shareholder who is required to recognize gain (if any) as a result of the receipt of cash, stock, or other property if the corporation reasonably determines that the amount of such cash plus the fair market value of such stock and other property does not exceed $1,000. Stock described in paragraph (a)(1)(v)(C) of this section is not taken into account for purposes of this paragraph (b)(6)(ii).

(iii) Any shareholder described in paragraphs (b)(6)(iii)(A) through (K) of this section if the corporation has actual knowledge that the shareholder is described in one of paragraphs (b)(6)(iii)(A) through (K) of this section or if the corporation has a properly completed exemption certificate from the shareholder (as provided in §31.3406(h)-3 of this chapter). The corporation also may treat a shareholder as described in paragraphs (b)(6)(iii) (A) through (J) of this section based on the applicable indicators described in §1.6049-4(c)(1)(ii).

(A) A tax-exempt organization, as described in §1.6049-4(c)(1)(ii)(B)(1).

(B) An individual retirement plan, as described in §1.6049-4(c)(1)(ii)(C).

(C) The United States, as described in §1.6049-4(c)(1)(ii)(D).

(D) A state, as described in §1.6049-4(c)(1)(ii)(E).

(E) A foreign government, as described in §1.6049-

4(c)(1)(ii)(F).

(F) An international organization, as described in §1.6049-4(c)(1)(ii)(G).

(G) A foreign central bank of issue, as described in §1.6049-4(c)(1)(ii)(H).

(H) A real estate investment trust, as described in §1.6049-4(c)(1)(ii)(J).

(I) An entity registered under the Investment Company Act of 1940, as described in §1.6049-4(c)(1)(ii)(K).

(J) A common trust fund, as described in §1.6049-4(c)(1)(ii)(L).

(K) A corporation, as defined in section 7701(a)(3) (except for corporations for which an election under section 1362(a) is in effect), if the reporting corporation reasonably determines that such corporation is not a broker (as defined in §1.6045-1(a)(1)) or a record holder for the actual owner of the stock.

(iv) Any shareholder that the corporation, prior to the transaction, associates with documentation upon which the corporation may rely in order to treat payments to the shareholder as made to a foreign beneficial owner in accordance with §1.1441-1(e)(1)(ii) or as made to a foreign payee in accordance with §1.6049-5(d)(1) or presumed to be made to a foreign payee under §1.6049-5(d)(2) or (3). For purposes of this paragraph (b)(6)(iv), the provisions in §1.6049-5(c) (regarding rules applicable to documentation of foreign status and definition of U.S. payor and non-U.S. payor) shall apply. The provisions of §1.1441-1 shall apply by substituting the terms "corporation" and "shareholder" for the terms "withholding agent" and "payee" and without regard to the fact that the provisions apply only to amounts subject to withholding under chapter 3 of the Internal Revenue Code. The provisions of §1.6049-5(d) shall apply by substituting the terms "corporation" and "shareholder" for the terms "payor" and "payee". Nothing in this paragraph (b)(6)(iv) shall be construed to relieve a corporation of its withholding obligations under section 1441.

(v) Any shareholder if, on January 31 of the year following the calendar year in which the shareholder receives cash, stock, or other property, the corporation did not know and did not have reason to know that the shareholder received such cash, stock, or other property in a transaction or series of related transactions that would result in an acquisition of control or a substantial change in capital structure.

(7) Coordination with other sections. No reporting is required under paragraph (b) of this section with respect to

amounts that are required to be reported under section 6042 or section 6045, unless the corporation knows or has reason to know that such amounts are not properly reported in accordance with those sections.

(c) Acquisition of control of a corporation--(1) In general. For purposes of this section, an acquisition of control of a corporation ("first corporation") occurs if, in a transaction or series of related transactions, either--

(i) Stock representing control of the first corporation is distributed by a second corporation to shareholders of the second corporation and the fair market value of such stock on the date of distribution is $100,000,000 or more; or

(ii) (A) Before an acquisition of stock of the first corporation (directly or indirectly) by a second corporation, the second corporation does not have control of the first corporation;

(B) After the acquisition, the second corporation has control of the first corporation;

(C) The fair market value of the stock acquired in the transaction and in any related transactions as of the date or dates on which such stock was acquired is $100,000,000 or more; and

(D) The shareholders of the first corporation (determined without applying the constructive ownership rule of section 318(a)) receive cash, stock, or other property pursuant to the acquisition.

(2) Control. For purposes of this section, control is determined in accordance with the first sentence of section 304(c)(1).

(3) Constructive ownership. (i) Except as otherwise provided in this section, the constructive ownership rules of section 318(a) (except for section 318(a)(4), providing for constructive ownership through an option to acquire stock), modified as provided in section 304(c)(3)(B), shall apply for determining whether there has been an acquisition of control.

(ii) The determination of whether there has been an acquisition of control shall be made without regard to whether the person or persons from whom control was acquired retain indirect control of the first corporation under section 318(a).

(iii) For purposes of paragraph (c)(1)(ii) of this section, section 318(a) shall not apply to cause a second corporation to be treated as owning, before an acquisition of stock in a first corporation (directly or indirectly) by the second corporation, any stock that is acquired in the first corporation. For example, if the shareholders of a domestic corporation form a new holding company and then transfer their shares in the domestic corporation to the new holding company, the new holding company shall not be treated as having control of the domestic corporation before the acquisition. The new holding company acquires control of the domestic corporation as a result of the transfer. Similarly, if the shareholders of a domestic parent corporation transfer their shares in the parent corporation to a subsidiary of the parent in exchange for shares in the subsidiary, the subsidiary shall not be treated as having control of the parent before the transaction. The subsidiary acquires control of the parent as a result of the transfer.

(4) Corporation includes group. For purposes of this paragraph (c), if two or more corporations act pursuant to a plan or arrangement with respect to acquisitions of stock, such corporations will be treated as one corporation for purposes of this section. Whether two or more corporations act pursuant to a plan or arrangement depends on the facts and circumstances.

(5) Section 338 election. For purposes of this paragraph (c), an acquisition of stock of a corporation with respect to which an election under section 338 is made is treated as an acquisition of stock (and not as an acquisition of the assets

of such corporation).

(d) Substantial change in capital structure of a corporation--(1) In general. A corporation has a substantial change in capital structure if it has a change in capital structure (as defined in paragraph (d)(2) of this section) and the amount of any cash and the fair market value of any property (including stock) provided to the shareholders of such corporation pursuant to the change in capital structure, as of the date or dates on which the cash or other property is provided, is $100,000,000 or more.

(2) Change in capital structure. For purposes of this section, a corporation has a change in capital structure if the corporation in a transaction or series of transactions--

(i) Undergoes a recapitalization with respect to its stock;

(ii) Redeems its stock (including deemed redemptions);

(iii) Merges, consolidates or otherwise combines with another corporation or transfers all or substantially all of its assets to one or more corporations;

(iv) Transfers all or part of its assets to another corporation in a title 11 or similar case and, in pursuance of the plan, distributes stock or securities of that corporation; or

(v) Changes its identity, form or place of organization.

(e) Reporting by successor entity. If a corporation ("transferor") transfers all or substantially all of its assets to another entity ("transferee") in a transaction that constitutes a substantial change in the capital structure of transferor, transferor must satisfy the reporting obligations in paragraph (a) or (b) of this section. If transferor does not satisfy the reporting obligations in paragraph (a) or (b) of this section, then transferee must satisfy those reporting obligations. If neither transferor nor transferee satisfies the reporting obligations in paragraphs (a) and (b) of this section, then transferor and transferee shall be jointly and severally liable for any applicable penalties (see paragraph (g) of this section).

(f) Receipt of property. For purposes of this section, a shareholder is treated as receiving property (or as having property provided to it) pursuant to an acquisition of control or a substantial change in capital structure if a liability of the shareholder is assumed in the transaction and, as a result of the transaction, an amount is realized by the shareholder from the sale or exchange of stock.

(g) Penalties for failure to file. For penalties for failure to file as required under this section, see section

6652(l). The information returns required to be filed under paragraphs (a) and (b) of this section shall be treated as one return for purposes of section 6652(l) and, accordingly, the penalty shall not exceed $500 for each day the failure continues (up to a maximum of $100,000) with respect to any acquisition of control or any substantial change in capital structure. Failure to file as required under this section also includes the requirement to file on magnetic media as required by section 6011(e) and §1.6011-2. In addition, criminal penalties under sections 7203, 7206 and 7207 may apply in appropriate cases.

(h) Examples. The following examples illustrate the application of the rules of this section. For purposes of these examples, assume the transaction is not reported under §§1.351-3(b), 1.355-5(a), 1.368-3(a), and sections 6042, 6043(a) or 6045, unless otherwise specified, and assume that the fair market value of the consideration provided to the shareholders exceeds $100,000,000.

Example 1. The shareholders of X, a domestic corporation and parent of an affiliated group, exchange their X stock for stock in Y, a newly-formed foreign holding corporation. After the transaction, Y owns all the outstanding X stock. The X shareholders must recognize gain (if any) on the exchange of their stock as a result of the application of section 367(a). Because the transaction results in an acquisition of control of X, X must comply with the rules in paragraphs (a) and (b) of this section. If a statement is filed in accordance with §1.351-3(b) with respect to the transaction, X is not required to attach Form 8806 (or an interim statement) to its return. Regardless of whether a statement is filed in accordance with §1.351-3(b), X must file a Form 1099-CAP with respect to each shareholder who is not an exempt recipient showing the fair market value of the Y stock received by that shareholder, and X must furnish a copy of the Form 1099-CAP to that shareholder.

Example 2. C, a domestic corporation, and parent of an affiliated group merges into D, an unrelated domestic corporation. Pursuant to the transaction, the C shareholders exchange their C stock for D stock or for a combination of short term notes and D stock. The transaction does not satisfy the requirements of section 368, and the C shareholders must recognize gain (if any) on the exchange. Because the transaction results in a substantial change in the capital structure of C, C (or D as the successor to C) must comply with the rules in paragraphs (a) and (b) of this section. C must attach Form 8806 (or an interim statement) to its final income tax return. C (or D as the successor to C) also must file a Form 1099-CAP with respect to each shareholder who is not an exempt recipient showing the fair market value of the short term notes (if any) and the fair market value of the D stock provided to that shareholder, and C (or D) must furnish a copy of the Form 1099-CAP to that shareholder.

Example 3. (i) The facts are the same as in Example (2), except that C reasonably determines that-

(A) The transaction satisfies the requirements of section 368;

(B) The C shareholders who exchange their C stock solely for D stock will not be required to recognize gain (if any) on the exchange; and

(C) The C shareholders who exchange their C stock for a combination of short term notes and D stock will be required to recognize gain (if any) on the exchange solely with respect to the receipt of the short term notes.

(ii) If a statement is filed in accordance with §1.368-3(a) with respect to the transaction, C is not required to attach Form 8806 (or an interim statement) to its return under paragraph (a) of this section. Regardless of whether a statement is filed in accordance with §1.368-3(a), C (or D as the successor to C) must comply with the rules in paragraph (b) of this section. With respect to each shareholder who receives a combination of short term notes and D stock, and who is not an exempt recipient, C or D must file a Form 1099-CAP showing the fair market value of the short term notes provided to the shareholder, and C (or D) must furnish a copy of the Form 1099-CAP to that shareholder. The Form 1099-CAP should not show the fair market value of the D stock provided to the shareholder. C and D are not required to file and furnish Forms 1099-CAP with respect to shareholders who receive only D stock in exchange for their C stock.

Example 4. The facts are the same as in Example 3, except the C shareholders receive cash instead of short term notes. The C shareholders exchange their shares through a transfer agent. Under section 6045, the transfer agent is required to report the amount of cash paid to the C shareholders in the transaction. C and D are not required to file information returns under paragraph (b) of this section, unless C or D knows or has reason to know that the transfer agent did not file the required information returns under section 6045.

(i) Effective date. This section applies to any acquisition of control and any substantial change in capital structure occurring after December 31, 2001, if the reporting corporation or any shareholder is required to recognize gain (if any) as a result of the application of section 367(a) as a result of the transaction. If a reporting corporation described in the preceding sentence files its income tax return for the year in which the acquisition of control or the substantial change in capital structure occurs on or before **[INSERT DATE 60 DAYS AFTER THIS DOCUMENT IS FILED WITH THE OFFICE OF THE FEDERAL REGISTER]**, such reporting corporation (or successor entity) shall file an interim statement (as described in paragraph (a)(3) of this section) on or before

January 31, 2003. This section expires on [**INSERT DATE THREE YEARS AFTER THIS DOCUMENT IS FILED WITH THE OFFICE OF THE FEDERAL REGISTER**]

Par. 3. Section 1.6045-3T is added to read as follows:

§1.6045-3T Information reporting for an acquisition of control or a substantial change in capital structure (temporary).

(a) In general. Any broker (as defined in §1.6045-1(a)(1)) who receives a Form 1099-CAP from a corporation pursuant to §1.6043-4T as the record holder of stock in such corporation but who is not the actual owner thereof shall file a return of information with respect to the actual owner unless the actual owner is an exempt recipient as defined in §1.6045-1(c)(3)(i).

(b) Form, manner and time for making information returns. The return required by paragraph (a) of this section must be on Forms 1096 and 1099-CAP, or on an acceptable substitute statement. Such forms must be filed on or before February 28 (March 31 if filed electronically) of the year following the calendar year in which the acquisition of control or the substantial change in capital structure occurs.

(c) Contents of return. A separate Form 1099-CAP must be prepared for each owner showing--

(1) The name, address and taxpayer identification number of the actual owner;

(2) The number and class of shares in the corporation exchanged by the actual owner;

(3) The amount of cash and the fair market value of stock or other property provided to the actual owner in exchange for its stock, that would have been reported by the corporation under §1.6043-4T if the corporation had provided the Form 1099-CAP directly to the actual owner (rather than to the broker as nominee); and

(4) Such other information as may be required by Form 1099-CAP.

(d) Furnishing of forms to actual owners. The Form 1099-CAP prepared for each actual owner must be furnished to the actual owner on or before February 28 of the year following the calendar year in which the actual owner receives stock, cash or other property.

(e) Single Form 1099. If a broker is required to file a Form 1099 with respect to an owner under both this §1.6045-3T and §1.6045-1(b), the broker may satisfy the requirements of both sections by filing and furnishing one Form 1099 that contains all the relevant information, as provided in the instructions to Form 1099-CAP.

(f) Effective date. This section applies with respect to any Form 1099-CAP received by a broker after **[INSERT DATE THIS DOCUMENT IS FILED WITH THE FEDERAL REGISTER]**. This section expires on **[INSERT DATE THREE YEARS AFTER DATE THIS DOCUMENT IS FILED WITH THE OFFICE OF THE FEDERAL REGISTER]**

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

Par. 4. The authority citation for part 602 continues to read in part as follows:

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

Par. 5. In section 602.101, paragraph (b) is revised by adding the following entries in numerical order to the table to read as follows:

§602.101 OMB Control numbers

* * * * *

(b) * * *

CFR part or section where identified and described	Current OMB control No.
* * * * *	
1.6043-4T	1545-1812
* * * * *	
1.6045-3T	1545-1812
* * * * *	

Deputy Commissioner of Internal

Revenue

Approved:

Assistant Secretary of the Treasury (Tax Policy)

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 13, 2002
PO-3613

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 $76,632 million as of the end of that week, compared to $75,752 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*

	November 1, 2002			November 8, 2002		
TOTAL	75,752			76,632		
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	6,414	12,876	19,290	6,529	13,139	19,668
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,595	2,585	13,180	10,780	2,638	13,418
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
2. IMF Reserve Position [2]			20,497			20,665
3. Special Drawing Rights (SDRs) [2]			11,742			11,839
4. Gold Stock [3]			11,042			11,042
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	November 1, 2002			November 8, 2002		
	Euro	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
1. Foreign currency loans and securities			0			0
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the U.S. dollar:						
2.a. Short positions			0			0
2.b. Long positions			0			0
3. Other			0			0

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

	November 1, 2002			November 8, 2002		

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

Notes:

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. Foreign Currency Reserves for the latest week may be subject to revision. Foreign Currency Reserves for the prior week are final.

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 for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to the prior week's IMF data. IMF data for the latest week may be subject to revision. IMF data for the prior week are final.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 13, 2002
PO-3614

Treasury Secretary Paul O'Neill, Keynote Address at the Microcredit Summit, New York, New York, November 13, 2002

Good evening.

It is my pleasure to join you tonight on the topic of microfinance, and to share with you my own observations, as I've witnessed the use of microcredit in developing nations around the world.

I like to consider microfinance in the context of a vision of a world that works better -- a world where people everywhere enjoy a rising standard of living -- higher incomes that come from good jobs for everyone who wants one.

As I have traveled the world over the last quarter century, both as a leader in the private sector and in the public sector, I have been struck by two things. First, it is clear that human beings everywhere, with the proper education, training, and a stable social environment, can and do perform value-adding work at world-competitive levels.

That means they can earn compensation that gives them the capacity for independence and allows them to pursue the good life for themselves and their families. Human beings everywhere have in them the capacity to create a high standard of living.

My second observation is this: in spite of a common potential for achievement, the disparity of living standards among the world's people is so vast it is beyond anything we could imagine.

Why is it, if all people have the capacity to create a good life that so many billions live today with little hope for what we know is possible? I believe this is the question for us and our time. It is a question we can answer. It is a problem we can solve.

I know that those of you attending this summit share my conviction. I know you also agree that on a fundamental level, sustainable systems for forming capital and supplying it to individuals with the enterprise to put it to work for their families and in their communities, whoever and wherever they may be, is part of that solution.

If you examine the economic history of the last 300 years it is easy to conclude that there is no absolute limit on world economic product. That is, economic prosperity is not rooted in some people getting more by taking someone else's share. Rather, the world economic pie is limited only by our imagination. Human beings applying their imaginations within a framework of social institutions, infrastructure and resources create value.

A necessary ingredient for value creation is a means of providing capital to those who seek to make new ideas into reality. That is, to entrepreneurs. It doesn't matter if the new idea is building a satellite-linked data processing center in Accra, or a putting a dairy cow in an empty barn in Kosovo.

In developing economies, and even in the more developed world, microfinance plays a crucial role in delivering seed capital to these entrepreneurs. What is more, microfinance institutions add value well beyond the money they contribute. They provide essential advice on how to start and operate a business – information that is difficult to come by in communities that are predominantly agrarian, and just beginning to enter modern capitalism.

Microfinance organizations have extensive knowledge of basic business practices, management, local regulations, and the key factors in past business successes (and failures.) And as I have said, economic growth is first and foremost about the deployment of ideas. Microfinance, at its best, is about deploying ideas about how to start, manage, and scale-up micro- and small businesses and to help those in poverty become self-employed.

As these new entrepreneurs succeed, they diversify the local economy. Often businesses such as restaurants, general stores and clothing-makers are the first non-agricultural employers in their communities. They are the seeds for local economic independence, specialization, comparative advantage in trade, and long-term growth. They create jobs that keep young people at home, where they would otherwise move to over-crowded cities – or other countries – in search of work. They launch a virtuous cycle of growth and employment.

I have witnessed the success of these programs in recent visits to developing nations, and the real world results are inspirational. For example, in Uganda I met a woman named Lukia Ssemonobe, who opened a restaurant with micro-credit funding and a lot of hard work. Lukia lost her husband a dozen years ago, and had to feed four children without income. Indomitable, she borrowed $50 from the local branch of a microfinance NGO, and used that and subsequent micro-credit loans to build two businesses – a restaurant and then a tailoring shop. Now she employs about a dozen of her neighbors, supports her family, owns a home, and has become a leader in the community.

Small-enterprise lending, in amounts a bit larger than micro-finance, has also proven successful in bolstering entrepreneurship and job creation. In fact, one goal of microfinance is to see the self-employed become small business owners, employing neighbors and creating greater prosperity. I've seen the growth of small enterprises that have benefited from these loan programs. In Bucharest, Romania, I visited a furniture factory employing 50 people. The company took a $35,000 loan from the European Bank for Reconstruction and Development last year and used it to purchase productivity-enhancing equipment. The owners expect the company to grow by 40% this year.

In Russia, ongoing free market reforms necessary to enter the World Trade Organization are creating a more welcoming environment for entrepreneurs, investors, and employment. In the Russian city of Nizhny Novogorod, I toured a modern printing plant that could compete with any in the world. Founded by two brothers and a sister, with help from the EBRD's small business development program and other micro-credit funding, the company employs 120 people and supplies most of Coca-Cola's labels in Russia.

The success of the EBRD program proves that with adequate capital and the right training in lending techniques, new financial institutions can profitably serve small businesses. This model can be extended to other parts of the developing world.

With this goal in mind, we have been working with the World Bank to create a small business lending program for Africa. The program would make investments in and loans to existing local African banks and would sponsor the creation of new local banks, creating a pool of capital these banks would then lend to small businesses. The program would also provide training to local bank staff, so that they have the knowledge and skills to serve small businesses profitably. The loans generated by the program will allow African small businesses to expand their operations, invest in capital equipment, and finance imports and exports.

Lukia, the woman I met in Uganda, demonstrates what's possible with micro-credit support. As she has grown her enterprises, she's become a small business owner, and a small business development lending facility in Africa will ensure that she and others like her will continue creating jobs in their communities.

Whether in the world's largest economies or in the smallest, in an industrial conglomerate or a small-town tailoring shop, jobs are created and lives are changed one at a time, person by person. Micro-credit programs enable individuals to lead that change, make a difference in their lives, their communities, and ultimately, their economies. In fact, I believe that programs that target small businesses can often make a much bigger difference than investments in giant projects, because small businesses are homegrown, and develop the skills and talents of local people.

Access to capital and good business advice are not the only elements required for economic development. Lasting economic development also requires a stable social environment that includes the clear rule of law, enforceable contracts, and protection from extortionists and other forms of capital thieves. It requires a government – a leadership – that rules justly, encourages economic freedom, and invests in its people. It requires clean, reliable water supplies, effective, broad-based education, and good health care practices. For a truly vibrant economy these conditions are not discretionary. They must be the center of attention for sovereign governments and for any serious development agency or effort. President Bush has established a new foreign assistance program – Millennium Challenge Account – that will reward nations who are taking positive steps to create an atmosphere where their people can succeed.

With the understanding that microfinance is only one important element in this mix, the United States Government, under the leadership of President Bush, has made a commitment to promoting microfinance as a means of private sector-led growth and poverty reduction.

Our ongoing experience with microfinance has produced certain best principles for success, and as we work with all of you to expand these programs and extend their reach, we intend to abide by these principles.

Foremost is that microfinance programs must become sustainable. Microfinance institutions should grow to stand on their own, without continuing donor support. There is a range of institutional models that can be used -- ranging from NGOs to commercial banks -- but all should have accountable governance structures and sound business plans, with transparent reporting and oversight.

One example of a microfinance institution successful along these lines is a dedicated microfinance bank in Ukraine, established by the European Bank for Reconstruction and Development in 2001, which I recently visited. The U.S. contributed $4 million to the operation, $2 million of which has supported the establishment of the bank and training for loan officers. In 18 months, the microfinance bank extended loans totaling $111 million. By the end of 2003, the Donetsk branch alone plans to make 7,500 loans totaling $55 million.

From a broader perspective, the success of individual microfinance institutions depends heavily on the leadership, financial, regulatory, and business environment of the countries and communities where they operate. Entrepreneurs seeking capital to invest in their ideas are best served by a diverse and competitive financial sector, of which micro-finance is a small but critical part. Healthy banks are also crucial, both to gather savings that can be a source of new investment capital and to serve small enterprises as they grow beyond the means of micro-finance institutions.

Successful development programs are those that help unleash the potential present in all human beings, and allow them to drive economic growth through private enterprise. Microfinance is one of the most promising grassroots innovations in developing economies because it does just that – it gets capital directly to individuals who are ready to turn good ideas into real value. Just as important, it gets real-world business knowledge and wisdom to people who can use it to succeed.

Person by person, microfinance can raise the quality of life for families in communities that for too long have been denied the fruits of the modern global economy. The United States is committed to supporting the best practices in microfinance around the world.

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
November 13, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	November 14, 2002
Maturity Date:	December 12, 2002
CUSIP Number:	912795LP4

High Rate: 1.190% Investment Rate 1/: 1.213% Price: 99.907

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 66.32%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 49,663,100	$ 19,963,020
Noncompetitive	37,075	37,075
FIMA (noncompetitive)	0	0
SUBTOTAL	49,700,175	20,000,095
Federal Reserve	1,771,245	1,771,245
TOTAL	$ 51,471,420	$ 21,771,340

Median rate 1.185%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.160%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 49,700,175 / 20,000,095 = 2.48

1/ Equivalent coupon-issue yield.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 11:00 A.M.
November 12, 2002

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

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

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

The Federal Reserve System holds $13,022 million of the Treasury bills maturing on November 14, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders in this auction up to the balance of the amount not awarded in today's 13-week and 26-week Treasury bill auctions. Amounts awarded to SOMA will be in addition to the offering amount.

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

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

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

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

oOo

Attachment

PO-3616

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

November 12, 2002

Offering Amount ....$20,000 million
Public Offering ....$20,000 million
NLP Exclusion Amount ....$10,600 million

Description of Offering:
Term and type of security ....28-day bill
CUSIP number ....912795 LP 4
Auction date ....November 13, 2002
Issue date ....November 14, 2002
Maturity date ....December 12, 2002
Original issue date ....June 13, 2002
Currently outstanding ....$41,814 million
Minimum bid amount and multiples $1,000

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

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

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

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

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

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

FOR IMMEDIATE RELEASE
November 12, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	November 14, 2002
Maturity Date:	February 13, 2003
CUSIP Number:	912795LY5

High Rate: 1.190% Investment Rate 1/: 1.211% Price: 99.699

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 42.66%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 38,017,257	$ 14,261,753
Noncompetitive	1,493,312	1,493,312
FIMA (noncompetitive)	245,000	245,000
SUBTOTAL	39,755,569	16,000,065 2/
Federal Reserve	5,438,270	5,438,270
TOTAL	$ 45,193,839	$ 21,438,335

Median rate 1.180%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.160%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 39,755,569 / 16,000,065 = 2.48

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,217,737,000

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
November 12, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	November 14, 2002
Maturity Date:	May 15, 2003
CUSIP Number:	912795MM0

High Rate: 1.225% Investment Rate 1/: 1.249% Price: 99.381

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 64.42%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 30,497,187	$ 14,953,787
Noncompetitive	896,416	896,416
FIMA (noncompetitive)	150,000	150,000
SUBTOTAL	31,543,603	16,000,203 2/
Federal Reserve	5,812,574	5,812,574
TOTAL	$ 37,356,177	$ 21,812,777

Median rate 1.210%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.170%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 31,543,603 / 16,000,203 = 1.97

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $716,999,000

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 14, 2002

Contact: Stephen Meyerhardt
(202) 691-3792

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS RAVAGED BY SEVERE WEATHER IN OHIO AND PENNSYLVANIA

The Bureau of Public Debt took action to assist victims of severe weather in Ohio and Pennsylvania by expediting the replacement or payment of United States Savings Bonds for owners in those areas. The emergency procedures are effective immediately for paying agents and owners in Ohio and Pennsylvania affected by the storms. These procedures will remain in effect through the end of 2002.

Public Debt's action waives the normal six-month minimum holding period for Series EE and Series I savings bonds presented to authorized paying agents for redemption by residents of the affected areas. Most financial institutions serve as paying agents for savings bonds.

The counties involved are: Putnam, Seneca and Van Wert in Ohio and Mercer County in Pennsylvania. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PDF-1048, available at most financial institutions or by writing the Pittsburgh Federal Reserve Bank's Savings Bond Customer Service Department, 717 Grant Street, Pittsburgh, Pennsylvania 15219; phone (412) 261-7800. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Office of Investor Services, 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "DISASTER" on the front of their envelopes, to help expedite the processing of claims.

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

FOR IMMEDIATE RELEASE
November 14, 2002

Contact: Stephen Meyerhardt
(202) 691-3792

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS RAVAGED BY SEVERE WEATHER IN MISSISSIPPI AND TENNESSEE

The Bureau of Public Debt took action to assist victims of severe weather in Mississippi and Tennessee by expediting the replacement or payment of United States Savings Bonds for owners in those areas. The emergency procedures are effective immediately for paying agents and owners in Mississippi and Tennessee affected by the storms. These procedures will remain in effect through the end of 2002.

Public Debt's action waives the normal six-month minimum holding period for Series EE and Series I savings bonds presented to authorized paying agents for redemption by residents of the affected area. Most financial institutions serve as paying agents for savings bonds

The counties are: Lowndes County in Mississippi and Carroll County in Tennessee. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PDF-1048, available at most financial institutions or by writing the Kansas City Federal Reserve Bank's Savings Bond Customer Service Department, 825 Grand Boulevard, Kansas City, Missouri 64198; phone (816) 881-2000. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Office of Investor Services, 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "DISASTER" on the front of their envelopes, to help expedite the processing of claims.

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PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 14, 2002

Contact: Stephen Meyerhardt
(202) 691-3792

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS RAVAGED BY SEVERE WEATHER IN ALABAMA AND WEST VIRGINIA

The Bureau of Public Debt took action to assist victims of severe weather in Alabama and West Virginia by expediting the replacement or payment of United States Savings Bonds for owners in those areas. The emergency procedures are effective immediately for paying agents and owners in Alabama and West Virginia affected by the storms. These procedures will remain in effect through the end of 2002.

Public Debt's action waives the normal six-month minimum holding period for Series EE and Series I savings bonds presented to authorized paying agents for redemption by residents of the affected areas. Most financial institutions serve as paying agents for savings bonds.

The counties involved are: Cherokee, Cullman, Henry and Walker in Alabama and Jackson County in West Virginia. Should additional counties be declared disaster areas the emergency procedures for savings bonds owners will go into effect.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PDF-1048, available at most financial institutions or by writing the Richmond Federal Reserve Bank's Savings Bond Customer Service Department, 701 East Byrd Street, Richmond, Virginia 23219; phone (804) 697-8370. This form can also be downloaded from Public Debt's website at: www.publicdebt.treas.gov. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Office of Investor Services, 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "DISASTER" on the front of their envelopes, to help expedite the processing of claims.

PO-3621

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 14, 2002
PO-3622

Remarks of Under Secretary of the Treasury Peter R. Fisher to the Columbus Council on World Affairs Columbus, Ohio

**Beyond Borrowing:
Meeting the Government's Financial Challenges in the 21st Century**

The principal financial challenge for our federal government in the 21st century will be to fulfill the many promises made in the 20th century. All the major industrial economies face this challenge. But I will stick to my knitting and, as Under Secretary for Domestic Finance, focus on the particular challenge that we face in this country: to make the government's finances sustainable, to make sure that we align the promises we make with those we can keep.

The popular understanding of our national fiscal position revolves around two concepts, the annual budget deficit (or surplus) and total debt held by the public. This past fiscal year, the federal government ran a deficit of $159 billion and our accumulated debt is now roughly $3 trillion. Putting these numbers in perspective, we usually express them as shares of our gross domestic product. To keep the numbers simple, I'll round our GDP down to $10 trillion (in truth it's closer to $11 trillion), which makes our deficit 1.6 percent of GDP and total debt 30 percent of GDP.

As concerning as these figures are, they unfortunately understate the challenge because they point in the wrong direction: the past. They reflect the government's continued reliance on cash accounting, recording transactions only when cash changes hands. They ignore the commitments we have yet to fund: our future obligations.

We need to develop a forward-looking understanding of all of the financial responsibilities of the federal government. When we do, when we confront the trillions of dollars of promises that our government has made, we can begin to think more clearly about preparing to meet these obligations. I am going to suggest three admittedly predictable policy imperatives. First, we need to invest and to save more, much more, so that we can grow as fast as we can and maintain our standards of living during our collective retirements. Second, we need to get a hold of our escalating health care costs. Finally, the federal government needs a more forward-looking budget discipline.

A more complete measure of the government's fiscal position than the deficit or debt would take account of all future obligations, calculating costs and revenues as they accrue regardless of when they must be paid, but denominated in today's dollars. A handy tool is net present value. This is hardly a revolutionary idea in finance or accounting. College students in introductory economics routinely make NPV calculations and corporate CFOs live by them. Unfortunately, NPV hasn't yet made its way to the fore of federal budgeting or the public lexicon.

Not everyone has overlooked the importance of forward-looking public finance. In September, in testimony before the House Budget Committee, Chairman Greenspan suggested that accrual-based accounting would be a sensible step for federal budget accounting. Former Secretary of Commerce Peter Peterson has warned tirelessly of the consequences of a graying population with fewer and fewer workers per retiree. Due to their and others' efforts, we all have a dim sense of long-term fiscal strains involving Social Security and Medicare. But we need to bring this forward-looking understanding out of the shadows. We need to shine the same spotlight on it that the annual deficit and total debt receive in our government's budget rituals.

We do not yet have very good forward-looking measures of the government's overall financial position. The ones we do have present a daunting picture.

The most recent Financial Report of the United States Government, published last March, provided an accrual-based assessment of the government's net liability for Social Security, for Medicare, and for government worker and military retirement benefits. The government has assumed these obligations, and designated taxes and revenues to pay for them. The Report projects that Social Security and Medicare will begin falling short around the year 2016. On a 75-year horizon, these programs collectively have a negative net present value of $26 trillion. The figure is even higher if one wants to ensure a fully sustainable system beyond that point.

That figure does not account for the other, general revenues that the government collects. Treasury staff estimate that if we tap general government receipts, projected at the recent average of 19 percent of GDP, the figure falls to negative $23 trillion. Again, that's using a 75-year NPV calculation.

A Congressional Budget Office study from this July took another tack. It projected the government's finances out to 2075, holding discretionary spending constant as a share of GDP. The result? The federal government would double its share of the economy, from 19 percent of GDP today to 40 percent in 2075. Reverse engineering these CBO projections gives you a negative NPV of "only" $18 trillion.

Both these estimates are fairly crude. Making 75-year projections about anything is an inherently imprecise and risky business. But making promises of future government payments without keeping track of the costs is even riskier.

On the backward-looking basis, our debt to GDP ratio is 30 percent. On the forward-looking basis, our liabilities to GDP ratio is 200 percent or more.

Think of the federal government as a gigantic insurance company (with a side line business in national defense and homeland security) which only does its accounting on a cash basis – only counting premiums and payouts as they go in and out the door. An insurance company with cash accounting is not really an insurance company at all. It is an accident waiting to happen.

This particular insurance company, it turns out, has made promises to its policy holders that have a current value $20 trillion or so (give or take a few trillion) in excess of the current value of the revenues that it expects to receive. A real insurance company could try to grow its way out by raising its premiums and its earnings on investments faster than its liabilities. The federal government, however, would have to raise taxes or borrow faster than it increases outlays.

In my opinion, neither is likely nor desirable.

Consider borrowing. The CBO projections assumed that the government would hold taxes constant at 19 percent of GDP and borrow the shortfall. In these projections, by 2075 annual deficits would be greater than 20 percent of GDP, compared to 1.6 percent today. This would result in total federal debt reaching 255 percent of GDP. Just paying the interest on the national debt would consume 11 percent of GDP, half of today's federal budget and more than what government spends today on everything other than Social Security, Medicare and Medicaid.

To judge the ramifications of raising taxes on this magnitude, it's worth first going back over a little history.

Over the last forty years we have had great debates in our country about taxes – about raising taxes and about cutting taxes. However, throughout this time – from

1960 to 2001 – the federal government's revenues as a share of GDP have varied within a range of less than 4 percent – from a low 17.0 percent in 1965 to a high of 20.8 percent in 2000. The year 2000, in fact, was the first time federal revenues as a share of GDP exceeded 20 percent since 1944, when they were 20.9 percent.

Some of us would rather see total federal taxes to be noticeably less than one-fifth of our economy and pushed back toward the middle of their recent range. The tax cuts proposed by President Bush and approved by Congress last year, and which the President wants made permanent, aimed in that direction: to cap federal receipts at approximately 19 percent of GDP. Others may feel differently and think it appropriate or desirable for taxes to be at the higher end of their recent range. But whatever one's opinion, we must recognize that even to finance the Second World War, taxes did not exceed 21 percent of GDP and that federal revenues have averaged 18.6 percent of GDP for the last forty years.

Looking forward, now, if we were to keep debt held by the public to no more than its post-war peak of 50 percent of GDP, federal tax receipts would have to rise to 31 percent of GDP in 2075. That's 64 percent higher than what taxpayers have borne for the last 40 years.

Some say that that we should raise taxes starting now to ease the challenge of meeting the government's long-term liabilities. Put aside that it is odd to argue that, as the economy weakened and tax collections waned, we could have, would have, or should have, kept pushing taxes up to maintain a given surplus. That would have been folly. Put aside the costs of waging war on terrorism and bolstering homeland security.

If we were to have paid off the entire $3 trillion of outstanding debt held by the public, we would have – in simple terms – reduced our $18-to-$23-trillion negative financial position by around $3 trillion. To say that doing this would "make it easier" to meet our future liabilities is misleading. It's like telling a man that it would easier for him to jump across the Mississippi River if he took a running start.

To secure our economic future, in the face of the government's large, negative financial position, we will have to look beyond the government's cash flows for the answers. If we examine only the cash flows themselves we will be stuck inside a numbers game confined to zero-sum trade offs among the mix of benefits and taxes.

At the risk of stating the obvious, let me briefly suggest the three things that I think we must do if we are to hope to get on a sustainable path.

First, we need to invest and save more so that, as a society, we can grow as rapidly as possible on a non-inflationary basis. One way or another we are going to pay for our collective retirements. We can either pay by having lower collective standards of living than would otherwise be the case or we can save and invest more for the future and keep boosting productivity.

My children will be retired in 2077, the time horizon I have been talking about. If we set our country on a path to grow 2 percent a year in real terms until then, our GDP would grow from $10 trillion to $44 trillion. If we could boost the growth rate to 3 percent, however, GDP in 2077 will be over twice as big – $92 trillion.

It is true that faster growth and higher productivity alone will not solve the whole fiscal problem, because some expenditures will rise along with tax revenues. Social Security costs, for instance, rise with wages and hence with GDP. The wealthier we are, however, the more freedom we will have to re-allocate our resources for paying for our retirement and health care without sacrificing other private and social goals.

So to have any hope of catching up with our own promises to ourselves, we need to invest more and save more. To do this, we need to take away barriers to both investment and savings. Fundamental reform of our tax code comes to mind as a promising possibility. Personal wealth accumulation accounts is another.

Second, we need to get a grip on rising health care costs while still seeking a healthier population. The Financial Report of the United States shows that the real budget-buster is health care. Medicare and Medicaid account for two-thirds of that $26 trillion shortfall. For many years, health care costs have been rising faster than economic growth, at one percent more than GDP annually for a decade. For the past two years, partly due to the recession, the gap has been five percent. This is not sustainable.

I am not a medical expert, but I do know something about economics and incentives. Our system of health care insurance – both private and government – reimburses for the provision of health care services. The problem is that we reward the production of health care services without regard to whether anyone's health has actually improved.

If we want to provide health care to those who need it but cannot afford it, and at the same time constrain health care costs so they do not absorb an ever-increasing share of our society's resources, we need to redirect our system for health care delivery and medical reimbursement. It must reward those who can demonstrate a measurable improvement in health, not just those who have simply sold more health care services.

Finally, we need to consider a more forward-looking budget discipline for the federal government, one that recognizes the cost of promises made about the future. We need to consider a new kind of budget discipline that would require us all to confront the actuarial exposures created by promises of future benefits and other off-budget and off-balance sheet liabilities. While retirement and health care insurance are the biggest pieces of this problem, we must also confront the true costs of all government programs.

Federal budget decision-making needs to follow good business practice and move on from cash accounting to accrual accounting. If we can do this, maybe the federal government can learn how to better align the promises that we make with those that we can keep.

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.
November 14, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling $30,000 million to refund an estimated $29,401 million of publicly held 13-week and 26-week Treasury bills maturing November 21, 2002, and to raise new cash of approximately $599 million. Also maturing is an estimated $18,001 million of publicly held 4-week Treasury bills, the disposition of which will be announced November 18, 2002.

The Federal Reserve System holds $12,382 million of the Treasury bills maturing on November 21, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders either in these auctions or the 4-week Treasury bill auction to be held November 19, 2002. Amounts awarded to SOMA will be in addition to the offering amount.

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

TreasuryDirect customers have requested that we reinvest their maturing holdings of approximately $1,064 million into the 13-week bill and $804 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-3623

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

November 14, 2002

Offering Amount	$15,000 million	$15,000 million
Public Offering	$15,000 million	$15,000 million
NLP Exclusion Amount	$ 4,900 million	None

Description of Offering:

Term and type of security	91-day bill	182-day bill
CUSIP number	912795 LZ 2	912795 MN 8
Auction date	November 18, 2002	November 18, 2002
Issue date	November 21, 2002	November 21, 2002
Maturity date	February 20, 2003	May 22, 2003
Original issue date	August 22, 2002	November 21, 2002
Currently outstanding	$19,504 million	---
Minimum bid amount and multiples	$1,000	$1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

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

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

Competitive bids:

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

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

Maximum Award ....35% of public offering

Receipt of Tenders:

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

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

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

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 14, 2002
PO-3624

U.S. Taxation of International Business- The Need for Reform
Remarks by Kenneth W. Dam
Deputy Secretary Department of the Treasury Delivered to
The Tax Foundation's 65th National Conference
November 14, 2002
Washington, DC

Thank you for this opportunity to speak to you about two recent events that have brought the international rules of U.S. corporate income tax to the center of the legislative agenda. The first, which has drawn considerable media attention, is the phenomenon of "inversions." Inversions are the deliberate expatriation of a U.S. corporation through a change of corporate address, typically from a U.S. state to Bermuda. The second event has been less publicized: the recent judgment against the United States in a World Trade Organization (WTO) dispute settlement case regarding tax policy.

These two events are related, more closely than they might seem at first glance. Both concern our system of international taxation in very fundamental ways. And any thorough solution to either of these issues – inversions or the WTO decision – should address them both.

The sad truth is that our international tax rules no longer serve our national interest. In this age of globalization, international transactions generate a large and growing share of our national income. Yet changes to the international provisions of the U.S. corporate tax code in recent decades have ignored this trend, and have oftentimes more impaired than improved American companies' ability to compete abroad. More often, changes to the tax code have focused on increasing tax revenues rather than assuring the competitiveness of U.S. business operations, and thus, strengthening the health of our economy.

The WTO Decisions in the FSC-ETI Cases

First, consider the situation regarding the recent WTO decision. Earlier this year, a WTO appellate panel held that the U.S. Extraterritorial Income Exclusion (ETI) regime constituted a subsidy violating the WTO rules. Just two years before, a WTO appellate panel held that the Foreign Sales Corporation (FSC) provisions constituted a similar, prohibited subsidy.

It is well-known that the ETI had been intended by the previous Administration, and by the Congress, as a substitute for the FSC provisions, guaranteeing the beneficiaries of the ETI similar tax benefits to those they had enjoyed under the FSC provisions.

If I may summarize in two sentences a 90-page WTO opinion, the panel found that the ETI was an export subsidy in a violation of WTO rules for more or less the same reasons as the FSC provisions. And, perhaps to assure that no further attempts were made to resurrect a FSC-type benefit for U.S. exports, it further bolstered the reasoning from the earlier FSC case.

Where do these WTO decisions leave us? Essentially, they say that any attempt to replicate the benefits of FSC or ETI is legally doomed. To make such an attempt would simply lead to fruitless WTO litigation and could well bring on a trade war with the European Union, which would almost certainly insist on retaliating against U.S. exports.

In August, the WTO arbitration panel issued its findings on damages, which will authorize retaliation of up to $4 billion a year of exports, a figure unprecedented in WTO history. Such retaliation would have an impact on the global economy far beyond the specific U.S. products targeted. A trade war of such proportions is not in the interests of American businesses, workers, or consumers.

For that reason, President Bush decided several months ago that the United States would comply with the WTO ruling. The President made two further decisions. He said that any response to the ruling would have to increase the competitiveness of U.S. business. He also pledged to work with the Congress to create the solution, and we have been working closely with Chairman Thomas and the House Ways and Means Committee. We have begun to work just as closely with the Senate Finance Committee.

In working with the Congress we need to focus on two aspects of international tax policy. First, we must keep in mind the fiscal implications of abolishing ETI. Second, we must focus on the changes that can best make U.S. business more competitive internationally. In the short term, abolishing ETI will increase federal revenues. We will work with the Congress to make these changes, taken together, as close to revenue neutral as possible over the ten-year budget period. And we should all focus on ensuring that the changes enhance the international competitiveness of U.S. businesses and American workers.

One of the ironies of the FSC/ETI saga is that it can be viewed, across the history of the past half-century of tax legislation, as a self-inflicted wound. To see why this is so, consider that the United States has a worldwide system of taxation, while many other countries have a territorial system. Second, so far as the corporate income tax is concerned, it has traditionally been worldwide in scope only for companies incorporated in the United States. U.S. tax is not imposed on the foreign-source income of the foreign subsidiaries of U.S. companies.
This is true even for wholly-owned foreign subsidiaries. Dividends received by the U.S. parent from the foreign subsidiary are taxed but that is true also of dividends from any unrelated foreign company.

As a result, when a U.S. parent decides to manufacture abroad, it can carry out the manufacturing operations in a foreign subsidiary. The manufacturing profits, as foreign-source income, are not subject to U.S. tax until repatriated to the U.S. parent.

A point to be stressed, however, is that a principal exception to this proposition stems from the 1962 enactment of Subpart F. For reasons that had nothing to do with the competitiveness of U.S. companies, some transactions by foreign subsidiaries were deemed to generate so-called Subpart F income, which is taxed currently, to the U.S. parent.

After many amendments and elaborations, Subpart F today, generally speaking, taxes the U.S. parent on passive income earned by its controlled foreign subsidiaries. Moreover, in some cases Subpart F income includes income from active business pursuits abroad. For example, even the marketing activities of foreign subsidiaries aiding exports from a U.S. parent may produce Subpart F income. The same is true for various forms of service transactions by foreign subsidiaries.

As a result, the definition of income taxable on a current basis to a U.S. parent, leaving aside dividend payments to the parent, has become one of the most complex parts of the U.S. tax code. Without the 1962 Subpart F legislation, there almost certainly would have been no FSC or ETI legislation. Without that legislation, a U.S. exporter could sell its exports through a foreign sales subsidiary without paying U.S. tax on the earnings derived from the subsidiary's foreign sales activity.

One of the first by-products of that 1962 legislation was the 1971 Domestic Sales Corporation legislation (DISC). That law allowed a U.S. parent to establish a domestic subsidiary that would handle its foreign sales, and that would not be subject to U.S. tax on part of the resulting income. In the 1981 Tax Legislation Cases, a GATT panel held that the DISC law was a violation of GATT rules, and the panel held that tax provisions of three European countries were also violations. After extensive international negotiation that produced even more complex GATT/WTO rules, the U.S. Congress passed the 1984 FSC provisions, in large measure as a substitute for DISC. In short, FSC, like DISC, was an attempt to limit the adverse consequences of Subpart F. Today, after the FSC and ETI decisions, we are still dealing with the tangled history of Subpart F.

I believe that legislative changes could be enacted to limit Subpart F to truly passive income – such as portfolio dividends, interest and the like. At the very least we should take a hard look at the so-called active/passive dichotomy in Subpart F rules. We should not preserve tax rules that do not reflect the present realities of international corporate business, in which globalization requires centralization of functions, and in which services are not just a major wealth-creating activity, but one in which U.S. businesses have a comparative advantage. In short, I believe that we can sweep away the cobwebs of outmoded rules, and make U.S. businesses and workers more competitive.

Corporate Inversion Transactions

Now consider the other recent phenomenon that has put a spotlight on U.S. international tax rules: the problem of corporate "inversions," in which U.S. companies move their corporate situs abroad. Why do some U.S. companies choose to invert? The answer is simple – to save U.S. tax dollars. Yet the bulk of these companies intend to continue doing business in the United States just as they did before. How, then, do inversions reduce taxes? The answer is complex. One part of the answer is that they are able to reduce the U.S. tax they pay on their operations in the U.S. The other part of the answer is that they are able to reduce their overall tax on earnings from foreign operations.

Let's focus on the first part of the answer. Through an inversion transaction, a company is able to take certain kinds of deductions that it could not take before, and it can thereby structure its affairs in a way that reduces taxes on income earned in the United States. For example, the company may create a debt obligation from the corporation's new U.S. subsidiary to the new foreign parent, typically incorporated in a low-tax jurisdiction. The interest payments on this related-party debt create deductions that reduce U.S. tax without creating an offsetting increase in the foreign tax due. In the tax vernacular this is called "earnings stripping."

There are also ways in which the inverting enterprise may be able to shift income outside the United States by transferring assets or business opportunities from the U.S. subsidiary to the new foreign parent. This moves the income and appreciation from these assets and opportunities outside the U.S. tax jurisdiction, even though the costs associated with their development were deducted for U.S. tax purposes.

Exacerbating these opportunities for earnings stripping through artificial deductions and income shifting, there may be opportunities to exploit the network of tax treaties the United States maintains around the world. By achieving resident status for treaty purposes in a country with which the U.S. has a tax treaty, the new parent in an inversion transaction may qualify for reduced U.S. withholding tax on certain kinds of income. All of these techniques allow inverted companies to avoid U.S. tax that otherwise would be payable on income from their U.S. operations.

A natural first reaction to the recent stories about corporate inversions has been to propose prohibiting such transactions. But that approach confuses the symptoms with the disease. The disease is that the U.S. corporate tax system does not create a level playing field for U.S. companies. Those that choose to invert are taking advantage of the same opportunity available to any foreign company to reduce U.S. taxes on U.S. operations. Indeed, it is possible that the growing number of acquisitions of U.S. companies by foreign companies is in part caused by our U.S. tax rules. When a U.S. company and a foreign company are considering a merger, it can be more tax-effective for the foreign enterprise to acquire the U.S. enterprise, rather than the other way around. Also, we are seeing U.S.-based start-up companies choosing to incorporate abroad to reduce U.S. taxes on their U.S. business. We need legislation to take away the incentive to invert. Only then can we create a level playing field for U.S. and foreign companies.

An approach that narrowly targets inversions without eliminating the underlying cause is not a real solution for the long term. To create a level playing field, we need to attack the incentives for inversions. Specifically, we need to deal with such matters as earnings stripping through related-party interest deductions, income shifting through transfers of intangible and other assets, and unintended benefits of tax treaties. The U.S. Treasury has already made clear, both in a comprehensive study and through Congressional testimony, how we would deal with these incentives.

First, we support amendments to section 163(j) to disallow cross-border intercorporate interest payments as deductions against U.S. tax, to the extent that the corporate group's level of U.S. indebtedness relative to assets exceeds its worldwide ratio of indebtedness to assets. The present formulation of section 163(j) unfortunately provides an unjustified safe harbor for deduction of interest payments by a U.S. corporation to a foreign related party so long as the payments meet certain statutory guidelines that have nothing to do with the corporate group's overall indebtedness.

With regard to income shifting, especially by transfers of intangibles, we are reexamining the regulations under section 482. That reexamination encompasses both the substantive rules and the rules related to reporting, documentation and penalties. We will make appropriate revisions to these regulations so that the arm's length standard of section 482 operates properly. And we will report to the Congress if any legislation is needed in this area.

In addition to our section 482 study, we will also review the Code's organization and reorganization provisions, as well as the implementing regulations, as they apply to international transactions. After all, these provisions were drafted at a time when the focus was almost solely on domestic transactions, and that is not the world we live in today.

With regard to tax treaties, we are carrying out a thorough study of our existing tax treaties, which are intended to reduce or eliminate double taxation of income, to determine whether any of our treaties have provisions that can be used instead to eliminate taxation on income. Any treaties that operate in this matter will be renegotiated.

Creating a Competitive Set of Tax Rules

The tax changes I have described will help level the playing field, and eliminate the incentive to undergo an inversion to reduce U.S. tax on income from U.S. business operations. But there are other areas that must be addressed to make sure that our international tax rules promote the competitiveness of U.S. companies. Indeed, the other part of the reason for inversion transactions is to avoid the application of the U.S. international tax rules to income from foreign operations, so that those operations remain competitive. We need to address this competitiveness concern as well, so that the United States remains a place in which businesses choose to be headquartered. To truly level the playing field we need to revisit the U.S. tax rules for foreign earned income. These rules have not kept pace with the rules of our major trading partners.

A number of technical changes have been made over the years that make the U.S. international tax rules unduly restrictive. Sometimes the motive has been to raise federal tax revenues by changes in the abstruse international tax rules. However, with today's global economy, the bottom line is clear. If we want U.S. businesses, and thus the U.S. economy, to be competitive in international transactions, then we have to reconsider our international tax rules.

Let me give you an example. The foreign tax credit is designed to eliminate double taxation of foreign-source income, once by a foreign country and then by the U.S. Yet the ability of a U.S. company to avoid paying tax twice on the same income is limited by a host of highly technical rules. These have the effect of disallowing a credit in certain circumstances. One of the limitations that causes the most distortion is the impact of the interest expense allocation rules, which reduce a U.S. company's ability to use foreign tax credits by allocating some of its U.S. interest expense against the assets of its foreign affiliates, even though those foreign affiliates are equally or even more highly leveraged. Perhaps this limitation once made sense, but it makes sense no longer.

The Subpart F rules I discussed earlier are another major area where significant changes are needed. Changes would ensure that our rules are not an anti-competitive burden for U.S. businesses operating in today's global economy.

Extensive studies of the economic effect of foreign investment point to the same conclusion: foreign direct investment by American firms is good not just for the U.S. firm and the foreign economy recipient, but also for the U.S. economy, and hence for Americans in general. The notion that foreign direct investment displaces U.S. exports is not only wrong and flies in the face of the evidence. Evidence also shows there is no basis for the notion that foreign direct investment is an effort to displace domestic U.S. production. If foreign direct investment is good for the U.S. economy overall -- and it is -- we have to make sure that we are not unintentionally discouraging it through obsolete rules that tax foreign income twice or that tax the income in a way that is harsher than the tax regimes of our major trading partners. This is what I mean when I call for U.S. tax law changes that make U.S. business more competitive internationally.

A Concluding Thought

When considering the totality of legislation needed to address the WTO ruling, I want to stress one point I made earlier. The chances of going back to a FSC look-alike law are nil. The President has recognized that the United States must comply with its international obligations. We have too great a stake in the WTO and in free trade to turn our backs on the WTO rules.

Consequently, it will not be possible to replicate for each and every American company the tax relief they obtained under FSC or ETI. Nor can we assure each and every American company that it will receive any tax relief at all from the tax legislation now being considered in Congress. We need to focus on making the U.S. economy -- and that means U.S. enterprises as a whole -- better off as a result of the legislative changes. That is what a level playing field is all about. To give an example, there is no reason why a U.S.-owned firm should be acquired by a foreign-owned firm simply because of ill-designed international corporate tax rules. When U.S. tax law treats U.S.-owned and foreign-owned firms alike, our economy will be stronger and U.S. enterprises will be more competitive around the world.

We look forward to working with the Congress next year on much-needed reforms to our international tax rules, reforms that will ensure that the United States is the preeminent country in the world for headquarters, for operations, and for investment.

Thank you.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 14, 2002
PO-3625

Raymond T. Wagner, Jr. Nominee for IRS Oversight Board

Treasury Secretary Paul O'Neill today announced that Raymond T. Wagner, Jr. of Missouri has been nominated to be a member of the Internal Revenue Service Oversight Board, for the remainder of a four-year term expiring September 14, 2004. Members of the IRS Oversight Board oversee the IRS in its administration, management and conduct.

"Ray's unique background as a tax commissioner for both Missouri and Illinois makes him an ideal candidate for the IRS Oversight board," said Treasury Secretary Paul O'Neill. "His private sector, academic and government experience would be an asset to the Oversight Board in their efforts to improve the IRS."

Ray served in the cabinet of Illinois Governor Jim Edgar as the Illinois Director of Revenue from 1993 until June 1995. Ray served as the Director of the Missouri Department of Revenue from 1991 to 1993. He is believed to be the first individual to have been appointed Director of Revenue by Governors of two different states. Mr. Wagner is currently the Legal & Legislative Vice President for Enterprise Rent-A-Car and has been with Enterprise since 1995.

Ray earned his Bachelor of Arts degree (1981) and his M.B.A. degree (1984) at St. Louis University. He obtained his J.D. law degree (1985) from University of Missouri-Kansas City School of Law and completed a Master of Laws-Taxation (LL.M.) degree (1993) from Washington University School of Law.

Since 1993, Ray has been an Adjunct Professor of Law at Washington University School of Law where he co-teaches a graduate level course on state and local taxation. In April 1999, Ray was appointed to serve as a Municipal Judge for the City of Ballwin.

Previously, Ray served as Chief Legal Counsel to the Governor of Missouri, and as the General Counsel for the Missouri Department of Revenue.
Ray serves on a number of civic and educational organizations. While in government, Ray was active on numerous boards and commissions, including the Federation of Tax Administrators, the Multi-State Tax Commission, and the Missouri Military Advisory Commission. He also chaired the Missouri Governor's Ethics Committee.

A member of the American Bar Association, the Illinois Bar and the Missouri Bar, Ray is admitted to practice law before the US Supreme Court, the US Court of Appeals - 8th Circuit and the US Tax Court.

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

FEDERAL FINANCING BANK October 31, 2002

Paula Farrell, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of September 2002.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $39.6 billion on September 30, 2002, posting an increase of $2,641.2 million from the level on August 31, 2002. This net change was the result of increases in holdings of agency debt of $3,164.0 million and in holdings of government-guaranteed loans of $7.2 million, and a decrease in holdings of agency assets of $530.0 million. The FFB made 43 disbursements and received 13 prepayments during the month of September. The FFB also extended the maturities of 149 loans guaranteed by the Rural Utilities Service ("RUS") during the month of September.

During the fiscal year 2002, the FFB holdings of obligations issued, sold or guaranteed by other Federal agencies posted a net decrease of $3,220.2 million from the level on September 30, 2001. This net change was the result of decreases in holdings of agency debt of $199.0 million, in holdings of agency assets of $2,955.0 million, and in holdings of government-guaranteed loans of $66.2 million.

Attached to this release are tables presenting FFB September loan activity and FFB holdings as of September 30, 2002.

PO-3626

FEDERAL FINANCING BANK
SEPTEMBER 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
AGENCY DEBT				
U.S. POSTAL SERVICE				
U.S. Postal Service	9/23	$250,000,000.00	2/18/31	4.976% S/A
U.S. Postal Service	9/23	$250,000,000.00	8/15/12	3.903% S/A
U.S. Postal Service	9/30	$2,450,000,000.00	10/01/02	1.790% S/A
U.S. Postal Service	9/30	$214,000,000.00	10/01/02	1.729% S/A
GOVERNMENT-GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
San Francisco OB	9/03	$49,264.62	8/01/05	2.608% S/A
San Francisco OB	9/03	$338,378.40	8/01/05	2.608% S/A
Atlanta CDC Lab	9/06	$17,600.77	1/30/31	4.777% S/A
Foley Services Contract	9/18	$5,211.27	7/31/25	4.547% S/A
San Francisco OB	9/25	$51,550.31	8/01/05	2.296% S/A
San Francisco Bldg Lease	9/27	$478,581.00	8/01/05	2.354% S/A
DEPARTMENT OF EDUCATION				
Virginia Union Univ.	9/10	$559,340.82	1/02/32	4.782% S/A
Barber-Scotia College	9/12	$247,264.88	3/01/30	4.776% S/A
Livingstone College	9/12	$131,258.24	7/01/31	4.798% S/A
Livingstone College	9/18	$88,883.42	7/01/31	4.621% S/A
Tuskegee Univ.	9/18	$1,366,162.06	1/02/32	4.639% S/A
RURAL UTILITIES SERVICE				
S. Illinois Power #818	9/03	$12,791,000.00	1/03/34	4.864% Qtr.
A & N Electric #868	9/04	$1,500,878.00	12/31/36	4.782% Qtr.
Butler County Rural Elec. #832	9/04	$1,097,000.00	12/31/36	4.782% Qtr.
Head Lakes Electric #825	9/04	$100,000.00	12/31/36	4.781% Qtr.
Kootenai Elec. #752	9/04	$2,800,000.00	12/31/31	4.691% Qtr.
Dairyland Power #865	9/05	$19,419,000.00	12/31/31	4.678% Qtr.
Dairyland Power #864	9/05	$40,252,000.00	12/31/31	4.678% Qtr.
East Central Oklahoma #754	9/06	$5,000,000.00	12/31/35	4.718% Qtr.
Jefferson Energy #692	9/10	$2,715,000.00	1/02/35	4.803% Qtr.
E. Iowa Coop. #807	9/12	$2,200,000.00	1/03/06	2.594% Qtr.
Bailey County Elec. #856	9/13	$1,896,000.00	12/31/02	1.684% Qtr.
Johnson County Elec. #500	9/13	$1,200,000.00	1/03/33	4.848% Qtr.
North Arkansas Elec. #683	9/13	$12,000,000.00	1/02/35	4.758% Qtr.
S. Illinois Power #819	9/13	$1,535,000.00	12/31/30	4.680% Qtr.
United Elec. Coop. #870	9/16	$12,000,000.00	12/31/02	1.683% Qtr.
Adams Rural Electric #706	9/17	$500,000.00	1/02/35	4.679% Qtr.
Socorro Elec. #869	9/19	$1,652,000.00	9/30/03	1.749% Qtr.
Thumb Electric #767	9/19	$350,000.00	12/31/09	3.484% Qtr.
Burt County Public #669	9/20	$200,000.00	1/02/35	4.612% Qtr.

FEDERAL FINANCING BANK
SEPTEMBER 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
Sangre De Cristo Elec. #732	9/20	$540,000.00	1/03/34	4.594% Qtr.
Shelby Energy Coop. #758	9/20	$1,000,000.00	12/31/35	4.630% Qtr.
East Kentucky Power #828	9/24	$15,000,000.00	12/31/24	4.241% Qtr.
Wilkes Tele. & Elec. #851	9/26	$185,000.00	12/31/18	3.845% Qtr.
Head Lakes Electric #825	9/27	$120,000.00	12/31/36	4.678% Qtr.
North Georgia Elec. #781	9/27	$4,770,000.00	12/31/35	4.660% Qtr.
Webster Electric #705	9/27	$2,223,081.00	12/31/02	1.645% Qtr.
Arkansas Elec. #812	9/30	$10,000,000.00	12/31/31	4.521% Qtr.
*Atlantic Telephone Mem. #805	9/30	$5,931,000.00	12/31/02	1.626% Qtr.
*Basin Electric #425	9/30	$13,397,496.70	12/31/02	1.751% Qtr.
*Big Sand Elec. #540	9/30	$779,399.23	12/31/02	1.626% Qtr.
*Big Sand Elec. #540	9/30	$584,549.41	12/31/02	1.626% Qtr.
*Big Sand Elec. #540	9/30	$977,239.69	12/31/02	1.626% Qtr.
*Big Sand Elec. #540	9/30	$2,272,802.00	12/31/02	1.626% Qtr.
*Brazos Electric #917	9/30	$2,973,832.41	12/31/02	1.626% Qtr.
*Brazos Electric #917	9/30	$1,320,850.92	12/31/02	1.626% Qtr.
*Brazos Electric #917	9/30	$331,143.15	12/31/02	1.626% Qtr.
*Brazos Electric #917	9/30	$763,801.87	12/31/02	1.626% Qtr.
*Brazos Electric #917	9/30	$997,288.60	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$664,131.46	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$381,839.87	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$713,880.64	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$865,780.49	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$279,187.21	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$202,623.08	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$349,208.98	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$204,665.76	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$146,637.31	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$127,750.14	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$69,990.77	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$105,762.52	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$34,040.74	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$1,129,601.37	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$224,802.75	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$852,668.72	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$2,554,093.69	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$1,529,577.46	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$916,675.20	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$553,466.17	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$861,997.95	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$468,307.30	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$1,351,268.47	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$1,628,105.53	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$1,915,890.13	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$783,798.34	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$599,635.83	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$1,230,712.90	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$972,209.38	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$2,058,911.47	12/31/02	1.626% Qtr.
Brazos Electric #917	9/30	$2,321,886.67	12/31/02	1.626% Qtr.

FEDERAL FINANCING BANK
SEPTEMBER 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
*Brazos Electric #917	9/30	$392,678.70	12/31/02	1.626% Qtr.
*Brazos Electric #917	9/30	$1,053,561.39	12/31/02	1.626% Qtr.
*Brazos Electric #917	9/30	$1,368,921.82	12/31/02	1.626% Qtr.
*Brazos Electric #917	9/30	$2,250,576.86	12/31/02	1.626% Qtr.
*Brazos Electric #917	9/30	$2,408,995.80	12/31/02	1.626% Qtr.
*Brazos Electric #917	9/30	$472,355.89	12/31/02	1.626% Qtr.
*Brazos Electric #917	9/30	$15,283.95	12/31/02	1.626% Qtr.
*Brazos Electric #917	9/30	$805,852.76	12/31/02	1.626% Qtr.
*Brazos Electric #917	9/30	$2,640,084.07	12/31/02	1.626% Qtr.
*Brazos Electric #917	9/30	$2,070,701.73	12/31/02	1.751% Qtr.
*Brazos Electric #437	9/30	$3,948,401.87	12/31/02	1.751% Qtr.
*Brazos Electric #437	9/30	$1,334,297.62	12/31/02	1.751% Qtr.
*Brazos Electric #437	9/30	$302,656.33	12/31/02	1.751% Qtr.
*Brazos Electric #437	9/30	$2,899,144.86	12/31/02	1.751% Qtr.
*Brazos Electric #437	9/30	$1,119,638.68	12/31/02	1.751% Qtr.
*Brazos Electric #437	9/30	$470,293.37	12/31/02	1.751% Qtr.
*Brazos Electric #561	9/30	$10,510,861.23	12/31/02	1.626% Qtr.
*Brazos Electric #561	9/30	$5,290,359.83	12/31/02	1.626% Qtr.
*Brazos Electric #561	9/30	$10,322,949.55	12/31/02	1.626% Qtr.
*Brazos Electric #561	9/30	$8,123,312.21	12/31/02	1.626% Qtr.
*Brazos Electric #561	9/30	$4,677,057.51	12/31/02	1.626% Qtr.
*Brazos Electric #561	9/30	$3,996,515.67	12/31/02	1.626% Qtr.
*Brazos Electric #561	9/30	$7,490,123.64	12/31/02	1.626% Qtr.
*Brown County Elec. #687	9/30	$248,552.82	12/31/02	1.626% Qtr.
*Brown County Elec. #687	9/30	$596,526.78	12/31/02	1.626% Qtr.
*Brown County Elec. #687	9/30	$298,311.47	12/31/02	1.626% Qtr.
Brown County Elec. #687	9/30	$650,000.00	12/31/02	1.626% Qtr
*Butler County Rural Elec. #832	9/30	$1,311,000.00	3/31/32	4.530% Qtr
*Citizens Elec. #742	9/30	$2,694,000.00	12/31/02	1.626% Qtr
*Clark Energy Coop. #611	9/30	$2,931,719.04	12/31/02	1.626% Qtr
*Clark Energy Coop. #611	9/30	$1,948,201.16	12/31/02	1.626% Qtr
*Clark Energy Coop. #611	9/30	$4,347,794.66	12/31/02	1.626% Qtr
*Cumberland Valley #668	9/30	$4,175,687.44	12/31/02	1.626% Qtr
*Cooper Valley Tel. #648	9/30	$1,010,941.11	12/31/02	1.626% Qtr
*Darien Telephone Co. #719	9/30	$1,927,403.00	12/31/02	1.626% Qtr.
*Darien Telephone Co. #719	9/30	$444,000.00	12/31/02	1.626% Qtr.
*Darien Telephone Co. #719	9/30	$214,000.00	12/31/02	1.626% Qtr.
*Darien Telephone Co. #719	9/30	$253,000.00	12/31/02	1.626% Qtr.
*Darien Telephone Co. #719	9/30	$184,000.00	12/31/02	1.626% Qtr.
*Darien Telephone Co. #719	9/30	$273,000.00	12/31/02	1.626% Qtr.
*East River Power #453	9/30	$384,048.56	12/31/02	1.751% Qtr.
*Fairfield Elec. #684	9/30	$3,215,018.98	12/31/02	1.626% Qtr.
*Farmer's Telephone #459	9/30	$22,380.10	12/31/02	1.751% Qtr.
*Farmer's Telephone #459	9/30	$214,848.56	12/31/02	1.751% Qtr.
*Fleming-Mason Energy #644	9/30	$2,540,823.16	12/31/02	1.626% Qtr.
*Fleming-Mason Energy #644	9/30	$1,368,135.53	12/31/02	1.626% Qtr.
*Fleming-Mason Energy #644	9/30	$1,465,859.51	12/31/02	1.626% Qtr.
*Fleming-Mason Energy #644	9/30	$2,149,927.29	12/31/02	1.626% Qtr.
*Fleming-Mason Energy #644	9/30	$1,368,135.53	12/31/02	1.626% Qtr.
*Fleming-Mason Energy #644	9/30	$2,964,515.44	12/31/02	1.626% Qtr.

FEDERAL FINANCING BANK
SEPTEMBER 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
*Freeborn-Mower Coop. #736	9/30	$750,000.00	12/31/02	1.626% Qtr.
*FTC Communications #709	9/30	$2,663,000.00	12/31/02	1.626% Qtr.
*Grady Electric #690	9/30	$3,177,791.18	12/31/02	1.626% Qtr.
*Grayson Rural Elec. #619	9/30	$1,172,687.61	12/31/02	1.626% Qtr.
*Grayson Rural Elec. #619	9/30	$586,343.81	12/31/02	1.626% Qtr.
*Grayson Rural Elec. #619	9/30	$977,239.69	12/31/02	1.626% Qtr.
*Grayson Rural Elec. #619	9/30	$1,266,044.07	12/31/02	1.626% Qtr.
*Greenbelt Elec. #743	9/30	$1,739,000.00	12/31/02	1.626% Qtr.
*Greenbelt Elec. #743	9/30	$502,000.00	12/31/02	1.626% Qtr.
*Grundy Elec.Coop. #744	9/30	$1,250,000.00	12/31/02	1.626% Qtr.
*Harrison County #532	9/30	$973,265.55	12/31/02	1.626% Qtr.
*Harrison County #532	9/30	$875,938.99	12/31/02	1.626% Qtr.
*Harrison County #532	9/30	$979,831.84	12/31/02	1.626% Qtr.
*Harrison County #532	9/30	$1,597,773.08	12/31/02	1.626% Qtr.
*Harrison County #532	9/30	$1,720,197.69	12/31/02	1.626% Qtr.
*Hudson Valley Datanet #833	9/30	$5,000,000.00	12/31/02	1.626% Qtr.
*Hudson Valley Datanet #833	9/30	$2,000,000.00	12/31/02	1.626% Qtr.
*Inter-County Energy #592	9/30	$1,459,898.31	12/31/02	1.626% Qtr.
*Inter-County Energy #592	9/30	$1,946,531.09	12/31/02	1.626% Qtr.
*Inter-County Energy #592	9/30	$2,537,303.27	12/31/02	1.626% Qtr.
*Inter-County Energy #592	9/30	$215,969.97	12/31/02	1.626% Qtr.
*Jackson Energy #794	9/30	$4,000,000.00	12/31/02	1.626% Qtr.
*Jackson Energy #794	9/30	$3,000,000.00	12/31/02	1.626% Qtr.
*Jackson Energy #794	9/30	$4,700,000.00	12/31/02	1.626% Qtr.
*Johnson County Elec. #482	9/30	$1,564,597.41	12/31/02	1.751% Qtr.
*Licking Valley Elec. #522	9/30	$2,675,506.98	12/31/02	1.626% Qtr.
*Magnolia Electric #560	9/30	$4,870,682.33	12/31/02	1.751% Qtr.
*Meade County Elec. #662	9/30	$1,285,196.21	9/30/05	2.112% Qtr.
*Meade County Elec. #662	9/30	$1,977,224.94	10/01/07	2.707% Qtr.
*Meade County Elec. #662	9/30	$1,977,224.94	9/30/09	3.250% Qtr.
*Nolin Rural Elec. #528	9/30	$1,842,391.67	12/31/02	1.626% Qtr.
*Nolin Rural Elec. #577	9/30	$2,513,944.90	12/31/02	1.626% Qtr.
Nolin Rural Elec. #577	9/30	$2,513,944.90	12/31/02	1.626% Qtr.
O & A Electric Coop. #379	9/30	$818,701.82	9/30/04	1.943% Qtr.
Owen Electric #525	9/30	$1,949,248.78	12/31/02	1.626% Qtr.
Owen Electric #525	9/30	$1,945,312.24	12/31/02	1.626% Qtr.
Owen Electric #525	9/30	$981,445.30	12/31/02	1.626% Qtr.
Pennyrile Elec. #513	9/30	$5,963,579.96	12/31/02	1.751% Qtr.
PRTCommunications #798	9/30	$4,802,000.00	12/31/02	1.626% Qtr.
San Miguel Electric #919	9/30	$7,807,452.92	12/31/02	1.626% Qtr.
San Miguel Electric #919	9/30	$8,197,916.93	12/31/02	1.626% Qtr.
Stearns Cooperative #733	9/30	$2,400,000.00	12/31/02	1.626% Qtr.
Stearns Cooperative #733	9/30	$1,400,000.00	12/31/02	1.626% Qtr.
Surry-Yadkin Elec. #534	9/30	$963,683.92	12/31/02	1.626% Qtr.
Surry-Yadkin Elec. #534	9/30	$963,683.92	12/31/02	1.626% Qtr.
Surry-Yadkin Elec. #534	9/30	$481,841.96	12/31/02	1.626% Qtr.
Surry-Yadkin Elec. #534	9/30	$963,683.92	12/31/02	1.626% Qtr.
Surry-Yadkin Elec. #534	9/30	$963,683.92	12/31/02	1.626% Qtr.
Surry-Yadkin Elec. #534	9/30	$979,484.08	12/31/02	1.626% Qtr.
Surry-Yadkin Elec. #534	9/30	$985,860.52	12/31/02	1.626% Qtr.

FEDERAL FINANCING BANK
SEPTEMBER 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
*Surry-Yadkin Elec. #534	9/30	$2,277,427.53	12/31/02	1.626% Qtr.
*Upsala Coop. Tele. #429	9/30	$303,493.52	9/30/03	1.743% Qtr.
*Upsala Coop. Tele. #429	9/30	$7,028.68	9/30/03	1.743% Qtr.
*Upsala Coop. Tele. #429	9/30	$20,401.75	9/30/03	1.743% Qtr.
*Upsala Coop. Tele. #429	9/30	$88,921.12	9/30/03	1.743% Qtr.
*Upsala Coop. Tele. #429	9/30	$84,507.52	9/30/03	1.742% Qtr.
*Upsala Coop. Tele. #429	9/30	$96,409.04	9/30/03	1.743% Qtr.
*Upsala Coop. Tele. #429	9/30	$61,224.32	9/30/03	1.743% Qtr.

S/A is a Semiannual rate.
Qtr. is a Quarterly rate.
* maturity extension or interest rate reset

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	September 30, 2002	August 31, 2002	Monthly Net Change 9/1/02- 9/30/02	Fiscal Year Net Change 10/1/01- 9/30/02
Agency Debt:				
U.S. Postal Service	$11,114.0	$7,950.0	$3,164.0	-$199.0
Subtotal*	$11,114.0	$7,950.0	$3,164.0	-$199.0
Agency Assets:				
FmHA-RDIF	$950.0	$980.0	-$30.0	-$1,485.0
FmHA-RHIF	$2,905.0	$3,405.0	-$500.0	-$1,470.0
Rural Utilities Service-CBO	$4,270.2	$4,270.2	$0.0	$0.0
Subtotal*	$8,125.2	$8,655.2	-$530.0	-$2,955.0
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	$1,922.5	$1,940.2	-$17.7	-$234.1
DoEd-HBCU+	$68.6	$66.4	$2.2	$37.3
DHUD-Community Dev. Block Grant	$5.0	$5.6	-$0.6	-$2.8
DHUD-Public Housing Notes	$1,207.3	$1,207.3	$0.0	-$71.4
General Services Administration+	$2,205.6	$2,209.8	-$4.3	-$62.4
DOI-Virgin Islands	$11.4	$11.4	$0.0	-$1.7
DON-Ship Lease Financing	$780.8	$780.8	$0.0	-$160.4
Rural Utilities Service	$14,058.2	$14,028.5	$29.7	$459.0
SBA-State/Local Development Cos.	$102.4	$104.5	-$2.1	-$29.5
DOT-Section 511	$3.2	$3.3	$0.0	-$0.2
Subtotal*	$20,365.1	$20,357.9	$7.2	-$66.2
	=========	=========	=========	=========
Grand total*	$39,604.3	$36,963.1	$2,641.2	-$3,220.2

* figures may not total due to rounding
+ does not include capitalized interest

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 15, 2002
PO-3627

Statement of Secretary Paul O'Neill on Upcoming Trip to Southwest Asia

Tonight I leave for a week of visiting Afghanistan, Pakistan and India, an area of crucial importance to the security of the world. Common prosperity and security are our clear mutual interests, and I am hopeful that my visit this week will lead to a greater understanding of how we can work together to advance both.

I will be visiting during the holy month of Ramadan. Over one billion Muslims throughout the world, observe this month by renewing their dedication to caring for those in need, doing good deeds, and strengthening family and community ties. To usher in the holy month, President Bush hosted an IFTAR dinner at the White House with Arab Americans and Islamic leaders.

While I am in Pakistan, I will share that honor, as I participate in an IFTAR dinner with my counterpart, Finance Minister Aziz. I will repeat the President's message that learning from each other we can build bridges of mutual trust and understanding. Working together we can create a better future for people of all faiths.

In Afghanistan, I look forward to examining reconstruction efforts underway and to underscoring the importance of continued funding for President Karzai's government budget. We are at a critical time right now for the people of Afghanistan, accelerating the reconstruction process that will create and support stability and growth in that budding nation.

I view this as not only a duty we in the world have to the people of Afghanistan. I also view this as an opportunity to demonstrate that we can deliver international development assistance that creates real results – concrete improvements in the lives of individual citizens. In that context, our reconstruction efforts in Afghanistan are not only vital to the lives of the Afghani people and important for securing Central Asia against terrorist influences – they must serve as a model for what effective foreign assistance programs the world over can achieve.

I am encouraged that a joint effort between the U.S., Japan, and Saudi Arabia in road construction can be a model for future development efforts. This project will bring back into service most of the ancient road that connects Kabul to Kandahar to Herat – a stretch of 965 kilometers. Beyond linking three of Afghanistan's most important cities to each other and to neighboring countries, facilitating vital commerce and communication, it will connect and unite the people of Afghanistan to each other, and contribute to the national unity that the Afghan government and the Afghan people so desperately need.

In Pakistan I will share my appreciation for the efforts of the Pakistani government and Pakistani people in combating terrorism. Terror is a threat to all civilized people, no matter their culture or religion. The United States and Pakistan have a shared interest in fighting terrorism to maintain the freedom of our peoples to live their chosen lives in peace and build prosperity for themselves and future generations.

I will end my trip in India, where I will attend the annual meeting of the G20 Finance Ministers. We will have a full discussion of the global economic outlook, and I will share with them my belief that the US is on the road to recovery, and that global prosperity requires that all the economies of the world rekindle growth. I look forward to advancing our efforts to bring greater predictability to emerging markets and to furthering our cooperation in detecting and halting the financing of terrorism.

In each of these three nations, I will spend time with the economic team to learn more about the government's efforts to develop their economy. I will also visit schools and small businesses, as I believe that education and entrepreneurship are launching pads for economic development. In Pakistan I will visit a women's sewing cooperative that was started with a small loan from a micro-finance institution, an example of the entrepreneurial spirit that exists everywhere in the world and only needs a nourishing environment of economic freedom and security to sprout and bring prosperity to all people. In India, I will also visit the high-tech facilities in Hyderabad, where world-class facilities demonstrate some of the highest productivity in the world. These success stories show what is possible, when citizens are allowed to reach their potential.

Economic and security interests link the entire world more closely every day. During this trip I look forward to furthering those ties and exploring the potential to bring self-sustaining growth and development to all the peoples of the world.

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.
November 18, 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 $18,001 million of publicly held 4-week Treasury bills maturing November 21, 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 $12,382 million of the Treasury bills maturing on November 21, 2002, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders in this auction up to the balance of the amount not awarded in today's 13-week and 26-week Treasury bill auctions. Amounts awarded to SOMA will be in addition to the offering amount.

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

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

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

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

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Attachment

PO-3628

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

November 18, 2002

Offering Amount....................$20,000 million
Public Offering....................$20,000 million
NLP Exclusion Amount................$10,900 million

Description of Offering:
Term and type of security..........28-day bill
CUSIP number.......................912795 LQ 2
Auction date.......................November 19, 2002
Issue date.........................November 21, 2002
Maturity date......................December 19, 2002
Original issue date................June 20, 2002
Currently outstanding..............$42,719 million
Minimum bid amount and multiples....$1,000

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

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

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

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

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
November 18, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	November 21, 2002
Maturity Date:	May 22, 2003
CUSIP Number:	912795MN8

High Rate: 1.245% Investment Rate 1/: 1.269% Price: 99.371

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 14.40%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 29,486,446	$ 13,881,396
Noncompetitive	1,018,773	1,018,773
FIMA (noncompetitive)	100,000	100,000
SUBTOTAL	30,605,219	15,000,169 2/
Federal Reserve	5,505,548	5,505,548
TOTAL	$ 36,110,767	$ 20,505,717

Median rate 1.235%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.190%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 30,605,219 / 15,000,169 = 2.04

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $849,612,000

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
November 18, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	November 21, 2002
Maturity Date:	February 20, 2003
CUSIP Number:	912795LZ2

High Rate: 1.205% Investment Rate 1/: 1.227% Price: 99.695

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 7.16%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 34,687,451	$ 13,343,731
Noncompetitive	1,406,454	1,406,454
FIMA (noncompetitive)	250,000	250,000
SUBTOTAL	36,343,905	15,000,185 2/
Federal Reserve	5,008,534	5,008,534
TOTAL	$ 41,352,439	$ 20,008,719

Median rate 1.195%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.170%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 36,343,905 / 15,000,185 = 2.42

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,159,946,000

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 19, 2002

Contact: Office of Financing
202-691-3550

TREASURY'S INFLATION-INDEXED SECURITIES DECEMBER 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 December 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 3631. The information is also available on the Internet at Public Debt's website (http://www.publicdebt.treas.gov).

The information for January is expected to be released on December 17, 2002.

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Attachment

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
December 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**
Dec. 1 2002	181.00000	1.14242	1.12036	1.11908	1.10366
Dec. 2 2002	181.00968	1.14248	1.12042	1.11914	1.10372
Dec. 3 2002	181.01935	1.14254	1.12048	1.11920	1.10378
Dec. 4 2002	181.02903	1.14260	1.12054	1.11926	1.10384
Dec. 5 2002	181.03871	1.14267	1.12060	1.11932	1.10389
Dec. 6 2002	181.04839	1.14273	1.12066	1.11938	1.10395
Dec. 7 2002	181.05806	1.14279	1.12072	1.11944	1.10401
Dec. 8 2002	181.06774	1.14285	1.12078	1.11950	1.10407
Dec. 9 2002	181.07742	1.14291	1.12084	1.11956	1.10413
Dec. 10 2002	181.08710	1.14297	1.12090	1.11962	1.10419
Dec. 11 2002	181.09677	1.14303	1.12096	1.11968	1.10425
Dec. 12 2002	181.10645	1.14309	1.12102	1.11974	1.10431
Dec. 13 2002	181.11613	1.14315	1.12108	1.11980	1.10437
Dec. 14 2002	181.12581	1.14321	1.12114	1.11986	1.10443
Dec. 15 2002	181.13548	1.14328	1.12120	1.11992	1.10448
Dec. 16 2002	181.14516	1.14334	1.12126	1.11998	1.10454
Dec. 17 2002	181.15484	1.14340	1.12132	1.12004	1.10460
Dec. 18 2002	181.16452	1.14346	1.12138	1.12010	1.10466
Dec. 19 2002	181.17419	1.14352	1.12144	1.12016	1.10472
Dec. 20 2002	181.18387	1.14358	1.12150	1.12022	1.10478
Dec. 21 2002	181.19355	1.14364	1.12156	1.12028	1.10484
Dec. 22 2002	181.20323	1.14370	1.12162	1.12034	1.10490
Dec. 23 2002	181.21290	1.14376	1.12168	1.12040	1.10496
Dec. 24 2002	181.22258	1.14383	1.12174	1.12046	1.10502
Dec. 25 2002	181.23226	1.14389	1.12180	1.12052	1.10507
Dec. 26 2002	181.24194	1.14395	1.12186	1.12058	1.10513
Dec. 27 2002	181.25161	1.14401	1.12192	1.12064	1.10519
Dec. 28 2002	181.26129	1.14407	1.12198	1.12070	1.10525
Dec. 29 2002	181.27097	1.14413	1.12204	1.12076	1.10531
Dec. 30 2002	181.28065	1.14419	1.12210	1.12082	1.10537
Dec. 31 2002	181.29032	1.14425	1.12216	1.12087	1.10543

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TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
December 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**
Dec. 1 2002	181.00000	1.10102	1.07581	1.03996	1.01972
Dec. 2 2002	181.00968	1.10108	1.07587	1.04002	1.01977
Dec. 3 2002	181.01935	1.10114	1.07593	1.04007	1.01983
Dec. 4 2002	181.02903	1.10119	1.07598	1.04013	1.01988
Dec. 5 2002	181.03871	1.10125	1.07604	1.04018	1.01994
Dec. 6 2002	181.04839	1.10131	1.07610	1.04024	1.01999
Dec. 7 2002	181.05806	1.10137	1.07616	1.04029	1.02005
Dec. 8 2002	181.06774	1.10143	1.07621	1.04035	1.02010
Dec. 9 2002	181.07742	1.10149	1.07627	1.04040	1.02015
Dec. 10 2002	181.08710	1.10155	1.07633	1.04046	1.02021
Dec. 11 2002	181.09677	1.10161	1.07639	1.04052	1.02026
Dec. 12 2002	181.10645	1.10167	1.07644	1.04057	1.02032
Dec. 13 2002	181.11613	1.10172	1.07650	1.04063	1.02037
Dec. 14 2002	181.12581	1.10178	1.07656	1.04068	1.02043
Dec. 15 2002	181.13548	1.10184	1.07662	1.04074	1.02048
Dec. 16 2002	181.14516	1.10190	1.07667	1.04079	1.02054
Dec. 17 2002	181.15484	1.10196	1.07673	1.04085	1.02059
Dec. 18 2002	181.16452	1.10202	1.07679	1.04091	1.02065
Dec. 19 2002	181.17419	1.10208	1.07685	1.04096	1.02070
Dec. 20 2002	181.18387	1.10214	1.07690	1.04102	1.02075
Dec. 21 2002	181.19355	1.10220	1.07696	1.04107	1.02081
Dec. 22 2002	181.20323	1.10225	1.07702	1.04113	1.02086
Dec. 23 2002	181.21290	1.10231	1.07708	1.04118	1.02092
Dec. 24 2002	181.22258	1.10237	1.07713	1.04124	1.02097
Dec. 25 2002	181.23226	1.10243	1.07719	1.04129	1.02103
Dec. 26 2002	181.24194	1.10249	1.07725	1.04135	1.02108
Dec. 27 2002	181.25161	1.10255	1.07731	1.04141	1.02114
Dec. 28 2002	181.26129	1.10261	1.07736	1.04146	1.02119
Dec. 29 2002	181.27097	1.10267	1.07742	1.04152	1.02124
Dec. 30 2002	181.28065	1.10273	1.07748	1.04157	1.02130
Dec. 31 2002	181.29032	1.10278	1.07754	1.04163	1.02135

CPI-U (NSA) for : August 2002 180.7 September 2002 181.0 October 2002 181.3

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
December 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 October 15, 2002 July 15, 2012 179.80000		

Date	Ref CPI	Index Ratio	Index Ratio		
Dec. 1 2002	181.00000	1.01935	1.00667		
Dec. 2 2002	181.00968	1.01940	1.00673		
Dec. 3 2002	181.01935	1.01946	1.00678		
Dec. 4 2002	181.02903	1.01951	1.00684		
Dec. 5 2002	181.03871	1.01957	1.00689		
Dec. 6 2002	181.04839	1.01962	1.00694		
Dec. 7 2002	181.05806	1.01967	1.00700		
Dec. 8 2002	181.06774	1.01973	1.00705		
Dec. 9 2002	181.07742	1.01978	1.00710		
Dec. 10 2002	181.08710	1.01984	1.00716		
Dec. 11 2002	181.09677	1.01989	1.00721		
Dec. 12 2002	181.10645	1.01995	1.00727		
Dec. 13 2002	181.11613	1.02000	1.00732		
Dec. 14 2002	181.12581	1.02006	1.00737		
Dec. 15 2002	181.13548	1.02011	1.00743		
Dec. 16 2002	181.14516	1.02017	1.00748		
Dec. 17 2002	181.15484	1.02022	1.00754		
Dec. 18 2002	181.16452	1.02027	1.00759		
Dec. 19 2002	181.17419	1.02033	1.00764		
Dec. 20 2002	181.18387	1.02038	1.00770		
Dec. 21 2002	181.19355	1.02044	1.00775		
Dec. 22 2002	181.20323	1.02049	1.00780		
Dec. 23 2002	181.21290	1.02055	1.00786		
Dec. 24 2002	181.22258	1.02060	1.00791		
Dec. 25 2002	181.23226	1.02066	1.00797		
Dec. 26 2002	181.24194	1.02071	1.00802		
Dec. 27 2002	181.25161	1.02076	1.00807		
Dec. 28 2002	181.26129	1.02082	1.00813		
Dec. 29 2002	181.27097	1.02087	1.00818		
Dec. 30 2002	181.28065	1.02093	1.00823		
Dec. 31 2002	181.29032	1.02098	1.00829		

CPI-U (NSA) for : August 2002 180.7 September 2002 181.0 October 2002 181.3

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 19, 2002
PO-3632

Treasury Designates Benevolence International Foundation and Related Entities as Financiers of Terrorism

Today the US Treasury designated three entities as financiers of terrorism under Executive Order 13224 and will ask the United Nations to add these names to the list of those whose assets must be blocked by all member nations under UNSCR 1390. The financial accounts of the principal entity, Benevolence International Foundation, were blocked pending investigation in December 2001. The three closely linked but separately incorporated entities designated today are Benevolence International Foundation, Benevolence International Fund (Canada), Bosanska Idealna Futura (Bosnia), and their branch offices.

"UN designation of these financiers of terror will cut off their access to the global financial system and strip them of their ability to fund evil," said Treasury Secretary Paul O'Neill.

Benevolence International Foundation ("BIF") is a U.S. tax-exempt not-for-profit organization whose stated purpose is to conduct humanitarian relief projects throughout the world. BIF was incorporated in the State of Illinois on March 30, 1992. Although BIF is incorporated in the United States, it operates around the world, in Bosnia, Chechnya, Pakistan, China, Ingushetia, Russia, and other nations. BIF operates as Benevolence International Fund in Canada and as Bosanska Idealna Futura in Bosnia.

Enaam Arnaout, BIF's Chief Executive Officer and a member of the Board of Directors, recently was indicted in the United States for operating BIF as a racketeering enterprise and providing material support to organizations, including al Qaida, that are engaged in violent activities.

Substantial evidence documents the close relationship between Arnaout and Usama bin Laden, dating from the mid-1980s. An article in the Arab News from 1988, reporting on bin Laden's activities at the "al Masada" mujahideen camp in Afghanistan, included a photograph of Arnaout and bin Laden walking together. In a March 2002 search of BIF's offices, Bosnian law enforcement authorities discovered a host of evidence linking Arnaout to bin Laden and al Qaida. Among the files were scanned letters between Arnaout and bin Laden, under their aliases.

In one handwritten letter, bin Laden indicates that Arnaout is authorized to sign on bin Laden's behalf.

Various documents also established that Arnaout worked with others -- including members of al Qaida -- to purchase rockets, mortars, rifles, and offensive and defensive bombs, and to distribute them to various mujahideen camps, including camps operated by al Qaida.

Arnaout claimed to the Chicago Tribune last winter that he did not know bin Laden personally, that he had never been to the "al Masada" camp (at which he had been photographed walking with bin Laden), and that he was working in a restaurant in the Persian Gulf area during the relevant time frame. BIF's counsel later acknowledged in court that "it would appear that the nature of [Arnaout's] contacts [with bin Laden] may have been of a deeper nature than what he described to the Tribune."

BIF also has provided additional support for and has been linked in other ways to al Qaida and its operatives. First, BIF lent direct logistical support in 1998 to Mamdouh Mahmud Salim, a bin Laden lieutenant present at the founding of al Qaida. Salim was indicted for conspiring to kill U.S. nationals. Testimony at the 2001 trial of United States v. Bin Laden, et al, implicated Salim in efforts to develop chemical weapons on behalf of al Qaeda in the 1990s. As early as 1992, Salim and bin Laden made efforts to develop conventional weapons and to obtain nuclear weapons components. BIF is also linked to Mohamed Loay Bayazid, who was implicated in the U.S. embassy bombings trial for his efforts, approved by Salim, to obtain weapons components on behalf of bin Laden in 1993-1994. Bayazid's driver's license application, dated September 12, 1994, identifies his address as the address of BIF's Illinois office. In the late 1990s, Saif al Islam el Masry, a member of al Qaida's majlis al shura (consultation council), served as an officer in BIF's Chechnya office.

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
November 19, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	November 21, 2002
Maturity Date:	December 19, 2002
CUSIP Number:	912795LQ2

High Rate: 1.195% Investment Rate 1/: 1.213% Price: 99.907

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 37.72%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 50,957,200	$ 19,958,360
Noncompetitive	41,865	41,865
FIMA (noncompetitive)	0	0
SUBTOTAL	50,999,065	20,000,225
Federal Reserve	1,868,197	1,868,197
TOTAL	$ 52,867,262	$ 21,868,422

Median rate 1.185%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.170%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 50,999,065 / 20,000,225 = 2.55

1/ Equivalent coupon-issue yield.

PO-3633

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 20, 2002
PO-3634

United States Treasury Secretary Paul H. O'Neill
Prepared Remarks at Lahore University Management School
Lahore, Pakistan November 20, 2002

Good Afternoon. Assalam-u-alaikum. Thank you for a warm welcome to Lahore University, and thank you for your kind hospitality in this holy month of Ramadan. I consider it an honor to visit the nation of Pakistan, to recognize the friendship between the Pakistani and American people, and to speak with you about the shared aspirations of our people: peace, security, and prosperity.

My visit to Pakistan is proving a wonderful opportunity to learn more about Pakistani culture, and it has also been a great opportunity to see and understand the challenges our peoples must face together, if we are to speed economic development in this nation, this region, and throughout our world.

It is also a special pleasure to meet with students today. I believe that economic growth and prosperity are founded on the exchange and realization of ideas – and it is in institutions of education, such as this one, that so many ideas are created and shared. Even more fundamentally, exposure to new ideas, discussion of them and reflection on them, is the basis for the life of the mind that educated men and women hold dear.

I am not a scholar of Islam, but I know that the Koran makes more references to "ilm" – knowledge – than all but two other words. There can be no doubt that learning is at the center of all civilization.

As Mohammed Ali Jinnah said in 1941 to a Muslim Students Federation: "There are at least three main pillars which go to make a nation worthy of possessing a territory and running a government. One is education. Next, no nation and no people can ever do anything very much without making themselves economically powerful in commerce, trade and industry. And lastly, you must prepare yourselves for your defense."

You who are pursuing knowledge, and are specifically pursuing knowledge of business management, are preparing to contribute to your nation's strength in both education and industry, combining two of these pillars. I applaud you for it. In your support for our peoples' shared struggle against terrorism and terrorist financing, you are contributing to the third pillar as well.

Today I would like to share with you a few of my observations in the worlds of business and economic development, and consider how these may apply to your careers, and the challenges facing your country.

Let me start with the most general observations. As I have traveled the world over the last quarter century, both as a leader of major industrial companies and as a leader in the United States government, I have been struck by two things. First, there can be no question that human beings everywhere, with education, training, and a stable social environment, can perform value-adding work at levels that match the best in the world.

That means they can earn compensation that brings personal independence and allows them to pursue the good life for themselves and their families. Human beings everywhere have in them the ability to achieve the same high standard of living.

My second observation is this: in spite of a common potential for achievement, the disparity of living standards among the world's people is so vast it defies the imagination of those who have not seen it for themselves.

I ask why. Why is it, if all people have the capacity to create a good life, that so many billions live today with little hope for what we know is possible? I believe this is the question for us and our time, and it is a question whose answer shall be found not only in the high councils of governments, but in the institutions of learning such as this one, and in the companies you will launch and lead.

If you have studied the economic history of the last 300 years it is easy to see that there is no absolute limit on world economic product. Every business student should understand that economic prosperity is not a sleight of hand – one man or woman taking from another. Economic prosperity is an act of creation. The world's economic bounty is limited only by our imagination – our ability to conceive new ideas for value creation, and our ability to lead people to work in harmony, to make those ideas into a productive reality.

Education is clearly one of the keys to business success, and more broadly, for economic development. It is important not only at the graduate level, at Lahore University and elsewhere, but at every level and every age, beginning in early childhood, for men and women alike. Pakistan must devote resources to schools and curriculum throughout the nation, in the cities, and in the countryside, especially to improve literacy among girls and women. Today, over 70% of Pakistani females over age 15 are illiterate – one of the highest percentage of female illiteracy in South Asia. 41% of Pakistani girls ages 11 to 15 are enrolled in school, a low point among South Asian nations.

I believe that every child should be literate and capable in basic mathematics by age 10. Early education creates the foundation for achievement later in life, and allows individuals to contribute more to the economy and the society.

Of course, education is not the only requirement for a nation to achieve its economic potential. To unleash the potential of an educated people and the private sector, the leadership of the nation must make a strong commitment to ruling justly, encouraging economic freedom, and investing in people. A just and stable social environment that combines these elements is not an option, it is a necessity.

Ruling justly means enforcing laws and contracts fairly, respecting human rights and property rights, and fighting corruption. Encouraging economic freedom means removing barriers to trade with neighbors, opening economies to investment and competition, pursuing sound fiscal and monetary policies, and divesting government from business operations. Investing in people means providing clean water and the best possible systems health care, and as I have emphasized, education.

Over the past fifty years the world has seen that these principles work, as long as a nation's leaders are committed to pursuing them, and as long as those leaders are held accountable for measurable progress. In centuries past, enlightened rulers implemented these principles. For example, I visited Lahore Fort today, built by Akbar the Great in the 16th Century, the Mughal Emperor known for ruling this land justly, enforcing its laws fairly, respecting all religions and defending human rights. I also visited the Divan –e-Aam, the Hall of Public Audience, built by Shah Jahan, to encourage the public's participation in how their empire was run. These examples of tolerance and justice are relevant even today.

As future business leaders of Pakistan, and students of management, I am certain that you can appreciate the importance of each of these principles. For example, any business requires capital to grow. Yet capital is a coward. Investors are reluctant to put their capital into a company if it exists in a place where capital, contracts, and property rights are not respected. Understandably, they will not chance losing their investments to corrupt officials, or to public or private theft. I am not only speaking about international investors. I am speaking about any individual, even in the smallest village, who has savings that he or she would like to invest and put to work. Families that cannot trust their local banks, or local officials, will protect their savings at home when that money could be invested, fueling the economy.

As a result, without just rule, the leaders and entrepreneurs who would deploy new ideas, create jobs, and raise standards of living cannot obtain the capital they need, or they must pay an exorbitant cost for that capital. Economic growth falls short.

Just rule is also important for alternative forms of capital, such as microfinance – small loans to entrepreneurs, especially those who are female, poor, or rural. I had the privilege of attending a world summit on microfinance in New York last week, which First Lady Begum Sehba Musharraf attended on behalf of Pakistan, and I believe Pakistan is making progress on improving access to capital for the smallest businesses. This morning I visited a women's sewing workshop in Natt Village funded by microcredit, and their accomplishments were inspiring. With 5000 inhabitants, Natt has no functioning school and women have little access to education or income generation. Now, thanks to the leadership of Shaheen Atiq Ur Rehman, the community offers vocational skills training and literacy programs. Rehman bears witness to something I believe very strongly – that it takes homegrown entrepreneurs and small businesses to create the knowledge in a community that is the foundation for economic success.

Economic freedom is the second key element of an environment that enables individuals, families and whole societies to prosper. Individuals must have the freedom to pursue new ideas for production, investment and trade without having to ask permission from a seemingly endless series of officials in a bureaucratic gauntlet. Laws should allow competition and creativity, so that consumers free to choose among products force businesses to innovate and improve the quality of what they produce, and in so doing improve productivity and create jobs.

Economic freedom also demands lower barriers to regional trade. Trading costs are naturally lowest with one's closest neighbors. The two largest trading partners of the United States, for example, are Canada and Mexico. I hope for a day when Pakistan and its closest neighbors – Afghanistan and India – will enjoy more fully the benefits of open regional trade. Neighbors have much to offer and to gain from each other.

The third element of a social environment that invites prosperity is investment in people. Education is an essential aspect of human investment, as I have discussed. Health care and clean water supplies are also crucial. Public leaders must dedicate themselves to investing public monies in the public good and ensuring that those investments are done right, so they actually make a difference in the lives of citizens. All of society reaps the returns of such investments.

At the beginning of my remarks, I quoted Mohammed Ali Jinnah, and his three pillars of a worthy nation. I have spoken of the pillar of education. I have also spoken of the pillar of strength in commerce, trade, and industry, and of the close links between these two pillars. Before I close my remarks, I would also like to mention our nations' shared interest in the third pillar, of defense.

The freedoms we all enjoy, the rich cultures we each treasure, and the prosperity we all seek are all threatened by terrorism. Terror is the enemy of civilization – of every civilization, regardless of culture or religion. We in the United States are a friend to all religions and cultures of the world. We believe that all the civilized people of the world, whatever their religion or culture, are bound together by their shared desire to eliminate the threat of terror. The ties of trade, of history and of friendship make America and Pakistan partners against the terror that threatens all of our freedom.

We fight together against an enemy that corrupts the language and values of a great religion, to serve a cause of mindless and heartless hatred. As we are served by education and the free exchange of ideas, they are served by ignorance and fear of those who are different. The people of the United States appreciate Pakistan's commitment to the war against terror, and the war against those who would knowingly finance terrorist activities. Just as education – just as "ilm" – is the key to prosperity, it is also the ultimate weapon to ensure that one day soon, terror is no more. In that spirit, I believe we can bring peace and security to this region and our world, and with it, prosperity for all.

My travels here and around the world have given me great hope for the future of economic development in Pakistan. Given the great potential of the Pakistani nation, I am confident that with a strong commitment to education and a leadership that is devoted to ruling justly, encouraging economic freedom, and investing in people, Pakistan will achieve a new level of prosperity – not in the next generation, but in this one.

Thank you, and a blessed Ramadan to all.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 20, 2002
PO-3635

Testimony of Jimmy Gurulé
Under Secretary for Enforcement
U.S. Department of the Treasury
Before the
U.S. Senate Judiciary Committee
November 20, 2002

Chairman Leahy, Ranking Member Hatch and distinguished members of the Committee, permit me to begin by thanking you for inviting me to testify today with my colleague from the Treasury Department, General Counsel David Aufhauser, about the measures the Treasury Department, and the U.S. government more generally, have taken and are taking to identify, attack and disrupt terrorist financing and the lessons we have learned to date about patterns of financing and fundraising.

On September 24, 2001, President Bush stated, "We will direct every resource at our command to win the war against terrorists, every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence. We will starve the terrorists of funding." The President directed the federal government to wage the nation's war against the financing of global terrorism, and we have continued to devote our resources and extensive expertise to fulfill this mandate. In our actions and in our words, the Treasury Department has shown quite clearly that in this war, financial intermediaries and facilitators who infuse terrorist organizations with money, materiel, and support must be held accountable along with those who perpetrate terrorist acts.

Before I turn to specific developments in our fight against terrorist financing, I would like to re-state the Treasury Department's gratitude to this Committee and the Congress for the additional resources, authorities, and support given to the Executive Branch this past year to assist Treasury in identifying, disrupting, and dismantling terrorist financial networks.

Immediately after the horrific attacks of September 11th, Congress worked closely with the Department of the Treasury, along with the Department of Justice and other agencies and departments, to make significant improvements in the law that enhance our ability to tackle the issue of terrorist financing in a more unified, cohesive and aggressive manner.
Of particular importance to our counter-terrorist efforts, the USA PATRIOT Act, enacted into law on October 26, 2001, expands the law enforcement and intelligence community's ability to access and share critical financial information regarding terrorist investigations.

I would also like to emphasize the importance of vigorous interagency consultation and cooperation in attacking terrorist financing, and thank the other agencies and departments in our federal government for their work with us over the past year. We have seen that terrorist financing is a complicated and multi-dimensional problem that both domestically and internationally implicates a range of legal, regulatory, financial, intelligence and law enforcement interests. Consequently, no successful attack on the financial underpinnings of terrorism may be advanced without coordinated interagency strategies on the use of legal, regulatory, private sector, law enforcement and intelligence-gathering tools required to combat this problem.

I would now like to briefly review our efforts in countering terrorist financing since the events of September 11th. This review will provide a helpful context for some recent developments that I would then like to describe in greater detail for you.

I. A Brief Review of Our Efforts to Combat Terrorist Financing

Identifying, attacking and disrupting the financial underpinnings of terrorism are matters of national security. This war on terrorist financing is an immense undertaking. The openness of our modern financial system, which allows savers and investors to fuel economic growth and promotes the international trade and communications so vital in today's world, also creates opportunities for terrorists. Our challenge in this front of the war against terrorism is to protect the efficiency and flexibility of the world's financial systems while preserving the integrity of such systems by ensuring that they are not abused by terrorists and their financiers. We have enjoyed success, but much more remains to be done.

In the months immediately following the heinous crimes of September 11th, the Department of the Treasury took six principal steps to identify and pursue financial underwriters of terrorism:

1. Working with other USG agencies, we implemented Executive Order 13224, giving us greater power to freeze terrorist-related assets;

2. We established Operation Green Quest, an inter-agency task force which has augmented existing counter-terrorist efforts by targeting financial networks and mechanisms, and by bringing the full scope of the Treasury Department's financial expertise to bear against systems, individuals, and organizations that serve as sources of terrorist funding;

3. The United States won the adoption of UN Security Council Resolutions 1373 and 1390, which require member nations to join us in the effort to disrupt terrorist financing;

4. We engaged other multilateral institutions such as the Financial Action Task Force (FATF) and the international financial institutions to focus on terrorist financing;

5. We began implementation of the USA PATRIOT Act provisions to broaden and deepen our access to critical financial information in the war against terrorist financing and to expand the anti-money laundering regulatory net for our financial system; and

6. We began sharing information across the federal government, with the private sector, and among our allies to crack down on terrorist financiers.

As we executed these initial steps, we began to formulate a strategy for combating terrorist financing on a global scale. For the first time, the 2002 National Money Laundering Strategy (NMLS) contains such a strategy, with a discrete set of objectives and priorities targeting terrorist financing. Goal 2 of the NMLS identifies financial mechanisms or systems by which terrorist funding is effectuated, and seeks to attack these mechanisms on an interagency and coordinated basis. Released this past summer by the Secretary of the Treasury and the Attorney General, the NMLS states that terrorist groups tap into a wide range of sources for their financial support, including otherwise legitimate enterprises such as construction companies, honey shops, tanneries, banks, agricultural commodities growers and brokers, trade businesses, bakeries, restaurants, bookstores. The Strategy also states that, although terrorists receive material assistance and/or financial support from rogue nations and other governments that are sympathetic to the terrorists' cause, they also secure funding from charity or relief organizations, money remitters, informal value transfer systems, as well as trade-based schemes. The NMLS addresses each of these mechanisms, and establishes priorities and objectives to identify and attack their corruption by criminals.

Our strategy, in its broadest outlines, focuses in particular on the following seven areas: (1) targeted intelligence gathering; (2) freezing of suspect assets; (3) law enforcement actions; (4) diplomatic efforts and outreach; (5) smarter regulatory scrutiny; (6) outreach to the financial sector; and (7) capacity building for other governments and the financial sector through Treasury and other departmental technical assistance programs. This is an integrated inter-agency strategy because these efforts draw on the expertise and resources of the Treasury Department, the Department of Justice, the Department of State and other departments and agencies of the federal government, as well as our foreign partners and the private sector. Allow me to highlight briefly the efforts the Treasury Department has taken to tackle terrorist financing in these seven areas of focus identified in our terrorist financing strategy.

First, with respect to identifying appropriate financial targets, we are applying technology, intelligence, investigatory resources and regulations to locate and freeze the assets of terrorists, wherever they may be located. New powers granted to Treasury by the President and Congress have enabled us to scour the global financial system for suspicious activities with greater precision than ever before.

Second, we are freezing terrorist-related assets on a global scale. We have frozen over U.S. $35 million in terrorist-related assets since September 11th and the international community has frozen an additional U.S. $78 million. More important than the dollars frozen is the dismantling of these financial pipelines, which served to transit far greater sums of money for terrorist purposes.

Third, we have coordinated effective law enforcement actions both domestically and internationally against terrorist cells and networks. On October 25, 2001, Treasury created Operation Green Quest ("OGQ"), a new multi-agency financial enforcement initiative intended to augment existing counter-terrorist efforts by bringing the full scope of the Treasury Department's financial expertise to bear against systems, individuals, and organizations that serve as sources of terrorist funding. Internationally, Treasury has deployed Customs attaches and representatives from Treasury's Office of Foreign Assets Control (OFAC) in strategic embassies around the world to facilitate cooperation with host countries and regions in combating terrorist financing. Between September 12, 2001 and October 28, 2002, international law enforcement cooperation has led to approximately 2290 arrests of suspected terrorists and their financiers in 99 countries.

Fourth, together with other agencies, we are using our diplomatic resources and regional and multilateral engagements to ensure international cooperation, collaboration and capability in dismantling terrorist financing networks. As stated above, the United States has worked through the United Nations to globalize the war on terrorist financing, and we have complemented these efforts with a range of bilateral and multilateral initiatives. One of the bilateral initiatives is the U.S. Government's designation of Foreign Terrorist Organizations (FTO's). Under authorities provided by the Antiterrorism and Effective Death Penalty Act of 1996, the Secretary of State, in consultation with the Attorney General and the Secretary of Treasury, has designated 35 groups as foreign terrorist organizations. The designations make it a criminal offense for American persons to knowingly provide funds or other forms of material support for designated groups. Some other countries have used the designations as a guideline for their own efforts to curb terrorism financing.

Fifth, we are engendering smarter regulatory scrutiny by training the financial sectors to concentrate enhanced due diligence and suspicious activity monitoring on terrorist financing and money laundering typologies. Through the USA PATRIOT Act authorities, we are expanding and enhancing regulatory scrutiny to all businesses within the financial sector that may be susceptible to terrorist or criminal abuse.

Sixth, we have undertaken our regulatory expansion under the authorities of the USA PATRIOT Act in full consultation with the private financial sectors that we are regulating. This outreach has assisted and informed our regulatory strategy with respect to each financial sector so that costs of new regulation are borne only where warranted by the offsetting enforcement benefit.

For example, after prolonged discussion with the insurance industry, we decided to regulate life and annuity insurance products because of their investment-like characteristics, but we decided against regulating other forms of insurance, such as health care or property insurance, because of the low risk that such policies have for terrorist financing or other financial criminal abuse. Most importantly, on October 1, 2002, FinCEN's secure link with financial institutions, the USA PATRIOT Act Communications System (PACS), became operational. Bank Secrecy Act reports are now being filed via PACS.

Finally, we have engaged in several capacity-building initiatives with other governments and the private sector with respect to terrorist financing. For example, internationally, Treasury is co-chairing a FATF Working Group on Terrorist Financing, which, among other issues, is charged with identifying technical assistance needs of various governments around the world. This Working Group is collaborating with donor states, the International Monetary Fund, the World Bank, and the UN Counter-Terrorism Committee in coordinating the delivery of technical assistance to those governments. Bilaterally, Treasury's Office of Technical Assistance and Office of International Enforcement Affairs have actively participated in conducting several inter-agency assessments of technical assistance needs with respect to combating terrorist financing in various countries of strategic interest to the United States.

In pursuing these areas of focus, we have adopted a systemic approach against terrorist financing. As the initial results of the September 11th investigation have made clear, the financial trail left by terrorists and their facilitators represents a vulnerability that must be pursued and exploited. Our strategy takes full advantage of the new authorities granted to us under the USA PATRIOT Act and the international support that we have cultivated against terrorism to find these financial trails and uncover terrorist financing networks and operational cells. We have utilized these authorities and resources to attack the terrorist financial infrastructure; that is, their formal, informal and underground methods for transferring funds across borders and between cells, whether through banks, businesses, hawalas, subverted charities, or innumerable other means. Through designation, regulation and investigation, we have systemically been shutting down terrorist access to these financing channels and mechanisms, and we have used the money trails evident in terrorist financing cases to locate and apprehend terrorists.

Our objective is simple—to prevent acts of terrorism in the short and long term by identifying and disrupting terrorist operations and the financial networks that support those operations. To pursue this objective, we have been working in close partnership with the Department of Justice and its investigative components, the State Department, the Department of Defense, the intelligence community, and many other agencies of the federal government to address terrorist financing on multiple levels. We have concentrated much of our enforcement efforts and resources on identifying, tracing, and blocking terrorist-related assets. In this endeavor, we have gathered the financial expertise, information and authorities that are unique to the Treasury Department to attack terrorist financing on all fronts. We have also engaged the world, in bilateral and multilateral fora, to ensure international cooperation in our anti-terrorist campaign.
I would now like to describe these operational, regulatory and international aspects of our counter-terrorist financing efforts in greater detail.

II. Actions Taken Against Terrorist Financing

Shutting Down Terrorist Access to Formal Financial Channels

The most visible and immediately-effective tactic of our comprehensive terrorist financing strategy has been designating and blocking the accounts of terrorists and those associated with financing terrorist activity. Public designation of terrorists, terrorist supporters and facilitators, and blocking their abilities to receive and move funds through the world's financial system, has been and is a crucial component in the fight against terrorism. On September 24, 2001, President Bush issued Executive Order 13244, "Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism." Section 1 of the Order states: "All property and interests in property of the following persons. . .that are in the United States or that hereafter come within the United States, or that hereafter come within the possession or control of United States persons are blocked."

The Department of the Treasury's Office of Enforcement, in conjunction with Treasury's Office of International Affairs and the Office of Foreign Assets Control, has helped lead U.S. efforts to identify and block the assets of terrorist-related individuals and entities within the United States and worldwide. Currently, 250 individuals and entities are publicly-designated as terrorists or terrorist supporters by the United States, and since September 11th over $113 million in the assets of terrorists has been frozen around the world. Beyond simply freezing assets, these U.S. and international actions to publicly-designate terrorists and their supporters advance global interests in suppressing terrorist financing and combating terrorism by:
(i) shutting down the pipeline by which designated parties moved money and operated financially in the mainstream financial sectors;
(ii) informing third parties who may be unwittingly financing terrorist activity of their association with supporters of terrorism;
(iii) providing leverage over those parties not designated who might otherwise be willing to finance terrorist activity;
(iv) exposing terrorist financing "money trails" that may generate leads to previously unknown terrorist cells and financiers;
(v) forcing terrorists to use alternative and potentially more costly informal means of financing their activities; and
(vi) supporting our diplomatic effort to strengthen other countries' capacities to combat terrorist financing through the adoption and implementation of legislation that allows states to comply with their obligations under UN Security Council Resolutions 1390 and 1373.

Only the first interest identified above can be quantified by hard numbers; that is, the value of assets frozen pursuant to blocking actions. Of course, the value of the designation process is much greater than any amount of terrorist money frozen. The designation process is invaluable because it accomplishes all of the other interests identified above, and in doing so, shuts off terrorist access to the world's formal financial systems. In other words, more important than the dollars frozen pursuant to designations is the dismantling of terrorist financial pipelines, which previously served to transit far greater sums of money for terrorist purposes.

Currently, over 165 countries and jurisdictions have blocking orders in force; but, not every country has joined us in blocking every identified terrorist or terrorist supporter. We must continue to work to ensure that countries do more than just add names to a list; we must also work towards ensuring that they have the necessary laws, training and political will to join with us in shutting down terrorist access to international financial systems. The Treasury Department, together with the various other departments and agencies of our federal government, is constantly engaged in these efforts. On the legislative side, for example, Treasury Department officials took part in a series of seminars the Departments of State and Justice recently conducted for 35 other countries to help them strengthen their counterterrorism laws and regulations, especially in the area of countering terrorism financing.

As we succeed in our domestic and international efforts to deny the world's financial systems to terrorists and their financiers, terrorists will be forced to find alternative methods such as alternative remittance systems, bulk currency transfers, abuse of charitable giving, and trade-based transactions to raise and move money. In a recent speech to the Council on Foreign Relations echoing these concerns, Deputy Secretary Ken Dam stated, "public designations are, by their very nature, public and therefore terrorists can adapt their behavior by keeping their money out of the United States or other financial centers with regulations in place to stop them. Instead, they will utilize other methods to move their money...and avoid storing large sums of money in any one location." We are targeting these mechanisms as well. I'd now like to turn to these alternative financial mechanisms and briefly describe our efforts to combat terrorist financing conducted through these mechanisms.

Protecting Charities from Terrorist Abuse

Charities across the world perform an important function, enhancing the lives of millions of people. In 2000, for example, Americans donated U.S. $133 billion to charity with humanitarian intent. Unfortunately, however, terrorists have preyed upon such noble intentions by diverting charitable funds for terrorist purposes.

Our task then is twofold: (1) to identify and shut down those charities which have ties to terrorist organizations; and (2) to prevent legitimate charities from being abused by terrorist financiers without chilling legitimate charitable donations and 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 charitable organizations. We also are striving to effect greater coordination with the private sector to develop partnerships that include mechanisms for self-policing by the charitable and non-governmental organization sectors.

Under the authority of E.O. 13224, the United States has designated twelve charitable organizations as having ties to al Qaida or other terrorist groups. In addition, the United States has designated and blocked the assets of the largest U.S.-based Islamic charity, which acted as a funding vehicle for the HAMAS terrorist organization. To date, we have frozen $7.3 million in U.S. funds from these organizations, and an additional $5.7 million in funds from spurious charitable organizations has been frozen by other countries.

We are also increasing the transparency and oversight of charities through multilateral efforts. FATF Special Recommendation VIII on Terrorist Financing commits all member nations to ensure that non-profit organizations cannot be misused by financiers of terrorism. The United States is co-chairing the FATF Terrorist Financing Working Group that has recently produced an international best practices paper on how to protect charities from abuse or infiltration by terrorists and their supporters.

In addition, we are working bilaterally with many countries to ensure transparency in charitable operations. Saudi Arabia and Kuwait have announced the establishment of oversight authorities for Saudi and Kuwaiti charities in their respective countries. We are confident that our work bilaterally and through FATF on this issue will prompt other countries to adopt competent authorities to protect charities from terrorist abuse.

To assist U.S.-based charities concerned that their distribution of funds abroad might reach terrorist-related entities and thereby trigger a blocking action on the part of the Treasury Department, the Department has developed voluntary best practices guidelines for all U.S.-based charities. (The guidelines are available at http://www.treas.gov/press/releases/po3607.htm). The Treasury Department developed these guidelines in response to requests from the Arab American and American Muslim communities, who reported a reduction in charitable giving and an increased apprehension among donors as a consequence of the Treasury Department's blocking of the three domestic charities.
The guidelines focus on financial controls and the vetting of potential foreign recipients. They provide for rigorous self-imposed financial oversight and, importantly, high levels of disclosure and transparency that will enhance donor community confidence in the professionalism and bona fides of the domestic charity. Although wholly voluntary, the guidelines, if implemented, offer a means by which charities can protect themselves against terrorist abuse and are consistent with the principles espoused in both the private and international public sectors – e.g., the Better Business Bureau, the Evangelical Council for Financial Accountability and, most recently, FATF. By implementing the guidelines with sufficient resources, diligently adhering to them in practice, and immediately severing all ties to any foreign recipient associated with a terrorist organization, a domestic charity can enhance donor confidence and significantly reduce the risk of a blocking order. The guidelines have been positively received by the Arab American and American Muslim communities.

U.S. Treasury officials have also met with charitable sector watchdog and accreditation organizations, including the Better Business Bureau Wise Giving Alliance and the International Committee on Fundraising Organizations, to raise their awareness of the threat posed by terrorist financing. We will continue these efforts to promote effective self-regulation and oversight within the charitable industry.

Regulating Hawalas / Informal Value Transfer Systems

Terrorists have also used hawalas and other informal value transfer systems as a means of terrorist financing. The word "hawala" (meaning "trust") refers to a fast and cost-effective method for the worldwide remittance of money or value, particularly for persons who may be outside the reach of the traditional financial sector. In some nations hawalas are illegal; in others they are active but unregulated. It is therefore difficult to measure accurately the total volume of financial activity associated with the system; however, it is estimated that, at a minimum, tens of billions of dollars flow through hawalas and other informal value transfer systems on an annual basis.

Some of the features which make hawalas attractive to legitimate customers -- efficiency, reliable access to remote or under-developed regions, potential anonymity, and low cost -- also make the system attractive for the transfer of illicit or terrorist-destined funds. Traditionally, informal value transfer systems such as hawalas have largely escaped financial regulatory scrutiny. As noted in a recent money laundering report of the Asia Pacific Group, a FATF-style regional body, the terrorist events of September 11th have brought into focus the ease with which informal value transfer systems may be utilized to conceal and transfer illicit funds. Not surprisingly, concerns in this area have led many nations to reexamine their regulatory policies and practices in regard to hawalas and other informal value transfer systems.

The United States has already taken steps to regulate hawalas and informal value transfer systems. The USA PATRIOT Act requires money remitters (informal or otherwise) to register as "money services business" or "MSBs", thereby subjecting them to existing money laundering and terrorist financing regulations, including the requirement to file Suspicious Activity Reports (SARs). As a result, well over 11,000 money service businesses have registered with the federal government and are now required to report suspicious activities. The Act also makes it a crime for the money transfer business owner to move funds that he knows are the proceeds of a crime or are intended to be used in unlawful activity. Failure by money service business principals to register with FinCEN and/or failure to obtain a state license also are federal crimes. In order to increase awareness within the diverse MSB community nationwide about their obligations under the MSB rules, FinCEN is conducting an outreach campaign to include advertising, community outreach and the distribution of educational materials.

We have succeeded in disrupting the operations of several illegal money remitters implicated in terrorist financing. U.S. experts have worked with officials in other nations on proposed licensing and/or registration regimes for money remitters, including hawala operators, to ensure greater transparency and record-keeping in their transactions. We will work closely with the Department of Justice to ensure a balanced, but aggressive, use of criminal authorities to charge individuals who are operating illegal money remitting businesses.

We are also working to ensure the integrity and transparency of informal value transfer systems internationally. FATF Special Recommendation VI addresses this issue by demanding that countries register or license informal value transfer businesses and subject them to all of the FATF Recommendations that apply to banks and non-bank financial institutions. In addition, at a conference on hawala in the UAE in May 2002, a number of governments agreed to adopt FATF Special Recommendation VI and shortly thereafter the UAE government announced it would impose a licensing requirement on hawala operators operating within its borders. Participants at the UAE meeting drafted and agreed upon the Abu Dhabi Declaration on Hawala, which set forth a number of principles calling for the regulation of hawalas.

On the international training front, FinCEN recently hosted a conference on informal value transfer systems in Oaxaca, Mexico. This conference included presentations and discussions covering the money laundering risks posed by informal value transfer systems, such as hawala, and the law enforcement and regulatory challenges posed by such systems. The key findings from FinCEN's outreach efforts to the domestic law enforcement community were shared with international law enforcement officials at the seminar. Speakers included representatives from, Italy, the United Kingdom, Pakistan, Bahrain, the International Monetary Fund and the World Bank.

Combating Bulk Cash Smuggling

Bulk cash smuggling has proven to be yet another means of financing adopted by terrorists and their financiers. Customs has executed 650 bulk cash seizures totaling $21 million, including $12.9 million with a Middle East connection. Pursuing bulk cash smuggling from a domestic perspective, however, is not enough; disruption of this tactic requires a global approach. To identify and attack bulk cash movements, we must work with the international community to ensure mandated inbound/outbound currency reporting at reasonable levels (e.g., U.S. reporting threshold is $10,000). Further, intelligence-gathering and law enforcement/customs agencies must cooperate with immigration officials to share information about potential terrorist financing smugglers/couriers. We are continuing to explore the creation of bi-lateral and possibly multi-lateral Customs-to-Customs "Hotlines", where appropriate, to exchange "real time" bulk currency information, as well as the sharing of large value cross-border cash reports.

Investigating Trade-Based Terrorist Financing

With respect to trade-based financial systems, we will continue to investigate the use of licit and illicit international trade commodities, for example, diamonds, gold, honey, cigarettes, as well as narcotics, to fund terrorism. We likewise will continue our efforts to identify under and over-invoicing schemes that mask the movement of funds. Countering these trade-based terrorist financing systems demands consultation with domestic as well as international trade communities and will require further bilateral and multilateral efforts.

The U.S. Customs Service has developed a state-of-the-art database system to identify anomalous trade patterns for imports/exports to/from the United States. In the past, Customs has demonstrated this system to other nations, including Colombia, with excellent results. We will continue to aggressively pursue sharing and comparing trade-based data bi-laterally and on a regional level to identify and attack unexplained anomalies that might mask terrorist financing and/or money laundering.

To combat illicit international trade commodities such as narcotics, we must build from existing domestic and international law enforcement and investigative authorities and initiatives. As we have seen with both the Taliban and the FARC, narcotics trafficking presents these groups with the greatest potential for raising the funds they need to support their terrorist regimes. Additionally, the associations that these groups establish with narcotics traffickers give them access to the arms traffickers and other facilitators (i.e., smuggling, communication and transportation groups) that service the narcotics organizations.

Treasury (Office of Enforcement) and the United States Customs Service, in consultation with the Departments of Justice and State, have developed an international training program that introduces foreign customs and law enforcement officials to trade based money laundering and Customs developed software used to combat it. An inaugural trade based money laundering program was presented in Abu Dhabi and Sharjah / Dubai, United Arab Emirates (UAE) from October 10-17, 2002. The two-day program, in each location, included presentations on money laundering, trends in commodity and trade based money laundering, terrorist financing issues, organizing and presenting a money laundering case, and a demonstration of the Numerically Integrated Profiling System using UAE data. This inaugural event was a successful first step in providing assistance to priority countries in the Middle East, and additional programs are planned for Qatar, Kuwait, Pakistan and India in the near future.

Investigating Terrorist Cyber-Fundraising Activities

Finally, we recognize that terrorist groups may exploit the internet to recruit supporters and raise terrorist funds. Developing a strategy to counter such cyber-fundraising activities is a responsibility that the Treasury Department has assumed in its 2002 Anti-Money Laundering Strategy. We are currently working with other government agencies and departments to devise such a strategy.

As you can see, we have developed a sophisticated understanding of the various means of terrorist financing, and we have responded with a range of domestic and international initiatives to counter each of these means. Most of these initiatives that I have been referring to are designed to give us greater access to critical financial information in the war against terrorist financing. In order to take advantage of this information, we have created an operational, interagency investigative group whose purpose is to targeting terrorist financing.

Operation Green Quest

As I indicated earlier, on October 25, 2001, Treasury created Operation Green Quest (OGQ) to focus the Treasury Department's financial expertise in the war against terrorist financing. OGQ identifies and attacks terrorist financing through a systemic financial approach. OGQ specializes in identifying financial mechanisms, such as illegal money remitters, and searching those systems to identify potential terrorist financing. This systems-based approach, and the understanding that the financing of terrorism is not merely an ancillary component of a terrorist-specific investigation, differentiates OGQ from other governmental efforts and brings the unique financial capabilities of Treasury components to bear against terrorist financing.

OGQ is led by the United States Customs Service, and includes the Internal Revenue Service, the Secret Service, the Bureau of Alcohol Tobacco and Firearms (ATF), Treasury's Office of Foreign Assets Control (OFAC), FinCEN, the Postal Inspection Service, the Federal Bureau of Investigation (FBI), and the Department of Justice. The financial expertise of the Treasury Bureaus, along with the exceptional experience of our partner agencies and departments, is also utilized in this operational attack on terrorist financing.

Since its inception, OGQ has referred 1189 cases and/or leads to the field and has received some 631 suspected terrorist financing-related "Hotline" suspicious activity reports (SARs) from FinCEN, as well as 217 proactive analyses of these SARs. OGQ-sponsored and related investigations have resulted in 60 arrests, 28 indictments, 11 convictions, 138 search warrants issued and/or consent searches and just over $8 million in seizures. In addition, since September 2001, Customs has executed 650 bulk cash seizures totaling $21 million, including $12.9 million with a Middle East connection. This represents more than a two-fold increase of bulk cash seized with a Middle East connection when compared to the year preceding September 11, 2001, when seizures outbound to Middle and Far East countries totaled $5.216 million. Post-seizure, all leads, domestic and international, are aggressively pursued.

In seeking to identify potential financiers of terrorism, as well as in pursuing potential violators, OGQ relies upon traditional criminal law enforcement techniques, including Title III wiretaps, and undercover operations, as well as enhanced access to intelligence information permitted under the PATRIOT Act. At present, OGQ, in tandem with other federal law enforcement agencies, is pursuing more than 17 cases involving unlicensed money remitters, as well as cases involving potential violations of IEEPA blocking orders. OGQ also is aggressively pursuing terrorist financing derived from the commission of criminal offenses in the United States, and seeks to identify possible terrorist financial links of the offshore recipients.

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Operation Green Quest has numerous ongoing investigations that cannot be discussed in a public forum due to security and grand jury disclosure concerns. Below are a few that can be disclosed:

Al Barakaat Investigation - On November 2001, USCS agents conducted 10 nationwide search warrants/consent searches in conjunction with an OFAC blocking order that resulted in the seizure of documentary and computer evidence. To date USCS agents have obtained 3 arrest warrants based on violations of 18 USC 1960, Failure to Obtain a State Money Transmitting License. Subsequently one of the targets was tried and convicted resulting in the first successful prosecution under the newly-enacted PATRIOT Act for violations of 18 USC 1960. The other individuals are fugitives.

Herndon, Virginia investigations – Operation Green Quest initiated an investigation of several charities in the United States that are suspected of channeling funds to known terrorist organizations in the Middle East. To date Operation Green Quest has conducted 29 search warrants on businesses, residences and Internet service providers for suspected violations of Providing Material Support or Resources to Terrorist Organizations, Tax Fraud, Failure to Report Foreign Bank Account (FBAR), OFAC violations and Money Laundering.

Hawala Investigation - Operation Green Quest initiated an investigation pursuant to an outbound seizure of suspected Hawala-generated funds that were en route to Yemen. The investigation disclosed that the courier and the reputed owner/broker of the funds were actively involved in the trafficking and repatriation of Hawala-generated funds from the United States. The investigation led to the arrest and indictment of 24 members of this organization for violations of 18 USC 1960, Illegal Money Remitting; 31 USC 5324, Structuring; 31 USC 5316, CTR Violations and 18 USC 371, Conspiracy. To date, agents have executed six search warrants and seized approximately $1 million.

Narco-Terrorist Investigation - On October 22, 2002, Customs Agents arrested a Colombian national who attempted to transport $182,000 in Euro dollars into the United States. The investigation revealed the suspect is an active money launder that is affiliated with the F.A.R.C. Narco-Terrorist group. The $182,000 was seized and the suspect was subsequently indicted for violations of 18 USC 1960, Failure to Obtain a State Money Transmitting License. This investigation is ongoing.

OGQ, along with the FBI and other government agencies, also has traveled abroad to follow leads, exploit documents recovered and provide assistance to foreign governments. In this effort, OGQ is utilizing its 22 Customs attachés in 31 foreign offices overseas to gather information. These offices and attaches have proven invaluable to our operational efforts against terrorist financing.

Operational Training: Building Upon Existing Treasury Expertise

Treasury's primary assignment in the war on terrorism is to identify and attack financial mechanisms, licit and illicit, supporting terrorism. In pursuing this assignment, Treasury can build upon its efforts to identify and attack money laundering. In many cases, due to the similarity of financial systems used by targets, investigating terrorist fundraising is similar to conducting a money laundering case. There are, however, significant differences between money laundering and terrorist fundraising investigations. A key distinction is manifested in the end game sought by investigators. Money laundering investigations are initiated to achieve prosecution and forfeiture. Terrorist fundraising investigations, although sharing these objectives as well, are more nuanced.

The ultimate objective is to identify, disrupt and cut off the flow of funds to terrorists. Significant accomplishments can be had without any significant domestic prosecutions.

There are other differences as well. For example, as opposed to a typical money laundering case, methods used for raising funds to support terrorist activities may be legal. Moreover, in a terrorist financing investigation, the targeted financial transactions tend to be smaller, and much less observable, for example, than the typical narcotics money laundering transaction. Identification of the transaction as suspicious, therefore, may require a much greater melding of private, law enforcement and intelligence information obtained domestically, as well as internationally. To address these issues, it is essential to develop "in-house" expertise and awareness of financial methods utilized by financiers of terrorism, and strategies to attack, disrupt and dismantle them. To accomplish this, interagency training is essential.

Recently, on September 24 and 25, 2002, at the Department of the Treasury, Treasury's Office of Enforcement sponsored a "Combating Terrorist Fundraising Seminar." The purpose of the seminar was to serve as a "train the trainer" mechanism, and to familiarize participants with ongoing terrorist financing methodologies and anti-terrorist financing strategies. Attending the seminar were more than 80 federal investigators, prosecutors and regulators who already possessed a familiarity with terrorist financing issues and problems. Speakers included experts in the field from the various components of Treasury, Justice and State. The participants were drawn from Treasury and its Bureaus, Justice and its components, U.S. Attorney Offices, State, the National Security Council, and Office of the Comptroller of the Currency, the Federal Reserve Board of Governors and the FDIC. The seminar was well-received, and Treasury (Enforcement) is planning additional regional seminars in key locations in the United States. The first such program is currently scheduled for next month in Los Angeles.

III. International Efforts

I would now like to take a few moments to explain what we have been doing internationally to combat terrorist financing. Terrorist financing networks are global, and consequently, our efforts to identify and deny terrorists access to funds must also be global. Our efforts in this aspect of the war on terrorism cannot be wholly successful if pursued alone. Internationally, the United States has worked not only through the United Nations on blocking efforts, but also through multi-lateral organizations and on a bi-lateral basis to promote international standards and protocols for combating terrorist financing generally. I would like to briefly review some of the more significant initiatives that we have pursued in the international arena.

Bilateral Outreach and Engagement

Recognizing that the success of our efforts to combat terrorist financing will depend in large part on the support of our allies, the Treasury Department has continuously engaged the international community in developing and strengthening counter-terrorist financing initiatives and regimes.

This week, Treasury Secretary O'Neill, Deputy Assistant Secretary Zarate and other senior officials are in Afghanistan, Pakistan and India to facilitate the development of effective counter-terrorist financing policies in those countries, and, as appropriate, to offer Treasury technical assistance to strengthen these policies.

As another example of our continuous outreach, I recently completed a five-day trip to five European countries to discuss ways of improving our international efforts to combat terrorist financing. I visited major European financial centers and met with numerous senior government officials and leaders from banking and private industry in each of these countries. I thanked the governments and the private sector banking communities in each of these countries for their cooperation and important actions to date. In addition, I emphasized the global and long-term nature of the war against terrorist financing and the need to renew our momentum in combating terrorist financing, not just against al Qaida, but against all terrorist groups. I listened to explanations of the blocking implementation and terrorist financing targeting procedures in each of these countries and discussed ways of overcoming common problems that plague these efforts.

I also emphasized the importance of developing and strengthening the public-private partnership between governments and the financial sector in identifying and combating terrorist financing activity. I thanked the private sector banking and regulatory communities for their cooperation and progress in combating money laundering in recent years, and I expressed the need to build on this progress in countering terrorist financing. I explained how the U.S. has enhanced financial regulation to combat money laundering and terrorist financing through implementation of the USA PATRIOT Act, and I indicated the importance of consulting with the private sector throughout this process. I also explained the importance of Treasury's PATRIOT Act Task Force in ensuring continued consultation with the private sector as regulations are implemented and administered, and I encouraged my audiences to engage actively in dialogues that facilitate such public-private partnerships.

Throughout my trip, I discussed the critical importance of European leadership in the war against terrorist financing and explored ways in which Europe can assume a greater role in leading international efforts to combat terrorist financing. I urged each of the countries that I visited to take a more proactive and aggressive approach in designating terrorist-related parties, and I pledged U.S. support in these efforts. I also suggested ways in which the EU could assume a greater leadership role by streamlining the EU clearinghouse process in designating terrorist-related parties and by more aggressively pursuing high impact targets for designation.

Finally, I urged government officials to reconsider the common European and official EU distinction made between political or social wings and military or terrorist wings of organizations such as HAMAS. I raised a number of arguments against making such a distinction, and I urged making this distinction the exception rather than the rule in designating multi-faceted organizations such as HAMAS.

Our message was well received with respect to each of these objectives, and our delegation established and renewed important contacts for following up on a number of issues discussed above. It was abundantly clear that each country I visited greatly appreciated our attention to their efforts and input and the importance that the U.S. places upon European participation and leadership in the war against terrorist financing. We will continue these outreach efforts to ensure that the international community moves in a coordinated and aggressive manner against terrorist financing.

United Nations

Because of its global nature and its ability to require states to take action under Chapter VII of the UN Charter, the UN offered the quickest route for globalizing the war against terrorism in general and terrorist financing in particular. The United States has worked diligently with the UN Security Council to adopt international resolutions, which reflect the goals of our domestic executive orders by requiring UN member states to freeze terrorist-related assets. These UN Security Council resolutions form the legal basis for freezing terrorist assets on a global basis.

The UN 1267 Committee is responsible for UN designations of individuals and entities associated with al Qaida, Usama bin Laden, and the Taliban. States wishing to propose a name for UN designation typically include a statement of the basis for designation, along with identifying information for the use of financial institutions, customs and immigration officials, and others who must implement sanctions. If no state objects to the proposed designation within 48 hours after a name is circulated by the Committee Chairman, the designation becomes effective. The 1267 Committee then puts out an announcement on its web site and all UN member states are required to freeze any assets held by the designated party(ies), without delay.

We have worked with our allies in the UN to pursue bilateral and multilateral designations of terrorist-related parties where possible and appropriate. We have achieved some notable successes in this area to date:

U.S.-Saudi Joint Designations - On March 11, 2002, the United States participated in its first joint designation of a terrorist supporter. The United States and Saudi Arabia jointly designated the Somalia and Bosnia-Herzegovina offices of

Al Haramain, a Saudi-based NGO. These two organizations are linked to al Qaida and their names were forwarded to the Sanctions Committee for inclusion under the UNSCR 1333/1390 list. On September 9, 2002, the United States and Saudi Arabia jointly referred to the Sanctions Committee Wa'el Hamza Julaidan, an associate of Usama bin Laden and a supporter of al-Qaida terror.

G7 Joint Designation - On April 19, 2002, the United States, along with the other G7 members, jointly designated nine individuals and one organization. Most of these groups were European-based al Qaida organizers and financiers of terrorism.
Because of their al Qaida links, all ten of these names were forwarded to the UN Sanctions Committee for inclusion under the UNSCR 1333/1390 list.

U.S.-Italy Joint Designation - On August 29, 2002, the United States and Italy jointly designated 11 individuals and 14 entities. All of the individuals were linked to the Salafist Group for Call and Combat designated in the original U.S. Annex to E.O. 13224. The 14 entities are part of the Nada/Nasreddin financial network, two terrorist financiers designated on earlier E.O. 13224 lists.

U.S.-Central Asia Joint Designation – On September 6, 2002, the United States, Afghanistan, Kyrgyzstan, and China jointly referred to the Sanctions Committee the Eastern Turkistan Islamic Movement, an al-Qaida-linked organization which operates in these and other countries in Central Asia.

Designation of Jemaa Islamiyya – On October 23, 2002, the United States designated the Southeast Asian terrorist group, Jemaa Islamiyya, suspected by many in the media of perpetrating the deadly attacks on a nightclub in Bali on October 12th. In the subsequent request of the United Nations to also designate this group for its ties to the al Qaida organization, the U.S. joined Australia, Indonesia, Singapore, and 46 other countries, including all the members of ASEAN and the EU, in requesting Jemaa Islamiyya's designation. This represents the most widespread show of support of any terrorist designation to date.

Beyond designating terrorist-related parties for blocking action on a global basis, the UN has also asked for countries to identify needs for technical assistance in order to comply with UN resolutions and conventions against terrorist financing. The UN has required all member states to submit reports on the steps they have taken to implement the various actions against terrorist financing called for in UNSCR 1373. To date, 187 members have completed their reports. The UN is reviewing those reports with the intent of identifying gaps that member nations need to fill in order to comply with UNSCR 1373.

Financial Action Task Force (FATF)

Since 1989, the 31-member FATF has served as the preeminent anti-money laundering multilateral organization in the world. The United States has played a leading role in the development of this organization. Capitalizing on this financial crime expertise, on October 31, 2001, at the United States' initiative, the FATF issued Eight Special Recommendations on terrorist financing, requiring all member nations to:
(1) Ratify the UN International Convention for the Suppression of the Financing of Terrorism and implement relevant UN Resolutions against terrorist financing;
(2) Criminalize the financing of terrorism, terrorist acts and terrorist organizations;
(3) Freeze and confiscate terrorist assets;
(4) Require financial institutions to report suspicious transactions linked to terrorism;
(5) Provide the widest possible assistance to other countries' laws enforcement and regulatory authorities for terrorist financing investigations;
(6) Impose anti-money laundering requirements on alternative remittance systems;
(7) Require financial institutions to include accurate and meaningful originator information in money transfers; and
(8) Ensure that non-profit organizations cannot be misused to finance terrorism.

Many non-FATF counties have committed to complying with the Eight

Recommendations and over 90 non-FATF members have already submitted self-assessment questionnaires to FATF describing their compliance with these recommendations. Together with the Departments of State and Justice, Treasury will continue to work with the FATF to build on its successful record in persuading jurisdictions to adopt anti-money laundering and anti-terrorist financing regimes to strengthen global protection against terrorist finance.

As part of this effort, FATF has established a Working Group on Terrorist Financing (Working Group), which the United States is co-chairing with Spain, devoted specifically to developing and strengthening FATF's efforts in this field. At the most recent FATF Plenary in October 2002, the Working Group, in collaboration with the World Bank, the IMF, and the UN CTC, identified a number of countries to receive priority technical assistance in order for them to come into compliance with the Eight Special Recommendations on Terrorist Financing.

Egmont Group

Through FinCEN, we have directed the attention of the Egmont Group towards terrorist financing. The Egmont Group represents 69 Financial Intelligence Units (FIUs) from various countries around the world. FinCEN is the FIU for the United States. The FIU in each nation receives financial information (such as SARs) from financial institutions pursuant to each government's particular anti-money laundering laws, analyzes and processes these disclosures, and disseminates the information domestically to appropriate government authorities and internationally to other FIUs in support of national and international law enforcement operations.

Since September 11th, the Egmont Group has taken steps to leverage its information collection and sharing capabilities to support the United States in its global war on terrorism. On October 31, 2001, FinCEN hosted a special Egmont Group meeting that focused on the FIUs' role in the fight against terrorism. The FIUs agreed to: (i) work to eliminate impediments to information exchange; (ii) make terrorist financing a form of suspicious activity to be reported by all financial sectors to their respective FIUs; (iii) undertake joint studies of particular money laundering vulnerabilities, especially when they may have some bearing on counterterrorism, such as hawala; and create sanitized cases for training purposes.

Approximately ten additional candidate FIUs currently are being considered for admission to the Egmont Group.. Egmont has conducted and will continue to host training sessions to improve the analytical capabilities of FIU staff around the world. FinCEN is heavily engaged in these efforts and recently participated in the international training session held Oaxaca, Mexico, co-hosted with the UN.

Bilateral/Multilateral Law Enforcement Cooperation

An unintended consequence for al-Qaida of its heinous actions on September 11th has been unprecedented international law enforcement cooperation and information sharing on a scale inconceivable prior to the 9/11 attack. As these efforts continue to improve, terrorist cells and networks become more vulnerable. Let me briefly recount some of our successes with respect to international law enforcement cooperation:

U.S.-Swiss Operative Working Arrangement: On September 4, 2002, a working arrangement signed by the Attorney Generals of Switzerland and the United States and the Deputy Secretary of the Treasury was agreed to in Washington. Under this arrangement, Swiss and U.S. federal agents have been assigned to each country's terrorism and terrorist financing task forces in order to accelerate and amplify work together on cases of common concern. Bilateral cooperation and assistance is occurring on a more informal basis in many other countries.

Successful Results: International law enforcement cooperation has resulted in approximately 2290 arrests of suspected terrorists and their financiers in 99 countries from September 12, 2001 through October 28, 2002. Some of these arrests have led to the prevention of terrorist attacks in Singapore, Morocco and Germany, and have uncovered al Qaida cells and support networks in Italy, Germany, Spain, the Philippines and Malaysia, among other places. In addition, soon after September 11th, a Caribbean ally provided critical financial information through its FIU to FinCEN that allowed the revelation of a financial network that supported terrorist groups and stretched around the world.

IV. Conclusion

The range of initiatives that I briefly have shared with you today highlights the complexity of the tasks at hand. We have made substantial progress since September 11th, and since my last testimony before Congress on October 9, 2002. This progress is owing to the outstanding cooperation and hard work of all U.S. government agencies and departments and the international community to close the seams that terrorists had exploited before last fall. We are proud of our efforts, but realize that much work remains to be done. We recognize the dynamic nature of terrorist financing and the need to maintain a comprehensive and flexible long-term strategy to effectively combat this threat. We appreciate the tools that you have given us to counter the terrorist financing threat, and we look forward to continuing to work with this Committee and the Congress on this issue of vital national importance.

I will be happy to answer any questions you may have.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 20, 2002
PO-3636

Statement of Secretary Paul O'Neill on passage of the new Department of Homeland Security

"I applaud the Congress for completing action on President Bush's bold plan to concentrate our homeland security resources in a single Cabinet department. We will now move forward to redeploy the resources of the federal government to meet the challenge posed by terrorism. The men and women of the US Customs Service and the US Secret Service serve their country with great dedication. Bringing them together with other security agencies under one roof with a singular focus will enhance collaboration and efficiency in the federal government's efforts to protect the American people."

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 20, 2002
PO-3637

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 $76,482 million as of the end of that week, compared to $76,754 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*

	November 8, 2002			November 15, 2002		
TOTAL		**76,754**			**76,482**	
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	6,529	13,139	19,668	6,499	13,068	19,567
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,780	2,638	13,418	10,726	2,623	13,349
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
2. IMF Reserve Position [2]			20,659			20,599
3. Special Drawing Rights (SDRs) [2]			11,966			11,925
4. Gold Stock [3]			11,042			11,042
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	November 8, 2002			November 15, 2002		
	Euro	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
1. Foreign currency loans and securities			0			0

2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the U.S. dollar:

2.a. Short positions	0	0
2.b. Long positions	0	0
3. Other	0	0

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

	November 8, 2002			November 15, 2002		
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Contingent liabilities in foreign currency			0			0
1.a. Collateral guarantees on debt due within 1 year						
1.b. Other contingent liabilities						
2. Foreign currency securities with embedded options			0			0
3. Undrawn, unconditional credit lines			0			0
3.a. With other central banks						
3.b. With banks and other financial institutions						
Headquartered in the U.S.						
3.c. With banks and other financial institutions						
Headquartered outside the U.S.						
4. Aggregate short and long positions of options in foreign						
Currencies vis-à-vis the U.S. dollar			0			0
4.a. Short positions						
4.a.1. Bought puts						
4.a.2. Written calls						
4.b. Long positions						
4.b.1. Bought calls						
4.b.2. Written puts						

Notes:

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. Foreign Currency Reserves for the latest week may be subject to revision. Foreign Currency

Reserves for the prior week are final.

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 for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to the prior week's IMF data. IMF data for the latest week may be subject to revision. IMF data for the prior week are final.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 20, 2002
PO-3638

Air Transportation Stabilization Board Issues Federal Guarantee on Behalf of American Trans Air

The Air Transportation Stabilization Board today announced it has closed on a $168 million loan on behalf of American Trans Air. The loan is backed by a $148.5 million federal guarantee issued under the Air Transportation Safety and System Stabilization Act and implementing regulations promulgated by the Office of Management and Budget.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 20, 2002
PO-3639

Testimony of
David D. Aufhauser
General Counsel
U.S. Department of the Treasury
Before the Senate Judiciary Committee
Washington, D.C.

Good morning, Mr. Chairman.

I was in Cambridge, England on September 11th of last year, attending an international conference on money laundering. The college was populated with attorneys general, chief justices and ministers of police and even some general counsels.

The meeting had the trappings of a serious and sober affair, but in truth there was a lot of self-congratulation. The law enforcement community had been on the trail of money laundering for more than a decade, and had something to crow about: elaborate computer screens, predictive models, profiles of conduct, capture and indictment, all evidenced that we were gaining a lead on a tough issue.

The disintegration of the World Trade Center silenced all in Cambridge. It wasn't just that it was awful. It was also the realization that the gathering had been looking, for too long, at the world through the wrong end of a telescope. Money had been spirited around the globe by means and measures and in denominations that mocked detection. The most serious threat to our well-being was now clean money intended to kill, not dirty money seeking a place of hiding.

I caught a jump seat on a military jet the next day, thinking that Treasury would do the orthodoxy – collect revenue, sell war bonds and send the money across the river to the Pentagon.

But this is a profoundly uncommon war. There is no known sovereign; no uniformed army; no hill to take; no target that is seemingly out-of-bounds. Indeed, a premium is obscenely placed upon death of innocents.

It is shadow warfare. The primary source of the stealth and mobility necessary to wage it is money. It is the fuel for the enterprise of terror.

It is also its Achille's heel. It leaves a signature, an audit trail which, once discovered, might well prove the best single means of identification, prevention and capture.

Indeed, much of the intelligence that we gather in this war is suspect. It's the product of treachery, deceit, interrogation, bribery and trying to read encrypted talk. But books and records do not lie. They are literally diaries of terror.

That's a dramatic statement, but I do not think it possible to overstate the importance of the war campaign against terrorist financing. Nor do I think it wise to understate the difficulty.

Ours is a deliberately open and porous economy. The ways to game it are near infinite. Moreover, our problem is international in scope. The overwhelming bulk of the assets that we seek to freeze, the cash flow that we hope to strangle and the records that we aspire to audit are beyond the oceans that surround us. To act alone would justly invite critique.

So, once in Washington, Treasury set about to craft an ambitious program to include (i) an executive order that raises the standards of conduct and due diligence of financial intermediaries, and explicitly targets even unwitting underwriters of terror for the seizure of their assets; (ii) U.N. Security Council resolutions that mirror the same and criminalize terrorist financing; (iii) more scrutiny at the gateway to U.S. financial markets under the PATRIOT Act; (iv) extensive public diplomacy to champion the need and wisdom for international vigilance; (v) engagement of central bankers and finance ministries in the pursuit of terrorist funds; and (vi) outreach to the private sector for assistance in the identification, location and apprehension of terrorists and their bankers.

Much of the effort is overseen by a policy coordinating committee established by the National Security Council, which I chair. As best as humanly possible, and surely we have feet of clay, we have one government working in concert fighting the campaign against terrorist financing. But the task remains daunting. Material issues that face us include a near-insatiable appetite for actionable intelligence, increasing demands by coalition partners to share that intelligence, and a chorus of competing voices that risk confusion of our message.

Public perception is also important.

This is not a box score game. Only a small measure of success in the campaign is counted in the dollars of frozen accounts. The larger balance is found in the wariness, caution, and apprehension of donors; in the renunciation of any immunity for fiduciaries and financial intermediaries who seek refuge in notions of benign neglect and discretion, rather than **vigilance**; in pipelines that have gone dry; in the flight to old ways of value transfer like gold on precious gems, and the ability to focus our resources on those avenues of last resort; and in the gnawing awareness on the part of those who bank terror that the symmetry of borderless war means that there is no place to hide the capital that underwrites terror.

[One last point. It's Pollyannaish to say that we will stop the flow of all the money, but it's also self-defeating not to try. How we have chosen to go about it is perhaps captured by a brief story.

The Federal Reserve Bank in New York abuts the perimeter of the World Trade Center. It is an imposing and seemingly impregnable building and the nerve center for the execution of US monetary policy. It also literally houses the wealth of nations. Buried deep in the bedrock of Manhattan, well below the subways, $63 billion of gold reserves of a hundred countries are stored in Federal Reserve vaults.

It all had to be abandoned when the World Trade Center collapsed. The structural integrity of a third building -- World Trade Center 7 -- was threatened by inferno. The prospect of its toppling recommended evacuation of the New York Fed.

Now this was a first for the fortress like Fed. My counterpart, the General Counsel, Tom Baxter, raced through the building assuring himself that each and every one of his colleagues was safely out the door. Once satisfied, he himself prepared to descend the steps that front the building. There was a palpable sense of urgency. Smoke was billowing out of the site of the World Trade Center, police sirens were blaring, and the Fed's own police were urging Tom to hurry down the steps.

But first he turned to lock the door, only to find that the door does not lock from the outside. Sixty-Three billion dollars of gold and an open building. Tom hesitated, thought of all the alternatives of returning and winding his way through a maze of corridors and parking lot ally ways to secure the building, but the entreaties of the police prevailed. Tom joined them and was sped by police vehicle to a place of refuge.

When he arrived, he telephoned Chairman Greenspan to report the good news that all employees were safe, out and accounted for. The evacuation had gone without incident. The Chairman had only one question – Tom, did you lock the door?

The answer, of course, was no.

We cannot and should not lock the door, because it means the bad guys won. What we have to do is be vigilant.

With perfect intelligence, there would be no need for the Patriot Act. In that respect it is a default mechanism. But because we do not yet have complete intelligence source, it is an important gatekeeper. The predicate for everything we do, however, is actionable intelligence. And I welcome the opportunity to discuss the issue with each of you in a venue that will not compromise on-going operations of investigations. Thank you sir.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 22, 2002
PO-3640

United States Treasury Secretary Paul H. O'Neill Prepared Remarks to the Confederation of Indian Industry and the American Chamber of Commerce New Delhi, India

Good Afternoon. It is a pleasure to be here. I would like to thank the host organizations – CII and AMCHAM – for arranging this luncheon today.

On behalf of President Bush, we appreciate the commitment of CII, AMCHAM and others of you represented in the audience today to promoting economic relations between India and the United States – the two largest democracies in the world.

As our world has become ever more interconnected, the relationship between India and the United States has become ever more vital. We are bound together by economic ties, in flows of products, investment, people, and ideas. We share a common language, common political ideals, much history, and today we share a common battle against the forces of terror, and those who would finance that terror. Common prosperity and security are our clear mutual interests, and I am hopeful that my visit this week will lead to a greater understanding of how we can work together to advance both.

Traveling through India, I am struck by the extraordinary potential of this nation, and the persistent challenges to economic progress. I have met with U.S. businessmen investing millions of dollars in India, and rural Indian entrepreneurs who are drawing on microfinance loans to create jobs that diversify their local, agricultural economies. I have seen amazing examples of world-beating high-technology production facilities in Hyderabad's Hi-Tec City, and in the same day, I have seen an HIV/AIDS clinic struggling against a burgeoning AIDS epidemic, and a police project to crack down on child labor practices and get more children into school.

India, it seems, has two faces. It is a center of technological progress and modernity. It is also a land still burdened by massive poverty.

I believe the path to progress can be found in the concept of productivity. By productivity, I mean the amount of value that each individual can create, and therefore the amount of income each individual can earn. Greater productivity is the key to higher incomes and higher living standards in all economies, and in all ventures.

India's high-tech facilities, whether foreign, domestic, or jointly owned, demonstrate some of the highest productivity levels in the world. The leading technology and management institutes here are among the best, and students graduating from those programs are capable of unmatched productivity and value creation. Many often are lured away by top multinationals. But some do stay to set up local businesses. Unfortunately, these well-educated local entrepreneurs and engineers represent only a very small fraction of the population. A third of this nation lives on less than a dollar a day. Almost two-thirds depend on rural agriculture, where productivity lags dramatically.

Productivity in the public sector matters as much as productivity in the private sector. Government programs that achieve meaningful, clearly-defined objectives efficiently and with the minimum intervention in the private sector generate greater value for each taxpayer dollar or rupee spent. Unproductive government programs waste money that could have been invested in job creation, sap private productivity with unnecessary and arbitrary interference, distort markets, and undermine public confidence in the nation's leadership.

In my view, the key to economic growth in India is to spread the accelerating productivity evident in India's best ventures to the broader population, as well as to the government. With steady, widespread productivity gains, especially in sectors such as agriculture that have traditionally lagged, there will be no limit to India's economic growth.

I am optimistic that this can happen because productivity is at its heart the practice of implementing new ideas, in which the Indian people have an illustrious record of success. Mahatma Gandhi pioneered the vision of nonviolence to effect change, one of the most influential and effectively-implemented ideas of modern world history. In economic matters, Indian entrepreneurs have pioneered countless new technologies in both India and the United States, and have shown great aptitude for invention and implementation. Indeed, what is any technological progress other than a new idea made real?

The ideas needed to unleash Indian productivity are out there, and are being used in the leading firms in many industries. Public and private sector leaders need to identify those ideas, adapt them to India's unique cultural context, and then put them into effect.

Of course, that is easy to say, and much harder to do. It is especially difficult when the private sector is unable to attract the investment it needs to fund new ideas; when the environment does not support market experimentation and implementation of new ideas, when entrepreneurs and investors are intimidated by excessive regulation and corruption; and when the government fails to effectively invest in the people, so that people have the education and good health that are prerequisites for achieving their goals and raising standards of living. These failures are most prominent in the largest sectors of the Indian economy, such as agriculture, where entrenched interests resist changes that would benefit the greater whole of the Indian nation.

To unleash the potential for higher living standards and job creation, a nation's leaders must make an unflinching commitment to good governance, economic freedom, and investment in people. Without these principles in effect, even a people as capable and aspiring as the Indian people cannot succeed.

Good governance means ruling justly, enforcing laws and contracts fairly, respecting human rights and property rights, and fighting corruption. Encouraging economic freedom means removing barriers to trade with neighbors and the world, opening the economy to foreign and domestic investment and competition, pursuing sound fiscal and monetary policies, and divesting government from business operations. Economic freedom also means recognizing that it is the private sector – individuals implementing new ideas and pursuing their dreams – that creates prosperity; not central planning or bureaucracies. Finally, investing in people means ensuring access to health care, clean water, and education, so that people have the necessities that allow them to strive for a better life. People everywhere know that basic health is a prerequisite to prosperity. Yesterday in Hyderabad, I met people who are faced with the challenges of HIVAIDS and realize the importance of proper health care delivery. I also saw how communities can work together to link informal and formal education for children - an innovative example of communities building the foundations for progress.

Over the past fifty years the world has seen that these principles work, as long as a nation's leaders are committed to pursuing them, and as long as those leaders are held accountable for measurable progress. India has come a long way, moving from a command economy toward a more market based system. Economic freedom has not yet sprouted in many major industries where the government remains deeply involved in production, which limits competition, which in turn limits innovation and growth. Legal restrictions on market entry and onerous regulations also prevent private sector dynamism. Fiscal policy is weak, with a federal deficit exceeding 5% of India's GDP last year, and state deficits another 4.5% of GDP.

In India, average import tariffs are over 32% and more than three times higher than many other Asian economies – Indonesia, Malaysia, Philippines and Sri Lanka to name just a few. This figure does not include many hidden obstructions to free flow of goods across the borders. Various indices of trade and investment restrictiveness rate India among the most restrictive countries in the world. Barriers to enhanced trade on the sub-continent remain very high.
Just as Canada and Mexico are the largest trading partners of the United States, India's trade with its closest neighbors should be equally strong. With regard to good governance, corruption and bribery are widespread, frightening away honest businessmen and investors.

Consider the effects of poor governance and a lack of economic freedom on foreign investment. As Ambassador Blackwill noted in his address last month, U.S. investment in India has languished over the past decade, falling from a peak of $737 million in 1997 to only $336 million in 2000. By comparison, U.S. investment in China went from $1.25 billion in 1997 to $1.6 billion in 2000. India's strong English language skills and democratic system of government – should make it a preferable to U.S. investors over a country lacking both. And India desperately needs that investment to fuel domestic growth and innovation.

While several large companies have invested in India, many more have stayed away. Respect for property rights and protection against public or private thievery is an essential requirement for economic success.

This is not merely a matter pertaining to foreign investors. Domestic savers are the greatest source of investment for any economy, and a nation that does not respect ownership deters its own citizens from putting their money to work in the economy through bank deposits and capital markets, instead of hiding their precious savings under the floorboards.

Unleashing that homegrown capital would create a pool of resources for local entrepreneurs to set up small businesses and diversify the economic base. After all, homegrown small businesses demonstrate the opportunities available to others in a local community, and show the way for those who would also pursue their unique ideas. Today, there are microfinance institutions around the world lending small amounts to individuals with the initiative to be self- employed and start new ventures. Microfinance institutions also provide crucial guidance to new entrepreneurs on the technical knowledge needed to start and grow a business. Yesterday I visited a microfinance project in Hyderabad funded by an organization called SHARE. The organization has managed to circumvent India's serious problem with land ownership rights and lack of collateral by lending to groups of entrepreneurs and making them all liable for each borrower's repayments. It is my hope that sustainable microfinance programs will continue to expand in India, even as India frees the formal financial system from unreasonable constraints on lending.

Unreasonable regulation also deters international businesses and local entrepreneurs alike from entering new markets and creating value. No one wants to spend time and capital fighting a system that is unfriendly to success and fears competition. The exceptions prove the rule: When India lifted regulations on the cellular phone industry, demand rose and prices fell.
When the government of India opened the door to foreign investment in automotive manufacturing and relaxed licensing requirements for car makers, employment in the industry grew by 11% and overall productivity increased by 256% from 1992-1999.

Investment in people is the third-leg of necessary economic leadership. Individuals who lack basic health care, education, and even clean water cannot free themselves from subsistence to make a greater contribution to the economy and their own livelihood. Government programs should target these areas, and target the people who truly need help. One of the greatest challenges facing India, and many of the world's nations today is the fight against AIDS, and the United States is working to support nations that fight AIDS. I was pleased to hear of the Gates Foundations' generous gift to India to reinforce AIDS prevention efforts here. The

U.S. government has also prioritized HIV AIDS in its assistance to India: USAID has major AIDS prevention and control activities, the U.S. Center for Disease Control supports treatment and care programs, and the U.S. National Institute of Health contributes to applied research in this field.

During the course of this short trip I have seen the successes and the challenges in India. From interacting with a range of talented Indians throughout my lifetime, I know that the human capital is strong. The key is harnessing the innate ability to rebuild India's productivity – in other words, creating a reverse braindrain as Indians bring ideas back here to deploy. There are some excellent companies and organizations out there aimed to do just that – the technology firms that are setting up their business in India, or the organizations like Indicorp that bring educated Indian–Americans back to work with local communities to solve local problems. Whichever route – India will be one step closer to becoming a more productive economy.

I am eager to see the people of India reach their potential for healthy, productive lives. We know the foundations for success – just rule, economic freedom and investment in people. Let's work together to make them a reality, for the sake of the millions whose lives would improve.

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 11:00 A.M.
November 21, 2002

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling $30,000 million to refund an estimated $30,015 million of publicly held 13-week and 26-week Treasury bills maturing November 29, 2002, and to pay down approximately $15 million. Also maturing is an estimated $18,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced November 25, 2002.

The Federal Reserve System holds $12,708 million of the Treasury bills maturing on November 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 November 26, 2002. Amounts awarded to SOMA will be in addition to the offering amount.

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

TreasuryDirect customers have requested that we reinvest their maturing holdings of approximately $1,086 million into the 13-week bill and $712 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-3641

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED NOVEMBER 29, 2002

November 21, 2002

Offering Amount	$15,000 million	$15,000 million
Public Offering	$15,000 million	$15,000 million
NLP Exclusion Amount	$ 4,900 million	None
Description of Offering:		
Term and type of security	90-day bill	181-day bill
CUSIP number	912795 MA 6	912795 MP 3
Auction date	November 25, 2002	November 25, 2002
Issue date	November 29, 2002	November 29, 2002
Maturity date	February 27, 2003	May 29, 2003
Original issue date	August 29, 2002	November 29, 2002
Currently outstanding	$19,494 million	---
Minimum bid amount and multiples	$1,000	$1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

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

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

Competitive bids:

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

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

Maximum Award .... 35% of public offering

Receipt of Tenders:

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

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

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

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

FOR IMMEDIATE RELEASE
November 21, 2002

CONTACT: Office of Financing
202/691-3550

THANKSGIVING HOLIDAY SCHEDULE

In view of the Thanksgiving holiday next week, Treasury will announce its offerings of 13- and 26-week bills at 11:00 a.m. Eastern time on Wednesday, November 27, 2002.

Also, the noncompetitive and competitive closing times for the 2-year note to be auctioned on November 27 will be 10:30 a.m. and 11:00 a.m. Eastern time, respectively. Treasury will make the complete offering announcement for the 2-year note on Monday, November 25, 2002.

These changes in the usual announcement schedule are consistent with the Bond Market Association's recommendations for an early closing on Wednesday, November 27, and a full market closing on Thanksgiving Day.

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PO-3642

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 21, 2002
PO-3643

**Assistant Secretary of the Treasury Richard H. Clarida
Luncheon Remarks at the Joint Conference on Currency and Maturity
Matchmaking Redeeming Debt
from Original Sin The Inter-American Development Bank November 21, 2002**

The US in the World Economy

It has been a challenging and not uninteresting time to be working on economic policy in Washington. Since I arrived at Treasury on September 11, 2001, the US has declared war against terrorism, has entered and begun to recover from a recession, has been beset with the revelation of serious financial scandals, has suffered from exceptional gyrations in equity values, and has faced default by the world's largest sovereign borrower. Nonetheless, the US economy has shown impressive resiliency to these shocks, growing at a 3 percent average annual pace over the past year, following a shallow recession which began as President Bush assumed office. However, the road to recovery has been bumpy, most notably with growth slowing in the second quarter of this year, and with an enhanced downside risk to future growth causing the Fed recently to cut interest rates 50 basis points.

The economy's durability in the face of significant adverse shocks is derived from its sound and flexible structure as well as well-timed policy decisions made by the Administration and the Federal Reserve. The tax cuts signed into law in June 2001 were well timed and have boosted household incomes, supporting consumption. In March of this year, Congress finally passed and the President signed a bill providing companies with tax incentives to undertake investments in equipment. As many have noted, a pick-up in investment is a key to supporting economic expansion. The second-quarter increase of 3.3 percent in equipment and software investment, followed by an even stronger 6.5 percent jump in the third quarter, suggests that this rebound has indeed begun and that the tax incentives, which boost corporate cash flow, are helping to support recovery. The third-quarter rise in E and S investment was more than enough to offset the ongoing contraction in investment in business structures, leading to the first increase in real business fixed investment in two years.

Of course investment, both business and residential, has benefited from the timely and decisive monetary policy actions of the Federal Reserve, which cut short term interest rates throughout 2001 and also on November 6. I note as well the important stabilizing role that long-term interest rates have played. Both in late 2001 and this summer and fall, as volatility and uncertainty in the equity markets rose sharply, a portfolio shift to government and agency bonds lowered long-term interest rates to 40-year lows. This in turn was passed through to the mortgage market, triggering a wave of refinancings that put billions of dollars into the hands of households, significantly cushioning the otherwise dampening effect of the stock market on consumption growth.

Flexibility of our labor markets also contributed to a smaller decline in employment than occurs in most recessions. While the Administration will not be satisfied until full employment is restored, we are encouraged by signs that the labor market is stabilizing. The unemployment rate has been hovering in the 5.7 percent range for the last three months through October, off from the April high of 6 percent. Initial claims for unemployment have drifted a bit lower. Progress on employment has been erratic and slower than we would like, as evidenced by some slippage in payrolls in September and October. As the President said in a press conference earlier this month, he is ready to work with the new Congress to pass new growth and jobs packages until every American who wants a job can get one.

Last month, Treasury announced a budget deficit of 159 billion dollars for FY 2002 just completed, as compared with a surplus of 127 billion dollars in FY 2001. The main reason for the swing in the fiscal balance is that last year's recession and stock market weakness took a heavy toll on Federal revenues, and non-withheld incomes and capital gains realizations were reduced substantially. We estimate that the recession and stock market weakness accounted for nearly two-thirds of the swing from surplus to deficit. Another 23 percent reduction was attributable to the tax cuts and stimulus package. Of the remaining 14 percent, part was accounted for by the vital needs of homeland security and the war effort. Even without the tax cuts and stimulus, the budget would still have been in deficit in FY 2002. Of course, the US is part of the global economy and the global capital market. I would now like to discuss several important global economic issues that I am working on at Treasury.

Current Account

The US current account deficit reached an annual rate of $520 billion in the second quarter of this year, or 5.0 percent of GDP. The magnitude and persistence of the current account deficit has caused consternation in some quarters. I believe that many of the concerns about the deficit are misplaced, and I think that we should devote some time to understanding what the US current account deficit actually means.

Much recent discussion has focused on the size and sustainability of the US current account deficit. It is not meaningful to assess the size and sustainability of the current account deficit without first identifying its proximate cause. In fact, it is clear from the evidence that the US current account reflects a deficit of growth and growth prospects in much of the rest of the world.
Moreover, the present deficit in the US current account does not suggest that a change in current US economic policy is warranted, nor would it be welcome by the rest of the world at this time.

As a matter of national income accounting, the US current account is just the difference between national saving and investment and is equal to the net accumulation of US assets (portfolio and direct) by foreign investors. It provides backward-looking information, rather like a "sources and uses of funds statement" for a company provides information on the amount of internal and external finance drawn on to finance investment outlays during the previous year. A deficit is not necessarily bad, nor a surplus good. This is because the US has a floating exchange rate and is well integrated into the global capital market. It can finance its current account deficit in this capital market by selling equities, private debts, and government bonds -- all denominated in dollars -- without having to draw down international reserves or to incur foreign currency obligations.

According to official estimates, as a result of the current account deficits in the 1980s, the US became a net foreign debtor in late 1988, and since that time has accumulated a stock of net foreign liabilities exceeding 2 trillion dollars, about 23 percent of US GDP. Yet, according to the national income accounts, the net cost of servicing this debt this year is running at an annual rate of 7.8 billion dollars, less than 40 basis points on the outstanding balance. How can this be? The most commonly offered explanation derives from the fact that US direct investments abroad are consistently much more profitable than are foreign direct investments in the US. For example, in 2001, the estimated market value of US direct investments abroad was 2.3 trillion dollars compared with the market value of foreign direct investment in the US of 2.5 trillion dollars. Yet, the receipts of direct investment income from current production of foreign affiliates of US companies in that year was 126 billion dollars compared with payments to foreign owners of US located investments of only 23 billion dollars.

In the view of the US Treasury, the best way to interpret the present situation is as follows. The current pool of portfolio capital in the world has fewer places to invest than several years ago, and that capital is seeking safety and acceptable returns in the US. Portfolio capital is not flowing to emerging markets as in the mid 1990s. Europe faces long-standing structural problems (high average unemployment, sluggish productivity growth), and Japan is entering its second decade of operation well below its potential. Not surprisingly in this setting, capital has been flowing into the US. This process has been reinforced by the strong productivity numbers in the US over the past two years. Even during the second quarter and into the third as the stock market weakened, we did not see the flight from US securities that many anticipated but rather merely a shift from equities into fixed-income securities.

We in the US government hope that over time imbalances in growth prospects will narrow, not because of any diminution in US fundamentals, but rather because of improvements in the relative performance of the rest of the world. We would hope to see in Europe lower unemployment and faster growth approaching US rates. We certainly hope that Japan will resolve its structural problems and resume strong economic growth and investment.

We aim, working with the G7, to put in place a framework in the international capital markets that will make more emerging markets attractive destinations for portfolio capital flows. All of these developments would be most welcome. We understand that, were they to occur, the US would benefit significantly. Exports would surge, some of the growing pool of world capital that would otherwise flow to the US would be attracted abroad, and the US current account deficit would narrow. There is every reason to expect -- as US history suggests -- that this adjustment would be accomplished in the global capital markets in an orderly fashion.

In sum, the US current account is caused, in large part, by a deficit in growth in the rest of the world. The growth deficit is not desirable but, as long as it persists, foreign capital flows to the US will adjust to bring global saving and investment into balance.

Trade Promotion Authority

An important step forward in improving trade flows and expanding US exports was taken by the renewal of the President's Trade Promotion Authority by Congress in August. This was a hard won victory, and will enable the Administration to provide the necessary energy and leadership to further open and expand international trade, through the Doha round and through free trade agreements with individual countries. In this light, the US will soon conclude free trade agreements with both Singapore and Chile, and we have begun discussions on President Bush's proposal for a hemisphere-wide Free Trade of the Americas Agreement.

Sovereign Debt Restructuring

In April, the G-7 finance ministers met in Washington and found unprecedented unity on the need to develop a predictable process for restructuring sovereign debt. They released agreement on an Action Plan to guide their efforts toward this goal. The G-7 agreed to work together with emerging market countries and their creditors to incorporate new clauses into debt contracts, specifying the actions to be taken in the event a restructuring were necessary. The policy of the G-7 is that any country that issues debt in another sovereign jurisdiction should include collective action clauses. Such clauses are featured in bonds issued under UK law, but for historical – not legal – reasons are not common in bonds issued under US law. These clauses would specify a majority action provision for amending the financial terms of the bond, as well as an engagement clause specifying how bondholders be represented in a negotiation with a borrower. The G7 emphasized that work on this contract based approach should proceed in parallel with the statutory approach being developed by the IMF.

It is important that both creditors and debtors themselves be included in the dialogue as we move forward on this approach. I am pleased to report that this is taking place. Secretary O'Neill has expressed his goal that emerging countries that borrow in the capital markets be rated investment grade. By making the sovereign restructuring process more predictable and less uncertain, it is hoped that flows of portfolio capital to credit worthy countries can be restored.

Strengthening Financial Systems in Emerging Economies

The Treasury has recently outlined an initiative to work with emerging market economies to strengthen their financial sectors, in part by allowing the provision of financial services by foreign owned firms, usually through FDI in the financial services sector itself. We believe -- and a recent and growing body of empirical evidence shows (including some outstanding research by the World Bank) -- that a well-developed, competitive financial sector, open to foreign direct investment, can contribute to economic growth and stability over the long term. We seek to strengthen the financial sectors of developing economies, and spur financial sector reform in those countries by encouraging greater financial sector openness, coupled with improvements in financial supervision and regulation.

Most investment in most countries is financed with domestic saving, not by importing capital through capital inflows. The research that I alluded to shows that having a competitive financial sector that is open to foreign participants exposes local firms to the best practices of world class financial institutions and enables them to learn from those at the top of their game. Moreover, FDI in financial services can substantially broaden the range of financial products that are available to local firms and households, allowing them to better diversify risk and profit from local investment opportunities. We seek to make progress in the WTO Financial Services talks and in other fora to insure that foreign-owned financial firms can invest and compete to provide financial services in a host nation on an equal footing with domestic firms. Studies of the liberalizations of the last decade remind us all of the crucial importance of an independent, professional, and transparent system of regulation and supervision.

The goal of strengthening financial systems in developing economies is worthwhile for several reasons: more durable growth prospects as countries move away from an 'export-led' model; a more stable global capital market; improved access to international portfolio flows for those countries that desire them; enhanced efficiency as countries benefit from international best practices in the provision of financial services; and an expanded range of financial products that could not otherwise be provided efficiently by domestic firms alone. In this manner, freer direct investment enables countries to make the most effective and efficient use of their scarce pool of domestic saving and allocates scarce capital to its best and most highly rewarded use -- enhancing productivity and allowing faster growth.

We realize that a country's decision as to the appropriate pace and means by which it opens its capital account to portfolio flows is a related, but distinct decision from allowing FDI in financial services. However, even those countries that choose to open their capital account to portfolio flows at a slower pace still stand to benefit substantially from allowing a foreign presence in banking, brokerage, asset management, investment banking, and insurance services. That said, it is not US policy to encourage any country to maintain capital controls over the long term. After all, no developed country maintains them.

We recognize that growing interdependence will make financial sector development a major challenge for emerging markets in this decade. But we believe the record shows that, when policymakers understand the importance of openness and are firmly resolved to take the necessary steps, they can succeed in strengthening their economies.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 25, 2002
PO-3644

United States Treasury Secretary Paul H. O'Neill
Keynote Speech to Confederation of British Industry Conference
Manchester, England November 25, 2002

Good afternoon.

It is my pleasure to join the Confederation of British Industry today, on my way home from a week-long visit to Afghanistan, Pakistan, and the G-20 meeting in India. I know many of you do business in the United States, and I will touch on the state of the U.S. economy. I would also like to consider, more broadly, the role of productivity in the U.S. and the world economy, and in your respective industries.

The past two years have been full of shocks and surprises for those who participate in American business – shareholders, employees, and executives alike. We've suffered through the demise of a dot-com fantasy, terrorist attacks on New York and Washington, and discoveries of corporate fraud. Pile those on top of a slowdown already present when President Bush took office, and you have a recipe for a bumpy economy.

Nonetheless, the United States has been working its way back to steady growth, and we've made progress. Our system – private and public sectors – has adjusted to the new conditions. We've been making a recovery throughout this year, demonstrating the flexibility of the American economy. Flexibility in the sense of resilience and adaptability.

On the policy side, the U.S. Congress has passed President Bush's proposals for a homeland security department, terrorism risk insurance, tax relief and job creation stimulus. The U.S. Federal Reserve, for its part, has cut interest rates sharply, averting a potential credit crunch. Early next year President Bush will propose new action for economic growth and job creation.

It is the private sector, of course, and not the government, that produces economic growth. Our policy proposals have been aimed at reigniting the engines of growth. The recession was relatively shallow.

The tougher part has been building broad-based momentum throughout the economy.

Some sectors have been doing quite well, such as housing and auto manufacturing, while others, such as commercial airplane manufacturing and airline services, have lagged.

Inflation remains low, there has been steady growth in real incomes even during the recession period and inventories are lean.

At 5.7%, unemployment remains lower than its average during the 1990s, but payroll growth has been erratic, and we believe we can and will do better.

Productivity is the key. Productivity growth has been extraordinarily good, up 5.3% over the past year, the best rate since 1983. Rapid productivity growth has contributed to the biggest decline in unit labor costs since the early 1960s, which in turn will prove valuable for restoring profits, containing inflation, and ultimately for accelerating employment and income growth.

Productivity growth is a leading indicator of quality of life and human progress. Indeed, the economic progress of civilization – higher standards of living, higher incomes, greater personal freedom, fulfilling work opportunities – derives from advancing productivity. That's been true since the early days of the industrial revolution here in Manchester.

If you study the economic history of the 300 years since then, it is easy to see that there is no absolute limit on world economic product. Economic prosperity is not a sleight of hand – one man or woman taking from another. Economic prosperity is an act of creation. The world's economic bounty is limited only by our imagination – our ability to conceive new ideas for value creation and to make those ideas into reality.

Productivity comes from the development and deployment of ideas -- discovering and implementing better ways of doing things. One of the reasons I am optimistic about the future of the world economy is there is such a large gap between the productivity of the very best performers in every industry and everyone else. This gap represents productivity improvement potential that requires only initiation; not the discovery of new knowledge!

Rather than focus on national policies today, let me take this down to a company-specific level for you.

During the 80s, I worked for International Paper. Early in my time there, we put together a detailed analysis of our competition. In doing that analysis we found that Japanese corrogated container plants were producing 13 tons of boxes per hour, while our plants were producing 9 tons per hour. I wondered what they were doing better. I went to Japan to visit those factories, and I started asking questions.

One of the most important factors in corrugated container manufacturing is the moisture content of the paper. The ideal moisture content in the paper is 5% -- everyone agreed on that -- but what the Japanese had discovered was that the size of the range around the ideal 5% level mattered greatly. By controlling to a range of 4 - 6% instead of the typical 2 -8% range, they were able to achieve a 50% productivity advantage over their competition.

Needless to say, we implemented a quality control process that narrowed our moisture content range to the Japanese level. Just by implementing an idea -- the idea that moisture variance matters -- we made a big gain in productivity.

In every industry in the world, from agriculture to aerospace, there is a huge gap between the best practices of the leading firms and the practices of the great majority of producers in that industry. As the ideas pioneered and employed by the industry leaders diffuse to the rest of the competition, the followers catch up. As the rest of the industry adopts the old best practices, the industry leaders must develop new ways to stay ahead. Competition drives innovation, and innovation becomes productivity, which in turn creates higher wages and more jobs.

The potential for deploying ideas to make huge productivity gains exists around the world. In my travels as Treasury Secretary, and before that in private industry, I've seen that truth for myself in countries as diverse as Russia, Ghana, India, Brazil and China. And I'm sure you have all witnessed it as well. The best ideas can come from anywhere, and the secret to competitive success is staying open to new ideas, no matter where they come from.

Competition drives the constant search for new ideas. Many U.S. firms are world leaders in their industries because they are forced to compete every day. That's true domestically because we have one of the freest economic structures in the world, with great flexibility to move capital and other resources to their most productive uses. The future of global growth depends on other nations around the world expanding their economic freedom as well, so that the United States isn't the sole engine for the world economy.

We have taken steps in the last two years to stem the economic downturn and reverse it. The rest of the world has to act as well. It is every government's responsibility to take actions that unleash the potential of its population for innovation and value creation.

Imagine a world in which the largest economies are growing at their potential. Imagine the opportunity that growth would create for people in the less developed parts of the world, through trade opportunities, new technology, and investment capital.

International competition also enhances domestic growth, and the spread of productive new ideas. In the 1970s and early 1980s, U.S. manufacturers marveled at Japan's efficiency, and many thought we had lost our edge for good.
But the openness of the U.S. economic system forced us to think harder, to learn from the best practices of firms like Toyota, and to learn from each other as well. The competition from Japan shook us out of our malaise.

The lessons of those days cemented my belief that the world economic system should eliminate trade and tariff barriers. Not only because open trade gives consumers around the world more choices and better prices, but because open trade spurs innovation and productivity growth. Competition forces the deployment of good ideas within industries and across them; within nations and among them.

Consider it this way: the huge productivity gap between industry leaders and the rest of the pack is like a proven reserve of human potential. The same is true between nations, because we know that all humans have the same capacity for achievement. The knowledge exists, it simply needs deployment.

For me, that's a source of great hope and confidence. It's not just a matter of faith that your individual companies, and our economies as a whole, can achieve new heights. It's a matter of fact.

Thank you.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 11:00 A.M.
November 25, 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 $18,000 million of publicly held 4-week Treasury bills maturing November 29, 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 $12,708 million of the Treasury bills maturing on November 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.

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Attachment

PO-3645

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED NOVEMBER 29, 2002

November 25, 2002

Offering Amount .... $22,000 million
Public Offering .... $22,000 million
NLP Exclusion Amount .... $10,700 million

Description of Offering:
Term and type of security .... 27-day bill
CUSIP number .... 912795 LR 0
Auction date .... November 26, 2002
Issue date .... November 29, 2002
Maturity date .... December 26, 2002
Original issue date .... June 27, 2002
Currently outstanding .... $42,282 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 noncompetitive amount awarded to Federal Reserve Banks as agents for FIMA accounts will not exceed $1,000 million. A single bid that would cause the limit to be exceeded will be partially accepted in the amount that brings the aggregate award total to the $1,000 million limit. However, if there are two or more bids of equal amounts that would cause the limit to be exceeded, each will be prorated to avoid exceeding the limit.
Competitive bids:
(1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 4.215%.
(2) Net long position (NLP) for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

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

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

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.
November 25, 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 $21,316 million of publicly held notes maturing November 30, 2002, and to raise new cash of approximately $5,684 million.

In addition to the public holdings, Federal Reserve Banks hold $5,864 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.

Note: The closing times for receipt of noncompetitive and competitive tenders will be at 10:30 a.m. and 11:00 a.m. eastern standard time, respectively.

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately $506 million into the 2-year note.

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

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

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

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

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Attachment

PO-3646

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

November 25, 2002

Offering Amount .... $27,000 million
Public Offering .... $27,000 million

Description of Offering:
Term and type of security .... 2-year notes
Series U-2004
CUSIP number .... 912828 AQ 3
Auction date .... November 27, 2002
Issue date .... December 2, 2002
Dated date .... November 30, 2002
Maturity date .... November 30, 2004
Interest rate .... Determined based on the highest accepted competitive bid
Yield .... Determined at auction
Interest payment dates .... May 31 and November 30
Minimum bid amount and multiples $1,000
Accrued interest payable by investor .... Determined at auction
Premium or discount .... Determined at auction

STRIPS Information:
Minimum amount required $1,000
Corpus CUSIP number .... 912820 HM 2
Due date(s) and CUSIP number(s)
for additional TINT(s) .... November 30, 2004 - - 912833 ZB 9

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

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

Receipt of Tenders:
Noncompetitive tenders:
Prior to 10:30 a.m. eastern standard time on auction day.
Competitive tenders:
Prior to 11:00 a.m. eastern standard time on auction day.

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

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 23, 2002
PO-3647

Communiqué of the G-20 Finance Ministers and Central Bank Governors, New Dehli, India, November 23, 2002

We, the Finance Ministers and Central Bank Governors of the G-20, held our Fourth Meeting today on 23rd of November 2002 at New Delhi, India. We reviewed the global economic situation and outlook, and deliberated on matters concerning crisis prevention and resolution, globalisation, the challenge of achieving sustained growth and development and combating the financing of terror. We reaffirm our conviction that increasing integration of the global economy is producing benefits, including improvement in living standards and reduction of poverty, and our commitment to maximize these benefits through domestic policies, strong institutions, and enhanced international cooperation.

Economic Situation and Financial Stability

We met against the backdrop of continued uncertainty concerning the global economic outlook. The global economy faces significant challenges and problems associated mainly with slower than expected recovery and heightened risk aversion. However, we have confidence in the underlying prospects and potential of our economies, and in our capacities to achieve higher growth and prosperity. Recent events reaffirm our belief that sound macro-economic policies, strong institutions and good governance are critical for realising this potential while containing vulnerability to financial crises. Stronger and more effective international institutions can contribute significantly towards the creation of a robust global economic environment, thereby complementing national efforts for sustained growth and prosperity.
Interdependence among national economies and increased integration of financial markets have brought significant advantages and enormous opportunities for enhanced growth in many countries. However, countries have become more exposed to external shocks and susceptible to the consequences of inappropriate domestic policies. Recent experience has demonstrated the need to strengthen our capacity to prevent financial crises and to develop efficient, expeditious, and socially and economically effective responses to a financial crisis when it occurs. We believe that effective and accountable International Financial Institutions (IFIs) and worldwide surveillance are essential for a healthy global financial system.

Sustainable exchange rate regimes, prudent asset-liability management, and implementation of agreed standards and codes are important components of an effective strategy for crisis prevention. We agreed on the need for sound national financial systems, effective supervision, and corporate governance in line with global best practice. We also agreed that capital account liberalisation should proceed in an appropriately sequenced manner.
A more orderly process of crisis resolution would help to mitigate the social and economic costs of financial crises and to maintain, or restore more quickly, access to international capital markets. We therefore support further work by the international community, in consultation with debtors and creditors, on comprehensive and market compatible approaches to crisis resolution, including collective action clauses, a sovereign debt restructuring mechanism (SDRM), and a code of good practices. We note that proposals are to be tabled by the IMF at the Spring Meetings, 2003.

Globalisation, Trade and Development

We reviewed the nature and pace of economic integration, which is at the heart of globalisation, and its implications for the world community. We agreed that globalisation has been delivering rising living standards generally, including to many of the world's poor. The benefits of globalisation can be maximized, and associated risks mitigated, through the pursuit of appropriate domestic policies and a healthy external environment. The IFIs also have a role to play in this process. Our own experience, as revealed by the G-20 case studies which are to be published shortly, and by the evidence presented at the Globalisation Workshop in Sydney, shows that strong institutions, a climate that fosters savings and investment, transparency, and the rule of law, coupled with increased investments in infrastructure and human capital in developing countries are essential ingredients for promoting growth and reducing poverty.

The process of globalisation, however, has not yet delivered its potential in reducing poverty in some of the world's poorest countries. Reduction of the remaining trade and related barriers and phasing-out of trade-distorting subsidies would contribute to spreading further the benefits of globalisation, including to the poorest developing countries. Trade-related technical assistance is also important to support developing countries' capacity building efforts.

Recalling the partnership between developed and developing countries, reflected in the Monterrey and Johannesburg Conferences, we reaffirm our shared commitment to achieving the Millennium Development Goals, particularly in Africa through supporting NEPAD. We recognize that development assistance can enable poorer nations to build capabilities for exploiting the benefits of more integrated markets, reduced economic distance between nations and greater exchange of global information and knowledge. Development assistance can play a valuable catalytic role, including in the provision of global public goods. We welcome the increases in international development assistance recently announced by some countries recognising the need for higher ODA. We also welcome the commitment made by the Development Committee at its September meeting this year to the implementation and full financing of the enhanced HIPC initiative.

Combating the Financing of Terrorism, and other Abuses of the Financial System

When we last met in Ottawa, Canada, in November 2001, we resolved to deny terrorists and their associates access to, or use of, our financial systems.

While that meeting was shadowed by the events of September 11, 2001, today the recent tragic events in Bali and Moscow reinforce our resolve to combat terrorism and those that would fund it. To this end, we reviewed the progress made in implementing our Action Plan, including the freezing of terrorist assets, implementation of international standards, exchange of information, provision of technical assistance, and reporting on our actions. We also agreed to continue our efforts to eliminate other abuses of the financial system, particularly money laundering. We pledged to carry forward our work in this regard, through support of the activities of International Financial Institutions (IFIs) and other relevant international fora, and through appropriate domestic actions. We will review progress on these matters at our next meeting.

2003 Chairmanship

We welcome Mexico's assumption of the chairmanship of our group in 2003 and look forward to our next meeting to continue our work toward a more stable, prosperous, and equitable global economy.

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
November 25, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	90-Day Bill
Issue Date:	November 29, 2002
Maturity Date:	February 27, 2003
CUSIP Number:	912795MA6

High Rate: 1.210% Investment Rate 1/: 1.228% Price: 99.698

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 16.67%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 38,619,986	$ 13,362,613
Noncompetitive	1,446,654	1,446,654
FIMA (noncompetitive)	191,000	191,000
SUBTOTAL	40,257,640	15,000,267 2/
Federal Reserve	5,289,610	5,289,610
TOTAL	$ 45,547,250	$ 20,289,877

Median rate 1.195%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.180%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 40,257,640 / 15,000,267 = 2.68

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,180,149,000

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

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

FOR IMMEDIATE RELEASE
November 25, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	181-Day Bill
Issue Date:	November 29, 2002
Maturity Date:	May 29, 2003
CUSIP Number:	912795MP3

High Rate: 1.265% Investment Rate 1/: 1.291% Price: 99.364

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 99.48%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 29,753,085	$ 13,396,905
Noncompetitive	1,026,182	1,026,182
FIMA (noncompetitive)	577,000	577,000
SUBTOTAL	31,356,267	15,000,087 2/
Federal Reserve	5,589,550	5,589,550
TOTAL	$ 36,945,817	$ 20,589,637

Median rate 1.250%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.220%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 31,356,267 / 15,000,087 = 2.09

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $761,470,000

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 25, 2002
2003-3-25-9-21-32-16396

Quarterly Report to Congress on Financial Implications of U.S. Participation in the International Monetary Fund

This report has been prepared in compliance with Section 504(b) of Appendix E, Title V of the Consolidated Appropriations Act for FY 20001. The report focuses exclusively on the financial implications of U.S. participation in the IMF and does not attempt to quantify the broad and substantial economic benefits to the United States and the global economy resulting from U.S. participation in the IMF.

Report(s):

- Quarterly Report to Congress

QUARTERLY REPORT TO CONGRESS ON FINANCIAL IMPLICATIONS OF U.S. PARTICIPATION IN THE INTERNATIONAL MONETARY FUND

NOVEMBER 2002

This report has been prepared in compliance with Section 504(b) of Appendix E, Title V of the Consolidated Appropriations Act for FY 2000[1]. The report focuses exclusively on the financial implications of U.S. participation in the IMF and does not attempt to quantify the broad and substantial economic benefits to the United States and the global economy resulting from U.S. participation in the IMF.

As required, the report provides financial information on the net interest and valuation changes associated with U.S. participation in the International Monetary Fund (IMF). The broader context for the financial implications of U.S. participation in the IMF and the methodology used in deriving these figures is laid out in previous reports; the methodology is also summarized briefly in the footnotes attached to the tables. Reports under this provision are prepared quarterly and made available to the public on the Treasury website: http://www.treas.gov/press/reports.html.

This report provides quarterly data for fiscal year 2002. It provides information on U.S. participation in the IMF's General Department as well as information related to U.S. holdings of Special Drawing Rights (SDRs)[2] as part of its international reserves and the financial implications of U.S. participation in the SDR Department of the IMF.

Data on the net interest and valuation changes related to U.S. participation in the IMF's General Department during the third quarter of fiscal year 2002, ended June 30, 2002, are provided in Table 1. For comparison purposes, previously-reported data for the first and second quarters of the fiscal year are also provided. Similarly, data for net interest and valuation changes related to U.S. participation in the SDR Department of the IMF during the first three quarters of fiscal year 2002 are provided in Table 2. The attached footnotes explain the columns shown on each table and provide pertinent information and assumptions used in the calculations.

As shown in Table 1, for the third quarter of the fiscal year beginning on October 1, 2001 (FY 2002), the financial implications of U.S. participation in the General Department reflected a net

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[1] Section 504(b) of Appendix E, Title V of the Consolidated Appropriations Act for FY 2000, Public Law 106-113, 113 Stat. 1501A-317 requires that the Secretary of the Treasury prepare and transmit to the appropriate committees of the Congress a quarterly report on the costs or benefits of United States participation in the International Monetary Fund (IMF), detailing the costs or benefits to the United States, as well as valuation gains or losses on the United States' reserve position in the IMF.

[2] The SDR is an international reserve asset created by the IMF. The SDR is used as a unit of account by the IMF and other international organizations. Its value is determined as a weighted average of a basket of currencies -- the dollar, euro, pound sterling and yen. The SDR carries a market-based interest rate determined on the basis of a weighted average of interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket.

interest effect of positive $15 million. The valuation changes for the third quarter were positive $1,157 million.[3]

As shown in Table 2, for the third quarter of FY 2002, the net interest effect of U.S. participation in the SDR Department was positive $3 million. Over the same period, the valuation changes on SDR holdings were positive $315 million.[4]

Attachments

[3] For an explanation of the methodology used in deriving these figures, see section on "Calculating the Financial Implications of U.S. Participation in the General Department" in the report prepared for the fourth quarter of fiscal year 2000, submitted in December 2000 and available at http://www.treas.gov/press/reports.html.
[4] For an explanation of the methodology used in deriving these figures, see section on "Calculating the Financial Implications of U.S. Participation in the SDR Department" in the report prepared for the fourth quarter of fiscal year 2000, submitted in December 2000 and available at http://www.treas.gov/press/reports.html.

Table 1

Net Interest and Valuation Changes Related to U.S. Participation in the General Department in the IMF, U.S. Fiscal Year, Quarterly (in millions of U.S. Dollars)

	Transactions with the IMF			Interest Calculations				Valuation Changes	Totals
fiscal year ending 9/30	Transactions Under U.S. Quota (Letter of Credit &Transfers of Reserve Assets, Cumulative)	U.S. Loans to IMF Under SFF, GAB, NAB (Cumulative)	Total U.S. Transactions with the IMF (Col 1+2)	Interest Associated with U.S. Transactions with the IMF	Remuneration Received by U.S. from IMF & Refund of Burden Sharing	Interest Received from IMF Under SFF, GAB, and NAB	Net Interest (Col. 4+5+6)	Valuation Changes on U.S. Reserve Position	Total (Col 7+8)
	Col. 1	**Col. 2**	**Col. 3**	**Col. 4**	**Col.5**	**Col.6**	**Col. 7**	**Col. 8**	**Col. 9**
Q1 - 2002	-16,936	0	-16,936	-95	105	0	10	-467	-457
Q2 - 2002	-16,264	0	-16,264	-89	83	0	-6	-125	-131
Q3 - 2002	-17,889	0	-17,889	-87	103	0	15	1,157	1,172

Detail may not add to total due to rounding.

Footnotes to Columns in Table 1

Column 1: Total cumulative transactions under the U.S. Quota, including drawings by the IMF under the Letter of Credit (75% portion of the U.S. quota) and the transfers of reserve assets to the IMF (generally 25% of the U.S. quota).

Column 2: Total cumulative dollar funding through loans to the IMF made by the U.S. under the Supplementary Financing Facility (SFF, in 1980), the General Arrangements to Borrow (GAB, in FY1998) and the New Arrangements to Borrow (NAB, in FY1999). All U.S. loans under the three facilities/arrangements have been repaid.

Column 3: Total cumulative U.S. transactions with the Fund (horizontal summation of columns 1 and 2).

Column 4: Total interest associated with total cumulative transactions shown in column 3. This includes interest paid on additional public borrowing to fund day-to-day transactions under the Letter of Credit and occasional transfers under loan arrangements (SFF, GAB, NAB), as well as interest income foregone due to the transfer of reserve assets to the IMF at the time of a quota increase. In order to provide resources under the Letter of Credit or under loan arrangements, the Treasury borrows from the public via additional issuance in the Treasury market; average cost of funds is used as a proxy for calculating the associated interest cost. This portion of the total interest paid enters the U.S. budget as interest on the public debt. For purposes of calculating foregone interest on the transfer of reserve assets to the IMF, the SDR interest rate is used.

Column 5: The U.S. earns interest on the non-gold portion of its reserve position in the IMF. This interest is called remuneration and, in combination with an adjustment by the IMF related to burden-sharing, is paid by the IMF every quarter. If remuneration is paid in SDRs, it is paid to the Exchange Stabilization Fund (ESF) and the ESF transfers the dollar equivalent to the Treasury General Fund. It is recorded in the budget as an offsetting receipt from the public. If the United States took payment in dollars (which it does not now do) the payment would be in the form of a decrease in the U.S. Letter of Credit and a counterpart increase in the U.S. reserve position.

Column 6: These amounts constitute the interest payments the United States has received on its loans to the IMF under the SFF, GAB, and NAB.

Column 7: Total net interest paid, foregone or received as a result of U.S. participation in the General Department of the IMF.

Column 8: The U.S. reserve position in the IMF is denominated in SDRs. The valuation gain (if positive) or loss (if negative) refers to the exchange rate gain or loss on the reserve position due to changes in the dollar value of the SDR. For example, if the SDR appreciates/dollar depreciates, then the dollar value of the reserve position rises and a valuation gain is recorded. This column would also include valuation gains or losses experienced as a result of U.S. loans under SFF, GAB and NAB.

Column 9: The total of net interest and valuation changes, obtained by summing column 7 and column 8.

Table 2 -- Net Interest and Valuation Changes Related to U.S. Participation in the SDR Department in the IMF, U.S. Fiscal Year, Quarterly (in millions of U.S. Dollars)

	Net SDR Holdings			Interest Calculations			Valuation Changes	Total
fiscal year ending 9/30	*Dollar Value of SDR Holdings*	*Dollar Value of Cumulative SDR Allocation*	*Net SDR Holdings (Col. 1 - Col. 2)*	*Interest Earned (or Paid) on Net SDR Holdings*	*Interest Associated with Financing Cumulative U.S. SDR Transactions*	*Net Interest (Col. 4 + Col. 5)*	*Valuation Changes*	*Total (Col. 6 + Col. 7)*
	Col. 1	**Col. 2**	**Col. 3**	**Col. 4**	**Col. 5**	**Col. 6**	**Col. 7**	**Col. 8**
Q1-2002	10,783	6,157	4,626	26	-25	0	-115	-115
Q2-2002	10,809	6,109	4,700	27	-24	4	-36	-32
Q3-2002	11,645	6,519	5,127	30	-26	3	315	318

Detail may not add to total due to rounding.

Footnotes to Columns in Table 2

Column 1: Total stock of U.S. holdings of Special Drawing Rights (SDRs) measured from end of period, converted into dollars at the fiscal year-end exchange rate. Source: IMF.

Column 2: Total stock of U.S. SDR allocations measured from end of period, converted into dollars at the fiscal year-end exchange rate. Changes in dollar value of SDR allocations reflect only exchange rate changes. Source: IMF.

Column 3: Total stock of U.S. SDR holdings minus allocations measured from end of period (Column 1 minus Column 2), converted into dollars at the fiscal year-end exchange rate.

Column 4: Net interest earned on SDR holdings. Derived by subtracting charges on SDR allocations (the SDR end-of-quarter interest rate times SDR allocations) from interest earned on SDR holdings (the SDR end-of-quarter interest rate times SDR holdings). All interest is calculated as compounding quarterly.

Column 5: Net effect on U.S. borrowing costs due to cumulative net SDR purchases or sales, using the simplifying assumption that transactions are carried out in dollars. Derived by multiplying the dollar equivalent of cumulative net SDR purchases by the average cost of funds rate. Interest is calculated on the basis of end-quarter holdings and compounded quarterly.

Column 6: Net Interest (Column 4 plus 5).

Column 7: Derived by subtracting the change in total SDR holdings from the change in the dollar equivalent of total SDR holdings (end-period to end-period) divided by the end-period SDR/dollar exchange rate. The valuation gain (if positive) or loss (if negative) refers to the exchange rate gain or loss on the reserve position due to changes in the dollar value of the SDR. For example, if the SDR appreciates/dollar depreciates, then the impact on the dollar value of U.S. holdings of SDRs is positive, and a valuation gain is recorded.

Column 8: The total net interest and valuation changes (sum of Columns 6 and 7).

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 26, 2002
PO-3650

Treasury Secretary O'Neill Applauds Enactment of the Terrorism Risk Insurance Act of 2002 and Announces Treasury's Plans to Implement the Program

Today President Bush signed into law the Terrorism Risk Insurance Act of 2002. Since the terrorist attacks of September 11, 2001, the economy has been harmed by the withdrawal of many insurance companies from the marketplace for terrorism risk insurance. Their withdrawal in the face of great uncertainty as to their risk exposure to future terrorist attacks led to the cancellation of construction projects, increased business costs for the insurance that was available, and substantial risk-shifting among corporate balance sheets.

Treasury Secretary O'Neill thanked members of Congress on both sides of the aisle for their efforts in passing this important legislation. Secretary O'Neill said, "This legislation is a critical element in our economic recovery. It reduces the economic risks and economic consequences associated with the threat of future terrorist attacks. It will help restore insurance capacity to the marketplace, which will promote new construction and spur economic activity."

The new law establishes a temporary Federal program providing for a system of shared public and private compensation for insured commercial property and casualty losses arising from acts of terrorism under the Act. The program will be administered by the Treasury Department and will sunset on December 31, 2005. The Treasury Department intends to work closely with the National Association of Insurance Commissioners (NAIC) to implement the program and has begun consultations with the NAIC on a range of implementation issues.

Under the new law, insurance companies included under the program must make available to their policyholders coverage for insured losses from acts of terrorism under the program.

The law also requires insurance companies to disclose to policyholders the premium charged for terrorism risk insurance and the Federal share of compensation provided under the law.

The Treasury Department will work closely with the NAIC to monitor the effects of the new law on insurance premiums. Plans to implement the program include:

- **Consultation with the NAIC**. The Treasury has been in discussion with the NAIC on disclosures, defining key terms in the Act, and other implementation issues. The Treasury plans to work closely and consult with the NAIC throughout the implementation of the program.
- **Disclosures.** The Act requires insurers to provide clear and conspicuous disclosure to the policyholder of the premium charged for insured losses covered by the Terrorism Risk Insurance Program and the Federal share of compensation under the Program. The Act also allows insurers to reinstate existing terrorism exclusions if certain disclosures are made to policyholders. Treasury will issue regulations at a later date, but will issue interim guidance next week on types of disclosures that could satisfy the requirements of the Act. In this regard, Treasury will review model disclosure forms developed by the NAIC. The interim guidance will assist insurance companies in complying with the Act's disclosure requirements

prior to issuance of regulations, but will not be the exclusive means of complying with the Act.

- **Definitions and Other Key Decisions**. The Treasury will issue regulations and, where needed, interim guidance in the next few weeks concerning definitions for several terms contained in the Act and how the program will apply to captive insurers and other self-insurance arrangements, and state residual market insurance entities.
- **Studies**. The Act requires the Treasury to study, on an expedited basis, whether adequate and affordable insurance for acts of terrorism is available to insurers that issue group life insurance in the United States, and the extent to which the threat of terrorism is reducing the availability of group life insurance for consumers. Next week, Treasury plans to submit a notice to be published in the Federal Register requesting public comment on a series of questions regarding this study.
- **Administrative Issues**. A new Terrorism Risk Insurance Program Office within the Treasury Department will be established and headed by a Program Administrator. Announcements regarding a Program Administrator will be made as the plans are finalized over the next few weeks. Treasury expects the Program Office to have a small staff, relying upon one or more outside contractors to assist the Treasury in claims administration in the event of a future terrorist attack that produces claims under the Program.

The Treasury is also announcing the launch of a web site to make information available to the public on Treasury's implementation of the Act. The site, found at http://www.treas.gov/trip, will provide updated information on the program, including announcements of all rulemakings, interpretive guidance, and requests for public comments. The web site will continue to be updated in the upcoming weeks.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 26, 2002
PO-3651

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 $75,926 million as of the end of that week, compared to $76,482 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*

	November 15, 2002			November 22, 2002		
TOTAL		76,482			75,926	
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	6,499	13,068	19,567	6,426	12,805	19,231
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,726	2,623	13,349	10,609	2,571	13,180
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
2. IMF Reserve Position [2]			20,599			20,567
3. Special Drawing Rights (SDRs) [2]			11,925			11,907
4. Gold Stock [3]			11,042			11,042
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	November 15, 2002			November 22, 2002		
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Foreign currency loans and securities			0			0

2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the U.S. dollar:

2.a. Short positions	0	0
2.b. Long positions	0	0
3. Other	0	0

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

	November 15, 2002			November 22, 2002		
	Euro	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
1. Contingent liabilities in foreign currency			0			0
1.a. Collateral guarantees on debt due within 1 year						
1.b. Other contingent liabilities						
2. Foreign currency securities with embedded options			0			0
3. Undrawn, unconditional credit lines			0			0
3.a. With other central banks						
3.b. With banks and other financial institutions						
Headquartered in the U.S.						
3.c. With banks and other financial institutions						
Headquartered outside the U.S.						
4. Aggregate short and long positions of options in foreign						
Currencies vis-à-vis the U.S. dollar			0			0
4.a. Short positions						
4.a.1. Bought puts						
4.a.2. Written calls						
4.b. Long positions						
4.b.1. Bought calls						
4.b.2. Written puts						

Notes:

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. Foreign Currency Reserves for the latest week may be subject to revision. Foreign Currency

Reserves for the prior week are final.

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 for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to the prior week's IMF data. IMF data for the latest week may be subject to revision. IMF data for the prior week are final.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 26, 2002
PO-3652

United States and Mexico Sign New Protocol to Income Tax Treaty

Mexico City—Today Deputy Treasury Secretary Kenneth Dam announced that U.S. Ambassador to Mexico Tony Garza and Mexican Secretary of Foreign Relations Jorge Castaneda Gutman signed a new Protocol to amend the existing bilateral income tax treaty, concluded in 1992, between the two countries. The new Protocol is subject to ratification in accordance with the procedures of each country. In the United States, the signed Protocol will be transmitted to the Senate for its advice and consent to ratification.

"The new protocol amending the existing tax treaty between the United States and Mexico reflects the close economic relationship between our two countries. We are pleased that the new agreement provides significant reductions in taxes on dividends, which will further facilitate cross-border trade and investment," stated Deputy Secretary Dam, in explaining the significance of the Protocol.

The most important aspects of the new Protocol deal with the taxation of cross-border dividend payments. The new Protocol is only the third U.S. tax agreement to provide a zero rate of withholding tax on dividends arising from certain direct investments. Dividends from 10-percent owned corporations which do not qualify for this exemption would continue to be subject to the maximum rate of withholding tax of 5 percent under the existing treaty. The new agreement thus will serve to further reduce tax-related barriers to trade and investment flows between the United States and Mexico.

The new Protocol also brings the tax treaty relationship with Mexico into closer conformity with U.S. treaty policy and modernizes the treaty to take account of changes in the laws and policies of both countries since the current treaty was signed. For example, another important aspect of the new Protocol is a modernized provision regarding the determination of the source of income for purposes of applying the rules regarding the elimination of double taxation. Under the new rule, income that may be taxed by one of the parties in accordance with the treaty will generally be treated as arising in that country. Thus, the other country generally will exempt that income or provide a credit for the taxes paid with respect to such income.

A copy of the new Protocol is attached.

SECOND ADDITIONAL PROTOCOL THAT MODIFIES THE CONVENTION BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE UNITED MEXICAN STATES FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME

The Government of the United States of America and the Government of the United Mexican States, desiring to amend the Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, along with a Protocol(the "Convention" and " Protocol", respectively), signed at Washington, D.C. on September 18, 1992; and

Having amended the Convention by an Additional Protocol that Modifies the Convention, signed at Mexico City on September 8, 1994;

Have agreed upon the following provisions which shall be an integral part of the Convention:

ARTICLE I

Article 1 of the Convention is deleted and the following Article is substituted:

"ARTICLE 1

General Scope

1. This Convention shall apply to persons who are residents of one or both of the Contracting States, except as otherwise provided in the Convention.

2. This Convention shall not restrict in any manner any exclusion, exemption, deduction, credit or other allowance now or hereafter accorded:

a) by the laws of either Contracting State; or

b) by any other agreement between the Contracting States.

3. Notwithstanding the provisions of subparagraph b) of paragraph 2:

a) any question arising as to the interpretation or application of this Convention and, in particular, whether a taxation measure is within the scope of this Convention, shall be determined exclusively in accordance with the provisions of Article 26 (Mutual Agreement Procedure) of this Convention; and

b) the provisions of any other agreement shall not apply to a taxation measure unless the competent authorities agree that the measure is not within the scope of Article 25 (Non-Discrimination) of this Convention.

For the purposes of this paragraph, a "measure" is a law, regulation, rule, procedure, decision, administrative action, or any similar provision or action.

4. Notwithstanding any provision of this Convention except paragraph 5, a Contracting State may tax its residents (as determined under Article 4 (Residence)), and by reason of citizenship may tax its citizens, as if the Convention had not come into effect.

5. The provisions of paragraph 4 shall not affect:

a) the benefits conferred by a Contracting State under paragraph 2 of Article 9 (Associated Enterprises), under subparagraph b) of paragraph 1 and paragraph 3 of Article 19 (Pensions, Annuities, Alimony, and Child Support), and under Articles 22

(Exempt Organizations), 24 (Relief from Double Taxation), 25 (Non-Discrimination), and 26 (Mutual Agreement Procedure); and

b) the benefits conferred by a Contracting State under Articles 20 (Government Service), 21 (Students), and 28 (Diplomatic Agents and Consular Officers), upon individuals who are neither citizens of, nor lawful permanent residents in, that State.

6. a) A former citizen or long-term resident whose loss of citizenship or long-term resident status had as one of its principal purposes the avoidance of tax (as defined under the laws of the Contracting State of which the person was a citizen or long-term resident) shall be treated for purposes of paragraph 4 of this Article as a citizen of that Contracting State, but only for a period of 10 years following the loss of such status. This paragraph shall apply only in respect of income from sources within that Contracting State (including income deemed under the domestic law of that State to arise from such sources).

b) The term "long-term resident" shall mean any individual who is a lawful permanent resident of a Contracting State in 8 or more taxable years during the preceding 15 taxable years. In determining whether the threshold in the preceding sentence is met, there shall not count any year in which the individual is treated as a resident of the other Contracting State under this Convention, or as a resident of any country other than the first-mentioned Contracting State under the provisions of any other tax treaty of that Contracting State, and, in either case, the individual does not waive the benefits of such treaty applicable to residents of the other country.

7. In the case of an individual who is a former citizen of a Contracting State, the following factors shall be considered favorably in determining whether or not one of the principal purposes of that individual's loss of citizenship of that Contracting State was the avoidance of tax:

a) at the time of the individual ceasing to be a citizen of that Contracting State or within a reasonable period thereafter, the individual is or becomes a resident fully liable to income tax in the other Contracting State, and

b) i) the individual was a citizen of both Contracting States at birth and has remained a citizen of the other Contracting State;

ii) at the time of the loss of such citizenship (or within a reasonable period thereafter), the individual was or became a citizen of the other Contracting State, and that other Contracting State was that individual's country of birth, or the country of birth of that individual's spouse or of either of that individual's parents;

iii) in the 10 years preceding the loss of such citizenship, the individual was present in that Contracting State for no more than 30 days in each taxable year or year of assessment; or

iv) the loss of citizenship occurred before the individual attained the age of 18 and one half years.

8. In the case of an individual who is a former long-term resident of a Contracting State, the following factors shall be considered favorably in determining whether or not one of the principal purposes of that individual's ceasing to be a long-term resident of that Contracting State was the avoidance of tax:

a) at the time of the individual ceasing to be a long-term resident of that Contracting State or within a reasonable period thereafter, the individual is or becomes a resident fully liable to income tax in the other Contracting State, and that other Contracting State is:

i) the country in which the individual was born;

ii) the country in which the individual's spouse was born; or

iii) the country where either of the individual's parents was born;

b) in the 10 years preceding the individual's ceasing to be a long-term resident of that Contracting State, the individual was present in that Contracting State for no more than 30 days in each taxable year or year of assessment; or

c) the individual ceases to be a long-term resident of that Contracting State before reaching the age of 18 and one half years."

ARTICLE II

a) Article 10 of the Convention is deleted and the following Article is substituted:

"ARTICLE 10

Dividends

1. Dividends paid by a company which is a resident of one of the Contracting States to a resident of the other Contracting State may be taxed in that other State.

2. However, such dividends may also be taxed in the Contracting State of which the company paying the dividends is a resident, and according to the law of that State, but if the beneficial owner of the dividends is a resident of the other Contracting State, the tax so charged shall not exceed:

a) 5 percent of the gross amount of the dividends, if the beneficial owner is a company which owns directly at least 10 percent of the voting stock of the company paying the dividends; and

b) 10 percent of the gross amount of the dividends in all other cases.

This paragraph shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

3. Notwithstanding the provisions of paragraph 2, dividends shall not be taxed in the Contracting State of which the company paying the dividends is a resident if the beneficial owner is a resident of the other Contracting State and is either:

a) a company that has owned shares representing 80 percent or more of the voting stock of the company paying the dividends for a 12-month period ending on the date the dividend is declared, and that:

i) prior to October 1, 1998 owned, directly or indirectly, shares representing 80 percent or more of the voting stock of the company paying the dividends; or

ii) is entitled to the benefits of the Convention under clauses (i) or (ii) of subparagraph d) of paragraph 1 of Article 17 (Limitation on Benefits); or

iii) is entitled to the benefits of the Convention with respect to the dividends under subparagraph g) of paragraph 1 of Article 17; or

iv) has received a determination from the relevant competent authority pursuant to paragraph 2 of Article 17 with respect to this paragraph; or

b) a trust, company, or other organization constituted and operated exclusively to administer or provide benefits under one or more plans established to provide pension, retirement or other employee benefits and its income is generally exempt from tax in the Contracting State of which it is a resident, provided that such dividends are not derived from the carrying on of a business, directly or indirectly, by such trust, company or organization.

4. a) Subparagraph a) of paragraph 2 and subparagraph a) of paragraph 3 shall not apply in the case of dividends paid by a Regulated Investment Company (RIC) or a Real Estate Investment Trust (REIT).

b) In the case of dividends paid by a RIC, subparagraph b) of paragraph 2 and subparagraph b) of paragraph 3 shall apply.

c) In the case of dividends paid by a REIT, subparagraph b) of paragraph 2 and subparagraph b) of paragraph 3 shall apply only if:

i) the person beneficially entitled to the dividends is an individual or a person described in subparagraph b) of paragraph 3, in either case owning an interest of not more than 10 percent in the REIT;

ii) the dividends are paid with respect to a class of stock that is publicly traded and the person beneficially entitled to the dividends owns an interest of not more than 5 percent of any class of the REIT's stock; or

iii) the person beneficially entitled to the dividends owns an interest of not more than 10 percent in the REIT and the gross value of no single interest in real property held by the REIT exceeds 10 percent of the gross value of the REIT's total interest in real property.

5. The provisions of paragraphs 1, 2, 3 and 4 of this Article shall not apply if the beneficial owner of the dividends, being a resident of a Contracting State, carries on or has carried on business in the other Contracting State, of which the company paying the dividends is a resident, through a permanent establishment situated in that other Contracting State, or performs or has performed in that other Contracting State independent personal services from a fixed base situated in that other State, and the dividends are attributable to such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits) or Article 14 (Independent Personal Services), as the case may be, shall apply.

6. The term "dividends" as used in this Article means income from shares or other rights, not being debt-claims, participating in profits, as well as income from other corporate rights that is subjected to the same taxation treatment as income from shares by the laws of the State of which the company making the distribution is a resident.

7. When a company that is a resident of a Contracting State derives profits or income from the other Contracting State, that other State may not impose any tax on the dividends paid by a company which is not a resident of that State, except insofar as such dividends are paid to a resident of that other State or the dividends are attributable to a permanent establishment or fixed base situated in that State.

8. The competent authorities of the Contracting States shall consult each other with a view to develop a commonly agreed application of clause iv) of subparagraph a) of paragraph 3 of this Article, including the publication of regulations or other public guidance."

b) Paragraph 8 of the Protocol is deleted and the following is substituted:

"8. With reference to paragraph 3 of Article 10 (Dividends).

If the United States agrees in a treaty with another country to a provision similar to paragraph 3 of Article 10 of the Convention, but with more beneficial conditions than those contained in paragraph 3 of Article 10, the Contracting States shall, at Mexico's request, consult each other with a view to concluding an additional protocol to incorporate similar provisions into paragraph 3 of Article 10 to restore the balance of the benefits provided under the Convention."

c) With regard to paragraph 9 of the Protocol, the reference to "paragraph 4 of Article 10 (Dividends)," is deleted and substituted by "paragraph 6 of Article 10 (Dividends),".

Article 11A of the Convention is amended by inserting an additional paragraph as follows:

"3. Notwithstanding the provisions of the preceding paragraphs, a company will be exempt from the tax described in subparagraph a) of paragraph 2 if such company:

a) prior to October 1, 1998, was engaged in activities giving rise to profits attributable to the permanent establishment described in paragraph 2 or to income or gains to which the provisions of Article 6 (Income From Immovable Property (Real Property)) or, as the case may be, paragraphs 1 and 4 of Article 13 (Capital Gains) apply;

b) is entitled to the benefits of the Convention under clauses (i) or (ii) of subparagraph d) of paragraph 1 of Article 17 (Limitation on Benefits);

c) is entitled to the benefits of the Convention with respect to the dividends under subparagraph g) of paragraph 1 of Article 17; or

d) has received a determination from the relevant competent authority pursuant to paragraph 2 of Article 17 with respect to this paragraph."

ARTICLE IV

Paragraph 4 of Article 13 (Capital Gains) of the Convention is deleted and the following paragraph is substituted:

"4. In addition to gains taxable in accordance with the provisions of the preceding paragraphs of this Article, gains derived by a resident of a Contracting State from the alienation of stock, participation, or other rights in the capital of a company or other legal person which is a resident of the other Contracting State may be taxed in that other Contracting State if the recipient of the gain, during the 12-month period preceding such alienation, had a participation, directly or indirectly, of at least 25 percent in the capital of that company or other legal person."

ARTICLE V

Paragraph 3 of Article 24 (Relief From Double Taxation) of the Convention is deleted and the following is substituted:

"3. For the purposes of allowing relief from double taxation pursuant to this Article, an item of gross income, as determined under the laws of a Contracting State, derived by a resident of that State that under this Convention may be taxed in the other Contracting State (other than solely by reason of citizenship in accordance with paragraph 4 of Article 1 (General Scope)), shall be deemed to be income from sources in that other State."

ARTICLE VI

a) The Contracting States shall notify each other, through diplomatic channels, when their respective constitutional and statutory requirements for the entry into force of this Protocol have been satisfied. This Protocol shall enter into force on the date of receipt of the later of such notifications.

b) The provisions of this Protocol shall have effect:

i) in respect of Article II, for dividends paid or credited on or after the first day of the second month next following the date on which the Protocol enters into force;

ii) in respect of Articles I, III, IV and V, for taxable periods beginning on or after the first day of January of the year following the year in which the Protocol enters into force.

ARTICLE VII

This Protocol shall remain in force as long as the Convention and Protocol of September 18, 1992, remain in force.

IN WITNESS WHEREOF, the undersigned, being duly authorized thereto by their respective Governments, have signed this Protocol.

DONE at ________________, on the _____ day of _____________, 2002, in duplicate, in the English and Spanish languages, both texts being equally authentic.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:	FOR THE GOVERNMENT OF THE UNITED MEXICAN STATES:

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
November 26, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	27-Day Bill
Issue Date:	November 29, 2002
Maturity Date:	December 26, 2002
CUSIP Number:	912795LR0

High Rate: 1.250% Investment Rate 1/: 1.272% Price: 99.906

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 11.79%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 41,749,957	$ 21,959,517
Noncompetitive	40,509	40,509
FIMA (noncompetitive)	0	0
SUBTOTAL	41,790,466	22,000,026
Federal Reserve	1,828,559	1,828,559
TOTAL	$ 43,619,025	$ 23,828,585

Median rate 1.225%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.210%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 41,790,466 / 22,000,026 = 1.90

1/ Equivalent coupon-issue yield.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 26, 2002
PO-3654

ATSB Decision On MEDjet International, Inc.

WASHINGTON, DC – The Air Transportation Stabilization Board (Board) announced today that it has denied the application of MEDjet International, Inc. for a Federal guarantee of $7.7 million on an $8.8 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 MEDjet'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.

Related Documents:

- MEDjet Decision Letter

DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

[Air Transportation Stabilization Board Letterhead]

Daniel Montgomery
Executive Director

November 26, 2002

Jeffrey T. Tolbert
President
MEDjet International, Inc.
1000 Urban enter Drive
Birmingham, AL 35242

Dear Mr. Tolbert:

In accordance with 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 Air Transportation Stabilization Board (the "Board") has considered the application of MEDjet International, Inc. ("MEDjet") dated June 28, 2002, as supplemented (the "Application"), for a Federal loan guarantee of $7.7 million on a loan of $8.8 million.

During the process of reviewing the Application, the Board staff held telephone calls with you. The Board staff met with you and your advisors on September 10, 2002 and October 9, 2002. Representatives of each Board member attended the meeting on October 9, 2002. Following these meetings and communications, the Board staff and representatives of each Board member fully briefed the Board members on the Application.

The Board has carefully considered the Application under the standards set out under the Act and the Regulations. The Board's consideration 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 determined that the Application did not meet the applicable standards, and, accordingly, the Board voted to deny the Application.

The Board determined that MEDjet's proposal did not provide a reasonable assurance that MEDjet would be able to repay the loan, an important evaluation criteria that the Board is required to consider in assessing loan applications. The Board's financial consultant assigned MEDjet's proposed financing an extremely low credit rating. Such a rating implies a high probability of default. For all government-guaranteed loan applications, a credit subsidy is computed, which represents the expected cost to the U.S. taxpayers of guaranteeing the loan. The figures for MEDjet implied a high probability of default and related credit subsidy that the Board deemed too high to impose on the U.S. taxpayers. In addition, based upon MEDjet's historical losses, the Board's assessment that MEDjet's future cashflows are significantly dependent upon business initiatives yet to be commenced and the Board's concerns about the unpredictability of MEDjet's future business, the Board was unable to conclude that the loan by MEDjet was prudently incurred.

If you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

To view or print the PDF content on this page, download the free Adobe® Acrobat® Reader®.

November 26, 2002
PO-3655

ATSB Decision On Corporate Airlines

WASHINGTON, DC – The Air Transportation Stabilization Board (Board) announced today that it has denied the application of Corporate Airlines, Inc. for a Federal guarantee of $7.0 million on an $8.0 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 Corporate'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.

Related Documents:

- Corporate Decision Letter

DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

[Air Transportation Stabilization Board Letterhead]

Daniel Montgomery
Executive Director

November 26, 2002

Fred S. Breeden
Chief Financial Officer
Corporate Airlines, Inc.
693 Fitzhugh Boulevard
Smyrna, Tennessee 37167

Dear Mr. Breeden:

In accordance with 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 Air Transportation Stabilization Board (the "Board") has considered the application of Corporate Airlines, Inc. ("Corporate") dated June 26, 2002, as supplemented (the "Application"), for a Federal loan guarantee of $7 million on a loan of $8 million.

During the process of reviewing the Application, the Board staff held telephone calls with you and your advisors and communicated additional requests for information. The Board staff met with you and your advisors on August 21, 2002 and November 6, 2002. Representatives of each Board member attended the meeting on November 6, 2002. Following these meetings and communications, the Board staff and representatives of each Board member fully briefed the Board members on the Application.

The Board has carefully considered the Application under the standards set out under the Act and the Regulations. The Board's consideration 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 determined that the Application did not meet the applicable standards, and, accordingly, the Board voted to deny the Application.

The Board determined that Corporate's proposal did not provide a reasonable assurance that Corporate would be able to repay the loan, an important evaluation criteria that the Board is required to consider in assessing loan applications. The Board's financial consultant assigned Corporate's proposed financing an extremely low credit rating. Such a rating implies a high probability of default. For all government-guaranteed loan applications, a credit subsidy is computed, which represents the expected cost to the U.S. taxpayers of guaranteeing the loan. The figures for Corporate implied a high probability of default and related credit subsidy that the Board deemed too high to impose on the U.S. taxpayers. In addition, based upon Corporate's periodic losses, low average projected liquidity and the Board's concerns about Corporate's optimistic expansion strategy and the financial projections related thereto, the Board was unable to conclude that the loan by Corporate was prudently incurred.

If you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

December 2, 2002
PO-3656

Wayne Abernathy Sworn in as Treasury Assistant Secretary for Financial Institutions

Wayne A. Abernathy today was sworn in as Treasury Assistant Secretary for Financial Institutions. He was nominated by President Bush on August 1, 2002 and confirmed by the U.S. Senate on November 14, 2002.

As Assistant Secretary, Mr. Abernathy will lead the Office of Financial Institutions in coordinating the Department's efforts regarding financial institutions legislation and regulation, legislation affecting federal agencies that regulate or insure financial institutions, and securities markets legislation and regulation. He will oversee Treasury's newly created Terrorism Risk Insurance Program. He also will be responsible for the promotion of consumer access and protection in financial services.

Mr. Abernathy will oversee the Office of Financial Education, the Community Development Financial Institutions Fund and the Office of Sallie Mae Oversight.

Mr. Abernathy brings more than 20 years of financial policy expertise to the position. He most recently served as Republican Staff Director of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, where he also served as committee Staff Director to Chairman Phil Gramm from 1999 until 2001.

Previous experience with the Senate Banking Committee includes serving as Staff Director of the Subcommittee on Securities during 1995-1998. From 1989 until 1994, Mr. Abernathy was a Republican economist for the committee. He previously worked as a senior legislative assistant for Senator Gramm during 1987-1989 and as an economist for the Banking Committee's Subcommittee on International Finance and Monetary Policy during 1981-1986.

Mr. Abernathy earned his bachelor's degree in International Studies from The Johns Hopkins University in 1978, graduating with honors. In 1980, he earned a master's degree in International Economics, International Law and Organization, International Politics from the School of Advanced International Studies at The Johns Hopkins University. Mr. Abernathy is married with five children and resides in Fairfax, VA.

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
November 27, 2002

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate:	2%	Issue Date:	December 02, 2002
Series:	U-2004	Dated Date:	November 30, 2002
CUSIP No:	912828AQ3	Maturity Date:	November 30, 2004

High Yield: 2.120% Price: 99.767

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 53.79%. All tenders at lower yields were accepted in full.

Accrued interest of $ 0.10989 per $1,000 must be paid for the period from November 30, 2002 to December 02, 2002.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 47,011,721	$ 26,215,621
Noncompetitive	784,422	784,422
FIMA (noncompetitive)	0	0
SUBTOTAL	47,796,143	27,000,043 1/
Federal Reserve	5,863,933	5,863,933
TOTAL	$ 53,660,076	$ 32,863,976

Median yield 2.080%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 2.040%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 47,796,143 / 27,000,043 = 1.77

1/ Awards to TREASURY DIRECT = $597,939,000