Department of the Treasury

PRESS RELEASES

The following numbers were not used:

KD-3749 and 3750

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.
January 2, 2003

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 $30,240 million of publicly held 13-week and 26-week Treasury bills maturing January 9, 2003, and to pay down approximately $240 million. Also maturing is an estimated $16,001 million of publicly held 4-week Treasury bills, the disposition of which will be announced January 6, 2003.

The Federal Reserve System holds $13,572 million of the Treasury bills maturing on January 9, 2003, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders either in these auctions or the 4-week Treasury bill auction to be held January 7, 2003. 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 $1,134 million into the 13-week bill and $693 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-3729

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED JANUARY 9, 2003

January 2, 2003

Offering Amount	$15,000 million	$15,000 million
Maximum Award (35% of Offering Amount)	$ 5,250 million	$ 5,250 million
Maximum Recognized Bid at a Single Rate	$ 5,250 million	$ 5,250 million
NLP Reporting Threshold	$ 5,250 million	$ 5,250 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 MG 3	912795 NC 1
Auction date	January 6, 2003	January 6, 2003
Issue date	January 9, 2003	January 9, 2003
Maturity date	April 10, 2003	July 10, 2003
Original issue date	October 10, 2002	January 9, 2003
Currently outstanding	$19,143 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 equals or exceeds the NLP reporting threshold stated above.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

January 6, 2003
PO-3730

Media Advisory
President's Commission on U.S. Postal Service Holds First Meeting on Wednesday

The President's Commission on the U.S. Postal Service this week will hold its first meeting and will hear testimony from senior officials from the Treasury Department and the Postal Service.

The meeting, which is open to the public and media, will be held at 8:30 a.m.-12:00 p.m. EST on Wednesday, January 8, 2003 at the Hotel Washington, 15th Street and Pennsylvania Ave., N.W., Washington, DC.

Those speaking before the Commission include Treasury Under Secretary for Domestic Finance Peter R. Fisher, Postmaster General John E. Potter, and Chief Financial Officer and Executive Vice President of the Postal Service Richard Strasser.

The nine-member bipartisan Commission, established by President Bush on December 11, 2002, will identify the operational, structural, and financial challenges facing the Postal Service; examine potential solutions; and recommend legislative and administrative steps to ensure the long-term viability of postal service in the United States. The Commission is co-chaired by James A. Johnson, Vice Chairman of Perseus, L.L.C., and Harry Pearce, Chairman of Hughes Electronics Corporation. The Commission will submit its report to the President by July 31, 2003.

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.
January 6, 2003

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $13,000 million to refund an estimated $16,001 million of publicly held 4-week Treasury bills maturing January 9, 2003, and to pay down approximately $3,001 million.

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

The Federal Reserve System holds $13,572 million of the Treasury bills maturing on January 9, 2003, 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 3731

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED JANUARY 9, 2003

January 6, 2003

Offering Amount..........................$13,000 million
Maximum Award (35% of Offering Amount)...$ 4,550 million
Maximum Recognized Bid at a Single Rate..$ 4,550 million
NLP Reporting Threshold..................$ 4,550 million
NLP Exclusion Amount.....................$11,500 million

Description of Offering:
Term and type of security...........28-day bill
CUSIP number........................912795 LX 7
Auction date........................January 7, 2003
Issue date..........................January 9, 2003
Maturity date.......................February 6, 2003
Original issue date.................August 8, 2002
Currently outstanding...............$44,680 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 equals or exceeds the NLP reporting threshold stated above.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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.
January 6, 2003

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 9-1/2-YEAR 3% INFLATION-INDEXED NOTES

The Treasury will auction $6,000 million of 9-1/2-year 3% inflation-indexed notes to raise new cash.

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

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

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

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

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

For original issue discount (OID), IRS regulations permit reopenings of inflation-indexed securities without regard to OID rules, provided that the reopenings occur not more than one year after the original securities were first issued to the public. Therefore, the OID limit does not apply to this auction.

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

oOo

Attachment

PO-3732

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF
9-1/2-YEAR INFLATION-INDEXED NOTES TO BE ISSUED JANUARY 15, 2003

January 6, 2003

Offering Amount	$6,000 million
Maximum Award (35% of Offering Amount)	$2,100 million
Maximum Recognized Bid at a Single Rate	$2,100 million
NLP Reporting Threshold	$2,100 million
NLP Exclusion Amount	$5,600 million

Description of Offering:

Term and type of security	9-1/2-year inflation-indexed notes (reopening)
Series	C-2012
CUSIP number	912828 AF 7
Auction date	January 8, 2003
Issue date	January 15, 2003
Dated date	July 15, 2002
Maturity date	July 15, 2012
Interest rate	3%
Amount outstanding	$17,014 million
Adjusted amount currently outstanding	$17,156 million
Real yield	Determined at auction
Interest payment dates	July 15 and January 15
Minimum bid amount and multiples	$1,000
Accrued interest	None
Premium or discount	Determined at auction

STRIPS Information:

Minimum amount required	$1,000
Corpus CUSIP number	912820 HC 4
TIIN conversion factor per $1,000	8.342602892

Submission of Bids:

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

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

Competitive bids:

(1) Must be expressed as a real yield with three decimals, e.g., 3.123%.

(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position equals or exceeds the NLP reporting threshold stated above.

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

Receipt of Tenders:

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

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

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

Indexing Information:

CPI Base Reference Period	1982-1984
Ref CPI 07/15/2002	179.80000
Ref CPI 01/15/2003	181.30000
Index Ratio 01/15/2003	1.00834

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
January 06, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	January 09, 2003
Maturity Date:	April 10, 2003
CUSIP Number:	912795MG3

High Rate: 1.185% Investment Rate 1/: 1.207% Price: 99.700

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 63.42%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 41,938,413	$ 13,271,423
Noncompetitive	1,558,831	1,558,831
FIMA (noncompetitive)	170,000	170,000
SUBTOTAL	43,667,244	15,000,254 2/
Federal Reserve	5,576,377	5,576,377
TOTAL	$ 49,243,621	$ 20,576,631

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 = 43,667,244 / 15,000,254 = 2.91

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,246,935,000

PO 3733

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
January 06, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	January 09, 2003
Maturity Date:	July 10, 2003
CUSIP Number:	912795NC1

High Rate: 1.240% Investment Rate 1/: 1.265% Price: 99.373

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 69.77%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 34,610,012	$ 13,850,280
Noncompetitive	974,846	974,846
FIMA (noncompetitive)	175,000	175,000
SUBTOTAL	35,759,858	15,000,126 2/
Federal Reserve	5,541,487	5,541,487
TOTAL	$ 41,301,345	$ 20,541,613

Median rate 1.230%: 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 = 35,759,858 / 15,000,126 = 2.38

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $752,415,000

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 7, 2003
PO-3735

Media Advisory:
Background Briefing on the President's Jobs & Growth Package

Treasury Assistant Secretary for Tax Policy Pam Olson and Treasury Assistant Secretary for Economic Policy Richard Clarida will hold a background briefing on the President's Jobs & Growth package today, Tuesday, January 7, 2003 at 2:30 pm in the Diplomatic Reception room (room 3311). This session will provide a synopsis of the proposals and will also allow for a question and answer session. No cameras will be admitted-- this is a "pen and pad" only briefing.

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.

Bureau of the **PublicDebt**
United States Department of the Treasury

Public Debt Announces Activity for Securities in the STRIPS Program for December 2002

FOR IMMEDIATE RELEASE

January 7, 2003

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

	In Thousands
Principal Outstanding (Eligible Securities)	$2,227,572,302
Held in Unstripped Form	$2,058,293,884
Held in Stripped Form	$169,278,418
Reconstituted in December	$11,549,149

The accompanying table, gives a breakdown of STRIPS activity by individual loan description. The balances in this table are subject to udit 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.

PO - 3736

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 7, 2003
KD-3737

Statement by Acting Treasury Secretary Kenneth W. Dam on the Announcement of President Bush's Jobs and Growth Package

Today President Bush announced a legislative package that will encourage continued consumer spending to boost the economic recovery, promote investment by individuals and businesses to grow the economy and create jobs, and deliver critical help to unemployed citizens.

This initiative will spur real overall economic growth, yet it is disciplined and tailored to address specific challenges. The American economy is strong, but it must be stronger. The President's plan is a focused effort designed to remove the obstacles standing in the way of faster growth and greater progress.

President Bush will not be satisfied until every American who wants a job can find one; until every business has a chance to grow; and until we turn our economic recovery into lasting prosperity that reaches every corner of America.

We have been through a recession, a terrorist attack, a breach of corporate confidence, and yet the economy has demonstrated its resilience by growing. It appears we have just completed our fifth consecutive quarter of growth.

Many economists agree that President Bush's 2001 tax cut was the right policy at the right time and helped to make the recession one of the shortest and shallowest in modern history. This new package will build on the success of the 2001 tax cut by making the tax rate reductions effective now when they can do the most for individuals and the economy. This is the right plan at the right time.

Taking Action to Strengthen America's Economy

Today's Presidential Action

- President Bush today announced a growth and jobs plan to strengthen the American economy, and called on Congress to act swiftly to pass it.

- The President's economic agenda has three main goals:
  - Encourage consumer spending that will continue to boost the economic recovery.
  - Promote investment by individuals and businesses that will lead to economic growth and job creation.
  - Deliver critical help to unemployed citizens.

- The President's new proposal would:
  - Speed up the 2001 tax cuts to increase the pace of the recovery and job creation.
  - Encourage job-creating investment in America's businesses by ending the double taxation of dividends and giving small businesses incentives to grow.
  - Provide help for unemployed Americans, including extending unemployment benefits and creating new re-employment accounts to help displaced workers get back on the job.

- Who benefits under the President's plan?
  - <u>Everyone who pays taxes—especially middle-income Americans</u>—as tax rate reductions passed by Congress in 2001 are made effective immediately. Middle-income families will receive additional relief from accelerated reduction of the marriage penalty, a faster increase in the child tax credit, and immediate implementation of the new, lower 10 percent tax bracket.
  - <u>Everyone who invests in the stock market and receives dividend income—especially seniors</u>—will benefit from elimination of the double taxation on dividends. About half of all dividend income goes to America's seniors, who often rely on those checks for a steady source of retirement income.
  - <u>Every small business owner who purchases equipment</u> to grow and expand will get assistance through an increase in the expensing limits from $25,000 to $75,000.
  - <u>Every worker who has lost his or her job and qualifies for unemployment benefits</u> will get more help, and many will qualify for new, more flexible Personal Re-employment Accounts, which provide a bonus if they find work quickly.

- **Under the President's proposal to speed up tax relief, 92 million taxpayers would receive, on average, a tax cut of $1,083 in 2003.**
  - 46 million married couples would receive an average tax cut of $1,716.
  - 34 million families with children would benefit from an average tax cut of $1,473.
  - 6 million single women with children would receive an average tax cut of $541.
  - 13 million elderly taxpayers would receive an average tax cut of $1,384.
  - 23 million small business owners would receive tax cuts averaging $2,042.

  Example:
  A typical family of four with two earners making a combined $39,000 in income will receive a total of $1,100 in tax relief under the President's plan.

- **According to a projection by the Council of Economic Advisers, the President's plan will help the economy to create 2.1 million jobs over the next three years.**

PO 3735

Making Progress: From Recession to Recovery

- **Since the beginning of his Administration, the President has acted decisively to promote economic growth and job creation.**
  - In 2001, he fulfilled his promise to reduce the tax burden on the American people. This tax relief gave the economy a boost at just the right time—ensuring that the recession was one of the shortest and shallowest in modern American history. These tax cuts worked, and the President will continue to press the Congress to make the cuts—including the end of the death tax—permanent.
  - In 2002, he proposed and signed into law an economic stimulus bill, tough new corporate accountability standards, terrorism insurance legislation to put construction projects back on track, and an historic trade act. All these measures will help our economy as it recovers from the shocks of recession, the attacks of September 11th, and serious abuses of trust by some corporate officials.

- **Today, America's economy is recovering and showing signs of growth.**
  - The country is now in its second year of economic growth.
  - Nationwide, incomes are rising faster than inflation.
  - Interest rates are the lowest in 37 years, and low interest rates have allowed Americans to refinance their homes, adding more than $100 billion to their pocketbooks and to the economy.
  - The homeownership rate—a central part of the American dream—is 68 percent, close to the highest ever.
  - Productivity of American workers—the most important indicator of our economic strength—went up 5.6 percent over the last four measured quarters, the best since 1973.
  - Our trade with other nations is expanding—bringing the lower prices that come from imports, and the better jobs that come from exports.

More to Do: The President's Agenda to Strengthen America's Economy

- America has the strongest, most resilient economy in the world, yet this economy is not creating enough jobs. We have made great progress, but there is still more work to do.

- The President today proposed a specific agenda to increase the momentum of our economic recovery. The President's proposal would:

  Speed up Tax Relief to Speed up the Recovery: The President's proposal builds on the success of the 2001 tax cut. As a result of this law, Americans are due to receive additional tax relief in 2004, and again in 2006. Republicans and Democrats in Congress have already enacted these cuts. The President believes the time to deliver this relief is now – when it can do the most good for families, businesses, and the economy – not years from now.

  The President's plan would:
  - Make all the tax rate reductions from the 2001 tax law effective this year—and retroactive to January 1, 2003.
  - Upon passage, the President will order the Treasury Department to immediately adjust the amount of money withheld for income taxes, so that Americans will keep more of their paychecks right away.
  - For income earned after January 1, 2003, the following tax rates would be in effect:
    10%
    15%
    25%
    28%
    33%
    35%

The President's plan would also bring middle-income families additional relief by speeding up three other tax reductions promised in 2001. It would:

- Reduce the marriage penalty this year, instead of waiting until 2009. An estimated 46 million married couples would benefit under the President's plan.
- Raise the child tax credit from $600 to $1,000 per child this year, instead of in 2010. That would amount to a $400 increase per child, and checks would be issued in that amount <u>this year</u> to help parents across America. An estimated 34 million families with children would benefit under the President's plan.
- Move several million working Americans into the lowest tax bracket of 10 percent now instead of waiting until 2008.

[Note: The plan will hold harmless any taxpayer that may be affected by the Alternative Minimum Tax].

<u>Encourage Job-Creating Investment in America's Economy</u> – The President proposed two new steps to encourage individuals and businesses to invest in America's economy.

End the double taxation of dividends

- Roughly 35 million American households receive dividend income that is taxable and will directly benefit under the President's plan. More than half of these dividends go to America's seniors, many of whom rely on these checks for a steady source of income in their retirement.
- Yet seniors and other investors are not getting the full benefit of their investments because those investments are taxed twice. The IRS taxes a company on its profits, then it taxes the investors who receive the profits as dividends. The result is that for every dollar of profit a company could pay out in dividends, as little as 40 cents can actually reach shareholders.
- In practice, double taxation of dividends means that even an investor of modest means is paying a higher tax rate on dividends than wealthy taxpayers pay on their income.
- It is fair to tax a company's profits, and under the President's plan, company profits will still be taxed – but only once. It is not fair to tax this income twice by taxing the shareholder on those same profits. Double taxation is wrong—and it falls hardest on seniors.
- Almost half of all savings from the dividend exclusion under the President's plan would go to taxpayers 65 and older. The average tax savings for the 9.8 million seniors receiving dividends would be $936.
- The President's plan would eliminate the double taxation of dividends for millions of stockholders – allowing taxpayers to exclude dividend payments from their taxable income – and returning about $20 billion this year to the economy.

Increase incentives for small businesses to grow

- Small businesses create the majority of new jobs and account for half the output of the economy.
- Current tax laws permit them to write off as expenses up to $25,000 worth of equipment purchases. The President's plan would increase that limit to $75,000 and index it to inflation – encouraging them to buy technology, machinery, and other equipment they need to expand.

Help Unemployed Americans Find Work –As we work to encourage long-term growth in the economy, we must not forget men and women struggling today. The President's plan would help the unemployed on two fronts, providing both short-term benefits and long-term opportunity:

Extend unemployment benefits

- Close to 70,000 workers exhaust their unempbyment benefits each week and need our help.
- The President's plan calls on Congress to extend unemployment benefits that expired on December 28th and make them retroactive so people who lost benefits in December will receive them in full. The President is calling upon Congress to make helping unemployed Americans a first order of business this year.

Create new Personal Re-employment Accounts

- The President's plan would create Personal Re-employment Accounts, a new, innovative approach to help unemployed Americans find a job.
- These accounts would provide unemployed workers with up to $3,000 to use for job training, child care, transportation, moving costs, or other expenses associated with finding a new job. A person who gets a job within 13 weeks will be able to keep the leftover funds from their account as a re-employment bonus. This will help them when they are looking for work and give them an incentive to find work faster.
- President Bush proposes giving states $3.6 billion to fund these accounts. The program would be administered through the One Stop Career Center system and would work through existing state unemployment systems to ensure speedy delivery of benefits.
- Under the President's plan, these accounts would be available to at least 1.2 million Americans.
- Workers would receive these Personal Re-employment Accounts in addition to their regular unemployment benefits.

Turning Recovery into Prosperity

- The President's jobs and growth package will provide $98 billion of total tax relief over the next 16 months and $670 billion over the next decade. It will spur real overall economic growth, yet it is disciplined and tailored to address specific challenges.

- The American economy is strong, but it must be stronger. The President's plan is a focused effort designed to remove the obstacles standing in the way of faster growth and greater progress.

- President Bush will not be satisfied until every American who wants a job can find one; until every business has a chance to grow; and until we turn our economic recovery into lasting prosperity that reaches every corner of America.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 7, 2003
KD-3739

Tax Provisions of The President's Growth Package

Accelerated 10-Percent Bracket Expansion: The expansion of the 10-percent bracket scheduled for 2008 is accelerated to 2003, and is indexed for inflation beginning in 2004. The endpoint of the 10-percent tax bracket increases from $12,000 of taxable income to $14,000 for married couples (and from $6,000 to $7,000 for single taxpayers). This expansion benefits married taxpayers with taxable income over $12,000 and single taxpayers with taxable income over $6,000. Tax Relief: CY 2003: $5 billion; FY 2003-2013: $48 billion

Accelerated Reduction in Income Tax Rates: The reductions in income tax rates in excess of 15-percent scheduled for 2004 and 2006 are accelerated to 2003, resulting in new rates of 25%, 28%, 33% and 35% (from 27%, 30%, 35% and 38.6%). These reductions benefit married couples with taxable income greater than $47,450 and single taxpayers with taxable income greater than $28,400. Tax Relief: CY 2003: $29 billion; FY 2003-2013: $64 billion

Accelerated Reduction of Marriage Penalty: The standard deduction for married couples is increased to double the amount of the standard deduction for single taxpayers in 2003. The width of the 15-percent tax bracket for married couples is increased to twice the width for single taxpayers in 2003. These provisions were scheduled to phase-in over the period between 2005 and 2009. These reductions benefit married couples who claim the standard deduction or who have taxable income greater than $47,450. Tax Relief: CY 2003: $19 billion; FY 2003-2013: $58 billion

Accelerated Increase in Child Tax Credit: The amount of the child tax credit is increased to $1,000 in 2003 (from $600), accelerating a scheduled phase-in over the period between 2005 and 2010. In 2003, the increased amount of the child tax credit will be paid in advance beginning in July 2003 on the basis of information on the taxpayer's 2002 tax return filed in 2003. Advanced payments will be made in a manner similar to the advance payment checks that were issued in 2001 to reflect the new 10-percent tax bracket. Tax Relief: CY 2003: $16 billion; FY 2003-2013: $91 billion

Exclusion of Dividends from Individual Taxable Income: Dividends paid by corporations to individuals are excluded from taxable income when paid out of previously taxed corporate income beginning in 2003. Dividends paid by corporations in excess of previously taxed corporate income are included in taxable income. This provision eliminates the double taxation of corporate dividends. Tax Relief: CY 2003: $20 billion; FY 2003-2013: $364 billion

Increase in Small Business Expensing for New Investment: The amount of investment that may be immediately deducted by small businesses is increased from $25,000 to $75,000 beginning in 2003. The amount of investment qualifying for this immediate deduction begins to phase out for small businesses with investment in excess of $325,000 (increased from $200,000). Both parameters are indexed for inflation beginning in 2004. Tax Relief: CY 2003: $2 billion; FY 2003-2013: $16 billion

AMT Hold-Harmless Relief: To ensure that the benefits from the acceleration of the tax reductions are not reduced by the AMT, the AMT exemption amount is increased by $8,000 for married taxpayers and by $4,000 for single taxpayers in 2003 through 2005. Tax Relief: CY 2003: $8 billion; FY 2003-2013: $29 billion

Total Tax Relief: CY 2003 $98 billion; FY 2003-2013: $670 billion

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 7, 2003
KD-3740

Distribution of the President's Growth Package

Attached is a table prepared by the Department of the Treasury that shows the distributional effects of the major individual income tax provisions in the President's proposal. The effects are shown for the proposal in 2003.

The average income tax reduction ranges from about 17 percent for taxpayers with income under $30,000 to just over 11 percent for taxpayers with income over $100,000. The average income tax reduction across all income groups is slightly more than 12 percent.

Because the percentage reduction in income taxes is greatest for families with incomes under $50,000, these families will pay a smaller share of the total income tax burden under the President's proposal than they do under current law (compare the distribution of total individual income taxes under 2003 law and under the proposal).

Conversely, families with income of $100,000 or more receive a smaller than average percentage reduction in income taxes so they will pay a larger share of the total income tax burden under the President's proposal than they do under current law. Under the proposal, the share of income taxes paid by families with income of $100,000 or more will rise to 73.3 percent.

The table also presents the average individual income taxes paid for the representative income groups under the President's plan. Under the proposal, those in the lowest income group (under $30,000) will on average receive refundable credits in excess of tax payments of $416 and those in the second lowest income group will pay an average of $1,002 in income tax. Those earning over $200,000 will on average pay approximately $99,000 in income taxes.

January 5, 2003

Distribution Table

President's Growth Package[1]
(Relative to Major Individual Income Tax Provisions in Effect in 2003)

(2000 Income Levels)

Cash Income Class[2]	Distribution of Changes in Individual Income Taxes (%)	Distribution of Total Individual Income Taxes[3]: 2003 Law (%)	Distribution of Total Individual Income Taxes[3]: With Proposal[4] (%)	Average Individual Income Taxes With Proposal ($)	Percent Change in Individual Income Taxes (%)
0 - 30	2.7	-2.0	-2.6	-416	-17.0
30 - 40	3.4	2.1	1.9	1,002	-20.1
40 - 50	4.4	3.7	3.6	2,243	-14.5
50 - 75	10.8	11.6	11.7	4,295	-11.4
75 - 100	12.7	12.1	12.0	7,562	-13.0
100 - 200	25.5	27.6	27.9	15,836	-11.4
200 & over	40.5	44.8	45.4	99,072	-11.2
Total[5]	100.0	100.0	100.0	6,099	-12.3

Department of the Treasury
Office of Tax Analysis

January 3, 2003

[1] The provisions of the Growth Package included are: i) accelerate to 2003 the reductions in income tax rates above 15% scheduled for 2004 and 2006; ii) accelerate to 2003 the increase in the width of the 10% bracket for single and joint filers scheduled for 2008; iii) accelerate to 2003 the increase in the standard deduction and the width of the 15% bracket for joint filers scheduled to phase in between 2005 and 2009; iv) accelerate to 2003 the increase in the child credit from $600 to $1,000 scheduled to phase in between 2005 and 2010; v) a 100% exclusion for dividends received (with EDAs and DRIPS) effective beginning in 2003; and vi) a temporary increase in the AMT exemption amount for 2003 through 2005.

[2] Cash Income consists of wages and salaries, net income from a business or farm, taxable and tax-exempt interest, dividends, rental income, realized capital gains, cash transfers from the government, and retirement benefits. Employer contributions for payroll taxes and the federal corporate income tax are added to place cash on a pre-tax basis. Cash income is shown on a family rather than on a tax return basis. The cash incomes of all members of a family are added to arrive at a family's cash income used in the distributions.

[3] The refundable portions of the earned income tax credit (EITC) and the child credit are included in the individual income tax. Individual income taxes are estimated at 2000 income levels under 2003 law as if it were fully phased in law, so exclude provisions that expire prior to the end of the Budget period (ignoring the sunset of EGTRRA in 2011) and are adjusted for the effects of unindexed parameters.

[4] The change in individual income taxes under the proposal is estimated at 2000 income levels as if the change represented fully phased in law (ignoring the sunset of EGTRRA in 2011).

[5] Families with negative incomes are excluded from the lowest income class but included in the total line.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 7, 2003
KD-3741

Effects of Major Individual Income Tax Relief Provisions of the President's Growth

In 2003, 92 million taxpayers would receive, on average, a tax cut of $1,083 under the economic growth plan.
• 69 million women would see their taxes decline, on average, by $1,289.
• 46 million married couples would receive average tax cuts of $1,716.
• 34 million families with children would benefit from an average tax cut of $1,473.
• 6 million single women with children would receive an average tax cut of $541.
• 13 million elderly taxpayers would receive an average tax cut of $1,384.
• 23 million small business owners would receive tax cuts averaging $2,042.
• 3 million individuals and families would have their income tax liability completely eliminated by the Act.

Each of the provision in the economic growth plan will benefit millions of taxpayers.

• Accelerating the 2004 and 2006 rate cuts in 2003 would provide 28 million taxpayers with an average tax cut of $1,100.
• Accelerating the expansion of the 10 percent rate bracket would reduce taxes for 69 million taxpayers, on average, by $75.
• Enacting marriage penalty relief in 2003 would reduce taxes for 35 million married couples by an average of $574.
• Increasing the child tax credit to $1,000 in 2003 would provide 26 million families with an average tax cut of $623.
• If the tax on dividend income was eliminated, 26 million taxpayers with dividend income would receive an average tax cut of $704. Among those with tax cuts would be 7 million elderly taxpayers whose taxes would decline, on average, by $1,252.

Accelerating the reduction in the top marginal rate scheduled to take effect in 2006 (to 35%) to 2003 would help small businesses.

• Owners of flow-through entities, including small business owners and entrepreneurs, comprise more than two-thirds (about 500,000) of the 750,000 tax returns that would benefit from accelerating the reduction in the top tax bracket scheduled for 2006 to 2003.
• These small business owners would receive 79% (about $10.4 billion) of the $13.3 billion in tax relief from accelerating the reduction in the top tax bracket to 35% from 2006 to 2003.

Background

This analysis is based on the following provisions:
• Acceleration of the 2004 and 2006 rate cuts to 2003.
• Reduction in marriage penalties through acceleration of increases in standard deduction from 2009 to 2003 and width of 15 percent rate bracket for joint filers from 2008 to 2003.
• Acceleration of the increase in the width of 10 percent rate bracket for single and joint filers from 2008 to 2003.
• Acceleration of the increase to $1,000 in the child tax credit from 2010 to 2003 (except for advanced rebate).
• 100 percent dividend exclusion.

• An increase in the alternative minimum tax (AMT) exemption level.

Office of Tax Policy
January 6, 2003

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 7, 2003
KD-3742

Examples of Tax Relief in 2003 Under the President's Growth Package

Example 1: A married couple with one child and income of $40,000 will see their taxes decline under the President's Growth Package by $732 (from $2,235 to $1,503) in 2003, a decline of 33 percent.

Example 2: A married couple with two children and income of $40,000 will see their taxes decline under the President's Growth Package by $1,133 (from $1,178 to $45) in 2003, a decline of 96 percent.

Example 3: A married couple with two children and income of $60,000 will see their taxes decline under the President's Growth Package by $900 (from $3,750 to $2,850) in 2003, a decline of 24 percent.

Example 4: A married couple with two children and income of $75,000 will see their taxes decline under the President's Growth Package by $1,122 (from $5,817 to $4,695) in 2003, a decline of 19 percent.

Example 5: A married couple, both aged 65, with income of $40,000 (of which $2,000 is dividends and $15,000 is Social Security benefits) will see their taxes decline under the President's Growth Package by $380 (from $930 to $550) in 2003, a decline of 41 percent.

Example 6: A married couple, both aged 65, with income of $80,000 (of which $4,500 is dividends and $20,000 is Social Security benefits) will see their taxes decline under the President's Growth Package by $1,926 (from $9,107 to $7,181) in 2003, a decline of 21 percent.

Detailed examples are attached.

Tax Relief in 2003 Under the President's Growth Package

Example 1: Married Couple with One Child and Income of $40,000

	Current Law	Growth Package
Total Income (= AGI)	**40,000**	**40,000**
Less: Deductions (Larger of Standard or Itemized[1])	7,950	9,500
Less: Personal Exemptions (3 @ $3,050)	9,150	9,150
Taxable Income	**22,900**	**21,350**
Federal Income Tax Before Credits	**2,835**	**2,503**
Less: Child Tax Credit	600	1,000
Federal Income Tax After Credits	**2,235**	**1,503**
Tax Change: Amount		**-732**
Percent		**-33%**

Department of the Treasury
Office of Tax Analysis

January 5, 2003

[1] Itemized deductions are assumed to be 18 percent of AGI under current law.

Tax Relief in 2003 Under the President's Growth Package

Example 2: Married Couple with Two Children and Income of $40,000

	Current Law	Growth Package
Total Income (= AGI)	**40,000**	**40,000**
Less: Deductions (Larger of Standard or Itemized[1])	7,950	9,500
Less: Personal Exemptions (4 @ $3,050)	12,200	12,200
Taxable Income	**19,850**	**18,300**
Federal Income Tax Before Credits	**2,378**	**2,045**
Less: Child Tax Credit	1,200	2,000
Federal Income Tax After Credits	**1,178**	**45**
Tax Change: Amount		**-1,133**
Percent		**-96%**

Department of the Treasury
Office of Tax Analysis

January 5, 2003

[1] Itemized deductions are assumed to be 18 percent of AGI under current law.

Tax Relief in 2003 Under the President's Growth Package

Example 3: Married Couple with Two Children and Income of $60,000

	Current Law	Growth Package
Total Income (= AGI)	**60,000**	**60,000**
Less: Deductions (Larger of Standard or Itemized[1])	10,800	10,800
Less: Personal Exemptions (4 @ $3,050)	12,200	12,200
Taxable Income	**37,000**	**37,000**
Federal Income Tax Before Credits	**4,950**	**4,850**
Less: Child Tax Credit	1,200	2,000
Federal Income Tax After Credits	**3,750**	**2,850**
Tax Change: Amount		**-900**
Percent		**-24%**

Department of the Treasury
Office of Tax Analysis

January 5, 2003

[1] Itemized deductions are assumed to be 18 percent of AGI under current law.

Tax Relief in 2003 Under the President's Growth Package

Example 4: Married Couple with Two Children and Income of $75,000

	Current Law	Growth Package
Total Income (= AGI)	**75,000**	**75,000**
Less: Deductions (Larger of Standard or Itemized[1])	13,500	13,500
Less: Personal Exemptions (4 @ $3,050)	12,200	12,200
Taxable Income	**49,300**	**49,300**
Federal Income Tax Before Credits	**7,017**	**6,695**
Less: Child Tax Credit	1,200	2,000
Federal Income Tax After Credits	**5,817**	**4,695**
Tax Change: Amount		**-1,122**
Percent		**-19%**

Department of the Treasury
Office of Tax Analysis

January 5, 2003

Itemized deductions are assumed to be 18 percent of AGI under current law.

Tax Relief in 2003 Under the President's Growth Package

Example 5: Married Couple, Both Aged 65, with Income of $40,000

	Current Law	Growth Package
Taxable Pensions and Interest	23,000	23,000
Dividends	2,000	2,000
Social Security Benefits	15,000	15,000
Total Income	**40,000**	**40,000**
Less: Nontaxable Social Security benefits	14,750	15,000
Less: Dividend Exclusion	0	2,000
AGI	**25,250**	**23,000**
Less: Deductions (Larger of Standard or Itemized[1])	9,850	11,400
Less: Personal Exemptions (2 @ $3,050)	6,100	6,100
Taxable Income	**9,300**	**5,500**
Federal Income Tax	**930**	**550**
Tax Change: Amount		**-380**
Percent		**-41%**

Department of the Treasury
Office of Tax Analysis

January 5, 2003

Itemized deductions are assumed to be 18 percent of AGI under current law.

Tax Relief in 2003 Under the President's Growth Package

Example 6: Married Couple, Both Aged 65, with Income of $80,000

	Current Law	Growth Package
Taxable Pensions and Interest	55,500	55,500
Dividends	4,500	4,500
Social Security Benefits	20,000	20,000
Total Income	**80,000**	**80,000**
Less: Nontaxable Social Security benefits	3,000	3,000
Less: Dividend Exclusion	0	4,500
AGI	**77,000**	**72,500**
Less: Deductions (Larger of Standard or Itemized[1])	13,860	13,860
Less: Personal Exemptions (2 @ $3,050)	6,100	6,100
Taxable Income	**57,040**	**52,540**
Federal Income Tax	**9,107**	**7,181**
Tax Change: Amount		**-1,926**
Percent		**-21%**

Department of the Treasury
Office of Tax Analysis

January 5, 2003

Itemized deductions are assumed to be 18 percent of AGI under current law.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 7, 2003
KD-3743

State-By-State Breakdown of the President's Growth Package

The table attached estimates the number of taxpayers that would benefit from the President's Growth Package.

The proposals will:
- Reduce Taxes
- Accelerate 10-Percent Bracket Expansion
- Accelerate Reduction in Income Taxes
- Accelerate Reduction in Marriage Penalty
- Accelerate Increase in Child Tax Credit
- Provide Exclusion for Corporate Dividends

Attachments:
President's Growth Package

Template for State-by-State

President's Growth Package

Number of Returns Filed in 2001 That Would Have Benefited from the Package
(in thousands)

	Entire Growth Package[1]	Specific Provisions of Package: Accelerate 10% Bracket Expansion	Accelerate Reduction in Tax Rates	Accelerate Reduction of Marriage Penalty	Accelerate Increase in Child Tax Credit	Exclusion for Corporate Dividends	Addendum: Returns with Business Income[2] Benefiting from Package
United States	89,218	68,149	26,879	34,412	24,839	32,064	22,697
Alabama	1,208	871	277	498	402	398	301
Alaska	217	171	74	84	57	82	55
Arizona	1,512	1,148	429	591	431	528	381
Arkansas	705	510	135	302	229	226	177
California	10,434	7,819	3,613	3,843	2,735	3,946	2,715
Colorado	1,513	1,202	507	584	386	567	393
Connecticut	1,231	970	487	475	306	496	334
Delaware	271	211	89	103	75	98	68
Florida	5,026	3,758	1,349	1,855	1,394	1,740	1,241
Georgia	2,449	1,815	725	932	742	863	614
Hawaii	400	314	115	153	106	140	99
Idaho	376	287	81	171	115	127	99
Illinois	4,050	3,115	1,363	1,544	1,122	1,504	1,042
Indiana	1,958	1,539	516	812	578	677	497
Iowa	940	749	217	402	274	318	240
Kansas	846	662	222	364	248	297	221
Kentucky	1,155	879	259	493	342	387	294
Louisiana	1,145	813	266	447	383	376	279
Maine	416	326	93	169	117	139	104
Maryland	1,869	1,433	702	687	509	710	478
Massachusetts	2,314	1,857	876	845	540	905	605
Michigan	3,235	2,533	1,050	1,311	902	1,190	835
Minnesota	1,732	1,405	547	703	461	635	449
Montana	265	201	52	113	77	88	67
Mississippi	696	479	135	269	248	216	165
Missouri	1,737	1,334	446	709	507	598	439
North Carolina	2,474	1,863	636	988	757	843	620
North Dakota	200	158	39	85	57	66	50
Nebraska	554	438	131	232	158	189	141
Nevada	694	536	195	246	192	236	168
New Hampshire	463	375	150	187	121	173	122
New Jersey	2,938	2,250	1,166	1,121	757	1,176	790
New Mexico	443	319	97	171	137	144	106
New York	5,861	4,353	2,029	2,013	1,562	2,181	1,472
Ohio	3,908	3,113	1,123	1,348	987	1,336	923
Oklahoma	947	704	204	408	292	315	242
Oregon	1,094	857	303	444	303	385	280
Pennsylvania	4,004	3,134	1,135	1,595	1,106	1,420	1,016
Rhode Island	348	276	106	130	91	124	86
South Carolina	1,175	870	276	451	369	386	283
South Dakota	232	181	45	98	68	77	59
Tennessee	1,698	1,265	390	685	524	564	423
Texas	5,948	4,354	1,687	2,365	1,779	2,104	1,517
Utah	646	502	152	292	197	224	171
Vermont	208	166	52	82	55	72	52
Virginia	2,406	1,883	806	955	646	901	630
Washington	2,027	1,615	651	811	545	744	527
Wisconsin	1,845	1,497	512	754	510	648	468
West Virginia	482	361	93	215	145	158	123
Wyoming	157	123	37	68	46	54	41
DC	198	146	80	34	41	73	43
Other Areas	567	409	157	174	108	222	152

Notes and footnotes appear on following page.

Notes

The figures in the table are based on tabulations of all individual income tax returns filed and processed through the IRS Individual Master File (IMF) during calendar year 2001. Most returns filed in 2001 were for tax year 2000.

Classification by state was based on the address used on the return. Usually this address is the taxpayer's home address. However, some taxpayers may have used the address of a tax attorney or accountant, or a place of business, and that address could be in a different state than the taxpayer's home.

Footnotes

[1] The number of returns benefitting from each of the specific provisions shown may not add to the number benfitting from the entire package because some returns will benefit from more than one provision. In addition to the provisions shown separately, the package includes an increase in exemption levels for the alternative minimum tax (AMT).

[2] Returns with business income are those that report at least one dollar of income or loss from a sole proprietorship, farm proprietorship, partnership, S corporation, and/or rental income.

THE PRESIDENT'S GROWTH PACKAGE WILL PROVIDE BENEFITS TO 1,200,000 ALABAMA TAXPAYERS

REDUCING TAXES

- **1,200,000** taxpayers in Alabama will have lower income tax bills in 2003 under the President's growth package.

- **300,000** business taxpayers can use their tax savings to invest in new equipment, hire additional workers, and increase pay.

ACCELERATE 10-PERCENT BRACKET EXPANSION

- **870,000** married couples and single filers will benefit from the acceleration to 2003 of the expansion of the 10-percent bracket scheduled for 2008.

ACCELERATE REDUCTION IN INCOME TAX RATES

- Nearly **280,000** taxpayers in Alabama will benefit from the acceleration to 2003 of the reductions in income tax rates in excess of 15-percent scheduled for 2004 and 2006.

ACCELERATE REDUCTION IN MARRIAGE PENALTY

- Just under **500,000** married couples in Alabama will benefit from the acceleration to 2003 of provisions that increase the standard deduction for joint filers to double the amount for single filers and increase the width of the 15-percent bracket to twice the width for single filers. These two provisions were scheduled to phase in between 2005 and 2009.

ACCELERATE INCREASE IN CHILD TAX CREDIT

- Over **400,000** married couples and single parents in Alabama will benefit from the acceleration to 2003 of the increase in the child tax credit from \$600 to \$1,000 that was scheduled to phase in between 2005 and 2010.

EXCLUSION FOR CORPORATE DIVIDENDS

- Nearly **400,000** taxpayers in Alabama will benefit from the exclusion of dividends paid from previously-taxed corporate income.

SOURCE: *Counts are for the number of returns filed in 2001 that would have benefited from the package. These estimates are based on tabulations from all individual income tax returns processed by the Internal Revenue Service in 2001. Most of these returns covered tax year 2000.*

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 7, 2003
KD-3744

Whate Economists are saying about the President's Growth Package

Here is what prominent economists and industry leaders are saying about the President's economic growth proposal:

• "I heartily approve of making the 2001 tax cuts effective immediately; eliminating the unfair double taxation of dividends, which is essentially just a tax on new investment; and strengthening the reemployment of displaced workers. I would urge Congress to quickly pass this eminently reasonable legislation that Democrats, Republicans and Independents can support." (Vernon L. Smith, Nobel Laureate in Economics)

• "My lifelong dream as a Finance professor is about to come true. The 'beginning of the end' of the double taxation of corporate income. Not only will this stimulate the stock market, but will return our capital markets to their proper function of allocating capital to its most efficient use, whereby return is maximized and risk is minimized. No longer will Microsoft set upon 40 billion in cash (a very inefficient and low return asset), and not pay a dividend. This is a 'Godsend' to capital formation." (Dr. Richard E. La Near, The J.R. Kuhn Professor of Finance, Missouri Southern State College)

• "The President has done it again. He is leading boldly on tax and fiscal reform and job creation. He is sending a clear message to the liberal big spenders that the 'class warfare' strategy is a political Edsel." (Lew Uhler, President, National Tax Limitation Committee)

• "President Bush's economic stimulus package is a sensible solution to accelerating the recovering U.S. economy and providing relief to all Americans." (Louisiana Rep. Donald Ray Kennard, National Chairman, American Legislative Exchange Council (ALEC))

• "President Bush hits a homerun for American taxpayers. In the near term, his plan will bring much needed tax relief to spur economic growth and job creation. But his plan is also a strategic step towards fundamental tax reform, because repealing the dividend tax and accelerating the income tax rate cuts moves us towards a tax code that is more simple, fair, and honest." (Paul Beckner, President, Citizens for a Sound Economy)

• "The stimulus package not only boosts short term- and long-term growth, but it allows additional investments of all businesses. The President's efforts are a significant milestone in restoring confidence to the entire economy." (Duane Parde, Executive Director, American Legislative Exchange Council (ALEC))

• "President Bush's fiscal stimulus package is desirable not only to deal with the current sluggishness in the economy, but also with the longer term problems arising from disincentives to save, invest and work in America." (Richard Vedder, Distinguished Professor of Economics, Ohio University)

• "The President's economic growth package is a very positive step forward for investors, workers, and taxpayers. For the sake of the economy, we hope that Congress will speedily enact the President's tax relief proposals and NTU will be working toward that goal." (John Berthoud, President, National Taxpayers Union)

• "The package is a great New Year's surprise. We'll be raising our economic and equity outlooks and lowering our unemployment rate expectations." (David Malpass, Bear Stearns & Co. Inc.)

• "A brilliant, double-barreled tax cut that will increase the income of every American worker and create millions of new and better jobs." (Martin Anderson, Keith and Jan Hurlbut Fellow, Hoover Institution, Stanford University)

• "President Bush's proposed growth plan is not just a bunch of random tax cuts, it is a plan that really pushes the 'growth buttons' by improving incentives to work, save and invest, and is a step toward real tax reform. This package, along with recent improvements in the tax treatment of business investment, will give a real lift to jobs and GDP." (Stephen J. Entin, President and Executive Director, Institute for Research on the Economics of Taxation (IRET))

• "By accelerating tax rate reductions and eliminating the double-taxation of dividends, President Bush's tax package would significantly increase the economy's performance. But the proposal also represents much-need tax reform and is a significant step toward a simple and fair system like the flat tax." (Dan Mitchell, The Heritage Foundation)

• "President Bush's proposal on dividends ameliorates the double-taxation of corporate profits, ending the incentives in our tax code #1 to over-leverage business, with the consequence of too much debt and vulnerability to the business cycle, and #2 to over-rely on accounting numbers rather than the pay-out of cash. His proposal on expensing of capital expenditures will help invigorate our economic recovery." (Clifford F. Thies, Professor of Economics and Finance at Shenandoah University, and member of the Board of Directors of the American Association of Small Property Owners (AASPO))

• "The double taxation of dividends has never made sense and this is a perfect time to remove this crazy form of taxation. It not only harms economic growth in the obvious ways, but also in subtle ways. Given the wave of recent corporate scandals, this is the perfect time to introduce a policy change that will simultaneously increase investor confidence while creating greater accountability for managers." (Brian J. Hall, Associate Professor, Harvard Business School)

• "Taxpayers at all income levels should cheer President Bush's call for greater tax relief. These pro-growth and pro-family tax cuts are well-timed to provide stimulus for the U.S. economy." (Russell Lamb, North Carolina State University)

• "The President's proposal eliminates unfairness in the tax code, distributes the gains widely to Americans who pay income taxes, and creates incentives for growth. What more can we ask?" (Don Booth, Professor of Economics, Chapman University)

• "The President Economic Growth Package is a solid and aggressive plan to further boost economic growth and job creation in 2003 and beyond. The cuts in marginal tax rates will allow all individuals to better spend, save, and invest, and they are especially beneficial to the ongoing viability of the small businesses that pay taxes at the individual level such as Subchapter S Corporations." (Paul Merski, Chief Economist & Director of Federal Tax Policy, Independent Community Bankers of America)

• "I think this is a bold economic package that both provides much-needed near-term economic stimulus and boosts after-tax incentives for growth and investment. The current double-taxation of dividends is unjustifiable on economic efficiency grounds and its elimination should provide a welcome lift to the equity market by increasing after-tax returns on stocks and further improve corporate governance by encouraging firms to increase dividend payouts. The acceleration of the marginal tax rate cuts from 2006 into 2003 should eliminate incentives to defer income and economic activity, which in turn should further boost economic growth in 2003. This is the most significant proposal to roll back tax disincentives to growth and stimulate the economy since the Reagan tax cuts." (John Ryding, Chief Market Economist, Bear Stearns & Co. Inc.)

• "This is the type of bold action needed to jump start the stagnant U.S. economy. When these measures go into effect, the U.S. industrial sector will resume its role of innovating and creating jobs to provide an engine for growth in the global economy." (Thomas J. Duesterberg, President and Chief Executive Officer of the Manufacturers Alliance/MAPI, a public policy and business research organization in Arlington, VA)

• "The president's plan is directly targeting consumer spending and investment incentives. The reduction of marriage penalty, the increase in child tax credit, the extension of unemployment benefit and speeding up tax relief will help revive consumer spending, increase confidence and boost aggregate demand in the short-run. The end of double taxation of dividends and increasing incentives for small businesses should help sustain momentum in favor of job creation and long-term growth." (Magda Kandil, International Monetary Fund)

• "Once again, President Bush is demonstrating his strong leadership ability. This stimulus package is just the type of measure this economy needs to get back on track. Just upon hearing about it the markets have reacted wildly in response. Imagine how it'll be when it's enacted." (Horace Cooper, Centre for New Black Leadership)

• "Business investment is key to fostering healthy levels of economic growth. President Bush's plan offers much needed capital and incentives to the sector of the economy shouldering the bulk of job creation, economic growth and innovation -- small businesses and entrepreneurs. We are also encouraged by the President's proposal to eliminate the double taxation of dividends. With the strength of the economy becoming increasingly dependent on the health of the equity markets, this measure will help restore both certainty and investor confidence. The overall package is good for small business, which means it's good for America." (Karen Kerrigan, Chair, Small Business Survival Committee)

• "The President's plan alleviates one of the most economically destructive distortions in the tax law and also provides welcome relief to small businesses." (David R. Burton, The Argus Group)

• "President Bush's 'Taking Action to Strengthen America's Economy' plan is a sound and well thought out policy package. The plan offers not only short-term stimulus for the American economy but it also lays the foundation for long-term, non-inflationary, economic growth for the decades ahead. By extending unemployment benefits, the plan reaches out to those workers who, through no fault of their own, find themselves out of work. In addition, the creation of the new Personal Reemployment Accounts will help to ensure that America has the most dynamic labor markets the world has ever seen. One of the most impressive things about the plan is that it is not limited to only short-term stimulus. President Bush obviously understands the importance of long-term economic growth for America's future. By eliminating the double taxation of dividend income President Bush's plan will allow Americans to save for effectively for their retirements and to save money for their children's future. In addition, by encouraging small businesses to invest and invent the plan will help to ensure the rapid advancement of American productivity. These productivity increases will help to insure that America's children of today will enjoy a higher standard of living than their parents and their grandparents. The positive effects of the President's plan will be felt for decades into the future." (Michael W. Brandl, Ph.D., The University of Texas at Austin, McCombs School of Business, Department of Finance)

• "A far-reaching reform of the U.S. tax system to reduce the large distortions implied by the existing structure of taxes on capital income is long overdue. Studies published in leading economics journals show that the welfare of U.S. households improves by an amount equivalent to an increase of between 1.5 to 3 percent per quarter forever because of the tremendous efficiency gains that the economy stands to make from lower taxes on dividends and other forms of capital income. These findings are not driven by glossy budgetary arithmetics. In fact, they follow from economic models that impose though assumptions keeping current levels of government expenditures and transfer payments covered and making the long-run rate of economic growth independent of the tax cuts." (Enrique Mendoza, University of Maryland)

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 8, 2003
KD-3745

Remarks of
Treasury Under Secretary Peter R. Fisher
To the President's Commission on the U.S. Postal Service
Washington, DC

Good morning. On behalf of President Bush, I would like to thank each of you for serving on this Commission. The task that you have is large but the importance of the Postal Service to our nation is worthy of the commitment that each of you has made.

The Postal Service is the linchpin of our $900 billion mailing industry. As a whole, this industry represents eight percent of our Gross Domestic Product and nine million workers. The American people and American businesses rely on the Postal Service to deliver mail in a secure, reliable and efficient manner. It is vital to have a vibrant Postal Service that delivers on its mission.

This Commission is about the future of the Postal Service, addressing the challenges that it faces. Competition from the private sector in electronic substitutes and non-monopoly services present a fundamental challenge to the Postal Service. New technology has resulted in declining volumes. The increasing use by businesses of electronic communications for bills and payments has put downward pressure on first-class mail volumes. This pressure on mail volumes is also seen in business-to-business and business-to-consumer marketing that increasingly relies on more narrowly focused mailings. At the same time, the Postal Service adds more than 1.7 million new delivery points annually.

New technology, declining volume, and continued expansion of the delivery cost base, combined with competition from the private sector, pose a fundamental challenge to the Postal Service. You need to help us identify a new business model that will create the Postal Service for the 21st century.

The President's Executive Order spells out the six issues that we think you should consider. Simply put, the President has put everything on the table for this Commission to review so that the Postal Service has a path toward a productive and financially secure future.

In thinking about these issues, you will need to strike a number of balances between competing considerations. With everything on the table, there are no predetermined outcomes. In the process of your examination you will need to reflect upon the many possible alternative approaches to the management of this large, complex and important institution, bearing in mind its public functions.

Two hundred years ago, the Postal Service was our communications system. Today, much of our domestic and international communication needs are met by telecommunication networks, computers, radio, and television. However, the Postal Service plays a much more important role today in our commerce by delivering products and services to consumers and businesses alike. You will need to think about the appropriate 21st century role of the Postal Service in communications and commerce, considering how to redefine its fundamental mission.

Another issue that you will need to address is how we should think about the universal service obligation. Universal service means different things to different people. For some, it is universal access and uniform pricing. For others, the concept of universal service is really thought of as being about maintaining the status quo. To develop a new business model we know we need to move beyond the status quo.

I like to think of the Postal Service as the ultimate network business, and an important value of any network is the scope of its reach. One question that the Commission might consider is how the network could be leveraged to ensure that it is operated in the most efficient manner possible and at the lowest possible cost.

You will also need to explore the delicate balance between pricing and cost flexibilities in a monopoly business and whether the Postal Service could use additional flexibility in these areas. I believe that Postmaster General Potter has done a great job beginning to address the changes that can be made within the confines of the existing business model and statutory framework. However, freed from these constraints, we hope that you will be able to suggest innovative approaches that are not available to today's Postal Service.

The Postal Reorganization Act of 1970 and subsequent legislation require the Postal Service to operate in certain ways that increase the cost of doing business and imbed inefficiencies into the operating, cost and governance structure. Examples include prohibitions, or effective prohibitions, on post office or other infrastructure realignments, requirements that place financial or structural burdens that have the effect of increasing the liabilities of the Postal Service as well as a break-even mandate that eliminated the financial cushion necessary to withstand economic cycles.

The Postal Service faces a large challenge with respect to human resource productivity and incentives at all levels of the organization. With over seventy-five percent of its costs related to human resources, the Commission should explore how the Postal Service can do an even better job of providing employees the appropriate incentives for continuous improvement in productivity.

However, it is not all about costs. The revenue side is driven by a regulated pricing mechanism that is time consuming at best. You may want to consider whether current and future costs can be understood and communicated more clearly in the pricing of postal services. You could also consider whether it is possible or beneficial to introduce greater clarity and predictability into the postal rate setting process with the goal to enhance predictability and public confidence.

Competition with the private sector is also an important issue that this Commission should examine. This may encompass new and existing postal products and services or the monopoly status of access to the individual mailbox. You will also need to explore the issue of cross subsidies.

Finally, the Commission will need to explore the type of financial transparency and corporate governance that would serve the Postal Service well for the 21st century. This should include a your review of the role of the Board of Governors, the role of the Postal Rate Commission, the role of Congress, the management team of the Postal Service as well as the reporting of postal finances.

The President has given you a challenging assignment and asked you to complete it promptly. However, there has been an abundance of quality thought and work that has already been done by Members of Congress and their staffs, by mailers' and other private sector organizations, by interested individuals, by other agencies of the federal government and by the Postal Service itself that can be readily drawn upon. I am confident that your work will not be judged by the number of pages you produce but, rather, by the quality of your thoughts – by how you help the Administration and Congress better understand how the Postal Service can best meet the challenges of the 21st century.

I encourage you to tap the many resources available to you and to keep this process open and transparent for all Americans. Again, I thank you for your willingness to take on this importance challenge.

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
January 07, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	January 09, 2003
Maturity Date:	February 06, 2003
CUSIP Number:	912795LX7

High Rate: 1.145% Investment Rate 1/: 1.161% Price: 99.911

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 9.85%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 39,715,068	$ 12,957,668
Noncompetitive	42,487	42,487
FIMA (noncompetitive)	0	0
SUBTOTAL	39,757,555	13,000,155
Federal Reserve	2,454,402	2,454,402
TOTAL	$ 42,211,957	$ 15,454,557

Median rate 1.130%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.120%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 39,757,555 / 13,000,155 = 3.06

1/ Equivalent coupon-issue yield.

KD-3746

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 8, 2003
KD-3747

Treasury Announces Appointment of Secret Service Director

Acting Treasury Secretary Kenneth W. Dam today announced the appointment of W. Ralph Basham to direct the United States Secret Service. For the past year, Mr. Basham has served as Chief of Staff for the newly-formed Transportation Security Administration at the U.S. Department of Transportation. Prior to that position, from 1998-2002, he was the director of the Federal Law Enforcement Training Center under the U.S. Treasury, and from 1970 until 1998, Mr. Basham served in positions of increasing responsibility within the United States Secret Service. During his 28 year tenure with the United States Secret Service, Basham was a member of senior management from 1993-1998 as Assistant Director for Administration. Mr. Basham earned his bachelors degree from Southeastern University, and has been awarded two Presidential Rank Awards for Meritorious Service.

"Mr. Basham has had a long and distinguished career in federal law enforcement and I am pleased that he has agreed to take on this challenging assignment," Acting Treasury Secretary Dam said in a statement.

The United States Secret Service is mandated by the U.S. Congress to carry out two distinct and significant missions: protection and criminal investigations. The Secret Service is responsible for: protection of the President, the Vice President, and their families, heads of state, and other designated individuals; investigation of threats against these protectees; protection of the White House, Vice President's Residence, Foreign Missions, and other buildings within Washington, D.C.; and security design, planning, and implementation at designated National Special Security Events. The Secret Service is also responsible for the enforcement of laws relating to counterfeiting of obligations and securities of the United States, investigation of financial crimes including, but not limited to, access device fraud, financial institution fraud, identity theft, computer fraud, telecommunications fraud, and computer based attacks on our nation's financial, banking, and telecommunications infrastructure. The United States Secret Service will be a bureau within the newly created Department of Homeland Security.
This appointment does not require Senate confirmation.

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
January 08, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 9-YR 6-MO INFLATION-INDEXED NOTES

This issue is a reopening of an inflation-indexed note originally issued July 15, 2002.

Interest Rate:	3%	Issue Date:	January 15, 2003
Series:	C-2012	Dated Date:	January 15, 2003
CUSIP No:	912828AF7	Maturity Date:	July 15, 2012

TIIN Conversion Factor per $1,000 = 8.342602892 1/

High Yield: 2.340% Adjusted Price: 106.474

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 99.38%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 13,101,387	$ 5,801,044
Noncompetitive	199,065	199,065
FIMA (noncompetitive)	0	0
SUBTOTAL	13,300,452	6,000,109 2/
Federal Reserve	0	0
TOTAL	$ 13,300,452	$ 6,000,109

The unadjusted price of $105.593 was adjusted by an index ratio of 1.00834, for the period from July 15, 2002, through January 15, 2003.

Median yield 2.300%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 2.220%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 13,300,452 / 6,000,109 = 2.22

1/ This factor is used to calculate the Adjusted Values for any TIIN face amount and will be maintained to 2-decimals on Book-entry systems.
2/ Awards to TREASURY DIRECT = $51,286,000

KD-3748

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 8, 2003
KD-3751

FACT SHEET:
REINVESTING TAXED EARNINGS

• Under current law, income earned by a corporation is taxed at the corporate level, generally at the marginal rate of 35 percent. If the corporation distributes earnings to shareholders in the form of dividends, the income is generally taxed again at the shareholder level (at rates as high as 38.6 percent).

• In contrast, if a corporation retains earnings (instead of distributing them as dividends to shareholders), the value of corporate stock generally will increase to reflect the retained earnings. When shareholders sell their stock, that additional value will be taxed in the form of capital gains (generally at a maximum rate of 20 percent). Thus, current law is biased in favor of retained earnings and against dividends.

• The Administration's proposal to exclude 100 percent of dividends from shareholder income requires a parallel tax adjustment for individuals to account for reinvested earnings of a corporation out of taxed earnings in order not to provide a bias against retained earnings. A corporation has a legitimate business need to retain earnings for reasons such as new investment in plant and equipment.

• The Administration's proposal would permit corporations that reinvest their taxed earnings to make an adjustment that would flow through to the shareholders' stock basis reflecting the taxed income the corporation was retaining. (Dividend reinvestment plans exist under current law for actual dividends paid. Under current law, however, reinvested dividends are subject to a shareholder level tax even though a tax has been paid at the corporate level.)

• With this proposal, the decision by a corporation whether to retain earnings or distribute them in the form of excludable dividends would be more neutral. The proposal would allow shareholders to increase their basis in the corporation's stock by the amount of the retained earnings.

• A simple example will illustrate:

o Assume that a corporation, after being taxed on its profits at 35 percent, distributes excludable dividends to its shareholders. Under the Administration's proposal, no further tax is imposed although the value of its stock generally would decrease by the amount distributed.

o Assume that a different corporation, after being taxed on its profits at 35 percent, retains its earnings. Also assume that the value of its stock would increase from $100 to $101 per share to reflect those retained earnings. If a shareholder had purchased stock for $50 per share, without the adjustment for the retained earnings, the shareholder would pay tax on an additional $1 of gain ($101-50 = 51) when the stock was sold. With the adjustment for retained earnings, the shareholder would increase basis to $51, thus eliminating the increase in gain ($101-51=50). The decision to retain earnings by the corporation would not result in additional tax at the shareholder level.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 8, 2003
KD-3752

FACT SHEET: EXCLUDABLE DIVIDEND ACCOUNTS

• When a corporation is taxed on its income and later pays dividends that are taxable to shareholders, this effectively results in the same income being taxed twice. This double taxation of corporate earnings distorts business decision-making and is inefficient. To eliminate the distortion and inefficiency, dividends should be excluded from income if the dividend income has been taxed at the corporate level.

• Not every dollar of what could be paid out in dividends will have been subject to tax at the corporate level, however. To ensure that dividend income is taxed once, but only once, either at the corporate or shareholder level, the dividend exclusion includes a mechanism – an excludable dividend account – for determining whether the dividend has been subject to tax at the corporate level. (A similar mechanism exists under current law. Distributions are treated as dividends only to the extent the corporation has earnings and profits (E&P). Distributions exceeding E&P are treated first as a return of the taxpayer's investment in the stock and then, to the extent the distribution exceeds that investment, as capital gain on the stock.)

• An excludable dividend account (EDA) is the mechanism that would determine the amount of income that has been fully taxed at the corporate level and, thus, the amount of distributions that would not be taxable to shareholders. If the corporation made distributions that exceeded the EDA, the excess distributions would be a taxable dividend to shareholders (or a return of the shareholders' investment).

• Use of EDAs represents a policy decision that income should be taxed once (but only once) at some level (corporate or individual) and not escape the system entirely free of tax.

• Particularly because of the attention given to tax shelters, it is important to understand that only income that has been fully subject to tax is eligible for the dividend exclusion.

• EDAs are computed using a relatively simple arithmetic formula to compute the amount of excludable dividends.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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January 8, 2003
2003-1-8-18-56-31-1555

Remarks by Postmaster General John E. Potter Presidential Commission on the U.S. Postal Service Washington, DC

Thank you Chairman Pearce, Chairman Johnson. Commissioners . . . thank you all for agreeing to be on the Commission and for allowing me to participate in this first meeting of the President's Commission on the Postal Service.

I want to begin by thanking President Bush for putting this panel together. The fact that the President chose to form the Commission at this time attests to his interest and concern about the future on the Postal Service. And for that we are grateful.

I also want to thank Treasury Undersecretary Peter Fisher for his comments this morning, and for understanding the challenges we must overcome to provide affordable, universal service for everyone in America in the future.

Joining me today is Richard Strasser, our Chief Financial Officer and Executive Vice President. At the conclusion of my remarks, Dick will add some detail and perspective about our finances and the challenges associated with funding a $67 billion organization.

I want to begin with a brief overview of the size and scope of the Postal Service of today and the massive mailing industry that has evolved and grown over the past 30 years.

As Secretary Fisher mentioned, ours is a truly national industry today -- interconnected with thousands of American businesses that employ 9 million people whose work is directly related to or dependent on the nation's mail. Together, it's a $900 billion industry that relies on the 750,000 men and women of the United States Postal Service.

It was 35 years ago that a Presidential Commission began examining America's postal system. Their recommendations were the basis for the Postal Reorganization Act of 1970 that established the United States Postal Service.

- The Post Office Department had been receiving up to 20 percent of its revenue from tax payer subsidies.
- There were limited funds to expand and improve the infrastructure.
- Service had fallen.
- Employees were stuck in a personnel system where politics often outweighed merit when it came to promotions.

From that flawed system, the Postal Service emerged to act in a more businesslike manner.

In the years since 1970, we have lived up to our mandate to provide affordable, universal mail service to every American regardless of where they live, where they work, and regardless of their economic circumstances.

The United States Postal Service has been successful.

The Postal Service has grown with America and the economy.

- The number of addresses served has increased 72 percent since 1970.
- Mail volume has grown from 87 billion pieces to 203 billion pieces of mail.
- The price of the First-Class stamp, adjusted for inflation, is essentially the same as it was in 1971.

The Reorganization Act brought about significant changes in the way management approached the business. We used our increased flexibility to transform from a primarily manual operation to a highly mechanized operation in the 1970s and '80s to what is today a highly automated operation.

Over the past 30 years, we've looked at the entire mail chain from printing to delivery. When we saw volume increasing dramatically in the late '70s and early '80s, we had two options: invest in more infrastructure or get our customers involved.

We chose to engage our customers to help us find equitable ways to share the work and share the savings. The net result is $15 billion in annual worksharing discounts for our customers and less investment in buildings and equipment for the Postal Service.

The point is the Postal Service made a strategic decision not to own everything. We looked at the least combined costs of alternatives and felt that worksharing and customer involvement was in the nation's best interest. The postal network is an open system.

Postal reorganization also changed our approach to service. By the 1980s we were no longer the only game in town. Competition compelled us to rethink what we had been doing.

We moved to independent performance testing for First-Class Mail -- and we publicly reported service results on a quarterly basis. The initial results were not what the American people deserved.

Today, service performance is at record levels and we continue to publicly report our First-Class Mail performance scores. Customer satisfaction is also at record levels.

So with all that good news, you are probably asking yourselves, why are you here.

Ladies and gentlemen, the Postal Service is challenged by changes in the marketplace – primarily electronic communication.

Our primary source of revenue is First Class letter mail. Twenty-five percent of postal revenue comes from bills and payments – the segment of the mail most vulnerable to electronic diversion.

The potential significant diversion of letters to electronic medium challenges our basic business model. That model assumes that mail volume and revenue growth will finance the Postal Service's growing infrastructure of some 1.7 million additional delivery points per year. As new homes, towns and cities are built, the Postal Service must grow with them.

In addition, GAO raised concerns regarding long-term liabilities and obligations related to debt repayment, pension costs and health care benefits for retirees.

As a result of all these concerns, in 2001, the Senate requested us to put together a Transformation Plan. Simply put, they asked us to look ahead and come up with strategies to assure that the needs of the American public would continue to be met in the future.

This past year we seized the initiative to transform the Postal Service – to begin the process of preparing for the future – to preserve America's trust in our ability to deliver.

The Transformation Plan has three basic elements. The first element all centers around doing a better job with the resources we have under the current legislation.

- It lays out specific goals for improving service and operational efficiency.
- It identifies specific ways we will grow our business by enhancing products and expanding customer access to postal services.
- And it details plans and strategies to improve financial performance.

This past year, we made great strides in transforming the Postal Service while maintaining our focus.

Service is at all-time highs. Productivity is up. Employee complement has been reduced by over 45,000 through attrition in recent years.

We've committed to take $5 billion in expenses out of our operating base over five years and are well ahead of our plan.

However, bio-terrorism, recession, and electronic diversion have negatively impacted volumes. Despite productivity gains, we have had to raise rates 15 percent over the two year period. No question, those rate increases have hurt growth.

Despite stiff competition and a changing marketplace, we are working hard to encourage growth. For example, we are exploring alternatives such as phased rates for future rate cases, negotiated service agreements, and adding value to our existing mail products through information technology.

As the Postal Service looks to the future, we recognize that there is a need to change the legislation under which we operate. The second portion of the Transformation Plan addresses short term legislative change.

Recently, OPM completed an extensive review of USPS pension obligations for employees covered under the Civil Service Retirement System and concluded that we would find ourselves in an overpayment situation were we to continue payments on the current schedule as set by a 1974 law.

We are pleased that the Administration has drafted legislation to correct this situation. If enacted, it would reduce the Postal Service's annual payments to the CSRS fund by some $2.9 billion in 2003.

The combination of management's efforts to improve productivity, coupled with a change in pension legislation, could enable us to hold rates stable through 2006. It would also enable us to lower our debt, something I know Treasury favors. This stability in rates and debt obligations would foster some growth in the mailing industry, but would do little to reverse electronic diversion.

The third piece of the Transformation Plan addresses the need for long-term legislation. That's where you come in. We certainly welcome any and all recommendations by the Commission to improve service and efficiency within the current legislation, and will actively pursue those recommendations.

However, today, you the members of this Presidential Commission, have an historic opportunity to offer your findings and recommendations to make the postal system a viable, efficient and affordable service to all Americans well into the future.

We urge the Commission to engage in a thorough review of the key public policy issues related to the Postal Service.

From the early years of our history, the principal defining public policy that has guided and governed the Postal Service has been the vision of a universal mail service.

That vision was founded on the notion of equal access to postal services that would connect the American people for generations to come. Equality demanded that uniform rates be set, that a single stamp can get your letter from anyplace in America to its destination anywhere in America – whether that's around the block or around the country.

Equality demanded regular delivery to every mailbox be provided to everyone, not just the privileged and well-to-do.

That promise still holds true today. But our society is far removed from the world of our forefathers. Today, we live in a highly technological environment that has created a fiercely competitive marketplace – one where change is inevitable but also critical.

Our customers have changed as well.

Technological advances offer our customers more choices and more options to communicate across town and across the world. More choices and options signal a shift in customer behavior that favors the service provider best equipped to meet changing customer needs.

Meeting those changing needs demands that we change. That's what the Transformation Plan is all about. The question now before us, however, is how to define the needs of our customers, the American people in the decades ahead.

Since 1994, the Congress and the entire mailing industry has debated public policy issues ranging –

- from strict pricing regulation to pricing flexibility;
- from binding arbitration with labor to the right to strike;
- from breakeven to retained earnings;
- from a $15 billion borrowing limit to doubling that amount;
- from fewer post offices to more post offices;
- from a stricter monopoly to no monopoly.

In the end it's not about any single issue. It's about universal service to the American people.

The key question is how can we continue to provide the universal service to all Americans and still make it affordable in the face of potentially declining mail volume. That is the central public policy issue facing this Commission.

As you may have concluded, the issues related to postal services in this country are complex. The mailing industry comprises a wide spectrum of varied interests and conflicting opinions about Postal Service reform and transformation. And everybody in the country is a customer of the Postal Service.

That's why we welcome this opportunity to work with the members of this Commission in a thorough and objective assessment of the Postal Service.

Collectively, you represent a wide spectrum of business experience and expertise that will enable you to bring a new and unbiased perspective to the public policy issues facing the Postal Service now and, most importantly, in the future.

Thank you Chairman Pearce and Chairman Johnson for this opportunity. I'll now turn to CFO Strasser who will provide a more in-depth review of our service and financial positions.

# # # #

Related Documents:

- Presentation of CFO/Exec. VP of the Postal Service Richard Strasser

Federal Financing Bank **NEWS**

2003 FFB PRESS RELEASE

January 2003 Activity

Gary Burner, Manager, Federal Financing Bank (FFB) announced the following activity for the month of January 2003.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $36.0 billion on January 31, 2003, posting a decrease of $1,024.9 million from the level on December 31, 2002. This net change was the result of decreases in holdings of agency debt of $776.6 million and in holdings of agency assets of $375.0 million, and an increase in holdings of government-guaranteed loans of $126.7 million. The FFB made 50 disbursements and received 26 prepayments during the month of January. The FFB also priced 14 buy-downs of loans guaranteed by the Rural Utilities Service ("RUS") during the month of January.

Below are tables presenting FFB January loan activity and FFB holdings as of January 31, 2003.

PRINT

FEDERAL FINANCING BANK
January 2003 ACTIVITY

GENERAL SERVICES ADMINISTRATION					
DEPARTMENT OF EDUCATION					
San Francisco OB	1/03	$132,507.93	8/1/2005	2.172%	Semi-Annually
Barber-Scotia College	1/09	$191,369.45	3/1/2030	4.734%	Semi-Annually

KD-3753

Tuskegee Univ.	1/13	$715,311.25	1/2/2032	4.928%	Semi-Annually
Livingstone College	1/31	$122,965.94	7/1/2031	4.731%	Semi-Annually
RURAL UTILITIES SERVICE					
@South Miss. Elec. #171	1/02	$2,068,213.94	12/31/2015	3.657%	Quarterly
@South Miss. Elec. #171	1/02	$1,172,536.77	12/31/2015	3.657%	Quarterly
@South Miss. Elec. #171	1/02	$8,004,471.75	12/31/2015	3.657%	Quarterly
@South Miss. Elec. #171	1/02	$1,793,268.48	12/31/2015	3.657%	Quarterly
@South Miss. Elec. #171	1/02	$3,013,130.79	1/3/2017	3.767%	Quarterly
@South Miss. Elec. #171	1/02	$1,421,948.53	1/3/2017	3.767%	Quarterly
@South Miss. Elec. #171	1/02	$1,047,751.69	1/3/2017	3.767%	Quarterly
@South Miss. Elec. #171	1/02	$9,149,115.98	1/3/2017	3.767%	Quarterly
@South Miss. Elec. #171	1/02	$2,076,772.69	1/3/2017	3.767%	Quarterly
@South Miss. Elec. #171	1/02	$3,507,374.23	1/3/2017	3.767%	Quarterly
@South Miss. Elec. #171	1/02	$1,734,024.74	1/2/2018	3.873%	Quarterly
@South Miss. Elec. #171	1/02	$1,840,682.48	1/2/2018	3.873%	Quarterly
@South Miss. Elec. #171	1/02	$1,395,043.70	1/2/2018	3.873%	Quarterly
@South Miss. Elec. #171	1/02	$6,122,052.66	1/2/2018	3.873%	Quarterly
Brazos Electric #844	1/03	$4,614,000.00	6/30/2003	1.251%	Quarterly
Brazos Electric #844	1/03	$5,000,000.00	6/30/2003	1.251%	Quarterly
Brazos Electric #844	1/03	$5,000,000.00	6/30/2003	1.251%	Quarterly
Brazos Electric #844	1/03	$5,000,000.00	6/30/2003	1.251%	Quarterly
Brazos Electric #844	1/03	$5,000,000.00	6/30/2003	1.251%	Quarterly
Charles Mix Elec. #630	1/03	$640,738.00	12/31/2030	4.779%	Quarterly
Federal Rural Elec. #728	1/03	$1,000,000.00	6/30/2003	1.251%	Quarterly
Fleming-Mason Energy #644	1/03	$2,900,000.00	6/30/2003	1.251%	Quarterly
Farmers Elec Coop Corp #877	1/07	$500,000.00	1/2/2035	4.884%	Quarterly
Kootenai Elec. #752	1/07	$2,300,000.00	12/31/2031	4.814%	Quarterly
Mid-Carolina Elec. #645	1/07	$14,143,000.00	1/2/2035	4.881%	Quarterly
Sangre De Cristo Elec. #732	1/07	$400,000.00	3/31/2010	3.610%	Quarterly
Nolin Rural Elec. #840	1/08	$4,000,000.00	6/30/2003	1.235%	Quarterly
KEM Electric #537	1/09	$540,000.00	1/3/2034	4.794%	Quarterly
Nueces Electric #774	1/09	$538,000.00	12/31/2035	4.663%	Quarterly
South Slope Cooperative #741	1/09	$3,000,000.00	1/2/2018	3.915%	Quarterly
Greystone Power Corp. #875	1/10	$59,744,795.00	12/31/2031	4.922%	Quarterly
Georgia Trans. Corp. #849	1/13	$19,063,143.00	12/31/2025	4.697%	Quarterly
Appalachian Elec. #748	1/14	$4,000,000.00	12/31/2031	4.880%	Quarterly
Bartlett Elec. #535	1/14	$800,000.00	1/3/2034	4.986%	Quarterly
Tri-County EMC #814	1/14	$3,200,000.00	12/31/2036	4.977%	Quarterly
Arkansas Valley Elec. Coop #89	1/15	$8,000,000.00	12/31/2036	4.937%	Quarterly
Aiken Elec. #549	1/16	$9,860,000.00	1/3/2034	4.862%	Quarterly
FTC Communications #709	1/17	$3,318,000.00	6/30/2003	1.211%	Quarterly
Lorain-Medina Elec. #760	1/17	$925,000.00	12/31/2035	4.891%	Quarterly
Upsala Coop. Tele. #429	1/17	$282,049.00	6/30/2003	1.336%	Quarterly

S. Illinois Power #818	1/22	$1,468,000.00	1/3/2034	4.781%	Quarterly
East Kentucky Power #489	1/23	$3,500,000.00	12/31/2024	4.557%	Quarterly
East Kentucky Power #753	1/23	$6,500,000.00	12/31/2030	4.665%	Quarterly
Holmew-Wayne Elec. #707	1/24	$1,000,000.00	7/1/2013	3.937%	Quarterly
S. Illinois Power #819	1/24	$2,411,000.00	12/31/2030	4.698%	Quarterly
Thumb Electric #767	1/24	$450,000.00	6/30/2023	4.757%	Quarterly
Clark Energy Coop. #611	1/27	$2,600,000.00	6/30/2003	1.182%	Quarterly
Thumb Electric #767	1/27	$570,000.00	12/31/2035	4.755%	Quarterly
Blue Ridge Elec. #659	1/28	$10,500,000.00	12/31/2029	4.654%	Quarterly
McLeod Coop. Power #554	1/28	$750,000.00	1/3/2034	4.753%	Quarterly
Midstate Communications #780	1/29	$542,697.00	7/1/2013	3.742%	Quarterly
Rio Grand Electric #615	1/29	$985,000.00	1/3/2034	4.756%	Quarterly
Alabama Electric #508	1/30	$1,031,000.00	1/3/2023	4.520%	Quarterly
Alabama Electric #564	1/30	$1,046,000.00	12/31/2025	4.563%	Quarterly
Alabama Electric #695	1/30	$2,794,000.00	12/31/2025	4.563%	Quarterly
Alabama Electric #695	1/30	$12,544,000.00	12/31/2025	4.563%	Quarterly
Mille Lacs Electric #769	1/30	$1,000,000.00	12/31/2035	4.843%	Quarterly
Pee Dee Elec. #547	1/30	$1,469,000.00	3/31/2006	2.257%	Quarterly
Petit Jean Electric #887	1/31	$6,396,000.00	12/31/2031	4.717%	Quarterly
Sac Osage Electric Coop. #815	1/31	$2,205,000.00	12/31/2036	4.809%	Quarterly

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FEDERAL FINANCING BANK HOLDINGS

(in millions of dollars)

Program Agency Debt:	January 31, 2003	December 31, 2002	Monthly Net Change 1/1/03- 1/31/03	Fiscal Year Net Change 10/1/02- 1/31/03
U.S. Postal Service	7,473.40	8,250.00	(776.60)	(3,640.60)
Subtotal*	7,473.40	8,250.00	(776.60)	(3,640.60)
Agency Assets:				
FmHA-RDIF	950.00	950.00	0.00	0.00
FmHA-RHIF	2,530.00	2,905.00	(375.00)	(375.00)
Rural Utilities Service-CBO	4,270.20	4,270.20	0.00	0.00
Subtotal*	7,750.20	8,125.20	(375.00)	(375.00)
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	1,856.80	1,869.00	(12.20)	(65.70)
DoEd-HBCU+	74.00	73.30	0.70	5.40
DHUD-Community Dev. Block Grant	3.90	4.10	(0.20)	(1.[illegible])
DHUD-Public Housing Notes	1,133.20	1,133.20	0.00	(74.[illegible])
General Services Administration+	2,175.70	2,181.90	(6.20)	(29.[illegible])
DOI-Virgin Islands	10.10	11.40	(1.30)	(1.3[illegible])
DON-Ship Lease Financing	705.30	780.80	(75.40)	(75.40)

Rural Utilities Service	14,714.10	14,490.60	223.50	655.90
SBA-State/Local Development Cos.	92.40	94.60	(2.20)	(10.00)
DOT-Section 511	3.20	3.20	0.00	0.00
Subtotal*	20,768.80	20,642.10	126.70	403.60
Grand total*	**35,992.40**	**37,017.30**	(1,024.90)	(3,611.90)
* figures may not total due to rounding + does not include capitalized interest				

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Last Updated on 3/24/03

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
January 08, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 9-YR 6-MO INFLATION-INDEXED NOTES

This issue is a reopening of an inflation-indexed note originally issued July 15, 2002.

Interest Rate:	3%	Issue Date:	January 15, 2003
Series:	C-2012	Dated Date:	January 15, 2003
CUSIP No:	912828AF7	Maturity Date:	July 15, 2012

TIIN Conversion Factor per $1,000 = 8.342602892 1/

High Yield: 2.340% Adjusted Price: 106.474

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 99.38%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 13,101,387	$ 5,801,044
Noncompetitive	199,065	199,065
FIMA (noncompetitive)	0	0
SUBTOTAL	13,300,452	6,000,109 2/
Federal Reserve	0	0
TOTAL	$ 13,300,452	$ 6,000,109

The unadjusted price of $105.593 was adjusted by an index ratio of 1.00834, for the period from July 15, 2002, through January 15, 2003.

Median yield 2.300%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 2.220%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 13,300,452 / 6,000,109 = 2.22

1/ This factor is used to calculate the Adjusted Values for any TIIN face amount and will be maintained to 2-decimals on Book-entry systems.
2/ Awards to TREASURY DIRECT = $51,286,000

KN-3754

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.
January 9, 2003

CONTACT: Office of Financing
202/691-3550

TREASURY OFFERS 13-WEEK AND 26-WEEK BILLS

The Treasury will auction 13-week and 26-week Treasury bills totaling $31,000 million to refund an estimated $32,387 million of publicly held 13-week and 26-week Treasury bills maturing January 16, 2003, and to pay down approximately $1,387 million. Also maturing is an estimated $16,002 million of publicly held 4-week Treasury bills, the disposition of which will be announced January 13, 2003.

The Federal Reserve System holds $14,181 million of the Treasury bills maturing on January 16, 2003, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders either in these auctions or the 4-week Treasury bill auction to be held January 14, 2003. 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 $1,016 million into the 13-week bill and $850 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

KD-3755

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED JANUARY 16, 2003

January 9, 2003

Offering Amount	$16,000 million	$15,000 million
Maximum Award (35% of Offering Amount)	$ 5,600 million	$ 5,250 million
Maximum Recognized Bid at a Single Rate	$ 5,600 million	$ 5,250 million
NLP Reporting Threshold	$ 5,600 million	$ 5,250 million
NLP Exclusion Amount	$ 5,300 million	None

Description of Offering:

Term and type of security	91-day bill	182-day bill
CUSIP number	912795 MH 1	912795 ND 9
Auction date	January 13, 2003	January 13, 2003
Issue date	January 16, 2003	January 16, 2003
Maturity date	April 17, 2003	July 17, 2003
Original issue date	October 17, 2002	January 16, 2003
Currently outstanding	$20,305 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 equals or exceeds the NLP reporting threshold stated above.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

EMBARGOED UNTIL 11:00 A.M.
January 13, 2003

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $11,000 million to refund an estimated $16,002 million of publicly held 4-week Treasury bills maturing January 16, 2003, and to pay down approximately $5,002 million.

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

The Federal Reserve System holds $14,181 million of the Treasury bills maturing on January 16, 2003, 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

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED JANUARY 16, 2003

January 13, 2003

Offering Amount	$11,000 million
Maximum Award (35% of Offering Amount)	$ 3,850 million
Maximum Recognized Bid at a Single Rate	$ 3,850 million
NLP Reporting Threshold	$ 3,850 million
NLP Exclusion Amount	$10,800 million

Description of Offering:

Term and type of security	28-day bill
CUSIP number	912795 LY 5
Auction date	January 14, 2003
Issue date	January 16, 2003
Maturity date	February 13, 2003
Original issue date	August 15, 2002
Currently outstanding	$42,099 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 equals or exceeds the NLP reporting threshold stated above.

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

Receipt of Tenders:

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

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

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

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
January 13, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	January 16, 2003
Maturity Date:	April 17, 2003
CUSIP Number:	912795MH1

High Rate: 1.180% Investment Rate 1/: 1.199% Price: 99.702

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 35.36%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 39,791,509	$ 14,335,749
Noncompetitive	1,464,326	1,464,326
FIMA (noncompetitive)	200,000	200,000
SUBTOTAL	41,455,835	16,000,075 2/
Federal Reserve	6,183,336	6,183,336
TOTAL	$ 47,639,171	$ 22,183,411

Median rate 1.170%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.150%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 41,455,835 / 16,000,075 = 2.59

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,128,228,000

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
January 13, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	January 16, 2003
Maturity Date:	July 17, 2003
CUSIP Number:	912795ND9

High Rate: 1.230% Investment Rate 1/: 1.255% Price: 99.378

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 23.43%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 36,024,457	$ 13,677,372
Noncompetitive	1,197,709	1,197,709
FIMA (noncompetitive)	125,000	125,000
SUBTOTAL	37,347,166	15,000,081 2/
Federal Reserve	5,555,437	5,555,437
TOTAL	$ 42,902,603	$ 20,555,518

Median rate 1.220%: 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 = 37,347,166 / 15,000,081 = 2.49

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $912,918,000

KD-3758

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 13, 2003
KD-3759

White House Announces Mark W. Everson Tapped to Serve as New IRS Commissioner

Today the Bush Administration announced that Mark W. Everson has been nominated to serve as the Commissioner of the Internal Revenue Service.

"Mark Everson is the right candidate with the perfect combination of public and private experience and a vision to lead the IRS," stated Acting Treasury Secretary Kenneth W. Dam. "The time taken to find such a candidate has been time well spent."

Most recently, Everson served as Deputy Director of the Office of Management and Budget, the President's chief management officer, with responsibility for establishing management policies for all executive agencies in the areas of finance, human capital, procurement, and information technology. His office oversees the federal government's information and technology agendas, and coordinates all IT spending within the government, including the IRS. Prior to that, he was Controller of the Office of Federal Financial Management.

Prior to joining the Bush Administration in August 2001, Mr. Everson served as Group Vice President - Finance of SC International Services, Inc., a $2.2 billion privately owned, Dallas based, food services company. For ten years, from 1988 until 1998, Mr. Everson was an executive with the Pechiney Group, the world's fourth largest producer and converter of aluminum. While with Pechiney, he held financial and operating positions in Chicago, Illinois; Manisa, Turkey; Marion, Indiana; and Paris, France.

Mr. Everson served in the Reagan Administration from 1982 until 1988. For three years, he was at the U.S. Information Agency, the public diplomacy arm of the government. In 1985, he moved to the Department of Justice where he served as a Special Assistant to the Attorney General. He was subsequently Executive Associate Commissioner and then Deputy Commissioner of the Immigration and Naturalization Service. While at INS, he oversaw implementation of the Immigration Reform and Control Act of 1986. Mr. Everson began his career with Arthur Andersen & Co. in New York. He received his B.A. in History from Yale University and has a Masters of Science in Accounting from the New York University Business School. He is 48 years old and is married to the former Nanette Rutka. They live in Arlington, Virginia and have two children, Leonard and Emma.

The Internal Revenue Service is the nation's tax collection agency and administers the Internal Revenue Code. Its mission: to provide America's taxpayers with top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 14, 2003
KD-3760

Statement by Assistant Secretary Olson on the IRS Offshore Disclosure Initiative

Today the Treasury Department and Internal Revenue Service announced an initiative to encourage the voluntary disclosure of unreported income hidden by taxpayers in offshore accounts and accessed through credit cards or other financial arrangements.

Under the initiative, eligible taxpayers have to pay back taxes, interest and certain accuracy and delinquency penalties, but will not face civil fraud and information return penalties. To obtain the benefits of the initiative, taxpayers must disclose information about who promoted or solicited their participation in the offshore financial arrangement.

"Treasury and the IRS are working to ensure that the IRS has the information needed to identify taxpayers who participated in these schemes. The initiative is an important step to bringing taxpayers back into compliance with the law, to stopping the promotion of these abusive schemes, and to getting the IRS information on promoters and other participants," stated Pamela Olson, Treasury Assistant Secretary for Tax Policy. "Taxpayers who do not come forward now will be pursued by the IRS and will be subject to more significant penalties and possible criminal sanctions."

"Treasury and the IRS must ensure that the IRS has the information necessary for it to fully and fairly enforce the tax laws," Olson continued. "The voluntary compliance initiative announced today will be an important source of information. The John Doe summons initiatives are another. Treasury will continue its efforts to improve and expand the U.S.'s broad network of bilateral tax treaties and tax information exchange agreements. Better tax information exchange relationships will permit the IRS to obtain the information it needs from other countries so it can pursue taxpayers attempting to hide income offshore to avoid their tax obligations."

Attached:
IRS Press Release IR-2003-5

IRS Chronology on Credit Cards and John Doe Summons

The text of Revenue Procedure 2003-11

Grassley Statement

Baucus Statement

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 14, 2003
KD-3761

Fact Sheet: Ending the Double Tax on Corporate Earnings

Background

Under current law, corporate earnings may be subject to two levels of tax: one at the corporate level and one at the shareholder level. Income earned by a corporation is taxed at the corporate level, generally at the rate of 35 percent. If the corporation distributes earnings to shareholders in the form of dividends, the income generally is taxed again at the shareholder level (at rates as high as 38.6 percent). If a corporation instead retains earnings, the value of corporate stock generally will increase to reflect the retained earnings. When shareholders sell their stock, that additional value will be taxed in the form of capital gains (generally at a maximum rate of 20 percent). The resulting rate of tax on corporate income can be as high as 60 percent, far in excess of tax imposed on other types of income.

This double taxation of corporate profits creates severe economic distortions.

• First, it creates a bias in favor of debt as compared to equity, because payments of interest by the corporation are deductible while returns on equity in the form of dividends are not. Excessive debt increases the risks of bankruptcy during economic downturns.
• Second, double taxation of corporate profits creates a bias in favor of unincorporated entities (such as partnerships and LLCs) that are not subject to the double tax.
• Third, double taxation of corporate profits encourages a corporation to retain its earnings rather than distribute the earnings in the form of dividends, distorting investment returns and decisions by lessening the pressure on corporate managers to undertake only the most productive investments.
• Fourth, double taxation encourages corporations to engage in transactions such as share repurchases rather than paying dividends because they permit the corporation to distribute earnings at reduced capital gains rates.
• Fifth, double taxation creates incentives for corporations to engage in transactions for the sole purpose of minimizing their tax liability.

The Administration's Proposal

The Administration's proposal would permit a corporation, public or private, to distribute tax-free dividends to its shareholders to the extent that those dividends are paid out of previously taxed income. That is, shareholders would be able to exclude the dividends from income tax. The proposal generally would be effective for dividends paid on or after January 1, 2003, with respect to corporate earnings after 2001.

Computing the Excludable Dividend Amount

To compute the dividends that can be paid to shareholders without tax, a corporation would calculate an excludable dividend amount (EDA). The Excludable Dividend Amount reflects income of the corporation that has been fully taxed. The Excludable Dividend Amount is calculated for each calendar year as follows:

(US taxes + foreign tax credits used to offset US tax liability)

.35

- (US taxes + foreign tax credits used to offset US tax liability)

= excludable dividend income.

A corporation's US taxes include the total tax amount reflected on its US federal income tax return filed during the calendar year.

The proposal also includes a mechanism to ensure that dividends and retained earnings are treated alike. If a corporation's excludable dividend amount exceeds the dividend it pays, each shareholder's basis in its stock would be increased on December 31st by the amount retained per share.

Corporations paying excludable dividends or that retain a portion of their Excludable Dividend Amount would report to shareholders the amount of Excludable Dividends and basis adjustments annually on IRS Form 1099.

Characterization of Distributions

If an amount is a dividend under current law, it would be treated as an excludable dividend to the extent of the Excludable Dividend Amount. If a corporation's dividends during a calendar year exceed its Excludable Dividend Amount, only a proportionate amount would be treated as an excludable dividend. Distributions in excess of the Excludable Dividend Amount generally will reduce basis, constitute a taxable dividend, and/or constitute a capital gain.

US withholding tax would apply to dividends paid by a US corporation to its foreign shareholders.

Refunds of Taxes

If a corporation is entitled to a refund of taxes as a result of an audit adjustment, a net operating loss, a foreign tax credit, a claim for refund, or for other reasons, the refund would be permitted based on the corporation's undistributed Excludable Dividend Amount in the year of the refund. Any remaining refund amount would be carried over to subsequent taxable years.

Corporations Permitted to Distribute Excludable Dividends

Under the Administration's proposal any corporation with income subject to US tax could pay excludable dividends. Foreign corporations that have income that is effectively connected with a US trade or business or that receive excludable dividends also could pay excludable dividends.

Sales of Stock

Capital gains on the sale of stock would continue to be taxed as under current law. Shareholders of a corporation that retains some or all of its Excludable Dividend Amount would be permitted to increase their stock bases. This adjustment would reduce capital gains recognized on the sale of stock, equalizing the treatment of dividends and retained earnings.

Special Entities

Under current law, the income of S corporations typically is not subject to corporate tax. Consequently, the general rules for S corporations would not change.

The Administration's proposal would permit a mutual fund or a real estate investment trust that receives excludable dividends to pass those excludable dividends through tax free to its shareholders. Special rules would be provided for excludable dividends received and paid by insurance companies.

Under current law, a corporation is allowed to deduct certain dividends paid with respect to shares held by an Employee Stock Ownership Plan (ESOP) that it sponsors. Under the Administration's proposal, special rules would be provided to ensure that a corporation could pay excludable dividends to an ESOP or claim a deduction for the dividends, but not both.

Excludable Dividends Received by Pension Plans, 401(k) Plans, and Individual Retirement Accounts (Retirement Plans)

The Administration's treatment of Retirement Plans would not change.

Generally, under current law, amounts contributed to a Retirement Plan are not subject to tax when contributed. Income earned by the Retirement Plan is not subject to tax when earned. Instead, contributions and earnings are subject to tax when distributed. In contrast, contributions to a Roth-IRA are made with after-tax dollars. However, both the after-tax contributions and income earned on those contributions are free from tax when distributed.

All investment income, including dividend income, earned by a Roth-IRA is free from tax. The tax treatment of other retirement plans is economically the same as Roth-IRA treatment. A plan with tax-free contributions and no tax until withdrawal produces the same after-tax benefit for an individual as a plan with after-tax contributions and tax-free investment returns. Thus, in a Retirement Plan, all investment income, including all dividend income, is effectively free from tax.

Rules to Prevent Gaming

Current law contains rules that prevent taxpayers from avoiding taxes, double dipping, and creating unintended losses. Similar rules would be provided for excludable dividends.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 14, 2003
KD-3762

Fact Sheet: The President's Proposal to end the Double Tax on Corporate Earnings

The President has proposed a bold plan to end the double tax on corporate profits.

THE PROBLEM.

When a corporation earns a profit it pays tax at rates as high as 35 percent. For example, a corporation with $100 of taxable income could pay as much as $35 in corporate income tax. Then, if the corporation pays dividends to its shareholders out of its remaining after-tax income of $65, the shareholders would pay tax on the dividends at their own individual tax rates, which range as high as 38.6 percent. The resulting rate of tax on corporate income can be as high as 60 percent, far in excess of tax rates imposed on other types of income.

The double tax affects companies' business and investment decisions in ways that can be harmful. They borrow money instead of issuing stock, because interest is deductible and doesn't bear the double tax, while dividends are not deductible. Higher debt burdens leave firms vulnerable during downturns. The double tax discourages companies from paying dividends – indeed, many companies have reduced their dividends – or stopped paying dividends altogether – to reduce the double tax.

The President believes the tax code shouldn't interfere with business decisions. That is why he has proposed getting rid of the double tax. Once it is gone, businesses can decide whether they should pay dividends without worrying about taxes.

HOW WILL IT WORK?

Corporations will compute and pay tax just as they always have. Then, they will do a simple calculation to compute how much of their income has been fully taxed. This step will determine how much the corporation can pay out in tax-free dividends. This step is important because the President has only proposed eliminating the double tax. The fully-taxed amount, less the tax paid by the corporation, is the amount that can be paid tax free to shareholders. So, in the example of a $100 profit and $35 tax, the $65 of after-tax profits could be paid to shareholders in cash without tax.

What happens if the corporation isn't fully taxed? Under the President's proposal, this will mean that less cash can be paid tax-free to shareholders. The reason – not all the profits have been fully taxed to the corporation. Consequently, corporations will have a reduced incentive to engage in transactions just to minimize their taxes.

What if the corporation doesn't want to distribute all its profits as dividends? Businesses have legitimate reasons for retaining earnings, such as the need to reinvest in plant and equipment. The President's proposal would allow the corporation to do so.

Consider a similar example as before but assume these amounts apply on a per share basis ($10 of profits per share, $3.50 in taxes per share, and $6.50 in after-tax income per share). Suppose the corporation paid out $4 in tax-free cash dividends per share and reinvested the remaining $2.50 per share. The proposal would allow shareholders to add the amount the corporation retained to the amount they paid for their stock. This treats shareholders the same as if they received a cash dividend and reinvested the dividend in new shares of the company. The $2.50 of retained earnings would be tax-free, just as if it had been paid as a cash dividend. For example, if a shareholder had bought a share of stock for $90 and sold it for $100, his or her gain would be $7.50 instead of $10 [$100 – ($90 + $2.50) = $7.50].

HOW WILL SHAREHOLDERS KNOW?

The corporation, mutual fund, or stockbroker will provide shareholders the information they need on the end-of-year tax statement sent every January. That statement will tell shareholders: (1) how much of the dividend is tax-free; (2) how much of the dividend, if any, is taxable; and (3) how much shareholders can add to what they paid for the stock to determine their tax when they sell their stock. Shareholders won't have to worry about computing these amounts because it will be done for them on the end-of-year statement.

WHAT ARE THE ADVANTAGES?

Here are some of the advantages of the President's proposal:

• Roughly 35 million American households currently receive taxable dividends. Most of them will benefit.

• About one-half of taxable dividends go to senior citizens, many of whom depend on that income.

• Corporations that previously had a reason not to pay dividends will now have a good reason to pay them.

• Dividends are frequently considered a good way to judge if a corporation is healthy. The current tax system disfavors dividend payments. Under the President's proposal, taxes would not affect the decision to pay dividends or retain earnings.

• Corporations will have a good reason to pay taxes and not to engage in aggressive tax planning. A dollar in taxes saved by a corporation no longer translates into more cash for their shareholders. The less tax paid by a corporation, the less tax-free cash that can be paid to its shareholders. That is good for the tax system.

• This puts us on a more equal footing with our biggest trading partners. Most of them provide some relief from the double tax on corporate earnings, so the U.S is now at a disadvantage.

CONCLUSION

The President's proposal makes sense for shareholders and corporations. It will reduce huge distortions and inefficiencies, allowing corporations to make decisions based on what makes good business sense instead of what makes good tax sense. It will reduce the incentive for tax shelters. It may improve corporate governance by making corporate decisions more transparent and subject to shareholder scrutiny. In short, it changes the math, and that has the potential to alter the way corporate America operates.

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
January 14, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	January 16, 2003
Maturity Date:	February 13, 2003
CUSIP Number:	912795LY5

High Rate: 1.135% Investment Rate 1/: 1.148% Price: 99.912

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 38.69%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 37,591,800	$ 10,969,185
Noncompetitive	30,915	30,915
FIMA (noncompetitive)	0	0
SUBTOTAL	37,622,715	11,000,100
Federal Reserve	2,442,590	2,442,590
TOTAL	$ 40,065,305	$ 13,442,690

Median rate 1.125%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.100%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 37,622,715 / 11,000,100 = 3.42

1/ Equivalent coupon-issue yield.

http://www.publicdebt.treas.gov

KD - 3763

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 15, 2003
KD-3764

Media Advisory: Treasury, OMB and IRS to Announce Free File Initiative on Thursday

The Department of Treasury, Office of Management and Budget and Internal Revenue Service will announce the details of IRS Free File during a news conference at 10 a.m. Thursday, January 16. The landmark initiative will allow the majority of Americans to prepare and file taxes online electronically for free.

Acting Treasury Secretary Kenneth W. Dam, OMB Director Mitchell E. Daniels Jr., and Acting IRS Commissioner Robert Wenzel, along with a group of taxpayers, will launch the new web-site and brief reporters. A demonstration of Free File on IRS.gov also will be conducted. The Free File program is the product of a public-private sector pact between the IRS and Free File Alliance, LLC, a consortium of tax software companies. Representatives of the companies will participate.

The event will be featured in a live Webcast available through www.ustreas.gov .

A live video broadcast of this event will be available on satellite for the free and unrestricted use by news organizations.
Live broadcast time: 10:00-11:00am EASTERN TIME
A Test Signal will be available from 9:45-10:00am EASTERN TIME
Ku-band analog satellite: AMC2 (Ge2)
Transponder: 1K
Orbital Position: 85 west
Downlink Frequency: 11720 MHz Vertical
Transmission Contact: ConnectLive 202-513-1000

The news conference will be held at the Treasury Department's press room (Room 4121). The room will be available for camera set up beginning at 9:00 a.m. Please note: seating at the event is limited. Media wishing to attend the event should contact one of the agencies' press offices as early as possible.

Media without Treasury or White House press credentials 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.

Media contacts for the event are:
Tara Bradshaw at Treasury: 202-622-2960
Megan Mollmann at OMB: 202-395-7254
IRS Media Relations: 202-622-4000

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 15, 2003
KD-3765

Treasury Proposes Suspicious Activity Reporting for Mutual Funds

The Department of the Treasury today issued a Notice of Proposed Rulemaking that would require mutual funds to report suspicious activities to Treasury's Financial Crimes Enforcement Network (FinCEN).

Existing Treasury regulations impose suspicious activity reporting requirements on banks and other depository institutions, securities brokerage firms and certain other financial institutions. This proposal is consistent with these previously issued regulations. Written comments on the proposed rule may be submitted within 60 days of its publication in the Federal Register, which is expected to occur later this week.

The proposed rule is part of Treasury's efforts to further enhance anti-money laundering controls in the securities industry and in the financial services sector generally. Since passage of the USA PATRIOT Act, Treasury has issued various regulations applicable to the mutual fund industry. In April of 2002, Treasury issued a regulation requiring mutual funds to establish an anti-money laundering program. In July of 2002, Treasury and the Securities and Exchange Commission (SEC) jointly issued a proposed rule that would require mutual funds to establish customer identification and verification procedures.

As with the previous regulations, Treasury has worked closely with the SEC in developing this proposed rule. Additionally, the mutual fund industry itself has continued to provide valuable assistance and insight in the development of anti-money laundering rules applicable to the industry.

The proposed rule issued today was recommended by the joint report submitted by Treasury, the SEC, and the Board of Governors of the Federal Reserve System to the Congress on December 31, 2002, pursuant to section 356 of the USA PATRIOT Act.

A copy of the proposed rule is attached.

BILLING CODE 4810-02

DEPARTMENT OF THE TREASURY

31 CFR Part 103

RIN 1506-AA29

Financial Crimes Enforcement Network; Due Diligence Anti-Money Laundering Programs for Certain Foreign Accounts

AGENCY: Financial Crimes Enforcement Network (FinCEN), Treasury.

ACTION: Notice of Proposed Rulemaking.

SUMMARY: Treasury and FinCEN are issuing a proposed regulation to implement section 312 of the USA PATRIOT Act of 2001, which requires U.S. financial institutions to establish due diligence policies, procedures, and controls reasonably designed to detect and report money laundering through correspondent accounts and private banking accounts that U.S. financial institutions establish or maintain for non-U.S. persons.

DATES: Written comments may be submitted to FinCEN on or before [INSERT DATE THAT IS 30 DAYS AFTER PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: Submit comments (preferably an original and four copies) to FinCEN, P.O. Box 39, Vienna, VA 22183, Attn: Section 312 Regulations. Comments may also be submitted by electronic mail to regcomments@fincen.treas.gov with the caption in the body of the text, "Attention: Section 312 Regulations." Comments may be inspected at FinCEN between 10 a.m. and 4 p.m. in the FinCEN Reading Room in Washington, D.C. Persons wishing to inspect the comments submitted must request an appointment by telephoning (202) 354-6400 (not a toll-free number).

FOR FURTHER INFORMATION CONTACT: Office of the Assistant General Counsel for Enforcement (Treasury), (202) 622-1927; the Office of the Assistant General Counsel for Banking and Finance (Treasury), (202) 622-0480; or Office of the Chief Counsel (FinCEN), (703) 905-3590 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

I. Background

On October 26, 2001, President Bush signed into law the USA PATRIOT Act of 2001, Pub. L. 107-56 (the Act). Title III of the Act, captioned AInternational Money Laundering Abatement and Anti-Terrorist Financing Act of 2001,@ includes certain amendments to the Bank Secrecy Act (BSA), 31 U.S.C. 5311 *et seq.*, intended to aid in the prevention, detection, and prosecution of international money laundering and terrorist financing.

Section 312 of the Act adds new subsection (i) to 31 U.S.C. 5318. This provision requires each U.S. financial institution that establishes, maintains, administers, or manages a private banking account or a correspondent account in the United States for a non-U.S. person to take certain anti-money laundering measures with respect to such accounts. In particular, financial institutions must establish appropriate, specific, and, where necessary, enhanced, due diligence policies, procedures and controls that are reasonably designed to enable the financial institution to detect and report instances of money laundering through those accounts.

In addition to this general requirement, which applies to all correspondent and private banking accounts for non-U.S. persons, section 312 of the Act specifies additional standards for certain correspondent accounts. For a correspondent account maintained for a foreign bank operating under an offshore license or a license granted by a jurisdiction designated as being of concern for money laundering, a financial institution must take reasonable steps to identify the owners of the foreign bank, to conduct enhanced scrutiny of the correspondent account to guard against money laundering, and to ascertain whether the foreign bank provides correspondent accounts to other foreign banks and, if so, to conduct appropriate related due diligence.

Section 312 also sets forth minimum standards for the due diligence requirements for a private banking account for a non-U.S. person. Specifically, a financial institution must take reasonable steps to ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, the private banking account, as necessary to guard against money laundering. The institution must also conduct enhanced scrutiny of private banking accounts requested or maintained by or on behalf of senior foreign political figures (or their family members or close associates). Enhanced scrutiny must be reasonably designed to detect and report transactions that may involve the proceeds of foreign corruption.

Section 312(b)(2) provides that subsection 5318(i) takes effect on July 23, 2002, and applies with respect to accounts covered by the requirement, regardless of when they were opened.

II. The Proposed Rule

The proposed rule, which was developed by Treasury in consultation with the staffs of the Federal functional regulators, requires covered financial institutions (which for purposes of this provision includes all U.S. financial institutions required under Treasury regulations to establish an anti-money laundering program) to implement programs to ensure that the due diligence requirements of the Act are met. The proposed regulation sets forth certain minimum requirements and otherwise adopts a risk-based approach, permitting covered financial institutions to tailor their programs to their own lines of business, financial products and services offered, size, customer base, and location. The proposed rule contemplates that covered financial institutions will pay close attention to the risks presented by different foreign financial institution and private banking customers, the jurisdictions in which they operate, and the types of transactions for which the accounts are used. A covered financial institution=s program under the proposed rule should include evaluation and consideration of any risks associated with these and other relevant factors. Covered financial institutions are expected to exercise sound business judgment in complying with the proposed rule and in addressing risks presented by foreign financial institution and private banking customers.

Treasury intends covered financial institutions to incorporate the due diligence programs required under the proposed rule into their existing programs under the BSA; it is not necessary for these financial institutions to establish separate programs for correspondent and private banking account due diligence. All federally insured depository institutions and credit unions are currently subject to regulations requiring them to maintain BSA compliance programs,[1] as are casinos.[2] In addition, effective April 24, 2002, securities broker-dealers, futures commission merchants and introducing brokers were required by section 352 of the Act and by rules of their respective self-regulatory organization to develop and implement anti-money laundering programs.[3] Also, on April 23, 2002, FinCEN issued interim final regulations under section 352 requiring mutual funds, money services businesses, and operators of credit card systems to establish anti-money laundering programs.[4] These program requirements include, at a minimum, (1) internal policies, procedures and controls to ensure ongoing BSA compliance; (2) the designation of a compliance officer; (3) an ongoing employee training program; and (4) an independent audit function to test programs.

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[1] See 12 CFR 21.21 (Office of the Comptroller of the Currency (OCC)); 12 CFR 208.63 (Board of Governors of the Federal Reserve System (Federal Reserve)); 12 CFR 326.8 (Federal Deposit Insurance Corporation (FDIC)); 12 CFR 563.177 (Office of Thrift Supervision (OTS)); 12 CFR 748.2 (National Credit Union Administration).

[2] 31 CFR 103.64.

[3] See NASD Regulation Rule 3011and NYSE Rule 445, approved by the Securities and Exchange Commission (SEC) on April 22, 2002, Release No. 34-45798, 67 FR 20854 (April 26, 2002); National Futures Association Compliance Rule 2-9(c), approved by the Commodity Futures Trading Commission on April 23, 2002.

[4] 67 FR 21110 (April 29, 2002).

III. Section-by-Section Analysis

1. Overview.

On December 28, 2001, Treasury published in the *Federal Register* a notice of proposed rulemaking to implement sections 313 and 319(b) of the Act (the Section 313/319 NPRM).[5] This proposed rule concerned provisions that: prohibit certain financial institutions from providing correspondent accounts to foreign shell banks; require such financial institutions to take reasonable steps to ensure that correspondent accounts provided to foreign banks are not being used to indirectly provide banking services to foreign shell banks; require certain financial institutions that provide correspondent accounts to foreign banks to maintain records of the ownership of such foreign banks and their agents in the United States designated for service of legal process for records regarding the correspondent account; and require the termination of correspondent accounts of foreign banks that fail to turn over their account records in response to a lawful request of the Secretary of the Treasury (Secretary) or the Attorney General. The Section 313/319 NPRM proposed to codify these requirements in a new Part 104 of title 31 of the Code of Federal Regulations.

The interim final rules published by Treasury on April 29, 2002, concerning anti-money laundering programs under section 352 of the Act, were codified in a new Subpart I of Part 103 of title 31 of the Code of Federal Regulations.

For clarity and convenience concerning the obligations of financial institutions with respect to the related requirements of sections 312, 313, 319(b), and 352 of the Act, Treasury intends to codify all of the regulations implementing these sections in Subpart I of Part 103. Accordingly, the Areserved@ definitions in proposed section 103.175 are for terms used in the Section 313/319 NPRM

[5] 66 FR 67460 (Dec. 28, 2001).

that are not relevant for purposes of this proposed rule under Act section 312. In addition, Areserved@ sections 103.177, 103.185, and 103.190 correspond to the three sections proposed in the Section 313/319 NPRM.

2. Section 103.175 B Definitions.

The proposed rule defines *beneficial ownership interest* to mean any noncontingent legal authority to fund, direct, or manage an account, or noncontingent legal entitlement to all or any part of the corpus or income of the account (other than an interest of less than the lesser of $1,000,000 or five percent of either the corpus or income of the account). Thus, the holder of any current right to any assets in a private banking account whose interest exceeds the minimum threshold would need to be identified; however, a financial institution would not be obliged to identify holders of contingent rights in an account, such as inheritance or similar interests.

The proposed rule=s definition of *correspondent account* is the definition in 31 U.S.C. 5318A(e) (as added by section 311 of the Act) and is statutorily applicable for purposes of 31 U.S.C. 5318(i) with respect to banks. The proposal defines the term to mean an account established to receive deposits from, make payments on behalf of a foreign financial institution, or handle other financial transactions related to such institution. In the case of a U.S. bank, this broad definition would include most types of banking relationships between a U.S. bank and a foreign financial institution. In the case of securities broker-dealers, futures commission merchants, and introducing brokers, a correspondent account would include any account that permits the foreign financial institution to engage in securities or futures transactions, funds transfers, or other types of financial transactions. With respect to the other types of covered financial institutions, a correspondent account would include any account such financial institution maintains for a foreign financial institution that falls within the definition: an account for receiving deposits from, making payments on behalf of, or handling other transactions related to such foreign financial institution. Treasury received many comments in connection with the Section 313/319 NPRM regarding the breadth of the definition of the term correspondent account for depository institutions and securities broker-dealers, and is continuing to consider those comments. Treasury is using the same definition as in the Section 313/319 NPRM for purposes of the proposed rule, except that the term applies to such accounts maintained by any covered financial institution, and applies to such accounts maintained for any foreign financial institution.

The proposed definition of *covered financial institution* is broader than the definition of Acovered financial institution@ in the Section 313/319 NPRM.[6] Unlike sections 313 and 319(b) of the Act, which impose certain restrictions and requirements on correspondent accounts for foreign banks, section 312 does not limit its application to Acovered financial institutions@ as defined in section 313 (primarily depository institutions and securities broker-dealers). Based upon the meaning of the term correspondent account and the requirements of section 312, Treasury is proposing to define covered financial institution to include, in addition to most of the financial institutions subject to the Section 313/319 NPRM, the other financial institutions that are subject to an anti-money laundering program requirement. This includes futures commission merchants and introducing brokers, casinos, mutual funds, money services businesses, and operators of credit card systems.

Treasury and FinCEN are engaged currently in the process of reviewing all categories of U.S. financial institutions to craft regulations requiring the development of anti-money laundering programs tailored to the risks presented by the products and services offered by these

[6] 31 U.S.C. 5318(j). For the Section 313/319 NPRM, "covered financial institutions" are those described in BSA section 5312(a)(2)(A) through (G) (insured depository institutions, trust companies, private bankers, U.S. branches of foreign banks, credit unions, and securities broker-dealers).

industries. Implicit in Congress' direction to Treasury to engage in this process is the recognition that all financial institutions may well pose risks that their products and services can be used unwittingly to launder money or finance terrorism. If the same functions are performed by foreign based financial institutions, similar risks are posed. When those foreign based financial institutions interface with a U.S. financial institution—any financial institution—through a correspondent account, section 312 requires appropriate due diligence to minimize the risk of money laundering or terrorist financing.

It may well be that many types of U.S. financial institutions simply do not offer and do not establish "correspondent accounts," but section 312 will capture any such account if it is subsequently established. Moreover, the statutory definition of a correspondent account is not limited to a traditional banking account. Treasury and FinCEN are specifically requesting comment concerning how the definition may or may not apply to the covered financial institutions. Treasury anticipates that, as additional U.S. financial institutions are required to establish anti-money laundering programs, they will also become subject to the requirements of this provision as well, to the extent they may maintain correspondent accounts for foreign financial institutions.

As in the case of the Section 313/319 NPRM, the definition includes foreign branches of insured depository institutions within the term covered financial institution. This means that any correspondent or private banking account established, maintained, administered, or managed at a foreign branch of an insured depository institution would be subject to the regulation. This issue was also the subject of substantial comment in the previous rulemaking, and Treasury is continuing to consider this issue in connection with both rulemakings.

The proposed definition of *foreign bank* is identical to the definition proposed in Treasury=s Section 313/319 NPRM. For these purposes, a foreign bank is any organization that (1) is organized under the laws of a foreign country, (2) engages in the business of banking, (3) is recognized as a bank by the bank supervisory or monetary authority of the country of its organization or principal banking operations, and (4) receives deposits in the course of its business. A foreign bank also includes a branch of a foreign bank located in a territory of the United States, Puerto Rico, Guam, American Samoa, or the U.S. Virgin Islands. A foreign bank does not include an agency or branch of a foreign bank located in the United States or an insured bank organized in a territory of the United States, Puerto Rico, Guam, American Samoa, or the U.S. Virgin Islands. In addition, a foreign central bank or foreign monetary authority that functions as a central bank is not a foreign bank, nor are certain international financial institutions of which the U.S. is a member, or which Treasury otherwise designates.

The proposed definition of *foreign financial institution* is based upon the definition of "covered financial institution" in this proposed rule. It includes any foreign bank (as defined in the proposed rule). It also includes other entities organized under foreign (non-U.S.) law (other than branches or offices of such entities in the United States) that, if they were organized in the U.S., would fall within the proposed definition of covered financial institution; i.e., financial institutions that are required pursuant to Treasury's regulations implementing section 352 of the Act to have an anti-money laundering program. At the date of this proposal, this would include federally insured depository institutions and credit unions, securities broker-dealers, futures commission merchants and introducing brokers, casinos, mutual funds, money services businesses and operators of credit card systems. Over the coming months Treasury will be requiring additional financial institutions to adopt anti-money laundering programs, at which time the corresponding foreign entities would be included within the definition of foreign financial institution.

The proposal defines *non-U.S. person* as an individual that is neither a U.S. citizen nor a lawful permanent resident as defined in 26 U.S.C. 7701(b)(6).

The proposed rule adopts, with one change, the language of section 312 of the Act that defines *offshore banking license* as a license to conduct banking activities which, as a condition of the license, prohibits the licensed entity from conducting banking activities with the citizens of, or with the local currency of, the country which issued the license. The proposed regulation uses the term Ajurisdiction@ rather than Acountry,@ as there may be political subdivisions of certain countries that issue offshore banking licenses.

The proposed rule defines *person* by reference to 31 CFR 103.11(z).

The proposed rule adopts the definition of *private banking account* in section 312 of the Act, which defines the term to mean an account that requires a minimum deposit of at least $1,000,000, that is established for one or more individuals, and that is assigned to or administered or managed by, in whole or in part, an officer, employee, or agent of a financial institution acting as a liaison between the financial institution and the direct or beneficial owner of the account.

The proposal defines the term *senior foreign political figure* to include a current or former senior official in the executive, legislative, administrative, military, or judicial branches of a foreign government (whether elected or not), a senior official of a major foreign political party, or a senior executive of a foreign government-owned commercial enterprise; a corporation, business, or other entity formed by or for the benefit of any such individual; an immediate family member of such an individual; or any individual publicly known (or actually known by the relevant financial institution) to be a close personal or professional associate of such an individual. Unless the financial institution has actual knowledge of the association, it must be public in some degree; an individual will not be brought within the definition if there is no readily available information about his or her ties to foreign officials. For this purpose, (1) an *immediate family member* means an individual=s spouse, parents, siblings, children, and spouse=s parents or siblings, and (2) *senior official* or *senior executive* means an individual with substantial authority over policy, operations, or the use of government-owned resources. The proposed definition is similar to the definition of "Covered Person" in the Guidance on Enhanced Scrutiny issued in 2001 by Treasury, the bank regulators, and the Department of State,[7] and includes both current and former senior foreign political figures.

3. Section 103.176 -- Due Diligence Programs for Correspondent Accounts for Foreign Financial Institutions.

The proposed rule adds to the BSA regulations new section 103.176, which sets forth the due diligence requirements for correspondent accounts maintained by covered financial institutions for foreign financial institutions. It should be noted that the statute takes effect on July 23, 2002 and applies to all correspondent accounts for foreign financial institutions subject to the requirement, regardless of when they were opened.

Section 103.176(a) requires every covered financial institution to maintain a due diligence program that includes policies, procedures, and controls that are reasonably designed to enable the financial institution to detect and report any known or suspected money laundering conducted through or involving any correspondent account maintained by such financial institution for a foreign financial institution. This provision contains five specific elements that must be included in all due diligence programs.

[7] Guidance on Enhanced Scrutiny for Transactions that May Involve the Proceeds of Foreign Official Corruption, issued by Treasury, the Federal Reserve, OCC, FDIC, OTS, and the Department of State, January 2001 ("2001 Guidance").

The first element is a determination whether the correspondent account is subject to the enhanced due diligence requirements of section 103.176(b). This requires the financial institution to determine, when the correspondent account is maintained for a foreign bank, whether the foreign bank operates under any of certain offshore banking licenses or under a banking license issued by any of certain jurisdictions (as provided in section 103.176(c)).

The second required element is a risk assessment to determine whether the correspondent account poses a significant risk of money laundering activity. The covered financial institution may consider any relevant factors in making this assessment, including the foreign financial institution=s line or lines of business, size, customer base, location, products and services offered, the nature of the correspondent account, and the type of transaction activity for which it will be used.

The third required element is consideration of any publicly available information from U.S. governmental agencies and multinational organizations with respect to regulation and supervision, if any, applicable to the foreign financial institution. Covered financial institutions should take steps to avail themselves of public information about jurisdictions in which their foreign financial institution customers are organized or licensed, to assist in determining whether particular correspondent accounts pose significant risks.

The fourth required element of the due diligence program requires a covered financial institution to consider any guidance issued by Treasury or the covered financial institution=s functional regulator regarding money laundering risks associated with particular foreign financial institutions and types of correspondent accounts. Again, covered financial institutions should be familiar with any information disseminated by Treasury and other federal regulators that may assist financial institutions in making informed risk assessments with respect to correspondent accounts.

Finally, the due diligence program requires a covered financial institution to review public information to ascertain whether the foreign financial institution has been the subject of any criminal action of any nature, or of any regulatory action relating to money laundering, to determine whether the circumstances of such action may reflect an increased risk of money laundering through the correspondent account.

This list of required elements is intended as a minimum standard for an effective due diligence program. Programs should be risk-focused to ensure that all correspondent accounts receive appropriate due diligence and that correspondent accounts presenting more significant risks of money laundering activity receive scrutiny reasonably designed to detect and report such activity. Programs may include policies and procedures that are more detailed than the basic required elements. Policies and procedures should be tailored to the covered financial institution=s business and operations and the types of financial services it offers through correspondent accounts.

Section 103.176(b) imposes three additional due diligence requirements for correspondent accounts for foreign banks operating under certain types of licenses (as provided in section 103.176(c)). For each such correspondent account, a covered financial institution=s program must include the three additional elements of (1) enhanced scrutiny, (2) a determination whether the foreign bank maintains its own correspondent accounts for other foreign banks, and (3) identification of certain owners of the foreign bank.

First, section 103.176(b)(1) requires a covered financial institution to take reasonable steps to conduct enhanced scrutiny of such correspondent accounts, to guard against money laundering and to detect and report known or suspected illegal activity occurring through the correspondent account. Enhanced scrutiny shall include obtaining and reviewing documentation from the foreign bank about its own anti-money laundering program and considering the extent to which such program is reasonably designed to detect and prevent money laundering. This is a required element of the program, and the program must include it for all correspondent accounts subject to enhanced scrutiny.

In addition, enhanced scrutiny shall, when appropriate, also include (1) monitoring transactions through the correspondent account reasonably designed to detect money laundering; and (2) obtaining information about the sources and beneficial ownership of funds in the correspondent account, as well as information about the identity of any persons who will have authority to direct transaction activity of the correspondent account. While these two components of enhanced scrutiny are not required in every instance, they may be a necessary element of enhanced scrutiny in some cases based on the financial institution=s risk assessment of the correspondent account. These elements are also not a comprehensive list of the components of enhanced scrutiny, and the program may provide for additional steps when appropriate in light of the risk assessment of an account. A financial institution=s due diligence program should provide for when these and other measures are necessary to ensure that the financial institution has taken reasonable steps, on a risk-based analysis, to guard against money laundering through foreign correspondent accounts.

The second additional requirement, set forth in section 103.176(b)(2), is that for any correspondent account for a foreign bank described in section 103.176(c), a covered financial institution must take reasonable steps to determine whether the foreign bank itself maintains correspondent accounts for other foreign banks. Each covered financial institution=s program should include policies and procedures for assessing and minimizing risks associated with doing business with foreign banks that have further correspondent relationships. The due diligence program required by the proposed rule must include procedures for the financial institution to follow in these circumstances, including determining the identity of the other foreign banks and, where appropriate in light of the risks involved, identifying the measures in place at the foreign correspondent bank to prevent money laundering through the financial institution=s correspondent account.

Finally, section 103.176(b)(3) requires a covered financial institution to take reasonable steps to determine the ownership of any foreign bank described in section 103.176(c) whose shares are not publicly traded. For purposes of this requirement, an *owner* is defined as any person who directly or indirectly owns, controls, or has power to vote 5 percent or more of any class of securities of a foreign bank. A reasonable step would be to obtain from the foreign bank a statement as to whether its shares are publicly traded, and if not, a list of its owners (as defined), including the percentage of shares held by each and nature of interest (*e.g.*, direct or indirect). Also for purposes of this requirement, *publicly traded* means shares that are traded on an exchange or an organized over-the-counter market that is regulated by a foreign securities authority as defined in section 3(a)(50) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(50)).

Section 103.176(c) lists the categories of foreign banks for which the additional requirements of paragraph 103.176(b) apply. Under section 312 of the Act, these additional requirements apply to a correspondent account for any foreign bank operating under (1) an offshore banking license; (2) a banking license issued by a foreign country that is designated as noncooperative with international anti-money laundering principles or procedures by an intergovernmental group or organization of which the United States is a member,[8] with which designation the United States representative to the group or organization concurs; or (3) a banking license issued by a foreign country that has been designated by Treasury as warranting special measures due to money laundering concerns.

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[8] The only intergovernmental organization that currently designates countries as noncooperative with international anti-money laundering standards is the Financial Action Task Force on Money Laundering (FATF), an intergovernmental body whose purpose is the development of policies, at both the national and international levels,

Section 103.176(c) incorporates the requirements of section 312, with some clarification. Correspondent accounts for a branch of a foreign bank operating under an offshore branch license would not be subject to the additional requirements of section 103.176(b) if the foreign bank has been found, or is chartered in a jurisdiction where one or more foreign banks have been found, by the Federal Reserve to be subject to comprehensive supervision or regulation on a consolidated basis by the relevant supervisors in that jurisdiction,[9] and such foreign bank does not fall within either of the other two categories of foreign banks for which the additional requirements apply. A covered financial institution=s due diligence program should nevertheless include consideration of the location of the foreign bank=s branch in the due diligence program required by section 103.176(a). In identifying the jurisdictions referred to in section 103.176(c)(2) and (3), covered financial institutions should refer to Treasury guidance available on the FinCEN website, or guidance available on the FATF website (www.oecd.org/fatf).

Section 103.176(d) states that a covered financial institution=s due diligence program for foreign correspondent accounts must also include procedures to be followed when due diligence cannot be adequately performed. That is, if the financial institution is unable to take reasonable steps to detect and report possible instances of money laundering, or to obtain adequate information regarding correspondent accounts for banks described in section 103.176(c), the due diligence program should provide for steps to be taken, including, as appropriate, refusing to open the account, suspending transaction activity, filing suspicious activity reports, or closing the account.

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to combat money laundering. The U.S. has concurred in all designations made to date.

[9] As of May 10, 2002, the Federal Reserve has made such a finding with respect to one or more foreign banks chartered in the following jurisdictions: Austria, Belgium, France, Germany, Greece, Italy, Ireland, the Netherlands, Portugal, Spain, Switzerland, the United Kingdom, Canada, Mexico, Argentina, Brazil, Chile, Australia, Hong Kong Special Administrative Region, Israel, Japan, Korea, Taiwan, and Turkey.

4. Section 103.178 B Due Diligence Programs for Private Banking Accounts for Non-U.S. Persons.

The proposed rule adds to the BSA regulations new section 103.178, which sets forth the due diligence requirements applicable to private banking accounts for non-U.S. persons. It should be noted that, as with correspondent accounts, the statute takes effect on July 23, 2002 and applies to all private banking accounts for non-U.S. persons subject to the requirement, regardless of when they were opened.

Section 103.178(a) requires each financial institution to maintain a due diligence program that includes policies, procedures, and controls that are reasonably designed to detect and report any known or suspected money laundering conducted through or involving any private banking account that the financial institution maintains for or on behalf of a non-U.S. person.

Section 103.178(b) sets forth minimum due diligence requirements for such accounts. Under paragraphs (b)(1)-(3), a covered financial institution=s due diligence program must include reasonable steps to ascertain the identity of all nominal holders and holders of any beneficial ownership interest in the private banking account, including the lines of business and source of wealth of such persons, source of funds deposited into the account, and whether any such holder may be a senior foreign political figure. Reasonable steps may include various means of ascertaining identity and source of funds, including confirming information provided by accountholders or their agents, and contacting beneficial owners, as appropriate, to confirm their ownership interests and source of funds. The level of confirmation necessary to ascertain all nominal and beneficial owners may vary depending upon the particular customer, and an effective due diligence program will provide for consideration of the various risk factors that may be involved. Reasonable steps to ascertain whether any holder may be a senior foreign political figure should generally include some review of public information, including information available on databases on the Internet. Financial institutions should carefully consider the best methods of discharging their due diligence obligations in this regard, giving consideration to the characteristics of the various foreign jurisdictions and types of senior political figures that are relevant, and the availability of databases that are useful in making this determination. Should a financial institution learn at any time that an account holder is a senior foreign political figure, it would be required to apply enhanced scrutiny as required by section 103.178(c)(2).

Section 103.178(b)(4) requires the due diligence program to include procedures ensuring that the covered financial institution will take reasonable steps to detect and report any known or suspected violation of law conducted through or involving a private banking account for a non-U.S. person.

Section 103.178(c)(1) specifies that if a financial institution=s due diligence program reveals information indicating that a particular individual may be a senior foreign political figure, it should exercise reasonable diligence in seeking to determine whether the individual is, in fact, a senior foreign political figure.[10] The paragraph provides further that if the institution does not learn of any information indicating that an individual may be a former senior foreign political figure (which by definition includes an immediate family member or close associate of such a person), and the individual states that he or she is not a former senior foreign political figure, the institution may rely on such statement, in addition to the results of their due diligence, in determining whether the account is subject to the enhanced due diligence requirements of section 103.178(c)(2).

Section 103.178(c)(2) specifies that the covered financial institution=s due diligence program must include enhanced scrutiny of private banking accounts held by or on behalf of senior foreign

[10] See 2001 Guidance, Part II.C.

political figures that is reasonably designed to detect and report transactions that may involve the proceeds of foreign corruption. At the outset, the decision to open such an account should generally be approved by senior management. The appropriate level of enhanced scrutiny will vary according to the circumstances and risk factors presented. For example, if a private banking customer is from a jurisdiction where it is well known through publicly available sources that current or former political figures have been implicated in large-scale corruption, it may be appropriate to probe regarding employment history and sources of funds to a greater extent than for a customer from a jurisdiction with no such history. The length of time since a former senior political figure has been in office could influence the degree of scrutiny applied to the source of their funds. The enhanced scrutiny required by section 103.178(c)(2) should take all risk factors into consideration, including but not limited to the purpose and use of the private banking account, location of the account holder(s), source of funds in the account, the type of transactions engaged in through the account, and the jurisdictions involved in such transactions. Although the rule does not specify the extent, if any, that transaction monitoring must take place, an effective due diligence program should dictate when risk factors will require transaction monitoring, and to what extent, as necessary to detect and report proceeds of foreign corruption.[11]

For purposes of section 103.178(c), *proceeds of foreign corruption* means assets or property that are acquired by, through, or on behalf of a senior foreign political figure through misappropriation, theft, or embezzlement of public funds, or the unlawful conversion of property of a foreign government, or through acts of bribery or extortion, and shall include other property into which such assets have been transferred.

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[11] For an enumeration of some risk factors that may warrant further scrutiny, see 2001 Guidance, Part II. D.

Section 103.178(d) states that a financial institution=s due diligence program for private banking accounts must also include procedures to be followed when due diligence cannot be adequately performed. That is, if the financial institution is unable to take reasonable steps to detect and report possible instances of money laundering, the due diligence program should provide for steps to be taken, including, as appropriate, not opening the account, suspending transaction activity, filing suspicious activity reports, or closing the account.

IV. Request for Comments

Treasury invites comment on all aspects of the proposed regulation, and specifically seeks comment on the following issues:

1. Is the definition of *correspondent account* appropriate for the purposes of this proposal? Should Treasury modify the definition of the term "correspondent account" for certain covered financial institutions?

2. Is the application of the proposed rule to *covered financial institutions* (as defined) appropriate? Do all of these U.S. financial institutions maintain correspondent accounts for foreign financial institutions?

3. Is the inclusion of foreign branches of U.S. depository institutions within the *covered financial institution* definition appropriate? Do other covered financial institutions have foreign branches that maintain correspondent accounts for foreign financial institutions?

4. Is the definition of *foreign financial institution* appropriate? Are there foreign financial institutions that should not be included within the definition? Alternatively, should the regulation apply to correspondent accounts maintained for other types of foreign financial institutions as well?

5. Is the definition of *beneficial ownership interest* sufficiently clear? Should it be further narrowed or clarified?

6. Does the definition of *private banking account* require clarification, for banks, securities or futures firms? Are there other covered financial institutions that maintain private banking accounts? Is the limitation in the statutory definition to accounts that require a minimum deposit of $1,000,000 consistent with the purposes of this provision?

7. Does the definition of *senior foreign political figure* require further clarification? If so, how might this be achieved?

8. Is the exclusion contained in section 103.176(c)(1) from the enhanced due diligence requirements for certain foreign banks operating under offshore banking licenses appropriate? For example, should correspondent accounts for offshore-licensed branches of foreign banks affiliated with covered financial institutions also be excluded from the enhanced due diligence requirement?

9. Should the rule generally adopt a more risk-based approach to the due diligence program and include fewer prescriptive and detailed provisions? Alternatively, should it include more prescriptive provisions in order to ensure that financial institutions will take additional steps to detect and report suspicious activity?

V. Regulatory Flexibility Act

Pursuant to the Regulatory Flexibility Act (5 U.S.C. 610 *et seq.*), it is hereby certified that this proposed rule will not have a significant economic impact on a substantial number of small entities. The proposed rule provides guidance to financial institutions concerning the mandated due diligence requirements in section 312. Moreover, the financial institutions covered by the rule tend to be larger institutions. Accordingly, a regulatory flexibility analysis is not required.

VI. Executive Order 12866

This interim final rule is not a "significant regulatory action" as defined in Executive Order 12866. Accordingly, a regulatory assessment is not required.

List of Subjects in 31 CFR Part 103

Banks, banking, Brokers, Counter money laundering, Counter-terrorism, Currency, Foreign banking, Reporting and recordkeeping requirements.

Authority and Issuance

For the reasons set forth above, FinCEN is proposing to amend subpart I of 31 CFR Part 103 as follows:

PART 103BFINANCIAL RECORDKEEPING AND REPORTING OF CURRENCY AND FOREIGN TRANSACTIONS

1. The authority citation for part 103 is revised to read as follows:

Authority: 12 U.S.C. 1829b and 1951-1959; 31 U.S.C. 5311-5331; title III, secs. 312, 313, 314, 319(b), 352, Pub. L. 107-56, 115 Stat. 307.

2. By adding the undesignated centerheading AANTI-MONEY LAUNDERING PROGRAMS@ immediately before ' 103.120.

3. Section 103.120 is amended as follows:

a. Paragraph (b) is amended by adding Athe requirements of ' ' 103.176 and 103.178 and@ immediately after the words Acomplies with@.

b. Paragraph (c)(1) is amended by adding Athe requirements of ' ' 103.176 and 103.178 and@ immediately after the words Acomplies with@.

4. Add new undesignated centerheadings and ' ' 103.175 through 103.178, 103.185, and 103.190 to subpart I to read as follows:

SPECIAL DUE DILIGENCE FOR CORRESPONDENT ACCOUNTS

AND PRIVATE BANKING ACCOUNTS

103.175 Definitions.

103.176 Due diligence programs for correspondent accounts for foreign financial institutions.

103.177 Records concerning owners of foreign banks and agents designated to receive service of legal process; prohibition on correspondent accounts for foreign shell banks. [Reserved]

103.178 Due diligence programs for private banking accounts for non-U.S. persons.

LAW ENFORCEMENT ACCESS TO FOREIGN BANK RECORDS

103.185 Summons or subpoena of foreign bank records. [Reserved]

103.190 Termination of correspondent relationship. [Reserved]

SPECIAL DUE DILIGENCE FOR CORRESPONDENT ACCOUNTS AND PRIVATE BANKING ACCOUNTS

103.175 Definitions.

Except as otherwise provided, the following definitions apply for purposes of ' ' 103.176 through 103.190:

(a) [Reserved]

(b) *Beneficial ownership interest* in an account means:

(1) A noncontingent legal authority to fund, direct, or manage the account (including, without limitation, the power to direct payments into or out of the account); provided, that a legal authority to fund or to direct payments into an account shall mean a specific contractual or judicial authority to do so; or

(2) A noncontingent legal entitlement to all or any part of the corpus or income of the account, but shall not include any interest of less than the lesser of $1,000,000 or five percent of either the corpus or income of the account.

(c) _Correspondent account_ means:

(1) For purposes of § 103.176, an account established to receive deposits from, make payments on behalf of a foreign financial institution, or handle other financial transactions related to such institution; and

(2) [Reserved]

(d) _Covered financial institution_ means:

(1) For purposes of §§ 103.176 and 103.178:

(i) An insured bank (as defined in section 3(h) of the Federal Deposit Insurance Act (12 U.S.C. 1813(h))) and any foreign branch of an insured bank;

(ii) A commercial bank;

(iii) An agency or branch of a foreign bank in the United States;

(iv) A federally insured credit union;

(v) A thrift institution;

(vi) A corporation acting under section 25A of the Federal Reserve Act (12 U.S.C. 611 *et seq.*);

(vii) A broker or dealer registered, or required to register, with the Securities and Exchange Commission under the Securities Exchange Act of 1934 (15 U.S.C. 78a *et seq.*);

(viii) A futures commission merchant registered, or required to register, under, and an introducing broker as defined in § 1a23 of, the Commodity Exchange Act (7 U.S.C. 1 *et seq.*);

(ix) A casino (as defined in § 103.11(n)(5));

(x) A mutual fund (as defined in § 103.130);

(xi) A money services business (as defined in § 103.11(uu)); and

(xii) An operator of a credit card system (as defined in § 103.135).

(2) [Reserved].

(e) *Foreign bank*. (1) The term *foreign bank* means any organization that:

(i) Is organized under the laws of a foreign country;

(ii) Engages in the business of banking;

(iii) Is recognized as a bank by the bank supervisory or monetary authority of the country of its organization or principal banking operations; and

(iv) Receives deposits in the regular course of its business.

(2) For purposes of this definition:

(i) The term *foreign bank* includes a branch of a foreign bank in a territory of the United States, Puerto Rico, Guam, American Samoa, or the U.S. Virgin Islands.

(ii) The term *foreign bank* does not include:

(A) An agency or branch of a foreign bank in the United States, other than in a territory of the United States, Puerto Rico, Guam, American Samoa, or the U.S. Virgin Islands;

(B) An insured bank organized under the laws of a territory of the United States, Puerto Rico, Guam, American Samoa, or the U.S. Virgin Islands;

(C) A foreign central bank or foreign monetary authority that functions as a central bank; and

(D) The African Development Bank, African Development Fund, Asian Development Bank; Bank for International Settlements, European Bank for Reconstruction and Development, Inter-American Development Bank, International Bank for Reconstruction and Development (the World Bank), International Finance Corporation, International Monetary Fund, North American Development Bank, International Development Association, Multilateral Investment Guarantee

Agency, and similar international financial institutions of which the United States is a member or as otherwise designated by the Secretary.

(f) *Foreign financial institution* means a foreign bank and any other person organized under foreign law (other than a branch or office of such person in the United States) which, if organized in the United States, would be required to establish an anti-money laundering program pursuant to §§ 103.120 through 103.169 of this part. For purposes of this definition:

(1) The dollar limitations in §§ 103.11(uu)(1) through (4) of this part shall not be taken into account when determining whether a person organized under foreign law would, if organized in the United States, be a money services business required to establish an anti-money laundering program pursuant to § 103.125 of this part; and

(2) No person organized under foreign law shall be deemed to be a foreign financial institution by virtue of § 103.11(uu)(6).

(g) [Reserved]

(h) [Reserved]

(i) *Non-United States person* or *non-U.S. person* means an individual who is neither a United States citizen nor a lawful permanent resident as defined in 26 U.S.C. 7701(b)(6).

(j) *Offshore banking license* means a license to conduct banking activities that prohibits the licensed entity from conducting banking activities with the citizens of, or in the local currency of, the jurisdiction that issued the license.

(k) [Reserved]

(l) *Person* has the same meaning as provided in § 103.11(z).

(m) [Reserved]

(n) *Private banking account* means an account (or any combination of accounts) that:

(1) Requires a minimum aggregate amount of funds or other assets of not less than $1,000,000;

(2) Is established on behalf of or for the benefit of 1 or more individuals who have a direct or beneficial ownership interest in the account; and

(3) Is assigned to, or is administered or managed by, in whole or in part, an officer, employee, or agent of a covered financial institution acting as a liaison between the covered financial institution and the direct or beneficial owner of the account.

(o) *Senior foreign political figure*. (1) The term *senior foreign political figure* means:

(i) A current or former senior official in the executive, legislative, administrative, military, or judicial branches of a foreign government (whether elected or not), a senior official of a major foreign political party, or a senior executive of a foreign government-owned commercial enterprise;

(ii) A corporation, business or other entity that has been formed by, or for the benefit of, any such individual;

(iii) An immediate family member of any such individual; and

(iv) A person who is widely and publicly known (or is actually known by the relevant covered financial institution) to maintain a close personal or professional relationship with any such individual.

(2) For purposes of this definition:

(i) *Senior official or executive* means an individual with substantial authority over policy, operations, or the use of government-owned resources; and

(ii) *Immediate family member* means a spouse, parents, siblings, children, and a spouse=s parents or siblings.

(p) [Reserved]

103.176 Due diligence programs for correspondent accounts for foreign financial institutions.

(a) *In general*. A covered financial institution shall maintain a due diligence program that includes policies, procedures, and controls that are reasonably designed to enable the financial institution to detect and report any known or suspected money laundering activity conducted through or involving any correspondent account maintained by such financial institution for a foreign financial institution. Such procedures shall include:

(1) Determining whether the correspondent account is subject to paragraph (b) of this section;

(2) Assessing whether the foreign financial institution presents a significant risk of money laundering, based on any relevant factors;

(3) Considering information available from U.S. governmental agencies and multinational organizations with respect to supervision and regulation, if any, applicable to the foreign financial institution;

(4) Reviewing guidance issued by Treasury or its Federal functional regulator regarding money laundering risks associated with particular foreign financial institutions and correspondent accounts for foreign financial institutions generally; and

(5) Reviewing public information to ascertain whether the foreign financial institution has been the subject of criminal action of any nature, or regulatory action relating to money laundering.

(b) *Enhanced due diligence for certain foreign banks*. In the case of a correspondent account maintained for a foreign bank described in paragraph (c) of this section, the due diligence program required by paragraph (a) of this section shall also include, at a minimum, the following elements:

(1) Enhanced scrutiny of such correspondent account to guard against money laundering and to ensure detection and reporting of known or suspected illegal activity. Enhanced scrutiny shall also

include obtaining and reviewing documentation relating to the foreign bank=s anti-money laundering program and considering the extent to which such program is reasonably designed to detect and prevent money laundering, and when appropriate shall also include:

(i) Monitoring of transactions through the correspondent account reasonably designed to detect money laundering; and

(ii) Obtaining information from the foreign bank about the identity of any persons that will have authority to direct transactions through the correspondent account, and the sources and beneficial ownership of funds or other assets of such persons in the correspondent account.

(2) A determination whether the foreign bank holding the account maintains correspondent accounts for other foreign banks. If the foreign bank does maintain correspondent accounts for other foreign banks, the due diligence program required by paragraph (a) of this section shall provide for:

(i) Documentation of the identity of the other foreign banks for which the foreign bank maintains correspondent accounts; and

(ii) Policies and procedures for assessing and minimizing risks associated with the foreign bank=s correspondent accounts for other foreign banks.

(3)(i) For any foreign bank whose shares are not publicly traded, the identification of each owner of the foreign bank and the nature and extent of each owner=s ownership interest.

(ii) For purposes of paragraph (b)(3)(i) of this section:

(A) *Owner* means any person who directly or indirectly owns, controls, or has voting power over 5 percent or more of any class of securities of a foreign bank; and

(B) *Publicly traded* means shares that are traded on an exchange or an organized over-the-counter market that is regulated by a foreign securities authority as defined in section 3(a)(50) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(50)).

(c) _Foreign banks to be accorded enhanced due diligence_. The due diligence program elements of paragraph (b) of this section are required for any correspondent account maintained for a foreign bank that operates under:

(1) An offshore banking license, other than a branch of a foreign bank if such foreign bank:

(i) Does not fall within paragraph (c)(2) or (3) of this section; and

(ii) Has been found, or is chartered in a jurisdiction where one or more foreign banks have been found, by the Board of Governors of the Federal Reserve System under the Bank Holding Company Act or the International Banking Act, to be subject to comprehensive supervision or regulation on a consolidated basis by the relevant supervisors in that jurisdiction;

(2) A license issued by a foreign country that has been designated by an intergovernmental group or organization to which the United States belongs as noncooperative with international anti-money laundering principles or procedures and with which designation the U.S. representative concurs; or

(3) A license issued by a foreign country that Treasury has identified (by regulation or other public issuance) as warranting special measures due to money laundering concerns.

(d) _Special procedures when due diligence cannot be performed_. The due diligence program required by paragraph (a) of this section shall include procedures to be followed in circumstances in which a covered financial institution cannot perform appropriate due diligence with respect to a correspondent account, including when the institution should refuse to open the account, suspend transaction activity, file a suspicious activity report, or close the account.

' 103.177 Records concerning owners of foreign banks and agents designated to receive service of legal process; prohibition on correspondent accounts for foreign shell banks. [Reserved]

103.178 Due diligence programs for private banking accounts for non-U.S. persons.

(a) _In general_. A covered financial institution shall maintain a due diligence program that includes policies, procedures, and controls that are reasonably designed to detect and report any known or suspected money laundering conducted through or involving any private banking account maintained by such financial institution in the United States by or on behalf of a non-U.S. person.

(b) _Minimum requirements_. The due diligence program required by paragraph (a) of this section shall, at a minimum, ensure that the financial institution takes reasonable steps to:

(1) Ascertain the identity of all nominal holders and holders of any beneficial ownership interest in the private banking account, including information on those holders= lines of business and source of wealth;

(2) Ascertain the source of funds deposited into the private banking account;

(3) Ascertain whether any such holder may be a senior foreign political figure; and

(4) Report, in accordance with applicable law and regulation, any known or suspected violation of law conducted through or involving the private banking account.

(c) _Special requirements for senior foreign political figures_. (1) In performing the due diligence program required by paragraph (a) of this section:

(i) If a covered financial institution learns of information indicating that a particular individual may be a senior foreign political figure, it should exercise reasonable diligence in seeking to determine whether the individual is, in fact, a senior foreign political figure.

(ii) If a covered financial institution does not learn of any information indicating that an individual may be a former senior foreign political figure, and the individual states that he or she is not a former senior foreign political figure, the financial institution may rely on such statement in determining whether the account is subject to the due diligence requirements of paragraph (c)(2) of this section.

(2) In the case of any private banking account for which a senior foreign political figure is a nominal holder or holds a beneficial ownership interest, the due diligence program required by paragraph (a) of this section shall include policies and procedures reasonably designed to detect and report transactions that may involve the proceeds of foreign corruption.

(3) For purposes of this paragraph (c), the term *proceeds of foreign corruption* means assets or property that are acquired by, through, or on behalf of a senior foreign political figure through misappropriation, theft or embezzlement of public funds, or the unlawful conversion of property of a foreign government, or through acts of bribery or extortion, and shall include other property into which such assets have been transformed or converted.

(d) *Special procedures when due diligence cannot be performed*. The due diligence program required by paragraph (a) of this section shall include procedures to be followed in circumstances in which a covered financial institution cannot perform appropriate due diligence with respect to a private banking account, including when the institution should refuse to open the account, suspend transaction activity, file a suspicious activity report, or close the account.

LAW ENFORCEMENT ACCESS TO FOREIGN BANK RECORDS

' 103.185 Summons or subpoena of foreign bank records. [Reserved]

' 103.190 Termination of correspondent relationship. [Reserved]

DATED: May 22, 2002

/s/

James F. Sloan

Director, Financial Crimes Enforcement Network

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January 15, 2003
KD-3766

U.S. Treasury and Singapore Reach Agreement on Investment Protections in Free Trade Talks

On Wednesday, January 15, 2003, the U.S. Treasury and the Monetary Authority of Singapore reached agreement on issues affecting transfers in the investment chapter of the U.S.-Singapore Free Trade Agreement.

This agreement was concluded between Singaporean Managing Director Koh Yong Guan and Treasury Under Secretary for International Affairs John Taylor. The transfers provision in the U.S.-Singapore FTA investment chapter is based upon the framework that is used in the U.S.-Chile FTA.

The agreement reflects the shared commitment by the United States and Singapore to the free transfer of capital and the avoidance of capital controls. The agreement was not intended to determine whether capital controls are or are not a legitimate macro-economic policy tool, but rather to provide legal protections for US investors if restrictions are imposed. Any restrictions that "substantially impede transfers" are subject to claims for damages, and even those that do not substantially impede can be subject to claims for damages if they are imposed for longer than one year. Therefore, this agreement does not prevent a country from imposing controls but does require compensation for US investors in the circumstances described above.

The agreement provides for the free transfers of funds related to an investment into and out of a country. Thus, the United States has maintained its long-standing policy of assuring that investment flows may move unimpeded by controls.

The free transfer provisions of the U.S.-Singapore FTA meet an important Trade Promotion Authority (TPA) objective – 'freeing the transfer of funds related to investments.' These provisions provide U.S. investors with substantially strengthened transfer rights over those available under the General Agreement on Trade in Services (GATS) and the General Agreement on Trade and Tariffs (GATT). Unlike those other agreements, the U.S.-Singapore FTA provides for effective investor-State and State-State arbitration provisions to enforce free transfer rights.

Related Documents:

FACT SHEET
Agreement on US-Singapore Free Transfers

On Wednesday, January 15, 2003, the U.S. Treasury and the Monetary Authority of Singapore reached agreement on important provisions in the Investment Chapter of the U.S.-Singapore Free Trade Agreement. **The agreement is a "win-win" for both countries.**

<u>Point 1: The investment chapter maintains the principle of free transfers.</u>

This approach is consistent with the shared economic philosophy and policy perspective of both the United State and Singapore. Retaining the principle of free transfers sends a strong signal to the markets that the U.S. and Singapore support the free flow of capital and recognize its importance in economic development. Free transfers permit the efficient allocation of resources and provide investors with a transparent regime for doing business free of political obstacles.

Both countries recognize that a strong reserve position, a flexible exchange rate regime, sound fiscal and monetary policies, and effective prudential measures for the financial sector are the preferred policy tools for both avoiding a balance of payments crisis and for dealing with one. The FTA transfers provision complements this approach.

The free transfers provision of the Singapore FTA meets an important Trade Promotion Authority (TPA) objective – "freeing the transfer of funds related to investments." This provision provides U.S. investors with substantially strengthened transfer rights over those available under the General Agreement on Trade in Services (GATS) and General Agreement on Trade and Tariffs (GATT). In addition, unlike these other agreements, the FTA provides for effective investor-state and State-State arbitration provisions to enforce free transfer rights.

<u>Point 2: The investment chapter ensures that U.S. investors' maintain their rights under dispute settlement in the case of restrictions on free transfers.</u>

The U.S. and Singapore agreed that, instead of creating exceptions to the investment provisions allowing free transfers, all issues would be handled in the dispute resolution chapter. This avoids the need to discuss if and when countries agree that capital flow restrictions would be necessary.

All current account transactions, including profits and dividends; foreign direct investment; proceeds from the sale of an investment; and payments pursuant to bonds and most loans are covered by the standard dispute provisions of the Agreement. The usual cooling off period before a claim may be taken to dispute resolution is six months.

On other capital flows, there will be cooling off period of one year. If the restrictions substantially impede a transfer, then damages accrue from the date of imposition of controls. If the restrictions do not substantially impede a transfer, then Singapore has a period of 364 days without liability.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 15, 2003
PO-3767

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 $78,635 million as of the end of that week, compared to $77,263 million as of the end of the prior week.

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

	December 20, 2002			December 27, 2002		
TOTAL		77,263			78,635	
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	6,660	13,052	19,712	6,766	13,118	19,884
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,956	2,620	13,576	11,115	2,634	13,749
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
2. IMF Reserve Position [2]			20,890			21,866
3. Special Drawing Rights (SDRs) [2]			12,042			12,093
4. Gold Stock [3]			11,043			11,043
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	December 20, 2002			December 27, 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

	December 20, 2002			December 27, 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

January 15, 2003
PO-3768

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 $78,642 million as of the end of that week, compared to $78,635 million as of the end of the prior week.

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

	December 27, 2002			January 3, 2003		
TOTAL		78,635			78,642	
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	6,766	13,118	19,884	6,766	13,127	19,892
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	11,115	2,634	13,749	11,129	2,635	13,764
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]			21,866			21,853
3. Special Drawing Rights (SDRs) [2]			12,093			12,090
4. Gold Stock [3]			11,043			11,043
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	December 27, 2002			January 3, 2003		
	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

	December 27, 2002			January 3, 2003		
	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

January 15, 2003
PO-3769

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 $79,113 million as of the end of that week, compared to $78,642 million as of the end of the prior week.

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

	January 3, 2003			January 10, 2003		
TOTAL		78,642			79,113	
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	6,766	13,127	19,892	6,855	13,172	20,027
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	11,129	2,635	13,764	11,260	2,644	13,904
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]			21,853			21,978
3. Special Drawing Rights (SDRs) [2]			12,090			12,160
4. Gold Stock [3]			11,043			11,043
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	January 3, 2003			January 10, 2003		
	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

	January 3, 2003			January 10, 2003		
	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

January 16, 2003
KD-3770

U.S. Acting Treasury Secretary Kenneth W. Dam Remarks on the Inauguration of IRS Free File System

I would agree that Free File is an exciting development, not only for the IRS and the Treasury, but for the federal government and -- not least -- every taxpayer. This inauguration marks a significant step forward in our efforts to make government more productive, efficient, and taxpayer-friendly. It also marks a new milestone in public-private coordination.

Taxpaying is one of the most basic obligations of citizenship. But it need not be slow or mysterious. Free File promises to reduce the needless frustrations of millions of dutiful citizens as they prepare and file their personal returns.

It also incorporates a variety of features that will reduce filing errors arising from the complexity of the tax code. In our technologically advanced economy, electronic transactions are nearly ubiquitous. With Free File, the federal government is finally catching up to the nation we strive to support.

We recognize that our paying customers, the American people, should enjoy the same level of service and convenience that they enjoy from the very best private companies when they deal with their government.

Free File does not entirely close the service gap, but it certainly signifies a dramatic leap forward, from last-century standards to 21st century service.On the receiving side, Free File will allow the IRS to process more returns faster and at lower cost to the taxpayer, permitting more taxpayer resources to reach the programs they are intended to fund. Electronic filing will reduce processing errors and speed refunds as well.

When we talk about increasing the productivity of our government, we are talking about delivering more and better service for less money. That is exactly what Free File exemplifies. Congratulations to all at the IRS, and all the businesses involved in the Free File Alliance, for an important contribution to the future of the United States Government.

FROM THE OFFICE OF PUBLIC AFFAIRS

January 16, 2003
2003-1-16-18-14-41-27752

United States Welcomes Agreement between the IMF and the Government of Argentina on a Letter of Intent for a Transitional Program

The United States welcomes the agreement announced by the Argentine authorities with IMF staff on a Letter of Intent for a transitional IMF program for Argentina. We look forward to IMF Board consideration of the program in the very near future. Implementation of an effective transitional program can build on and strengthen the progress Argentina's authorities are making in stabilizing the country's economic and financial situation.

FROM THE OFFICE OF PUBLIC AFFAIRS

January 16, 2003
KD-3771

Most Americans Now Can Prepare & File Taxes Online for Free Treasury, OMB, IRS launch New Free File Website

Washington D.C. – Today the Treasury Department, Office of Management and Budget (OMB) and the Internal Revenue Service (IRS) launched a new Web site featuring private-sector partners that will allow most taxpayers to prepare and file their taxes online for free. A substantial majority of citizens will be eligible to use this service at www.irs.gov or through www.firstgov.gov.

President Bush proposed free online tax filing last February as one of his E-Government initiatives. Less than one year later, millions of Americans will benefit from free online tax filing services. Treasury, OMB and IRS have made this possible through a public-private partnership with a consortium of tax software companies, the Free File Alliance, LLC.

Free File is an easy, fast and secure way for citizens to file taxes and will also allow Americans to get refunds in half the time. The efficiency of E-file saves taxpayers and the IRS money.

"No one likes paying taxes—it's too confusing and time consuming. The launch of this new website is great news for millions of Americans. Free File makes it easy. Now they can save time, money and get their refunds in half the time by filing their taxes online for free," stated Acting Treasury Secretary Kenneth W. Dam.

"Simply paying taxes is burden enough without the extra costs in time and professional help that too many Americans have endured until now. The advent of free, fast filing for a substantial majority of taxpayers marks a great breakthrough for the President's agenda to make the federal government put the needs of the citizen first," said Director of the OMB Mitchell E. Daniels, Jr.

"Free File puts e-file within reach of more taxpayers than ever. They'll soon discover what the 47 million taxpayers who e-filed last year already know. E-file is quicker. E-file is more accurate. E-file is the best way to confirm the IRS received your return, and it's the fastest route to a refund," said IRS Acting Commissioner Robert Wenzel.

Each Free File Alliance member company sets taxpayer eligibility requirements for its own program. These requirements will differ from company to company. Generally, eligibility will be based on factors such as age, adjusted gross income, state residency, military status or eligibility to file a Form 1040EZ or for the Earned Income Tax Credit. The agreement requires the Alliance, as a whole, to provide free services for at least 60 percent or 78 million of the nation's taxpayers during each filing season. As of January 16, 2003, the industry has exceeded that requirement. The number may fluctuate throughout the filing season as Alliance membership and offers change. The primary candidates for Free File are those taxpayers who prepare their own taxes and still file paper returns. Last filing season, the IRS received nearly 85 million paper returns and nearly 47 million e-filed returns.

E-government is an integral part of the President's Management Agenda to make it easier for citizens and businesses to interact with the government, save taxpayer

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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January 16, 2003
KD-3772

IRS Details Free File Initiative Millions Eligible for Free Online Preparation and E-Filing

IRS Fact Sheet

Related Documents:

- IRS Details Free File Initiative Millions Eligible for Free Online Preparation and E-Filing

INTERNAL REVENUE SERVICE
www.irs.gov

IRS Fact Sheet

Media Relations Office | Washington, D.C. | Tel. 202.622.4000
For Release: January 2003 | Release No: FS-2003-8

IRS DETAILS FREE FILE INITIATIVE; MILLIONS ELIGIBLE FOR FREE ONLINE PREPARATION AND E-FILING

The majority of American taxpayers will be eligible for free online tax preparation and free electronic filing through a partnership agreement between the Internal Revenue Service and the Free File Alliance, LLC, a private-sector consortium of tax software companies.

Each Free File Alliance member sets taxpayer eligibility requirements for its program. Requirements will differ company to company. Generally, eligibility will be based on factors such as age, adjusted gross income, state residency, military status or eligibility to file a Form 1040EZ or for the Earned Income Tax Credit.

The agreement requires the Alliance, as a whole, to provide free services to at least 60 percent or 78 million of the nation's taxpayers through April 15. The primary candidates for Free File are those taxpayers who prepare their own taxes and still file paper returns. Last filing season, the IRS received nearly 85 million paper returns and nearly 47 million e-filed returns.

The IRS neither supports nor endorses any individual Free File Alliance company or product. As part of the agreement, the IRS provides to taxpayers a listing of the Alliance members via the Free File web page, which is hosted on IRS.gov. The Free File Alliance members must comply with all federal laws protecting taxpayer information.

The firms' online preparation and filing services are being provided to eligible taxpayers at no charge. Taxpayers are under no obligation to purchase any products such as Refund Anticipation Loans. Taxpayers generally will receive their refund within 10 days if they use both e-file and direct deposit. Refunds from mailed paper returns can take up to six weeks.

STEPS TO GET STARTED

Taxpayers can locate the Free File Website through IRS.gov and, by following a few simple steps, be on their way to getting their taxes where they want them – done.

STEP 1: DETERMINE ELIGIBILITY
At the Free File homepage, taxpayers have two options for determining their eligibility for free services: They may browse the complete listing of Alliance members and their free services. Or, taxpayers can use a questionnaire application, the Free File Wizard, which

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will assist taxpayers in identifying those free services for which they may qualify. Each Alliance member will identify their company name and will have a simple description of the criteria for using their free service. Each Alliance member's company or product name will be linked to additional information about the company and services. Not all taxpayers will be eligible for these free services.

STEP 2: LINK TO FREE SERVICES
Upon determining eligibility, the taxpayer can link directly to that Alliance member's free service by clicking on the Alliance member's "Start Now" link. Upon doing so, taxpayers will be notified they are leaving the IRS.gov web site and are entering an Alliance member's web site.

STEP 3: PREPARE AND FILE TAX RETURN
At the Alliance member's Web site, taxpayers can prepare their tax returns using the member's online proprietary software. Completed tax returns will be sent electronically from the Alliance member to the IRS through existing e-file system using secure telephone lines. Taxpayers will receive an acknowledgement of receipt or rejection of their return via an email from the Alliance member.

WHAT ARE THE BENEFITS?

The intent of IRS Free File is to reduce the burden on individual taxpayers, make tax preparation easier and expand the benefits of electronic filing to a majority of Americans. The benefits of using these free services are identical to those of e-filing, which include:

- Reduced tax return preparation time;
- Faster refunds;
- Accuracy of return;
- Acknowledgement of return receipt.

Alliance members' proprietary software will assist taxpayers in completing their returns and help ensure taxpayers are aware of tax credits and deductions for which they may be eligible. The tax preparation software has been tested for compatibility with the IRS. Accurate online preparation and filing vastly reduces errors. Common mistakes, such as math errors or transposing Social Security numbers, can require the IRS to delay refunds while resolving the problem.

Also, e-file users can file now and pay later if they owe taxes. E-filers can pay taxes electronically by authorizing an electronic funds withdrawal from a checking or savings account or by using a credit card. Or, they can mail a check to the IRS by April 15.

IRS's electronic filing program has been in existence since 1986. In 2002, 47 million returns were filed electronically. IRS e-file consistently has a high satisfaction rate among its users.

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FREE FILE ALLIANCE MEMBERSHIP

On October 30, 2002, the IRS and the Free File Alliance, LLC, signed an agreement that created a public-private partnership to provide free services to the majority of taxpayers. The agreement stemmed from an e-government initiative by the Bush Administration. The partnership will support IRS's goal of having 80 percent of all tax returns filed electronically by 2007. The Free File agreement is for three years with a series of two-year renewal options.

The IRS does not determine Free File Alliance membership, but members must meet certain IRS standards. The Alliance membership may change periodically. As part of the e-file application and testing process, the IRS must approve the Free File Alliance members' proprietary tax preparation software. Each Alliance member must obtain third-party privacy and security certification. And, Alliance members must adhere to all federal laws regarding taxpayer privacy. Each Alliance member is free to set its own eligibility requirements for its free services. The Alliance will be managed by the Council for the Electronic Revenue Communication Advancement (CERCA).

Previously, some software and tax preparation companies provided some free services to low-income taxpayers. The free services, however, were not consistently available or widely publicized. The agreement brings all the free services to a single location, IRS's Free File homepage, and allows taxpayers to compare the free services available.

(See attached list of Free File Alliance members)

Free File Alliance Members

As of January 16, 2003

Company	Eligibility Criteria
CCH Inc. (Complete Tax)	Taxpayers with an AGI of $33,000 or less
TaxSlayer	Taxpayers with an AGI of $30,000 or less or all active military personnel.
H&R Block	Taxpayers with an AGI of $28,000 or less
Tax$imple	Taxpayers with an AGI of $28,000 or less
Free 1040 Tax Returns, Inc.	Taxpayers with an AGI of $25,000 or less
Free Tax Returns.Com, Inc.	Taxpayers with an AGI of $28,000 or less
#1 Discount Tax Return Service	Taxpayers with an AGI of $27,500 or less
Efile Tax Returns, Inc.	Taxpayers with an AGI of $28,000 or less
TaxEngine.com	Taxpayers with an AGI of $9,200 or less
Intuit, Inc. (TurboTax)	Taxpayers with an AGI of $27,000 or less and taxpayers who qualify for the Earned Income Credit (EIC) regardless of their income level
2nd Story Software, Inc. (TaxACT.com)	Taxpayers eligible to file a Form 1040EZ or taxpayers with an AGI of $100,000 or more.
ezTaxReturn.com	Taxpayers who are eligible to file Form 1040EZ and have an AGI of $25,000 or less.
my1040EZ.com,Inc. (FreeTaxUSA)	Taxpayers who are age 20 or younger or age 45 or older.
TaxBrain	Taxpayers age 50 or older or Taxpayers with an AGI of $12,000 or less.
FileYourTaxes.com	Residents of WI, MI, AZ and GA
OnLine Taxes, Inc.	Taxpayers age 20 or younger.
C&S Technologies (eSmartTax)	Residents of IL and NY

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FROM THE OFFICE OF PUBLIC AFFAIRS

January 16, 2003
KD-3773

Free File FAQS

What is Free File?
Free File is an Internet-based tax preparation and electronic filing program. The online service is free for eligible taxpayers. Free File is offered through an agreement between the Internal Revenue Service and the Free File Alliance, LLC, a private-sector consortium of tax software companies. Eligible taxpayers will be able to prepare and file their federal income tax returns using online software provided by the Free File Alliance members – not the IRS.

Who is eligible for free services?
Each participating software company sets its own eligibility requirements. The requirements will differ company to company. Generally, eligibility will be based on factors such as age, adjusted gross income, state residency, military status or eligibility to file a Form 1040EZ or for the Earned Income Tax Credit.

How many taxpayers will be eligible for Free File?
The agreement requires the Alliance, as a whole, to provide free services to at least 60 percent or 78 million of the nation's taxpayers through April 15. The primary candidates for Free File are those taxpayers who prepare their own taxes and still file paper returns. Last filing season, the IRS received nearly 85 million paper returns and nearly 47 million e-filed returns.

How do taxpayers determine if they are eligible for Free File?
Taxpayers can access the Free File homepage through IRS.gov. On Free File pages, they can browse the summary of each company's offering or use the Free File Wizard, a questionnaire which helps match their circumstances with companies' services.

What is the Free File Wizard?
Taxpayers will find a questionnaire application on the Free File homepage. After a few questions, the Wizard will seek to match the taxpayers to those Free File Alliance members' for whose services they may qualify. The accuracy of results is dependent on the accuracy of the information provided by the taxpayers.

When will Free File be available?
These free services, accessible through IRS.gov, will be available throughout the 2003 filing season to eligible taxpayers starting January 16, 2003.

How does Free File work?
It takes just a few steps once taxpayers reach the Free File Website through IRS.gov. The Free File pages provide a list of Alliance members and their free services.

STEP 1: DETERMINE ELIGIBILITY
At the Free File homepage, taxpayers have two options for determining their eligibility for free services. They may browse the complete listing of Alliance members and their free services. Or, taxpayers can use the Free File Wizard, which will identify those free services for which they may qualify. Each Alliance member will identify their company name and will have a simple description of the criteria for using their free service. Each Alliance member's company or product name will be

linked to additional information about the company and services. Not all taxpayers will be eligible for these free services.

STEP 2: LINK TO FREE SERVICES

Upon determining eligibility, the taxpayer can link directly to that Alliance member's free service by clicking on the Alliance member's "Start Now" link. Upon doing so, taxpayers will be notified they are leaving the IRS.gov web site and are entering an Alliance member's web site.

STEP 3: PREPARE AND FILE TAX RETURN

At the Alliance member's Web site, taxpayers can prepare their tax returns using the member's online proprietary software. Completed tax returns will be sent electronically from the Alliance member to the IRS through existing e-file system using secure telephone lines. Taxpayers will receive an acknowledgement of receipt or rejection of their return via an email from the Alliance member.

How will taxpayers' security and privacy be protected?

Free File Alliance members must comply with all federal rules and regulations on taxpayer privacy for both Free File and paying customers. Those rules prohibit use of tax return data for purposes not specifically authorized by the taxpayer. Tax return preparation will be accomplished using proprietary software approved by the IRS; transmittal will be through the established IRS e-file system. Each Alliance member must attain a third party privacy and security certification.

What information will the IRS collect or retain from taxpayers as a result of using Free File?

The information you provide through the Free File Wizard will be used to help you select a free service only; thereafter it will be deleted. The only information retained by the IRS is the tax return information that is officially filed with the IRS.

Can Free File Alliance members share taxpayer data with anyone besides the IRS?

No. As part of the agreement, the Alliance members must adhere to the strict privacy standards of the IRS.

What oversight of the program will the IRS provide?

The IRS will monitor the progress of each of the Alliance members. If any problems should develop, the members are required to alert the IRS. If appropriate, the IRS will remove the company from the on-line listing until the problem is resolved.

What type of Customer Service Support will be provided to taxpayers?

Alliance members must provide appropriate customer service to their clients as part of the agreement. Taxpayers who have service questions or who are experiencing problems should contact the customer service function of that particular company. In the event taxpayers contact the IRS first, the IRS Customer Service Representatives will have contact information for each Alliance member and, if necessary, will refer accordingly.

What benefits will taxpayers receive from Free File?

The intent of IRS Free File is to reduce the burden on individual taxpayers, make tax preparation easier and expand the benefits of electronic filing to a majority of Americans. The benefits of using these free services are identical to those of e-filing, which include:

- Reduced tax return preparation time;
- Faster refunds;
- Accuracy of return;
- Acknowledgement of return receipt.

Alliance members' proprietary software will assist taxpayers in completing their returns and help ensure taxpayers are aware of tax credits and deductions for which they may be eligible. The tax preparation software has been tested for compatibility with the IRS. Accurate online preparation and filing vastly reduces errors. Common mistakes, such as math errors or transposing Social Security numbers, can prompt refund delays.

Also, e-file users can file now and pay later if they owe taxes. E-filers can pay taxes electronically by authorizing an electronic funds withdrawal from a checking or savings account or by using a credit card. Or, they can mail a check to the IRS by April 15.

Is this Internet filing?
Yes. The free services will be provided via the Internet; taxpayers will enter data with calculations performed online.
What happens to the taxpayer who does not qualify for Free File?
For those taxpayers who do not meet the eligibility requirements, Free File Alliance members will explain how much they will charge should the taxpayer want the preparation and e-filing service. In addition, the private sector provides numerous options for taxpayers to purchase online or software products. Taxpayers may also choose a tax professional for online preparation. The private sector may also charge a fee to electronically transmit tax returns through IRS e-file. IRS e-file consistently has a high satisfaction rate among users.

How many taxpayers e-filed their returns during the 2002 filing season?
Nearly 47 million taxpayers chose IRS e-file in 2002 – 16 percent more than the previous year. The IRS anticipates 54 million e-filers for the 2003 filing season. (There are approximately 132 million tax returns filed by individuals.)

How will eligible taxpayers who lack computer access make use of Free File?
The IRS hopes to work with existing coalitions, churches and community associations to expand computer access to taxpayers without home computers. Also, Free File is only one option for low-income taxpayers. The IRS also supports many volunteers during the filing season through Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE). In addition, the Taxpayer Assistance Centers at most local IRS offices can aid low-income taxpayers.

Why was the Free File Alliance formed?
In November of 2001, OMB's Quicksilver Task Force established 24 e-government initiatives that are part of the President's Management Agenda. These initiatives were designed to improve Government to Government, Government to Business, and Government to Citizen electronic capabilities.
One initiative instructed the IRS to provide free online tax return preparation and filing services to taxpayers. In accordance with this OMB directive, the IRS began working in partnership with the tax software industry to develop a solution. The result was the formation of the Free File Alliance, LLC, a group of tax software companies, managed by the Council for the Electronic Revenue Communication Advancement (CERCA), who will provide free online tax preparation and electronic filing services.

Why is the government doing this through a partnership with private industry rather than providing its own software free to the public?
The government believes that private industry, given its established expertise and experience in the field of electronic tax preparation, has a proven track record in providing the best technology and services available. The Government believes that a partnership with private industry will: provide taxpayers with higher quality services by using the existing expertise of the private sector; maximize consumer choice; promote competition within the marketplace and meet these objectives in the least costly manner to taxpayers.

Some private sector firms have offered free e-filing to select taxpayer groups for several years; how is this approach different?
This approach offers a multi-year agreement between the IRS and the Free File Alliance to provide these free service(s) to more taxpayers. Previously, free offerings were not consistently available.
Taxpayers will have easier access to the Free File web page (hosted on IRS.gov), which will provide a listing of all free offerings in a single location.
Alliance members will offer both free preparation and e-filing services. There will be no cost to the taxpayer. Previously, some companies charged for preparation

(filling of forms and tax calculations) while offering the transmission free, or provided the preparation free while charging for transmission, or some variation thereof. Under the Agreement, both are free to eligible taxpayers.

How do taxpayers decide which service to choose?
Taxpayers should explore all their options among the free services. The IRS does not endorse any specific company.

Does this process encourage taxpayers to use Refund Anticipation Loans?
No. Taxpayers are under no obligation to use Refund Anticipation Loans or to purchase any product from the software company. The tax preparation and electronic filing service are free to eligible taxpayers. Obtaining a fee-based product is a decision left to the individual taxpayer. The IRS reminds taxpayers that using e-file with direct deposit can result in receiving a refund in 10 days or less.

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.
January 16, 2003

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 $33,950 million of publicly held 13-week and 26-week Treasury bills maturing January 23, 2003, and to pay down approximately $1,950 million. Also maturing is an estimated $16,001 million of publicly held 4-week Treasury bills, the disposition of which will be announced January 21, 2003.

The Federal Reserve System holds $14,685 million of the Treasury bills maturing on January 23, 2003, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders either in these auctions or the 4-week Treasury bill auction to be held January 22, 2003. 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 $1,094 million into the 13-week bill and $665 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

KD 3774

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED JANUARY 23, 2003

January 16, 2003

Offering Amount	$17,000 million	$15,000 million
Maximum Award (35% of Offering Amount)	$ 5,950 million	$ 5,250 million
Maximum Recognized Bid at a Single Rate	$ 5,950 million	$ 5,250 million
NLP Reporting Threshold	$ 5,950 million	$ 5,250 million
NLP Exclusion Amount	$ 5,600 million	None

Description of Offering:

Term and type of security	91-day bill	182-day bill
CUSIP number	912795 MJ 7	912795 NE 7
Auction date	January 21, 2003	January 21, 2003
Issue date	January 23, 2003	January 23, 2003
Maturity date	April 24, 2003	July 24, 2003
Original issue date	October 24, 2002	January 23, 2003
Currently outstanding	$21,599 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 equals or exceeds the NLP reporting threshold stated above.

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

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.

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

FOR IMMEDIATE RELEASE
January 16, 2003

Contact: Office of Financing
(202) 691-3550

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

Public Debt announced today the reference Consumer Price Index (CPI) numbers and daily index ratios for the month of February for the following Treasury inflation-indexed securities:
(1) 3-3/8% 10-year notes due January 15, 2007
(2) 3-5/8% 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.

The information for March is expected to be released on February 21, 2003.

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February Reference CPI Numbers and Daily Index Ratios Table PDF format (file size-16KB, uploaded-01/16/03)

KD-3775

3-7/8% TREASURY 10-YEAR INFLATION-INDEXED NOTES Due January 15, 2009

Ref CPI and Index Ratios for February 2003

Contact: Office of Financing 202-691-3550

DESCRIPTION:	Series A-2009
CUSIP NUMBER:	9128274Y5
DATED DATE:	January 15, 1999
ORIGINAL ISSUE DATE:	January 15, 1999
ADDITIONAL ISSUE DATE:	July 15, 1999
MATURITY DATE:	January 15, 2009
Ref CPI on DATED DATE:	164.00000
TABLE FOR MONTH OF:	February 2003
NUMBER OF DAYS IN MONTH:	28
CPI-U (NSA) October 2002	181.3
CPI-U (NSA) November 2002	181.3
CPI-U (NSA) December 2002	180.9

Month	Calendar Day	Year	Ref CPI	Index Ratio
February	1	2003	181.30000	1.10549
February	2	2003	181.28571	1.10540
February	3	2003	181.27143	1.10531
February	4	2003	181.25714	1.10523
February	5	2003	181.24286	1.10514
February	6	2003	181.22857	1.10505
February	7	2003	181.21429	1.10497
February	8	2003	181.20000	1.10488
February	9	2003	181.18571	1.10479
February	10	2003	181.17143	1.10470
February	11	2003	181.15714	1.10462
February	12	2003	181.14286	1.10453
February	13	2003	181.12857	1.10444
February	14	2003	181.11429	1.10436
February	15	2003	181.10000	1.10427
February	16	2003	181.08571	1.10418
February	17	2003	181.07143	1.10409
February	18	2003	181.05714	1.10401
February	19	2003	181.04286	1.10392
February	20	2003	181.02857	1.10383
February	21	2003	181.01429	1.10375
February	22	2003	181.00000	1.10366
February	23	2003	180.98571	1.10357
February	24	2003	180.97143	1.10348
February	25	2003	180.95714	1.10340
February	26	2003	180.94286	1.10331
February	27	2003	180.92857	1.10322
February	28	2003	180.91429	1.10314

3-5/8% TREASURY 10-YEAR INFLATION-INDEXED NOTES Due January 15, 2008

Ref CPI and Index Ratios for February 2003

Contact: Office of Financing 202-691-3550

DESCRIPTION:	Series A-2008
CUSIP NUMBER:	9128273T7
DATED DATE:	January 15, 1998
ORIGINAL ISSUE DATE:	January 15, 1998
ADDITIONAL ISSUE DATE:	October 15, 1998
MATURITY DATE:	January 15, 2008
Ref CPI on DATED DATE:	161.55484
TABLE FOR MONTH OF:	February 2003
NUMBER OF DAYS IN MONTH:	28
CPI-U (NSA) October 2002	181.3
CPI-U (NSA) November 2002	181.3
CPI-U (NSA) December 2002	180.9

Month	Calendar Day	Year	Ref CPI	Index Ratio
February	1	2003	181.30000	1.12222
February	2	2003	181.28571	1.12213
February	3	2003	181.27143	1.12204
February	4	2003	181.25714	1.12195
February	5	2003	181.24286	1.12187
February	6	2003	181.22857	1.12178
February	7	2003	181.21429	1.12169
February	8	2003	181.20000	1.12160
February	9	2003	181.18571	1.12151
February	10	2003	181.17143	1.12142
February	11	2003	181.15714	1.12134
February	12	2003	181.14286	1.12125
February	13	2003	181.12857	1.12116
February	14	2003	181.11429	1.12107
February	15	2003	181.10000	1.12098
February	16	2003	181.08571	1.12089
February	17	2003	181.07143	1.12080
February	18	2003	181.05714	1.12072
February	19	2003	181.04286	1.12063
February	20	2003	181.02857	1.12054
February	21	2003	181.01429	1.12045
February	22	2003	181.00000	1.12036
February	23	2003	180.98571	1.12027
February	24	2003	180.97143	1.12019
February	25	2003	180.95714	1.12010
February	26	2003	180.94286	1.12001
February	27	2003	180.92857	1.11992
February	28	2003	180.91429	1.11983

3-5/8% TREASURY 30-YEAR INFLATION-INDEXED BONDS
Due April 15, 2028

Ref CPI and Index Ratios for February 2003

Contact: Office of Financing 202-691-3550

DESCRIPTION:	Bonds of April 2028
CUSIP NUMBER:	912810FD5
DATED DATE:	April 15, 1998
ORIGINAL ISSUE DATE:	April 15, 1998
ADDITIONAL ISSUE DATE:	July 15, 1998
MATURITY DATE:	April 15, 2028
Ref CPI on DATED DATE:	161.74000
TABLE FOR MONTH OF:	February 2003
NUMBER OF DAYS IN MONTH:	28
CPI-U (NSA) October 2002	181.3
CPI-U (NSA) November 2002	181.3
CPI-U (NSA) December 2002	180.9

Month	Calendar Day	Year	Ref CPI	Index Ratio
February	1	2003	181.30000	1.12093
February	2	2003	181.28571	1.12085
February	3	2003	181.27143	1.12076
February	4	2003	181.25714	1.12067
February	5	2003	181.24286	1.12058
February	6	2003	181.22857	1.12049
February	7	2003	181.21429	1.12040
February	8	2003	181.20000	1.12032
February	9	2003	181.18571	1.12023
February	10	2003	181.17143	1.12014
February	11	2003	181.15714	1.12005
February	12	2003	181.14286	1.11996
February	13	2003	181.12857	1.11987
February	14	2003	181.11429	1.11979
February	15	2003	181.10000	1.11970
February	16	2003	181.08571	1.11961
February	17	2003	181.07143	1.11952
February	18	2003	181.05714	1.11943
February	19	2003	181.04286	1.11934
February	20	2003	181.02857	1.11926
February	21	2003	181.01429	1.11917
February	22	2003	181.00000	1.11908
February	23	2003	180.98571	1.11899
February	24	2003	180.97143	1.11890
February	25	2003	180.95714	1.11882
February	26	2003	180.94286	1.11873
February	27	2003	180.92857	1.11864
February	28	2003	180.91429	1.11855

3-7/8% TREASURY 10-YEAR INFLATION-INDEXED NOTES Due January 15, 2009

Ref CPI and Index Ratios for February 2003

Contact: Office of Financing 202-691-3550

DESCRIPTION:	Series A-2009
CUSIP NUMBER:	9128274Y5
DATED DATE:	January 15, 1999
ORIGINAL ISSUE DATE:	January 15, 1999
ADDITIONAL ISSUE DATE:	July 15, 1999
MATURITY DATE:	January 15, 2009
Ref CPI on DATED DATE:	164.00000
TABLE FOR MONTH OF:	February 2003
NUMBER OF DAYS IN MONTH:	28
CPI-U (NSA) October 2002	181.3
CPI-U (NSA) November 2002	181.3
CPI-U (NSA) December 2002	180.9

Month	Calendar Day	Year	Ref CPI	Index Ratio
February	1	2003	181.30000	1.10549
February	2	2003	181.28571	1.10540
February	3	2003	181.27143	1.10531
February	4	2003	181.25714	1.10523
February	5	2003	181.24286	1.10514
February	6	2003	181.22857	1.10505
February	7	2003	181.21429	1.10497
February	8	2003	181.20000	1.10488
February	9	2003	181.18571	1.10479
February	10	2003	181.17143	1.10470
February	11	2003	181.15714	1.10462
February	12	2003	181.14286	1.10453
February	13	2003	181.12857	1.10444
February	14	2003	181.11429	1.10436
February	15	2003	181.10000	1.10427
February	16	2003	181.08571	1.10418
February	17	2003	181.07143	1.10409
February	18	2003	181.05714	1.10401
February	19	2003	181.04286	1.10392
February	20	2003	181.02857	1.10383
February	21	2003	181.01429	1.10375
February	22	2003	181.00000	1.10366
February	23	2003	180.98571	1.10357
February	24	2003	180.97143	1.10348
February	25	2003	180.95714	1.10340
February	26	2003	180.94286	1.10331
February	27	2003	180.92857	1.10322
February	28	2003	180.91429	1.10314

3-7/8% TREASURY 30-YEAR INFLATION-INDEXED BONDS Due April 15, 2029

Ref CPI and Index Ratios for February 2003

Contact: Office of Financing 202-691-3550

DESCRIPTION:	Bonds of April 2029
CUSIP NUMBER:	912810FH6
DATED DATE:	April 15, 1999
ORIGINAL ISSUE DATE:	April 15, 1999
ADDITIONAL ISSUE DATE:	October 15, 1999
	October 15, 2000
MATURITY DATE:	April 15, 2029
Ref CPI on DATED DATE:	164.39333
TABLE FOR MONTH OF:	February 2003
NUMBER OF DAYS IN MONTH:	28
CPI-U (NSA) October 2002	181.3
CPI-U (NSA) November 2002	181.3
CPI-U (NSA) December 2002	180.9

Month	Calendar Day	Year	Ref CPI	Index Ratio
February	1	2003	181.30000	1.10284
February	2	2003	181.28571	1.10276
February	3	2003	181.27143	1.10267
February	4	2003	181.25714	1.10258
February	5	2003	181.24286	1.10250
February	6	2003	181.22857	1.10241
February	7	2003	181.21429	1.10232
February	8	2003	181.20000	1.10223
February	9	2003	181.18571	1.10215
February	10	2003	181.17143	1.10206
February	11	2003	181.15714	1.10197
February	12	2003	181.14286	1.10189
February	13	2003	181.12857	1.10180
February	14	2003	181.11429	1.10171
February	15	2003	181.10000	1.10163
February	16	2003	181.08571	1.10154
February	17	2003	181.07143	1.10145
February	18	2003	181.05714	1.10137
February	19	2003	181.04286	1.10128
February	20	2003	181.02857	1.10119
February	21	2003	181.01429	1.10110
February	22	2003	181.00000	1.10102
February	23	2003	180.98571	1.10093
February	24	2003	180.97143	1.10084
February	25	2003	180.95714	1.10076
February	26	2003	180.94286	1.10067
February	27	2003	180.92857	1.10058
February	28	2003	180.91429	1.10050

4-1/4% TREASURY 10-YEAR INFLATION-INDEXED NOTES
Due January 15, 2010

Ref CPI and Index Ratios for February 2003

Contact: Office of Financing 202-691-3550

DESCRIPTION:	Series A-2010
CUSIP NUMBER:	9128275W8
DATED DATE:	January 15, 2000
ORIGINAL ISSUE DATE:	January 18, 2000
ADDITIONAL ISSUE DATE:	July 17, 2000
MATURITY DATE:	January 15, 2010
Ref CPI on DATED DATE:	168.24516
TABLE FOR MONTH OF:	February 2003
NUMBER OF DAYS IN MONTH:	28
CPI-U (NSA) October 2002	181.3
CPI-U (NSA) November 2002	181.3
CPI-U (NSA) December 2002	180.9

Month	Calendar Day	Year	Ref CPI	Index Ratio
February	1	2003	181.30000	1.07759
February	2	2003	181.28571	1.07751
February	3	2003	181.27143	1.07742
February	4	2003	181.25714	1.07734
February	5	2003	181.24286	1.07725
February	6	2003	181.22857	1.07717
February	7	2003	181.21429	1.07708
February	8	2003	181.20000	1.07700
February	9	2003	181.18571	1.07691
February	10	2003	181.17143	1.07683
February	11	2003	181.15714	1.07675
February	12	2003	181.14286	1.07666
February	13	2003	181.12857	1.07658
February	14	2003	181.11429	1.07649
February	15	2003	181.10000	1.07641
February	16	2003	181.08571	1.07632
February	17	2003	181.07143	1.07624
February	18	2003	181.05714	1.07615
February	19	2003	181.04286	1.07607
February	20	2003	181.02857	1.07598
February	21	2003	181.01429	1.07590
February	22	2003	181.00000	1.07581
February	23	2003	180.98571	1.07573
February	24	2003	180.97143	1.07564
February	25	2003	180.95714	1.07556
February	26	2003	180.94286	1.07547
February	27	2003	180.92857	1.07539
February	28	2003	180.91429	1.07530

3-1/2% TREASURY 10-YEAR INFLATION-INDEXED NOTES
Due January 15, 2011

Ref CPI and Index Ratios for February 2003

Contact: Office of Financing 202-691-3550

DESCRIPTION:	Series A-2011
CUSIP NUMBER:	9128276R8
DATED DATE:	January 15, 2001
ORIGINAL ISSUE DATE:	January 16, 2001
ADDITIONAL ISSUE DATE:	July 16, 2001
MATURITY DATE:	January 15, 2011
Ref CPI on DATED DATE:	174.04516
TABLE FOR MONTH OF:	February 2003
NUMBER OF DAYS IN MONTH:	28
CPI-U (NSA) October 2002	181.3
CPI-U (NSA) November 2002	181.3
CPI-U (NSA) December 2002	180.9

Month	Calendar Day	Year	Ref CPI	Index Ratio
February	1	2003	181.30000	1.04168
February	2	2003	181.28571	1.04160
February	3	2003	181.27143	1.04152
February	4	2003	181.25714	1.04144
February	5	2003	181.24286	1.04136
February	6	2003	181.22857	1.04127
February	7	2003	181.21429	1.04119
February	8	2003	181.20000	1.04111
February	9	2003	181.18571	1.04103
February	10	2003	181.17143	1.04094
February	11	2003	181.15714	1.04086
February	12	2003	181.14286	1.04078
February	13	2003	181.12857	1.04070
February	14	2003	181.11429	1.04062
February	15	2003	181.10000	1.04053
February	16	2003	181.08571	1.04045
February	17	2003	181.07143	1.04037
February	18	2003	181.05714	1.04029
February	19	2003	181.04286	1.04021
February	20	2003	181.02857	1.04012
February	21	2003	181.01429	1.04004
February	22	2003	181.00000	1.03996
February	23	2003	180.98571	1.03988
February	24	2003	180.97143	1.03980
February	25	2003	180.95714	1.03971
February	26	2003	180.94286	1.03963
February	27	2003	180.92857	1.03955
February	28	2003	180.91429	1.03947

3-3/8% TREASURY 30-1/2-YEAR INFLATION-INDEXED BONDS Due April 15, 2032

Ref CPI and Index Ratios for February 2003

Contact: Office of Financing 202-691-3550

DESCRIPTION:	Bonds of April 2032
CUSIP NUMBER:	912810FQ6
DATED DATE:	October 15, 2001
ORIGINAL ISSUE DATE:	October 15, 2001
ADDITIONAL ISSUE DATE:	
MATURITY DATE:	April 15, 2032
Ref CPI on DATED DATE:	177.50000
TABLE FOR MONTH OF:	February 2003
NUMBER OF DAYS IN MONTH:	28
CPI-U (NSA) October 2002	181.3
CPI-U (NSA) November 2002	181.3
CPI-U (NSA) December 2002	180.9

Month	Calendar Day	Year	Ref CPI	Index Ratio
February	1	2003	181.30000	1.02141
February	2	2003	181.28571	1.02133
February	3	2003	181.27143	1.02125
February	4	2003	181.25714	1.02117
February	5	2003	181.24286	1.02109
February	6	2003	181.22857	1.02101
February	7	2003	181.21429	1.02093
February	8	2003	181.20000	1.02085
February	9	2003	181.18571	1.02076
February	10	2003	181.17143	1.02068
February	11	2003	181.15714	1.02060
February	12	2003	181.14286	1.02052
February	13	2003	181.12857	1.02044
February	14	2003	181.11429	1.02036
February	15	2003	181.10000	1.02028
February	16	2003	181.08571	1.02020
February	17	2003	181.07143	1.02012
February	18	2003	181.05714	1.02004
February	19	2003	181.04286	1.01996
February	20	2003	181.02857	1.01988
February	21	2003	181.01429	1.01980
February	22	2003	181.00000	1.01972
February	23	2003	180.98571	1.01964
February	24	2003	180.97143	1.01956
February	25	2003	180.95714	1.01948
February	26	2003	180.94286	1.01940
February	27	2003	180.92857	1.01932
February	28	2003	180.91429	1.01924

3-3/8% TREASURY 10-YEAR INFLATION-INDEXED NOTES
Due January 15, 2012

Ref CPI and Index Ratios for February 2003

Contact: Office of Financing 202-691-3550

DESCRIPTION:	Series A-2012
CUSIP NUMBER:	9128277J5
DATED DATE:	January 15, 2002
ORIGINAL ISSUE DATE:	January 15, 2002
ADDITIONAL ISSUE DATE:	
MATURITY DATE:	January 15, 2012
Ref CPI on DATED DATE:	177.56452
TABLE FOR MONTH OF:	February 2003
NUMBER OF DAYS IN MONTH:	28
CPI-U (NSA) October 2002	181.3
CPI-U (NSA) November 2002	181.3
CPI-U (NSA) December 2002	180.9

Month	Calendar Day	Year	Ref CPI	Index Ratio
February	1	2003	181.30000	1.02104
February	2	2003	181.28571	1.02096
February	3	2003	181.27143	1.02088
February	4	2003	181.25714	1.02080
February	5	2003	181.24286	1.02072
February	6	2003	181.22857	1.02064
February	7	2003	181.21429	1.02055
February	8	2003	181.20000	1.02047
February	9	2003	181.18571	1.02039
February	10	2003	181.17143	1.02031
February	11	2003	181.15714	1.02023
February	12	2003	181.14286	1.02015
February	13	2003	181.12857	1.02007
February	14	2003	181.11429	1.01999
February	15	2003	181.10000	1.01991
February	16	2003	181.08571	1.01983
February	17	2003	181.07143	1.01975
February	18	2003	181.05714	1.01967
February	19	2003	181.04286	1.01959
February	20	2003	181.02857	1.01951
February	21	2003	181.01429	1.01943
February	22	2003	181.00000	1.01935
February	23	2003	180.98571	1.01927
February	24	2003	180.97143	1.01919
February	25	2003	180.95714	1.01911
February	26	2003	180.94286	1.01903
February	27	2003	180.92857	1.01895
February	28	2003	180.91429	1.01887

3% TREASURY 10-YEAR INFLATION-INDEXED NOTES
Due July 15, 2012

Ref CPI and Index Ratios for February 2003

Contact: Office of Financing 202-691-3550

DESCRIPTION:	Series C-2012
CUSIP NUMBER:	912828AF7
DATED DATE:	July 15, 2002
ORIGINAL ISSUE DATE:	July 15, 2002
ADDITIONAL ISSUE DATE:	October 15, 2002
	January 15, 2003
MATURITY DATE:	July 15, 2012
Ref CPI on DATED DATE:	179.80000
TABLE FOR MONTH OF:	February 2003
NUMBER OF DAYS IN MONTH:	28
CPI-U (NSA) October 2002	181.3
CPI-U (NSA) November 2002	181.3
CPI-U (NSA) December 2002	180.9

Month	Calendar Day	Year	Ref CPI	Index Ratio
February	1	2003	181.30000	1.00834
February	2	2003	181.28571	1.00826
February	3	2003	181.27143	1.00818
February	4	2003	181.25714	1.00810
February	5	2003	181.24286	1.00802
February	6	2003	181.22857	1.00795
February	7	2003	181.21429	1.00787
February	8	2003	181.20000	1.00779
February	9	2003	181.18571	1.00771
February	10	2003	181.17143	1.00763
February	11	2003	181.15714	1.00755
February	12	2003	181.14286	1.00747
February	13	2003	181.12857	1.00739
February	14	2003	181.11429	1.00731
February	15	2003	181.10000	1.00723
February	16	2003	181.08571	1.00715
February	17	2003	181.07143	1.00707
February	18	2003	181.05714	1.00699
February	19	2003	181.04286	1.00691
February	20	2003	181.02857	1.00683
February	21	2003	181.01429	1.00675
February	22	2003	181.00000	1.00667
February	23	2003	180.98571	1.00659
February	24	2003	180.97143	1.00652
February	25	2003	180.95714	1.00644
February	26	2003	180.94286	1.00636
February	27	2003	180.92857	1.00628
February	28	2003	180.91429	1.00620

FACT SHEET
Agreement on US-Singapore Free Transfers

On Wednesday, January 15, 2003, the U.S. Treasury and the Monetary Authority of Singapore reached agreement on important provisions in the Investment Chapter of the U.S.-Singapore Free Trade Agreement. **The agreement is a "win-win" for both countries.**

<u>Point 1: The investment chapter maintains the principle of free transfers.</u>

This approach is consistent with the shared economic philosophy and policy perspective of both the United State and Singapore. Retaining the principle of free transfers sends a strong signal to the markets that the U.S. and Singapore support the free flow of capital and recognize its importance in economic development. Free transfers permit the efficient allocation of resources and provide investors with a transparent regime for doing business free of political obstacles.

Both countries recognize that a strong reserve position, a flexible exchange rate regime, sound fiscal and monetary policies, and effective prudential measures for the financial sector are the preferred policy tools for both avoiding a balance of payments crisis and for dealing with one. The FTA transfers provision complements this approach.

The free transfers provision of the Singapore FTA meets an important Trade Promotion Authority (TPA) objective – "freeing the transfer of funds related to investments." This provision provides U.S. investors with substantially strengthened transfer rights over those available under the General Agreement on Trade in Services (GATS) and General Agreement on Trade and Tariffs (GATT). In addition, unlike these other agreements, the FTA provides for effective investor-state and State-State arbitration provisions to enforce free transfer rights.

<u>Point 2: The investment chapter ensures that U.S. investors' maintain their rights under dispute settlement in the case of restrictions on free transfers.</u>

The U.S. and Singapore agreed that, instead of creating exceptions to the investment provisions allowing free transfers, all issues would be handled in the dispute resolution chapter. This avoids the need to discuss if and when countries agree that capital flow restrictions would be necessary.

All current account transactions, including profits and dividends; foreign direct investment; proceeds from the sale of an investment; and payments pursuant to bonds and most loans are covered by the standard dispute provisions of the Agreement. The usual cooling off period before a claim may be taken to dispute resolution is six months.

On other capital flows, there will be cooling off period of one year. If the restrictions substantially impede a transfer, then damages accrue from the date of imposition of controls. If the restrictions do not substantially impede a transfer, then Singapore has a period of 364 days without liability.

KD - 3776

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 17, 2003
KD-3777

Treasury, IRS Amend Effective Date of Disclosure and List Maintenance Regulations

Today the Treasury Department and the IRS issued a notice amending the effective date for the revised taxpayer disclosure and promoter list maintenance regulations issued in October 2002. The amended effective date will reduce taxpayer burden and permit Treasury and the IRS to clarify these regulations before they must be applied to ensure that they focus on the information needed to combat abusive tax avoidance transactions.

"Those who engage in or promote abusive transactions cannot be allowed to hide these transactions from scrutiny. At the same time, the requirements to disclose transactions and maintain lists of customers must be as clear and as administrable as possible. Requiring disclosure unnecessarily is burdensome to taxpayers and the IRS and will detract from the usefulness of the rules to the IRS' pursuit of potentially abusive transactions," stated Treasury Assistant Secretary for Tax Policy Pam Olson.

Treasury and the IRS are considering clarifications of the types of transactions that must be disclosed by taxpayers to the IRS. Taxpayers will be able to rely on these new definitions, or the existing definitions, for the period prior to when the new rules are issued in February. Further, the list maintenance rules issued in October 2002 will not be effective until they are finalized in February. This delayed effective date, however, will not apply to designated tax avoidance transactions or to transactions that promoters must register with the IRS.

The text of the notice is attached.

Part III - Administrative, Procedural, and Miscellaneous

Effective Date of Regulations Under Sections 6011 and 6112

Notice 2003-11

SECTION 1. BACKGROUND

In Treasury Decisions 9017 and 9018, as published in the Federal Register on October 22, 2002 (67 Fed. Reg. 64799; 67 Fed. Reg. 64807) (October 2002 temporary regulations), the Department of the Treasury (Treasury) and the Internal Revenue Service (Service) issued comprehensive amendments to the rules under § 1.6011-4T of the temporary Income Tax Regulations and § 301.6112-1T of the temporary Procedure and Administrative Regulations, and made corresponding amendments to § 301.6111-2T. See 2002-45 I.R.B. 815 and 823. These amendments related primarily to the disclosure of reportable transactions under § 6011 of the Internal Revenue Code and the list maintenance requirements for potentially abusive tax shelters under § 6112. Specifically, Treasury and the Service revised and clarified the definition of "reportable transaction" and the definition of "organizer and seller" to ensure that the Service receives the information needed to evaluate certain types of potentially abusive transactions and to improve compliance.

The October 2002 temporary regulations generally are effective for transactions entered into on or after January 1, 2003. Taxpayers are not required to disclose reportable transactions as defined under the October 2002 temporary disclosure regulations until the time they file their tax return reporting those transactions. However, under the October 2002 temporary list maintenance regulations, material advisors have an immediate obligation to maintain lists with respect to reportable transactions.

Treasury and the Service have received numerous comments relating to the October 2002 temporary disclosure regulations and the October 2002 temporary list maintenance regulations. Treasury and the Service are currently reviewing these comments. In particular, Treasury and the Service are reviewing the comments that provide suggested clarifications to the rules pertaining to who must disclose transactions. In addition, Treasury and the Service are considering clarifications as to the persons required to maintain lists and the persons who must be included on lists.

Treasury and the Service also are reviewing the comments relating to the reportable transaction categories of loss transactions and transactions with a significant book-tax difference. More generally, Treasury and the Service are considering how the rules in the October 2002 temporary regulations can be revised to exclude transactions for which disclosure and maintenance of information under §§ 6011 and 6112 may be unnecessary, while preserving the ability of Treasury and the Service to obtain information about potentially abusive transactions. Treasury and the Service intend to publish final regulations in February 2003.

SECTION 2. EFFECTIVE DATE FOR THE DISCLOSURE REGULATIONS UNDER § 6011

Treasury and the Service intend to revise the disclosure regulations under § 6011 to reflect the consideration of the comments received. Although the October 2002 temporary disclosure regulations under § 6011 will continue to apply to transactions entered into on or after January 1, 2003, the revised regulations under § 6011 will permit taxpayers who entered into transactions on or after January 1, 2003, and before the filing date of the revised regulations, to elect to apply the revised regulations instead of the October 2002 temporary disclosure regulations.

SECTION 3. EFFECTIVE DATE FOR THE LIST MAINTENANCE REGULATIONS UNDER § 6112

In order to provide necessary clarification to the October 2002 temporary list maintenance regulations, Treasury and the Service will change the effective date of the October 2002 temporary list maintenance regulations under § 6112 to the date the revised regulations under § 6112 are filed. Except as provided below, the list maintenance requirements under § 6112 will not apply to transactions entered into on or after January 1, 2003, and before the filing date of the revised regulations under § 6112. The delayed effective date, however, will not apply to listed transactions or transactions that are § 6111 shelters as defined in § 301.6112-1T(b)(1) of the October 2002 temporary regulations.

SECTION 4. CONTACT INFORMATION

The principal author of this notice is Tara P. Volungis of the Office of Associate Chief Counsel (Passthroughs and Special Industries). For further information regarding this notice, contact Ms. Volungis at (202) 622-3080 (not a toll-free call).

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.
January 21, 2003

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $14,000 million to refund an estimated $16,001 million of publicly held 4-week Treasury bills maturing January 23, 2003, and to pay down approximately $2,001 million.

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

The Federal Reserve System holds $14,685 million of the Treasury bills maturing on January 23, 2003, 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

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED JANUARY 23, 2003

January 21, 2003

Offering Amount	$14,000 million
Maximum Award (35% of Offering Amount)	$ 4,900 million
Maximum Recognized Bid at a Single Rate	$ 4,900 million
NLP Reporting Threshold	$ 4,900 million
NLP Exclusion Amount	$10,100 million

Description of Offering:

Term and type of security	28-day bill
CUSIP number	912795 LZ 2
Auction date	January 22, 2003
Issue date	January 23, 2003
Maturity date	February 20, 2003
Original issue date	August 22, 2002
Currently outstanding	$39,519 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 equals or exceeds the NLP reporting threshold stated above.

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

Receipt of Tenders:

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

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

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

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
January 21, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	January 23, 2003
Maturity Date:	April 24, 2003
CUSIP Number:	912795MJ7

High Rate: 1.160% Investment Rate 1/: 1.179% Price: 99.707

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 28.82%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 35,756,709	$ 15,264,003
Noncompetitive	1,516,600	1,516,600
FIMA (noncompetitive)	220,000	220,000
SUBTOTAL	37,493,309	17,000,603 2/
Federal Reserve	6,699,163	6,699,163
TOTAL	$ 44,192,472	$ 23,699,766

Median rate 1.145%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.125%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 37,493,309 / 17,000,603 = 2.21

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,196,755,000

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

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

FOR IMMEDIATE RELEASE
January 21, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	January 23, 2003
Maturity Date:	July 24, 2003
CUSIP Number:	912795NE7

High Rate: 1.190% Investment Rate 1/: 1.215% Price: 99.398

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 31.13%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 32,771,062	$ 14,033,437
Noncompetitive	966,645	966,645
FIMA (noncompetitive)	0	0
SUBTOTAL	33,737,707	15,000,082 2/
Federal Reserve	5,588,507	5,588,507
TOTAL	$ 39,326,214	$ 20,588,589

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 = 33,737,707 / 15,000,082 = 2.25

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $727,100,000

http://www.publicdebt.treas.gov

KD-3780

FROM THE OFFICE OF PUBLIC AFFAIRS

January 21, 2003
KD-3781

Treasury Releases Details of the President's Dividend Exclusion Proposal

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

Today the Treasury Department released the details of the President's Dividend Exclusion Proposal from the Jobs and Growth Package announced earlier this month. The attached document describes in detail the President's proposal to end the double tax on investor earnings from corporate stock.

With the release of the President's Budget each year, the Treasury Department releases a detailed explanation of all the tax proposals in the Budget. This document will be included in the Treasury Department's explanation of the Budget proposals, which will be released on February 3, 2003.

On account of the significance of the President's proposal, the Treasury Department is releasing this description in advance of the Budget.

This detailed explanation differs in certain ways from summaries the Treasury Department released previously. Since the President announced this proposal on January 7, Treasury has met with many taxpayer groups, practitioners, and academics. They provided many constructive suggestions that are reflected in this description, including changes to details of the proposal. Treasury appreciates these thoughtful ideas and looks forward to working with the public as the President's proposal advances. The Treasury Department welcomes additional comments.

If you have trouble accessing the following document, please contact the Office of Public Affairs at (202) 622-2910.

The detailed description of the President's Dividend Exclusion Proposal is attached.

FROM THE OFFICE OF PUBLIC AFFAIRS

January 22, 2003
KD-3782

Treasury Department Announces Additional Interim Guidance on Terrorism Insurance for Insurance Industry

The Treasury Department today announced additional interim guidance for the insurance industry in meeting certain requirements under the Terrorism Risk Insurance Act of 2002, which was signed into law by President Bush on November 26, 2002.

Today's interim guidance is designed to assist insurers in determining how they may comply with certain immediately applicable provisions of the Terrorism Risk Insurance Act prior to the issuance of final regulations by the Treasury.

"This is the third issuance of interim guidance to assist insurers in working with a number of time sensitive issues," said Treasury Assistant Secretary for Financial Institutions Wayne Abernathy, who oversees the Terrorism Risk Insurance Program. "At the same time, we have been working overtime in developing formal regulations to address implementation issues in the Terrorism Risk Insurance Act.

"Our goal is to implement the Program in a manner that is fair and easily understood, maximizes reliance upon the existing state regulatory structure, and allows insurers to participate in the Program as part of their normal course of business," he said. "We hope to meet that goal while emphasizing the expectation and need for insurers to develop aggressively their own resources and mechanisms for terrorism risk coverage when the Program expires. None of our progress to date could have been possible without the close cooperation of the National Association of Insurance Commissioners."

Today's interim guidance, along with interim guidance issued by the Treasury on December 3, 2002 and December 18, 2002, can be used by insurers in complying with the statutory requirements prior to the issuance of regulations. The interim guidance remains in effect until superceded by regulations or subsequent notice. Both interim guidance notices and other information related to the Terrorism Risk Insurance Program can be found at www.treasury.gov/trip. Prior to issuance of final regulations, insurers and other interested parties will have an opportunity to submit comments on regulations.

Today's notice provides interim guidance concerning specific provisions associated with the disclosure provisions of the Act, non-U.S insurer participation in the Program, and the scope of insured loss under the Program.

Related Documents:

- Interim Guidance

Billing Code 4810-25-M

DEPARTMENT OF THE TREASURY

Departmental Offices

Interim Guidance Concerning Certain Conditions for Federal Payment, Non-U.S. Insurers, and Scope of Insurance Coverage in the Terrorism Risk Insurance Act of 2002

AGENCY: Department of the Treasury, Departmental Offices.

ACTION: Notice.

SUMMARY: This notice provides additional interim guidance certain conditions for federal payment in Title I of the Terrorism Risk Insurance Act of 2002 as implemented in Department of Treasury's Terrorism Risk Insurance Program.

DATES: This notice is effective immediately and will remain in effect until superceded by regulations or by subsequent notice.

FOR FURTHER INFORMATION CONTACT: Mario Ugoletti, Deputy Director, Office of Financial Institutions and GSE Policy 202-622-2730; Martha Ellett, Attorney-Advisor, Office of the Assistant General Counsel (Banking and Finance) 202-622-0480.

SUPPLEMENTARY INFORMATION: This notice provides additional interim guidance to assist insurers in ascertaining how they may comply with certain immediately applicable provisions of Title I of the Terrorism Risk Insurance Act of 2002 (Pub.L.107-297) (the Act) prior to the issuance of regulations by the Department of the Treasury (Treasury). This notice provides interim guidance concerning the timing and certification of disclosures that Treasury expects to require from an insurer that is making a claim for federal payment under the Terrorism Risk Insurance Program. In addition, this interim guidance addresses the "separate line item" disclosure requirement in section 103(b)(2)(C), non-U.S. insurer participation in the Program, and the scope of "insured loss." The interim guidance contained in this notice, along with interim guidance issued previously by Treasury, may be relied upon by insurers in complying with these statutory requirements prior to the issuance of regulations on these issues. This interim guidance remains in effect until superceded by regulations or subsequent notice.

I. Background

On November 26, 2002, the President signed into law the Terrorism Risk Insurance Act of 2002. The Act became effective immediately. It establishes a temporary federal program of shared public and private compensation for insured commercial property and casualty losses resulting from an "act of terrorism," as defined in the Act. The Terrorism Risk Insurance Program is administered and implemented by Treasury and will sunset on December 31, 2005.

II. Interim Guidance

Treasury will be issuing regulations to administer and implement certain elements of the Terrorism Risk Insurance Program (Program). To assist insurers in complying with certain statutory requirements prior to the issuance of regulations, Treasury has previously issued interim guidance, located at 67 FR 76206 (December 11, 2002) and at 67 FR 78864 (December 26, 2002) (also located on Treasury's Terrorism Risk Insurance Program website at www.treasury.gov/trip). This notice contains additional interim guidance concerning disclosures as conditions for federal payment in section 103(b)(2) of the Act, non-U.S. insurer participation in the Program, and the scope of "insured loss."

How May an Insurer Comply with the Section 103(b)(2) Requirements for Disclosure at the Time of Offer, Purchase and Renewal of the Policy?"

As conditions for federal payment under the Program, subparagraph 103(b)(2) requires that an insurer provide clear and conspicuous disclosure to the policyholder, for existing policies and for new policies, of the premium charged for insured losses covered by the Program and the federal share of compensation for insured losses under the Program. For policies issued after the date of enactment (November 26, 2002), Subparagraphs 103(b)(2)(B) and (C) require these disclosures to be made to the policyholder "at the time of offer, purchase and renewal of the policy." For purposes of interim guidance, Treasury deems an insurer to be in compliance with these disclosure requirements "at the time of offer, purchase and renewal" if the insurer makes the required clear and conspicuous disclosures to the policyholder or applicant no later than at the time that the insurer first formally offers to provide insurance coverage or renew a policy for a current policyholder, and makes clear and conspicuous reference back to that disclosure as well as the final terms of terrorism insurance coverage at the time the transaction is completed. The required disclosures can be communicated by the use of channels, methods and forms of communication normally used to communicate similar policyholder information. This interim guidance is provided as a safe harbor to assist insurers in complying with conditions for federal payment prior to the issuance of regulations. It is not the exclusive means by which an insurer may comply with the section 103(b)(2) (B) and (C) requirements.

How May an Insurer Comply with the "Separate Line Item" Requirement for Policies Issued More than 90 days After Date of Enactment?

Section 103(b)(2)(C) requires that an insurer make the required clear and conspicuous disclosures on a "separate line item" in the policy for any policy issued more than 90 days after the date of enactment of the Act (November 26, 2002). In previous interim guidance, published at 67 FR 76206 (December 11, 2002), Treasury indicated that additional interim guidance, as appropriate, as well as regulations would be issued on the "separate line item" requirement. For purposes of interim guidance, Treasury deems an insurer to be in compliance with the separate line item requirement of Section 103(b)(2)(C) if it makes the required "clear and conspicuous" disclosure: i) on the declarations page of the policy; ii) elsewhere within the policy itself; or iii) in any rider or endorsement that is made a part of the policy, as long as the disclosure is clear and conspicuous and otherwise meets the requirements of section 103(b)(2) and previous interim guidance. This interim guidance is provided as a safe harbor to assist insurers in complying with conditions for federal payment prior to the issuance of regulations; however, it is not the exclusive means by which an insurer may comply with the section 103(b)(2)(C) "separate line item" requirement.

How May an Insurer Certify its Compliance with Required Disclosures as a Condition for Payment in Section 103(b) of the Act?

Section 103(b) of the Act sets forth conditions for federal payments for an insured loss that is covered by an insurer, including provision of clear and conspicuous disclosure to the policyholder of the premium charged for insured losses covered by the Program and the federal share of compensation for insured losses under the Program. The Act also requires as a condition for payment that an insurer process a claim for an insured loss and submit a claim to Treasury for payment of the federal share of compensation for the insured loss, along with certain written certifications, including certification of the insurer's compliance with the provisions of subsection 103(b) of the Act. In previous interim guidance, Treasury has addressed the statutory terms "insurer" and "insured losses" under the Program, 67 FR 78864 (December 26, 2002), and Treasury intends to issue regulations establishing claims procedures for federal payments under the Program. With regard to an insurer's certification of its compliance with the disclosure requirements in subsection 103(b)(2), Treasury expects to propose regulations that will require an insurer to certify that it complied with the required disclosure(s) to the policyholder on the underlying claim or claims submitted by the insurer for federal payment under the Program.

How Do the Nullification Requirement of Section 105 and Other Provisions of the Act Apply to Non-U.S. Insurers?

For the purposes of this interim guidance, Treasury views the nullification requirement of Section 105 and other provisions of the Act as they apply to non-U.S. insurers in the context of such insurers' required participation under the Act. The provisions of the Act apply to entities that meet the definition of "insurer" under Section 102(6) of the Act and with the respect to an "insured loss" covered by the Program. Included among the other requirements of the Act are: the "make available" requirements of Section 103(c); the disclosure requirements as a condition for Federal payment contained in Section 103(b)(2); and the policy surcharge (recoupment) provisions of Section 103(e)(8). For non-U.S. insurers that are required to participate in the Program, participation requirements for existing policies that provide coverage for "insured losses" include the "make available" and other requirements in the Act, such as those listed above, even in the absence of nullification under Section 105. The disclosure standards referenced in this and other interim guidance also would apply.

For the Purpose of Determining the Scope of "Insured Loss," how is Section 102(5)(B) Interpreted as it Relates to U.S. Air carriers and U.S. Flag Vessels?

Section 102(5)(B) defines an "insured loss" to include losses that occur "to an air carrier (as defined in section 40102 of Title 49, United States Code), to a United States flag vessel (or vessel based principally in the United States, on which United States income tax is paid and whose insurance coverage is subject to regulation in the United States) regardless of where the loss occurs." Section 40102 defines an "air carrier" generally as a United States citizen (individual, partnership, or corporation) that provides foreign or interstate "air transportation."

For the purposes of interim guidance, Treasury is providing further clarification that insured losses under Section 102 (5)(B) are only those losses that are incurred by the air carrier or the United States flag vessel. Insured losses under Section 102(5)(B) would not include losses incurred by third parties that are associated with losses incurred by a United States air carrier or a United States flag vessel, unless the cause of the loss originated within the United States.

Dated: January 22, 2003

Wayne A. Abernathy
Assistant Secretary of the Treasury

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 22, 2003
KD-3783

President's Commission on U.S. Postal Service Announces Subcommittee Members

The President's Commission on the United States Postal Service today announced the members of its four subcommittees, which were established during the Commission's Jan. 8, 2003 public meeting in Washington, DC.

The subcommittees are comprised of members of the Commission. Commission Co-Chairs James Johnson and Harry Pearce are ex-officio members of each subcommittee.

The Business Model Subcommittee members include Chairman Richard Levin, Don Cogman, Carolyn Gallagher, Norman Seabrook, and Robert Walker. The Subcommittee will be responsible for assessing the Postal Service's current "government corporation" business model. As part of this assessment, the Subcommittee will study the Postal Service's universal service obligation, the mail delivery infrastructure, the current rate regulation system, and pricing flexibility. This Subcommittee will also assess the "Commercial Government Enterprise" business model proposed by the Postal Service in its own Transformation Plan.

The Private-Sector Partnership Subcommittee members include Chairman Joseph Wright, Don Cogman and Norman Seabrook. The Subcommittee will be responsible for analyzing the current role of the private sector in the mail delivery system, including negotiated service agreements, outsourcing, and worksharing. It will also attempt to identify opportunities for the Postal Service to enter into partnerships with the private sector as it seeks to become more efficient and effective.

The Technology Challenges and Opportunities Subcommittee members include Chairman Robert Walker, Dionel Aviles and Joseph Wright. The Subcommittee will be responsible for assessing the impact of new technologies--such online bill payment and presentment, e-mail, and electronic funds transfer--on the Postal Service's business and attempt to determine whether these technologies will continue to erode the Postal Service's market share. The Subcommittee will also assess the Postal Service's own technology initiatives and their impact on productivity and financial performance.

The Workforce Subcommittee members include Chairwoman Carolyn Gallagher, Dionel Aviles and Richard Levin. The Subcommittee will be responsible for assessing the Postal Service's current collective bargaining and dispute resolution procedures as well as reviewing alternative models. It will review employee pay and other associated labor costs; productivity; employee recruitment, training and development; and workers' compensation claims. The Workforce Subcommittee will also review the status of the Postal Service's unfunded pension and retiree health care liabilities.

The nine-member bipartisan Commission, established by President Bush on December 11, 2002, seeks to identify the operational, structural, and financial challenges facing the Postal Service; examine potential solutions; and recommend legislative and administrative steps to ensure the long-term viability of postal service in the United States. The Commission will submit its report to the President by July 31, 2003.

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
January 22, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	January 23, 2003
Maturity Date:	February 20, 2003
CUSIP Number:	912795LZ2

High Rate: 1.135% Investment Rate 1/: 1.148% Price: 99.912

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 53.42%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 40,016,753	$ 13,966,741
Noncompetitive	33,664	33,664
FIMA (noncompetitive)	0	0
SUBTOTAL	40,050,417	14,000,405
Federal Reserve	2,397,687	2,397,687
TOTAL	$ 42,448,104	$ 16,398,092

Median rate 1.130%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.120%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 40,050,417 / 14,000,405 = 2.86

1/ Equivalent coupon-issue yield.

KB-3784

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 22, 2003
KD-3785

TREASURY ISSUES GUIDANCE ON INVENTORY ACCOUNTING METHODS FOR BEBUILDABLE MOTOR VEHICLE PARTS

Today the Treasury Department and the Internal Revenue Service issued guidance that provides a safe harbor method of accounting for the valuation of a taxpayer's inventory of rebuildable motor vehicle parts under the lower of cost or market (LCM) inventory valuation method. In the remanufacturing industry rebuildable used or worn parts that will be remanufactured are referred to as "cores."

The guidance provides taxpayers :

• A safe harbor method of determining the cost for cores in ending inventory.

• A safe harbor method of determining the market value of cores in ending inventory.

• A procedure for taxpayers currently using the LCM method to obtain automatic consent to change to the safe harbor method.

• A procedure for qualifying remanufacturers and resellers not currently using the LCM method to obtain automatic consent to change to the LCM method in conjunction with a change to the safe harbor method.

The guidance was released as part of the Industry Issue Resolution (IIR) program. It reduces long-standing controversy between the IRS and taxpayers in the motor vehicle remanufacturing industry.

The text of Revenue Procedure 2003-20 is attached.

Part III

Administrative, Procedural, and Miscellaneous

26 CFR 601.204: Changes in accounting periods and in methods of accounting.
(Also Part 1, §§ 263A, 446, 471, 472, 481, 7121; 1.263A-1, 1.446-1, 1.471-2, 1.471-4, 1.472-2, 1.481-1)

Rev. Proc. 2003-20

SECTION 1. PURPOSE

This revenue procedure provides a safe harbor method of accounting (the "Core Alternative Valuation" (CAV) method) for remanufacturers and rebuilders of motor vehicle parts ("remanufacturers") and resellers of remanufactured and rebuilt motor vehicle parts ("resellers") that use the lower of cost or market (LCM) inventory valuation method to value their inventory of cores held for remanufacturing or sale. The CAV method is provided by the Commissioner pursuant to his authority under § 446 of the Internal Revenue Code in order to minimize disputes, provide certainty, and simplify inventory computations. This revenue procedure also provides a procedure for qualifying remanufacturers and resellers currently using an LCM method to obtain automatic consent of the Commissioner to change to the CAV method. In addition, this revenue procedure provides a procedure for qualifying remanufacturers and resellers not currently using an LCM method to obtain automatic consent to change to an LCM method in conjunction with a change to the CAV method.

SECTION 2. BACKGROUND

.01 *In General.*

(1) Remanufacturers acquire inventories of used motor vehicle parts (*e.g.*, wiper motors, engines, transmissions, and alternators for automobiles, trucks, buses, etc.) for use in remanufacturing. These used parts are frequently referred to within the remanufacturing industry as "cores." Remanufacturers rebuild motor vehicle parts from cores through use of new and used component parts and sell the resulting products as remanufactured replacement parts. Resellers acquire cores in conjunction with their resale activity and sell the cores to a remanufacturer or another reseller in the distribution chain.

(2) Remanufacturers and resellers acquire cores from customers ("customer cores") who purchase remanufactured replacement parts. To encourage a customer to return the core, remanufacturers and resellers generally offer the customer a credit (offset against the purchase price). Remanufacturers and resellers also acquire cores from third-party suppliers of cores (businesses that specialize in supplying cores to meet specific needs, referred to within the industry as "core suppliers" or "core brokers") and occasionally acquire cores directly from other sources.

(3) Controversy exists as to the proper market valuation of cores under the LCM method. *See Consolidated Manufacturing, Inc. v. Commissioner*, 249 F.3d 1231 (10th Cir. 2001), *rev'g in part*, 111 T.C. 1 (1998). In order to reduce controversy and minimize disputes, the Service has determined that it is appropriate to provide a safe harbor procedure for the LCM valuation of cores in inventory.

.02 Section 471 of the Internal Revenue Code, which governs the treatment of inventories, provides two tests to which each inventory must conform: (1) it must conform as nearly as may be to the best accounting practice in the trade or business; and (2) it must clearly reflect income. Section 1.471-2(c) of the Income Tax Regulations provides that the bases of valuation most commonly used by business concerns and which meet the requirements of § 471 are (1) cost and (2) cost or market, whichever is lower. Section 1.471-2(c) also provides that any goods in an inventory that are unsalable at normal prices or unusable in the normal way because of damage, imperfections, shop wear, changes of style, odd or broken lots, or other similar causes, including second-hand goods taken in exchange, should be valued, if such goods consist of raw materials held for use or consumption, upon a reasonable basis taking into consideration the usability and condition of the goods, but in no case shall such value be less than the scrap value.

.03 Section 1.471-3(b) defines the cost of merchandise purchased since the beginning of the taxable year as the invoice price less trade or other discounts, except strictly cash discounts approximating a fair interest rate, which may be deducted, or not, at the option of the taxpayer, provided the taxpayer follows a consistent course. To this net invoice price should be added transportation or other necessary charges incurred in acquiring possession of the goods. In the case of merchandise produced by the taxpayer, § 1.471-3(c) defines cost as (1) the cost of raw materials and supplies entering into or consumed in connection with the product, (2) expenditures for direct labor, and (3) indirect production costs incident to, and necessary for, the production of the particular article, including in such indirect production costs an appropriate portion of management expenses, but not including any cost of selling or return on capital, whether by way of interest or profit. *See* §§ 1.263A-1 and 1.263A-2 for more specific rules regarding the treatment of production costs.

.04 Section 1.471-4(a) provides that, under ordinary circumstances and for normal goods in inventory, "market" means the aggregate of the current bid prices prevailing at the date of the inventory of the basic elements of cost reflected in inventories of goods purchased and on hand, goods in process of manufacture, and finished manufactured goods on hand. The basic elements of cost include direct materials, direct labor, and indirect costs required to be included in inventories by the taxpayer (*e.g.*, under § 263A and its underlying regulations for taxpayers subject to that section). For taxpayers to which § 263A applies, for example, the basic elements of cost must reflect all direct costs and all indirect costs properly allocable to goods on hand at the inventory date at the current bid price of those costs, including but not limited to the cost of purchasing, handling, and storage activities conducted by the taxpayer, both prior to and subsequent to acquisition or production of the goods.

.05 Section 1.471-4(c) provides that if inventory is valued upon the basis of cost or market, whichever is lower, the market value of each article on hand at the inventory date shall be compared with the cost of the article, and the lower of such values shall be taken as the inventory value of the article.

.06 Section 1.471-2(f) provides deducting from inventory a reserve for price changes, or an estimated depreciation in the value of the inventory, is not in accord with the regulations underlying § 471.

.07 Section 472(b) and § 1.472-2 require taxpayers using the last-in, first-out (LIFO) method to inventory their goods at cost.

.08 Section 446(e) and § 1.446-1(e)(2)(i) require that, except as otherwise expressly provided, a taxpayer must secure the consent of the Commissioner before changing a method of accounting for federal income tax purposes. Section 1.446-1(e)(3)(ii) authorizes the Commissioner to prescribe administrative procedures setting forth the terms and conditions deemed necessary to permit a taxpayer to obtain consent to change a method of accounting in accordance with § 446(e).

SECTION 3. SCOPE

.01 *Applicability.* This revenue procedure applies to remanufacturers and resellers that want to change to the CAV method described in section 4 of this revenue procedure to value inventories of cores. For purposes of this revenue procedure, "cores" include electrical, mechanical, hydraulic, and other operating motor vehicle parts, including parts of automobiles, trucks, buses, motorcycles, boats, construction equipment, farm machinery, and other on- and off-road motorized equipment. The CAV method applies only to cores held in inventory for remanufacturing or, in the case of a reseller, held for sale to a remanufacturer or another entity in the distribution chain. The CAV method only applies to cores valued under the LCM method.

.02 *Inapplicability.* This revenue procedure does not apply to a taxpayer that values its inventory of cores at cost (including a taxpayer using the LIFO method) unless the taxpayer concurrently changes (under section 6.02 of this revenue procedure) from cost to the LCM method for its cores (including labor and overhead related to the cores in raw materials, work-in-process and finished goods). A taxpayer that wants to concurrently change from cost to the LCM method must: (a) not be otherwise prohibited from using the LCM method; (b) comply with the general rules relating to inventories under § 471 and the regulations thereunder; and (c) in the case of taxpayers using the

LIFO method, use the LCM method and a permitted method for identification as determined and defined in section 10.01(1)(b) of the APPENDIX of Rev. Proc. 2002-9, 2002-3 I.R.B. 327, 368-69.

SECTION 4. THE CORE ALTERNATIVE VALUATION METHOD

.01 *In General.*

(1) A taxpayer using the CAV method values its inventory of cores at LCM, determines cost in accordance with section 4.02 of this revenue procedure, and determines market in accordance with section 4.03 of this revenue procedure.

(2) The CAV method will be a permissible method of accounting provided the taxpayer follows the rules and computational methodology described in sections 4.02 through 4.05 of this revenue procedure and, if the taxpayer is changing from another method to the CAV method, the provisions of section 6 of this revenue procedure regarding changes in method of accounting. All computations under the CAV method, however, are subject to verification upon examination of the taxpayer's income tax returns.

.02 *Determination of Cost.*

(1) *In general.* Under the CAV method, the taxpayer is required to use as the cost of each core in ending inventory the invoice price adjusted, as appropriate, for discounts, freight costs, and other direct and indirect costs properly allocable to the cores as described in §§ 1.471-3 and 1.263A-1. If the core was acquired from a core supplier or broker, the invoice price is the amount paid to the core supplier or broker. If the core was acquired from a customer, the invoice price is the sum of any credit allowed to the customer and any amount paid to the customer. *Consolidated*

Manufacturing, Inc. v. Commissioner, 249 F.3d 1231 (10th Cir. 2001), *aff'd on this issue*, 111 T.C. 1 (1998).

(2) *Service may redetermine appropriate cost.* As a general rule, the taxpayer must follow the form that the taxpayer used for the transaction. *See*, for example, *In re Steen*, 509 F.2d 1398, 1402 n. 4 (9th Cir. 1975) and *Commissioner v. Danielson*, 378 F.2d 771, 775 (3d Cir. 1967). If the Service determines, however, that the taxpayer's use of the credit amount as the invoice price does not clearly reflect income (for example, because the taxpayer artificially inflated both the price of the remanufactured core and the credit amount solely to manipulate gross receipts for tax avoidance), the Service may examine the substance of the transaction to determine the appropriate cost for a core. *See*, for example, *Gregory v. Helvering*, 293 U.S. 465, 55 S. Ct. 266, 79 L. Ed. 596 (1935).

.03 *Determination of Market Value.*

(1) *In general.* Under the CAV method, the market value under § 1.471-4 of each core in ending inventory is the "allowable supplier price" adjusted, as appropriate, for other direct and indirect costs properly allocable to the core as described in §§ 1.471-4 and 1.263A-1. The allowable supplier price will be considered to be the replacement cost for purposes of §§ 1.471-4 and 1.263A-1.

(2) *Allowable supplier price.* For purposes of this revenue procedure the "allowable supplier price" is the amount the taxpayer would pay in an arm's length transaction to acquire a particular core from a core supplier or core broker, plus the related transportation cost that would be incurred to acquire possession of the core from the core broker or supplier at year-end. If the taxpayer has purchased a particular type of

core from several core suppliers or core brokers during the tax year, the allowable supplier price for that core type will be deemed to be the weighted-average price, including transportation cost, the taxpayer would have to pay in an arm's length transaction to acquire the particular core type at year-end from the core suppliers or core brokers from whom the cores were purchased during the tax year. If the taxpayer has not purchased a particular core type from a core supplier or core broker during the tax year, the taxpayer must identify its largest (in dollar terms) supplier of cores during the current tax year that also sells the particular core type in the ordinary course of its business; the allowable supplier price will be the arm's length price from that supplier for the core type at year-end plus the transportation cost that would be incurred to acquire the core type from that supplier. If none of the taxpayer's suppliers sell the particular core type, the taxpayer must reasonably determine the allowable supplier price based on the arm's length price for the core type at year-end, plus the transportation cost, in the geographical area or market in which the taxpayer regularly participates. In any case, no further adjustments will be allowed in determination of allowable supplier price.

(3) *Example of allowable supplier price calculation using weighted-average price.* Taxpayer, a remanufacturer, had 4 units of Part X customer cores in inventory at year-end. Taxpayer acquired these customer cores from customers in transactions in which taxpayer sold to the customers remanufactured parts and received cores from the customers in exchange for credits toward the purchase price of the remanufactured parts. During the tax year, Taxpayer purchased 8 units of Part X cores from suppliers (2 units of Part X from Core Supplier A and 6 units of Part X from Core Supplier B). Therefore, Taxpayer purchased 25% (2 of 8 units) of the total number of Part X

acquired for the year from Core Supplier A and 75% (6 of 8 units) of the total number of Part X acquired for the year from Core Supplier B. At the end of the taxable year, the price Taxpayer would have to pay in an arm's length transaction to acquire Part X, including transportation cost, was $20 from Core Supplier A and $16 from Core Supplier B. Taxpayer would determine the allowable supplier price for Part X customer cores under the CAV method as follows:

	# of Units Purchased During Year	% of Total Units Purchased During Year	End of Year Price
Core Supplier A	2	25%	$20
Core Supplier B	6	75%	$16
Total	8		

CAV Core Supplier Price for Part X Customer Cores = (25% x $20) + (75% x 16) = $17.

.04 *Comparison of Cost and Market.* Under the CAV method, the market value of each core in ending inventory, as determined under section 4.03 of this revenue procedure, shall be compared with the cost of each core in ending inventory, as determined under section 4.02 of this revenue procedure, and the lower of such values shall be the inventory value of the core. This analysis must be performed on a part-by-part basis.

.05 *Write-down of Defective Cores.* Under the CAV method, a taxpayer may not reduce the value of a defective core under § 1.471-2(c) until the taxpayer discovers that the core is subnormal and scraps the core or offers the core for sale at a bona fide selling price that is less than cost. In no case may a taxpayer value a core at less than the scrap value. A taxpayer may not reduce the value of cores based on anticipated defect percentages or historical defect experience rates. If a taxpayer complies with the requirements of this revenue procedure, the Service will not disallow a write-down of a defective core in the year it is scrapped on the grounds that the decline in the value of the core actually occurred in a preceding taxable year.

SECTION 5. AUDIT PROTECTION FOR TAXPAYERS CURRENTLY USING THE SAFE HARBOR METHOD

If a taxpayer within the scope of this revenue procedure was consistently using the CAV method provided in section 4 of this revenue procedure before February 10, 2003, the taxpayer's use of the CAV method will not be raised by the Service as an issue in a taxable year that ends before February 10, 2003. Moreover, if such taxpayer's use of the CAV method has already been raised as an issue in examination, appeals, or before the Tax Court in a taxable year that ends before February 10, 2003, the issue will not be further pursued by the Service.

SECTION 6. CHANGES IN METHOD OF ACCOUNTING

.01 *In General.* A change in the treatment of customer cores in inventory to the CAV method provided by this revenue procedure is a change in method of accounting to which the provisions of §§ 446 and 481 and the regulations thereunder apply. Therefore, a taxpayer within the scope of this revenue procedure that wishes to change to the CAV method for a taxable year ending on or after December 31, 2002, must file a Form 3115, Application for Change in Accounting Method.

.02 *Automatic Change for Taxpayers Within the Scope of this Revenue Procedure.*

(1) *Automatic change to the CAV method.* A taxpayer within the scope of this revenue procedure that wants to change to the CAV method must follow the automatic change in accounting method provisions of Rev. Proc. 2002-9, as modified by Rev. Proc. 2002-19, 2002-13 I.R.B. 696, Announcement 2002-17, 2002-8 I.R.B. 561, and

Rev. Proc. 2002-54, 2002-35 I.R.B. 432, with the following modifications:

(a) The scope limitations in section 4.02 of Rev. Proc. 2002-9 do not apply to a taxpayer that wants to change to the CAV method for its first taxable year ending on or after December 31, 2002, provided the taxpayer's method of accounting for cores is not an issue under consideration in examination (within the meaning of section 3.09 of Rev. Proc. 2002-9) at the time the Form 3115 is filed with the national office;

(b) In lieu of the label required by section 6.02(4) of Rev. Proc. 2002-9, taxpayers are instructed to write "Filed under Rev. Proc. 2003-20" at the top of the form; and

(c) Taxpayers making concurrent changes under subsections (2) or (3) of this section should include the concurrent change with the change to the CAV method in a single application.

(2) *Change from cost to LCM.* An automatic change in method of accounting to the CAV method under this revenue procedure also includes, where applicable, a concurrent change from the cost method to the LCM method.

(3) *Change from LIFO.* An automatic change in method of accounting to the CAV method under this revenue procedure also includes a concurrent change from the LIFO method to a permitted method for identification as determined and defined in section 10.01(1)(b) of the APPENDIX of Rev. Proc. 2002-9. A taxpayer that desires to discontinue LIFO to use the CAV method must make a concurrent change from its cost method to the LCM method.

SECTION 7. RECORD KEEPING

Section 6001 provides that every person liable for any tax imposed by the Code, or for the collection thereof, must keep such records, render such statements, make such returns, and comply with such rules and regulations as the Secretary may from time to time prescribe. The books or records required by § 6001 must be kept at all times available for inspection by authorized internal revenue officers or employees, and must be retained so long as the contents thereof may become material in the administration of any internal revenue law. § 1.6001-1(e). In order to satisfy the record keeping requirements of § 6001 and the regulations thereunder, a taxpayer that uses the CAV method should maintain records supporting all aspects of its inventory valuation including but not limited to cost of supplier cores.

SECTION 8. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2002-9 is modified and amplified to include this automatic change in section 9 of the APPENDIX.

SECTION 9. EFFECTIVE DATE

This revenue procedure is effective for taxable years ending on or after December 31, 2002.

SECTION 10. DRAFTING INFORMATION

The principal authors of this revenue procedure are Willie E. Armstrong, Jr. and W. Thomas McElroy, Jr. of the Office of the Associate Chief Counsel (Income Tax and Accounting). For further information regarding this revenue procedure contact Mr. Armstrong or Mr. McElroy at (202) 622-4970 (not a toll free call).

FROM THE OFFICE OF PUBLIC AFFAIRS

January 23, 2003
KD-3786

TREASURY ISSUES INTERIM GUIDANCE ON THE NONACCRUAL EXPERIENCE METHOD OF ACCOUNTING

Today the Treasury Department and the Internal Revenue Service issued interim guidance, pending final regulations, on the nonaccrual experience method of accounting (NAE).

The nonaccrual experience method is a method of accounting under which certain service-providers are not required to accrue income earned for the performance of services if, based on the taxpayer's experience, the income will not be collected. For example, a hospital may know, based on its experience, that it will not collect a portion of an amount billed for hospital services.

The guidance provides two safe harbor NAE methods and a procedure for self-testing alternative NAE methods. In addition the guidance provides procedures for taxpayers to obtain automatic consent to change to a safe harbor or alternative NAE method. Finally, the guidance provides procedures to change from an NAE method if a taxpayer is no longer eligible to use an NAE method as a result of recent statutory changes.

Until final regulations are issued to implement the recent statutory changes related to NAE methods, this interim guidance gives taxpayers the certainty they need to be able to determine the uncollectible amounts to be excluded from income under the nonaccrual experience method of accounting.

The text of Notice 2003-12 is attached.

Related Documents:

- Text of Notice 2003-12

DEPARTMENT OF THE TREASURY

OFFICE OF PUBLIC AFFAIRS

Part III - Administrative, Procedural, and Miscellaneous

Nonaccrual Experience Method of Accounting

Notice 2003-12

SECTION 1. PURPOSE

The Internal Revenue Service is currently working on regulations under § 448(d)(5) of the Internal Revenue Code as amended by § 403 of the Job Creation and Worker Assistance Act of 2002, Pub. L. No. 107-147, § 403, 116 Stat. 21 (the Act), regarding the nonaccrual experience ("NAE") method. Until such regulations are issued in final form, this notice provides interim guidance on which taxpayers may rely. The Service expects that the final regulations will incorporate the rules set forth in this Notice and will be effective for taxable years ending after March 9, 2002. This interim guidance includes: (1) for taxpayers who no longer qualify to use a NAE method, procedures to change their method of accounting; (2) for taxpayers who qualify to use a NAE method, two safe harbor NAE methods that will be presumed to clearly reflect the taxpayer's

NAE; (3) for taxpayers who qualify to use a NAE method but wish to compute their NAE using a formula other than the two safe harbors provided, the requirements that must be met in order to use an alternative formula to compute their NAE; and (4) for taxpayers who wish to change to a different NAE method, the procedures necessary to obtain automatic consent of the Commissioner to change to one of the safe harbor NAE methods or to an alternative NAE method that clearly reflects their experience.

SECTION 2. BACKGROUND

.01 Under § 448(d)(5), prior to its amendment by the Act, taxpayers using an accrual method of accounting and performing services were not required to accrue any portion of their service-related income that, on the basis of their experience, would not be collected. The Act modifies § 448(d)(5) to provide that a NAE method is now available only for taxpayers using an accrual method who either provide services in fields described in § 448(d)(2)(A) (*i.e.,* health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting), or who meet the $5 million annual gross receipts test of § 448(c). As under prior law, a NAE method is available only to taxpayers not charging interest or penalties for failure to timely pay the amount charged.

.02 The Act also provides that the Service and the Treasury Department will issue regulations to permit taxpayers to determine the uncollectible amounts using alternative computations or formulas, including safe harbors, that, based on experience, accurately reflect the amount of income that the taxpayers will not collect. The amendments by the Act are effective for taxable years ending after March 9, 2002.

SECTION 3. NONACCRUAL EXPERIENCE METHODS

.01 *In General.* Pending the issuance of final regulations under § 448(d)(5), as amended, a taxpayer eligible to use a NAE method under § 448(d)(5), as amended, may use one of two safe harbor NAE methods of accounting provided in section 3.02 of this notice. Alternatively, a taxpayer eligible to use a NAE method under § 448(d)(5), as amended, may use any other NAE method (an "alternative NAE method") that clearly reflects the taxpayer's NAE, subject to the requirements of section 3.03 of this notice. See section 5 of this notice for procedures to obtain automatic consent to change to one of the safe harbor NAE methods or to an alternative NAE method.

.02 *Safe Harbor Methods.* The safe harbor NAE methods provided in this section 3.02 will be presumed to clearly reflect a taxpayer's NAE.

(1) *Section 1.448-2T(e)(2) method.* A taxpayer may use the NAE method provided in § 1.448-2T(e)(2) of the temporary income tax regulations.

(2) *Actual experience method.* (i) *Option A: Three-year moving average.* A taxpayer may use a NAE method under which the taxpayer determines the uncollectible amount ("actual NAE amount") by multiplying its year-end accounts receivable balance by a percentage ("three-year moving average NAE percentage") reflecting its actual NAE with respect to its accounts receivable balance at the beginning of the current taxable year and the two immediately preceding taxable years. Under the actual experience method, a taxpayer is allowed to increase its actual NAE amount by 5% ("adjusted NAE amount"). The taxpayer's three-year moving average NAE percentage, actual NAE amount, and adjusted NAE amount are determined according

to the following steps:

STEP 1. Track the receivables in the taxpayer's accounts receivable balance at the beginning of the current year to determine the dollar amount of the accounts receivable actually determined to be uncollectible and charged off and not recovered or determined to be collectible by the date selected by the taxpayer (the "determination date") for the year. The determination date may not be later than the earlier of the due date (including extensions) for filing the taxpayer's federal income tax return for that year or the date on which the taxpayer files such return for that year.

STEP 2. Repeat STEP 1 for the taxpayer's accounts receivable balance at the beginning of each of the two immediately preceding taxable years.

STEP 3. To determine the taxpayer's three-year moving average NAE percentage, (i) divide the sum of the net uncollectible amounts from STEP 1 and 2, by (ii) the sum of the accounts receivable balance at the beginning of the current taxable year and the accounts receivable balance at the beginning of each of the two preceding taxable years.

STEP 4. Multiply the percentage computed in STEP 3 by the taxpayer's accounts receivable balance at the end of the current taxable year. The product is the taxpayer's actual NAE amount for the current taxable year.

STEP 5. To determine the taxpayer's adjusted NAE amount, multiply the actual NAE amount from STEP 4 by 1.05. *See Example 1* in section 3.04 of this notice.

(ii) *Option B: Up to three-year moving average.* Alternatively, in computing its adjusted NAE amount, a taxpayer may use: its current year NAE percentage for the first year this method is used; a two-year moving average NAE percentage for the second year this method is used; and a three-year moving average NAE percentage for the third, and each succeeding, taxable year this method is used. *See Examples 2, 3* and *4* in section 3.04 of this notice.

(iii) A taxpayer that excludes an amount from income during a taxable year as a result of the taxpayer's use of the actual experience method cannot deduct in any subsequent taxable year the amount excluded from income. Thus, the taxpayer cannot deduct the excluded amount in the next taxable year, which is the taxable year in which the taxpayer actually determines that the amount is uncollectible and charges the amount off. If a taxpayer recovers an amount excluded from income, the taxpayer must include the recovered amount in income. If a calendar year taxpayer using the actual experience method determines that an amount that was not excluded from income is uncollectible and should be charged off (e.g., the taxpayer determines on November 1, 2002, that an account receivable that was originated on May 1, 2002, is uncollectible and should be charged off) the taxpayer may deduct the amount charged off when it is charged off, but must include any subsequent recoveries in income. The reasonableness of a taxpayer's determinations that amounts are uncollectible and should be charged off may be considered on examination. *See* §§ 1.448-2T(e)(3) and (e)(4) regarding the mechanics of the NAE method and related examples.

.03 *Alternative NAE Methods.* A taxpayer may use any alternative NAE method that clearly reflects the taxpayer's actual NAE, provided the taxpayer's alternative NAE method meets the self-test requirements as described in this section 3.03.

(1) *Self-testing.* A taxpayer using (or desiring to use) an alternative NAE method must "self-test" its alternative NAE method for its first taxable year ending after March 9, 2002, and every third taxable year thereafter by comparing the NAE amount under the taxpayer's alternative NAE method ("alternative NAE amount") with the adjusted NAE amount that would have resulted from use of the actual experience method, as described in Section 3.02(2) of this Notice, for the test period. In no event will the test period include taxable years ending on or before March 9, 2002, or prior to the first year in which the taxpayer used its alternative NAE method.

(2) *Treated as clearly reflecting NAE.* If the total of the alternative NAE amounts for each year of the test period ("cumulative alternative NAE amount") is less than or equal to the total of the adjusted NAE amount computed under STEP 5 of section 3.02(2)(i) of this revenue procedure for each year of the test period ("cumulative adjusted NAE amount"), then: (i) the taxpayer's alternative NAE method will be treated as clearly reflecting its NAE for the test period; and (ii) the taxpayer may continue to use that alternative NAE method, subject to a requirement to self-test again in three taxable years. *See Example* 6 in section 3.04 of this notice.

(3) *Treated as not clearly reflecting NAE.* If the cumulative alternative NAE amount is more than the cumulative adjusted NAE amount for the test period, then: (i) the taxpayer's alternative NAE method will be treated as not clearly reflecting its NAE for the test period; and (ii) the taxpayer must change its NAE method of

accounting to a method that will clearly reflect its NAE. *See Examples 7* and *8* in section 3.04 of this notice.

(4) *Changes to or from alternative NAE methods.* A taxpayer that voluntarily changes its NAE method of accounting as a result of section 3.03(3) of this notice should follow the automatic change in method of accounting procedures described in Section 5.02 of this notice. A taxpayer that must change its NAE method of accounting as a result of Section 3.03(3) of this Notice, but does not change, will be subject to being changed by the Service on examination to the actual experience method. A taxpayer that does not maintain records of the data necessary to determine its actual NAE (in accordance with section 3.02(2) of this notice) will be subject to being changed by the Service on examination to the specific charge-off method. A taxpayer described in this section that is required by the Service to change its NAE method of accounting on examination will be subject to such change in the earliest open taxable year under examination, and will be required to take into account any resulting § 481(a) adjustment entirely in the year of change, and may be subject to penalties. *See* § 446(f).

.04 *Examples.* In each example, the taxpayer: (1) uses a calendar year for federal income tax purposes and an accrual method of accounting; (2) is eligible to use a NAE method under § 448(d)(5), as amended by the Act; and (3) selects an appropriate determination date for each taxable year. In each of *Examples 1-5*, the taxpayer wants to use the actual experience method beginning in 2002.

Example 1. Taxpayer *A* has the data necessary to track the uncollectible amounts in its beginning-of-year accounts receivable for the current taxable year and the two immediately preceding taxable years. *A* determines that its actual accounts receivable collection experience is as follows:

Year	Total A/R Balance At Beginning of Year	Beginning A/R Amount Charged Off by Determination Date (adjusted for recoveries)
2000	$1,000,000	$35,000
2001	760,000	75,000
2002	1,975,000	65,000
Total	$3,735,000	$175,000

A's ending A/R Balance on 12/31/2002 is $880,000.

In 2002, *A* chooses to compute its NAE amount by using the three-year moving average under Option A in section 3.02(2)(i) of this notice. Thus, *A's* three-year moving average NAE percentage is 4.7%, determined by dividing the sum of the amount of *A's* receivables in its account on January 1st of 2000, 2001, and 2002, that were determined to be uncollectible and charged off (adjusted for recoveries) on or before the corresponding determination dates, by the sum of the balances of *A's* accounts receivable account on January 1st of 2000, 2001, and 2002 (*i.e.,* $175,000/$3,735,000 or 4.7%). Thus, *A*'s actual NAE amount for 2002 is determined by multiplying this percentage by the balance of *A's* accounts receivable account on December 31, 2002 (*i.e.,* $880,000 x 4.7% = $41,360). *A* is permitted to exclude from gross income in 2002 an amount equal to 105% of *A*'s actual NAE amount ($41,360 x 105% = $43,428). This is *A's* adjusted NAE amount for 2002.

Example 2. The facts are the same as *Example 1*, except *A* has not maintained the data necessary to use Option A in section 3.02(2)(i) of this notice. *A* determines that, of its 2002 beginning-of-year receivables of $1,975,000, $65,000 were determined to be uncollectible and charged off (adjusted for recoveries) on or before September 15, 2003, the date *A* timely files its federal income tax return for 2002 (the determination date). *A* chooses to use Option B in section 3.02(2)(ii) of this notice to compute its adjusted NAE amount for 2002. *A's* current year NAE percentage is 3.3%, determined by dividing the amount of *A's* receivables in its account on January 1, 2002, that were charged off as uncollectible (adjusted for recoveries) on or before the determination date, by the balance of *A's* accounts receivable account on January 1, 2002 (*i.e.*, $65,000/$1,975,000 or 3.3%). Thus, *A*'s actual NAE amount for 2002 is determined by multiplying this percentage by the balance of *A's* accounts receivable account on December 31, 2002 (*i.e.*, $880,000 x 3.3% = $29,040). *A* is permitted to exclude from gross income in 2002 an amount equal to 105% of *A*'s actual NAE amount ($29,040 x 105% = $30,492). This is *A's* adjusted NAE amount for 2002.

Example 3. The facts are the same as *Example 2*. *A* determines that its accounts receivable collection experience for 2003 is as follows:

Year	Total A/R Balance At Beginning of Year	Beginning A/R Amount Charged Off by Determination Date (adjusted for recoveries)
2002	$1,975,000	$65,000
2003	880,000	95,000
Total	$2,855,000	$160,000

A's ending A/R Balance on 12/31/2003 is $2,115,000.

In 2003, *A* must compute its NAE amount using an average of its actual NAE for 2002 and 2003 (in accordance with Option B in section 3.02(2)(ii) of this notice). Thus, *A's* two-year moving average NAE percentage is 5.6%, determined by dividing the sum of the amount of *A's* receivables in its accounts on January 1st of 2002 and 2003, that were determined to be uncollectible and charged off (adjusted for recoveries) on or before the corresponding determination dates, by the sum of the balances of *A's* accounts receivable account on January 1st of 2002 and 2003 (*i.e.*, $160,000/$2,855,000 or 5.6%). Thus, *A*'s actual NAE amount for 2003 is determined by multiplying this percentage by the balance of *A's* accounts receivable account on December 31, 2003 (*i.e.*, $2,115,000 x 5.6% = $118,440). *A* is permitted to exclude from gross income in 2003 an amount equal to 105% of *A*'s actual NAE amount ($118,440 x 105% = $124,362). This is *A's* adjusted NAE amount for 2003.

Example 4. The facts are the same as *Example 3*. *A* determines that its accounts receivable collection experience for 2004 is as follows:

Year	Total A/R Balance At Beginning of Year	Beginning A/R Amount Charged Off by Determination Date (adjusted for recoveries)
2002	$1,975,000	$65,000
2003	880,000	95,000
2004	2,115,000	105,000
Total	$4,970,000	$265,000

A's ending A/R Balance on 12/31/2004 is $1,600,000.

In 2004, *A* must compute its NAE amount using an average of its actual NAE for 2002, 2003, and 2004 (in accordance with Option B in section 3.02(2)(ii) of this notice). Thus, *A's* actual three-year moving average NAE percentage is 5.3%, determined by dividing the sum of the amount of *A's* receivables in its account on January 1st of 2002, 2003, and 2004, that were determined to be uncollectible and charged off (adjusted for recoveries) on or before the corresponding determination dates, by the sum of the balances of *A's* accounts receivable account on January 1st of 2002, 2003, and 2004 (*i.e.*, \$265,000/\$4,970,000 or 5.3%). Thus, *A*'s actual NAE amount for 2004 is determined by multiplying this percentage by the balance of *A's* accounts receivable account on December 31, 2004 (*i.e.*, \$1,600,000 x 5.3% = \$84,800). *A* is permitted to exclude from gross income in 2004 an amount equal to 105% of *A*'s actual NAE amount (\$84,800 x 105% = \$89,040). This is *A's* adjusted NAE amount for 2004. Thereafter, *A* must continue to use a 3-year moving average to compute its actual NAE, or obtain approval of the Commissioner to change its method of accounting.

Example 5. Taxpayer *B* has not tracked its 2002 beginning-of-year accounts receivable. Therefore, *B* may not use the actual experience method for 2002. *B* may use this method for 2003 if *B* tracks its 2003 beginning-of-year receivables.

Example 6. Beginning in 2002, taxpayer *C* uses an alternative NAE method similar to the method described in *Black Motor Co. v. Comm'r*, 41 B.T.A. 300 (1940), *aff'd*, 125 F.2d 977 (6th Cir. 1942). *C* must self-test its alternative NAE method for the first year it is used (2002), and then every three taxable years after 2002 for which *C* uses its alternative NAE method. Thus, beginning in 2002, *C* must begin tracking its beginning-of-year accounts receivable and computing its actual NAE as provided in section 3.02(2) of this notice. *C*'s actual NAE amount and alternative NAE amount for 2002 are set forth below:

Total A/R Balance	Beginning A/R Amount Charged Off by Determination Date

Year	At Beginning of Year	(adjusted for recoveries)	Alternative NAE Amount
2002	$350,000	$14,000	$20,700

C's ending A/R Balance on 12/31/2002 is $500,000.

C's actual NAE percentage is 4%, determined by dividing the amount of *C's* receivables in its account on January 1, 2002, that were charged off as uncollectible (adjusted for recoveries) on or before the determination date, by the balance of *C's* accounts receivable account on January 1, 2002 (*i.e.*, $14,000/$350,000 or 4%). Thus, *C*'s actual NAE amount for 2002 is determined by multiplying this percentage by the balance of *C's* accounts receivable account on December 31, 2002 (*i.e.*, $500,000 x 4% = $20,000). Because *C's* alternative NAE amount for 2002 ($20,700) is not greater than 105% of its actual NAE amount for 2002 (*i.e.*, $20,000 x 1.05 = $21,000), *C*'s alternative NAE method will be treated as clearly reflecting its actual NAE for the test period 2002. *C's* next test period would be taxable years 2003 through 2005. *C's* actual NAE amounts (computed under Option B of section 3.02(2) of this revenue procedure, because *C* lacked the data to use Option A) and alternative NAE amounts for those years are set forth below:

Year	Total A/R Balance At Beginning of Year	Beginning A/R Amount Charged Off by Determination Date adjusted for recoveries)	Actual NAE Amount	Alternative NAE Amount
2003	$440,000	$30,000	$42,329	$43,050
2004	760,000	65,000	138,183	140,200
2005	1,965,000	65,000	101,106	110,550
Total	$3,165,000	$160,000	$281,618	$293,800

Assume that C's ending A/R balance on 12/31/05 is $2,000,000.

Because *C's* cumulative alternative NAE amount for this period ($293,800) is not greater than 105% of its cumulative actual NAE amount for the same period (*i.e.*, $281,618 x 1.05 = $295,699), *C's* alternative NAE method will be treated as clearly reflecting its actual NAE for the test period. Accordingly, *C* may continue to use its alternative NAE method, subject to the requirement that *C* self-test again after the next three taxable years.

Example 7. The facts are the same as *Example 6*, except that *C's* alternative NAE amount for 2002 is $21,700. Because *C's* alternative NAE amount for 2002 is more than 105% of its actual NAE amount for 2002 (*i.e.*, $20,000 x 1.05 = $21,000), *C's* alternative NAE method will be treated as not clearly reflecting its NAE for the test period. As a result, *C* cannot use its alternative NAE method of accounting, but must use a method that will clearly reflect its NAE for 2002.

Example 8. The facts are the same as *Example 7*, except that *C* used its alternative NAE method in taxable years prior to 2002. Because *C's* alternative NAE method will be treated as not clearly reflecting its NAE for the test period, *C* will be required to change its NAE method of accounting to a method that will clearly reflect its NAE for 2002.

SECTION 4. AUDIT PROTECTION FOR TAXPAYERS CURRENTLY USING THE ACTUAL EXPERIENCE METHOD

If a taxpayer uses the actual experience method described in section 3.02(2) of this notice to determine its NAE amount, the taxpayer's use of that method will not be raised as an issue by the Service in a taxable year that ends before January 22, 2003. If the taxpayer uses the actual experience method described in section 3.02(2) of this notice, and its use of that method is an issue under consideration (within the meaning of section 3.09 of Rev. Proc. 2002-9) in examination, in appeals, or before the U.S. Tax Court in a taxable year that ends before January 22, 2003, that issue will not be further pursued by the Service.

SECTION 5. APPLICATION.

.01 *Taxpayers No Longer Qualified Under § 448 to Use a NAE Method.* In the case of a taxpayer that is no longer qualified under § 448(d)(5), as amended by the Act, to use a NAE method for its first taxable year ending after March 9, 2002, the change from the taxpayer's NAE method is treated as initiated by the taxpayer, made with the consent of the Commissioner, and the net amount of the required § 481(a) adjustment is to be taken into account over a period of 4 taxable years (or, if less, the number of taxable years that the taxpayer has used the NAE method). Such a taxpayer is not required to file Form 3115, *Application for Change in Accounting Method*, with the national office, or pay any associated user fee. However, to assist the Service in processing the taxpayer's change in method of accounting, the taxpayer should attach Form 3115 to its income tax return for the year of change, and write "Change off of the nonaccrual experience method under Notice 2003-12" at the top of the form.

.02 *Taxpayers Permitted to Use a NAE Method.* A change to a NAE method, or a change from one NAE method to another NAE method, is a change in method of accounting to which the provisions of §§ 446 and 481, and the regulations thereunder, apply. Therefore, a taxpayer that wants to use one of the NAE methods provided in this notice, and that does not currently use that method, must follow the automatic change in method of accounting procedures in Rev. Proc. 2002-9, 2002-3 I.R.B. 327 (as modified and amplified by Rev. Proc. 2002-19, 2002-13 I.R.B. 696, modified and clarified by Announcement 2002-17, 2002-8 I.R.B. 561, and amplified, clarified, and modified by Rev. Proc. 2002-54, 2002-35 I.R.B. 432) (or successors), with the following modifications:

(1) The scope limitations in section 4.02 of Rev. Proc. 2002-9 do not apply to a taxpayer that wants to change to a NAE method provided in this Notice for either its first or second taxable year ending after March 9, 2002, provided the taxpayer=s NAE method is not an issue under consideration for taxable years under examination, within the meaning of section 3.09 of Rev. Proc. 2002-9, at the time the Form 3115 is filed with the national office (subject to the exception in Section 4 of this Notice);

(2) A taxpayer that wants to change to a NAE method provided in this Notice for its first taxable year ending after March 9, 2002, that on or before March 12, 2003, files its original federal income tax return for that year is not required to comply with the filing requirement in section 6.02(3)(a) of Rev. Proc. 2002-9, provided the taxpayer complies with the following filing requirements. The taxpayer must complete and file the Form 3115 in duplicate. The original Form 3115 must be attached to an amended federal income tax return for the taxpayer=s first taxable year ending after March 9, 2002. This amended return must be filed no later than August 11, 2003. The copy of the Form 3115 must be filed with the national office (see section 6.02(6) of Rev. Proc. 2002-9 for the address) no later than when the taxpayer's amended return is filed; and

(3) When filing the Form 3115, the taxpayer must complete all applicable parts of the form and, in lieu of the label required by section 6.02(4) of Rev. Proc. 2002-9, are instructed to write "Change to [identify the requested NAE method] under Notice 2003-12" at the top of the form.

.03 *Taxpayers That Must Change After Self-Testing.* If a taxpayer required to change its method of accounting as a result of section 3.03 of this Notice properly applied its alternative NAE method during the test period and the taxpayer makes the change for its first taxable year following the last taxable year of the test period, the taxpayer must follow the automatic change in method of accounting procedures in Rev. Proc. 2002-9 (or successors) and the scope limitations of section 4.02 of Rev. Proc. 2002-9 will not apply.

SECTION 6. EFFECTIVE DATE AND TRANSITION RULE

.01 *In General.* This notice is effective for taxable years ending after March 9, 2002.

.02 *Transition Rule.* If a taxpayer filed an application or ruling request under the procedures prescribed in Rev. Proc. 97-27, 1997-1 C.B. 680, with the national office to make a change in its method of accounting under § 448(d)(5), as amended, for a year of change for which this notice is effective and the application or ruling request is pending with the national office on January 22, 2003, the taxpayer must notify the national office in writing (see section 8.06 of Rev. Proc. 97-27 for the address) prior to March 24, 2003, if the taxpayer wants the national office to continue processing its application or ruling request under the procedures prescribed in Rev. Proc. 97-27. If the taxpayer does not notify the national office within the time provided in this section, the taxpayer's Form 3115, and any user fee that was submitted with the Form 3115, will be returned to the taxpayer. A taxpayer whose Form 3115 is returned under this section may file a new Form 3115 under the procedures prescribed in section 5.02 of this notice.

SECTION 7. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2002-9 is modified to include the changes in method of accounting provided in this notice in section 5.06 of the Appendix.

REQUEST FOR COMMENTS

The Service and the Treasury Department invite comments on the safe harbor NAE methods described in this notice, suggestions for additional safe harbor NAE methods, the use of a "self-test" for alternative NAE methods, as well as any other issues that should be addressed in the forthcoming regulations. Written comments may be submitted on or before April 23, 2003, to

Internal Revenue Service
P.O. Box 7604
Benjamin Franklin Station
Washington, DC 20224
Attn: CC:ITA:RU (Notice 2002-12), Room 5226

Submissions also may be sent electronically via the Internet to the following e-mail address: *notice.comments@m1.irscounsel.treas.gov.* Comments will be available for public inspection and copying.

DRAFTING INFORMATION

The principal author of this notice is Terrance McWhorter of the Office of

Associate Chief Counsel (Income Tax and Accounting). For further information regarding this notice, contact Mr. McWhorter at 202-622-4970 (not a toll-free call).

FROM THE OFFICE OF PUBLIC AFFAIRS

January 23, 2003
KD-3787

Remarks of Under Secretary Peter R. Fisher to the American Enterprise Institute

This conference could not be more timely. The corporate fiascos of the past two years have created a once-in-a-generation opportunity to improve the performance of our capital markets and our economy. This will be accomplished when we re-direct corporate behavior away from the game of managing quarterly earnings to focus on what really matters: cash flow – current and expected.

To do this, we need to transform the practice of corporate disclosure, to invent a new set of best practices that will genuinely inform investors about the risk-reward prospects of the firms in which they invest. This is not principally a job for government. Government has a role in catalyzing change, perhaps in creating the incentives for action, but we need your help to show the private sector how they can put these ideas into practice.

We all know what needs to be done; we know in outline what corporate disclosures should look like.

First, we need to explode the idea that the balance sheet remains a useful concept for measuring a firm's assets and liabilities; we need to move beyond the false dichotomy between the balance sheet and the off-balance sheet. When this happens, and investors have a picture of the real, economic leverage employed, attention will naturally turn to cash flow: to how management expects to pay down the leverage and still have some income left over for the shareholders. This clarity will provide the incentive for firms to disclose the key indicators of business performance that management themselves use to judge expected cash flow.

In recent years, I have often heard it said that "There's too much leverage in the system." My question is: how would anyone know?

The balance sheet was a wonderful Italian invention that helped move us out of the dark ages and into the Renaissance. But 500 years later, and after the last 50 years of innovation, we have learned a little bit more about finance. We now know that the value of a firm is its future unencumbered cash flow. The balance sheet and last quarter's earning statement are of little help in divining that value.

Investors need to know the real economic leverage being employed, whether through on- or off-balance sheet devices. We need a measure of all the contractually-obligated liabilities, whether contingent or fixed, future or current. We need a parallel measure of all the firm's contractually obligated revenues.

Tying them together will give the firm's contractually-obligated net present value – a true indicator of the firm's leverage. This is not an untested or novel idea. The concept of NPV appears everywhere in modern finance except in financial reporting. This kind of disclosure is critical to the performance of our capital markets.

Exposing true leverage is the only way that shareholders and creditors can judge true performance and can distinguish profit from business operations and from financial engineering. Leverage is easy. Value creation is not.

Contractually-obligated NPV will in most cases be negative. That's just another way of saying a firm has taken on risk, as almost all firms do. But disclosing the true leverage will create the incentive for companies to disclose further how they plan to close the gap – how they plan to generate the cash flow needed to exceed net obligations.

I have found that most corporate leaders have a very clear picture of their firm's prospects. They are proud of their companies' data management systems, which can readily produce the handful of measures of business value and performance that reveal the most about their companies' near-term prospects, such as customer loyalty data, their share of customer wallet, inventory turns, new assets gathered, or labor hours to finish a car. Armed with the tools of the information revolution, CEOs expect to see these facts on their desks every morning.

Why don't companies disclose these indicators of business performance to their shareholders? While some do, too many do not. I think their reluctance stems from a lack of sufficient incentive. But I am optimistic that if companies did disclose their real, economic leverage, they would find a way to use these key business indictors to bring a little more substance to the Management Discussion and Analysis section of their periodic disclosures.

The challenge for you as policy thinkers and business leaders is to imagine how to prod and goad the private sector into making these disclosures. Much of your discussion will center on government's role. In your discussions today, I urge you to bear in mind the limits of government action and to think about how the business community could put your ideas to practical use.

I wish that government could accomplish these changes in business and investor behavior by fiat. I don't think it can. The more important and interesting challenge for you today is to figure out how the business and investment communities can be induced to reorder their priorities and focus the capital markets on the importance of cash flow. I wish you every success.

For further remarks on this subject, please see Under Secretary Fisher's speech to the Securities Industry Association on November 8, 2002.
http://www.treas.gov/press/releases/po3609.htm

FROM THE OFFICE OF PUBLIC AFFAIRS

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

January 23, 2003
PO-3788

TREASURY ISSUES REVENUE RULING REGARDING THE NEW MARKETS TAX CREDIT

Today the Treasury Department and the Internal Revenue Service issued a Revenue Ruling regarding the new markets tax credit (NMTC).

The NMTC provides a tax credit to investors who make "qualified equity investments" in privately-managed investment vehicles called "community development entities," or "CDEs." The CDEs are required to invest substantially all of the proceeds of the qualified equity investments in low-income communities.

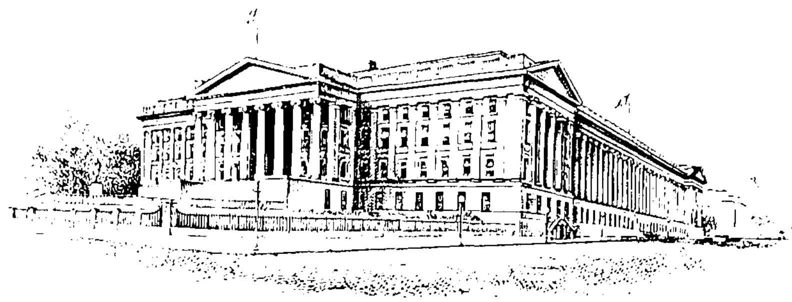
The Revenue Ruling clarifies that a partnership may finance the purchase of a qualified equity investment eligible for the NMTC with proceeds of nonrecourse debt of the partnership.

The NMTC is designed to encourage investment in low-income communities.

The text of Revenue Ruling 2003-20 is attached.

Related Documents:

- Text of Revenue Ruling 2003-20



DEPARTMENT OF THE TREASURY

OFFICE OF PUBLIC AFFAIRS

Part I

Section 45D.--New Markets Tax Credit

26 CFR 1.45D-1T: New markets tax credit.

Rev. Rul. 2003-20

ISSUE

For purposes of determining the new markets tax credit allowable under § 45D of the Internal Revenue Code, does the amount of the qualified equity investment made by a limited liability company (LLC) classified as a partnership include cash from a nonrecourse loan to the LLC that the LLC invests as equity in a qualified community development entity?

FACTS

In Year 1, CDE, a qualified community development entity under § 45D(c), receives a new markets tax credit allocation of $2,000x from the Secretary of the Treasury. In Year 2, X, a widely-held C corporation, contributes $792x for a 99-percent member interest in LLC, a limited liability company that is classified as a partnership for federal tax purposes. Y, a widely-held C corporation, contributes $8x for a 1-percent managing member interest in LLC. LLC borrows $1,200x from Bank, an unrelated third party. LLC contributes $2,000x for an equity interest in CDE, which is a limited liability company classified as a partnership for federal tax purposes. CDE designates LLC's equity investment in CDE as a qualified equity investment under § 45D(b)(1)(C).

The $1,200x loan from Bank is a nonrecourse liability that is characterized as indebtedness of LLC for federal tax purposes. The loan is secured only by LLC's interest in CDE. The loan is not secured by any assets of CDE. The full amount of the loan is repayable at the end of Year 9. The loan is not convertible into an equity interest in LLC.

On April 1 of Year 2, CDE lends the $2,000x to a qualified active low-income community business, as defined in § 45D(d)(2)(A). This $2,000x loan is repayable in full at the end of Year 9. Interest payments received by CDE from the qualified active low-income community business are distributed to LLC. X and Y retain their membership interests in LLC, and LLC retains its $2,000x equity investment in CDE, until the end of Year 9. The entire $2,000x loan by CDE remains outstanding, and the borrower continues to qualify as a qualified active low-income community business, until the end of Year 9.

LLC claims its qualified equity investment in CDE is $2,000x on each credit allowance date and allocates the new markets tax credit with respect to this amount to X and Y in accordance with § 704(b).

LAW

Section 45D(a)(1) provides that for purposes of § 38, in the case of a taxpayer who holds a qualified equity investment on a credit allowance date (as defined in § 45D(a)(3)) of the investment which occurs during the taxable year, the new markets tax credit determined under § 45D for the taxable year is an amount equal to the applicable percentage (as defined in § 45D(a)(2)) of the amount paid to the qualified community development entity for the investment at its original issue. Section 7701(a)(14) defines the term "taxpayer" to mean any person subject to any internal revenue tax. Section 7701(a)(1) provides that the term "person" shall be construed to mean and include an individual, a trust, estate, partnership, association, company or corporation.

Section 45D(b)(1) defines the term "qualified equity investment" as any equity investment in a qualified community development entity if (A) the investment is acquired by the taxpayer at its original issue (directly or through an underwriter) solely in exchange for cash, (B) substantially all of the cash is used by the qualified community development entity to make qualified low-income community investments, and (C) the investment is designated for purposes of § 45D by the qualified community development entity.

Section 45D(b)(2) provides that the maximum amount of equity investments issued by a qualified community development entity which may be designated under § 45D(b)(1)(C) by the entity shall not exceed the portion of the limitation amount allocated under § 45D(f) to the entity.

Section 45D(b)(6) defines the term "equity investment" as (A) any stock (other than nonqualified preferred stock as defined in § 351(g)(2)) in an entity that is a corporation, and (B) any capital interest in an entity that is a partnership.

Section 45D(c)(1) defines the term "qualified community development entity" as any domestic corporation or partnership if (A) the primary mission of the entity is serving, or providing investment capital for, low-income communities or low-income persons, (B) the entity maintains accountability to residents of low-income communities through their representation on any governing board of the entity or on any advisory board to the entity, and (C) the entity is certified by the Secretary for purposes of § 45D as being a qualified community development entity.

Section 45D(d)(1) defines the term "qualified low-income community investment" as (A) any capital or equity investment in, or loan to, any qualified active low-income community business, (B) the purchase from another qualified community development entity of any loan made by the entity which is a qualified low-income community investment, (C) financial counseling and other services specified in regulations prescribed by the Secretary to businesses located in, and residents of, low-income communities, and (D) any equity investment in, or loan to, any qualified community development entity. Section 45D(d)(2)(A) defines the term "qualified active low-income community business" as any corporation or partnership that satisfies the requirements of § 45D(d)(2)(A)(i) through (v).

ANALYSIS

Section 45D(b)(1)(A) requires that a qualified equity investment be acquired by the taxpayer solely in exchange for cash. Section 45D does not prohibit a taxpayer (including any taxpayer who is a person as defined under § 7701(a)(1)) from using cash derived from a borrowing, including nonrecourse borrowing, to make a qualified equity investment in a qualified community development entity. The facts of this revenue ruling state that the loan from Bank is characterized as indebtedness of LLC for federal tax purposes. The loan proceeds and the contributions by X and Y to LLC are used by LLC to make an equity investment of $2,000x in CDE. The requirements of § 45D(b)(1)(A) are satisfied because LLC acquires its investment in CDE at its original issue solely in exchange for cash. The requirements of § 45D(b)(1)(B) are satisfied because CDE uses the entire equity investment of $2,000x to make a qualified low-income community investment. The requirements of § 45D(b)(1)(C) are satisfied because CDE designates the equity investment of $2,000x for purposes of § 45D. Accordingly, LLC is treated as having made a qualified equity investment of $2,000x in CDE when LLC acquires its equity interest in CDE. LLC may claim a new markets tax credit on each credit allowance date in an amount determined under § 45D that is equal to the applicable percentage of the $2,000x qualified equity investment in CDE. LLC may allocate to X and Y the amount of the new markets tax credit that LLC claims with respect to the $2,000x qualified equity investment. This allocation must be made in accordance with § 704(b) (which provides rules regarding a partnership's allocation of income, gain, loss, deduction, or credit (or item thereof) among the partners).

HOLDING

Under the facts of this revenue ruling, for purposes of determining the new markets tax credit allowable under § 45D, the amount of the qualified equity investment made by an LLC classified as a partnership includes cash from a nonrecourse loan to the LLC that the LLC invests as equity in a qualified community development entity.

DRAFTING INFORMATION

The principal author of this revenue ruling is Michael J. Goldman of the Office of Associate Chief Counsel (Passthroughs and Special Industries). For further information regarding this revenue ruling contact Mr. Goldman on (202) 622-3080. For information regarding issues under § 45D contact Gregory N. Doran of the Office of Associate Chief Counsel (Passthroughs and Special Industries) on (202) 622-3040. These are not toll-free calls.

FROM THE OFFICE OF PUBLIC AFFAIRS

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January 23, 2003
KD-3789

TREASURY ISSUES GUIDANCE ON DETERMINATION OF U.S. INCOME OF FOREIGN LIFE INSURANCE COMPANIES

Today the Treasury Department and the Internal Revenue Service issued guidance on a question relating to how a foreign life insurance company with U.S. operations determines the income that is subject to U.S. tax. Foreign companies with U.S. operations are subject to U.S. tax on the income attributable to their U.S. operations (their "effectively connected income").

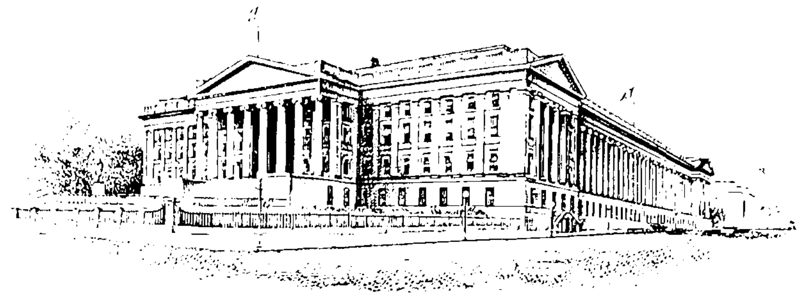
Life insurance companies generally are required to file annual statements with state insurance regulators. The revenue ruling provides that the treatment of assets on these statements will not determine if the assets are to be considered connected with the foreign insurance company's U.S. business activities for U.S. tax purposes, but this treatment will be given due regard. Due regard will also be given to the treatment of the assets on the books and records of the insurance company's U.S. trade or business.

This guidance addresses an important question for foreign companies with U.S. life insurance businesses.

The text of Revenue Ruling 2003-17 is attached.

Related Documents:

- Text of Revenue Ruling 2003-17



DEPARTMENT OF THE TREASURY

OFFICE OF PUBLIC AFFAIRS

Part I

Sections 842(a); 864(c)

26 CFR 1.864-4(c): U.S. source income effectively connected with U.S. business

Rev. Rul. 2003-17

ISSUE

Whether a foreign life insurance company carrying on an insurance business in the United States determines the amount of income effectively connected with its U.S. business under section 842(a) of the Internal Revenue Code (the "Code") based exclusively on the amount of income reported by the business on the National Association of Insurance Commissioner's annual statement ("NAIC statement") filed with the state insurance commissioner.

FACTS

FC, a Country X corporation, is a foreign life insurance company that issues life insurance, annuity, and other insurance contracts in Country X and the United States. FC's activities in connection with its insurance business constitute the conduct of a trade or business within the United States (the "U.S. branch"). FC conducts its insurance activities in State Y. Under the law of State Y, FC is required to maintain trusteed assets and deposits in the United States sufficient to satisfy all potential claims of its U.S. policyholders. FC also maintains in the United States and uses in its U.S. business non-trusteed assets consisting of bonds, stocks, and short-term investments which are managed by individuals located in the United States and accounted for on the books of the U.S. branch.

FC is required to file a NAIC statement with State Y. Generally, this NAIC statement is intended to permit the insurance regulatory body to determine whether a foreign insurance company has sufficient assets to satisfy all potential claims of its U.S. policyholders. While the trusteed assets held by FC (and corresponding income) are required to be included on the NAIC statement, the non-trusteed assets (and corresponding income) are not reflected in the NAIC statement.

LAW AND ANALYSIS

Section 842(a) provides that if a foreign company carrying on an insurance business within the United States would qualify under part I of subchapter L for the taxable year if (without regard to income not effectively connected with the conduct of any trade or business within the United States) it were a domestic corporation, such company shall be taxable under such part on its income effectively connected with its conduct of any trade or business within the United States. Section 842(a) further provides that with respect to the remainder of income which is from sources within the United States, such a foreign company shall be taxable as provided in section 881.

Section 864(c)(1) provides that in the case of a foreign corporation engaged in a trade or business within the United States during the taxable year, the rules set forth in section 864(c)(2),(3), (4), (6), and (7) shall apply in determining the income, gain or loss which shall be treated as effectively connected with the conduct of a trade or business within the United States ("ECI"). Section 864(c)(2) generally provides rules for determining whether certain fixed or determinable, annual or periodical income from sources within the United States or gain or loss from sources within the United States from sale or exchange of capital assets is ECI. In making this determination, the factors taken into account include whether (a) the income, gain or loss is derived from assets used in or held for use in the conduct of such trade or business, or (b) the activities of such trade or business were a material factor in the realization of such income, gain or loss. Sec. 864(c)(2). Treas. Reg. § 1.864-4(c)(2) sets forth factors to be considered in determining whether an asset is used in or held for use in the conduct of a U.S. trade or business for purposes of section 864(c)(2). Under the regulations, an asset is ordinarily treated as used in, or held for use in, the conduct of a U.S. trade or business if the asset is: (a) held for the principal purpose of promoting the present conduct of the U.S. trade or business; (b) acquired and held in the ordinary course of the U.S. trade or business; or (c) otherwise held in a direct relationship to the U.S. trade or business. Treas. Reg. § 1.864-4(c)(2)(ii). In determining whether an asset is held in a direct relationship to the U.S. trade or business, principal consideration is given to whether the asset is held to meet the present needs of the business. Treas. Reg. § 1.864-4(c)(2)(iv)(a). An asset shall be considered as needed in the U.S. business if, for example, the asset is held to meet the operating expenses of that business, but not if held for future diversification into a new trade or business, expansion of trade or business activities outside the United States, or future business contingencies. Id. The regulations provide for a presumption of a direct relationship where: (1) the asset was acquired with funds generated by the trade or business; (2) the income from the asset is retained or reinvested in the trade or business; and (3) personnel present in the United States and actively involved in the conduct of that trade or business exercise significant management and control over the investment of the asset. Treas. Reg. § 1.864-4(c)(2)(iv)(b).

In determining whether an asset is used in or held for use in the conduct of a U.S. trade or business or whether the activities of the trade or business were a material factor in the realization of the income, gain or loss, due regard is given to whether or not such asset, or income, gain or loss was accounted for through the trade or business. Sec. 864(c)(2); Treas. Reg. § 1.864-4(c)(4). However, this accounting test shall not by itself be controlling. Treas. Reg. § 1.864-4(c)(4).

All other income, gain or loss from sources within the United States is treated as ECI. Sec. 864(c)(3). Section 864(c)(4)(C) provides that in the case of a foreign insurance company any income from sources without the U.S. which is attributable to its U.S. business is treated as ECI. See also Treas. Reg. § 1.864-5(c) (In determining its life insurance company taxable income from its U.S. business, the foreign corporation shall include all of its items of income from sources without the United States which would appropriately be taken into account in determining the life insurance company taxable income of a domestic corporation).

The Report of the House Committee on Ways & Means (the "House Report") provides:

> Your committee believes that foreign insurance companies-- life insurance companies and other insurance companies, including both mutual and stock companies– should, in general, be taxed on their investment income in the same manner as other foreign corporations. For this reason, the bill provides that a foreign insurance corporation carrying on an insurance business within the United States is to be taxable in the same manner as domestic companies carrying on a similar business with respect to its income which is effectively connected with the conduct of a trade or business within the United States. . . . For purposes of determining whether or not income of a foreign life insurance company is effectively connected with the conduct of its U.S. life insurance business, the annual statement of its U.S. business on the form approved by the National Association of Insurance Commissioners will usually be followed. It is noted that all the income effectively connected with the foreign life insurance company's U.S. life insurance business, from whatever source derived, comes within the ambit of this provision. This is a continuation of present law which subjects to U.S. tax all the income attributable to the U.S. life insurance business from whatever source derived.

H.R. Rep. No. 1450, 89th Cong., 2d Sess. 31, 32 (1966) (emphasis added); S. Rep. No. 1707, 89th Cong., 2d Sess. 38 (1966) (same).

The House Report also states that "[i]n determining for purposes of subchapter L whether a foreign corporation is carrying on an insurance business in the United States, and whether income is effectively connected with the conduct of a trade or business within the United States, section 864(b) and (c), as added by section 2(d) of the bill, shall apply." House Report at 94. Thus, the legislative history confirms that a foreign life insurance company applies the standards set forth in section 864(c) to determine the amount of its effectively connected income.

Accordingly, under section 842(a) and consistent with the accompanying legislative history, foreign insurance companies are taxed on their ECI. Section 864(c) does not contain specific rules for foreign insurance companies other than in section 864(c)(4)(C). Similarly, no specific rules were provided for foreign insurance companies in regulations issued under section 864 other than Treas. Reg. § 1.864-5(c). Neither section 842 or 864 provides that an insurance company determines its ECI solely based on its NAIC statements.

While the legislative history states that NAIC statements will usually be followed, the legislative history makes clear that section 864(c) shall determine whether income is ECI. Accordingly, income on assets such as the non-trusteed assets of FC are not necessarily excluded from ECI merely because they do not appear on the NAIC statement.

Section 864(c)(2) and the regulations thereunder provide that due regard shall be given to whether or not an asset, income, gain, or loss was accounted for through the U.S. trade or business. Accordingly, in determining if the income, gain or loss from the non-trusteed assets is ECI, due regard must be given to the fact that FC has accounted for such assets on the books of the U.S. branch.

HOLDING(S)

FC is taxable on any income effectively connected with its U.S. trade or business. For this purpose, ECI is determined under section 864(c) and the accompanying regulations. While due regard shall be given to the NAIC statement, such statement shall not be determinative of the amount of ECI. Further, due regard also must be given to the fact that FC has accounted for the non-trusteed assets on the books of the U.S. branch.

DRAFTING INFORMATION

The principal author of this revenue ruling is Sheila Ramaswamy of the Office of Associate Chief Counsel (International). For further information regarding this revenue ruling contact Ms. Ramaswamy at (202) 622-3870.

FROM THE OFFICE OF PUBLIC AFFAIRS

January 23, 2003
PO-3790

Jose A. Fourquet
United States Executive Director of the Inter-American Development Bank Named as one of the World's 100 Global Leaders For Tomorrow by the World Economic Forum

The World Economic Forum has released the names of the 100 young leaders selected for the Global Leaders for Tomorrow Program for 2003. The United States Department of the Treasury is proud to announce that Mr. Jose A. Fourquet was selected for this honor. Acting Treasury Secretary Kenneth Dam said: "This recognition of an outstanding up and coming leader such as Jose is a tribute to the Department of the Treasury and the Bush Administration's commitment to finding the best and most qualified candidates to fill positions of great importance in the United States Government."

Mr. Fourquet stated his reaction to this honor: "I am sincerely humbled by my selection as one of this year's Global Leaders for Tomorrow by the prestigious World Economic Forum. I'm particularly grateful for being the only Bush administration official to be selected this year. It will be an honor and a privilege to represent the President and all Americans, particularly Latinos, in Davos."

In 1992, the Switzerland-based World Economic Forum developed a special community called "Global Leaders for Tomorrow" (GLTs). Each year, the Forum's Management Board selects 100 young (under 37 years of age) leaders from business, politics, the arts and civil society who are dedicated to working together in areas of social and environmental development and entrepreneurship. The goal of the GLT community is to engage a global network of outstanding individuals who "will play a key role in shaping the world and its global agenda in the coming years."

This year's list includes other notable Americans like four time Tour de France Winner Lance Armstrong, Smith Barney Chairman and CEO Sallie Krawcheck, and Carlson Hospitality President and CEO Curtis Nelson. Previous winners are British Prime Minister Tony Blair, Microsoft Founder and CEO Bill Gates, Spanish Prime Minister Jose Maria Aznar, and Dell Computer Chairman Michael Dell.

Mr. Fourquet is the 12th United States Executive Director of the Inter-American Development Bank (IDB). A native of Puerto Rico, Mr. Fourquet assumed his duties on December 14th, 2001, becoming the youngest person ever to hold this position. He also serves as U.S. Executive Director of the Inter-American Investment Corporation and represents the U.S. on the Donors Committee of the Multilateral Investment Fund.

As such, Mr. Fourquet represents the U.S. on the board of the multilateral development bank that provides the largest amount of development aid to Latin America and the Caribbean. With a capital base of approximately $100 billion, the IDB provides $6-8 billion annually in loans and grants to 26 countries in the region. The U.S. is the largest shareholder of the IDB with approximately 30% of the capital and voting shares.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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January 24, 2003
KD-3791

Second Quarterly Update of the 2002 - 2003 Priority Guidance Plan
Joint Statement by:
Pamela F. Olson
Assistant Secretary (Tax Policy)
U.S. Department of the Treasury
Robert Wenzel
Acting Commissioner
Internal Revenue Service
B. John Williams, Jr.
Chief Counsel
Internal Revenue Service

We are pleased to announce the second quarterly update of the 2002 - 2003 Priority Guidance Plan.

On July 10, 2002, we released the 2002 - 2003 Priority Guidance Plan listing 250 projects for the plan year beginning July 1, 2002 and ending June 30, 2003. In our Joint Statement that accompanied the release of the 2002 - 2003 Priority Guidance Plan, we emphasized our commitment to increased and more timely published guidance. We indicated that we would update the plan quarterly to reflect additional guidance that we intend to publish during the plan year. We expressed our intent to add a number of revenue rulings and revenue procedures not previously reflected on the plan. Updating the plan also provides flexibility to respond to developments arising during the year.

The attached update sets forth the guidance on the original 2002 - 2003 Priority Guidance Plan that we have published. Although the update may indicate that a particular item on the plan has been completed, it is possible that one or more additional projects may be completed in the plan year relating to that item. The update also includes 33 items of additional guidance for the second quarter, some of which have already been published. As promised, many of the additional items are revenue rulings and revenue procedures.
KD-3791
Some of the additional guidance projects were identified from suggestions received from taxpayers and practitioners. We continue to invite the public to provide us with comments and suggestions as we identify and write guidance throughout the plan year.

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

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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January 24, 2003
KD-3792

Treasury Department Seeks Input
From Primary Dealers Prior to Quarterly Refundings

The Treasury Department today will begin posting to its web site the agenda for the meetings Treasury officials and staff traditionally hold with the Federal Reserve Bank of New York's primary dealers prior to each Quarterly Refunding.

The meetings with the primary dealers are arranged by the Federal Reserve Bank of New York, acting as Treasury's fiscal agent. In an effort to promote greater transparency, the agenda for the primary dealer meetings will be posted on Treasury's web site (http://www.treas.gov/offices/domestic-finance/debt- [illegible]) a week prior to the dealer meetings. Market participants and observers also are welcome to respond to these questions via email at the address below.

Also, as mentioned at Treasury's last quarterly refunding press conference, other policy issues under discussion include efforts to:

- promote investor interest in inflation-indexed securities.
- reduce the costs associated with short-term fluctuations in cash balances.
- study the effects of heightened volatility on debt issuance.

Please send comments and suggestions on these subjects or others relating to debt management to debt.management@do.treas.gov.

Related Documents:

Agenda
February 2003 Refunding
Treasury Dealer Meetings – January 30, 2003
Dealer ____________________

To allow more time for discussion on Thursday, please e-mail your responses prior to 4:00 p.m. on Wednesday, January 29, to Paul Malvey, Dept. of Treasury, at paul.malvey@do.treas.gov and Richard Dzina, Federal Reserve Bank of New York, at richard.dzina@ny.frb.org. <u>If you are not scheduled to meet with Treasury officials this quarter</u>, your responses would still be very helpful to us, particularly answers to the discussion questions. Thank you.

I. <u>Market Borrowing Estimates</u>

January – March	___________
Ending Cash Balance	___________
April – June	___________
Ending Cash Balance	___________

II. <u>Budget deficit estimate</u>

FY2003	___________

III. <u>February Refunding</u>

	$Billion	Maturity	
5-year	_______	_______	
10-year	_______	_______	
CMBs??	_______	_______	When?_______

IV. <u>Discussion Topics</u>

- The Administrations' Budget is expected to be released next week showing significantly larger deficits than contained in last August's Mid-session Review. As part of financing the government at the lowest cost, we want to maintain a flexible issuance calendar that appeals to the broadest range of investors and adapts to a wide range of budgetary and financing outcomes. Going forward, what changes (increased frequencies, new securities) would you recommend for dispersing the risk we currently face with existing auction sizes?

- Treasury is committed to the Treasury inflation-indexed securities (TIIS) market. Are you active in the TIIS market? What recommendations would you make to expand the TIIS market and promote investor interest?

- We continue to seek ways to improve and measure our performance. Do you have suggestions or ideas on the factors we should be considering? Can we readily adopt private sector techniques or are there specific modifications needed to address public sector idiosyncrasies?

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 24, 2003
KD-3793

Treasury Launches New Alcohol and Tobacco Tax and Trade Bureau Today
Arthur J. Libertucci Named as Administrator

The Treasury Department today launched its new Alcohol and Tobacco Tax and Trade Bureau (TTB) and announced that Arthur J. Libertucci has been named Administrator.

Created by the Homeland Security Bill of 2002, the TTB will be responsible for administering alcohol and tobacco laws and implementing regulations previously administered by Treasury's Bureau of Alcohol, Tobacco and Firearms (ATF). TTB also will administer the federal excise tax for firearms and ammunition. The remaining part of ATF has been transferred to the Department of Justice as the Bureau of Alcohol, Tobacco, Firearms and Explosives.

As Administrator, Mr. Libertucci will oversee the approximately 560-person bureau, consisting mainly of ATF employees who are shifting to the TTB. Mr. Libertucci previously served as Assistant Director of the Office of Alcohol and Tobacco at ATF since 1997. He has been with the ATF in other executive capacities since 1970.

"As we make this organizational change, our commitment to serving the regulated industries will remain fair and professional and will be one of continued accomplishment," said Mr. Libertucci.

The major functions of TTB include:

• Collecting alcohol and tobacco excise taxes and classifying alcohol and tobacco products for excise tax purposes. TTB collects approximately $15 billion annually.
• Investigating applications, and issuing permits, for the operation of distilleries, wineries, breweries, and tobacco manufacturers, importers and exporters;
• Regulating the operations of various industrial users of distilled spirits, including manufacturers of non-beverage products, tax-free, and denatured alcohols;
• Collecting approximately $100 million in occupational taxes annually;
• Regulating the production, packaging, bottling, labeling and storage of alcohol and tobacco products;
• Ensuring that labeling and advertising of alcohol beverages provide adequate information to the consumer concerning the identity and quality of the product;
• Preventing misleading labeling or advertising of alcohol beverages;
• Regulating the marketing and promotional practices concerning the sale of alcohol beverages by producers and wholesalers. This is done primarily through the investigation of allegations of illegal trade practices;
• Enforcing provisions of the Alcohol Beverage Labeling Act, which mandates that a government warning statement appear on all alcohol beverages for sale and distribution in the United States.

Additional information about TTB can be found at its website, www.ttb.gov.

FROM THE OFFICE OF PUBLIC AFFAIRS

January 24, 2003
PO-3794

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 $79,761 million as of the end of that week, compared to $79,085 million as of the end of the prior week.

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

	January 10, 2003			January 17, 2003		
TOTAL	79,085			79,761		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	6,855	13,172	20,027	6,947	13,345	20,293
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	11,260	2,644	13,904	11,400	2,679	14,079
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]			21,951			22,107
3. Special Drawing Rights (SDRs) [2]			12,160			12,241
4. Gold Stock [3]			11,043			11,043
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	January 10, 2003			January 17, 2003		
	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

	January 10, 2003			January 17, 2003		

	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.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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(202) 622-2014

TREASURY ANNOUNCES MUTUAL AGREEMENT WITH SWITZERLAND REGARDING TAX INFORMATION EXCHANGE

Today the Treasury Department announced that the competent authorities of the United States and Switzerland have entered into a Mutual Agreement under the current U.S.-Swiss Income Tax Convention that is intended to facilitate more effective tax information exchange between the two countries.

Acting Treasury Secretary Kenneth W. Dam and Swiss Finance Minister Kaspar Villiger exchanged letters today welcoming the agreement as important to the administration and enforcement of the tax laws of each country. The letters express the intent of the two countries to maintain a dialogue with a view to monitoring and improving the functioning of the current Income Tax Convention, and in addition to explore other ways to improve cooperation between the two countries. The letters note that the renegotiation of the Income Tax Convention could enhance the relationship between the two countries.

"I am pleased that this Mutual Agreement on tax information exchange has been reached with Switzerland, a key financial center," stated Acting Treasury Secretary Kenneth W. Dam. "This Mutual Agreement is a significant step in our efforts to ensure that no safe haven exists anywhere in the world for the funds associated with illicit activities, including tax evasion. I look forward to continuing progress with Switzerland and other financial centers in this important area."

"Access to needed information is vital to our efforts to ensure full and fair enforcement of our tax laws," stated Treasury Assistant Secretary for Tax Policy Pamela Olson. "This Mutual Agreement should improve our access to needed information under the current bilateral tax treaty between the United States and Switzerland. We look forward to working with Switzerland to further improve this relationship.

"Treasury is committed to continuing its efforts to improve and expand the U.S.'s broad network of bilateral tax treaties and tax information exchange agreements," Olson added. "Better tax information exchange relationships will permit the IRS to obtain the information it needs from other countries so it can pursue taxpayers attempting to hide income offshore to avoid their tax obligations."

KD-3795

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

The following documents are attached:
Text of the Mutual Agreement
Text of Letter from Acting Treasury Secretary Kenneth Dam
Text of Letter from Swiss Finance Minister Kaspar Villiger

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**Mutual Agreement of January 23, 2003,
Regarding the Administration of Article 26 (Exchange of Information)
of the Swiss-U.S. Income Tax Convention of October 2, 1996**

Whereas Article 26 (Exchange of Information) of the Convention between the United States of America and the Swiss Confederation for the Avoidance of Double Taxation with Respect to Taxes on Income, signed at Washington on October 2, 1996, ("the Convention"), provides that the competent authorities of the Contracting States shall exchange such information as is necessary "for the prevention of tax fraud or the like in relation to the taxes which are the subject of" the Convention;

Whereas paragraph 10 of the Protocol accompanying and forming an integral part of the Convention ("the Protocol") provides that "tax fraud" means "fraudulent conduct that causes or is intended to cause an illegal and substantial reduction in the amount of tax paid to a Contracting State," and provides illustrative descriptions of situations in which fraudulent conduct is assumed;

Whereas the Contracting States have memorialized certain understandings with respect to Article 26 of the Convention;

Whereas the competent authorities of the Contracting States have had several years of experience in implementing and administering the Convention, including the information exchange provisions thereof;

Whereas the exchange of information for the prevention of tax fraud or the like under Article 26 of the Convention is very important to the adequate administration and enforcement of the tax laws of each Contracting State;

Now, therefore, the competent authorities of the Contracting States wish to memorialize the following additional understandings in reference to Article 26 of the Convention and paragraph 10 of the Protocol:

1. It is understood that Article 26 of the Convention and paragraph 10 of the Protocol will be interpreted to support the tax administration and enforcement efforts of each Contracting State to the greatest extent possible.

2. It is understood that, in determining whether information may be provided in response to a request, the requested State shall apply the statute of limitations applicable under the laws of the requesting State instead of the statute of limitations of the requested State.

3. It is understood that, in response to a request, the requested State shall exchange information with respect to matters that the requesting State is pursuing, or may pursue, on a civil or criminal basis.

4. It is understood that the following conduct constitutes "tax fraud or the like" under paragraph 1 of Article 26 of the Convention, which is also illustrated in paragraph 10 of the Protocol:

   a) Conduct that is established to defraud individuals or companies, even though the aim of the behavior may not be to commit tax fraud;

   b) Conduct that involves the destruction or non-production of records, or the failure to prepare or maintain correct and complete records, that a person is under a legal duty (tax or otherwise) to prepare and keep as sufficient to establish the amount of gross income, deductions, credits, or other matters required to be shown by such person in any tax return, if the person has not properly reported such amounts in any such tax return; or

   c) Conduct by a person subject to tax in the requesting State that involves the failure to file a tax return that such person is under a legal duty to file and an affirmative act that has the effect of deceiving the tax authorities making it difficult to uncover or pursue the failure to file, including the concealment of assets or covering up of sources of income or the handling of one's affairs to avoid making the records that are usual in transactions of the kind.

It is understood that these examples are by way of illustration, and not by way of limitation.

5. It is understood that, in response to a request, the requested State shall exchange information where the requesting State has a reasonable suspicion that the conduct would constitute tax fraud or the like. The requesting State's suspicion of tax fraud or the like may be based on:

a) Documents, whether authenticated or not, and including but not limited to business records, books of account, or bank account information;

b) Testimonial information from the taxpayer;

c) Information obtained from an informant or other third person that has been independently corroborated or otherwise is likely to be credible; or

d) Circumstantial evidence.

It is understood that these examples are by way of illustration, and not by way of limitation.

6. It is understood that each of the hypothetical examples in the Appendix below involves conduct constituting "tax fraud or the like" under paragraph 1 of Article 26 of the Convention and paragraph 10 of the Protocol. It is understood that these examples are by way of illustration, and not by way of limitation.

Department of Treasury
United States of America

By: ______________________
Carol A. Dunahoo
Director, International
Large and Mid-Size Business Division
Internal Revenue Service

Date: ______________

By: ______________________
Barbara M. Angus
International Tax Counsel
Department of the Treasury

Date: ______________________

Federal Tax Administration
Swiss Confederation

By: ______________________
Robert Waldburger
Vice-Director
Delegate for International Tax Agreements

Date: ______________

Appendix

HYPOTHETICAL 1

An individual subject to the requesting State's income tax operates a business with substantial cash sales. He keeps one set of books and records in which he records all business expenses; however, he causes a substantial portion of the cash sales of the business to be omitted from this set of books. The individual keeps a second set of books and records that includes the total amount of cash sales, including the cash sales not recorded on the first set of books and records. Because the first set of business books and records are used to prepare the individual's income tax return, a substantial portion of his taxable income is not reported on the tax return. Specifically, the individual's income tax return, and the component to that return on which the individual reports business receipts, expenses, and other items related to the business, understates the gross business receipts and other income related entries.

The individual maintains a bank account in the requested State in his own name into which he deposits the portion of his business income that is not reported on his tax return. Based on information provided by an informant, including a copy of the second set of books and records that the informant secretively took from the business premises, tax officials of the requesting State commence an investigation of the individual for possible tax violations under the laws of the requesting State. The taxpayer provides the first set of books and records to these officials to support the false information on his tax return.

The requested State would obtain and provide information relating to the bank account in the requested State of the individual in response to a specific request by the requesting State under Article 26 of the Convention.

HYPOTHETICAL 2

An individual subject to the requesting State's income tax operates a business with substantial cash sales. He keeps one set of books and records in which he records all business expenses; however, he causes a substantial portion of the cash sales of the business to be omitted from this set of books. The individual keeps a second set of books and records that includes the total amount of cash sales, including the cash sales not recorded on the first set of books and records. Because the first set of business books and records are used to prepare the individual's income tax return, a substantial portion of his taxable income is not reported on the tax return. Specifically, the individual's income tax return, and the component to that return on which the individual reports business receipts, expenses, and other items related to the business, understates the gross business receipts and other income related entries.

The individual maintains a bank account in the requested State in his own name into which he deposits the portion of his business income that is not reported on his tax return. Based on information provided by an informant, authorities of the requesting State conduct a search of the business premises and seize both sets of books and records.

The requested State would obtain and provide information relating to the bank account in the requested State of the individual in response to a specific request by the requesting State under Article 26 of the Convention.

HYPOTHETICAL 3

An individual subject to the requesting State's income tax operates a business which provides a service on a "cash only" basis. He regularly skims a substantial portion of these cash receipts and deposits these skimmed receipts in a bank account in the requested State maintained in his own name. He deposits the remainder of his cash receipts in a bank account in the requesting State maintained in his business name. He pays his business expenses by drafting checks against the bank account in the requesting State.

He files an income tax return, understating his gross income, taxable income, and tax due, to the extent that he skimmed from his business receipts. Specifically, the individual's income tax return, and the component to that return on which the individual reports business receipts, expenses, and other items related to the business, understates the gross business receipts and other income related entries.

An informant tells the tax officials of the requesting State about the business, including the skimming activities, and the bank account in the requested State, specifically stating that the individual told him that he skimmed no less than 30 per cent of his gross receipts every week and deposited these skimmed receipts in an account under his name in the X Bank located in the requested State. Based on this information tax officials of the requesting State commence an investigation of the individual for possible tax violations under the laws of the requesting State. In response to a request by the tax officials of the requesting State for substantiation of the tax return, the individual provides incomplete books and records that omit the skimmed receipts and therefore support the tax return.

The requested State would obtain and provide information relating to the bank account in the requested State of the individual in response to a specific request by the requesting State under Article 26 of the Convention.

HYPOTHETICAL 4

An individual subject to the requesting State's income tax operates a business which provides a service on a "cash only" basis. He regularly skims a substantial portion of these cash receipts and deposits these skimmed receipts in a bank account in the requested State maintained in his own name. He deposits the remainder of his cash receipts in a bank account in the requesting State maintained in his business name. He pays his business expenses by drafting checks against the bank account in the requesting State.

He files an income tax return, understating his gross income, taxable income, and tax due, to the extent that he skimmed from his business receipts. Specifically, the individual's income tax return, and the component to that return on which the individual reports business receipts, expenses, and other items related to the business, understates the gross business receipts and other income related entries.

A former employee of the business tells the tax officials of the requesting State about the business, including the skimming activities, and the bank account in the requested State, specifically stating that the individual told him that he skimmed no less than 30 per cent of his gross receipts every week and deposited these skimmed receipts in an account under his name in the X Bank located in the requested State. Based on this information tax officials of the requesting State commence an investigation of the individual for possible tax violations under the laws of the requesting State. In response to a request by the tax officials of the requesting State for the required substantiation of the tax return, the individual does not provide any books and records.

The requested State would obtain and provide information relating to the bank account in the requested State of the individual in response to a specific request by the requesting State under Article 26 of the Convention.

HYPOTHETICAL 5

An individual subject to the requesting State's income tax operates a business which provides a service on a "cash only" basis. He regularly skims a substantial portion of these cash receipts and deposits these skimmed receipts in a bank account in the requested State maintained in his own name. He deposits the remainder of his cash receipts in a bank account in the requesting State maintained in his business name. He pays his business expenses by drafting checks against the latter bank account. He keeps no record of business receipts or expenses other than his bank account records in the requesting and requested State.

He files an income tax return, understating his gross income, taxable income, and tax due, to the extent that he skimmed from his business receipts. Specifically, the individual's income tax return, and the component to that return on which the individual reports business receipts, expenses, and other items related to the business, understates the gross business receipts and other income related entries.

An informant tells tax officials of the requesting State about the business, including the skimming activities, and the bank account in the requested State, specifically stating that the individual told him that he skimmed no less than 30 per cent of his gross receipts every week and deposited these skimmed receipts in an account under his name in the X Bank located in the requested State. The informant also tells tax officials of the requesting State that the individual has used proceeds from the bank account in the requested State to purchase assets, formal legal ownership of which has been placed in the names of other persons.

Based on this information tax officials of the requesting State commence an investigation of the individual. Among other things, these officials learn that the individual used cash to buy particular assets, and has with documentation placed legal ownership to these assets in the name of other persons. These officials observe that these assets are always used by the individual.

The requested State would obtain and provide information relating to the bank account in the requested State of the individual in response to a specific request by the requesting State under Article 26 of the Convention.

HYPOTHETICAL 6

An individual subject to the requesting State's income tax operates a business. Although the business functions primarily within the territory of the requesting State, it does have some international sales. The individual forms a bearer share corporation in a third country and confidentially maintains possession of all the shares. The corporation maintains a bank account in the requested State in the corporate name with the individual as the sole authorized signature authority. The business enters into a contract with the corporation under which the corporation agrees to perform "market research." No market research is performed. The business pays substantial fees for this service which are deposited into the bank account in the requested State. The business records the fees as expenses on the business books and records. As a result, business income is substantially reduced. Because the business books and records are used to prepare the individual's income tax return, his reported gross income, taxable income, and tax due are substantially understated. Specifically, the individual's income tax return, and the component to that return on which the individual reports business receipts, expenses, and other items related to the business, understates the gross business receipts and other income related entries.

Tax officials of the requesting State randomly select the individual for a tax audit. When these officials observe that substantial payments were made to a foreign corporation and claimed as business expenses on the individual's tax return, these officials ask the individual whether he or someone else owns the foreign corporation. The individual denies any ownership interest in the foreign corporation and claims that it is owned by a third party who has actually conducted market research for the business. Tax officials of the requesting State then initiate an investigation of the individual. Subsequently, an ex-spouse tells these officials that the individual maintains a bank account in the requested State under the name of the foreign corporation and that the payments to the corporation for market research were deposited in this bank account.

The requested State would obtain and provide information relating to the bank account in the requested State of the foreign corporation in response to a specific request by the requesting State under Article 26 of the Convention.

HYPOTHETICAL 7

An individual controls a corporation that is subject to the requesting State's income tax and that operates a business which provides a service on a "cash only" basis. The individual regularly skims a substantial portion of these cash receipts and deposits these skimmed receipts in a bank account in the requested State maintained in his own name. The remainder of the cash receipts are deposited in a bank account in the requesting State maintained in the corporation's name. The corporation pays its business expenses with checks drafted against this latter bank account. No record of business receipts or expenses are kept other than the bank account records in the requesting and requested State.

A corporate income tax return is filed, understating gross income, taxable income, and tax due, to the extent of the skimmed business receipts. Specifically, the corporation's income tax return, on which the corporation reports gross receipts, cost of goods sold, dividends, compensation of officers, balance sheet information, and other items related to the corporation, understates gross receipts and other items mentioned above.

An informant tells the tax officials of the requesting State about the corporate business, including the skimming activities, and the bank account in the requested State, specifically stating that the individual told him that he skimmed no less than 30 per cent of the gross receipts every week and deposited these skimmed receipts in an account under his name in the X Bank located in the requested State. Based on this information tax officials of the requesting State commence an investigation of the corporation and the individual for possible tax violations under the requesting State's law.

The requested State would obtain and provide information relating to the bank account in the requested State of the individual in response to a specific request by the requesting State under Article 26 of the Convention.

HYPOTHETICAL 8

An individual subject to the requesting State's income tax is employed as the chief executive officer of a publicly held corporation of the requesting State that does subcontract work for other corporations of the requesting State. To ensure that the corporation keeps certain existing contracts and secures new ones, it pays bribes to employees of a major contractor. The funds from which the bribes are paid come from random diverted corporate gross receipts. The chief executive officer instructs the corporate accountant (1) not to report diverted receipts on the corporate books and records and (2) to destroy all documentation of those receipts held by the corporation. The books and records understating gross receipts are used to prepare the corporate income tax return, and, thus, the corporate income tax return understates the gross receipts and other income related entries. (The same books and records are used to prepare inaccurate income statements upon which shareholders and potential investors rely.)

The chief executive officer deposits the diverted funds into a bank account in the requested State over which he has sole signature authority. He periodically authorizes payments from that account to other accounts at the same bank over which the respective bribe recipients have signature authority. Based on information, which includes all the details stated above, provided by a staff accountant that works for the corporate accountant, tax officials of the requesting State initiate an investigation of the chief executive officer and the corporate accountant for their role in assisting in the preparation of a false corporate income tax return, and the bribe recipients for omitting the bribe payments from their individual income tax returns.

The requested State would obtain and provide information relating to the bank account in the requested State over which the chief executive officer has signature authority and the bank accounts in the requested State over which the respective bribe recipients have signature authority in response to a specific request by the requesting State under Article 26 of the Convention.

HYPOTHETICAL 9

An individual subject to the requesting State's income tax is a tax shelter promoter. Several tax shelter partnerships in which he sells limited partnership interests involve research and development companies incorporated and ostensibly operating in the requested State. The prospectus issued to investors for each shelter offers "investment opportunities by providing highly leveraged tax deductions." The investment per limited partnership share required for each shelter is $50,000, which includes a cash payment of $10,000 and a promissory note for $40,000 due in 30 years with interest accrued and payable at the end of that period.

Tax officials of the requesting State initiate an investigation of the promoter to determine whether he aided and assisted in the preparation of false individual income tax returns filed by the investors, as well as whether the promoter failed to report the income he made from the promotion of the tax shelter on his individual income tax return. During the course of the investigation, these officials interview numerous investors in each shelter who claim the promoter stated that (1) the only payment ever required from an investor was the $10,000 and (2) the note was only for tax purposes and would never be collected. During audits of several investors, tax officials of the requesting State discover that all $10,000 payment checks were deposited to an identifiable bank account in the requested State.

The requested State would obtain and provide information relating to the bank account in the requested State into which the payment checks were deposited in response to a specific request by the requesting State under Article 26 of the Convention.

HYPOTHETICAL 10

An individual subject to the requesting State's income tax is a tax shelter promoter. He promotes and sells a movie tax shelter in which a corporation of the requested State ostensibly intends to produce feature films for profit. Limited partnership shares in movies to be produced are sold to investors in the requesting State for $25,000 per share with assurances that deductions can be taken against income in the amounts of $100,000 per share (a leverage of 4 to 1). In fact, the corporation in the requested State is a shell and the movie shelter scheme is a fraud. All monies received in the scheme inure to the personal benefit of the promoter. Upon receipt of investors' $25,000 payments, the promoter deposits the funds into a bank account in the requested State over which he has sole signature authority. The promoter then prepares documentation based upon complete fabrication which he submits to the investors.

The investors, in reliance on such documentation, prepare and file false individual income tax returns claiming tax benefits derived from the movie shelter. Upon audit by the tax officials of the requesting State, these benefits are denied. A tax official of the requesting State initiates an investigation to determine whether the promoter aided and assisted in the preparation of the investors' false tax returns, as well as whether the promoter failed to report income made from the tax shelter promotion on his individual income tax return.

The requested State would obtain and provide information relating to the bank account in the requested State over which the promoter has signature authority in response to a specific request by the requesting State under Article 26 of the Convention.

HYPOTHETICAL 11

An individual has income as a salaried employee and earns income by conducting promotional events in which he encourages taxpayers to violate the requesting State's tax laws. Although the individual is subject to the requesting State's income tax, he does not file a tax return. The individual earns income at the promotional events by selling pamphlets in which he illustrates methods of evading income tax that he knows to be unlawful but that he represents to attendees of his promotional events to be lawful. He sells numerous pamphlets, each for a significant price.

Tax officials of the requesting State initiate an investigation of the individual to determine whether he aided and assisted in the preparation of the false individual income tax returns of those attending the promotional events, as well as willfully evaded his individual income taxes. These officials interview several promotional event attendees and purchasers of the pamphlets and discover that numerous checks in payment for the pamphlets were deposited into a bank account in the requested State.

The requested State would obtain and provide information relating to the bank account in the requested State into which the checks for payment were deposited in response to a specific request by the requesting State under Article 26 of the Convention.

HYPOTHETICAL 12

An individual maintains a bank account in the requested State into which he deposits income that is subject to the income tax in the requesting State. He makes substantial withdrawals from this bank account, through the use of a credit card tied to such account and issued in the name of a corporation, to pay for his living expenses for the year. The individual does not file an income tax return.

Tax officials of the requesting State commence an investigation of the individual based on information received from a credit card company related to credit cards tied to bank accounts in the requested State, and from various merchants. The tax officials determine that a credit card tied to a bank account in the requested State and issued in the name of a corporation was used throughout the year to purchase numerous personal items that were delivered to the individual. When these officials ask the individual whether he owns or controls the bank account, the individual does not acknowledge any interest in the corporation or the bank account, and provides no explanation regarding the source of the funds in the bank account.

The requested State would obtain and provide information relating to the bank account in the requested State in response to a specific request by the requesting State under Article 26 of the Convention.

HYPOTHETICAL 13

An individual operates a business which provides a service on a "cash only" basis. He regularly deposits a substantial portion of these cash receipts in a bank account in the requested State maintained in his own name. He deposits the remainder of his cash receipts in a bank account in the requesting State maintained in his business name. He pays his business expenses by drafting checks against the latter bank account. He keeps no record of business receipts or expenses other than his bank account records in the requesting and requested State. Although the individual is subject to the requesting State's income tax, he does not file a return.

An informant tells tax officials of the requesting State about the business, specifically stating that the individual told him that he deposited no less than 30 per cent of his gross receipts in an account under his name in the X Bank located in the requested State. The informant also tells tax officials of the requesting State that the individual has used proceeds from the bank account in the requested State to purchase assets, formal legal ownership of which has been placed in the names of other persons.

Based on this information tax officials of the requesting State commence an investigation of the individual. Among other things, these officials learn that the individual used cash to buy particular assets, and has with documentation placed legal ownership to these assets in the name of other persons. These officials observe that these assets are always used by the individual.

The requested State would obtain and provide information relating to the bank account in the requested State of the individual in response to a specific request by the requesting State under Article 26 of the Convention.

HYPOTHETICAL 14

An individual instructs his employer to make his salary checks payable to a corporation purporting to provide services as an independent contractor. The employer does not provide the documentation as required under the requesting State's tax law in the case of compensation provided to an employee. The individual opens a bank account in the X Bank located in the requested State in the name of that corporation, and deposits checks from his employer in that account. Although the individual is subject to the requesting State's income tax, he does not file a tax return.

Based on information provided by an informant, tax officials of the requesting State initiate an investigation of the individual. The tax officials contact the individual's employer, and obtain cancelled salary checks payable to the corporation and deposited in the bank account in the X Bank located in the requested State.

The requested State would obtain and provide information relating to the bank account in the requested State in the name of the corporation in response to a specific request by the requesting State under Article 26 of the Convention.

Text of Letter from Acting Treasury Secretary Kenneth Dam

Federal Councillor Kaspar Villiger
Finance Minister
Federal Department of Finance
Bernerhof
3003 Berne
Switzerland

Dear Mr. Federal Councillor:

I am very pleased with the report that the technical discussions held between representatives of the United States Treasury and of the Federal Tax Administration, respectively, regarding the application of Article 26 on Exchange of Information of the Income Tax Convention between the United States of America and the Swiss Confederation, signed on October 2, 1996, have led to the successful conclusion of a mutual agreement, signed on January 23, 2003. This arrangement is important to the administration and enforcement of the tax laws of each of our countries, and complements the substantial cooperation between our two countries to combat criminal activities in other fields such as money laundering and terrorism financing.

It is important to build upon this success and we must maintain a dialogue with a view to monitoring and improving the functioning of the present version of the Convention. In addition we will continue to explore ways to improve the cooperation between our two countries. Successful renegotiation of the Convention could enhance the economic relationship between our two countries.

We look forward to continuing to work together to improve the cooperation between our two countries.

Sincerely,
Kenneth W. Dam
Acting Secretary and
Deputy Secretary

SWISS CONFEDERATION
KASPAR VILLIGER
FEDERAL COUNCILLOR
HEAD OF THE FEDERAL
DEPARTMENT OF FINANCE

Berne, January 24, 2003

Mr. Kenneth W. Dam
Acting Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue
Washington, D.C. 20220
USA

Dear Mr. Secretary

I am very pleased with the report that the technical discussions held between representatives of the Federal Tax Administration and of the United States Treasury, respectively, regarding the application of Article 26 on Exchange of Information of the Income Tax Convention between the Swiss Confederation and the United States of America, signed on October 2, 1996, have led to the successful conclusion of a mutual agreement, signed on January 23, 2003. This arrangement is important to the administration and enforcement of the tax laws of each of our countries, and complements the substantial cooperation between our two countries to combat criminal activities in other fields such as money laundering and terrorism financing.

It is important to build upon this success and we must maintain a dialogue with a view to monitoring and improving the functioning of the present version of the Convention. In addition we will continue to explore ways to improve the cooperation between our two countries. Successful renegotiation of the Convention could enhance the economic relationship between our two countries.

We look forward to continuing to work together to improve the cooperation between our two countries.

Sincerely,

Kaspar Villiger

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 24, 2003
KD-3796

Statement by the Treasury Department Regarding Today's Designation of Two Leaders of Jemaah Islamiyah

Statement of the Case

Jemaah Islamiyah ("JI") is an al-Qaida linked terrorist group with cells operating in several countries in Southeast Asia. The JI's stated goal is to create an Islamic state comprising Malaysia, Singapore, Indonesia, and the southern Philippines. Members of JI have been trained, funded and directed by the al-Qaida leadership to pursue al-Qaida's terrorist agenda across the region. In December 2001, Singapore authorities arrested 13 JI members, eight of whom had trained in al-Qaida camps in Afghanistan, who planned to bomb the U.S. and Israeli Embassies, British and Australian diplomatic buildings, and U.S. and Singapore defense targets in Singapore. Members of the group had conducted videotaped surveillance of the potential targets, and had already acquired explosives in preparation for the attacks. Singapore police discovered tampered passports, forged immigration stamps, bombmaking manuals, and al-Qaida-related material in several suspects' homes. In addition, a copy of a videotape made by certain members of the group and showing intended targets in Singapore was found in the wreckage of an al-Qaida leader's house in Afghanistan in December 2001.

JI was designated as subject to U.S. economic sanctions pursuant to Executive Order 13224 on October 23, 2002. Today, two leaders of JI are being designated pursuant to Executive Order 13224.

1. Isamuddin, Nurjaman Riduan

AKAs: Hambali; Isomuddin, Riduan; Nurjaman; Encep Nurjaman
Nationality: Indonesian
POB: Cianjur, West Java, Indonesia.

Nurjaman Riduan Isamuddin, most commonly known as Hambali, is a senior JI leader with close ties to al-Qaida and a long track record of involvement in terrorist activities, including the targeting of U.S. interests. Based on information available to the U.S. Government, there is reason to believe that Hambali was involved in a 1995 plot to bomb 11 U.S. commercial airliners in Asia, and directed the late-2001 foiled plot to attack U.S. and Western interests in Singapore. Hambali is the head of JI's regional "shura," the policy making body of the organization. He is also considered JI's director of operations, oversees JI's financing, and serves as the primary interface with al-Qaida. He is suspected of being al-Qaida's operations director for the East Asia region.

Hambali arranged for a courier to take a surveillance videotape to al-Qaida in Afghanistan proposing a bomb attack on Americans in Singapore, and made arrangements for JI members to train in al-Qaida camps in Afghanistan. In addition, he was videotaped in a January 2000 meeting in Malaysia with two of the September 11, 2001 hijackers of AA Flight 77 - Khalid al-Midhar and Nawaf al-Hazmi.

Hambali was also involved in planning a series of bombings in Manila, the

Philippines that killed 22 people, and injured more than 100 on December 30, 2000. One JI member admitted to Philippine investigators that Hambali was also involved in the bombing of the residence of the Philippine Ambassador to Indonesia on August 1, 2000. The bombing killed two people and seriously injured the Ambassador. In addition, Hambali was involved in a series of coordinated bombings of churches in Jakarta and eight other cities on December 24, 2000 that killed 18 people and injured many others. Indonesian police say they found documents implicating Hambali in that bombing. Hambali is being sought by authorities in Malaysia, Singapore, and Indonesia, and is believed to be located in Indonesia, Pakistan, or the southern Philippines.

2. Abdurrahman, Mohamad Iqbal

AKAs: Abu Jibril; Rahman, Mohamad Iqbal; A Rahman, Mohamad Iqbal; Abu Jibril Abdurrahman; Fikiruddin Muqti; Fihiruddin Muqti
Nationality: Indonesian
POB: Tirpas-Selong Village, East Lombok, Indonesia.

Mohamad Iqbal Abdurrahman, more commonly known as Abu Jibril, is a close associate of Hambali. Abu Jibril was JI's primary recruiter and second in command – running JI operations and heading its regional "shura" – before his arrest by Malaysian authorities in June 2001. The International Crisis Group cites Southeast Asian intelligence sources identifying Abu Jibril as a financial conduit for al-Qaida in the region.

There are now 257 individuals, organizations and entities on the list. $124.5 assets have been frozen worldwide since September 11, 2001, $36.2m in the U.S.

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

FEDERAL FINANCING BANK 1/27/03

Gary Burner, Manager, Federal Financing Bank (FFB) announced the following activity for the month of December 2002.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $37.0 billion on December 31, 2002, posting a decrease of $401.2 million from the level on November 30, 2002. This net change was the result of decreases in holdings of agency debt of $344.0 million and in holdings of government-guaranteed loans of $57.2 million. The FFB made 61 disbursements and received 17 prepayments during the month of December. The FFB also extended the maturities of 182 loans guaranteed by the Rural Utilities Service ("RUS") during the month of December.

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

KD-3797

FEDERAL FINANCING BANK
DECEMBER 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate	
GOVERNMENT-GUARANTEED LOANS					
GENERAL SERVICES ADMINISTRATION					
San Francisco OB	12/03	$132,507.93	8/01/05	2.500%	S/A
Chamblee Office Building	12/05	$84,918.24	10/01/26	4.864%	S/A
San Francisco Bldg Lease	12/26	$538,182.00	8/01/05	2.071%	S/A
San Francisco Bldg Lease	12/26	$673,813.00	8/01/05	2.071%	S/A
San Francisco OB	12/26	$15,548.30	8/01/05	2.071%	S/A
DEPARTMENT OF EDUCATION					
Barber-Scotia College	12/03	$769,059.29	3/01/30	4.901%	S/A
Barber-Scotia College	12/03	$224,835.23	3/01/30	4.901%	S/A
Barber-Scotia College	12/17	$298,105.53	3/01/30	4.856%	S/A
Lincoln University	12/18	$584,449.73	1/02/15	3.759%	S/A
Livingstone College	12/31	$119,177.01	7/01/31	4.595%	S/A
RURAL UTILITIES SERVICE					
A & N Electric #868	12/02	$1,107,000.00	12/31/36	5.007%	Qtr.
Arkansas Elec. #813	12/02	$10,000,000.00	12/31/31	4.916%	Qtr.
Deep East Texas Electric #872	12/02	$4,300,000.00	12/31/36	5.007%	Qtr.
Goodhue County #672	12/02	$600,000.00	1/02/35	4.973%	Qtr.
Lake Region Elec. #737	12/02	$500,000.00	12/31/30	4.888%	Qtr.
Lake Region Elec. #712	12/02	$1,966,000.00	1/02/35	4.973%	Qtr.
East Central Energy #660	12/05	$4,000,000.00	1/02/35	4.932%	Qtr.
Coop. Power Assoc. #720	12/06	$486,000.00	12/31/35	4.742%	Qtr.
Morgan County Elec. #759	12/06	$1,500,000.00	12/31/35	4.905%	Qtr.
Piedmont Tel. #566	12/06	$606,539.00	12/31/18	4.125%	Qtr.
Hawkeye Tri-County Elec. #643	12/09	$997,100.00	1/02/35	4.709%	Qtr.
REA Energy Cooperative #772	12/09	$1,650,000.00	12/31/35	4.893%	Qtr.
South Texas Electric #845	12/09	$8,000,000.00	12/31/24	4.565%	Qtr.
San Patricio Elec. #676	12/09	$590,000.00	1/02/35	4.876%	Qtr.
East Kentucky Power #828	12/10	$10,000,000.00	12/31/24	4.519%	Qtr.
Darien Telephone Co. #719	12/11	$280,000.00	3/31/03	1.213%	Qtr.
KEM Electric #537	12/12	$489,000.00	1/03/34	4.751%	Qtr.
Northern Electric Coop. #827	12/12	$1,750,000.00	4/02/07	2.721%	Qtr.
Surry-Yadkin Elec. #852	12/12	$1,000,000.00	3/31/03	1.211%	Qtr.
Wood County Electric #826	12/12	$4,000,000.00	12/31/36	4.803%	Qtr.
Comanche County Elec. #765	12/13	$1,453,000.00	12/31/35	4.796%	Qtr.
Interstate Tele #661	12/13	$1,548,244.00	12/31/19	3.999%	Qtr.
Citizens Elec. #878	12/16	$3,000,000.00	3/31/03	1.217%	Qtr.
Colquitt Elec. #693	12/16	$7,200,000.00	1/02/35	4.855%	Qtr.
Blair Telephone Company #862	12/17	$344,000.00	12/31/19	4.413%	Qtr.
Harrison County rural #609	12/17	$1,000,000.00	1/03/34	4.906%	Qtr.
Harrison County #532	12/17	$2,934,000.00	1/03/34	4.906%	Qtr.
Inter-County Energy #850	12/17	$2,000,000.00	3/31/03	1.235%	Qtr.
Southside Electric #786	12/17	$3,250,000.00	12/31/35	4.941%	Qtr.

FEDERAL FINANCING BANK
DECEMBER 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
Southern Pine Elec. #790	12/17	$8,000,000.00	12/31/35	4.941% Qtr.
Tri-County Elec. Coop. #646	12/18	$2,000,000.00	1/02/35	4.928% Qtr.
W. Farmers Elec. #701	12/18	$2,863,000.00	12/31/25	4.652% Qtr.
PRTCommunications #798	12/19	$1,800,000.00	3/31/03	1.213% Qtr.
Agralite Elec. #543	12/20	$157,000.00	1/03/34	4.775% Qtr.
Georgia Trans. Corp. #849	12/20	$12,081,051.00	12/31/25	4.515% Qtr.
White River Valley Elec. #776	12/20	$8,000,000.00	1/02/18	4.423% Qtr.
Woodruff Electric Coop. #893	12/20	$6,000,000.00	12/31/36	4.838% Qtr.
Central Iowa Power #442	12/23	$3,000,000.00	12/31/29	4.665% Qtr.
Central Elec. Power #504	12/23	$5,405,000.00	1/03/33	4.874% Qtr.
Ironton Telephone Company #888	12/23	$3,235,942.00	12/31/03	1.397% Qtr.
S. Illinois Power #819	12/23	$5,043,000.00	12/31/30	4.698% Qtr.
Adams Rural Electric #706	12/24	$750,000.00	1/03/28	4.787% Qtr.
D.S. & O Rural Elec. #839	12/24	$520,000.00	12/31/36	4.840% Qtr.
South Slope Cooperative #741	12/24	$1,000,000.00	1/02/18	3.901% Qtr.
Freeborn-Mower Coop. #736	12/26	$200,000.00	3/31/03	1.193% Qtr.
Grundy Elec.Coop. #744	12/26	$1,000,000.00	3/31/03	1.193% Qtr.
Central Texas Elec. #520	12/30	$185,100.00	1/03/33	4.752% Qtr.
Central Texas Elec. #523	12/30	$320,900.00	1/03/33	4.624% Qtr.
Head Lakes Electric #825	12/30	$516,000.00	12/31/36	4.713% Qtr.
New Horizon Elec. #791	12/30	$2,051,000.00	3/31/03	1.161% Qtr.
United Power Assoc. #432	12/30	$1,889,000.00	12/31/20	3.912% Qtr.
*Atlantic Telephone Mem. #805	12/31	$5,931,000.00	3/31/03	1.220% Qtr.
*Bailey County Elec. #856	12/31	$1,896,000.00	3/31/03	1.219% Qtr.
*Basin Electric #425	12/31	$13,241,812.28	3/31/03	1.345% Qtr.
*Big Sand Elec. #540	12/31	$774,628.03	3/31/03	1.220% Qtr.
*Big Sand Elec. #540	12/31	$580,971.01	3/31/03	1.220% Qtr.
*Big Sand Elec. #540	12/31	$971,257.38	3/31/03	1.220% Qtr.
*Big Sand Elec. #540	12/31	$2,258,888.73	3/31/03	1.220% Qtr.
*Blue Grass Energy #674	12/31	$1,988,454.80	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$2,554,175.51	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$1,954,282.40	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$1,592,913.96	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$1,197,690.18	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$1,585,148.40	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$203,456.75	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$1,820,513.20	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$1,702,393.75	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$426,060.60	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$867,705.64	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$14,077.14	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$372,221.00	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$349,156.31	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$2,923,534.24	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$774,472.17	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$850,054.65	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$1,298,510.59	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$325,979.86	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$751,892.43	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$981,738.57	3/31/03	1.220% Qtr.

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DECEMBER 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
*Brazos Electric #917	12/31	$653,776.11	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$375,886.11	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$702,749.59	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$853,274.26	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$275,154.34	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$199,696.18	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$344,515.74	1/03/06	1.920% Qtr.
*Brazos Electric #917	12/31	$201,915.12	1/03/06	1.920% Qtr.
*Brazos Electric #917	12/31	$144,666.56	1/03/06	1.920% Qtr.
*Brazos Electric #917	12/31	$126,033.22	1/03/06	1.920% Qtr.
*Brazos Electric #917	12/31	$69,050.12	1/03/06	1.920% Qtr.
*Brazos Electric #917	12/31	$104,341.11	1/03/06	1.920% Qtr.
*Brazos Electric #917	12/31	$33,583.24	1/03/06	1.920% Qtr.
*Brazos Electric #917	12/31	$1,115,423.29	1/03/06	1.922% Qtr.
*Brazos Electric #917	12/31	$1,785,136.36	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$2,078,000.92	3/31/03	1.220% Qtr.
*Brazos Electric #917	12/31	$221,781.48	1/03/06	1.920% Qtr.
*Brazos Electric #917	12/31	$841,966.53	1/03/06	1.922% Qtr.
*Brazos Electric #917	12/31	$2,522,036.24	1/03/06	1.922% Qtr.
*Brazos Electric #917	12/31	$1,510,379.12	1/03/06	1.922% Qtr.
*Brazos Electric #917	12/31	$905,169.64	1/03/06	1.922% Qtr.
*Brazos Electric #917	12/31	$546,519.39	1/03/06	1.922% Qtr.
*Brazos Electric #917	12/31	$851,859.90	1/03/06	1.924% Qtr.
*Brazos Electric #917	12/31	$462,799.49	1/03/06	1.924% Qtr.
*Brazos Electric #917	12/31	$1,335,376.05	1/03/06	1.924% Qtr.
*Brazos Electric #917	12/31	$1,608,957.21	1/03/06	1.924% Qtr.
*Brazos Electric #917	12/31	$1,894,712.84	1/03/06	1.926% Qtr.
*Brazos Electric #917	12/31	$775,134.63	1/03/06	1.926% Qtr.
*Brazos Electric #917	12/31	$593,007.75	1/03/06	1.926% Qtr.
*Brazos Electric #917	12/31	$1,217,893.40	1/03/06	1.927% Qtr.
*Brazos Electric #917	12/31	$962,082.53	1/03/06	1.927% Qtr.
*Brazos Electric #917	12/31	$2,038,652.56	1/03/06	1.929% Qtr.
*Brazos Electric #917	12/31	$2,299,040.18	1/03/06	1.929% Qtr.
*Brazos Electric #917	12/31	$387,750.03	1/03/06	1.922% Qtr.
*Brazos Electric #917	12/31	$1,040,337.72	1/03/06	1.922% Qtr.
*Brazos Electric #917	12/31	$1,351,739.93	1/03/06	1.922% Qtr.
*Brazos Electric #917	12/31	$2,222,328.96	1/03/06	1.922% Qtr.
*Brazos Electric #917	12/31	$2,378,759.52	1/03/06	1.922% Qtr.
*Brazos Electric #917	12/31	$466,427.16	12/31/07	2.659% Qtr.
*Brazos Electric #917	12/31	$15,092.12	12/31/07	2.659% Qtr.
*Brazos Electric #917	12/31	$795,738.18	12/31/07	2.659% Qtr.
*Brazos Electric #917	12/31	$2,606,947.31	12/31/07	2.659% Qtr.
*Brazos Electric #917	12/31	$2,045,004.40	12/31/07	2.784% Qtr.
*Brazos Electric #437	12/31	$3,914,052.33	12/31/07	2.816% Qtr.
*Brazos Electric #437	12/31	$1,322,689.76	12/31/07	2.816% Qtr.
*Brazos Electric #437	12/31	$300,023.34	12/31/07	2.816% Qtr.
*Brazos Electric #437	12/31	$2,873,923.45	12/31/07	2.816% Qtr.
*Brazos Electric #437	12/31	$1,109,898.26	12/31/07	2.816% Qtr.
*Brazos Electric #437	12/31	$466,202.00	12/31/12	3.777% Qtr.
*Brazos Electric #561	12/31	$10,412,949.89	12/31/07	2.687% Qtr.

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Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
*Brazos Electric #561	12/31	$5,241,078.79	12/31/07	2.687% Qtr.
*Brazos Electric #561	12/31	$10,226,788.65	12/31/12	3.640% Qtr.
*Brazos Electric #561	12/31	$8,047,641.49	12/31/12	3.640% Qtr.
*Brazos Electric #561	12/31	$4,633,489.53	12/31/12	3.640% Qtr.
*Brazos Electric #561	12/31	$3,959,287.11	12/31/12	3.640% Qtr.
*Brazos Electric #561	12/31	$7,420,351.23	1/03/23	4.291% Qtr.
*Brown County Elec. #687	12/31	$247,091.70	3/31/03	1.220% Qtr.
*Brown County Elec. #687	12/31	$593,020.10	3/31/03	1.220% Qtr.
*Brown County Elec. #687	12/31	$296,557.84	3/31/03	1.220% Qtr.
*Brown County Elec. #687	12/31	$646,178.98	3/31/03	1.220% Qtr.
*Coast Elec. Power #787	12/31	$6,000,000.00	12/31/03	1.358% Qtr.
*Central Georgia Elec. #731	12/31	$1,780,000.00	1/03/05	1.602% Qtr.
*Central Elec. Power #624	12/31	$5,454,832.82	1/03/05	1.601% Qtr.
*Citizens Elec. #742	12/31	$2,694,000.00	3/31/03	1.220% Qtr.
*Clark Energy Coop. #611	12/31	$2,913,772.11	3/31/03	1.220% Qtr.
*Clark Energy Coop. #611	12/31	$1,936,274.98	3/31/03	1.220% Qtr.
*Clark Energy Coop. #611	12/31	$4,321,179.03	3/31/03	1.220% Qtr.
*Clark Energy Coop. #611	12/31	$3,613,783.73	3/31/03	1.220% Qtr.
*Cumberland Valley #668	12/31	$4,151,140.68	3/31/03	1.220% Qtr.
*Cooper Valley Tel. #648	12/31	$999,582.22	3/31/03	1.220% Qtr.
*Darien Telephone Co. #719	12/31	$1,894,803.70	3/31/03	1.220% Qtr.
*Darien Telephone Co. #719	12/31	$436,490.36	3/31/03	1.220% Qtr.
*Darien Telephone Co. #719	12/31	$210,380.49	3/31/03	1.220% Qtr.
*Darien Telephone Co. #719	12/31	$248,720.86	3/31/03	1.220% Qtr.
*Darien Telephone Co. #719	12/31	$180,887.90	3/31/03	1.220% Qtr.
*Darien Telephone Co. #719	12/31	$268,382.59	3/31/03	1.220% Qtr.
*Darien Telephone Co. #719	12/31	$221,000.00	3/31/03	1.220% Qtr.
*Delaware County Elec. #682	12/31	$920,195.58	3/31/03	1.220% Qtr.
*East River Power #453	12/31	$380,875.74	3/31/03	1.345% Qtr.
*East River Power #601	12/31	$3,359,504.60	3/31/03	1.220% Qtr.
*East River Power #793	12/31	$637,000.00	3/31/03	1.220% Qtr.
*Fairfield Elec. #684	12/31	$3,196,119.51	3/31/03	1.220% Qtr.
*Farmer's Telephone #459	12/31	$22,060.01	3/31/03	1.345% Qtr.
*Farmer's Telephone #459	12/31	$211,326.45	3/31/03	1.345% Qtr.
*Federal Rural Elec. #728	12/31	$500,000.00	12/31/03	1.357% Qtr.
*Fleming-Mason Energy #644	12/31	$2,525,269.16	3/31/03	1.220% Qtr.
*Fleming-Mason Energy #644	12/31	$1,359,760.30	3/31/03	1.220% Qtr.
*Fleming-Mason Energy #644	12/31	$1,456,886.04	3/31/03	1.220% Qtr.
*Fleming-Mason Energy #644	12/31	$2,136,766.21	3/31/03	1.220% Qtr.
*Fleming-Mason Energy #644	12/31	$1,359,760.30	3/31/03	1.220% Qtr.
*Fleming-Mason Energy #644	12/31	$2,946,367.74	3/31/03	1.220% Qtr.
*Freeborn-Mower Coop. #736	12/31	$745,591.13	3/31/03	1.220% Qtr.
*Freeborn-Mower Coop. #736	12/31	$198,846.10	1/03/06	1.937% Qtr.
*Freeborn-Mower Coop. #736	12/31	$99,417.67	1/03/06	1.937% Qtr.
*Freeborn-Mower Coop. #736	12/31	$497,075.35	3/31/03	1.220% Qtr.
*FTC Communications #709	12/31	$2,629,575.62	3/31/03	1.220% Qtr.
*Grady Electric #690	12/31	$3,156,630.57	3/31/03	1.220% Qtr.
*Grady Electric #746	12/31	$3,250,000.00	3/31/03	1.220% Qtr.
*Grayson Rural Elec. #619	12/31	$1,165,508.84	3/31/03	1.220% Qtr.
*Grayson Rural Elec. #619	12/31	$582,754.43	3/31/03	1.220% Qtr.

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*Grayson Rural Elec. #619	12/31	$971,257.38	3/31/03	1.220% Qtr.
*Grayson Rural Elec. #619	12/31	$1,258,293.81	3/31/03	1.220% Qtr.
*Grayson Rural Elec. #619	12/31	$993,922.39	3/31/03	1.220% Qtr.
*Greenbelt Elec. #743	12/31	$1,739,000.00	3/31/03	1.220% Qtr.
*Greenbelt Elec. #743	12/31	$502,000.00	3/31/03	1.220% Qtr.
*Grundy Elec.Coop. #744	12/31	$1,250,000.00	3/31/03	1.220% Qtr.
*Harrison County #532	12/31	$967,307.57	3/31/03	1.220% Qtr.
*Harrison County #532	12/31	$870,576.81	3/31/03	1.220% Qtr.
*Harrison County #532	12/31	$973,833.66	3/31/03	1.220% Qtr.
*Harrison County #532	12/31	$1,587,992.09	3/31/03	1.220% Qtr.
*Harrison County #532	12/31	$1,709,667.26	3/31/03	1.220% Qtr.
*Hudson Valley Datanet #833	12/31	$5,000,000.00	3/31/03	1.219% Qtr.
*Hudson Valley Datanet #833	12/31	$2,000,000.00	3/31/03	1.219% Qtr.
*Inter-County Energy #592	12/31	$1,450,961.34	3/31/03	1.220% Qtr.
*Inter-County Energy #592	12/31	$1,934,615.12	3/31/03	1.220% Qtr.
*Inter-County Energy #592	12/31	$2,521,770.81	3/31/03	1.220% Qtr.
*Inter-County Energy #592	12/31	$214,647.88	3/31/03	1.220% Qtr.
*Inter-County Energy #850	12/31	$4,000,000.00	3/31/03	1.219% Qtr.
*Jackson Energy #794	12/31	$4,000,000.00	3/31/03	1.220% Qtr.
*Jackson Energy #794	12/31	$3,000,000.00	3/31/03	1.220% Qtr.
*Jackson Energy #794	12/31	$4,700,000.00	3/31/03	1.220% Qtr.
*Jackson Energy #794	12/31	$2,000,000.00	3/31/03	1.220% Qtr.
*Johnson County Elec. #482	12/31	$1,554,385.47	3/31/03	1.345% Qtr.
*Licking Valley Elec. #522	12/31	$2,659,128.49	3/31/03	1.220% Qtr.
*Magnolia Electric #560	12/31	$4,841,500.92	3/31/03	1.345% Qtr.
*Meade County Elec. #662	12/31	$5,386,488.69	3/31/03	1.220% Qtr.
*Nolin Rural Elec. #528	12/31	$1,831,113.21	3/31/03	1.220% Qtr.
*Nolin Rural Elec. #577	12/31	$2,498,555.44	3/31/03	1.220% Qtr.
*Nolin Rural Elec. #577	12/31	$2,498,555.44	3/31/03	1.220% Qtr.
*Oglethorpe Power #445	12/31	$25,627,244.00	1/02/24	4.222% Qtr.
*Oglethorpe Power #445	12/31	$20,953,475.31	1/02/24	4.222% Qtr.
*Owen Electric #525	12/31	$1,937,316.18	3/31/03	1.220% Qtr.
*Owen Electric #525	12/31	$1,933,403.74	3/31/03	1.220% Qtr.
*Owen Electric #525	12/31	$975,437.25	3/31/03	1.220% Qtr.
*Owen Electric #525	12/31	$1,967,079.52	3/31/03	1.220% Qtr.
*Pennyrile Elec. #513	12/31	$5,926,307.57	3/31/03	1.345% Qtr.
*PRTCommunications #798	12/31	$4,802,000.00	3/31/03	1.220% Qtr.
*San Miguel Electric #919	12/31	$7,685,716.67	3/31/03	1.220% Qtr.
*San Miguel Electric #919	12/31	$8,070,092.44	3/31/03	1.220% Qtr.
*Stearns Cooperative #733	12/31	$2,400,000.00	3/31/03	1.220% Qtr.
*Stearns Cooperative #733	12/31	$1,400,000.00	3/31/03	1.220% Qtr.
*Surry-Yadkin Elec. #534	12/31	$956,671.55	3/31/03	1.220% Qtr.
*Surry-Yadkin Elec. #534	12/31	$956,671.55	3/31/03	1.220% Qtr.
*Surry-Yadkin Elec. #534	12/31	$478,335.78	3/31/03	1.220% Qtr.
*Surry-Yadkin Elec. #534	12/31	$956,671.55	3/31/03	1.220% Qtr.
*Surry-Yadkin Elec. #534	12/31	$956,671.55	3/31/03	1.220% Qtr.
*Surry-Yadkin Elec. #534	12/31	$972,356.74	3/31/03	1.220% Qtr.
*Surry-Yadkin Elec. #534	12/31	$978,686.78	3/31/03	1.220% Qtr.
*Surry-Yadkin Elec. #534	12/31	$2,260,855.53	3/31/03	1.220% Qtr.
*Thumb Electric #767	12/31	$900,000.00	12/31/07	2.716% Qtr.

FEDERAL FINANCING BANK
DECEMBER 2002 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
*Tri-County Electric Ass. #830	12/31	$1,500,000.00	1/03/33	4.609% Qtr.
*United Elec. Coop. #870	12/31	$12,000,000.00	3/31/03	1.219% Qtr.
*United Elec. #858	12/31	$2,126,000.00	1/03/33	4.559% Qtr.
*Webster Electric #705	12/31	$2,205,847.81	3/31/03	1.220% Qtr.

S/A is a Semiannual rate.
Qtr. is a Quarterly rate.
* maturity extension or interest rate reset

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	December 31, 2002	November 30, 2002	Monthly Net Change 12/1/02-12/31/02	Fiscal Year Net Change 10/1/02-12/31/02
Agency Debt:				
U.S. Postal Service	$8,250.0	$8,594.0	-$344.0	-$2,864.0
Subtotal*	$8,250.0	$8,594.0	-$344.0	-$2,864.0
Agency Assets:				
FmHA-RDIF	$950.0	$950.0	$0.0	$0.0
FmHA-RHIF	$2,905.0	$2,905.0	$0.0	$0.0
Rural Utilities Service-CBO	$4,270.2	$4,270.2	$0.0	$0.0
Subtotal*	$8,125.2	$8,125.2	$0.0	$0.0
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	$1,869.0	$1,907.1	-$38.2	-$53.5
DoEd-HBCU+	$73.3	$71.3	$2.0	$4.7
DHUD-Community Dev. Block Grant	$4.1	$4.2	-$0.2	-$0.9
DHUD-Public Housing Notes	$1,133.2	$1,133.2	$0.0	-$74.1
General Services Administration+	$2,181.9	$2,200.4	-$18.5	-$23.6
DOI-Virgin Islands	$11.4	$11.4	$0.0	$0.0
DON-Ship Lease Financing	$780.8	$780.8	$0.0	$0.0
Rural Utilities Service	$14,490.6	$14,489.7	$0.9	$432.3
SBA-State/Local Development Cos.	$94.6	$97.9	-$3.3	-$7.8
DOT-Section 511	$3.2	$3.2	$0.0	$0.0
Subtotal*	$20,642.1	$20,699.3	-$57.2	$277.0
Grand total*	$37,017.3	$37,418.5	-$401.2	-$2,587.0

* figures may not total due to rounding
\+ does not include capitalized interest

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 11:00 A.M.
January 27, 2003

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $16,000 million to refund an estimated $16,000 million of publicly held 4-week Treasury bills maturing January 30, 2003.

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

The Federal Reserve System holds $14,764 million of the Treasury bills maturing on January 30, 2003, 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

KD-3798

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED JANUARY 30, 2003

January 27, 2003

Offering Amount..........................$16,000 million
Maximum Award (35% of Offering Amount)...$ 5,600 million
Maximum Recognized Bid at a Single Rate..$ 5,600 million
NLP Reporting Threshold..................$ 5,600 million
NLP Exclusion Amount.....................$10,100 million

Description of Offering:
Term and type of security...........28-day bill
CUSIP number........................912795 MA 6
Auction date........................January 28, 2003
Issue date..........................January 30, 2003
Maturity date.......................February 27, 2003
Original issue date.................August 29, 2002
Currently outstanding...............$39,789 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 equals or exceeds the NLP reporting threshold stated above.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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.
January 27, 2003

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 $21,719 million of publicly held notes maturing January 31, 2003, and to raise new cash of approximately $5,281 million.

In addition to the public holdings, Federal Reserve Banks hold $6,834 million of the maturing notes for their own accounts, which may be refunded by issuing an additional amount of the new security.

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

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately $596 million into the 2-year note.

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

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

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

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

oOo

Attachment

KD-3799

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF
2-YEAR NOTES TO BE ISSUED JANUARY 31, 2003

January 27, 2003

Offering Amount	$27,000 million
Maximum Award (35% of Offering Amount)	$ 9,450 million
Maximum Recognized Bid at a Single Rate	$ 9,450 million
NLP Reporting Threshold	$ 9,450 million

Description of Offering:

Term and type of security	2-year notes
Series	G-2005
CUSIP number	912828 AS 9
Auction date	January 29, 2003
Issue date	January 31, 2003
Dated date	January 31, 2003
Maturity date	January 31, 2005
Interest rate	Determined based on the highest accepted competitive bid
Yield	Determined at auction
Interest payment dates	July 31 and January 31
Minimum bid amount and multiples	$1,000
Accrued interest payable by investor	None
Premium or discount	Determined at auction

STRIPS Information:

Minimum amount required	$1,000
Corpus CUSIP number	912820 HP 5
Due date(s) and CUSIP number(s) for additional TINT(s)	January 31, 2005 - - 912833 ZD 5

Submission of Bids:

Noncompetitive bids:

Accepted in full up to $5 million at the highest accepted yield.

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

Competitive bids:

(1) Must be expressed as a yield with three decimals, e.g., 7.123%.

(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position equals or exceeds the NLP reporting threshold stated above.

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

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

Embargoed Until 1:00 p.m. EST
Monday, January 27, 2003

Contact: Tony Fratto
(202) 622-2960

Remarks before the Brazil-U.S. Business Council

John B. Taylor

Under Secretary for International Affairs
United States Treasury

Washington, D.C.
January 27, 2003

Thank you very much for the opportunity to speak before this distinguished group of business leaders. Today I would like to talk about economic policy in Brazil and in the United States, and also about opportunities for cooperation between Brazil and the United States.

The recent electoral victory of Luíz Inácio Lula da Silva provides a valuable opportunity for a promising new chapter in historically strong relations between our two countries. In this new era, Brazil and the United States face many common economic challenges, from strengthening economic growth to combating the financing of terrorism. It is now more important than ever for the United States and Brazil to continue to strengthen our cooperation.

We are encouraged by the economic leadership that President Lula and his new economic team have already shown. We have seen an agenda designed to fight poverty *and* increase economic growth and stability. The new economic plan is rightly ambitious in its specific aims to end hunger, combat corruption, and discourage drug trafficking. And it is responsible in its emphasis on economic reform in the four key areas: fiscal policy, monetary policy, trade policy, and structural policy. There are clearly many reasons to be hopeful about Brazil.

We in the United States government are not alone in our optimism about Brazil. A recent poll indicated that 76 percent of Brazilians believe the current government will be "good" or "excellent". The financial markets have also rallied with interest rate spreads falling 10 percentage points in four months. The positive market reaction we have seen stems from key steps Lula has taken—appointing a responsible focused economic team and clarifying a coherent set of economic priorities. And implementation of the key economic reforms is already proceeding.

KD-3800

In recent years, President Cardoso and his economic team made major progress by consolidating fiscal policy, eliminating hyperinflation, and strengthening the financial sector. Finance Minister Antonio Palocci has signaled an interest in traveling further down this road as well as tackling the next stage of pro-growth economic reforms. As stated in Minister Palocci's inauguration speech, "We will seek reforms that are necessary for a sound and sustainable resumption of growth...The seriousness and responsibility in managing the public issues is an undeniable inheritance of the conduct of economic policy by Minister Pedro Malan and his team...And we will be glad to preserve this heritage and afterwards pass it on even more consolidated."

I have argued that economic policy should focus on increasing productivity growth because productivity growth is the source of rising living standards and reduction in poverty in any country. The two determinants of productivity growth are the pace at which capital is accumulated and the effectiveness with which labor and capital are employed. According to research at the Inter-American Development Bank, both determinants are constrained in Brazil. Indeed, this is why productivity growth, while improving, is still less much lower in Brazil than it can be. One cannot easily invest in capital when real lending rates to businesses are 15 percent. And one cannot easily create high productivity jobs when tax rates are high.

The importance that the new government of Brazil places on fiscal policy reform is therefore most welcome. Again to quote Minister Palocci: "Today we have a government that spends a lot and spends badly...We can no longer live with a budgetary management that promises more than public revenues allow."

There is a commitment to "generate the primary surplus that is necessary to undoubtedly guarantee the sustainability of our public debt." This will reduce the risk premium and thereby lower interest rates and be a boon to private investment and economic growth. And, over time, a lower debt burden will lessen the dependence on some of the highest tax rates in Latin America. And we see that elements of this policy are already being implemented with new spending proposals being offset with reductions in spending elsewhere in the budget.

Indeed one of the main purposes of the planned social security reform is to achieve a reduction in the annual deficit stemming from pension payments. Another pillar of the new administration's fiscal policy agenda is tax reform. Converting cascading tax rates into a value-added tax lowers the fiscal burden on producers and improves Brazil's investment climate. This can attract needed capital for improving productivity.

Regarding monetary policy, the new government has committed itself to maintaining a monetary policy with a floating exchange rate, an inflation target, and "clear rules and autonomy" for the central bank to change the instruments of monetary policy to achieve these targets. In particular, the new government has announced its plans to submit to the Brazilian congress a Monetary Responsibility Law, which would grant autonomy to the central bank. Evidence from many countries shows that the trinity of a flexible exchange rate, a low inflation goal, and a transparent procedure for setting the interest rate instrument will lead to greater macroeconomic stability and it is important that Brazil has chosen this route. The recent actions by the Brazilian central bank show that the policy is already being implemented.

On the structural front, the new economic team has noted the importance of expanding the private credit market so as to give small businesses more access to credit. Reform of the bankruptcy code is an important step because, by improving creditor rights, it will help increase lending and reduce interest rates. The pledge to reduce corruption, which raises the costs of economic transactions and is itself a barrier to strong economic growth, is also an important structural reform.

Regarding international trade policy, it is encouraging that President Lula cited the goal of opening the economy through trade liberalization in his inauguration address. Lowering barriers to international trade is an important way to raise productivity growth. The benefits from greater trade include improved access to needed capital imports and technology to raise productivity and improve living standards.

This agenda is a model in its aggressive focus on pursuing pro-growth reforms in several areas of economic policy. It is an agenda that resounds positively in the United States. It mirrors many of President Bush's own initiatives from lowering tax rates to expanding international trade.

Soon after coming into office President Bush was successful in implementing a timely reduction in taxes that helped mitigate the economic recession. And last year he successfully won back Trade Promotion Authority, the first time since 1994 that a president has had this essential legislative tool to negotiate trade agreements. And his recently announced program of tax cuts has the goal of raising economic growth, sustaining the recovery, and creating more jobs both in the short run and the long run. Small businesses are our main source of new jobs. The cut in the income tax rates will lower the tax on many small businesses and more generous expensing provisions for small businesses would encourage them to invest in the technology and other equipment they need to expand and create jobs. Similarly, the elimination of the double tax on dividends will lower the cost of capital, encourage investment and job creation, and raise productivity. The expansion of the child tax credit and the extension of the 10 percent income tax to more taxpayers are examples of how the tax cuts apply to all income tax payers.

We are confident that this tax program will raise economic growth and improve economic stability in the United States. And because the United States is such a large part of the world economy, raising economic growth here will raise economic growth elsewhere, including Brazil. Indeed, pursuing a pro-growth economic policy at home is a key principle of our international economic policy.

Another principle of our international economic policy is to support countries that are following good economic policies. The United States has supported Brazil consistently in the International Monetary Fund with the program in August of 2001 and its augmentation in August of 2002. We would like to encourage the multilateral development banks to provide assistance, perhaps for the zero hunger plan, or for small business lending, or for trade capacity building. We are also anxious to work with Brazil to create a solid Free Trade Agreement for the Americas.

We look forward to advancing many of these initiatives as part of the broader Summit our Presidents agreed to at their meeting in December. We at the United States Treasury plan further concrete and constructive discussions with our counterparts in the Brazilian Ministry of Finance to pursue areas of mutual interest.

Translating economic agendas into reality takes enormous skill in communication and consensus building, whether in Brazil or the United States. As we have seen in our own country, implementing economic policy is just as important as designing it. The Lula administration will have to form the important coalitions necessary for key legislative reform. Of course, the atmosphere of cooperation and outreach that dominated President Lula's inauguration speech can provide comfort in this regard

In conclusion, let me emphasize that Brazil is a critical part of Latin America, a region that holds particular significance to President Bush. Brazil is the world's fifth most populous country and the ninth largest economy. It has long been a major trade, investment, and financial partner of many countries in our hemisphere including the United States.

Our efforts to increase economic growth in this hemisphere also include the recently concluded free trade agreement with Chile, the just-opened negotiations for a Central American Free Trade Agreement, more assistance to the poorest countries through the Millennium Challenge Account, the new grants program at the World Bank, increased private sector lending through the multilateral development banks, and facilitating remittances from the United States to families in the countries of Latin America.

Higher economic growth throughout this hemisphere is our shared priority.

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
January 27, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	January 30, 2003
Maturity Date:	May 01, 2003
CUSIP Number:	912795MK4

High Rate: 1.140% Investment Rate 1/: 1.159% Price: 99.712

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 42.26%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 32,452,193	$ 15,889,513
Noncompetitive	1,647,147	1,647,147
FIMA (noncompetitive)	463,400	463,400
SUBTOTAL	34,562,740	18,000,060 2/
Federal Reserve	6,823,654	6,823,654
TOTAL	$ 41,386,394	$ 24,823,714

Median rate 1.125%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.105%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 34,562,740 / 18,000,060 = 1.92

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,290,632,000

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
January 27, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	January 30, 2003
Maturity Date:	July 31, 2003
CUSIP Number:	912795NF4

High Rate: 1.160% Investment Rate 1/: 1.182% Price: 99.414

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 67.34%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 32,551,370	$ 14,193,271
Noncompetitive	1,240,907	1,240,907
FIMA (noncompetitive)	566,000	566,000
SUBTOTAL	34,358,277	16,000,178 2/
Federal Reserve	5,880,875	5,880,875
TOTAL	$ 40,239,152	$ 21,881,053

Median rate 1.150%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.125%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 34,358,277 / 16,000,178 = 2.15

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,001,809,000

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 25, 2003
KD-3803

Remarks by Treasury Assistant Secretary Pam Olson to the ABA Tax Section on January 25, 2003

When criticized recently for a dissent written in poetry, the author, Justice J. Michael Eakin of the Pennsylvania Supreme Court, responded, "you have an obligation as a judge to be right, but you have no obligation to be dull." As I was preparing my remarks today, it occurred to me that Justice Eakin's words were good advice. Then I remembered my subject was tax policy, and since I am not a poet, I quickly abandoned notions of being anything but dull.

I'm going to cover three topics today that have consumed more than a little time at Treasury in recent months - compliance - or perhaps that should be noncompliance - in the offshore sector, the President's economic growth and jobs package, and the increasing import of globalization for our tax system.

Cleaning Up Offshore Noncompliance

The IRS has long had - on a more or less consistent basis - a policy of not referring for prosecution taxpayers who turn themselves in. There are several reasons for the policy. One obvious reason is that knowing one will be prosecuted has a chilling effect on those who would turn themselves in. But let's cut to the chase - people who have turned themselves in just don't make attractive candidates for prosecution.

To prevent people from waiting until the IRS has them in its sight before turning themselves in, however, the IRS's voluntary disclosure non-referral policy ends when the taxpayer's problem has been identified by the IRS. Last month the IRS announced that it had revised and updated its policy. The key change relates to reducing uncertainty over what constitutes a "timely" disclosure - that is, clarification of when the IRS has a taxpayer in its sight. The IRS announced that publicity surrounding an investigation that might lead to the taxpayer did not trigger the loss of the voluntary disclosure opportunity.

That was followed last week by the IRS's unveiling of an initiative aimed at cleaning up the offshore sector. Under the new initiative, the IRS is permitting taxpayers with money hidden in offshore accounts and accessed by credit card or other financial arrangement until April 15th to come in and get right with the IRS.

Taxpayers who wish to take advantage of the initiative will be spared the possibility of civil fraud penalties and of referral for criminal prosecution. In exchange, they must provide the IRS with information on the promoter or advisor who put them into the offshore arrangement.

We see the change in the voluntary disclosure policy and the initiative launched last week as important steps in cleaning up the offshore sector. About two years ago, the IRS began summons enforcement actions against the major U.S. credit card companies in an effort to identify taxpayers using offshore banks to hide their income. That effort has borne considerable fruit, but there remains an enormous amount of work to do to identify and track down all of the account holders. The IRS became aware that there were a number of taxpayers who would get straight if given the opportunity. Taxpayers now have that opportunity.

One of Treasury's roles in cleaning up the offshore sector is to facilitate tax information exchange with foreign governments that allow the IRS to more readily identify US taxpayers hiding income offshore. Over the past 18 months, Treasury has entered into tax information exchange agreements with the offshore financial centers in which over 50 percent of the offshore companies are located. These were the first tax information exchange agreements entered into in over a decade.

Yesterday we entered into a Mutual Agreement on tax information exchange with Switzerland, a key financial center. The Mutual Agreement, which builds on the information exchange provisions of our bilateral treaty with Switzerland, is a significant step in our efforts to ensure that no safe haven exists anywhere in the world for the funds associated with illicit activities, including tax evasion. Access to information is vital to our efforts to ensure full and fair enforcement of our tax laws. We look forward to working with Switzerland to further improve this relationship.

The point I want to leave you with is that we are opening the offshore sector to sunlight. The IRS has taken important steps to help taxpayers and their advisers understand what must be done to get back into compliance with the tax laws without fear of prosecution.

If you've got clients with IRS problems they ought to clean up, the time to take care of the problems is now. With this initiative in place, we expect taxpayers will do the right thing and voluntarily disclose and pay their outstanding tax liabilities. The initiative is only a week old, but the early returns are encouraging.

The President's Jobs and Growth Package

On January 7th, the President proposed a package of tax changes aimed at improving economic growth and providing more jobs. Although there is much positive to be said about the economy, particularly considering the bursting of the stock market bubble, the September 11th attacks, and the accounting and corporate governance scandals that have beset us, it is clear the economy is not running on all cylinders.
The President's jobs and growth proposal is intended to put the economy on a path to long-term stable growth.

There are three parts to the President's tax proposals - an acceleration of the 2001 Tax Cuts that were delayed until as long as the end of the decade. These include an expansion of the size of the 10% bracket, a reduction in rates from 27% to 38.6% to 25% to 35%, elimination of the marriage penalty for lower and moderate income families, and an increase in the child credit from $600 to $1000.

The second part is a tripling of the amount of capital investment that can be expensed by small businesses.

The third part is the end of the double tax on corporate earnings.

The effect of the double tax on corporate earnings is familiar to most of us in this room. In fact, it's how a lot of us make a living. And you're familiar with the math. A tax as high as 60% on earnings paid out as dividends and as high as 48% on earnings retained. But it's instructive to pause to consider those effects because they've grown more perverse as the years have passed.

It creates a bias for debt. The result is excessive debt that increases the risk of bankruptcy during economic downturns.

It creates a bias for unincorporated entities, with the result that businesses make decisions on organizational form for tax rather than business reasons. That effect is apparent from the statistics. From 1980 to 1999, net income of C corporations fell from 78% to 57% of all business income with the net income of flow throughs rising by a corresponding amount. Similarly, the gross receipts of C corporations fell from 87% to 72% of all business receipts with the gross receipts of flow throughs rising by a corresponding amount.

It encourages corporations to retain earnings rather than pay dividends. This too is illustrated by the statistics. Dividends were paid by 75% of large companies in the mid-60s. That number dropped to less than 25% by the mid-90s. And during the 90s, the dividend payout of large publicly traded companies fell from 23% of pre-tax earnings in 1992 to 14% in 1999. The incentive to retain earnings means reduced scrutiny of and a reduced hurdle for projects financed with retained earnings. That's a distinct difference from the scrutiny given to projects for which the company must go to the market for financing.

There are secondary effects. It has led corporations to engage in complex and expensive planning of transactions that result in the distribution of earnings at capital gains rates instead of just paying dividends. This too can be seen from the statistics. The most familiar is the share repurchase. In 1999, over 34% of large publicly traded companies engaged in share repurchases, up from 28% in 1992. More striking is that fact that by 1999, almost 20% of earnings were paid out by share repurchase, nearly triple that of 1992.

And here's another secondary effect familiar to all of you. It encourages corporations to engage in transactions solely to minimize taxes. That has promoted the acceptability of transactions serving no purpose other than minimization of tax liability. The President's proposal makes paying taxes an asset to shareholders. Now that changes the math.

The goal of the President's proposal is to end the double tax. The basic mechanism is an exclusion for shareholders of dividends paid out of earnings on which the corporation has paid tax. To avoid a new bias against retaining earnings, the President's proposal includes an adjustment to shareholders' stock basis that reflects retained earnings.

The tax free dividend is determined by the company on the basis of the tax liability it reports on its tax return. The earnings on which the company has paid tax are determined on the basis of a 35% tax rate. That amount less the tax paid is the amount that a company can distribute to shareholders tax free, and it is distributed on a proportionate basis. If the company chooses to retain some of the taxed earnings, the company will advise shareholders of the amount by which they may adjust their stock basis.

The calculation of the previously taxed earnings will be based on the most recent tax return filed by the company before the year begins. Any subsequent adjustments to the tax return will be reflected in the calculation of taxed earnings at the time of the adjustment, and not retroactively. This will give companies and shareholders certainty about the tax free status of the dividends at the time the dividend is paid.

Globalization

I think the last time the Tax Section covered international taxes in a plenary session was two years ago. Today, we find ourselves in a position similar to the position we were in then - the global economy of increasing importance to all Americans and the World Trade Organization having recently declared a feature of our international tax regime an export subsidy illegal under the WTO rules. Then it was the foreign sales corporation rules. Today it is the extraterritorial income exclusion adopted to replace them. I want to set a backdrop for reconsidering the fundamentals of our international tax rules.

From the vantage point of an increasingly global marketplace, our tax rules appear outmoded, at best, and punitive of U.S. economic interests, at worst. Most other developed countries of the world are concerned with setting a competitiveness policy that permits their workers to benefit from globalization. As Deputy Secretary Dam observed recently, however, our international tax policy seems to have been based on the principle that if we have a competitive advantage, we should tax it!

Our income tax system as a whole dates back to shortly after the turn of the last century. To put that in perspective, buggy whip makers had just gone out of

business A bit has happened since then. Of course, significant changes have been made to the tax code as well. In the international area, we added the subpart F rules back in 1962. A lot of those rules haven't aged very well. We also made fairly significant changes to the international tax rules in 1986.
That would make those rules teenagers now, and they have the characteristics of the average teenager. They're hard to understand, messy, inconsistent, and display little regard for the real world.

The global economy looked very different when the subpart F rules were put in place than it looks today. The same is true of the U.S. role in the global economy. Forty years ago the U.S. was dominant, accounting for over half of all multinational investment in the world. We could make decisions about our tax system essentially on the basis of a closed economy, and we could generally count on our trade partners to follow our lead in tax policy.

Things have changed in 40 years. In fact, a lot has changed in 17 years. When the rules were first developed, they affected relatively few taxpayers and relatively few transactions. Today, there is hardly a U.S.-based company that is not faced with applying the U.S. international tax rules to some aspect of its business.

Let's pause for a moment to consider what globalization means - the growing interdependence of countries resulting from increasing integration of trade, finance, investment, people, information and ideas in one global marketplace. Globalization results in increased cross-border trade, and the establishment of production facilities and distribution networks around the globe. Technology has accelerated the pace of globalization. Advances in communications, information technology, and transport have dramatically reduced the cost and time taken to move goods, capital, people, and information around the world. Firms in this global marketplace differentiate themselves by being smarter: applying more cost efficient technologies or innovating faster than their competitors. The returns to being smarter are much higher than they once were as the benefits can be marketed worldwide.

The significance of globalization to the U.S. economy since the enactment of subpart F is apparent from the statistics on international trade and investment. In 1960, trade in goods to and from the U.S. represented just over six percent of GDP. Today, trade in goods to and from the U.S. represents over 20 percent of GDP, more than three times larger than in 1960, while trade in goods and services represents more than 25 percent of GDP today. It is worth noting that numerous studies confirm a strong link between trade and economic growth. Trade appears to raise income by spurring the accumulation of physical and human capital and by increasing output for given levels of capital.

Cross border investment, both inflows and outflows, also has grown dramatically in the last 40 years. In 1960, cross border investment represented just over one percent of GDP. In 2000, it was nearly 16% of GDP, representing annual cross-border flows of more than $1.5 trillion. The aggregate cross border ownership of capital is valued at $15 trillion. In addition, U.S. multinational corporations are now responsible for more than one-quarter of U.S. output and about 15 percent of U.S. employment.

At the same time companies are competing for sales, they are also competing for capital: U.S.-managed firms may have foreign investors, and foreign-managed firms may have U.S. investors. Portfolio investment accounts for approximately two-thirds of US investment abroad and a similar fraction of foreign investment in the U.S.

The U.S. tax rules have important effects on international competitiveness both because of the integration of domestic activities of U.S. multinational companies with their foreign activities and because repatriated foreign earnings of foreign investments are subject to U.S. domestic tax. Increasingly, the flow of goods and services is not through purchases between exporters and importers, but through transfers between affiliates of multinational corporations. The rules governing transfer pricing, interest allocation, withholding rates, foreign tax credits, and the taxation of actual or deemed dividends impact these flows.

The U.S. tax system should not distort trade or investment relative to what would occur in a world without taxes. Every country makes sovereign decisions about its own tax system, so it is impossible for the U.S. to level all playing fields simultaneously. But we can ensure that our own rules minimize the barriers to the free flows of capital that globalization necessitates.

The question we must answer is what we can do to increase the competitiveness of U.S. businesses and workers. Professor Michael Graetz observed in his book, The Decline (and Fall?) of the Income Tax:

The internationalization of the world economy has made it far more difficult for the United States, or any other country for that matter, to enact a tax system radically different from those in place elsewhere in the world. In today's worldwide economy, we can no longer look solely to our own navels to answer questions of tax policy.

Professor Graetz's point is right. We must write tax rules that take into account what other countries are doing. We must also reconsider the extent to which our rules impede the flow of capital of US businesses, necessitate inefficient business structures and operations, and leave US companies and workers in a less competitive position. We must also give appropriate regard for the international institutions that support free trade, even when we dislike the decisions they hand down. That result should be obvious because - let's face it - no one has a greater stake in the WTO and in free trade than the U.S. Despite the WTO decisions against our foreign sales corporation and extraterritorial income regimes, the WTO rules serve the economic interests of American businesses and workers by opening markets and ensuring fair play.

We must consider the ways in which our tax system differs from that of our major trading partners to identify aspects that may hinder the competitiveness of U.S. companies and workers and creates barriers to efficient capital flows. About half of the OECD countries employ a worldwide tax system as does the U.S. The practical effect of a worldwide system is a tax on U.S. companies repatriating their earnings to the extent foreign tax credits are unavailable to offset U.S. taxes. That tax creates a hurdle to companies bringing profits back to the U.S. It means U.S. investments face a higher hurdle than investments abroad. That is a hurdle foreign competitors in territorial systems don't face, and a hurdle foreign competitors investing in the U.S. don't face.

Even limiting comparison of our system to that of countries using a worldwide tax system, U.S. multinationals can be disadvantaged when competing abroad. This is because the U.S. worldwide tax system, unlike other worldwide systems, can tax active forms of business income earned abroad before it has been repatriated and more strictly limit the use of the foreign tax credits that prevent double taxation of income earned abroad.

Let's look at a couple of examples. Under subpart F, a U.S. company that uses a centralized foreign distribution company to handle sales of its products in foreign markets is subject to current U.S. tax on the income of that foreign distribution subsidiary. In contrast, a local competitor is subject only to the tax imposed by that country. Similarly, a foreign competitor with a centralized distribution company making sales into the same markets generally will be subject only to the tax imposed by the local country. The practical effect is U.S. companies seeking the most efficient operation of their foreign distribution facilities face a tax penalty relative to their foreign competitors.

The subpart F rules also impose current U.S. taxation on income from certain services transactions, shipping activities and oil related activities performed abroad. In contrast, a foreign competitor engaged in the same activities generally will not be subject to current home-country tax on its income from these activities. While the purpose of these rules is to differentiate passive or mobile income from active business income, they operate to currently tax some classes of income arising from active business operations structured and located in a particular country for business reasons wholly unrelated to tax considerations. The additional tax burden necessitates additional efficiencies by the U.S. business to be competitive.

We have similar issues with the limitations on foreign tax credits. The rules for determining and applying the foreign tax credit are detailed and complex and can have the effect of subjecting U.S.-based companies to double taxation on their income earned abroad. An example is our interest expense allocation rules that allocate the interest expense of a U.S. parent to its foreign subsidiaries even where those subsidiaries are equally or more leveraged than the U.S. parent. The result is an inappropriate reduction of foreign source income and, consequently, the foreign tax credit. The effect can be to subject U.S. companies to double taxation.

Our double tax on corporate earnings also sets us apart from our foreign competitors. Of OECD countries, only Ireland and Switzerland afford no relief from the double tax.

It is time for us to review our rules based on the world we live in today and the world we imagine for the future. We must design rules that equip us to compete in the global economy – not fearfully, but hopefully. We all benefit significantly from vigorous participation in the global economy - from the increased variety of products available to us as consumers to the increased opportunities for us to sell our products and services. Over the past 20 years, U.S. companies that invest abroad exported more (exporting between one-half and three-quarters of all U.S. exports), paid their workers more, and spent more on R&D and physical capital than companies not engaged globally. Moreover, foreign investment is not just the largest companies.

A recent Department of Commerce survey indicated 30 percent of mid-sized companies had foreign investment.

This isn't just about us. And I wouldn't suggest to you that we should redesign our rules for the sole purpose of winning the global competition or maintaining a competitive edge. While 80 percent of U.S. investment abroad is located in high-income countries, our investment in developing countries may be far more important. U.S. investment is vital to these countries achieving sustainable poverty-reducing growth and development.

Too many people see foreign investment as a zero sum game, but the globalization of the economy is not like a poker game revenue neutral. Healthy foreign economies mean more markets for our products. They mean more opportunities for us to profitably invest. But, foreign investment also means sharing our ideas, our knowledge, our values, and our capital to improve the lives of people around the world. That is not a zero sum game. I hope you will engage with us in a discussion of what the future might bring.

Thanks you for your attention.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 27, 2003
KD-3804

Remarks by Treasury Assistant Secretary Pam Olson to USC Law School Tax Institute

I'm going to cover three topics today that have consumed more than a little time at Treasury in recent months - compliance - or perhaps that should be noncompliance, the President's economic growth and jobs package, and the increasing significance of globalization for our tax system.

Cleaning Up Noncompliance

The IRS has long had - on a more or less consistent basis - a policy of not referring for prosecution taxpayers who turn themselves in. There are several reasons for the policy. One obvious reason is that knowing one will be prosecuted has a chilling effect on those who would turn themselves in. But let's cut to the chase - people who have turned themselves in just don't make attractive candidates for prosecution.

To prevent people from waiting until the IRS has them in its sights before turning themselves in, however, the IRS's voluntary disclosure non-referral policy ends when the taxpayer's problem has been identified by the IRS. Last month the IRS announced that it had revised and updated its policy. The key change relates to reducing uncertainty over what constitutes a "timely" disclosure - that is, clarification of when the IRS has a taxpayer in its sight. The IRS announced that publicity surrounding an investigation that might lead to the taxpayer did not trigger the loss of the voluntary disclosure opportunity.

That was followed two weeks ago by the IRS's unveiling of an initiative aimed at cleaning up the offshore sector. Under the new initiative, the IRS is permitting taxpayers with money hidden in offshore accounts and accessed by credit card or other financial arrangement until April 15th to come in and get right with the IRS. Taxpayers who wish to take advantage of the initiative will be spared the possibility of civil fraud penalties and of referral for criminal prosecution. In exchange, they must provide the IRS with information on the promoter or advisor who put them into the offshore arrangement.

We see the change in the voluntary disclosure policy and the initiative just launched as important steps in cleaning up the offshore sector. About two years ago, the IRS began summons enforcement actions against the major U.S. credit card companies in an effort to identify taxpayers using offshore banks to hide their income. That effort has borne considerable fruit, but there remains an enormous amount of work to do to identify and track down all of the account holders. The IRS became aware that there were a number of taxpayers who would get straight if given the opportunity. Taxpayers now have that opportunity.

One of Treasury's roles in cleaning up the offshore sector is to facilitate tax information exchange with foreign governments that allow the IRS to more readily identify US taxpayers hiding income offshore. Over the past 18 months, Treasury has entered into tax information exchange agreements with the offshore financial centers in which over 50 percent of the offshore companies are located. These were the first tax information exchange agreements entered into in over a decade.

Last Friday we entered into a Mutual Agreement on tax information exchange with Switzerland, a key financial center. The Mutual Agreement, which builds on the information exchange provisions of our bilateral treaty with Switzerland, is a significant step in our efforts to ensure that no safe haven exists anywhere in the world for the funds associated with illicit activities, including tax evasion. Access to information is vital to our efforts to ensure full and fair enforcement of our tax laws. We look forward to working with Switzerland to further improve this relationship.

The point I want to leave you with is that we are opening the offshore sector to sunlight. The IRS has taken important steps to help taxpayers and their advisers understand what must be done to get back into compliance with the tax laws without fear of prosecution.

If you've got clients with IRS problems they ought to clean up, the time to take care of the problems is now. With this initiative in place, we expect taxpayers will do the right thing and voluntarily disclose and pay their outstanding tax liabilities. The initiative is only a week old, but the early returns are encouraging.

The offshore sector isn't the only place we have problems. For the last few years, it seems like we've been tuned to radio station NOTAX, broadcasting all shelters, all the time! With all the attention focused on the topic, with legislative changes, regulatory changes, and a torrent of anti-shelter words, how is it that the perception is the problem has grown worse?

In part, it is because the torrent of words was not connected to a torrent of actions. While the risk to the system was identified, the compliance resource allocation remained largely unchanged. For example, shelter registrations filed between 1997 and 2000 included a number of listed transactions. However, until the Office of Tax Shelter Analysis was formed and a strong Treasury commitment to pursuing the transactions was made clear, those registrations gathered dust.

What happens when promoters register transactions and get no response? Same thing that happens when children act up and no one tells them to quit it. They do it again. So promoters told their customers the IRS is "OK" with the transactions. The IRS knows about the transactions and has done nothing to shut them down so obviously things are copasetic, right? Wrong. We can argue about whether promoters should have known the difference between approval and neglect. But, many did not understand that – or they chose to believe otherwise – and so tax practice deteriorated without adult supervision.

Well, folks, the parents have arrived at the party. Unfortunately, we have a lot of cleaning up to do, but the effort is underway. By moving resources from accounting method nits to transactions promising large permanent tax losses, by supporting taxpayer disclosure, and by acting promptly to resolve issues, we firmly believe we can put this problem behind us and begin to restore a measure of confidence in our tax system. With B. John Williams on board as Chief Counsel and the Justice Department aiding the effort, I believe the efforts of the IRS operating divisions are beginning to get traction.

As we work to put this problem behind us, many of you in this room – including some who have never entered into or promoted an abusive tax avoidance device – will have to live through the clean up efforts and our efforts to get our arms around the problem. I apologize for that. We recognize that the new disclosure and list keeping regulations will impose an additional burden on you. We are considering ways to minimize that burden while preserving our goals of increased transparency and certainty. As I see this, taxpayers, practitioners, and the government share a mutual goal here – reducing the burden of complying with and administering the law while ensuring that the IRS's resources are devoted to productive endeavors. You have my commitment that we will work with you to produce the least burdensome rules we possibly can.

Shelter legislation the Treasury Department helped to craft was introduced in both Houses of Congress last year, but was not enacted. We believe some of the legislative changes are important to further deterring tax shelter activity. Some of it, we fear, would make tax administration more difficult, thus potentially worsening rather than improving tax compliance. The piece of legislation I would most like to see passed is the change to the registration rules under section 6111. That change would allow us to conform the definition of a potentially abusive tax shelter across the board – for return disclosure, registration, and list maintenance purposes.

One thing I have become convinced of since joining Treasury is the importance of acting even without a legislative mandate. We don't always need laws to tell us the difference between right and wrong or to tell us what we ought to do. Consequently, we are exploring what the IRS and Treasury can do to implement registration on a voluntary basis. Why, you may ask, would anyone voluntarily register anything? Because doing so illustrates best practices, and it is time for us as good citizens to adopt best practices without an act of Congress compelling us to do so. We'll be considering what action we can take to support the voluntary adoption of best practices. The IRS offering such support is not unheard of. Similar support was provided for a best practice – disclosure – in the disclosure initiatives and settlement guidelines that have been released in the past year.

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On January 7th, the President proposed a package of tax changes aimed at improving economic growth and providing more jobs. Although there is much positive to be said about the economy, particularly considering the bursting of the stock market bubble, the September 11th attacks, and the accounting and corporate governance scandals that have beset us, it is clear the economy is not running on all cylinders. The President's jobs and growth proposal is intended to put the economy on a path to long-term stable growth.

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Globalization

Recent events have conspired to create what was referred to by a panelist at the ABA Tax Section meeting on Saturday as the perfect storm. With the World Trade Organization having recently declared a feature of our international tax regime an export subsidy illegal under the WTO rules and the burst of corporate inversion transactions in the last couple of years, we find ourselves in a position where significant change to our international tax rules seems inevitable. If change is inevitable, the question is what we should do. I'd like to set a backdrop for reconsidering the fundamentals of our international tax rules.

From the vantage point of an increasingly global marketplace, our tax rules appear outmoded, at best, and punitive of U.S. economic interests, at worst. Most other developed countries of the world are concerned with setting a competitiveness policy that permits their workers to benefit from globalization. As Deputy Secretary Dam observed recently, however, our international tax policy seems to have been based on the principle that if we have a competitive advantage, we should tax it!

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Despite the WTO decisions against our foreign sales corporation and extraterritorial income regimes, the WTO rules serve the economic interests of American businesses and workers by opening markets and ensuring fair play.

We must consider the ways in which our tax system differs from that of our major trading partners to identify aspects that may hinder the competitiveness of U.S. companies and workers and creates barriers to efficient capital flows. About half of the OECD countries employ a worldwide tax system as does the U.S. The practical effect of a worldwide system is a tax on U.S. companies repatriating their earnings to the extent foreign tax credits are unavailable to offset U.S. taxes. That tax creates a hurdle to companies bringing profits back to the U.S. It means U.S. investments face a higher hurdle than investments abroad. That is a hurdle foreign competitors in territorial systems don't face, and a hurdle foreign competitors investing in the U.S. don't face. The most important point here is that the system creates a bias against companies reinvesting in the U.S. That is a result that disadvantages U.S. workers. Yet rhetoric stands in the way of even fairly considering reform.

Even limiting comparison of our system to that of countries using a worldwide tax system, U.S. multinationals can be disadvantaged when competing abroad. This is because the U.S. worldwide tax system, unlike other worldwide systems, can tax active forms of business income earned abroad before it has been repatriated and more strictly limit the use of the foreign tax credits that prevent double taxation of income earned abroad.

Let's look at a couple of examples. Under subpart F, a U.S. company that uses a centralized foreign distribution company to handle sales of its products in foreign markets is subject to current U.S. tax on the income of that foreign distribution subsidiary. In contrast, a local competitor is subject only to the tax imposed by that country. Similarly, a foreign competitor with a centralized distribution company making sales into the same markets generally will be subject only to the tax imposed by the local country. The practical effect is U.S. companies seeking the most efficient operation of their foreign distribution facilities face a tax penalty relative to their foreign competitors.

The subpart F rules also impose current U.S. taxation on income from certain services transactions, shipping activities and oil related activities performed abroad. In contrast, a foreign competitor engaged in the same activities generally will not be subject to current home-country tax on its income from these activities. While the purpose of these rules is to differentiate passive or mobile income from active business income, they operate to currently tax some classes of income arising from active business operations structured and located in a particular country for business reasons wholly unrelated to tax considerations. The additional tax burden necessitates additional efficiencies by the U.S. business to be competitive.

We have similar issues with the limitations on foreign tax credits. The rules for determining and applying the foreign tax credit are detailed and complex and can subject U.S.-based companies to double taxation on their income earned abroad. An example is our interest expense allocation rules that allocate the interest expense of a U.S. parent to its foreign subsidiaries even where those subsidiaries are equally or more leveraged than the U.S. parent. The result is an inappropriate reduction of foreign source income and, consequently, the foreign tax credit. The effect can again be double taxation.

Our double tax on corporate earnings also sets us apart from our foreign competitors. Of OECD countries, only Ireland and Switzerland afford no relief from the double tax.

It is time for us to review our rules based on the world we live in today and the world we imagine for the future. We must design rules that equip us to compete in the global economy – not fearfully, but hopefully. We all benefit significantly from vigorous participation in the global economy - from the increased variety of products available to us as consumers to the increased opportunities for us to sell our products and services. Over the past 20 years, U.S. companies that invest abroad exported more (exporting between one-half and three-quarters of all U.S. exports), paid their workers more, and spent more on R&D and physical capital than companies not engaged globally. Foreign investment is not important just to the largest companies. A recent Department of Commerce survey indicated 30 percent of mid-sized companies had foreign investment.

This isn't just about us. And I wouldn't suggest to you that we should redesign our rules for the sole purpose of winning the global competition or maintaining a competitive edge. While 80 percent of U.S. investment abroad is located in high-income countries, our investment in developing countries may be far more important. U.S. investment is vital to these countries achieving sustainable poverty-reducing growth and development.

Too many people see foreign investment as a zero sum game, but the globalization of the economy is not - like a poker game - revenue neutral. Healthy foreign economies mean more markets for our products. They mean more opportunities for us to profitably invest. But, foreign investment also means sharing our ideas, our knowledge, our values, and our capital to improve the lives of people around the world. That is not a zero sum game. I hope you will engage with us in a discussion of what the future might bring.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
Thursday, January 28, 2003

Contact: Tony Fratto
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Strengthening Africa's Financial Sector to Promote Growth

Importance of Financial Sector Development

Financial sector development is one of the keys to economic growth as it facilitates savings and investment. If Sub-Saharan Africa is to provide its growing population with sufficient food, productive jobs, and rising incomes, its economies must grow by at least 4-5% a year, if not more. To do this, the region must improve productivity, increase investment, and dramatically raise levels of domestic savings. The level of domestic savings in sub-Saharan Africa remains below that of all other developing regions, representing only about 12% of aggregate GDP. Savings rates in Asia, meanwhile, are as high as 30%, and even in South Asia the savings rate is 17%.

To increase public savings, governments must focus on reducing expenditures. In addition, much can be done to increase revenues, without raising marginal tax rates, by eliminating exemptions and broadening the tax base. To encourage private savings, governments must reform property ownership laws and more broadly promote private sector development, improve the investment climate, build infrastructure, and increase access to credit. Strengthening financial sectors is critical to supporting such reforms. In addition, reforming weak banking sectors can have a direct impact on savings as weak banks tend to have higher loan-to-deposit spreads and thereby discourage savings and investment.

A stronger financial sector is also critical to improving income levels. Low-income families, small-to-medium size enterprises, and rural entrepreneurs in developing countries have difficulty obtaining financial services. Banking sector penetration in a typical sub-Saharan African country is around 1% of GDP, far below a more advanced economy like Brazil, where penetration is approaching 25%, or industrialized countries where it is near 85%. Women's World Banking estimates that fewer than 2 percent of low-income entrepreneurs worldwide have access to financial services.
KD-3805

In Africa's agriculture sector, women receive less than 10% of the credit to small farmers and less than 1% of the total credit to agriculture.

Developing the financial sector is also necessary for preventing the financing of terrorism and combating financial crimes. In many African countries, banks are the primary financial intermediary. They are the key repository for the public's savings and the main source of credit to firms. Fragile banking systems not only misallocate resources, but also leave themselves vulnerable to terrorists, money-launderers, and others who would abuse the financial system.

Challenges for Reform

While several Sub-Saharan African countries have already made substantial progress in reforming and modernizing their financial sectors, there is still much work to be done:

- *Banking systems often still operate with a substantial degree of government ownership or control.* During the 1980s, when many African countries faced external shocks, the primary cause of financial distress of banks was political, in the form of pressure not to recover debts, or to lend to weak borrowers including parastatals, politically connected private sector borrowers, and the government itself.

- *Bank supervision remains weak, enforcement tools inadequate, and management standards low.* Most African financial sectors need reform in the areas of prudential regulations, banking supervision, bankruptcy laws, and contract enforcement law. Compliance with international codes and standards is also an area in need of reform.

- *The depth and breadth of Sub-Saharan Africa's financial markets are inadequate.* The banking industry is highly concentrated (in a study of 11 Sub-Saharan African countries, 60% of banking sector assets were concentrated in, at most, 4 banks); loan portfolios are not diversified, reflecting national economies; capital markets are shallow; and insurance and pension systems are not well developed.

Without reforms in these areas, financial systems will continue to experience high levels of non-performing loans, interest rates that do not adequately reflect the level of risk, and crowding out of the private sector.

Value of Openness and Competition within the Financial Sector

We at Treasury believe that openness to foreign direct investment in the financial sector coupled with improved financial supervision and regulation is a clear path to economic growth and stability. Foreign financial institutions can introduce strong business practices, technology, products, and risk management systems. And, of course, foreign financial institutions can bring their own financial resources to bear as well.

Financial sector openness offers two fundamental benefits to those who undertake it. First, a more open and well-regulated financial sector is more efficient and more robust. It acts as an "engine of growth" for the entire economy.

The financial sector has an economy-wide effect. All other sectors rely on financial intermediation for growth. Second, perhaps more than in any other economic sector, a stronger, deeper financial sector can protect an economy from external as well domestic shocks. Therefore, financial sector openness can promote stability.

How does financial sector openness lead to growth? Well, we know that the world's best financial institutions are better able to identify productive investment opportunities and then more quickly move domestic savings into them—in short, the better they perform their capital intermediation function, the faster an economy can grow.

Another benefit of a competitive, open system is that it forces all financial firms operating in an economy to offer the highest returns to savers and the lowest cost of capital to investors. Under the right conditions, competition from international firms leads to narrower spreads, and stimulates both savings and investment.

As financial institutions aggregate capital, they must move it into the business and industry sectors where they can earn the best risk-adjusted returns for their savers. That means investing in the businesses that can make the best use of their capital—in other words, those that offer the highest productivity. And rising productivity—output per worker—is at the root of raising living standards.

There is a particular need for more attention in the areas of finance for small- and medium-sized enterprises (SMEs) and the prevention of terrorist financing and financial crimes.

Improving SME Access to Finance

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 putting a dairy cow in an empty barn in Kosovo.

As these 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.

In most Sub-Saharan countries, SMEs and microenterprises have limited access to financial services, yet they make up the vast majority of businesses in Sub-Saharan Africa. In recent years, multilateral development banks, governments, and NGOs have developed programs to finance microenterprises. SMEs would best be served by the local banking sector which could provide working capital loans in local currency, but this sector is underdeveloped in many countries.

The US Treasury and the International Finance Corporation (IFC), the arm of the World Bank group that invests in private companies, are working to establish an IFC-managed facility that would develop local private financial institutions in Africa to serve the financing needs of SMEs. While many multilateral and bilateral donors have in recent years increased their financing for African microenterprise development, there are few programs that target SMEs. This idea has a successful analogue in the US-supported SME finance facility of the European Bank for Reconstruction and Development (EBRD). The US hopes that IDA would fund the development of this SME financing facility for Africa.

Combating Financial Crimes and Terrorist Financing

Well-regulated financial sectors that can institute and implement effective asset-freezes, know-your-customer requirements, and policies that ensure transparency are the first line of defense against terrorists, money-launderers, and other financial criminals. To combat the financing of terrorism, governments must first ensure that they have the appropriate tools to freeze and seize any terrorist-related assets, establish financial intelligence units to track flows of funds and share information, implement oversight of alternative remittance systems such as foreign exchange bureaus, and provide adequate protections against the abuse of charitable institutions by the financiers of terror.

The U.S. Treasury Department and the African Development Bank have been working on organizing a regional banking conference in Africa to discuss necessary reforms. The two-day conference would cover developments in the international community to thwart the flow of funds to terrorists and combat money laundering, and would then delve into how to build on these developments to strengthen a country's financial system and track terrorist assets.

The Example of Ghana

Ghana took a very systematic approach to reforming its financial sector in the early 90s. In the first phase of those reforms, the government placed ceilings on net bank credit to the government to avoid crowding out the private sector. While administrative controls on interest rates remained in place, they were gradually relaxed. The second phase of reform focused on liberalizing controls on interest rates and bank credit. In the third phase, there was a gradual shift from a direct system of monetary controls to an indirect system that utilized market-based policy instruments.

As part of the process, the Bank of Ghana rationalized the minimum reserve requirements for banks, introduced new financial instruments, and absorbed excess liquidity from open market operations. These policies were complemented by improving the soundness of the banking system by improving the regulatory framework, strengthening bank supervision, and improving the efficiency and profitability of banks, including the replacement of their non-performing assets. In the final stage of this process, Ghana has embarked on the privatization of the major publicly owned banks.

Conclusion

Financial sector development is critical to stronger economic growth, improved productivity, increased investment rates and better savings rates. A competitive and open financial sector can play a critical role in this process. Also, bilateral and multilateral development partners must assist African countries to make tangible progress toward economic and financial sector reform. The IFC SME facility will facilitate that process by building and strengthening financial institutions which can serve the SME sector, which typically is the primary engine of job creation in many countries around the world. In addition, the Treasury Department provides technical assistance in the areas of banking supervision.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
Thursday, January 16, 2003

Contact: Tony Fratto
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Raising Productivity, Improving Standards of Living, and Promoting Job-Creating Economic Growth in Africa

I. Introduction.

Raising productivity—and ultimately, economic growth—is the only way of achieving substantial and sustained reductions in poverty. We define productivity as the quantity of goods and services that a worker produces per unit of time with the skills and tools available. Bluntly, the more high productivity jobs there are in a country, the richer the country. However, most African countries do not fare well on this score—there tend to be only a few high productivity jobs, with the overwhelming majority of jobs characterized by low productivity, resulting in pervasive poverty.

I would like to focus on two interconnected themes: increasing the number of high productivity jobs in African countries, thereby promoting economic growth, and increasing the productivity of African workers generally—thereby improving standards of living. We cannot have one without the other. Quite simply, increasing the number of high productivity jobs is meaningless if there are no high productivity workers to fill those jobs, and having a highly productive workforce is equally pointless if there are no jobs for them to take.

At the same time, we should see rates of productivity growth increasing at a faster rate in poorer countries than in richer ones. This is what we have seen in East Asia over the past decades. In Africa this has not been the case. Africa is not catching up, due to three severe impediments to productivity growth: poor governance, poor education, and the highly restrictive nature of economic transactions in most African countries.

Poor governance and highly restrictive economic environments create a disincentive for the necessary investment to increase the number of high productivity jobs and workers. Poor education also locks the workforce into a low level of productivity.

KD-3806

Due to these three endemic impediments, neither of our keys to development—a higher productivity workforce and an increasing number of high productivity jobs—is realized in most of Africa, and the result is that many Africans are caught in a poverty trap. Let us now consider ways to get out of the trap.

II. Getting Africa Out of the Poverty Trap by Focusing on Productivity

1. Eliminating the impediment of poor governance.

Poor governance is one of the major hindrances to attracting investment. Whether the goal is to attract more firms with high-productivity jobs, or to spur highly productive firms to expand, the goal can be frustrated by high levels of corruption, absence of the rule of law, and lack of enforcement of contracts. Remedial actions can include effective anti-corruption initiatives, modernizing the code of laws, and strengthening the courts. Another important step is to reduce opportunities for rent-seeking—such as ad hoc tax exemptions, trade quotas, and dual exchange rates.

Without such remedial actions, the environment will be perceived as unfriendly to investment, the number of high productivity jobs will not increase, and firms will have no incentive to invest further in their workers. Economic growth is likely to stagnate and standards of living are likely to decline. The long term effects of poor governance are very hard to overcome, but taking a strong stand and demonstrating that there is a commitment to improving governance is the first step.

African examples of successful action in this area would include Botswana, South Africa, and our hosts here in Mauritius. Taking the South African example, the government has worked since the onset of majority rule to ensure that the benefits of growth are shared more equitably, fiscal management is more transparent and accountable, and the rule of law is reinforced. The result has included stronger domestic investment and a resumption of growth.

2. Eliminating the impediment of poor education.

Education is the key to creating a highly productive workforce. We cannot expect investment in high productivity sectors if there is no workforce available to staff such investment. Similarly, we cannot expect a workforce to adopt new technologies that would make them more productive if they lack the requisite skills. Thus, a strong commitment to education in order to create a workforce with high levels of productivity is a prerequisite for sustainable growth and development.

Mauritius is a good example of the connection between education, productivity, and growth. Secondary school enrollment ratio for Mauritius is 53% while the average for Africa is 31%. The country's relatively educated and skilled manufacturing workforce has an average wage of $336 per month, while in other parts of Africa productivity levels have made possible manufacturing wages of only around $54 per month.

Consequently, investing in education is just as important as investing in plant or equipment. Creating a stronger education system has multiple dimensions, including stronger pro-education policies by the government, a commitment from firms to train and invest in their workers, and innovations such as internet-based teaching.
Such initiatives must address both the low enrollment ratios and the gender disparities in education: in Africa, the secondary school enrollment ratio is 35% for boys and 28% for girls. In the end, improving the quality of education must be a high priority.

Investing in people also means investing in health, and specifically addressing the crisis of HIV/AIDS. In countries with adult prevalence rates of 10%, economic growth could be reduced by one-third; rates of 20% could reduce productivity and growth by more than half. There is empirical evidence in some areas that for every 1% decrease in life expectancy, the rate of GDP growth falls by 0.7% and the rate of investment by 1.2%.

3. Eliminating the impediment of restrictive economic environments.

Perhaps this is the most obvious of my three points, but can low-productivity developing countries catch up if there are barriers to the very investments which would enable such catch up? Excessive regulation, state monopolies, and lack of openness to trade will force the bulk of productivity-enhancing investment to go elsewhere. This results in the stagnation and further decline of the economic environment, causing both productivity and growth to dwindle further.

It is apparent that macroeconomic stability and trade liberalization are keys to attracting productive investment. Keeping inflation levels low, developing domestic financial markets, limiting the claims of governments on domestic savings, and a rational foreign exchange rate regime also are among the requirements for a vibrant economy conducive to private investment. With regard to exchange rates, there are a variety of approaches being applied in Africa, from currency boards to floating against a basket of currencies. The important point is to maintain a transparent and consistent system of either fixed or floating rates, avoiding the "muddled middle" of managed floats, which invite abuse.

A useful step toward an enabling environment for investment is to obtain a sovereign credit rating. This can be useful for the government being rated, since it provides direct exposure to market expectations, as well as for investors, since it signals that this is a country committed to creating an environment where domestic and foreign investors should be putting their capital. Another important issue is the composition of public spending, which should be slanted toward investment in people and infrastructure in preference to unproductive purposes such as military spending. In the end, the qualities that investors look for above all else are clarity and stability—so that they can foresee what risks they must plan for ahead of time.

Uganda has made substantial strides in improving its domestic economic environment, primarily by divesting government holdings in the productive sectors and introducing regulatory reform. Monetary management has been relatively sound and inflation has remained in check. There has been significant progress in redirecting spending toward the social sectors, and devising ways to ensure that funds reach their intended uses in local schools and clinics, for example.

Looking forward, the challenges for Uganda are likely to include allowing greater openness to trade and continuing with regulatory reform, in order to create more space for private sector activity.

III. Conclusion

Removing the impediments of poor governance, poor education, and restrictive economic environments is a hugely daunting task. We cannot expect such change overnight, nor for it to come fully and easily. The US will continue to work with sub-Saharan countries bilaterally and through the IFIs in removing these impediments. Similarly, the conditions that will underlie the Millennium Challenge Account—ruling justly, investing in people, and encouraging economic freedom—are precisely the policies that will spur productivity growth; policies, moreover, which we believe are entirely consistent with the New Partnership for African Development (NEPAD).

Lastly, the US recognizes that large debt burdens are additional obstacles to improved productivity for many of the poorest developing countries. This is why we support the HIPC program, and why we also are encouraging greater use of grants, especially with productivity-enhancing programs. Both these initiatives will increase support to those countries that are prepared to move decisively to enhance productivity. Sustainable and successful economic growth depends on it.

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 9:30 AM
TUESDAY, JANUARY 28, 2003

CONTACT: Rob Nichols
202-622-2910

OPENING STATEMENT BY JOHN SNOW
NOMINEE TO BE SECRETARY OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE
TUESDAY, JANUARY 28, 2003

Chairman Grassley, Ranking Member Baucus, and members of the Committee, I very much appreciate the opportunity to be here today. I am particularly grateful for the warm introduction by Senators Warner and Allen and the many courtesies they have shown me over the years.

I come before you today as the President's nominee for Secretary of the Treasury. I have great admiration for the President and his leadership and I am both humbled and honored that he would ask me to return to public service at this important time.

The Department has a long and rich history of service to the nation, and it would be an honor to lead so many talented and dedicated public servants. I hope that when this hearing is completed, I will have the confidence of this Committee and, at the appropriate time, the full Senate.

I come before you mindful of the significant role this Committee plays in so many important issues that our nation faces. Having worked closely with both the legislative and executive branches of the federal government for the past thirty years, I understand that public policy issues are complex and that people can have legitimate differences. It is my hope that we can conduct the public debate on these important issues with a high level of constructive discourse and also with mutual respect.

These are clearly important and challenging times. We have seen in the last year and a half the tragic events of 9/11, the war on terrorism, the corporate scandals and the falling stock market. But despite the significant events, the economy is recovering. But as the President has stated, we can and must do better.

We must build on the proven strengths of our economy. We must continue to move towards policies that will generate economic growth and more good jobs and rising living standards for all. As long as there are Americans who want a job and can't find one, the economy is not growing fast enough.

KD-3807

That means rewarding hard work and encouraging savings, investment, and the entrepreneurial spirit that benefits everyone. Americans also benefit from a growing world economy and open markets. I am committed to President Bush's initiatives to establish a more prosperous and stable international economy.

If confirmed, I will not be content until everyone who wants to work can find a good job. Jobs give people dignity and provide hope. I know what it's like to need a job and I also know what it takes to create jobs.

I believe that President Bush's recent economic growth proposal moves the tax system, and the potential of the U.S. economy, in the right direction. It will create jobs. It is an investment in the American people and their future.

If confirmed by the Senate, I stand ready to work with this Committee, and indeed all Members, as the Congress confronts the pressing problems of our times.

Before I take your questions, I have one more comment to make during my opening statement.

There has been a consistent policy on the dollar going back the better part of a decade, which I support. I favor a strong dollar. A strong dollar is in the national interest. A strong currency provides a reliable medium of exchange and serves as a stable store of value that people choose to hold. Sound, pro-growth economic policies and a commitment to free and open markets are the foundation for a strong dollar.

Thank you for the opportunity to appear here today and I will be happy to answer any questions.

-30-

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
January 28, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term:	28-Day Bill
Issue Date:	January 30, 2003
Maturity Date:	February 27, 2003
CUSIP Number:	912795MA6

High Rate: 1.155% Investment Rate 1/: 1.174% Price: 99.910

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 0.59%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 37,931,976	$ 15,960,814
Noncompetitive	39,530	39,530
FIMA (noncompetitive)	0	0
SUBTOTAL	37,971,506	16,000,344
Federal Reserve	2,059,848	2,059,848
TOTAL	$ 40,031,354	$ 18,060,192

Median rate 1.140%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 1.140%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 37,971,506 / 16,000,344 = 2.37

1/ Equivalent coupon-issue yield.

http://www.publicdebt.treas.gov

KD-3808

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
Wednesday, January 29, 2003

Contact: Rob Nichols
(202) 622-2910

Outlook on Global Financial Markets
Remarks by
Kenneth W. Dam
Deputy Secretary
Department of the Treasury
Delivered to
The Bankers' Association for Finance and Trade
January 29, 2003
Washington, D.C.

I will make just a few formal remarks as I understand that the format for today's session is an interactive one.

I wish to emphasize two Administration initiatives that will, I believe, have an impact on the future of global financial markets:

The first initiative that I wish to emphasize is the President's jobs and growth package.

This may seem like an odd place to begin a discussion of global financial markets.

But the most important thing that the United States can do to promote growth in the global economy and stability in global financial markets is to ensure that the U.S. economy is growing at its full potential.

I won't rehearse the details of the package for you – I am sure you are all by now well-familiar with the most prominent aspects. I would, however, like to emphasize a couple of points that tend to get lost in the usual debate and that I believe have real potential to help us grow at our full potential.

KD-3809

In June of 2001, the Congress and the President agreed that implementing across-board-rate cuts was good for the economy. What's changed since then? We know now that the economic slowdown we were experiencing then started earlier and lasted longer than we generally supposed at the time. What should we do with that new information? In my view the answer is obvious. If the slowdown started earlier and lasted longer than we supposed, we need the benefit of tax cuts sooner – and longer – than we initially agreed.

After acceleration, the next-biggest component of the package is the exclusion of certain dividends from taxable income. The thrust of this provision will be to integrate the taxation of corporate and individual income. This is really an important aspect of the plan – and far overdue. Most economists agree that integration of corporate and individual taxation is good tax policy. And many advanced industrial economies – [getting countries to cite from Tax Policy] – already integrate this taxation – in one way or another. It is high time the United States implemented what is now understood as a global best practice. It will help our economy remain competitive – and that will be good for jobs and growth in the United States.

Let's not overlook the provisions in the President's plan that help small business. We know that a lot of the new jobs that are created in our economy are created by small businesses. Most of these businesses pay taxes at individual rates. Acceleration of the rate cuts will therefore help these businesses and lead to more rapid job growth.

Also, the package increases the expensing provision applicable to small business from $25,000 to $75,000. That will encourage small business people to invest more in their business. It will also lead them to hire more people to use the additional capital.

The second initiative that I would like to emphasize is the Administration's effort to reduce the uncertainty associated with official actions in crises by enunciating a clear strategy to limit the incidence of crises and facilitate the flow of private capital to emerging markets. The strategy is focused on four elements:

Preventing crises;
Reducing contagion;
Limiting access and clarifying official sector responses; and
Improving predictability in the sovereign debt restructuring processes.

A key part of this strategy is working to create a more orderly and predictable process for sovereign debt restructuring in the event such restructurings occur. A more orderly sovereign debt restructuring process for countries that reach unsustainable debt positions would help reduce uncertainty, leading to better, more timely decisions and reducing the frequency and severity of crises.

To that end, many members of the official international community have supported a decentralized, market-based approach to sovereign debt restructuring that relies upon the use of clauses – "collective action clauses" – in sovereign external bond issuances.

The key objectives of collective action clauses are to foster early dialogue, coordination, and communication among bondholders and a sovereign, to help ensure agreement on restructuring terms where one is necessary, and to help deter disruptive litigation brought by individual bondholders, which can hamper workouts that are underway.

In addition to collective action clauses, the official international community has called for the IMF to develop a proposal for how a more formal sovereign debt restructuring mechanism might work. The spring meetings of the IMF and World Bank in April will provide the opportunity for further examination whether the so-called statutory SDRM might usefully complement collective action clauses.

Those are two initiatives that I wished to highlight. I look forward to your questions.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 29, 2003
KD-3810

Remarks by
The Honorable Peter R. Fisher
Under Secretary of the Treasury
for Domestic Finance
before the
Worldwide Conventions and Business Forums
Successfully Managing Terrorism Insurance Risk
Westin New York at Times Square
January 29, 2003
Implementing the Terrorism Risk Insurance Act of 2002

Good afternoon and thank you for inviting me to speak today on Treasury's progress and plans for implementing the Terrorism Risk Insurance Act of 2002.

President Bush worked hard to enact a Federal backstop for terrorism risk insurance. The market for terrorism risk insurance was severely disrupted by the events of September 11, 2001. Reinsurers had made clear that they were no longer going to cover terrorism risk or that the cost of limited terrorism coverage would be very expensive. Such widespread dislocations in insurance markets had a negative impact on businesses' ability to finance economic activity, presenting a combination of higher insurance costs and higher financing costs associated with inadequate insurance coverage.

On November 26, 2002, the President signed into law the Terrorism Risk Insurance Act (TRIA) of 2002. TRIA became effective immediately, which meant that terrorism exclusions on existing insurance policies were removed and all policy holders had the ability to secure coverage for terrorism risk. TRIA establishes a temporary Federal Program of shared public and private compensation for insured commercial property and casualty losses resulting from acts of terrorism. We need your help to make this Program work, to make terrorism risk insurance available to all property owners at reasonable rates.

Key Features of TRIA

TRIA effectively places the Federal government temporarily in the terrorism risk reinsurance business as the Program will sunset on December 31, 2005. The Federal reinsurance backstop for terrorism risk insurance established under TRIA is based on the concept of an insurance company deductible and excess loss sharing with Federal government. An insurance company must have suffered insured losses from acts of terrorism equal to its deductible before a claim with the Treasury can be filed. Once an insurance company has met its deductible, the Treasury will cover 90 percent of the losses above an insurance company's deductible. Requiring insurance companies to retain a portion of terrorism risk – to "have skin in the game" – is important for maintaining underwriting discipline and allocating risk appropriately.

An insurance company's deductible will also increase throughout the life of the Program. More specifically, in Program Year 1 (i.e., calendar year 2003) an insurance company's deductible would be equal to 7 percent of its direct earned premiums for commercial property and casualty insurance in calendar year 2002. The percentage of direct earned premiums used to calculate an insurance company's deductible will rise to 10 percent in the second year of the Program, and to 15 percent in the last year of the Program. This increase in an insurance company's deductible over the life of the Program is designed to phase out Federal government involvement and allow for a build-up of private sector capacity to insure against terrorism risk.

Another key aspect of TRIA is the authority for the Treasury to recoup Federal payments under the Act via policyholder surcharges. There are both mandatory and discretionary aspects of the Treasury's recoupment authority. The mandatory recoupment provisions are based on the concept of an "insurance marketplace aggregate retention" amount, which sets forth the amount of losses the insurance industry must absorb in any given year. The maximum "insurance marketplace aggregate retention" increases in each year of the Program, going from $10 billion in the first year of the Program to $15 billion in the final year of the Program. The Treasury also has the discretion to seek further recoupment based on consideration of specific factors described in TRIA. The maximum amount of any potential policyholder surcharge that can be imposed is 3 percent per year.

Other key provisions of TRIA:

• Limit the definition of "act of terrorism" to include only acts of terrorism that are related to foreign sources;
• Require mandatory participation in the Program for a defined group of insurers;
• Require insurers to "make available" coverage for acts of terrorism on terms and conditions that do not differ materially from the terms, amounts, and other coverage limitations applicable to losses arising from other events;
• Require as a condition for Federal payments that insurers make certain disclosures regarding the Program to their policyholders;
• Limit the Program to commercial property and casualty insurance; and
• Provide for specific procedures (e.g., claims consolidation) that are designed to manage litigation arising from or relating to acts of terrorism.

Implementation Goals

The Treasury has been guided by a number of goals as we have moved forward with implementing the Program. First, we have strived to implement TRIA in a manner that is fair and easily understood by all parties. In that regard we have tried to develop an approach that treats comparably all insurers that are required to participate in the Program. We have also tried to set forth a structure that provides the necessary information to policyholders in a useful and efficient manner.

Second, we have relied as much as possible on the state insurance regulatory structure. Insurance is regulated by the states pursuant to the McCarran-Ferguson Act and, with the exception of certain programs, there is no Federal insurance regulatory authority as is the case with other financial institutions. We have been working closely with the National Association of Insurance Commissioners (NAIC) in implementing TRIA, and as part of this effort the NAIC has established a special task force to assist us.

Third, we have sought to allow insurers to participate in the Program as part of their normal course of business. While TRIA requires insurers to meet certain requirements as part of participating in the Program – for example providing disclosures to policyholders and making available terrorism insurance coverage – we have tried to stress that insurers should incorporate these requirements into their normal business operations as much as possible. We have tried to strike what we believe is the appropriate balance between implementing TRIA's mandated requirements on insurance companies in the most efficient way, while at the same time providing policyholders with the necessary information.

Finally, an overarching goal of TRIA is the need for insurers to develop aggressively their own resources and mechanisms for terrorism risk coverage when the Program expires. We will keep that goal especially in mind as we move forward with the implementation process and the monitoring of the Program's effectiveness.

Implementation Process

Interim Guidance

Soon after TRIA was signed into law, the Treasury received numerous implementation questions from individuals, insurance companies, state regulators, and various trade groups. In deciding how to address these questions, we prioritized our efforts by focusing on the questions that were most common and most basic to the immediate implementation of the Program. In making these decisions we also worked closely with the NAIC.

To assist the insurance industry in complying with TRIA, the Treasury has issued three Interim Guidance notices. Interim Guidance provides the Treasury the ability to respond promptly to implementation difficulties and to prevent confusion prior to the issuance of formal regulations.

On December 3, we issued our first Interim Guidance, which addressed: first, disclosures to policyholders under TRIA sections 103(b)(2) and 105(c), and how insurers could be deemed to be in compliance; second, how the "make available" requirement would be interpreted and how insurers could comply; and third, what lines of insurance are covered by TRIA, and how they can be identified through current NAIC reporting requirements.

On December 18, we issued our second Interim Guidance, which addressed: first, what entities must participate in the Program, outlining TRIA's requirements for such entities, and how their affiliates will be treated under the Program; second, the scope of geographic coverage under the Program; third, the various categories of entities that meet TRIA's requirements to participate in the Program and how they may estimate their deductible under the Program; and fourth, additional guidance on complying with disclosure requirements.

On January 22, we issued our third Interim Guidance, which addressed: first, the timing and method of satisfying the required disclosures; second, further clarification on how entities are to certify compliance with the disclosure requirements; and third, questions concerning non-U.S. insurer participation in the Program.

Interim Guidance issued by the Treasury can be used by insurers in complying with the requirements of TRIA prior to the issuance of regulations, and such guidance remains in effect until superceded by regulations or subsequent notice.

Regulations

At the same time that we have been working on Interim Guidance, we also have been hard at work drafting regulations. As part of that process, the Treasury will be turning previously issued Interim Guidance into regulations and addressing new issues associated with the implementation of TRIA. Insurers and other interested parties will have an opportunity to submit formal comments on these regulations.

We plan for the first regulation issued by the Treasury to set forth the structure of TRIA and clarify definitions used in the Act. Many of these definitions provide the key parameters for participation under the Program, such as the definition of insurer, insured loss, and property and casualty insurance. Again, comments will be requested on these and other issues.

The regulations that follow will address other key issues of TRIA:

• Procedures for claims processing (Sections 103(b) and 104), including Treasury's role in the approval of settlements as directed by President Bush.
• The disclosure and make available requirements (Sections 103(b), Section 103(c), and Section 105).
• Participation of state residual insurance market entities and state workers' compensation funds in the Program (Section 103(d)).
• Consideration of how self-insured arrangements and other captives fit into the Program (Section 103(f)).

• The development of audit, investigative, and enforcement procedures (Section 104).
• The process for implementing policy surcharges and recoupment (Section 103 (e)).

The Treasury has addressed a fair portion of the disclosure and make available requirements of TRIA through Interim Guidance, which will form the basis for regulations on these issues. To the extent necessary, the Treasury will also provide further clarification on these issues in regulations.

The Treasury has been working hard with the NAIC to address special issues associated with state residual insurance market entities and state workers' compensation funds. In the Treasury's second Interim Guidance we provided an initial list of what entities were covered under this category of insurer in TRIA. As part of regulations on this issue, the Treasury will be further refining that list and addressing how these entities should calculate their deductibles and how their special arrangements with servicing carriers should be treated.

The Treasury has also been considering the very difficult issue of how self insurance arrangements and other captives might be included in the Program. As part of this effort the Treasury is looking closely at the purpose of TRIA and if such entities are included in the Program how they could be treated comparably.

Another very important issue that the Treasury has been considering is the development of claims processing procedures and the necessary infrastructure to process claims. In that regard, the Treasury, acting in its capacity under the Program as a reinsurer, will be seeking to rely on best practices of other reinsurers in the area of claims processing. In addition to the general procedures for processing claims, those best practices would also include methods for auditing claims, and an issue that is very important to President Bush, the approval of settlements involving payments for insured losses under the Program.

Finally, the Treasury will be considering the method and procedures for implementing any potential surcharges under TRIA. The Treasury will again look to best practices from the insurance industry and regulatory community as we develop policies and procedures in this area.

Studies

TRIA requires the Treasury to prepare, on an expedited basis, a study of the impact of terrorism risk on group life insurers and on the availability of group life insurance coverage and then to determine, in consultation with NAIC, whether to apply the Program to group life insurers. A request for public comments to assist this study was published in the Federal Register on December 11, 2002. The Treasury has been evaluating comments received as part of that request, and we are working toward completion of that study.

Evaluating the Impact of TRIA

In addition to the Treasury's role in directly implementing TRIA, we also have a responsibility to evaluate how well TRIA is working in terms of improving the availability of terrorism insurance coverage.
A key provision of TRIA in this regard is that insurers "make available" coverage for acts of terrorism at terms and conditions that do not differ materially from other insurance coverage. The Treasury will be monitoring the implementation of the make available requirement closely as it is an especially important aspect of increasing the options and choices policyholders have for terrorism risk insurance coverage.

However, for TRIA to have the intended impact of improving the prospects for economic activity, insurance coverage for terrorism risk must not only be made available, but it also should be priced in a manner that is consistent with the underlying risk. The Federal role in absorbing catastrophic losses from acts of terrorism should make the price of insurance coverage more affordable for all property owners. Some of the initial reports we have received indicate that prices have been coming down, and terrorism risk insurance is once again being provided within standard insurance policies as opposed to a stand alone basis. We hope to hear more reports of improved pricing and availability of terrorism risk insurance in the coming months.

TRIA also requires the Treasury to "assess the effectiveness of the Program and the likely capacity of the property and casualty insurance industry to offer insurance for terrorism risk after termination of the Program, and the availability and affordability of such insurance for various policyholders, including railroads, trucking and public transit." The Treasury takes this study requirement very seriously as it will not only provide a vehicle for evaluating TRIA, but also will provide a sense of what the state of the terrorism risk insurance market is on a going forward basis. The Treasury has already begun work on that study, and we hope to establish a baseline from which to monitor developments in the industry and evaluate the Program on an ongoing basis over its life.

Conclusion

President Bush made enacting TRIA a very high priority, with the ultimate goal of improving the prospects for economic activity in our Nation. For the benefits of TRIA to materialize, the Treasury, state insurance regulators, the insurance industry, and other interested parties must work together in implementing the Program.

While implementing TRIA has proved challenging for the Treasury and the insurance industry, we have worked quickly in dealing with the immediate effective date and other time sensitive requirements of TRIA. The Treasury will continue to place a high priority on completing the implementation of TRIA and evaluating how well TRIA is working. We also expect the insurance industry to work hard to implement TRIA in a manner consistent with the Act and President Bush's objective of improving the prospects for economic activity in our Nation. We look forward to working with the NAIC, state insurance regulators, the insurance industry, and other interested parties as we move forward.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 29, 2003
KD-3811

"Letter from Gurule to President Bush"

Dear President Bush,

After thoughtful and deliberate consideration, Julia and I have decided to return to our home in Niles, Michigan, where I will rejoin the law faculty at Notre Dame Law School, as well as pursue some opportunities in the private sector. I therefore will be resigning my position as Under Secretary for the Treasury Department's Office of Enforcement effective February 10, 2003.

I am extremely grateful for the opportunity to serve your Administration, the Department of the Treasury, and the American people during the difficult and challenging times following the terrorist attacks of September 11, 2001.

Responding to your strong leadership, I have worked as Under Secretary (Enforcement) to redirect and coordinate the Treasury Department's extensive financial investigatory resources and expertise to starve the terrorists of funds. To that end, the Office of Enforcement, in close coordination with other federal agencies and the international community, has developed an effective campaign to identify, disrupt and dismantle terrorist financial networks around the world. As part of this campaign, the Office of Enforcement has played a prominent role in implementing Presidential Executive Order 13224, executed under the International Emergency Economic Powers Act (IEEPA), which has resulted in the designation of 257 Specially Designated Global Terrorists, and the freezing of over $125 million in terrorist-related funds. Furthermore, my office has worked tirelessly to implement the financial regulatory provisions of the U.S.A. PATRIOT Act, necessary to prevent terrorists from transferring money through banks and other financial institutions.

While I leave my position at the Treasury Department with a sense of accomplishment and pride, I realize that much work remains in the war against terrorism. However, I am confident that you, Mr. President, will continue to provide our nation with outstanding leadership to prevail during these perilous times.

Once again, thank you for the enormous opportunity to serve our country. It has been a distinct honor and privilege to serve you.

Sincerely,

Jimmy Gurulé
Under Secretary (Enforcement)

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 29, 2003
KD-3812

Treasury Under Secretary Jimmy Gurulé to Resign

United States Treasury Under Secretary for Enforcement Jimmy Gurulé today announced his decision to resign from the Treasury Department. Mr. Gurulé will teach law at the University of Notre Dame law school, as well as explore additional interests in the private sector. His resignation will become effective on February 10, 2003.

In his letter to President Bush, Mr. Gurulé wrote: "I am extremely grateful for the opportunity to serve your administration, the Department of the Treasury, and the American people during the difficult and challenging times following the terrorist attacks of September 11, 2001."

At Treasury, Mr. Gurulé was a key leader in the implementation of President Bush's financial war on terrorism, working to find, disrupt and dismantle terrorist financial networks around the world. Under Mr. Gurule's leadership, the Treasury Office of Enforcement designated 257 global terrorists groups and individuals, and blocked over $125 million in terrorist funds, pursuant to Presidential Executive Order 13224. Treasury also implemented the financial regulatory provisions of the U.S.A. PATRIOT Act, preventing terrorists from transferring money through banks and other financial institutions.

"Jimmy Gurulé is one of the most distinguished law enforcement officials and law professors in the country. His talents and leadership proved invaluable for the Treasury Department and the United States government as he helped shape and lead our campaign against terrorism. It's been a great privilege to work with him and this Administration is grateful for the contributions he has made to the nation. We wish him the best for what I am certain will be a fruitful future," Acting Treasury Secretary Kenneth Dam said.

The Treasury Under Secretary for Enforcement provides oversight, policy guidance, and support to the Treasury law enforcement components, including the Bureau of Alcohol, Tobacco and Firearms; the U.S. Customs Service; the Federal Law Enforcement Training Center; the Financial Crimes Enforcement Network; the U.S. Secret Service; the Executive Office for Asset Forfeiture; and the Office of Foreign Assets Control. The Under Secretary also provides enforcement policy guidance to the Internal Revenue Service's Criminal Investigation Division.

Mr. Gurule's letter concludes: "While I leave my position at the Treasury Department with a sense of accomplishment and pride, I realize that much work remains in the war against terrorism. However, I am confident that you, Mr. President, will continue to provide our nation with outstanding leadership to prevail during these perilous times... It has been a distinct honor and privilege to serve 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
January 29, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate:	1 5/8%	Issue Date:	January 31, 2003
Series:	G-2005	Dated Date:	January 31, 2003
CUSIP No:	912828AS9	Maturity Date:	January 31, 2005

High Yield: 1.710% Price: 99.834

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 65.21%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 39,034,450	$ 26,118,325
Noncompetitive	881,749	881,749
FIMA (noncompetitive)	0	0
SUBTOTAL	39,916,199	27,000,074 1/
Federal Reserve	6,834,233	6,834,233
TOTAL	$ 46,750,432	$ 33,834,307

Median yield 1.670%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 1.600%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 39,916,199 / 27,000,074 = 1.48

1/ Awards to TREASURY DIRECT = $701,713,000

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

January 30, 2003
KD-3814

Treasury Department Statement Regarding the Designation of Lashkar i Jhangvi

"Lashkar i Jhangvi" means 'army of Jhang,' a region in Pakistan. Lashkar i Jhangvi (LJ) is an extremist organization that emerged in 1997. While LJ initially directed most of its attacks against the Pakistani Shia Muslim community, it also claimed responsibility for the 1997 killing of four U.S. oil workers in Karachi. Lashkar i Jhangvi also attempted to assassinate then-Pakistani Prime Minister Nawaz Sharif in 1999.

LJ is responsible for the January 2002 kidnapping and killing of U.S. journalist Daniel Pearl. LJ is also responsible for a March 2002 bus bombing that killed 15 people, including 11 French technicians.

Reports have attributed the March 2002 Islamabad Protestant church bombing, in which two U.S. citizens were killed, to LJ. In July 2002, Pakistani policy arrested four Lashkar i Jhangvi members for the church attack. The LJ members confessed to the killings and said the attack was in retaliation for the U.S. attack on Afghanistan.

LJ also has ties to al Qa'ida and the Taliban. In addition to receiving sanctuary from the Taliban in Afghanistan for their activity in Pakistan, LJ members also fought alongside Taliban fighters. Pakistani government investigations in 2002 revealed that al Qa'ida has been involved with training of LJ, and that LJ fighters also fought alongside the Taliban against the Northern Alliance. The Pakistan Interior Minister, speaking of LJ members, stated that "They have been sleeping and eating together, receiving training together, and fighting against the Northern Alliance together in Afghanistan."

Including today's action there are 258 individuals, entities and organizations on the terrorist financing executive order. $124.5 million has been blocked worldwide, of that amount, $36.2 million has been blocked in the United States.

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.
January 30, 2003

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 $36,000 million to refund an estimated $32,801 million of publicly held 13-week and 26-week Treasury bills maturing February 6, 2003, and to raise new cash of approximately $3,199 million. Also maturing is an estimated $13,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced February 3, 2003.

The Federal Reserve System holds $14,334 million of the Treasury bills maturing on February 6, 2003, in the System Open Market Account (SOMA). This amount may be refunded at the highest discount rate of accepted competitive tenders either in these auctions or the 4-week Treasury bill auction to be held February 4, 2003. 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 $1,194 million into the 13-week bill and $713 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

KD-3815

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED FEBRUARY 6, 2003

January 30, 2003

Offering Amount	$19,000 million	$17,000 million
Maximum Award (35% of Offering Amount)	$ 6,650 million	$ 5,950 million
Maximum Recognized Bid at a Single Rate	$ 6,650 million	$ 5,950 million
NLP Reporting Threshold	$ 6,650 million	$ 5,950 million
NLP Exclusion Amount	$ 6,000 million	None

Description of Offering:

Term and type of security	91-day bill	182-day bill
CUSIP number	912795 ML 2	912795 NG 2
Auction date	February 3, 2003	February 3, 2003
Issue date	February 6, 2003	February 6, 2003
Maturity date	May 8, 2003	August 7, 2003
Original issue date	November 7, 2002	February 6, 2003
Currently outstanding	$23,161 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 equals or exceeds the NLP reporting threshold stated above.

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

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

January 31, 2003
KD-3816

President's Budget Proposes Bold Tax-Free Savings and Retirement Security Opportunities for All Americans

"Americans can help secure their own future by saving. Government must support policies that promote and protect saving. And saving is the path to independence for Americans in all phases of life, and we must encourage more Americans to take that path." -President George W. Bush

Today the Treasury Department announced that the President's Budget will include two bold new expanded savings proposals covering all Americans.

The first creates two new consolidated savings accounts: **Lifetime Savings Accounts** (LSAs) and Retirement Savings Accounts, (RSAs) that will allow everyone to contribute -- with no limitations based on age or income status. Individuals will be able to convert existing accounts into these new accounts in order to consolidate and simplify their savings.

"These bold new accounts will give more hardworking Americans the chance to save so they can enrich their lives and strengthen their retirement security," stated Treasury Assistant Secretary for Tax Policy Pam Olson. "They make saving simple for everyone and for every purpose. No longer will individuals have to worry about the confusing alphabet soup of six different savings accounts. No longer will people have to worry about the endless maze of confusing rules. The two simple accounts will have one powerful goal -- making saving for everyday life and retirement security easier and more attractive."

The second proposal creates **Employer Retirement Savings Accounts (ERSAs)** to promote and vastly simplify employer sponsored retirement plans by consolidating 401(k), SIMPLE 401(k), 403(b), and 457 employer-based defined contribution accounts into a single type of plan that can be more easily established by any employer.

Lifetime Savings Accounts

Lifetime Savings Accounts (LSAs) can be used for any type of saving. LSAs will help millions of Americans save in one tax favored account for any purpose, including their children's education, a new home, healthcare needs, or to start their own business. The new LSA will allow an individual, regardless of age or income, to contribute $7,500 a year and make penalty free withdrawals at any time -- with no holding period. Like current law Roth IRAs, contributions will not be deductible but **earnings will accumulate tax-free, and distributions will be tax free as well**. Unlike current education accounts and MSAs, with LSAs, taxpayers will not need to carefully anticipate future qualified expenses and allocate savings among tax-preferred accounts. Taxpayers will not be required to document qualified expenses, financial institutions will not need to explain complicated rules to participants, and the government will not need to verify the qualifying expenses.

Prior to January 1, 2004, individuals may convert balances in an Archer Medical Savings Account (MSA), Coverdell Education Savings Account, and Qualified State Tuition Plan to LSAs. Balances in these accounts may not be converted to LSAs after 2003.

The $7,500 contribution limit will be indexed for inflation in future years.

LSA's are good for average Americans because:

• They can simply save more tax free.

• More low and moderate-income taxpayers will participate. Many do not participate now because they are more likely to face a penalty if they need the funds. Knowing they can access the money at anytime for any purpose will encourage them to set money aside and allow them to receive tax-free earnings from their first dollar of savings..

• It takes away the hassle factor. The combination of universal eligibility and unrestricted tax-free withdrawals greatly simplifies the whole process, making it more likely that average taxpayers will participate, especially inexperienced savers. Many low- and moderate-income taxpayers will conveniently be able to put all their financial assets in one place; this will greatly simplify their taxes because they will no longer receive taxable investment earnings.

Retirement Savings Accounts

Retirement Savings Accounts (RSAs) can be used only for retirement saving. The new RSA will improve and simplify savings opportunities for all Americans by consolidating traditional IRAs, nondeductible IRAs and Roth IRAs, each of which has a confusing and different set of rules regarding eligibility and tax treatment, into one streamlined type of account with rules similar to current law Roth IRAs. Up to $7,500 (in addition to amounts contributed to an LSA) could be contributed to an RSA. Like current law Roth IRAs, contributions will not be deductible but **earnings will accumulate tax free and distributions after age 58 (or death or disability) will be tax free.**

Existing Roth IRAs will be unaffected (except that they will be renamed RSAs). Existing traditional and nondeductible IRAs may be converted into RSAs; those not converted to RSAs could not accept any new contributions (other than rollover contributions); no one would be required to convert.

The $7,500 contribution limit will be indexed for inflation in future years.

Complex eligibility restrictions for IRAs under current law confuse taxpayers and cause some to avoid contributing to IRAs, even if they are eligible to contribute. IRA income limits were imposed in 1986 greatly limiting eligibility. Studies have shown that participation after 1986 fell among lower-income taxpayers, even among those still eligible to make deductible contributions.

RSAs are good for average Americans because:

• More Americans will save for retirement. Repeal of the income limits will eliminate the confusion and complexity associated with determining eligibility and will encourage participation.

• It makes saving for retirement simple and easy. Individuals will not be required to make minimum distributions from the accounts during their lifetime, simplifying financial planning in retirement.

• More will be set aside for retirement. Current IRAs allow for withdrawals for many non-retirement purposes. Each withdrawal from an IRA potentially reduces retirement funds. Having a separate retirement account will help individuals plan for both non-retirement and retirement needs.

Employer Retirement Savings Accounts

There are currently multiple tax-preferred, employer-based retirement savings accounts with similar goals but different rules regulating eligibility, contribution limits, tax treatment, and withdrawal restrictions. The Budget proposal will consolidate 401(k), thrift, 403(b), and governmental 457 plans as well as SARSEPs and SIMPLE IRAs into a streamlined and simpler account, Employer Retirement Savings Accounts (ERSAs), which can be sponsored by any employer.

Assistant Secretary Olson stated, "The overwhelming complexity of current rules imposes substantial burdens on employers and workers. Because employer sponsorship of a retirement plan is voluntary, this complexity discourages many employers from offering any plan at all. This is especially true of small employers who together employ about 4 out of every 10 American workers. It's one important reason why only 50% of working Americans have any pension plan at all. I'm confident that simpler rules will encourage employers to create new plans for their employees because creating a qualified plan will be much easier."

ERSAs will follow the existing rules for 401(k) plans, but these rules will be greatly simplified. For example, both the definition of compensation and the minimum coverage requirement will be simplified and the top heavy rules will be repealed. Nondiscrimination requirements for ERSA contributions will be satisfied by a single test and many firms may choose to adopt a new designed-based safe harbor to avoid this test altogether. The proposal simplifies qualification requirements while maintaining their intent of providing broad-based coverage of employees. By reducing unnecessary complexity, the proposal significantly reduces employer compliance costs.

Complexity and the associated compliance costs are often cited as a reason the coverage rate under an employer retirement plan has not grown above about 50 percent overall, and has remained under 25 percent among employees of small firms. Firms that are currently not offering retirement plans because of compliance costs will be more likely to offer such plans under the proposal, increasing coverage and participation.
ERSAs are good for workers because:

• Coverage and participation will increase because firms that are not currently offering retirement plans because of the complexity and compliance costs will be more likely to offer such plans under the proposal.

• More small businesses will be able to cover more workers. The reduction in red tape will remove a barrier that discourages small business owners from offering this benefit to their employees. Small businesses employ about two-fifths of American workers, but the pension coverage rate has consistently remained under 25 percent among employees of small firms.

• Employees will benefit because firms currently offering employer plans will have reduced compliance costs.

Frequently Asked Questions Regarding the LSA/RSA and ERSA Proposals

LSA/RSA Provisions

I have been contributing to IRAs for years. Will I have to stop?

After 2003, you will no longer be able to contribute to an IRA. However, your ability to contribute to both an LSA and an RSA will give you much more flexibility to save for your future. You will be able to save up to $7,500 (indexed in the future for inflation) in an LSA plus up to $7,500 (indexed in the future for inflation) in an RSA for a total of $15,000 in tax-preferred savings. In addition, you will have much more flexibility to take distributions for what you deem appropriate when you deem it appropriate.

Will there be any income limitations on making contributions to LSAs or

RSAs?

There are no income limitations on making contributions to LSAs. You can make a contribution
to an LSA even if you have no wage income. Thus, you can make contributions on behalf of your children or other family members, in order to help them save for home ownership, health emergencies, education, retirement, or other future costs. While there are no maximum income limitations on making contributions to RSAs, you may not contribute more than your compensation (wages) income to an RSA.

What tax benefits do I receive if contributions are not deductible?

While all contributions to LSAs and RSAs will be nondeductible, all distributions from LSAs and RSAs (except for RSA distributions prior to age 58, death or disability) will be excludible from taxable income. As a result, all investment earnings can be distributed tax free. This is the same tax treatment as current law Roth-IRAs.

Which tax treatment would be better for me: an old-style deductible IRA or a new Roth-style RSA?

For the vast majority of individuals it doesn't make a difference: After-tax income in retirement is the same whether contributions are tax free and distributions are taxed or contributions are taxed and distributions are tax free. The only exceptions to this rule are individuals who change tax brackets after they retire. If an individual's tax rate declines in retirement, deductible contributions are better; if an individual's tax rate increases in retirement, Roth treatment is better.

Will I continue to be able to contribute to Archer medical savings accounts, Coverdell education savings accounts and qualified state tuition programs?

Yes. The LSA/RSA proposal will not affect your ability to contribute to MSAs, ESAs, or QSTPs. Many taxpayers may prefer the increased flexibility of the new LSAs as their tax-preferred savings vehicle.

Can I convert my existing IRAs, MSAs, ESAs, and QSTPs to an LSA or RSA?

You may convert an MSA, ESA, or QSTP to an LSA anytime before January 1, 2004. In the case of a conversion of a QSTP or ESA, no amount would be taxable in the year of the conversion while a conversion of an MSA to an LSA will result in taxation of the total amount converted in the year of the conversion.

You may convert a traditional IRA to an RSA at any time. The amount converted will be taxable except to the extent that you have basis in your IRA. If you convert prior to January 1, 2004, you will be able to spread the tax on the conversion over a four-year period. For conversions on or after January 1, 2004, the total taxable amount will be included in your gross income for the year of the conversion.

Will the Saver's Credit still be available after the enactment of the LSA/RSA proposal?

Yes. The Saver's Credit will be available for elective deferrals and LSA/RSA contributions made prior to 2007.

What will happen to the new deemed IRA provision? Will employer plans still be able to offer them?

Deemed IRAs will become deemed RSAs and will be subject to the rules applicable to RSAs.

Who will be able to become trustees for the LSAs and RSAs?

The rules that now apply to IRAs regarding who can be a trustee will apply to LSAs and RSAs. Thus, the trustee will have to be a bank or another person who demonstrates to the IRS that the manner in which they will administer the trust will be consistent with the rules applicable to LSAs and IRAs.

Will LSAs and RSAs be permitted to be held in the form of an annuity?

Yes LSAs and RSAs may be held in the form of a nontransferable annuity contract issued by an insurance company that meets the rules that currently apply to individual retirement annuities.

Can I make LSA or RSA contributions on behalf of other persons, such as my children or spouse?

Yes, you may make LSA or RSA contributions on behalf of any other individual. However, total contributions made on behalf of an individual may not exceed $7,500 for LSAs and $7,500 (or compensation income, if less) for RSAs. In the case of a married couple filing jointly, RSA contributions up to $7,500 can be made for each spouse (including, for example, a homemaker who does not work outside the home) if the combined compensation of both spouses is at least equal to the contributed amount.

Will catch-up contributions be available for LSAs or RSAs?

Catch-up contributions will not be available for LSAs or RSAs, but the limits applicable to all individuals in LSAs and RSAs will be significantly greater than the existing IRA limits, even with catch-up.

ERSA Provision

Which types of employer-sponsored plans would be replaced by the new ERSA?

The ERSA would replace all types of funded plans with employee contributions. Thus, ERSAs would replace 401(k) plans, SIMPLE 401(k) plans, 403(b) plans, governmental 457 plans, salary reductions simplified employee pensions (SARSEPs), and SIMPLE IRAs. The ERSA would not replace nongovernmental 457 plans.

Are there any types of employers who would not be able to sponsor an ERSA?

No. Any employer would be able to sponsor an ERSA.

Will the ERSA proposal have any effect on the amount that an employee will be able to defer under existing law?

The amount that an employee will be able to defer under an ERSA will be $12,000 (increasing to $15,000 in 2006) plus, once the employee reaches age 50, a catch-up contribution of $2,000 (increasing to $5,000 in 2006). This is the same that an employee may defer under a regular 401(k) plan, a 403(b) plan, a SARSEP or a 457 plan, but it is greater than the amount permitted under a SIMPLE 401(k) or SIMPLE IRA.

Will after-tax contributions be permitted under an ERSA?

Yes. After tax contributions will be permitted to an ERSA, and accounts attributable to such contributions made after 2003 will be treated much like the new RSAs. Distributions from such accounts will generally be exempt from taxation and the accounts will not be subject to the required minimum distribution rules until after the death of the participant.

Will governments with grandfathered 401(k) plans and public schools with 403(b) plans still be able to allow deferrals up to the maximum under a 403(b) or 401(k) plan as well as the maximum under a 457 plan?

No. Once ERSAs are in place, all covered employees will be able to defer only the maximum applicable to ERSAs.

Will employers have to terminate their existing plans and transfer the assets to an ERSA?

No. Beginning in 2004, all 401(k) plans will become ERSAs. SIMPLEs, SARSEPs, 403(b) plans, and governmental 457 plans may continue in existence indefinitely, but may not accept any future contributions after 2004.

What nondiscrimination tests will apply to ERSAs?

The same simplified nondiscriminatory coverage requirement will apply to ERSAs (other than those covering only state and local government employees) that will apply to all other defined contribution plans. (See Q&A below). An ERSA will satisfy the nondiscriminatory benefit requirements if the average contribution percentage for nonhighly compensated employees is no greater than 6% and the average contribution percentage for highly compensated employees does not exceed 200% of the average contribution percentage for nonhighly compensated employees. If the average contribution percentage for nonhighly compensated employees is greater than 6%, then the average contribution percentage for highly compensated employees may be any amount.

Will state and local governments and charitable organizations be subject to the nondiscriminatory benefit requirement?

ERSAs covering only employees of state and local governments will be exempt from the nondiscriminatory benefit requirement. An ERSA covering only employees of a charitable organization will be subject to the nondiscriminatory benefit requirement only if it allows after tax contributions. In any event, an ERSA covering employees of a charitable organization will be subject to a universal availability requirement regarding the ability of employees to make deferrals under the plan. That is, all employees of the organization must be permitted to elect to make deferrals of more than $200.

Is there a safe-harbor design under which an employer will not be required to apply the general nondiscriminatory benefit rule described above?

Yes. A plan can satisfy the nondiscriminatory benefit rule through any one of the following safe harbor employer contribution designs:
1. The employer makes a nonelective contribution on behalf of each participant in the plan equal to 3% of the employee's compensation,
2. The employer makes a matching contribution equal to 50% of each employee's deferrals (up to 6% of compensation), or
3. The employer makes a matching contribution that does not increase based on the level of an employee's deferrals and the match is equal to the amount that would be made under a 50% match (up to 6% of compensation), such as a match of 100% of each employee's deferrals (up to 3% of compensation).

Does the budget proposal related to ERSAs affect any other defined contribution plans?

Yes. The proposal includes the following provisions that would greatly simplify the administration of all defined contribution plans:
1. There would be a single test to show that the plan meets the nondiscrimination rules with respect to coverage -- ratio-percentage coverage. Under this test, the percentage of an employer's nonhighly compensated employees covered under a plan would have to be at least 70% of the percentage of the employer's highly compensated employees covered under the plan. The other coverage testing

alternatives would be repealed.
2. Permitted disparity and cross-testing would be prohibited for defined contribution plans.
3. The top heavy rules would be repealed for defined contribution plans.
4. There would be a uniform definition of compensation for all purposes for defined contribution plans – the amount reported on form W-2 for wage withholding, plus the amount of ERSA deferrals.
5. A simplified definition of highly compensated employee would be adopted under which all individuals with compensation for the prior year above the Social Security wage base for that year would be considered to be highly compensated employees.

Does the ERSA proposal have any effect on defined contribution plans that do not involve employee deferrals or employee after-tax contributions? In other words, does the proposal affect pure profit sharing plans, stock bonus plans, and money purchase pension plans?

Other than the simplifications discussed in the preceding question, the ERSA proposal would not affect the rules applicable to employer contributions to defined contribution plans, other than safe harbor nonelective contributions or matching contributions.

Does the ERSA proposal have any effect on defined benefit plans?

No, the proposal would not affect the rules applicable to defined benefit plans.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
January 31, 2003

Contact: Public Affairs
(202) 622-2960

MEDIA ADVISORY:
BACKGROUND BRIEFING ON TREASURY'S FY '04 BUDGET
Monday, February 3rd, 1:00 p.m.

Acting Treasury Secretary Kenneth W. Dam and Treasury staff will hold a briefing on Treasury's FY '04 budget on Monday, February 3, 2003 at 1:00 p.m. in room 4121 (the new media room). This session will provide a synopsis of the President's FY '04 budget and will also allow for a Question and Answer session. No cameras will be admitted-- this is a "pen and pad" only briefing.

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

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FOR IMMEDIATE RELEASE
January 31, 2003

Contact: Public Affairs
(202) 622-2960

MEDIA ADVISORY:
DEPARTMENT OF THE TREASURY "BLUE BOOK" TECHNICAL TAX BRIEFING
Monday, February 3rd, 2:00 p.m.

Treasury Assistant Secretary for Tax Policy Pam Olson will hold the "Blue Book" technical **background** briefing on the President's tax proposals on Monday, February 3, 2003 at 2:00 p.m. in room 4121 (the new media room). This session will provide a synopsis of the tax proposals and will also allow for a Question and Answer session with Tax Policy staff. No cameras will be admitted-- this is a "pen and pad" only briefing.

The "Blue Book" will be posted on the Internet Monday, February 3rd at 8:00 a.m. at http://www.treas.gov/offices/tax-policy/library/bluebk03.pdf.

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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TREASURY NEWS

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U.S. International Reserve Position 1/31/03

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $79,198 million at the end of the latest week, compared to $79,761 million at the end of the prior week.

(in US millions)

I. Official U.S. Reserve Assets	January 17, 2003			January 24, 2003		
TOTAL	79,761			79,198		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	6,947	13,345	20,293	7,070	13,353	20,423
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	11,400	2,679	14,079	11,582	2,681	14,263
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]			22,107			22,189
3. Special Drawing Rights (SDRs) [2]			12,241			11,280
4. Gold Stock [3]			11,043			11,043
5. Other Reserve Assets			0			0

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

KD-3819

Offical Reserve Assets Worksheet
(actual US dollar amounts)

	Last Week	This Week
Enter Dates Here	17-Jan-03	24-Jan-03

Foreign Currency	17-Jan-03	24-Jan-03	Change
Euro Securities	$6,947,000,000.00	$7,070,000,000.00	123,000,000
Yen Securities	$13,345,000,000.00	$13,353,000,000.00	8,000,000
Sec. Total	$20,293,000,000.00	$20,423,000,000.00	130,000,000
Euro Deposits	$11,400,000,000.00	$11,582,000,000.00	182,000,000
Yen Deposits	$2,679,000,000.00	$2,681,000,000.00	2,000,000
Deposit Total	$14,079,000,000.00	$14,263,000,000.00	184,000,000
Total	$34,371,000,000.00	$34,686,000,000.00	315,000,000
Euro Rate	$1.0660	$1.0825	0.0165
Yen Rate	117.87	117.80	-0.07

Source: NY Fed (fax)
copy and paste data into last week
and put new data from fax
into right column

IMF	17-Jan-03	24-Jan-03 (prelim, with adjust.)	
Reserve Tranche	22,106,684,409.60	22,189,358,210.32	82,673,800.71
GAB	0.00	0.00	0.00
NAB	0.00	0.00	0.00
Total	22,106,684,409.60	22,189,358,210.32	82,673,800.71
SDR	12,240,755,026.90	11,279,846,540.01	-960,908,486.89
			0.00

Source: IMF (email)
put actual dollar figures in for last week;

as of 11/20/02	17-Jan-03	24-Jan-03	
Gold	11,042,866,310.05	11,042,866,310.05	0.00
			0

Source : FMS website
http://www.fms.treas.gov/gold

	17-Jan-03	24-Jan-03
Other Res.Assets	0	0

TOTAL	**79,761,305,746.55**	**79,198,071,060.37**	-563,234,686.18

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

Prelim. IMF Data Calculation Section	**IN SDRs 17-Jan-03**	**Adjustments**		**SDR rate for 24-Jan-03**	**In USD**
Reserve Tranche	16,160,920,243	*-15,337,879*	16,145,582,364	0.727627	**$22,189,358,210.32**
GAB	0		0		**$0.00**
NAB	0		0		**$0.00**
			16,145,582,364	Total =	**$22,189,358,210.32**
SDRs	8,948,509,059	*-740,985,000*	8,207,524,059	SDRs =	**$11,279,846,540.01**

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