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Department of the Treasury

PRESS RELEASES

The following numbers were not used:

JS-969, 985, 986, 989, 1025

JS-988 is the same as JS-998

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 11:00 A.M.
November 3, 2003

Contact: Office of Financing
202/691-3550

TREASURY OFFERS 4-WEEK BILLS

The Treasury will auction 4-week Treasury bills totaling $17,000 million to refund an estimated $15,000 million of publicly held 4-week Treasury bills maturing November 6, 2003, and to raise new cash of approximately $2,000 million.

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

The Federal Reserve System holds $14,230 million of the Treasury bills maturing on November 6, 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

JS 962

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED NOVEMBER 6, 2003

November 3, 2003

Offering Amount........................$17,000 million
Maximum Award (35% of Offering Amount)...$ 5,950 million
Maximum Recognized Bid at a Single Rate..$ 5,950 million
NLP Reporting Threshold.................$ 5,950 million
NLP Exclusion Amount....................$11,800 million

Description of Offering:
Term and type of security..........28-day bill
CUSIP number.......................912795 NZ 0
Auction date.......................November 4, 2003
Issue date.........................November 6, 2003
Maturity date......................December 4, 2003
Original issue date................June 5, 2003
Currently outstanding..............$46,089 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.

ɜUREAU OF THE PUBLIC DEBT ANNOUNCES SERIES EE SAVINGS BOND RATE ꟳOR NOVEMBER 2003 THROUGH APRIL 2004

ꟳOR IMMEDIATE RELEASE

lovember 3, 2003

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

ꞩERIES EE SAVINGS BOND RATE - 2.61%

he 2.61 percent Series EE savings bond rate is in effect for bonds issued on or after May 1, 1997, that enter semiannual earnings eriods from November 2003 through April 2004. The rate is 90 percent of the average 5-year Treasury securities yields for the receding six months. A new interest rate is announced effective each May 1 and November 1. A 3-month interest penalty is applied to ɿese bonds if redeemed before five years. The Series EE bonds on sale now increase in value monthly. The bond's interest rate is ompounded semiannually.

ꞩavers and investors can now open an on-line account to purchase EE Bonds in electronic form through the website ʋww.treasurydirect.gov. Account holders can purchase, manage, and redeem such EE Bonds over the Internet 24 hours a day, seven ays a week. These rates also apply to electronic EE Bonds.

ꞩERIES EE BONDS ISSUED BEFORE MAY 1997

ꞩeries EE Bonds issued before May 1997 earn various rates for semiannual earnings periods beginning between November 1, 2003 and ɩpril 1, 2004, depending on dates of issue. See the table on the back of this release for earnings on Series EE bonds issued from January .980.

ɅATURED SERIES E SAVINGS BONDS AND SAVINGS NOTES

ꞩeries E savings bonds continue to reach final maturity and stop earning interest. Bonds issued from May 1941 through October 1963 ɩlong with those issued from December 1965 through October 1973, have stopped earning interest. All Savings Notes, issued from May .967 through October 1970, have stopped earning interest. Series E Bonds with issue dates shown here will reach final maturity in the ɿext six months.

ꞓ-Bonds Issued	Stop Earning Interest
November 1963 through April 1964	November 2003 through April 2004
November 1973 through April 1974	November 2003 through April 2004

ɅORE INFORMATION

nformation about savings bonds is available at Public Debt's website at www.treasurydirect.gov. Check out our Savings Bond Calculator o see how easy it is to find out what your bonds are worth, what they're earning, and even keep track of them. Or, download the free ꞩavings Bond Wizard™ to keep track of your savings bond portfolio. The table on the back of this release shows actual yields for Series ꞓE bonds. An Earnings Report, which contains rate and yield information for bonds is available by mail. Send a postcard asking for Earnings Report" to Bureau of the Public Debt, 200 Third Street, Parkersburg, WV 26106-1328.

ᴾA-629

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U.S. Department of the Treasury, Bureau of the Public Debt

Last Updated September 27, 2004

JS - 963

Bureau of the Public

United States Department of the Treasury

: BONDS TO EARN 2.19% WHEN BOUGHT FROM NOVEMBER 2003 THROUGH ΑPRIL 2004

FOR RELEASE AT 10:00 AM

Νovember 3, 2003

BOND EARNINGS RATE 2.19%

The earnings rate for I Bonds is a combination of a fixed rate, which will apply for the life of the bond, and the inflation rate. The 2.19 percent earnings rate for I Bonds bought from November 2003 through April 2004 will apply for the first six months after their issue. The earnings rate combines the 1.10 percent fixed rate of return with the 1.08 percent annualized rate of inflation as measured by the Consumer Price Index for all Urban Consumers (CPI-U). The CPI-U increased from 184.2 to 185.2 from March 2003 to September 2003, a six-month increase of 0.54 percent.

Treasury's inflation-indexed I Bonds are designed to offer all Americans a way to save that protects the purchasing power of their investment by assuring them a real rate of return above inflation. I Bonds have features that make them attractive to many investors. They are sold at face value in denominations of $50, $75, $100, $200, $500, $1,000, $5,000, and $10,000 and earn interest for as long as 30 years. I Bond earnings are added every month and interest is compounded semiannually. They are State and local income tax exempt, and Federal income tax on I Bond earnings can be deferred until the bonds are cashed or they stop earning interest after 30 years. Investors cashing I Bonds before five years are subject to a 3-month earnings penalty.

Savers and investors can now open an on-line account to purchase I Bonds in electronic form through the website www.treasurydirect.gov. Account holders can purchase, manage, and redeem such I Bonds over the Internet 24 hours a day, seven days a week. These rates also apply to electronic I Bonds.

I BOND FIXED RATE 1.10%

Series I, inflation-indexed savings bonds purchased from November 2003 through April 2004 will earn a 1.10 percent fixed rate of return above inflation. The 1.10 percent fixed rate applies for the 30-year life of I Bonds purchased during this six-month period.

EARNINGS RATES FOR ALL I BONDS

Earnings rates and actual yields for I Bonds are shown in the I Bond Earnings Report on the back of this release.

MORE INFORMATION

Information about savings bonds is available at Public Debt's website at www.treasurydirect.gov. Check out our Savings Bond Calculator to see how easy it is to find out what your bonds are worth, what they're earning, and even keep track of them. Or, download the free Savings Bond Wizard ä to keep track of your savings bond portfolio. An Earnings Report, which contains rate and yield information for bonds is available by mail. Send a postcard asking for "Earnings Report" to Bureau of the Public Debt, 200 Third Street, Parkersburg, WV 26106-1328.

PA-629

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U.S. Department of the Treasury, Bureau of the Public Debt

Last Updated September 27, 2004

JS - 964

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 3, 2003
JS-965

U.S. Treasury Secretary John W. Snow
Remarks to the U.S.-Japan Business Council Annual Meeting
Washington, DC
November 3, 2003

Good afternoon. It's a pleasure for me to address the U.S.-Japan Business Council this afternoon.

The Administration's international economic strategy aims to raise economic growth throughout the world. Japan and the United States, as the world's two largest economies, play a critical role in creating opportunities for the entire world. And you in this room are in the front line of making that happen – as employers, producers of goods and services, and also as shapers of economic policy in both of our countries.

Your role is even more important because of the changing tenor of our economic relations with Japan and our discussions with the Japanese government. Until just a few years ago, these discussions were focused on market access. They were often contentious. In addition, many in the United States viewed growth in Japan as a threat to the U.S., as if world output were a zero-sum game.

We now recognize that growth abroad adds to opportunities for American workers and producers, and enhances prosperity in the United States. We welcome the contribution that Japanese firms have made to U.S. employment by investing here. And American firms – your members – now play a critical role in financial services, automobile production, retailing, pharmaceuticals, and a host of other industries in Japan.

At the same time, the nature of the issues has shifted away from market access, and towards market development, regulation, and corporate governance. These are issues that affect domestic firms as well as foreign firms in Japan. And these issues are often detailed and technical. Current financial services issues, such as the development of defined contribution pensions and regulatory transparency, are industry issues, not foreign firm issues.

I welcome your advice on the key policy issues that we face in the United States. And I am delighted by the role that many of you have played in advising the Japanese Government and the Diet on policy issues.

We also rely on your ideas and analysis in shaping our own view about the Japanese and American economies, and in shaping our discussions with the Japanese government. This is why we have made private sector participation a central part of the U.S.-Japan Economic Partnership for Growth. I strongly encourage you to continue to develop joint policy recommendations for our two governments, as you have done in the Joint Private Sector/Government Commission.

Of course, there will continue to be a role for government-to-government discussions to facilitate a more hospitable environment for trade and investment between the United States and Japan. A recent and important result of these discussions is our agreement in principle with Japan on the text of a new U.S.-Japan Bilateral Income Tax Treaty -- a treaty I was very pleased to announce earlier this year. The proposed treaty reflects the deepening economic ties between the United States and Japan, and the globalization of the two economies. The proposed treaty reduces existing tax barriers to trade and investment between the United States and Japan, most significantly by substantially reducing

withholding taxes imposed on cross-border dividends, interest, royalties and other income. This includes the complete elimination of source-country withholding taxes on royalties, certain interest, and certain inter-company dividends. I had an opportunity to discuss the tax treaty with Japan's Finance Minister and Prime Minister Koizumi in Japan last month. Both welcomed the agreement in principle and shared my view of the importance of a new treaty. I look forward to signing this treaty as soon as possible.

This tax treaty is only one small example of our feeling that the U.S.-Japan alliance is as strong as it has ever been. Our alliance forms a keystone of our security relations in East Asia and our economic policy agenda world-wide. Japan has been a vital ally in the war against terrorism. Japan's contribution to the war in Iraq was greatly appreciated in the United States. Its generous contribution of $1.5 billion in grant assistance to the reconstruction of Iraq will help that nation advance as a free people.

Our cooperative efforts with Japan are particularly important for raising economic growth around the world. At the recent IMF/World Bank meetings in Dubai, the United States, Japan, and the other nations of the G7 agreed on a new "G-7 Agenda for Growth." Under this milestone agreement, G-7 countries have committed to concrete supply-side actions to increase productivity, spur growth, and create jobs

Each country will identify its own policy plan under the Agenda. The United States will work to lower health care costs, reduce frivolous lawsuits and streamline regulations and needless paperwork through President Bush's Six Point Plan. Japan reiterated its commitment to address the obstacles to sustained, vibrant growth – in the banking sector, in ending deflation, and in carrying out structural reforms and deregulation to raise growth.

The central part of an effective policy to enhance growth is promoting economic flexibility – the ability to respond to market incentives and move resources to new, growing, and high productivity sectors.

Economic flexibility involves being able to respond to price signals, including signals from international markets. The goals of raising growth can best be accomplished in an international financial system that relies on the principles of free trade, free capital flows, and market-based exchange rates among the major economies. This principle was embraced by the United States, Japan, and the other members of the G-7 in their statement in Dubai in September.

In the United States we had our own period of hardening of the arteries in the 1970's. But significant policy changes, including lowering marginal tax rates and encouraging restructuring and adjustment, led to renewed American growth in the last two decades.

Japan's postwar experience gave birth to the term "miracle economy." However, as the Japanese economy has matured, its growth rate has fallen, and the Japanese economy has struggled through the past decade. I believe that current estimates of Japan's potential growth rate – 1 to 1½ percent per year – undervalue Japan's capabilities.

Statistics do show a loss of flexibility in the Japanese economy over time. One striking phenomenon is the decline in the rate of new firm formation in Japan – new firms created each year fell from about 8 percent of total firms in the mid-1970s to less than 4 percent in the past few years. There is also less exiting of old firms. A much smaller fraction of firms go bankrupt in Japan now than in the 1970s or earlier. But firms that do go bankrupt are much larger and older than before.

This suggests less bubbling up of new activity and new firms in Japan than in more rapidly growing countries, or in the Japan of 30 years ago. And it may also indicate that problems are allowed to linger, without being addressed, until firms eventually collapse at great cost.

The continuing problems in the banking sector are surely part of the reason. Unresolved bank and "distressed borrower" problems freeze productive assets in place. Deflation and very low interest rates also delay the burden of servicing debts, postponing hard decisions for banks and borrowers.

Fortunately, I believe that things are changing in Japan, in a way that will produce more flexibility and stronger growth. Prime Minister Koizumi has clearly stated that "no growth is possible without structural reform." The efforts of the Japanese government to deregulate and institute structural reform in areas such as health care, information technologies, and distribution and logistics should open up opportunities for investment and growth.

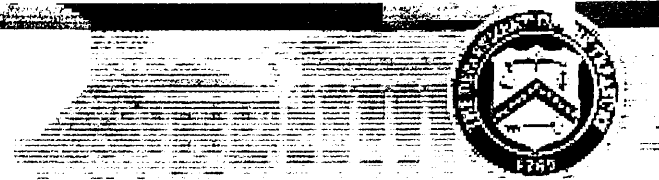
Banks are making progress in resolving troubled borrowers and removing bad loan claims from their books. A market has developed in distressed assets. And the Japanese government has taken steps to encourage restructuring and revitalization of troubled borrowers.
It's important that this process begin at an early enough stage to salvage real value from companies. Banks need incentives to deal with risky loans, including provisioning requirements.

Many Japanese firms are now restructuring for increased productivity and efficiency. The sharp rise in corporate profits this year is in large part due to these efforts, as is the recovery in the stock market. One of the indicators of increased restructuring is the rise in mergers and acquisitions (M&A) activity. Here foreign direct investment can make a particularly valuable contribution, as it has in the U.S. I applaud the Prime Minister's goal of doubling the volume of foreign direct investment, as well as the emphasis that this Council has put on increasing foreign direct investment.

President Bush and Prime Minister Koizumi will continue to pursue policies to achieve stronger growth in both countries, and in the global economy. But for those efforts to succeed, we will need continued guidance and input from the leadership of our two countries' business communities – such as from the membership of the U.S. – Japan Business Council.

Thank you for your contributions now, and in the future.

PRESS ROOM



FROM THE OFFICE OF PUBLIC AFFAIRS

November 3, 2003
JS-966

TREASURY ANNOUNCES MARKET FINANCING ESTIMATES

The Treasury Department announced today that it expects net borrowing of marketable debt to total $117 billion in the October – December 2003 quarter. The projected cash balance on December 31 is $35 billion. In the last quarterly announcement on July 28, 2003, Treasury announced that it expected net borrowing to total $126 billion with an end-of-quarter cash balance of $45 billion. This decrease is due to higher receipts and lower outlays. The lower projected cash balance on December 31 offsets the lower cash balance at the beginning of the quarter and therefore does not impact net marketable borrowing this quarter.

Treasury also announced that it expects net borrowing of marketable debt to total $160 billion in the January – March 2004. The projected cash balance on March 31 is $20 billion.

During the July – September 2003 quarter, Treasury's net marketable borrowing totaled $82 billion and the cash balance on September 30 was $35 billion. On July 28, Treasury announced that it expected net marketable borrowing to total $104 billion with a cash balance of $45 billion. The decrease in borrowing is primarily attributable to higher receipts, lower outlays, and the lower end-of-quarter cash balance, partially offset by lower net issues of State and Local Government Series securities.

Additional financing details relating to Treasury's Quarterly Refunding will be released at 9:00 A.M. on Wednesday, November 5.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 3, 2003
JS-967

ACTING ASSISTANT SECRETARY OF THE OFFICE OF ECONOMIC POLICY MARK J. WARSHAWSKY STATEMENT FOR THE TREASURY BORROWING ADVISORY COMMITTEE OF THE BOND MARKET ASSOCIATION

Since the last meeting of the Advisory Committee three months ago, growth in the U.S. economy has dramatically picked up steam. Last week the Commerce Department reported that the pace of economic activity increased to a stunning 7.2 percent annual rate in the third quarter, well above expectations and the largest increase since the first quarter of 1984. While some slowdown from that elevated pace is to be expected, there is little doubt that the economy is now firmly on an upward path.

After growing at a slow 1.4 percent pace late last year and early this year, positive signs of improvement began to build through the spring. The swift conclusion of the war in Iraq lifted the consumer mood. Attractive auto incentives and the extraction of home equity through a surge in mortgage refinancing also contributed to an acceleration of personal consumption expenditures in the second quarter. Indicators of investment demand such as new orders and shipments of nondefense capital goods perked up as well, and the nascent recovery in real equipment and software investment that we witnessed in the last three quarters of 2002 resumed in the second quarter of 2003 after a decline in the first. The firmer tone to investment and consumption helped raise real GDP growth to a 3.3 percent annual rate in the second quarter.

The passage of the Jobs and Growth Tax Relief Reconciliation Act in May provided almost immediate additional support for the economy. By July, withholding tables reflected reduced marginal tax rates on individual income, and the child tax credit checks began to be delivered to households. The increase in bonus depreciation and quadrupling of the expensing limit for small businesses encouraged business investment. The reduction in taxes increased households' cash flow by an estimated $35 billion and spurred businesses to take advantage of enhanced capital expensing.

The impact was substantial. Total consumer spending grew at a 6.6 percent rate in the third quarter, the largest gain since a rise of the same amount in the third quarter of 1997, and equipment and software investment surged at a 15.4 percent pace, the fastest since the first quarter of 2000. Production responded to the pickup in final demand in the last two quarters, and manufacturing output rose at almost a 3 percent annual rate in the third quarter.

More recently, there has been additional evidence of a recovery in the manufacturing sector. The Institute for Supply Management's purchasing managers index jumped sharply in October to 57.0 – the highest since January 2000 and the fourth consecutive reading above the 50-percent breakeven point that signals expansion in manufacturing activity.

Many of the strengths that were evident going into the third quarter are likely to continue to provide support to the economy going forward. Productivity growth has been exceptional. The 3.9 percent annual rate of advance in nonfarm productivity since the fourth quarter of 2000 – a period that includes both a recession and recovery – is the strongest of any two-and-a-half year period in 30 years. Based on the 9.0 percent increase in nonfarm business output indicated by last week's GDP data and virtually no growth in worker hours, it appears likely that another large productivity gain is in store for the third quarter when results are released later this week.

Businesses are beginning to reap the benefits of those productivity improvements. Profits and cash flow are rising and unit costs have been held in check, paving the way for further gains in investment. Small business optimism recently reached a record high level, according to the National Federation of Independent Business, and the Conference Board reported that confidence among large-company CEOs was the strongest in 11 years. Improved business optimism is a first step in the revitalization of labor markets.

Equity prices have climbed about 30 percent since mid-March, improving financing conditions for business, as well as adding to household net worth. Boosted by the tax cuts, real disposable personal income is rising, up at a 3.8 percent annual rate through the first three quarters of the year. Household and business balance sheets benefited from low interest rates over the past few years, leaving those sectors in a good position to continue to spend. Rates are still quite low and yield spreads are narrowing, enhancing prospects for investment.

The housing sector has been an engine of growth throughout the recession and recovery and the homeownership rate has risen to a record 68.2 percent. Housing continued to expand through the third quarter and construction starts and permits point to further growth in residential investment ahead, a development supported by the highest level in four years of homebuilder optimism regarding the six-month outlook, according to the National Association of Home Builders.

The prospects for overall economic growth going forward are positive. Overseas economies appear to be improving and providing a growing market for U.S. exports, which rose 9.3 percent at an annual rate in real terms in the third quarter for the first quarterly gain in a year. Production related to replenishing inventories should also contribute to growth. Through the past few quarters inventories have been trimmed to very low levels as businesses met a relatively large portion of demand out of existing stockpiles. That is expected to turn around with the revival of strong demand.

The latest Blue Chip consensus forecast expects real GDP growth to ease in the fourth quarter to 3.7 percent and maintain that pace through next year. That rate is above the estimated potential rate of growth of the economy, and the sustained trend above potential should lead to a pickup in employment.

We have already seen signs of a budding upturn in labor markets, with payroll jobs growing by 57,000 in September -- the first job increase in eight months. Unemployment claims appear to be moving lower and layoffs are declining. The Conference Board's latest consumer confidence survey found their assessment of both current and future employment conditions was more upbeat, contributing to a 4-percentage point increase in the confidence index in October.

Consumers' opinions on job conditions seem to have aligned with those of professional forecasters, many of whom expect that the acceleration in real growth in the third quarter and over the following four quarters will lead to a sizable increase in employment. Private sector estimates are converging on a job gain of 2.1 million over the four quarters ending in the third quarter of 2004.

Though positive signs are emerging and the outlook is favorable, we have seen during the latest recession and recovery how sensitive labor markets have become compared to the experience of previous cycles. It appears to be taking longer for labor markets to respond to an upturn in economic activity. Since creating new jobs is a top priority of the Administration, in addition to the stimulus packages already at work, the President recently unveiled a six-point plan to reduce barriers and uncertainties that may be impeding businesses from hiring additional workers. The plan includes a series of measures to help the economy operate more efficiently, such as tort reform, providing an affordable energy supply, streamlining regulation, opening new markets for U.S. products, making tax cuts permanent, and improving the affordability of health care.

The substantial rise in health care costs has strapped the budgets of families, businesses, and government, acting as a deterrent to hiring. After a period of relatively slow health spending growth in the late 1990s, growth has accelerated with the retreat of managed care. Health spending now makes up over 14 percent of the economy. The Bureau of Labor Statistics' Employment Cost Index for health benefits has risen 10.1 percent over the past year, following an 11.2 percent increase the previous year. Employers are struggling to control health care costs

without reducing or dropping coverage, because private-sector efforts to improve value and efficiency in health care spending are in their nascence and are not well developed. Sustained health care cost increases are preventing firms from hiring new workers, while some workers may be reluctant to change jobs for fear of losing health insurance coverage.

The increasing strain of high and fast-growing health care costs not only impedes the flexibility of U.S. labor markets but also puts a growing burden on the federal budget. Already, one-quarter of federal outlays are dedicated to health care expenses. A mere one percentage point decrease in the anticipated rate of growth of health care spending would reduce the national debt by more than $600 billion over the next 10 years. This Administration is committed to rooting out the causes of wasteful care while preserving the incentives to sustain the miraculous technological progress we have witnessed in this sector.

In sum, growth in the economy appears to be firmly established and the outlook going forward is bright. The Administration will continue to work to increase the rate of job growth and to reduce any inefficiencies and barriers that may inhibit the economy from maximizing its growth potential.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 3, 2003
JS-968

First Quarterly Update of the 2003 - 2004 Priority Guidance Plan
Joint Statement by:
Pamela F. Olson
Assistant Secretary (Tax Policy)
U.S. Department of the Treasury
Mark W. Everson
Commissioner
Internal Revenue Service
Emily A. Parker
Acting Chief Counsel
Internal Revenue Service

We are pleased to announce the first quarterly update of the 2003 - 2004 Priority Guidance Plan.

On July 24, 2003, we released the 2003 - 2004 Priority Guidance Plan listing 268 projects for the plan year beginning July 1, 2003 and ending June 30, 2004. In our Joint Statement that accompanied the release of the 2003 2004 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. Updating the plan also provides flexibility to respond to developments arising during the year.

The attached update sets forth the guidance on the original 2003 - 2004 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 20 items of additional guidance, some of which have already been published.

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 2003 -2004 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, 2003 - 2004 Priority Guidance Plan. Copies can also be obtained by calling Treasury's Office of Public Affairs at (202) 622-2960.

Related Documents:

- First Quarterly Update of the 2003 2004 Priority Guidance Plan

OFFICE OF TAX POLICY
AND
INTERNAL REVENUE SERVICE

2003-2004 PRIORITY GUIDANCE PLAN

NOVEMBER 3, 2003 UPDATE

CONSOLIDATED RETURNS

1. Guidance under section 1502 regarding transactions involving obligations of consolidated group members.

2. Guidance under section 1502 regarding rate or discount subsidy payments.

3. Final regulations under section 1502 regarding certain group structure changes.

4. Guidance under section 1502 regarding treatment of member stock.

Additional Projects:

5. Guidance under section 1504(a)(5)(C) and (D) regarding affiliation.

CORPORATIONS AND THEIR SHAREHOLDERS

1. Final regulations regarding the effect of reorganizations on attribute reduction in respect of cancellation of indebtedness.

2. Guidance regarding redemptions of corporate stock.

3. Guidance regarding transactions involving the transfer or receipt of no net equity value.

4. Final regulations regarding taxable asset acquisitions and dispositions of insurance companies.

5. Guidance regarding the acquisition of businesses having certain nonqualified settlement funds.

6. Guidance regarding the effect of pre-closing changes of acquiror stock value on continuity of interest.

7. Guidance regarding the business purpose requirement under section 355.
   - WILL BE PUBLISHED 11/17/2003 in IRB 2003-46 as REV. RUL. 2003-110 (released 10/23/2003)

8. Guidance regarding the active trade or business requirement under section 355(b).

9. Guidance regarding predecessors and successors under section 355(e).

10. Guidance regarding the assumption of liabilities in certain transfers of property.

11. Guidance regarding transfers of assets after putative reorganizations.

12. Guidance regarding certain cross-chain transactions.

13. Guidance under section 368(a)(1)(F).

14. Guidance under section 382.
    - PUBLISHED 10/6/2003 in IRB 2003-40 as NOTICE 2003-65 (released 9/12/2003)

15. Guidance under section 1374 regarding liquidations of C corporations.

EMPLOYEE BENEFITS

A. Retirement Benefits

1. Guidance on phased retirement arrangements.

2. Guidance on distribution rules for rollover contributions.

3. Guidance updating Rev. Rul. 81-100.

4. Proposed regulations under section 401(a)(4) for cash balance plans.

5. Regulations under section 401(a)(9) on required minimum distributions.

6. Guidance on whether employees of a section 501(c)(3) organization who are eligible to participate in a section 403(b) plan are excludable employees for section 401(k) and (m) plans.

7. Guidance relating to annuity plans under section 403(b).

8. Final regulations under section 408(q).

9. Guidance under section 409(p) on S corporation ESOPs.

10. Revenue ruling under section 410(b)(6)(c).

11. Guidance under section 411(a).

12. Guidance under sections 411(b)(1)(H) and 411(b)(2).

13. Guidance under section 411(d)(6).

14. Guidance on mortality tables.
    - PUBLISHED 9/22/2003 in IRB 2003-38 as NOTICE 2003-62 (released 9/3/2003)

15. Guidance on section 412(i) plans.

16. Additional transitional rules when a PEO retirement plan is converted to a multiple employer plan.

17. Regulations under section 415.

18. Guidance on section 416(g)(4)(H) for safe harbor 401(k) plans.

19. Guidance on use of electronic technologies for various retirement plan transactions.

20. Final regulations under section 417(a).

21. Guidance under section 417(e).

22. Guidance under section 420.

23. Guidance under section 457.

24. Revenue Procedure on model provisions for section 457(b) plans.

25. Guidance under section 3405 on actions by a duly authorized agent.

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

1. Guidance under section 35 on credit for health care insurance costs of eligible individuals.

2. Guidance on election between taxable and nontaxable benefits.

3. Guidance under section 62(c) on payments to couriers.

4. Revenue ruling on electronic receipts and accountable plans.
    - WILL BE PUBLISHED 11/3/2003 in IRB 2003-44 as REV. RUL. 2003-106 (released 10/20/2003)

5. Guidance under section 83.

6. Guidance on disability payments.

7. Guidance on HRAs.

8. Revenue ruling under section 105 on nonprescription drugs.
    - PUBLISHED 9/22/2003 in IRB 2003-38 as REV. RUL. 2003-102 (released 9/3/2003)

9. Guidance on debit cards.

10. Revenue ruling on the application of section 280G to various bankruptcy situations.

11. Guidance on health care provider incentive payments.

12. Final regulations on Incentive Stock Options.

13. Guidance on the employment taxation and reporting requirements applicable to interest in nonstatutory stock options and deferred compensation transferred to a former spouse incident to divorce.

14. Guidance under section 3121 regarding the definition of salary reduction agreement.

15. Guidance on the employment tax treatment of bonuses paid to employees on the signing of a collectively bargained agreement.

16. Guidance on FICA and FUTA tax with respect to incentive stock options under section 422 and employee stock purchase plans under section 423.

17. Notice on issues with respect to the treatment of choreworkers.
    - PUBLISHED 10/27/2003 in IRB 2003-43 as NOTICE 2003-70 (released 10/3/2003)

18. Guidance on the reporting procedures for successor organizations following Rev. Proc. 96-60.

19. Guidance under section 3504.

20. Revenue ruling under section 4980B on Medicare entitlement as a second qualifying event.

21. Guidance on tips paid to restaurant employees.

22. Guidance on the deposit requirements for employment tax in connection with the exercise of nonstatutory options.

EXCISE TAXES

1. Final regulations under section 4051 regarding the definition of highway vehicle in sections 145.4051 and 48.4061(a)-1.

2. Guidance regarding the definition of highway tractors subject to the heavy truck tax under section 4051.

3. Guidance under section 4051(a)(2) and (3) regarding suitability for use.

4. Guidance under section 4081 regarding the entry into the United States of taxable fuel.

5. Final regulations under section 4252 regarding toll telephone services.

6. Guidance under section 4261 regarding resellers of air transportation.

7. Guidance under section 4291 regarding the duties of the collector of collected excise taxes.

8. Proposed regulations under section 6416(a)(4) regarding claims for gasoline tax.

EXEMPT ORGANIZATIONS

1. Guidance on joint ventures between exempt organizations and for-profit companies.

2. Guidance on low-income housing partnerships and 501(c)(3) participation.

3. Guidance on downpayment assistance organizations.

4. Guidance on section 501(c)(4) organizations.

5. Guidance concerning the internet and unrelated business income tax.

6. Regulations under section 529 regarding qualified tuition programs.

7. Guidance on reporting requirements applicable to Coverdell education savings accounts.
    - PUBLISHED 8/18/2003 in IRB 2003-33 as NOTICE 2003-53 (released 7/31/2003)

8. Guidance on split interest trusts.

FINANCIAL INSTITUTIONS AND PRODUCTS

1. Proposed regulations regarding accruals on sales of REMIC regular interests between payment dates.

2. Guidance on system upgrade payments made to utilities.

3. Final regulations under section 263(g).

4. Guidance under section 265(a)(2).

5. Proposed regulations on notional principal contracts.

6. Revenue ruling under section 446 concerning the timing rules of hedging transactions not identified under section 1.1221-2(f).

7. Final regulations addressing the treatment of inducement fees for REMIC residual interests.

8. Proposed regulations addressing valuation under section 475.

9. Final regulations under section 475(e) and (f).

10. Guidance under section 851 on the treatment of certain obligations backed by Treasury securities for RIC diversification purposes.

11. Revenue ruling under section 856 on customary services performed by REITs.

12. Advance notice of proposed rulemaking on interest-only REMIC regular interests.

13. Final regulations on REMIC residual interests.

14. Guidance on credit card transactions.

15. Guidance under section 7872.

<u>Additional Projects:</u>

16. Proposed regulations clarifying the application of the TEFRA audit procedures to REMICs.

17. Guidance regarding the application of section 1(h) to capital gain dividends of RICs and REITs.

18. Revenue ruling under sections 1233 and 1259 regarding the transfer of a short sale position from one broker to another.

GENERAL TAX ISSUES

1. Proposed regulations under section 21 regarding the credit for household and dependent care expenses.

2. Final revenue procedure under section 23 regarding the credit for adoption expenses.

3. Guidance under section 32.

4. Guidance under section 41 regarding the research credit.

5. Final regulations under section 41 regarding the computation of the research credit in a controlled group.

6. Guidance under section 42.

7. Final regulations under sections 1.42-6 and 1.42-14 to conform to statutory changes.

8. Guidance under section 45D regarding the new markets tax credit.
   - PUBLISHED 8/25/2003 in IRB 2003-34 as NOTICE 2003-56 (released 7/22/2003)
   - PUBLISHED 9/29/2003 in IRB 2003-39 as NOTICE 2003-64 (released 9/5/2003)
   - PUBLISHED 10/14/2003 in IRB 2003-41 as NOTICE 2003-68 (released 9/23/2003)

9. Final regulations under sections 46 and 167 relating to normalization.

10. Guidance under sections 51 and 51A on qualified IV-A recipient.
    - WILL BE PUBLISHED 11/10/2003 in IRB 2003-45 as REV. RUL. 2003-112 (released 10/17/2003)

11. Guidance regarding the section 59(e) election.

12. Revenue ruling regarding disaster relief payments to businesses.

13. Revenue ruling under sections 61 and 162 on the proper treatment of Medicaid rebates paid by pharmaceutical companies.

14. Guidance regarding the treatment of employee relocation costs.

15. Final regulations under section 121(c) regarding the reduced maximum exclusion for gain on the sale of a principal residence.

16. Revenue ruling under sections 121 and 1031 regarding like-kind exchange of a principal residence.

17. Guidance under section 152 regarding the release of a claim for exemption for a child of divorced or separated parents.

18. Guidance under section 165 regarding the deduction for worthless stock of subsidiaries for which an election under the check-the-box regulations has been made.

19. Final regulations under section 167 regarding the income forecast method.

20. Proposed and temporary regulations under section 168 relating to like-kind exchanges.

21. Final regulations under section 168 regarding depreciation of property for which the use changes.

22. Proposed and temporary regulations under sections 168 and 1400L regarding special depreciation allowance.
    - PUBLISHED 9/8/2003 in FR as TEMP 9091

23. Guidance under section 168 regarding changes in classification of property.

24. Guidance under section 168 on asset classes and activity classes under Rev. Proc. 87-56.

25. Guidance under section 172 regarding specified liability losses.

26. Guidance under section 174 regarding the treatment of inventory property.

27. Guidance under section 179 on elections.

28. Final regulations under section 221 regarding interest on education loans.

29. Revenue procedure under section 274 regarding the use of statistical sampling.

30. Final regulations under section 280F regarding vans and light trucks.

31. Final regulations under section 465 regarding interest other than as a creditor.

32. Guidance under section 1031 regarding reverse like-kind exchanges of property.

33. Revenue ruling under section 1241 on cancellation of lease or distributor agreements.

34. Guidance on corporations chartered under Indian tribal law.

Additional Projects:

35. Revenue ruling under sections 61, 104, 130, and 139 regarding payments made to claimants of the September 11th Victim Compensation Fund of 2001.
    - WILL BE PUBLISHED 11/17/2003 in IRB 2003-46 as REV. RUL. 2003-115

GIFTS, ESTATES AND TRUSTS

1. Guidance under section 642(c) regarding the contribution of a qualified conservation easement.

2. Final regulations under section 643 regarding state law definition of income for trust purposes.

3. Update revenue procedures under section 664 containing sample charitable remainder unitrust provisions.

4. Guidance under section 664 regarding dividends and capital gains for charitable remainder trusts.

5. Final regulations under section 671 regarding reporting requirements for widely-held fixed investment trusts.

6. Guidance under sections 671 and 2036 regarding tax reimbursement provisions in grantor trusts.

7. Guidance under section 2032 regarding section 301.9100 relief.

8. Guidance under section 2053 regarding post-death events.

9. Guidance under section 2632 regarding the election out of the deemed allocation of the generation-skipping transfer tax exemption.

10. Guidance under section 2642 regarding issues related to the generation-skipping transfer tax exemption.

11. Guidance under section 2642 regarding qualified severance.

12. Guidance under section 2651 regarding the predeceased parent rule.

13. Guidance under section 2704 regarding the liquidation of an interest.

Additional Projects:

14. Guidance under section 2702 regarding qualified interests.
    - WILL BE PUBLISHED 11/3/2003 in IRB 2003-44 as NOTICE 2003-72 (released 10/15/2003)

INSURANCE COMPANIES AND PRODUCTS

1. Revenue ruling concerning reserves used to calculate required interest under section 812.

2. Guidance regarding substantially equal periodic payments under section 72(q).

3. Guidance regarding the 2001 CSO mortality tables.

4. Guidance regarding split-dollar life insurance.
    - PUBLISHED 9/17/2003 in FR as TD 9092

Additional Projects:

5. Revenue ruling describing prior guidance on split-dollar life insurance that, due to subsequent guidance, is obsolete.
    - PUBLISHED 10/6/2003 in IRB 2003-40 as REV. RUL. 2003-105

INTERNATIONAL ISSUES

A. Subpart F/Deferral

1. Regulations on the allocation of subpart F income.

2. Regulations under section 959 on previously taxed earnings and profits.

3. Guidance on the PFIC provisions.

B. Inbound Transactions

1. Guidance on cross-border pension distributions.

2. Guidance under section 1441.

3. Guidance on securities lending.

4. Guidance on the treatment of certain financial products for withholding purposes.

5. Regulations under section 1446.

6. Regulations relating to the reporting of bank deposit interest.

C. Outbound Transactions

1. Guidance on international restructurings.

2. Guidance follow-up to Notice 2003-46.
   - PUBLISHED 10/21/2003 in FR as TD 9093 and REG-110385-99

D. Foreign Tax Credits

1. Regulations on the allocation of foreign taxes under section 901.

2. Regulations under sections 902 and 904.

3. Regulations on look-through treatment for 10/50 company dividends (see Notice 2003-5).

4. Regulations on the change of taxable year and foreign tax credits.

E. Transfer Pricing

1. Regulations on the treatment of cross-border services.

2. Regulations on cost sharing under section 482.

3. Guidance on the APA process (Rev. Proc. 96-53).

4. Regulations on global dealing.

F. Sourcing and Expense Allocation

1. Guidance on interest expense apportionment.

2. Regulations on the allocation and apportionment of charitable contributions.

3. Regulations relating to the treatment of fringe benefits.

4. Guidance on the source of payments for cross-border use of property.

5. Regulations under sections 863(d) and (e).

G. Treaties

1. Treaty guidance on the determination of residence for dual resident companies.

2. Treaty guidance under the independent services article for nonresident partners.

3. Guidance on the procedures for claiming treaty waiver of insurance excise tax.
   - WILL BE PUBLISHED 11/10/2003 in IRB 2003-45 as REV. PROC. 2003-78

4. Guidance on reporting for Canadian RRSPs and other plans.
   - PUBLISHED 8/25/2003 in IRB 2003-34 as NOTICE 2003-57

H. Other

1. Guidance on the definition of "qualified foreign corporation" for purposes of taxation of dividends received by individuals.
   - PUBLISHED 10/20/2003 in IRB 2003-42 as NOTICE 2003-69
   - PUBLISHED 10/27/2003 in IRB 2003-43 as NOTICE 2003-71

2. Regulations under section 269B.

3. Guidance on cross-border insurance issues.

4. Guidance on possessions issues.

5. Regulations concerning the treatment of currency gain or loss.

6. Regulations under section 1503(d).

Additional Projects:

7. Revenue ruling relating to convention benefits under section 274(h).
   - PUBLISHED 10/20/2003 in IRB 2003-42 as REV. RUL. 2003-109

8. Announcement of agreement relating to the limitaiton on benefits article in the U.S.- Swiss Income Tax Convention.
   - PUBLISHED 10/6/2003 in IRB 2003-40 as ANN. 2003-59

9. Announcement of agreement relating to deferred compensation under the U.S.- Austrian Income Tax Convention.
   - PUBLISHED 10/6/2003 in IRB 2003-40 as NOTICE 2003-58

10. Announcement of agreement implementing the mutual agreement procedures of the U.S.-Dutch Income Tax Convention.
    - WILL BE PUBLISHED 11/10/2003 in IRB 2003-45 as ANN. 2003-63

PARTNERSHIPS

1. Guidance regarding partnership transactions under section 337(d).

2. Final regulations under section 460 regarding partnership transactions for long-term contracts.

3. Final regulations under section 704(b) regarding capital account book-up.

4. Guidance under section 704(b) regarding the allocation of foreign tax credits.

5. Guidance under section 704(c).

6. Guidance under section 707 regarding disguised sales.

7. Proposed regulations under section 721 regarding partnership interests issued for services and the treatment of compensatory partnership options.

8. Update of the section 751 regulations.

9. Final regulations under section 752 regarding the assumption of partner liabilities.

10. Guidance under section 752 where a general partner is a disregarded entity.

11. Guidance on the application of section 1045 to certain partnership transactions.

12. Guidance under section 6031 on the reporting requirements of tax-exempt bond partnerships.

13. Guidance under section 7701 regarding Delaware Statutory Trusts.

14. Guidance under section 7701 regarding disregarded entities and collection issues.

SUBCHAPTER S

1. Revenue ruling under section 1361 regarding QSub elections.

2. Guidance on the treatment of LIFO recapture under section 1363(d).

3. Guidance under section 7701 on deemed corporation entity elections for electing S corporations.

TAX ACCOUNTING

1. Final regulations under sections 162 and 263 regarding the deduction and capitalization of expenditures for intangible assets.

2. Regulations under sections 162 and 263 regarding the deduction and capitalization of expenditures for tangible assets.

3. Guidance under sections 162 and 263 regarding the deduction and capitalization of costs incurred to fertilize established timber stands.

4. Revenue ruling regarding the deduction and capitalization of costs incurred by utilities to maintain assets used to generate power.

5. Guidance under sections 165 regarding the treatment of preproduction costs of creative property.

6. Regulations under section 263A regarding the simplified service cost and simplified production methods.

7. Guidance under section 263A regarding "negative" additional section 263A costs.

8. Final regulations under sections 263A and 448 regarding adjustments under section 481(a) for certain changes in accounting method.

9. Regulations under section 381 regarding changes in method of accounting.

10. Guidance under section 442 regarding the period for taking into account adjustments resulting from certain changes in annual accounting period by pass-through entities.
    - WILL BE PUBLISHED 11/10/2003 in IRB 2003-45 as REV. PROC. 2003-79

11. Revenue procedure under section 446 regarding changes in method of accounting for rotable spare parts.

12. Regulations under section 446 regarding methods of accounting.

13. Temporary regulations under section 448 regarding the nonaccrual experience method.
    - PUBLISHED 9/4/2003 in FR as TEMP 9090

14. Final revenue procedure under section 451 regarding the treatment of advance payments.

15. Revenue ruling under section 461 regarding the proper year for the deduction of payroll taxes on deferred compensation by accrual method taxpayers.

16. Regulations under section 468B regarding certain escrow funds.

17. Guidance on the tax treatment of vendor allowances involving buildouts and image upgrades.

18. Revenue ruling under section 1341 regarding the claim of right.

Additional Projects:

19. Notice under section 263A regarding the simplified service cost and simplified production methods.
    - PUBLISHED 9/2/2003 in IRB 2003-35 as NOTICE 2003-59

TAX ADMINISTRATION

1. Update Rev. Proc. 85-35 regarding claims for relief by victims of terrorism.

2. Final regulations under section 5891 regarding structured settlement factoring transactions.

3. Annual compilation of Tax Shelter Listed Transactions under section 6011.

4. Final regulations regarding electronic payee statements.

5. Proposed regulations regarding what constitutes a return under section 6020(b) for purposes of applying the failure to pay penalty.

6. Guidance regarding information reporting under section 6041 for commissions paid to insurance agents.

7. Revenue ruling regarding information reporting for royalty payments under sections 6041 and 6050N.

8. Final regulations regarding information reporting and backup withholding for purchasing card transactions.

9. Revenue procedure regarding Qualified Payment Card Agents.

10. Guidance regarding information reporting with respect to payments in lieu of dividends made to individuals.
    - PUBLISHED 10/6/2003 in IRB 2003-40 as NOTICE 2003-67 (released 9/16/2003)

11. Final regulations under section 6045(f) regarding the reporting of gross proceeds to attorneys.

12. Final regulations under section 6050P regarding information reporting for cancellation of indebtedness.

13. Proposed regulations under section 6091 regarding hand carrying returns.

14. Proposed regulations under section 6103 regarding the disclosure of unrelated third party tax information in tax proceedings.

15. Final regulations under section 6103 regarding the definition of "agent".

16. Revenue procedure under section 6103 regarding fees charged for furnishing certain returns and return information.
    - PUBLISHED 10/27/2003 in IRB 2003-43 as REV. PROC. 2003-74

17. Final regulations regarding the ability of a return preparer to furnish a completed copy of an income tax return to the taxpayer using a medium other than paper.

18. Withdrawal of regulations under former section 6152 relating to the election by a decedent's estate to pay income tax in installments.

19. Update Rev. Ruls. 75-365, 366, and 367 regarding interests in real estate held by a decedent.

20. Guidance regarding the use of summary assessment procedures with respect to claimed Black Reparations and similar credits.

21. Guidance under section 6213 regarding math error assessments based on a Form W-2.

22. Revenue ruling regarding the classification of items and the statute of limitations under the TEFRA partnership provisions.

23. Revenue ruling under section 6231 regarding the application of certain TEFRA partnership provisions to disregarded entities.

24. Final regulations under section 6302 regarding the minimum threshold for depositing FUTA taxes.

25. Proposed regulations under sections 6320 and 6330 regarding collection due process.

26. Notice regarding collection issues relating to property held as a tenancy by the entirety arising from the Supreme Court's opinion in United States v. Craft.
    - PUBLISHED 9/29/2003 in IRB 2003-39 as NOTICE 2003-60 (released 9/11/2003)

27. Revenue ruling regarding the limitations on setoff.

28. Revenue ruling regarding setoff with respect to a taxpayer in bankruptcy.

29. Proposed regulations under section 6655 regarding estimated tax payments by corporations.

30. Final regulations under sections 6662 and 6664 regarding penalties relating to tax shelters.

31. Revenue procedure regarding the submission and processing of offers-in-compromise.
    - PUBLISHED 9/8/2003 in IRB 2003-36 as REV. PROC. 2003-71 (released 8/21/2003)

32. Final regulations imposing a user fee for offers-in-compromise.
    - PUBLISHED 8/15/2003 in FR as TD 9086

33. Guidance necessary to facilitate electronic tax administration.

34. Final regulations under section 7430 regarding qualified offers.

35. Proposed regulations under section 7430 regarding miscellaneous changes made by TRA 97 and RRA 98.

36. Update Rev. Proc. 87-24 regarding docketed Tax Court cases.

37. Proposed regulations regarding third party and John Doe summonses.

38. Revenue procedure regarding the early examination of questionable transactions.

39. Revisions to Circular 230 regarding practice before the IRS.

40. Revenue procedure expanding the prefiling agreement program.

<u>Additional Projects:</u>

41. Announcement regarding a delay of the implementation of the new rolling renewal schedule for enrolled agents to renew their enrollment under Circular 230.
    - WILL BE PUBLISHED 11/10/2003 in IRB 2003-45 as ANN. 2003-68 (released 10/27/2003)

42. Revenue ruling under section 6323 regarding the effect of actual knowledge of a tax lien for priority purposes.
    - WILL BE PUBLISHED 11/3/2003 in IRB 2003-44 as REV. RUL. 2003-108

43. Proposed regulations under section 6011 to remove impediments to electronic filing of certain business returns.

44. Notice under section 6001 establishing a pilot program for entering into a record keeping agreement relating to the research credit under section 41.

45. Revenue ruling under section 6402 regarding post-petition credits in chapter 13 bankruptcy cases.

46. Final regulations under section 6045 regarding information reporting relating to taxable stock transactions.

47. Guidance under section 6041 regarding information reporting relating to debit or credit card payments of health expenses.

TAX EXEMPT BONDS

1. Guidance under section 141 regarding naming rights.

2. Guidance on correction alternatives and voluntary compliance for tax exempt bond provisions.

3. Final regulations under section 141 on refundings.

4. Proposed regulations under section 141 regarding allocation and accounting provisions.

5. Regulations under section 142 regarding solid waste disposal facilities.

6. Guidance under section 143 regarding mortgage insurance fees.

7. Guidance under section 143 regarding average area purchase price.

8. Final regulations under section 148 regarding brokers' commissions and similar fees.

9. Guidance on arbitrage.

10. Guidance under section 150 regarding change in use provisions.

11. Guidance under section 1397E regarding qualified zone academy bonds.

Additional Projects:

12. Revenue ruling under section 147(e) regarding helicopters.
    - WILL BE PUBLISHED 11/17/2003 in IRB 2003-46 as REV. RUL. 2003-116 (released 10/29/2003)

APPENDIX - Regularly Scheduled Publications

JULY 2003

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288, and 7520.
   - PUBLISHED 7/7/2003 in IRB 2003-27 as REV. RUL. 2003-71

2. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in July 2003.
   - PUBLISHED 7/28/2003 in IRB 2003-30 as NOTICE 2003-48 (released 7/3/2003)

3. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.
   - PUBLISHED 7/21//2003 in IRB 2003-29 as REV. RUL. 2003-87

AUGUST 2003

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288, and 7520.
   - PUBLISHED 8/18/2003 in IRB 2003-33 as REV. RUL. 2003-94

2. Revenue procedure providing the amounts of unused housing credit carryover allocated to qualified states under section 42(h)(3)(D) for the calendar year.
   - PUBLISHED 8/25/2003 in IRB 2003-34 as REV. PROC. 2003-67

3. Notice providing the inflation adjustment factor to be used in determining the enhanced oil recovery credit under section 43 for tax years beginning in the calendar year.
   - PUBLISHED 7/14/2003 in IRB 2003-28 as NOTICE 2003-43

4. Notice providing the applicable percentage to be used in determining percentage depleting for marginal properties under section 613A for the calendar year.
   - PUBLISHED 7/29/2003 in IRB 2003-30 as NOTICE 2003-54

5. Revenue ruling setting forth the terminal charge and the standard industry fare level (SIFL) cents-per-mile rates for the second half of 2003 for use in valuing personal flights on employer-provided aircraft.
   - PUBLISHED 9/15/2003 in IRB 2003-37 as REV. RUL. 2003-89

6. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in August 2003.

- PUBLISHED 9/2/2003 in IRB 2003-25 as NOTICE 2003-58 (released 8/6/2003)

7. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.
   - PUBLISHED 8/25/2003 in IRB 2003-34 as REV. RUL. 2003-100

SEPTEMBER 2003

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288, and 7520.
   - PUBLISHED 9/8/2003 in IRB 2003-36 as REV. RUL. 2003-101

2. Revenue ruling providing the monthly bond factor amounts to be used by taxpayers who dispose of qualified low-income buildings or interests therein during the period July through September, 2003.
   - PUBLISHED 8/18/2003 in IRB 2003-33 as REV. RUL. 2003-93

3. Revenue ruling under section 6621 regarding the applicable interest rates for overpayments and underpayments of tax for the period October through December 2003.
   - PUBLISHED 9/29/2003 in IRB 2003-39 as REV. RUL. 2003-104

4. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in September 2003.
   - PUBLISHED 9/22/2003 in IRB 2003-38 as NOTICE 2003-63 (released 9/4/2003)

5. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.
   - PUBLISHED 9/22/2003 in IRB 2003-38 as REV. RUL. 2003-103

6. Revenue procedure under section 62 regarding the deduction and deemed substantiation of federal standard mileage amounts.
   - PUBLISHED 10/27/2003 in IRB 2003-43 as REV. PROC. 2003-76

7. Revenue procedure under section 62 regarding the deduction and deemed substantiation of federal travel per diem amounts.
   - WILL BE PUBLISHED 11/10/2003 in IRB 2003-45 as REV. PROC. 2003-80

8. Update Notice 2002-62 to add approved applicants for designated private delivery service status under section 7502(f). Will be published only if any new applicants are approved.
   - WILL BE CLOSED WITHOUT PUBLICATION

OCTOBER 2003

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288, and 7520.
   - PUBLISHED 10/14/2003 in IRB 2003-41 as REV. RUL. 2003-107 (released 9/17/2003)

2. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in October 2003.
   - PUBLISHED 10/20/2003 in IRB 2003-42 as NOTICE 2003-61 (released 10/6/2003)

3. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.
   - WILL BE PUBLISHED 11/3/2003 in IRB 2003-44 as REV. RUL. 2003-113

4. Revenue procedure under section 1 and other sections of the Code regarding the inflation adjusted items for 2004.

5. Revenue procedure providing the loss payment patterns and discount factors for the 2003 accident year to be used for computing unpaid losses under section 846.

6. Revenue procedure providing the salvage discount factors for the 2003 accident year to be used for computing discounted estimated salvage recoverable under section 832.

7. Update of Rev. Proc. 2002-71 listing the tax deadlines that may be extended by the Commissioner under section 7508A in the event of a Presidentially-declared disaster or terrorist attack.

NOVEMBER 2003

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

2. Revenue ruling providing the "base period T-Bill rate" as required by section 995(f)(4).
   - WILL BE PUBLISHED 11/10/2003 in IRB 2003-45 as REV. RUL. 2003-111

3. Revenue ruling setting forth covered compensation tables for the 2004 calendar year for determining contributions to defined benefit plans and permitted disparity.

4. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in November 2003.

5. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.

6. Update of Rev. Proc. 2002-66 regarding adequate disclosure for purposes of the section 6662 substantial understatement penalty and the section 6694 preparer penalty.
   - WILL BE PUBLISHED 11/3/2003 in IRB 2003-44 as REV. PROC. 2003-77

7. News release setting forth cost-of living adjustments effective January 1, 2004, applicable to the dollar limits on benefits under qualified defined benefit pension plans and other provisions affecting certain plans of deferred compensation.
   - WILL BE PUBLISHED 11/10/2003 in IRB 2003-45 as NOTICE 2003-73 (released 10/16/2003 as IR-2003-122)

DECEMBER 2003

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

2. Revenue ruling providing the monthly bond factor amounts to be used by taxpayers who dispose of qualified low-income buildings or interests therein during the period October through December, 2003.

3. Revenue ruling under section 6621 regarding the applicable interest rates for overpayments and underpayments of tax for the period January through March 2004.

4. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in December 2003.

5. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.

6. Revenue procedure setting forth, pursuant to section 1397E, the maximum face amount of Qualified Zone Academy Bonds that may be issued for each state during 2004.

7. Federal Register notice on Railroad Retirement Tier 2 tax rate.

JANUARY 2004

1. Revenue procedure updating the procedures for issuing private letter rulings, determination letters, and information letters on specific issues under the jurisdiction of the Chief Counsel.

2. Revenue procedure updating the procedures for furnishing technical advice to certain IRS offices, in the areas under the jurisdiction of the Chief Counsel.

3. Revenue procedure updating the previously published list of "no-rule" issues under the jurisdiction of certain Associates Chief Counsel other than the Associate Chief Counsel (International) on which advance letter rulings or determination letters will not be issued.

4. Revenue procedure updating the previously published list of "no-rule" issues under the jurisdiction of the Associate Chief Counsel (International) on which advance letter rulings or determination letters will not be issued.

5. Revenue procedure updating procedures for furnishing letter rulings, general information letters, etc. in employee plans and exempt organization matters relating to sections of the Code under the jurisdiction of the Office of the Commissioner, Tax Exempt and Government Entities Division.

6. Revenue procedure updating procedures for furnishing technical advice in employee plans and exempt organization matters under the jurisdiction of the Commissioner, Tax Exempt and Government Entities Division.

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

8. Revenue ruling setting forth the prevailing state assumed interest rates provided for the determination of reserves under section 807 for contracts issued in 2003 and 2004.

9. Revenue ruling providing the dollar amounts, increased by the 2003 inflation adjustment for section 1274A.

10. Revenue ruling setting forth the amount that section 7872 permits a taxpayer to lend to a qualified continuing care facility without incurring imputed interest, adjusted for inflation.

11. Revenue procedure providing procedures for limitations on depreciation deductions for owners of passenger automobiles first placed in service during the calendar year; amounts to be included in income by lessees of passenger automobiles first leased during the calendar year; and the maximum allowable value of employer-provided automobiles first made available to employees for personal use in the calendar year.

12. Revenue procedure providing the domestic asset/liability percentages and the domestic investment yield percentages for taxable years beginning after

December 31, 2002, for foreign companies conducting insurance business in the U.S.

13. Revenue procedure updating procedures for issuing determination letters on the qualified status of employee plans under sections 401(a), 403(a), 409, and 4975.

14. Revenue procedure updating the user fee program as it pertains to requests for letter rulings, determination letters, etc. in employee plans and exempt organizations matters under the jurisdiction of the Office of the Commissioner, Tax Exempt and Government Entities Division.

15. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in January 2004.

16. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.

FEBRUARY 2004

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

2. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.

3. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in February 2004.

MARCH 2004

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

2. Notice providing resident population of the states for determining the calendar year state housing credit ceiling under section 42(h), the private activity bond volume cap under section 146, and the qualified public educational facility bond volume cap under section 142(k).

3. Revenue ruling providing the monthly bond factor amounts to be used by taxpayers who dispose of qualified low-income buildings or interests therein during the period January through March, 2004.

4. Revenue ruling under section 6621 regarding the applicable interest rates for overpayments and underpayments of tax for the period April through June, 2004.

5. Revenue ruling setting forth the terminal charge and the standard industry fare level (SIFL) cents-per-mile rates for the first half of 2004 for use in valuing personal flights on employer-provided aircraft.

6. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in March 2004.

7. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.

APRIL 2004

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

2. Revenue ruling providing the average annual effective interest rates charged by each Farm Credit Bank District.

3. Notice providing the inflation adjustment factor, nonconventional fuel source credit, and reference price for the calendar year that determines the availability of the credit for producing fuel from a nonconventional source under section 29.

4. Revenue procedure providing a current list of countries and the dates those countries are subject to the section 911(d)(4) waiver and guidance to individuals who fail to meet the eligibility requirements of section 911(d)(1) because of adverse conditions in a foreign country.

5. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in April 2004.

6. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.

MAY 2004

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

2. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in May 2004.

3. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.

4. Revenue procedure providing guidance for use of the national and area median gross income figures by issuers of qualified mortgage bonds and mortgage credit certificates in determining the housing cost/income ratio under section 145.

JUNE 2004

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

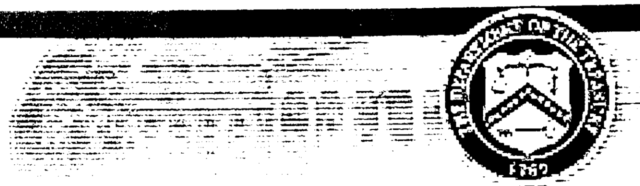
2. Revenue ruling providing the monthly bond factor amounts to be used by taxpayers who dispose of qualified low-income buildings or interests therein during the period April through June, 2004.

3. Revenue ruling under section 6621 regarding the applicable interest rates for overpayments and underpayments of tax for the period July through September 2004.

4. Notice providing the calendar year inflation adjustment factor and reference prices for the renewable electricity production credit under section 45.

5. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for the purpose of the full funding limitation of section 412(c)(7) for plan years beginning in June 2004.

6. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.



PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 5, 2003
JS-931

Acting Under Secretary for Domestic Finance
Brian C. Roseboro
November 2003 - Quarterly Refunding Statement

There will be no change in the issuance calendar this quarter. The financing changes that Treasury has already put in place this year have created the capacity to accommodate the anticipated increase in issuance.

For this quarterly refunding, we are offering $57 billion of notes to refund approximately $24.8 billion of privately held notes and bonds maturing or called on November 15, raising approximately $32.2 billion. The securities are:

1. A new 3-year note in the amount of $24 billion, maturing November 15, 2006.
2. A new 5-year note in the amount of $16 billion, maturing November 15, 2008.
3. A new 10-year note in the amount of $17 billion, maturing November 15, 2013.

These securities will be auctioned on a yield basis at 1:00 PM Eastern time on Monday, November 10, Wednesday, November 12, and Thursday, November 13, respectively. US Government Bond Markets are closed on Tuesday, November 11, for the Veteran's Day Holiday. The balance of our financing requirements will be met through the monthly issuance of 5-year notes, the 10-year note reopening and 10-year TIPS reopening, and 2-year note and bill offerings. The Treasury is likely to issue cash management bills in early December and January.

Real (TIPS) Yield Curve

We are pleased to announce that effective, Friday January 2, 2004, Treasury will begin daily publication of 5-year, 7-year, and 10-year real constant maturity yield points (R-CMT) taken from Treasury's real yield curve. The Treasury real yield curve is constructed by interpolating closing real bid yields on existing TIPS (Treasury Inflation Protected Securities) with maturities between 3-1/2 years and 10 years. Over time, we intend extend the range of the real yield curve, and publish real CMT points from 1-month to 10-years. Additionally, Treasury will publish a daily long-term average of all TIPS with maturities over 10 years for use as a proxy for long-term real rates. The daily R-CMT points and long-term real averages as well as more detailed information regarding the construction of these indices can be found at www.treas.gov/offices/domestic-finance/debt-management/interest-rate/.

Monitoring Secondary Market Conditions

Along with other government agencies, trade associations, and market participants, Treasury continues to monitor conditions in the financing market. Smooth functioning of the financing market, in general, and the market for specific issues in particular, play a vital role in the functioning of the secondary market for Treasury securities. We continue to believe in market participants' ability to resolve this matter.

Finally, the next quarterly refunding announcement will take place on Wednesday,

February 4, 2004.

Please send comments and suggestions on these subjects or others relating to debt management to debt.management@do.treas.gov.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 5, 2003
js932

Report To The Secretary Of The Treasury From The Treasury Borrowing Advisory CommitteeTesting2

Dear Mr. Secretary:

Since the Committee's last meeting on July 29th, the economy has begun to show signs that a more robust recovery is underway. Recent data showed that the economy expanded by 7.2% on an annualized basis in the third quarter, the fastest quarterly pace of expansion since 1984. Additionally, surveys of purchasing managers also suggest that the manufacturing sector, which led the economic decline, is in the throws of what most economists expect is a suitable rebound. Despite these positive developments, the labor market remains relatively weak but stable. The average duration of unemployment remains at nearly 20 weeks but claims for unemployment insurance have fallen recently. Also, payrolls expanded in September for the first time since January and are forecast to expand in October as well. Since our last meeting the actual annual rate of inflation has increased slightly on a year-to-year basis while the rate of core inflation has continued to fall.

Short-maturity yields have risen since our last meeting. Two-year Treasury note yields are up 23 basis points to 1.94% despite having fallen to a yield of 1.45% during the period. Ten-year notes actually rallied slightly during the period, and are five basis points lower at 4.39%. The 2-year/10-year curve flattened by 28 basis points. Equity markets continued to improve since our last meeting. The S&P 500 index has risen roughly 6.5% while the NASDAQ composite index is up over 12% during the inter-meeting period. In the currency markets, the dollar has depreciated over 8% versus the Yen and just over 1% versus the Euro.

Against this economic and financial backdrop, the Committee began consideration of debt management questions included in the quarterly meeting Committee charge. In a new format, Treasury presented a chart package, that will be released as part of the Treasury refunding announcement, as part of the Committee charge

The first question asked for Committee's advice on whether Treasury's current financing calendar provided sufficient flexibility given the current fiscal outlook and if not what recommendations the Committee would make as changes to the calendar and over what time period. Prior to tackling the charge, several members asked for additional clarity around OMB's forecasting approach in order to try to ascertain the likelihood of a large miss between actual deficits and forecasts in the short term. As it related to the charge, one member pointed out an increased seasonality to cash flows caused primarily by the mid-month settlement of 5-year notes. This had increased Treasury's reliance on cash management bills and in effect decreased the effectiveness of the 1-month bill in handling seasonal cash flows. As a solution, several members recommended changing 5-year note issuance from mid-month to the end of the month. Treasury, however, noted current 5-year and Treasury bill issuance afforded them significant

flexibility and in the long run, mid-month maturities would help smooth cash balances.

Several members felt that given the likelihood of higher than forecast deficits in the future, rollover risk might be too high using the current Treasury calendar. This might argue for an alternative schedule possibly including more long-dated issuance. Another member noted that if the economy were approaching the turning point, Treasury did not want to be harnessed with significant long-dated issuance just as the fiscal situation improved. In effect, it was easier for Treasury to increase auction cycles in a growing deficit world than to eliminate them as deficits declined. The majority of the Committee members felt that Treasury's current financing calendar provided sufficient flexibility given the current fiscal outlook.

The second question the Committee opined on was in reference to adding an additional TIPS security to the financing calendar. The Committee was asked what criteria should Treasury use in determining the appropriate maturity for a new issue.

Treasury shared with the Committee that over the last eighteen months they had received a great deal of input on the TIPS market from investors, consultants and dealers. They felt this has helped them understand more of the market dynamics currently at work. In general, the Committee felt that this market was still in its infancy and could experience significant growth in the future, so adding a new issue would continue to build on the established curve and add to the overall liquidity of the product. The view that TIPS were a diversifying asset in portfolios of equities and fixed income was common and will continue to be accepted by investors over time. In fact, the view of TIPS as a diversifier was more common than TIPS as an inflation hedge.

Under the current issuance cycle, demand develops around the auction process on one specific maturity point of the curve--10 years. The discussion focused on maturities shorter than this liquidity point and longer than this liquidity point.

The Committee first considered issuance of a new maturity in less than ten years (e.g. three years or five years). Members felt that this could bring some continued interest and demand from foreign investors. Some members thought that this would do little to further develop the existing TIPS yield curve, while allowing for the view that foreign purchases of nominal issuance had driven recent demand for Treasury securities.

A number of Committee members felt that there was genuine interest from a number of investor groups for longer dated maturities. State and local governments, pension funds, insurance companies and mutual funds had all expressed interest in the longer end of the TIPS curve. This was viewed as real structural demand in the market The Committee further discussed potential long maturity possibilities. Some members of the Committee felt the 20-year maturity or the 30-year maturity should be considered. One Committee member suggested that issuance in the 20-year maturity would create a readily hedgeable security due to the outstanding 10-year TIPS securities and the off-the-run 30-year TIPS securities. This would also serve the purpose of further building out the yield curve for TIPS where there is currently an issuance gap. A number of members felt that by issuing in the long end, greater liquidity would be created and a liquidity premium would be established. Members felt that investors had become more comfortable with the product, were demanding more issuance, and would welcome longer-dated maturities. In support of this view, one member referenced a Federal Reserve Bank chart from the prior meeting that illustrated a decrease in dealer positions. This was thought to be indicative of increased demand for the product and a general maturation of the product. There was little support for introducing a 30-year TIPS maturity

at this point in time.

The third question in the charge asked for the Committee's views on RP fails, particularly on the May 13 10-year notes, which had persisted at elevated levels, including current market conditions and the effectiveness of both private sector initiatives and regulatory measures in reducing those fails.

Members noted that fails increased capital charges, balance sheet usage and counterparty risk on sell side institutions. In some cases market makers had been forced to divert resources from other businesses to compensate for fails in the RP area generally reducing liquidity provided to those other areas. One member mentioned that while "normal" fails were healthy for the market, long-term, chronic fails were not. Most members agreed that private sector initiatives had reduced fails by about 90% primarily by pooling counterparty information and reducing "round-robin" fails. Most also felt that fail reduction based on these types of private sector initiatives had largely run its course.

Some members felt that from a regulatory perspective, increasing the breadth of large position reporting might provide some relief to the residual fail situation, while others thought the remedy was a tap of the 5/13 issue. The overwhelming majority agreed, however, that given the relative pricing of the 5/13 ten-years to other securities in the sector, market forces probably had not been allowed to run their course in reducing fails and that a longer period of time was required for them to do so. Additionally, members felt that Treasury might compromise the many benefits accruing to the current system by increasing regulation prematurely.

The Committee then addressed the question of the composition of Treasury notes to refund approximately $24.8 billion of privately held notes and bonds maturing on November 15 (including $3.4 billion of the 8-3/4% 11/15/03 - 08 that was called 7/15/03) as well as the composition of Treasury marketable financing for the remainder of the October-December quarter, including cash management bills and for the January-March quarter.

To refund $24.8 billion of privately held notes and bonds maturing on November 15, 2003, the Committee recommended a $25 billion 3-year note due 11/15/06, a $17 billion 5-year note due 11/15/08 and a $19 billion 10-year note due 11/15/13. For the remainder of the quarter, the Committee recommended two $26 billion 2-year notes issued in November and December, a $17 billion 5-year note issued in December, and $14 billion of a re-opened 10-year note issued in December and due 11/15/13. The Committee also recommended two cash management bills, one a $25 billion 12-day bill issued 12/3/03 and maturing on 12/15/03 and the other a $12 billion 4-day bill issued 12/11/03 and maturing on 12/15/03. For the January-March quarter, the Committee recommended financing as contained in the attached table. Relevant features include three monthly 2-year notes (one of $27 billion and two of $28 billion), three monthly 5-year notes (one of $17 billion and two of $19 billion), a $26 billion 3-year note for issuance in February and a $20 billion 10-year note issued in February followed by a $15 billion reopening of that 10-year note in March. The Committee further recommended a $12 billion 10-year TIPS for issuance in January. It was noted that Treasury should allow for potential changes in the TIPS maturity as discussed in the charge.

Respectfully submitted,

Timothy W. Jay
Chairman

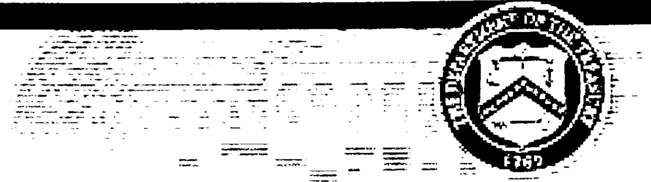
Mark B. Werner

Vice Chairman

Attachments (2)

Related Documents:

- Financing Tables Q1 2004
- Financing Tables Q4 2003



PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 5, 2003
JS-970

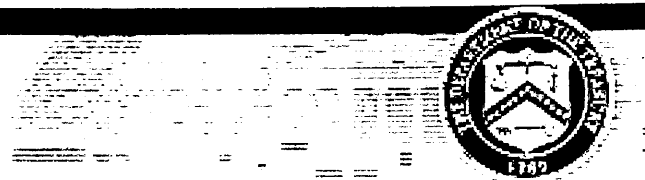
MEDIA ADVISORY: United States and Japan To Sign New Us-Japan Income Tax Treaty

Treasury Secretary John Snow and Ambassador Ryozo Kato, the Japanese Ambassador to the United States, will hold a signing ceremony for the new US-Japan income tax treaty at 4:30 p.m. EST on Thursday, November 6, 2003 in the Treasury Department's Cash Room, 1500 Pennsylvania Avenue, NW.

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

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

PRESS ROOM



FROM THE OFFICE OF PUBLIC AFFAIRS

November 5, 2003
JS-971

SNOW AND EVANS URGE SENATE TO PASS PERMANENT INTERNET TAX MORATORIUM

Treasury Secretary John Snow and Commerce Secretary Don Evans today expressed their strong support for passage of legislation to make the Internet tax moratorium permanent. The moratorium applies to taxes on Internet access, regardless of the speed of that access, and to multiple or discriminatory taxes on electronic commerce.

"We believe that government should support the widespread availability and use of the Internet, including the use of broadband technology, and not discourage the Internet's growth through new access taxes. Keeping the Internet free of multiple or discriminatory taxes will help create an environment for innovation and will help ensure that electronic commerce remains a vital, and growing, part of our economy. A permanent moratorium means a permanent victory for American consumers and businesses."

"We urge the Senate to pass S. 150 as soon as possible so President Bush can sign a permanent Internet tax moratorium."

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 5, 2003
js-972

Statement of Secretary John W. Snow on Senate Passage of Amendments to the Fair Credit Reporting Act

The United States Senate today took a significant step towards promoting access to credit and financial services for American consumers and implementing tough new safeguards against the spread of identity theft and its devastating effects, implementing Administration proposals that I announced on June 30.

I congratulate the Senate on their action and look forward to working with both Houses of Congress to ensure that the final legislation embodies the goals we all share.

PRLSS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 5, 2003
js-972

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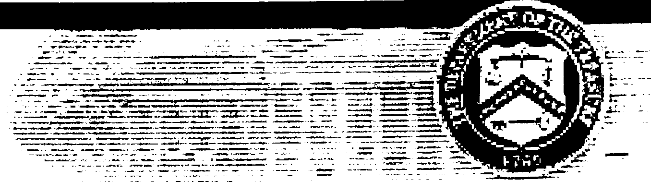
PRESS ROOM



FROM THE OFFICE OF PUBLIC AFFAIRS

November 5, 2003
JS-973

Treasury Statement regarding today's Announcement by Brazil and the IMF

We welcome the announcement today by Brazil's Finance Minister Palocci and IMF First Deputy Managing Director Krueger of a proposed one-year extension of Brazil's IMF program. The United States expects to support this proposal when it is reviewed by the IMF Executive Board. Brazil has made remarkable progress in restoring macroeconomic stability and reducing vulnerabilities. Its performance under its IMF program has been exemplary. As Brazil graduates from reliance on IMF financing,its decision to seek a precautionary extension of the program is a prudent step and will support Brazil's macroeconomic and growth-oriented reforms. Brazil has indicated that it does not intend further borrowing from the IMF under the program extension.

-30-

FROM THE OFFICE OF PUBLIC AFFAIRS

November 6, 2003
2003-11-6-17-46-59-17428

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 $83,947 million as of the end of that week, compared to $84,588 million as of the end of the prior week.

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

	October 24, 2003			October 31, 2003		
TOTAL		84,588			83,947	
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	7,877	14,400	22,277	7,729	14,287	22,016
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,882	2,893	15,775	12,642	2,870	15,512
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]			23,474			23,397
3. Special Drawing Rights (SDRs) [2]			12,018			11,979
4. Gold Stock [3]			11,043			11,043
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	October 24, 2003			October 31, 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

	October 24, 2003			October 31, 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:

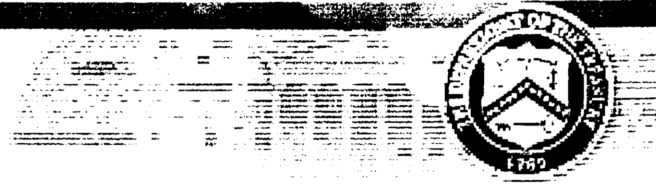
1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values. Foreign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

November 6, 2003
JS-974

U.S. Treasury Secretary John W. Snow
Remarks to
Treasury Roundtable of Jobs, Growth, and the Abolition of the Death Tax
November 6, 2003

Good morning. Thanks for joining us at the Treasury today for this roundtable on jobs, growth, and the abolition of the death tax.

We have seen some very positive developments in our economy in recent weeks, in large measure thanks to President Bush's leadership, his Jobs and Growth Plan, his attention to our national security, and other steps he's taken to ensure a bright future for our nation.

Last quarter produced outstanding growth, and manufacturing and investment activity is accelerating in a big way. At the same time, we've got a lot further to go. We need more job creation, and we won't be satisfied until every American who wants a job can find one.

Our focus on spurring job creation is a big reason for convening this roundtable on the death tax. The other reason is more an expression of our core values: the death tax is simply unfair and wrong. It's anti-savings, anti-family, and anti-small business. It needs to end. Let me put on my economist hat for a moment, and quote one of our esteemed guests today, Professor Russell Lamb from the University of North Carolina Economics Department. Professor Lamb said, "repeal of the death tax is an example of sound economics meeting simple fairness."

I couldn't say it better myself.

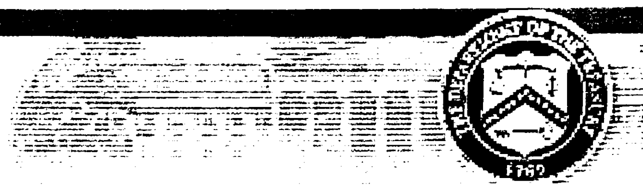
In fact, we've got 278 economists, including Nobel Laureates Milton Friedman and Vernon Smith, who have signed a public letter to the same effect -- a letter in Professor Friedman's equally pithy language.

Today we're going to work on developing a better understanding of the costs and consequences of the death tax. We're going to gather and distribute the latest economic studies on the impact of the tax. We're going to hear from Nobel Laureate Vernon Smith directly. And we're going to lay the groundwork for renewing our efforts to permanently repeal the death tax.

I think the facts are pretty clear. The death tax falls on income that has already been taxed, sometimes twice before. It forces the destruction of thousands of small family businesses, and it discourages work, savings and asset-accumulation. It diverts resources into tax avoidance and enforcement that could be spent in economically productive activities. And in the end, some studies suggest it may cost the government as much as it collects.

Permanent repeal of the death tax is a key part of President Bush's six-point plan for economic growth, and your contributions to today's discussion will move us toward our common objectives of higher growth, job creation, and economic security for the citizens of the United States.

I'm looking forward to the discussion.



PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 6, 2003
JS-975

**TREASURY SECRETARY JOHN W. SNOW
REMARKS AT THE
US-JAPAN INCOME TAX TREATY SIGNING CEREMONY**

I would like to thank you all for being here today at this important ceremony, and I would like to welcome our friends from Japan, especially the Honorable Ryozo Kato, Ambassador of Japan to the United States.
I also would like to thank all those who worked so hard to bring this income tax treaty to fruition, both from the Japanese side and from the American side. As you know, this new treaty has been many years in the making, and could not have been concluded without the hard work of many people in each of our governments.

This Administration has made a strong commitment to our income tax treaty program. Tax treaties are important to the overall international economic policy of the United States because they serve to reduce tax barriers to international trade and investment.

A healthy trade and investment relationship between the United States and Japan, the world's two largest economies, is critical to creating economic growth throughout the world. The new income tax treaty we will sign today will significantly reduce existing tax-related barriers to trade and investment between Japan and the United States. By reducing such barriers, the new treaty will foster still-closer economic ties between our two great nations. This will enhance the competitiveness of our businesses, and create new opportunities for trade and investment between our two nations.

Most significantly, the new income tax treaty completely eliminates source-country withholding taxes on certain income, including:

• the elimination of withholding taxes on all royalty income,
• the elimination of withholding taxes on certain interest income, including interest income earned by financial institutions, and
• the elimination of withholding taxes on dividend income paid to parent companies with a controlling interest in the paying company.

The new income tax treaty also ensures treaty benefits in appropriate circumstances for investments made through partnerships, allowing flexibility in business form. In addition, the new treaty includes important provisions regarding the application of international standards for transfer pricing between affiliated companies operating in both countries.

Since the current U.S.-Japan tax treaty was signed over 30 years ago, the relationship between our two countries has become truly global in scope. Our economic relationship is strong and increasingly interdependent. It is firmly rooted in the shared interests and responsibility of the United States and Japan to promote global growth and a vital world trading system.

I am very pleased to have the opportunity today to sign this new income tax treaty between the United States and Japan. We will be proud to transmit this treaty for consideration by our Senate. We look forward to the day when this new tax treaty

is in force, operating to enhance the environment for trade and investment between our two nations.

Documents Attached:

Related Documents:

- Convention Final
- Protocol Final
- US Note Final

CONVENTION BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF JAPAN FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME

The Government of the United States of America and the Government of Japan,

Desiring to conclude a new Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income,

Have agreed as follows:

ARTICLE 1

1. This Convention shall apply only to persons who are residents of one or both of the Contracting States, except as otherwise provided in the Convention.

2. The provisions of this Convention shall not be construed to restrict in any manner any exclusion, exemption, deduction, credit, or other allowance now or hereafter accorded:

(a) by the laws of a Contracting State in the determination of the tax imposed by that Contracting State; or

(b) by any other bilateral agreement between the Contracting States or any multilateral agreement to which the Contracting States are parties.

3. (a) Notwithstanding the provisions of subparagraph (b) of paragraph 2:

(i) any question arising as to the interpretation or application of this Convention and, in particular, whether a measure is within the scope of this Convention, shall be determined exclusively in accordance with the provisions of Article 25 of this Convention; and

(ii) the provisions of Article XVII of the General Agreement on Trade in Services shall not apply to a measure unless the competent authorities agree that the measure is not within the scope of Article 24 of this Convention.

(b) For the purposes of this paragraph, the term "measure" means a law, regulation, rule, procedure, decision, administrative action, or any similar provision or action, as related to taxes of every kind and description imposed by a Contracting State without regard to Article 2 and subparagraph (d) of paragraph 1 of Article 3.

4. (a) Except to the extent provided in paragraph 5, this Convention shall not affect the taxation by a Contracting State of its residents (as determined under Article 4) and, in the case of the United States, its citizens.

(b) Notwithstanding the other provisions of this Convention, a former citizen or long-term resident of the United States may, for the period of ten years following the loss of such status, be taxed in accordance with the laws of the United States, if the loss of such status had as one of its principal purposes the avoidance of tax (as defined under the laws of the United States).

5. The provisions of paragraph 4 shall not affect the benefits conferred by a Contracting State under paragraphs 2 and 3 of Article 9, paragraph 3 of Article 17, and Articles 18, 19, 20, 23, 24, 25 and 28, but in the case of benefits conferred by the United States under Articles 18, 19 and 20 only if the individuals claiming the benefits are neither citizens of, nor have been lawfully admitted for permanent residence in, the United States.

ARTICLE 2

1. This Convention shall apply to the following taxes:

(a) in the case of Japan:

(i) the income tax; and

(ii) the corporation tax

(hereinafter referred to as "Japanese tax");

(b) in the case of the United States, the Federal income taxes imposed by the Internal Revenue Code but excluding social security taxes (hereinafter referred to as "United States tax").

2. This Convention shall also apply to any identical or substantially similar taxes which are imposed after the date of signature of the Convention in addition to, or in place of, those referred to in paragraph 1. The competent authorities of the Contracting States shall notify each other of any substantial changes which have been made in their respective tax laws, or changes in other laws that significantly affect their obligations under the Convention, within a reasonable period of time after such changes.

ARTICLE 3

1. For the purposes of this Convention, unless the context otherwise requires:

(a) the term "Japan", when used in a geographical sense, means all the territory of Japan, including its territorial sea, in which the laws relating to Japanese tax are in force, and all the area beyond its territorial sea, including the seabed and subsoil thereof, over

which Japan has jurisdiction in accordance with international law and in which the laws relating to Japanese tax are in force;

(b) the term "United States" means the United States of America. When used in a geographical sense, the term includes the states thereof and the District of Columbia; such term also includes the territorial sea thereof and the seabed and subsoil of the submarine areas adjacent to that territorial sea, over which the United States exercises sovereign rights in accordance with international law; the term, however, does not include Puerto Rico, the Virgin Islands, Guam or any other United States possession or territory;

(c) the terms "a Contracting State" and "the other Contracting State" mean Japan or the United States, as the context requires;

(d) the term "tax" means Japanese tax or United States tax, as the context requires;

(e) the term "person" includes an individual, a company and any other body of persons;

(f) the term "company" means any body corporate or any entity that is treated as a body corporate for tax purposes;

(g) the term "enterprise" applies to the carrying on of any business;

(h) the terms "enterprise of a Contracting State" and "enterprise of the other Contracting State" mean respectively an enterprise carried on by a resident of a Contracting State and an enterprise carried on by a resident of the other Contracting State;

(i) the term "international traffic" means any transport by a ship or aircraft operated by an enterprise of a Contracting State, except when such transport is solely between places in the other Contracting State;

(j) the term "national" of a Contracting State means:

(i) in relation to Japan, any individual possessing the nationality of Japan and any juridical person or other organization deriving its status as such from the laws in force in Japan; and

(ii) in relation to the United States, any individual possessing the citizenship of the United States and any legal person, partnership or association deriving its status as such from the laws in force in the United States;

(k) the term "competent authority" means:

(i) in the case of Japan, the Minister of Finance or his authorized representative; and

(ii) in the case of the United States, the Secretary of the Treasury or his delegate;

(l) the term "business" includes the performance of professional services and of other activities of an independent character; and

(m) the term "pension fund" means any person that:

(i) is organized under the laws of a Contracting State;

(ii) is established and maintained in that Contracting State primarily to administer or provide pensions or other similar remuneration, including social security payments; and

(iii) is exempt from tax in that Contracting State with respect to the activities described in clause (ii).

2. As regards the application of this Convention at any time by a Contracting State any term not defined therein shall, unless the context otherwise requires, or the competent authorities agree otherwise on the meaning of a term for the purposes of applying the Convention pursuant to Article 25, have the meaning which it has at that time under the laws of that Contracting State for the purposes of the taxes to which the Convention applies, any meaning under the applicable tax laws of that Contracting State prevailing over a meaning given to the term under other laws of that Contracting State.

ARTICLE 4

1. For the purposes of this Convention, the term "resident of a Contracting State" means any person who, under the laws of that Contracting State, is liable to tax therein by reason of his domicile, residence, citizenship, place of head or main office, place of incorporation, or any other criterion of a similar nature, and also includes:

(a) that Contracting State and any political subdivision or local authority thereof;

(b) a pension fund organized under the laws of that Contracting State; and

(c) a person organized under the laws of that Contracting State and established and maintained in that Contracting State exclusively for a religious, charitable, educational, scientific, artistic, cultural or public purpose, even if the person is exempt from tax in that Contracting State.

This term, however, does not include any person who is liable to tax in that Contracting State in respect only of income from sources in that Contracting State, or of profits attributable to a permanent establishment in that Contracting State.

2. Notwithstanding the provisions of paragraph 1, an individual who is a United States citizen or an alien lawfully admitted for permanent residence in the United States under the laws of the United States shall be regarded as a resident of the United States only if the individual:

(a) is not a resident of Japan under paragraph 1;

(b) has a substantial presence, permanent home or habitual abode in the United States; and

(c) for the purposes of a convention or agreement for the avoidance of double taxation between Japan and a state other than the United States, is not a resident of that state.

3. Where by reason of the provisions of paragraph 1 an individual not described in paragraph 2 is a resident of both Contracting States, then his status shall be determined as follows:

(a) he shall be deemed to be a resident of the Contracting State in which he has a permanent home available to him; if he has a permanent home available to him in both Contracting States, he shall be deemed to be a resident of the Contracting State with which his personal and economic relations are closer (center of vital interests);

(b) if the Contracting State in which he has his center of vital interests cannot be determined, or if he does not have a permanent home available to him in either Contracting State, he shall be deemed to be a resident of the Contracting State in which he has an habitual abode;

(c) if he has an habitual abode in both Contracting States or in neither of them, he shall be deemed to be a resident of the Contracting State of which he is a national;

(d) if he is a national of both Contracting States or of neither of them, the competent authorities of the Contracting States shall settle the question by mutual agreement.

An individual who is deemed to be a resident of a Contracting State by reason of the provisions of this paragraph shall be deemed to be a resident only of that Contracting State for the purposes of this Convention.

4. Where by reason of the provisions of paragraph 1 a person other than an individual is a resident of both Contracting States, then the competent authorities of the Contracting States shall determine by mutual agreement the Contracting State of which that person shall be deemed to be a resident for the purposes of this Convention. In the absence of a mutual agreement by the competent authorities of the Contracting States, the person shall not be considered a resident of either Contracting State for the purposes of claiming any benefits provided by the Convention.

5. Where, pursuant to any provision of this Convention, a Contracting State reduces the rate of tax on, or exempts from tax, income of a resident of the other Contracting State and under the laws in force in that other Contracting State the resident is subject to tax by that other Contracting State only on that part of such income which is remitted to or received in that other Contracting State, then the reduction or exemption shall apply only to so much of such income as is remitted to or received in that other Contracting State.

6. For the purposes of applying this Convention:

(a) An item of income:

(i) derived from a Contracting State through an entity that is organized in the other Contracting State; and

(ii) treated as the income of the beneficiaries, members or participants of that entity under the tax laws of that other Contracting State;

shall be eligible for the benefits of the Convention that would be granted if it were directly derived by a beneficiary, member or participant of that entity who is a resident of that other Contracting State, to the extent that such beneficiaries, members or participants are residents of that other Contracting State and satisfy any other conditions specified in the Convention, without regard to whether the income is treated as the income of such beneficiaries, members or participants under the tax laws of the first-mentioned Contracting State.

(b) An item of income:

(i) derived from a Contracting State through an entity that is organized in the other Contracting State; and

(ii) treated as the income of that entity under the tax laws of that other Contracting State;

shall be eligible for the benefits of the Convention that would be granted to a resident of that other Contracting State, without regard to whether the income is treated as the income of the entity under the tax laws of the first-mentioned Contracting State, if such entity is a resident of that other Contracting State and satisfies any other conditions specified in the Convention.

(c) An item of income:

(i) derived from a Contracting State through an entity that is organized in a state other than the Contracting States; and

(ii) treated as the income of the beneficiaries, members or participants of that entity under the tax laws of the other Contracting State;

shall be eligible for the benefits of the Convention that would be granted if it were directly derived by a beneficiary, member or participant of that entity who is a resident of that other Contracting State, to the extent that such beneficiaries, members or participants are residents of that other Contracting State and satisfy any other conditions specified in the Convention, without regard to whether the income is treated as the income of such beneficiaries, members or participants under the tax laws of the first-mentioned Contracting State or such state.

(d) An item of income:

(i) derived from a Contracting State through an entity that is organized in a state other than the Contracting States; and

(ii) treated as the income of that entity under the tax laws of the other Contracting State;

shall not be eligible for the benefits of the Convention.

(e) An item of income:

(i) derived from a Contracting State through an entity that is organized in that Contracting State; and

(ii) treated as the income of that entity under the tax laws of the other Contracting State;

shall not be eligible for the benefits of the Convention.

ARTICLE 5

1. For the purposes of this Convention, the term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

2. The term "permanent establishment" includes especially:

(a) a place of management;

(b) a branch;

(c) an office;

(d) a factory;

(e) a workshop; and

(f) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources.

3. A building site, a construction or installation project, or an installation or drilling rig or ship used for the exploration of natural resources, constitutes a permanent establishment only if it lasts or the activity continues for a period of more than twelve months.

4. Notwithstanding the preceding provisions of this Article, the term "permanent establishment" shall be deemed not to include:

(a) the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise;

(b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery;

(c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;

(d) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise or of collecting information, for the enterprise;

(e) the maintenance of a fixed place of business solely for the purpose of carrying on, for the enterprise, any other activity of a preparatory or auxiliary character;

(f) the maintenance of a fixed place of business solely for any combination of activities mentioned in subparagraphs (a) to (e), provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character.

5. Notwithstanding the provisions of paragraphs 1 and 2, where a person – other than an agent of an independent status to whom the provisions of paragraph 6 apply – is acting on behalf of an enterprise and has, and habitually exercises, in a Contracting State an authority to conclude contracts in the name of the enterprise, that enterprise shall be deemed to have a permanent establishment in that Contracting State in respect of any activities that the person undertakes for the enterprise, unless the activities of such person are limited to those mentioned in paragraph 4 that, if exercised through a fixed place of business, would not make this fixed place of business a permanent establishment under the provisions of that paragraph.

6. An enterprise shall not be deemed to have a permanent establishment in a Contracting State merely because it carries on business in that Contracting State through a broker, general commission agent or any other agent of an independent status, provided that such persons are acting in the ordinary course of their business.

7. The fact that a company which is a resident of a Contracting State controls or is controlled by a company which is a resident of the other Contracting State, or which carries on

business in that other Contracting State (whether through a permanent establishment or otherwise), shall not constitute either company a permanent establishment of the other.

ARTICLE 6

1. Income derived by a resident of a Contracting State from real property (including income from agriculture or forestry) situated in the other Contracting State may be taxed in that other Contracting State.

2. The term "real property" as used in this Convention shall have the meaning which it has under the laws of the Contracting State in which the property in question is situated. The term shall in any case include property accessory to real property, livestock and equipment used in agriculture and forestry, rights to which the provisions of general law respecting real property apply, usufruct of real property and rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits and other natural resources; ships and aircraft shall not be regarded as real property.

3. The provisions of paragraph 1 shall apply to income derived from the direct use, letting, or use in any other form of real property.

4. The provisions of paragraphs 1 and 3 shall also apply to the income from real property of an enterprise.

ARTICLE 7

1. The profits of an enterprise of a Contracting State shall be taxable only in that Contracting State unless the enterprise carries on business in the other Contracting State through

a permanent establishment situated therein. If the enterprise carries on business as aforesaid, the profits of the enterprise may be taxed in that other Contracting State but only so much of them as is attributable to the permanent establishment.

2. Subject to the provisions of paragraph 3, where an enterprise of a Contracting State carries on business in the other Contracting State through a permanent establishment situated therein, there shall in each Contracting State be attributed to that permanent establishment the profits which it might be expected to make if it were a distinct and separate enterprise engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the enterprise of which it is a permanent establishment.

3. In determining the profits of a permanent establishment, there shall be allowed as deductions expenses which are incurred for the purposes of the permanent establishment, including executive and general administrative expenses so incurred, whether in the Contracting State in which the permanent establishment is situated or elsewhere.

4. Nothing in this Article shall affect the application of any law of a Contracting State relating to the determination of the tax liability of a person in cases where the information available to the competent authority of that Contracting State is inadequate to determine the profits to be attributed to a permanent establishment, provided that, on the basis of the available information, the determination of the profits of the permanent establishment is consistent with the principles stated in this Article.

5. No profits shall be attributed to a permanent establishment by reason of the mere purchase by that permanent establishment of goods or merchandise for the enterprise.

6. For the purposes of the preceding paragraphs of this Article, the profits to be attributed to the permanent establishment shall be determined by the same method year by year unless there is good and sufficient reason to the contrary.

7. Where profits include items of income which are dealt with separately in other Articles of this Convention, then the provisions of those Articles shall not be affected by the provisions of this Article.

ARTICLE 8

1. Profits from the operation of ships or aircraft in international traffic carried on by an enterprise of a Contracting State shall be taxable only in that Contracting State.

2. For the purposes of this Article, profits from the operation of ships or aircraft include profits derived from the rental of ships or aircraft on a full basis. They also include profits from the rental of ships or aircraft on a bareboat basis if such rental activities are incidental to the operation of ships or aircraft in international traffic. Profits from the inland transport of property or passengers within either Contracting State shall be treated as profits from the operation of ships or aircraft in international traffic if such transport is undertaken as part of international traffic.

3. Notwithstanding the provisions of Article 2 and subparagraph (d) of paragraph 1 of Article 3, provided that no political subdivision or local authority of the United States levies a tax similar to the local inhabitant taxes or the enterprise tax in Japan in respect of the operation of ships or aircraft in international traffic carried on by an enterprise of Japan, an enterprise of

the United States shall be exempt from the local inhabitant taxes and the enterprise tax in Japan in respect of the operation of ships or aircraft in international traffic.

4. Profits of an enterprise of a Contracting State from the use, maintenance or rental of containers, including trailers, barges and related equipment for the transport of containers, shall be taxable only in that Contracting State except where such containers are used solely within the other Contracting State.

5. The provisions of the preceding paragraphs of this Article shall also apply to profits from the participation in a pool, a joint business or an international operating agency.

ARTICLE 9

1. Where

(a) an enterprise of a Contracting State participates directly or indirectly in the management, control or capital of an enterprise of the other Contracting State, or

(b) the same persons participate directly or indirectly in the management, control or capital of an enterprise of a Contracting State and an enterprise of the other Contracting State,

and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly.

2. Where a Contracting State includes in the profits of an enterprise of that Contracting State – and taxes accordingly – profits on which an enterprise of the other Contracting State has been charged to tax in that other Contracting State and that other Contracting State agrees that the profits so included are profits which would have accrued to the enterprise of the first-mentioned Contracting State if the conditions made between the two enterprises had been those which would have been made between independent enterprises, then that other Contracting State shall make an appropriate adjustment to the amount of the tax charged therein on those profits. In determining such adjustment, due regard shall be had to the other provisions of this Convention.

3. Notwithstanding the provisions of paragraph 1, a Contracting State shall not change the profits of an enterprise of that Contracting State in the circumstances referred to in that paragraph, if an examination of that enterprise is not initiated within seven years from the end of the taxable year in which the profits that would be subject to such change would, but for the conditions referred to in that paragraph, have accrued to that enterprise. The provisions of this paragraph shall not apply in the case of fraud or willful default or if the inability to initiate an examination within the prescribed period is attributable to the actions or inaction of that enterprise.

ARTICLE 10

1. Dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State may be taxed in that other Contracting State.

2. However, such dividends may also be taxed in the Contracting State of which the company paying the dividends is a resident and according to the laws of that Contracting State, but if the dividends are beneficially owned by a resident of the other Contracting State, except as provided in paragraphs 4 and 5, the tax so charged shall not exceed:

(a) 5 percent of the gross amount of the dividends if the beneficial owner is a company that owns directly or indirectly, on the date on which entitlement to the dividends is determined, at least 10 percent of the voting stock of the company paying the dividends;

(b) 10 percent of the gross amount of the dividends in all other cases.

This paragraph shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

3. Notwithstanding the provisions of paragraph 2, such dividends shall not be taxed in the Contracting State of which the company paying the dividends is a resident if the beneficial owner of the dividends is:

(a) a company that is a resident of the other Contracting State, that has owned, directly or indirectly through one or more residents of either Contracting State, more than 50 percent of the voting stock of the company paying the dividends for the period of twelve months ending on the date on which entitlement to the dividends is determined, and that either:

(i) satisfies the conditions described in clause (i) or (ii) of subparagraph (c) of paragraph 1 of Article 22;

(ii) satisfies the conditions described in clauses (i) and (ii) of subparagraph (f) of paragraph 1 of Article 22, provided that the company satisfies the conditions described in paragraph 2 of that Article with respect to the dividends; or

(iii) has received a determination pursuant to paragraph 4 of Article 22 with respect to this paragraph; or

(b) a pension fund that is a resident of the other Contracting State, provided that such dividends are not derived from the carrying on of a business, directly or indirectly, by such pension fund.

4. The provisions of subparagraph (a) of paragraph 2 and subparagraph (a) of paragraph 3 shall not apply in the case of dividends paid by a United States Regulated Investment Company (hereinafter referred to as a "RIC") or a United States Real Estate Investment Trust (hereinafter referred to as a "REIT"). The provisions of subparagraph (b) of paragraph 2 and subparagraph (b) of paragraph 3 shall apply in the case of dividends paid by a RIC. In the case of dividends paid by a REIT, the provisions of subparagraph (b) of paragraph 2 and subparagraph (b) of paragraph 3 shall apply only if:

(a) the beneficial owner of the dividends is an individual holding an interest of not more than 10 percent in the REIT or a pension fund holding an interest of not more than 10 percent in the REIT;

(b) the dividends are paid with respect to a class of stock that is publicly traded and the beneficial owner of the dividends is a person holding an interest of not more than 5 percent of any class of the stock of the REIT; or

(c) the beneficial owner of the dividends is a person holding an interest of not more than 10 percent in the REIT and that REIT is diversified.

5. The provisions of subparagraph (a) of paragraph 2 and subparagraph (a) of paragraph 3 shall not apply in the case of dividends paid by a company which is entitled to a deduction for dividends paid to its beneficiaries in computing its taxable income in Japan. The provisions of subparagraph (b) of paragraph 2 and subparagraph (b) of paragraph 3 shall apply in the case of dividends paid by such company, provided that not more than 50 percent of its assets consist, directly or indirectly, of real property situated in Japan. Where more than 50 percent of the assets of such company consist, directly or indirectly, of real property situated in Japan, the provisions of subparagraph (b) of paragraph 2 and subparagraph (b) of paragraph 3 shall apply only if:

(a) the beneficial owner of the dividends is an individual holding an interest of not more than 10 percent in such company or a pension fund holding an interest of not more than 10 percent in such company;

(b) the dividends are paid with respect to a class of interest in such company that is publicly traded and the beneficial owner of the dividends is a person holding an interest of not more than 5 percent of any class of interest in the company; or

(c) the beneficial owner of the dividends is a person holding an interest of not more than 10 percent in the company and the company is diversified.

6. The term "dividends" as used in this Article means income from shares or other rights, not being debt-claims, participating in profits, as well as income which is subjected to the same taxation treatment as income from shares by the tax laws of the Contracting State of which the payor is a resident.

7. The provisions of paragraphs 1, 2 and 3 shall not apply if the beneficial owner of the dividends, being a resident of a Contracting State, carries on business in the other Contracting

State of which the company paying the dividends is a resident, through a permanent establishment situated therein, and the holding in respect of which the dividends are paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 shall apply.

8. A Contracting State shall not impose any tax on the dividends paid by a company that is a resident of the other Contracting State, except insofar as the dividends are paid to a resident of the first-mentioned Contracting State or insofar as the holding in respect of which the dividends are paid is effectively connected with a permanent establishment situated in that Contracting State, nor shall it impose tax on a company's undistributed profits, except as provided in paragraph 9, even if the dividends paid or the undistributed profits consist wholly or partly of profits or income arising in that Contracting State.

9. A company that is a resident of a Contracting State and that has a permanent establishment in the other Contracting State or that is subject to tax in that other Contracting State on its income that may be taxed in that other Contracting State under Article 6 or under paragraph 1 or 2 of Article 13 may be subject in that other Contracting State to a tax in addition to any tax that may be imposed in that other Contracting State in accordance with the other provisions of this Convention. Such tax, however, may be imposed on only the portion of the profits of the company attributable to the permanent establishment and the portion of the income referred to in the preceding provisions of this paragraph that is subject to tax under Article 6 or under paragraph 1 or 2 of Article 13 that represents the amount of such income that is equivalent to the amount of dividends that would have been paid if such activities had been conducted in a separate legal entity. The provisions of this paragraph shall not apply in the case of a company which:

(a) satisfies the conditions described in clause (i) or (ii) of subparagraph (c) of paragraph 1 of Article 22;

(b) satisfies the conditions described in clauses (i) and (ii) of subparagraph (f) of paragraph 1 of Article 22, provided that the company satisfies the conditions described in paragraph 2 of that Article with respect to the income; or

(c) has received a determination pursuant to paragraph 4 of Article 22 with respect to this paragraph.

10. The tax referred to in paragraph 9 shall not be imposed at a rate in excess of the rate specified in subparagraph (a) of paragraph 2.

11. A resident of a Contracting State shall not be considered the beneficial owner of dividends in respect of preferred stock or other similar interest if such preferred stock or other similar interest would not have been established or acquired unless a person:

(a) that is not entitled to benefits with respect to dividends paid by a resident of the other Contracting State which are equivalent to, or more favorable than, those available under this Convention to a resident of the first-mentioned Contracting State; and

(b) that is not a resident of either Contracting State;

held equivalent preferred stock or other similar interest in the first-mentioned resident.

ARTICLE 11

1. Interest arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other Contracting State.

2. However, such interest may also be taxed in the Contracting State in which it arises and according to the laws of that Contracting State, but if the beneficial owner of the interest is a resident of the other Contracting State, the tax so charged shall not exceed 10 percent of the gross amount of the interest.

3. Notwithstanding the provisions of paragraph 2, interest arising in a Contracting State shall be taxable only in the other Contracting State if:

(a) the interest is beneficially owned by that other Contracting State, a political subdivision or local authority thereof, or the central bank of that other Contracting State or any institution wholly owned by that other Contracting State;

(b) the interest is beneficially owned by a resident of that other Contracting State with respect to debt-claims guaranteed, insured or indirectly financed by the Government of that other Contracting State, a political subdivision or local authority thereof, or the central bank of that other Contracting State or any institution wholly owned by that other Contracting State;

(c) the interest is beneficially owned by a resident of that other Contracting State that is either:

(i) a bank (including an investment bank);

(ii) an insurance company;

(iii) a registered securities dealer; or

(iv) any other enterprise, provided that in the three taxable years preceding the taxable year in which the interest is paid, the enterprise derives more than 50 percent of its liabilities from the issuance of bonds in the financial markets or from taking deposits at interest, and more than 50 percent of the assets of the

enterprise consist of debt-claims against persons that do not have with the resident a relationship described in subparagraph (a) or (b) of paragraph 1 of Article 9;

(d) the interest is beneficially owned by a pension fund that is a resident of that other Contracting State, provided that such interest is not derived from the carrying on of a business, directly or indirectly, by such pension fund; or

(e) the interest is beneficially owned by a resident of that other Contracting State and paid with respect to indebtedness arising as a part of the sale on credit by a resident of that other Contracting State of equipment or merchandise.

4. For the purposes of paragraph 3, the terms "the central bank" and "institution wholly owned by a Contracting State" mean:

(a) in the case of Japan:

(i) the Bank of Japan;

(ii) the Japan Bank for International Cooperation;

(iii) the Nippon Export and Investment Insurance; and

(iv) such other similar institution the capital of which is wholly owned by Japan as may be agreed upon from time to time between the Governments of the Contracting States through an exchange of diplomatic notes.

(b) in the case of the United States:

(i) the Federal Reserve Banks;

(ii) the U.S. Export-Import Bank;

(iii) the Overseas Private Investment Corporation; and

(iv) such other similar institution the capital of which is wholly owned by the United States as may be agreed upon from time to time between the Governments of the Contracting States through an exchange of diplomatic notes.

5. The term "interest" as used in this Article means income from debt-claims of every kind, whether or not secured by mortgage and whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities and income from bonds or debentures, including premiums and prizes attaching to such securities, bonds or debentures, and all other income that is subjected to the same taxation treatment as income from money lent by the tax laws of the Contracting State in which the income arises. Income dealt with in Article 10 shall not be regarded as interest for the purposes of this Convention.

6. The provisions of paragraphs 1, 2 and 3 shall not apply if the beneficial owner of the interest, being a resident of a Contracting State, carries on business in the other Contracting State in which the interest arises, through a permanent establishment situated therein and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 shall apply.

7. Interest shall be deemed to arise in a Contracting State when the payor is a resident of that Contracting State. Where, however, the person paying the interest, whether such person is a resident of a Contracting State or not, has in a state other than that of which such person is a resident a permanent establishment in connection with which the indebtedness on which the interest is paid was incurred, and such interest is borne by such permanent establishment, then:

(a) if the permanent establishment is situated in a Contracting State, such interest shall be deemed to arise in that Contracting State, and

(b) if the permanent establishment is situated in a state other than the Contracting States, such interest shall not be deemed to arise in either Contracting State.

8. Where, by reason of a special relationship between the payor and the beneficial owner or between both of them and some other person, the amount of the interest, having regard to the debt-claim for which it is paid, exceeds the amount which would have been agreed upon by the payor and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payment may be taxed in the Contracting State in which it arises at a rate not to exceed 5 percent of the gross amount of the excess.

9. Notwithstanding the provisions of paragraphs 2 and 3, a Contracting State may tax, in accordance with its domestic law, interest paid with respect to the ownership interests in an entity used for the securitization of real estate mortgages or other assets, to the extent that the amount of interest paid exceeds the return on comparable debt instruments as specified by the domestic law of that Contracting State.

10. Where interest expense is deductible in determining the income of a company that is a resident of a Contracting State, being income which:

(a) is attributable to a permanent establishment of that company situated in the other Contracting State; or

(b) may be taxed in the other Contracting State under Article 6 or paragraph 1 or 2 of Article 13;

and that interest expense exceeds the interest paid by that permanent establishment or paid with respect to the debt secured by real property situated in that other Contracting State, the amount of that excess shall be deemed to be interest arising in that other Contracting State and beneficially

owned by a resident of the first-mentioned Contracting State. That deemed interest may be taxed in that other Contracting State at a rate not to exceed the rate provided for in paragraph 2, unless the company is described in paragraph 3 in which case it shall be exempt from such taxation in that other Contracting State.

11. A resident of a Contracting State shall not be considered the beneficial owner of interest in respect of a debt-claim if such debt-claim would not have been established unless a person:

(a) that is not entitled to benefits with respect to interest arising in the other Contracting State which are equivalent to, or more favorable than, those available under this Convention to a resident of the first-mentioned Contracting State; and

(b) that is not a resident of either Contracting State;

held an equivalent debt-claim against the first-mentioned resident.

ARTICLE 12

1. Royalties arising in a Contracting State and beneficially owned by a resident of the other Contracting State may be taxed only in that other Contracting State.

2. The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films and films or tapes for radio or television broadcasting, any patent, trade mark, design or model, plan, or secret formula or process, or for information concerning industrial, commercial or scientific experience.

3. The provisions of paragraph 1 shall not apply if the beneficial owner of the royalties, being a resident of a Contracting State, carries on business in the other Contracting State in

which the royalties arise, through a permanent establishment situated therein, and the right or property in respect of which the royalties are paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 shall apply.

4. Where, by reason of a special relationship between the payor and the beneficial owner or between both of them and some other person, the amount of the royalties, having regard to the use, right or information for which they are paid, exceeds the amount which would have been agreed upon by the payor and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payment may be taxed in the Contracting State in which it arises at a rate not to exceed 5 percent of the gross amount of the excess.

5. A resident of a Contracting State shall not be considered the beneficial owner of royalties in respect of the use of intangible property if such royalties would not have been paid to the resident unless the resident pays royalties in respect of the same intangible property to a person:

(a) that is not entitled to benefits with respect to royalties arising in the other Contracting State which are equivalent to, or more favorable than, those available under this Convention to a resident of the first-mentioned Contracting State; and

(b) that is not a resident of either Contracting State.

ARTICLE 13

1. Gains derived by a resident of a Contracting State from the alienation of real property situated in the other Contracting State may be taxed in that other Contracting State.

2. (a) Gains derived by a resident of a Contracting State from the alienation of shares or other comparable rights in a company that is a resident of the other Contracting State and that derives at least 50 percent of its value directly or indirectly from real property situated in that other Contracting State may be taxed in that other Contracting State, unless the relevant class of shares is traded on a recognized stock exchange specified in subparagraph (b) of paragraph 5 of Article 22 and the resident, and persons related thereto, own in the aggregate 5 percent or less of that class of shares.

(b) Gains derived by a resident of a Contracting State from the alienation of an interest in a partnership, trust or estate may be taxed in the other Contracting State to the extent that its assets consist of real property situated in that other Contracting State.

3. (a) Where

(i) a Contracting State (including, for this purpose in the case of Japan, the Deposit Insurance Corporation of Japan) provides, pursuant to the domestic law concerning failure resolution involving imminent insolvency of financial institutions in that Contracting State, substantial financial assistance to a financial institution that is a resident of that Contracting State, and

(ii) a resident of the other Contracting State acquires shares in the financial institution from the first-mentioned Contracting State,

the first-mentioned Contracting State may tax gains derived by the resident of the other Contracting State from the alienation of such shares, provided that the alienation is made within five years from the first date on which such financial assistance was provided.

(b) The provisions of subparagraph (a) shall not apply if the resident of that other Contracting State acquired any shares in the financial institution from the first-mentioned

Contracting State before the entry into force of this Convention or pursuant to a binding contract entered into before the entry into force of the Convention.

4. Notwithstanding the provisions of paragraphs 2 and 3, gains from the alienation of any property, other than real property, forming part of the business property of a permanent establishment which an enterprise of a Contracting State has in the other Contracting State, including such gains from the alienation of such a permanent establishment (alone or with the whole enterprise), may be taxed in that other Contracting State.

5. Gains derived by a resident of a Contracting State from the alienation of ships or aircraft operated by that resident in international traffic and any property, other than real property, pertaining to the operation of such ships or aircraft shall be taxable only in that Contracting State.

6. Gains derived by a resident of a Contracting State from the alienation of containers, including trailers, barges and related equipment for the transport of containers, shall be taxable only in that Contracting State except where such containers were used solely within the other Contracting State.

7. Gains from the alienation of any property other than that referred to in the preceding paragraphs of this Article shall be taxable only in the Contracting State of which the alienator is a resident.

ARTICLE 14

1. Subject to the provisions of Articles 15, 17 and 18, salaries, wages and other similar remuneration derived by a resident of a Contracting State in respect of an employment shall be

taxable only in that Contracting State unless the employment is exercised in the other Contracting State. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other Contracting State.

2. Notwithstanding the provisions of paragraph 1, remuneration derived by a resident of a Contracting State in respect of an employment exercised in the other Contracting State shall be taxable only in the first-mentioned Contracting State if:

(a) the recipient is present in that other Contracting State for a period or periods not exceeding in the aggregate 183 days in any twelve month period commencing or ending in the taxable year concerned;

(b) the remuneration is paid by, or on behalf of, an employer who is not a resident of that other Contracting State; and

(c) the remuneration is not borne by a permanent establishment which the employer has in that other Contracting State.

3. Notwithstanding the provisions of the preceding paragraphs of this Article, remuneration derived in respect of an employment exercised aboard a ship or aircraft operated in international traffic by an enterprise of a Contracting State may be taxed in that Contracting State.

ARTICLE 15

Directors' fees and other similar payments derived by a resident of a Contracting State in his capacity as a member of the board of directors of a company which is a resident of the other Contracting State may be taxed in that other Contracting State.

ARTICLE 16

1. Income derived by an individual who is a resident of a Contracting State as an entertainer, such as a theater, motion picture, radio or television artiste, or a musician, or as a sportsman, from his personal activities as such exercised in the other Contracting State, which income would be exempt from tax in that other Contracting State under the provisions of Articles 7 and 14, may be taxed in that other Contracting State, except where the amount of the gross receipts derived by such entertainer or sportsman, including expenses reimbursed to him or borne on his behalf, from such activities does not exceed ten thousand United States dollars ($10,000) or its equivalent in Japanese yen for the taxable year concerned.

2. Where income in respect of personal activities exercised in a Contracting State by an individual in his capacity as an entertainer or a sportsman accrues not to the individual himself but to another person that is a resident of the other Contracting State, that income may, notwithstanding the provisions of Articles 7 and 14, be taxed in the Contracting State in which the activities of the individual are exercised, unless the contract pursuant to which the personal activities are performed allows that other person to designate the individual who is to perform the personal activities.

ARTICLE 17

1. Subject to the provisions of paragraph 2 of Article 18, pensions and other similar remuneration, including social security payments, beneficially owned by a resident of a Contracting State shall be taxable only in that Contracting State.

2. Annuities derived and beneficially owned by an individual who is a resident of a Contracting State shall be taxable only in that Contracting State. The term "annuities" as used in this paragraph means a stated sum paid periodically at stated times during the life of the individual, or during a specified or ascertainable period of time, under an obligation to make the payments in return for adequate and full consideration (other than services rendered).

3. Periodic payments, made pursuant to a written separation agreement or a decree of divorce, separate maintenance, or compulsory support, including payments for the support of a child, paid by a resident of a Contracting State to a resident of the other Contracting State shall be taxable only in the first-mentioned Contracting State. However, such payments shall not be taxable in either Contracting State if the individual making such payments is not entitled to a deduction for such payments in computing taxable income in the first-mentioned Contracting State.

ARTICLE 18

1. (a) Salaries, wages and other similar remuneration, other than a pension and other similar remuneration, paid by a Contracting State or a political subdivision or local authority thereof to an individual in respect of services rendered to that Contracting State or political subdivision or local authority thereof, in the discharge of functions of a governmental nature, shall be taxable only in that Contracting State.

   (b) However, such salaries, wages and other similar remuneration shall be taxable only in the other Contracting State if the services are rendered in that other Contracting State and the individual is a resident of that other Contracting State who:

(i) is a national of that other Contracting State; or

(ii) did not become a resident of that other Contracting State solely for the purpose of rendering the services.

2. (a) Any pension and other similar remuneration paid by, or out of funds to which contributions are made by, a Contracting State or a political subdivision or local authority thereof to an individual in respect of services rendered to that Contracting State or a political subdivision or local authority thereof, other than payments made by the United States under provisions of the social security or similar legislation, shall be taxable only in that Contracting State.

(b) However, such pension and other similar remuneration shall be taxable only in the other Contracting State if the individual is a resident of, and a national of, that other Contacting State.

3. The provisions of Articles 14, 15, 16 and 17 shall apply to salaries, wages and other similar remuneration, and to pensions and other similar remuneration, in respect of services rendered in connection with a business carried on by a Contracting State or a political subdivision or local authority thereof.

ARTICLE 19

Payments which a student or business apprentice who is, or was immediately before visiting a Contracting State, a resident of the other Contracting State and who is present in the first-mentioned Contracting State for the primary purpose of his education or training receives for the purpose of his maintenance, education or training shall be exempt from tax in the first-

mentioned Contracting State, provided that such payments are made to him from outside that first-mentioned Contracting State. The exemption from tax provided by this Article shall apply to a business apprentice only for a period not exceeding one year from the date he first begins his training in the first-mentioned Contracting State.

ARTICLE 20

1. An individual who visits a Contracting State temporarily for the purpose of teaching or conducting research at a university, college, school or other educational institution in that Contracting State, and who continues to be a resident, within the meaning of paragraph 1 of Article 4, of the other Contracting State, shall be exempt from tax in the first-mentioned Contracting State on any remuneration for such teaching or research for a period not exceeding two years from the date of his arrival.

2. The provisions of paragraph 1 shall not apply to income from research if such research is undertaken primarily for the private benefit of one or more specific persons.

ARTICLE 21

1. Items of income beneficially owned by a resident of a Contracting State, wherever arising, not dealt with in the foregoing Articles of this Convention (hereinafter referred to as "other income") shall be taxable only in that Contracting State.

2. The provisions of paragraph 1 shall not apply to income, other than income from real property, if the beneficial owner of such income, being a resident of a Contracting State, carries

on business in the other Contracting State through a permanent establishment situated therein and the right or property in respect of which the income is paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 shall apply.

3. Where, by reason of a special relationship between the resident referred to in paragraph 1 and the payor, or between both of them and some other person, the amount of other income, having regard to the right or property in respect of which it is paid, exceeds the amount which would have been agreed upon between them in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payment may be taxed in the Contracting State in which it arises at a rate not to exceed 5 percent of the gross amount of the excess.

4. A resident of a Contracting State shall not be considered the beneficial owner of other income in respect of the right or property if such other income would not have been paid to the resident unless the resident pays other income in respect of the same right or property to a person:

(a) that is not entitled to benefits with respect to other income arising in the other Contracting State which are equivalent to, or more favorable than, those available under this Convention to a resident of the first-mentioned Contracting State; and

(b) that is not a resident of either Contracting State.

ARTICLE 22

1. Except as otherwise provided in this Article, a resident of a Contracting State that derives income from the other Contracting State shall be entitled to all the benefits accorded to residents

of a Contracting State for a taxable year by the provisions of other Articles of this Convention only if such resident satisfies any other specified conditions for the obtaining of such benefits and is either:

(a) an individual;

(b) a Contracting State, any political subdivision or local authority thereof, the Bank of Japan or the Federal Reserve Banks;

(c) a company, if:

(i) the principal class of its shares, and any disproportionate class of its shares, is listed or registered on a recognized stock exchange specified in clause (i) or (ii) of subparagraph (b) of paragraph 5 and is regularly traded on one or more recognized stock exchanges; or

(ii) at least 50 percent of each class of shares in the company is owned directly or indirectly by five or fewer residents entitled to benefits under clause (i), provided that, in the case of indirect ownership, each intermediate owner is a person entitled to the benefits of this Convention under this paragraph;

(d) a person described in subparagraph (c) of paragraph 1 of Article 4;

(e) a pension fund, provided that as of the end of the prior taxable year more than 50 percent of its beneficiaries, members or participants are individuals who are residents of either Contracting State; or

(f) a person other than an individual, if:

(i) residents that are described in subparagraph (a), (b), (d) or (e), or clause (i) of subparagraph (c), own, directly or indirectly, at least 50 percent of each class of shares or other beneficial interests in the person, and

(ii) less than 50 percent of the person's gross income for the taxable year is paid or accrued by the person in that taxable year, directly or indirectly, to persons who are not residents of either Contracting State in the form of payments that are deductible in computing its taxable income in the Contracting State of which it is a resident (but not including arm's length payments in the ordinary course of business for services or tangible property and payments in respect of financial obligations to a commercial bank, provided that where such a bank is not a resident of a Contracting State such payment is attributable to a permanent establishment of that bank situated in one of the Contracting States).

2. (a) A resident of a Contracting State shall be entitled to benefits of this Convention with respect to an item of income derived from the other Contracting State if the resident is engaged in the first-mentioned Contracting State in the active conduct of a trade or business, other than the business of making or managing investments for the resident's own account, unless these activities are banking, insurance or securities activities carried on by a commercial bank, insurance company or registered securities dealer, the income derived from the other Contracting State is derived in connection with, or is incidental to, that trade or business and that resident satisfies any other specified conditions for the obtaining of such benefits.

(b) If a resident of a Contracting State derives an item of income from a trade or business activity in the other Contracting State, or derives an item of income arising in the other Contracting State from a person that has with the resident a relationship described in subparagraph (a) or (b) of paragraph 1 of Article 9, the conditions described in subparagraph (a) shall be considered to be satisfied with respect to such item only if

the trade or business activity carried on by the resident in the first-mentioned Contracting State is substantial in relation to the trade or business activity carried on by the resident or such person in the other Contracting State. Whether a trade or business activity is substantial for the purposes of this paragraph will be determined based on all the facts and circumstances.

3. (a) Where the provisions of clause (ii) of subparagraph (c) of paragraph 1 apply in respect of taxation by withholding at source, a resident of a Contracting State shall be considered to satisfy the conditions described in that clause for a taxable year in which the payment is made if such resident satisfies those conditions during the part of that taxable year which precedes the date of payment of the item of income (or, in the case of dividends, the date on which entitlement to the dividends is determined) and, unless that date is the last day of that taxable year, during the whole of the preceding taxable year.

(b) Where the provisions of clause (i) of subparagraph (f) of paragraph 1 apply:

(i) in respect of taxation by withholding at source, a resident of a Contracting State shall be considered to satisfy the conditions described in that clause for a taxable year in which the payment is made if such resident satisfies those conditions during the part of that taxable year which precedes the date of payment of the item of income (or, in the case of dividends, the date on which entitlement to the dividends is determined) and, unless that date is the last day of that taxable year, during the whole of the preceding taxable year; and

(ii) in all other cases, a resident of a Contracting State shall be considered to satisfy the conditions described in that clause for a taxable year in which the

payment is made if such resident satisfies those conditions on at least half the days of the taxable year.

(c) Where the provisions of clause (ii) of subparagraph (f) of paragraph 1 apply in respect of taxation by withholding at source in Japan, a resident of the United States shall be considered to satisfy the conditions described in that subparagraph for a taxable year in which the payment is made if such resident satisfies those conditions for the three taxable years preceding that taxable year.

4. A resident of a Contracting State that is not described in paragraph 1 and is not entitled to benefits with respect to an item of income under paragraph 2 shall, nevertheless, be granted benefits of this Convention if the competent authority of the Contracting State from which benefits are claimed determines, in accordance with its domestic law or administrative practice, that the establishment, acquisition or maintenance of such resident and the conduct of its operations are considered as not having the obtaining of benefits under the Convention as one of its principal purposes.

5. For the purposes of this Article:

(a) the term "disproportionate class of shares" means any class of shares of a company that is a resident of a Contracting State which is subject to terms or other arrangements that entitle the holders of that class of shares to a portion of the income of the company derived from the other Contracting State that is larger than the portion such holders would receive absent such terms or arrangements;

(b) the term "recognized stock exchange" means:

(i) any stock exchange established under the terms of the Securities and Exchange Law (Law No. 25 of 1948) of Japan;

(ii) the NASDAQ System and any stock exchange registered with the Securities and Exchange Commission as a national securities exchange under the Securities Exchange Act of 1934 of the United States; and

(iii) any other stock exchange agreed upon by the competent authorities; and

(c) the term "gross income" means the total revenues derived by a resident of a Contracting State from its business, less the direct costs of obtaining such revenues.

ARTICLE 23

1. Subject to the provisions of the laws of Japan regarding the allowance as a credit against the Japanese tax of tax payable in any country other than Japan:

(a) Where a resident of Japan derives income from the United States which may be taxed in the United States in accordance with the provisions of this Convention, the amount of the United States tax payable in respect of that income shall be allowed as a credit against the Japanese tax imposed on that resident. The amount of credit, however, shall not exceed that part of the Japanese tax which is appropriate to that income.

(b) Where the income derived from the United States is dividends paid by a company which is a resident of the United States to a company which is a resident of Japan and which owns not less than 10 percent of the voting shares issued by the company paying the dividends during the period of six months immediately before the day when the obligation to pay dividends is confirmed, the credit shall take into account the United States tax payable by the company paying the dividends in respect of its income.

For the purposes of this paragraph, income beneficially owned by a resident of Japan which may be taxed in the United States in accordance with the Convention shall be deemed to arise from sources in the United States.

2. In accordance with the provisions and subject to the limitations of the laws of the United States (as it may be amended from time to time without changing the general principle hereof), the United States shall allow to a resident or citizen of the United States as a credit against the United States tax on income:

(a) the Japanese tax paid or accrued by or on behalf of such citizen or resident; and

(b) in the case of a company that is a resident of the United States and that owns at least 10 percent of the voting stock of a company that is a resident of Japan and from which the first-mentioned company receives dividends, the Japanese tax paid or accrued by or on behalf of the payor with respect to the profits out of which the dividends are paid.

For the purposes of this paragraph, the taxes referred to in subparagraph (a) of paragraph 1 and paragraph 2 of Article 2 shall be considered Japanese taxes imposed on the beneficial owner of the income. For the purposes of this paragraph, an item of gross income, as determined under the laws of the United States, derived by a resident of the United States that, under this Convention, may be taxed in Japan shall be deemed to be income from sources in Japan.

3. For the purposes of applying the preceding paragraphs of this Article, where the United States taxes, in accordance with paragraph 4 of Article 1, a citizen, or a former citizen or long-term resident, of the United States who is a resident of Japan:

(a) Japan shall take into account for the purposes of computing the credit to be allowed under paragraph 1 only the amount of tax that the United States may impose on

income under the provisions of this Convention that is derived by a resident of Japan who is neither a citizen, nor a former citizen nor long-term resident, of the United States;

(b) for the purposes of computing the United States tax on income referred to in subparagraph (a), the United States shall allow as a credit against the United States tax the Japanese tax after the credit referred to in that subparagraph; the credit so allowed shall not reduce the portion of the United States tax that is creditable against the Japanese tax in accordance with that subparagraph; and

(c) for the exclusive purpose of allowing the credit by the United States provided for under subparagraph (b), income referred to in subparagraph (a) shall be deemed to arise in Japan to the extent necessary to allow the United States to grant the credit provided for in subparagraph (b).

ARTICLE 24

1. Nationals of a Contracting State shall not be subjected in the other Contracting State to any taxation or any requirement connected therewith, which is other or more burdensome than the taxation and connected requirements to which nationals of that other Contracting State in the same circumstances, in particular with respect to taxation on worldwide income, are or may be subjected. The provisions of this paragraph shall also apply to persons who are not residents of one or both of the Contracting States.

2. The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favorably levied in that other Contracting State than the taxation levied on enterprises of that other Contracting State carrying on the same

activities. The provisions of this paragraph shall not be construed as obliging a Contracting State to grant to residents of the other Contracting State any personal allowances, reliefs and reductions for taxation purposes on account of civil status or family responsibilities which it grants to its own residents.

3. Except where the provisions of paragraph 1 of Article 9, paragraph 8 of Article 11, paragraph 4 of Article 12, or paragraph 3 of Article 21 apply, interest, royalties and other disbursements paid by a resident of a Contracting State to a resident of the other Contracting State shall, for the purposes of determining the taxable profits of the first-mentioned resident, be deductible under the same conditions as if they had been paid to a resident of the first-mentioned Contracting State. Similarly, any debts of a resident of a Contracting State to a resident of the other Contracting State shall, for the purposes of determining the taxable capital of the first-mentioned resident, be deductible under the same conditions as if they had been contracted to a resident of the first-mentioned Contracting State.

4. Enterprises of a Contracting State, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Contracting State, shall not be subjected in the first-mentioned Contracting State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which other similar enterprises of the first-mentioned Contracting State are or may be subjected.

5. Nothing in this Article shall be construed as preventing either Contracting State from imposing a tax as described in paragraph 9 of Article 10 or paragraph 10 of Article 11.

6. The provisions of this Article shall, notwithstanding the provisions of Article 2 and subparagraph (d) of paragraph 1 of Article 3, apply to taxes of every kind and description imposed by a Contracting State or a political subdivision or local authority thereof.

ARTICLE 25

1. Where a person considers that the actions of one or both of the Contracting States result or will result for him in taxation not in accordance with the provisions of this Convention, he may, irrespective of the remedies provided by the domestic law of those Contracting States, present his case to the competent authority of the Contracting State of which he is a resident or, if his case comes under paragraph 1 of Article 24, to that of the Contracting State of which he is a national. The case must be presented within three years from the first notification of the action resulting in taxation not in accordance with the provisions of the Convention.

2. The competent authority shall endeavor, if the objection appears to it to be justified and if it is not itself able to arrive at a satisfactory solution, to resolve the case by mutual agreement with the competent authority of the other Contracting State, with a view to the avoidance of taxation which is not in accordance with the provisions of this Convention. Any agreement reached shall be implemented notwithstanding any time limits or other procedural limitations in the domestic law of the Contracting States, except such limitations as apply for the purposes of giving effect to such an agreement.

3. The competent authorities of the Contracting States shall endeavor to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of this Convention. In particular the competent authorities of the Contracting States may agree:

(a) to the same attribution of income, deductions, credits, or allowances of an enterprise of a Contracting State to its permanent establishment situated in the other Contracting State;

(b) to the same allocation of income, deductions, credits, or allowances between persons;

(c) to the settlement of conflicting application of the Convention, including conflicts regarding:

(i) the characterization of particular items of income;

(ii) the characterization of persons;

(iii) the application of source rules with respect to particular items of income; and

(iv) the meaning of any term used in the Convention; and

(d) to advance pricing arrangements.

They may also consult together for the elimination of double taxation in cases not provided for in the Convention.

4. The competent authorities of the Contracting States may communicate with each other directly for the purposes of reaching an agreement in the sense of the preceding paragraphs of this Article.

ARTICLE 26

1. The competent authorities of the Contracting States shall exchange such information as is relevant for carrying out the provisions of this Convention or of the domestic law of the

Contracting States concerning taxes of every kind and description imposed by a Contracting State insofar as the taxation thereunder is not contrary to the provisions of the Convention. The exchange of information is not restricted by paragraph 1 of Article 1. If specifically requested by the competent authority of a Contracting State, the competent authority of the other Contracting State shall provide information under this Article in the form of authenticated copies of original documents (including books, papers, statements, records, accounts, and writings).

2. Any information received under paragraph 1 by a Contracting State shall be treated as secret in the same manner as information obtained under the domestic law of that Contracting State and shall be disclosed only to persons or authorities (including courts and administrative bodies) involved in the assessment, collection or administration of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes referred to in the first sentence of paragraph 1, or to supervisory bodies, and only to the extent necessary for those persons, authorities or supervisory bodies to perform their respective responsibilities. Such persons, authorities or supervisory bodies shall use the information only for the purposes of discharging such responsibilities. They may disclose the information in public court proceedings or in judicial decisions.

3. In no case shall the provisions of the preceding paragraphs of this Article be construed so as to impose on a Contracting State the obligation:

(a) to carry out administrative measures at variance with the laws and administrative practice of that or of the other Contracting State;

(b) to supply information which is not obtainable under the laws or in the normal course of the administration of that or of the other Contracting State;

(c) to supply information which would disclose any trade, business, industrial, commercial or professional secret or trade process, or information, the disclosure of which would be contrary to public policy (ordre public).

4. In order to effectuate the exchange of information as provided in paragraph 1, each Contracting State shall take necessary measures, including legislation, rule-making, or administrative arrangement, to ensure that its competent authority has sufficient powers under its domestic law to obtain information for the exchange of information regardless of whether that Contracting State may need such information for purposes of its own tax.

5. The provisions of this Article shall, notwithstanding the provisions of Article 2 and subparagraph (d) of paragraph 1 of Article 3, apply to taxes of every kind and description imposed by a Contracting State insofar as the taxation thereunder is not contrary to the provisions of this Convention.

ARTICLE 27

1. Each of the Contracting States shall endeavor to collect such taxes imposed by the other Contracting State as will ensure that any exemption or reduced rate of tax granted under this Convention by that other Contracting State shall not be enjoyed by persons not entitled to such benefits. The Contracting State making such collections shall be responsible to the other Contracting State for the sums thus collected.

2. In no case shall the provisions of paragraph 1 be construed so as to impose upon either of the Contracting States endeavoring to collect the taxes the obligation to carry out administrative

measures at variance with the laws and administrative practice of that Contracting State or which would be contrary to the public policy (ordre public) of that Contracting State.

ARTICLE 28

Nothing in this Convention shall affect the fiscal privileges of members of diplomatic missions or consular posts under the general rules of international law or under the provisions of special agreements.

ARTICLE 29

If a Contracting State considers that a substantial change in the laws relevant to this Convention has been or will be made in the other Contracting State, the first-mentioned Contracting State may make a request to that other Contracting State in writing for consultations with a view to determining the possible effect of such change on the balance of benefits provided by the Convention and, if appropriate, to amending the provisions of the Convention to arrive at an appropriate balance of benefits. The requested Contracting State shall enter into consultations with the requesting Contracting State within three months from the date on which the request is received by the requested Contracting State.

ARTICLE 30

1. This Convention shall be subject to ratification, and the instruments of ratification shall be exchanged as soon as possible. It shall enter into force on the date of the exchange of instruments of ratification.

2. This Convention shall be applicable:

(a) in Japan:

(i) with respect to taxes withheld at source:

(aa) for amounts taxable on or after July 1 of the calendar year in which the Convention enters into force, if the Convention enters into force before April 1 of a calendar year; or

(bb) for amounts taxable on or after January 1 of the calendar year next following the year in which the Convention enters into force, if the Convention enters into force after March 31 of a calendar year; and

(ii) with respect to taxes on income which are not withheld at source and the enterprise tax, as regards income for any taxable year beginning on or after January 1 of the calendar year next following that in which the Convention enters into force; and

(b) in the United States:

(i) with respect to taxes withheld at source:

(aa) for amounts paid or credited on or after July 1 of the calendar year in which the Convention enters into force, if the Convention enters into force before April 1 of a calendar year; or

(bb) for amounts paid or credited on or after January 1 of the calendar year next following the date on which the Convention enters into force, if the Convention enters into force after March 31 of a calendar year; and

(ii) with respect to other taxes, for taxable periods beginning on or after January 1 of the calendar year next following the date on which the Convention enters into force.

3. Notwithstanding the entry into force of this Convention, an individual who was entitled to the benefits of Article 19 or 20 of the Convention between the United States of America and Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, signed on March 8, 1971 (hereinafter referred to as "the prior Convention") at the time of the entry into force of this Convention shall continue to be entitled to such benefits until such time as the individual would cease to be entitled to such benefits if the prior Convention remained in force.

4. The prior Convention shall cease to have effect in relation to any tax from the date on which this Convention has effect in relation to that tax in accordance with paragraphs 1 and 2. Notwithstanding the preceding provisions of this paragraph, where any person entitled to benefits under the prior Convention would have been entitled to greater benefits thereunder than under this Convention, the prior Convention shall, at the election of such person, continue to have effect in its entirety for the period of twelve months from the date on which the provisions of this Convention otherwise would have effect under paragraph 2. The prior Convention shall terminate on the last date on which it has effect in relation to any tax in accordance with the preceding provisions of this paragraph.

ARTICLE 31

This Convention shall remain in force until terminated by a Contracting State. Either Contracting State may terminate the Convention after the expiration of a period of five years from the date of its entry into force, by giving to the other Contracting State, through the diplomatic channel, six months prior written notice of termination. In such event, the Convention shall cease to have effect:

(a) in Japan:

(i) with respect to taxes withheld at source, for amounts taxable on or after January 1 of the calendar year next following the expiration of the six month period; and

(ii) with respect to taxes on income which are not withheld at source and the enterprise tax, as regards income for any taxable year beginning on or after January 1 of the calendar year next following the expiration of the six month period; and

(b) in the United States:

(i) with respect to taxes withheld at source, for amounts paid or credited on or after January 1 of the calendar year next following the expiration of the six month period; and

(ii) with respect to other taxes, for taxable periods beginning on or after January 1 of the calendar year next following the expiration of the six month period.

IN WITNESS WHEREOF the undersigned, being duly authorized thereto by their respective Governments, have signed this Convention.

DONE in duplicate at Washington this sixth day of November, 2003, in the English and Japanese languages, each text being equally authentic.

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

PROTOCOL

At the signing of the Convention between the Government of the United States of America and the Government of Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (hereinafter referred to as "the Convention"), the Government of the United States of America and the Government of Japan have agreed upon the following provisions, which shall form an integral part of the Convention.

1. Notwithstanding the provisions of Article 2 of the Convention:

   (a) the United States excise tax on insurance policies issued by foreign insurers shall not be imposed on insurance or reinsurance policies, the premiums on which are the receipts of a business of insurance carried on by an enterprise of Japan, to the extent that the risks covered by such premiums are not reinsured with a person not entitled to the benefits of the Convention or any other tax convention entered into by the United States that provides exemption from such tax; and

   (b) the United States excise tax with respect to private foundations shall not be imposed on:

      (i) dividends or interest derived by private foundations organized in Japan at a rate in excess of the rates provided for in Articles 10 and 11 of the Convention, respectively; and

      (ii) royalties or other income derived by private foundations organized in Japan.

2. With reference to subparagraph (e) of paragraph 1 of Article 3 of the Convention, the term "any other body of persons" includes an estate, trust, and partnership.

3. With reference to subparagraph (m) of paragraph 1 of Article 3 of the Convention, it is understood that a pension fund shall be treated as exempt from tax with respect to the activities described in clause (ii) of that subparagraph even though it is subject to the tax stipulated in Articles 8 or 10-2 of the Corporation Tax Law (Law No. 34 of 1965) of Japan or paragraph 1 of Article 20 of its supplementary provisions.

4. In general, where an enterprise of a Contracting State which has carried on business in the other Contracting State through a permanent establishment situated therein, receives, after the enterprise has ceased to carry on business as aforesaid, profits attributable to the permanent establishment, such profits may be taxed in that other Contracting State in accordance with the principles stated in Article 7 of the Convention.

5. With reference to Article 9 of the Convention, it is understood that, in determining the profits of an enterprise, application of the arm's length principle under that Article is generally based on a comparison of the conditions in the transaction made between the enterprise and an enterprise associated with it and the conditions in transactions between independent enterprises. It is also understood that the factors affecting comparability shall include:

(a) the characteristics of the property or services transferred;

(b) the functions of the enterprise and the enterprise associated with it, taking into account the assets used and risks assumed by the enterprise and the enterprise associated with it;

(c) the contractual terms between the enterprise and the enterprise associated with it;

(d) the economic circumstances of the enterprise and the enterprise associated with it; and

(e) the business strategies pursued by the enterprise and the enterprise associated with it.

6. With reference to paragraphs 4 and 5 of Article 10 of the Convention, a United States Real Estate Investment Trust (hereinafter referred to as a "REIT") or a company which is entitled to a deduction for dividends paid to its beneficiaries in computing its taxable income in Japan is "diversified" if the value of no single interest in real property exceeds 10 percent of the total interests of such person in real property. For purposes of this paragraph, foreclosure property will not be considered an interest in real property. Where such person holds an interest in a partnership, it shall be treated as owning directly a proportion of the partnership's interests in real property corresponding to the proportion of its interest in the partnership.

7. With reference to paragraph 9 of Article 10 of the Convention, it is understood that the amount of such income that is equivalent to the amount of dividends that would have been paid if such activities had been conducted in a separate legal entity shall be, for any taxable year, the after-tax earnings from the company's activities described in that paragraph, adjusted to take into account changes in the company's investment in the Contracting State imposing the tax referred to in that paragraph.

8. Fees received in connection with a loan of securities, guarantee fees and commitment fees paid by a resident of a Contracting State and beneficially owned by a resident of the other Contracting State shall be taxable only in that other Contracting State unless the beneficial owner of such fees carries on business in the first-mentioned Contracting State through a permanent establishment situated therein and such fees are attributable to, or the right in respect of which such fees are paid is effectively connected with, such permanent establishment.

9. With reference to Article 13 of the Convention, it is understood that distributions made by a REIT shall be taxable under paragraph 1 of that Article, to the extent that they are attributable to gains derived from the alienation by the REIT of real property situated in the United States.

10. (a) With reference to Article 14 of the Convention, it is understood that the benefits enjoyed by employees under stock option plans relating to the period between grant and exercise of an option are regarded as "other similar remuneration" for the purposes of that Article.

(b) It is further understood that where an employee:

(i) has been granted a stock option in the course of an employment;

(ii) has exercised that employment in both Contracting States during the period between grant and exercise of the option;

(iii) remains in that employment at the date of the exercise; and

(iv) under the domestic law of the Contracting States, would be taxable in both Contracting States in respect of such benefits,

then, in order to avoid double taxation, a Contracting State of which, at the time of the exercise of the option, the employee is not a resident may tax only that proportion of such benefits which relates to the period or periods between grant and exercise of the option during which the individual has exercised the employment in that Contracting State. With the aim of ensuring that no unrelieved double taxation arises the competent authorities of the Contracting States shall endeavor to resolve by mutual agreement under Article 25 of the Convention any difficulties or doubts arising as to the interpretation or application of Articles 14 and 23 of the Convention in relation to such stock option plans.

11. With reference to subparagraph (c) of paragraph 1 of Article 22 of the Convention, the shares in a class of shares are considered to be regularly traded on one or more recognized stock exchanges in a taxable year if the aggregate number of shares of that class traded on such stock exchange or exchanges during the preceding taxable year is at least 6 percent of the average number of shares outstanding in that class during that preceding taxable year.

12. With reference to paragraph 2 of Article 22 of the Convention, in determining whether a person is "engaged . . . in the active conduct of a trade or business" in a Contracting State under that paragraph, activities conducted by a partnership in which such person is a partner and activities conducted by persons connected to such person shall be deemed to be conducted by such person. A person shall be connected to another if one possesses at least 50 percent of the beneficial interest in the other (or, in the case of a company, at least 50 percent of the aggregate vote and value of the company's shares) or if another person possesses, directly or indirectly, at least 50 percent of the beneficial interest (or, in the case of a company, at least 50 percent of the aggregate vote and value of the company's shares) in each person.

13. (a) For the purposes of applying the Convention, the United States may treat an arrangement created by a sleeping partnership (Tokumei Kumiai) contract or similar contract as not a resident of Japan, and may treat income derived subject to the arrangement as not derived by any participant in the arrangement. In that event, neither the arrangement nor any of the participants in the arrangement will be entitled to benefits of the Convention with respect to income derived subject to the arrangement.

(b) Nothing in the Convention shall prevent Japan from imposing tax at source, in accordance with its domestic law, on distributions that are made by a person pursuant to a

sleeping partnership (Tokumei Kumiai) contract or other similar contract and that are deductible in computing the taxable income in Japan of that person.

IN WITNESS WHEREOF the undersigned, being duly authorized thereto by their respective Governments, have signed this Protocol.

DONE in duplicate at Washington this sixth day of November, 2003, in the English and Japanese languages, each text being equally authentic.

FOR THE GOVERNMENT OF
THE UNITED STATES OF AMERICA:

FOR THE GOVERNMENT OF
JAPAN:

November 6, 2003

Excellency:

I have the honor to acknowledge receipt of Your Excellency's note of today's date which reads as follows:

"Excellency:

I have the honor to refer to the Convention between the Government of Japan and the Government of the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income which was signed today (hereinafter referred to as "the Convention") and to the Protocol also signed today which forms an integral part of the Convention, and to confirm, on behalf of the Government of Japan, the following understanding reached between the Government of Japan and the Government of the United States of America:

His Excellency

Ryozo Kato,

Ambassador of Japan.

1. In order to avoid application of the local inhabitant taxes or the enterprise tax as provided for in paragraph 3 of Article 8 of the Convention, if a political subdivision or local authority of the United States seeks to levy a tax similar to the local inhabitant taxes or the enterprise tax in Japan on the profits of any enterprise of Japan from the operation of ships or aircraft in international traffic in circumstances where the Convention would preclude the imposition of a Federal income tax on those profits, the Government of the United States will use its best endeavors to persuade that political subdivision or local authority to refrain from imposing such tax.

2. It is understood that the principle as set out in paragraph 1 of Article 9 of the Convention may apply for the purposes of determining the profits to be attributed to a permanent establishment. It is understood that the provisions of Article 7 of the Convention shall not prevent the Contracting States from treating the permanent establishment as having the same amount of capital that it would need to support its activities if it were a distinct and separate enterprise engaged in the same or similar activities. With respect to financial institutions other than insurance companies, a Contracting State may determine the amount of capital to be attributed to a permanent establishment by allocating the institution's total equity between its various offices on the basis of the proportion of the financial institution's risk-weighted assets attributable to each of them.

3. With reference to Article 9 of the Convention, it is understood that double taxation can be avoided only if tax authorities share a common understanding of the principles to be applied in resolving transfer pricing cases. Therefore, the Contracting States shall undertake to conduct transfer pricing examinations of enterprises and evaluate applications for advance pricing arrangements in accordance with the Transfer Pricing Guidelines for Multinational Enterprises

and Tax Administrations of the Organisation for Economic Cooperation and Development (hereinafter referred to as "the OECD Transfer Pricing Guidelines"), which reflect the international consensus with respect to these issues. The domestic transfer pricing rules, including the transfer pricing methods, of each Contracting State may be applied in resolving transfer pricing cases under the Convention only to the extent that they are consistent with the OECD Transfer Pricing Guidelines.

4. With reference to paragraphs 2 and 3 of Article 10 of the Convention, it is understood that, in the case of Japan, the date on which entitlement to the dividends is determined is the end of the accounting period for which the distribution of profits takes place.

5. With reference to subparagraph (c) of paragraph 3 of Article 11 of the Convention:

(a) it is understood that the term "bonds" includes bonds, commercial paper, and medium-term notes, whether collateralized or not; and

(b) it is understood that bonds that are subject to transfer restrictions applicable to private placements shall not be considered to have been issued in the financial markets. The preceding sentence shall not apply to offerings qualifying for exemption from securities registration requirements pursuant to Rule 144A promulgated under the Securities Act of 1933 of the United States or any similar provisions under the domestic law of Japan.

6. It is understood that the term "authorities (including courts and administrative bodies) involved in the administration of the taxes" as referred to in paragraph 2 of Article 26 of the Convention includes such authorities as provide legal advice to those governmental entities that are directly involved in the assessment or collection, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes, but are not themselves a part of such

entities, and includes, in the case of the United States, the Office of Chief Counsel for the Internal Revenue Service.

7. It is understood that the term "supervisory bodies" as referred to in paragraph 2 of Article 26 of the Convention includes authorities that supervise the general administration of the government of a Contracting State.

8. It is understood that the powers of the competent authority of each Contracting State to obtain information include powers to obtain information held by financial institutions, nominees, or persons acting in an agency or fiduciary capacity (not including information relating to communications between a legal representative in its role as such and its client to the extent that the communications are protected under domestic law), and information relating to the ownership of legal persons, and that the competent authority of each Contracting State is able to exchange such information in accordance with Article 26 of the Convention.

If the foregoing understanding is acceptable to the Government of the United States of America, I have the honor to suggest that the present note and Your Excellency's reply to that effect should be regarded as constituting an agreement between the two Governments in this matter, which shall enter into force at the same time as the Convention.

I avail myself of this opportunity to extend to Your Excellency the assurance of my highest consideration."

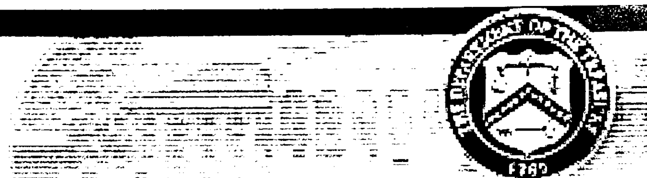
I have further the honor to confirm on behalf of the Government of the United States of America that the foregoing understanding is acceptable and to agree that Your Excellency's note

and this note shall be regarded as constituting an agreement between the two Governments which shall enter into force at the same time as the Convention.

I avail myself of this opportunity to renew to Your Excellency the assurance of my highest consideration.

For the Secretary of State:

PRESS ROOM



FROM THE OFFICE OF PUBLIC AFFAIRS

November 6, 2003
JS-976

MEDIA ADVISORY
Treasury Official Visits Boston Tomorrow to Meet with Financial Industry on Cyber Security Issues

Director of the Office for Critical Infrastructure Protection and Compliance Policy D. Scott Parsons will be in Boston on Friday, November 7, 2003. He will participate in a joint public-private sector symposium for representatives of financial institutions on security issues and protecting the financial industry from cyber attack.

"Protecting the Financial Sector and Cyber Security Risk Management – A Public and Private Partnership" will take place from 8:30 am – 4:30 pm. Mr. Parsons will speak at 8:40 am at Lindsay Hall on the campus of Bentley College in Waltham, Massachusetts.

Sponsored by the Federal Deposit Insurance Corporation, the symposium represents an outreach effort by the government's Financial and Banking Information Infrastructure Committee (FBIIC) and the private sector's Financial Services Sector Coordinating Council (FSSCC) to private sector financial firms in the Boston metropolitan area.

At the Treasury Department, Mr. Parsons is Director of the Office of Critical Infrastructure Protection, which was established after September 11, 2001 to strengthen the nation's safeguards against terrorist activities and financial crime. The Office plays a key role in coordinating public and private efforts to protect the critical infrastructure of the financial services industry from attack.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 7, 2003
JS-977

Statement by Treasury Secretary John Snow

Today's employment numbers are encouraging and demonstrate growth in the economy.

They suggest that labor market conditions are becoming more favorable. The revisions to August and September showing positive job growth for those months, coupled with the pick up of 126,000 new jobs in October, is good news for American workers and families.

However we must remain vigilant in our efforts to strengthen the environment for job creation.

We must do more, as job creation has yet to take hold to the extent that it must for every person who wants a job to find one.

Thus as the President has said, we can't rest until every American who wants work can find work. So while today's report is cause for some optimism, we cannot be complacent.

This is precisely why President's six point plan for job creation is so important.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 7, 2003
JS-978

Treasury and IRS Withdraw Proposed Lease-Stripping Regulations

Today the Treasury Department and the Internal Revenue Service withdrew proposed regulations issued on December 27, 1996, relating to the treatment of "obligation-shifting" transactions, including lease-stripping transactions. The regulations provided complex rules for insuring that the income from the transactions was accounted for properly.

"Since the proposed regulations were issued in 1996, the IRS has won two court cases that have upheld the disallowance of tax benefits from lease strip transactions. In view of the IRS's victories in these cases, we have concluded that the regulations are unnecessary to ensure proper accounting and that the complexity of the proposed regulations outweighs the potential benefit," stated Assistant Secretary for Tax Policy Pam Olson. "Notice 2003-55 identifies lease strips as a listed transaction. The IRS will continue to challenge the purported tax benefit claimed by a taxpayer from a lease-stripping or similar transaction."

The text of REG-209817-96 is attached.

Related Documents:

- REG-209817-96

[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG-209817-96]

RIN 1545-AU19

Treatment of Obligation-Shifting Transactions

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Withdrawal of notice of proposed rulemaking.

SUMMARY: This document withdraws a proposed regulation relating to the treatment of certain multiple-party financing transactions in which one party realizes income from leases or other similar agreements and another party claims deductions related to that income.

FOR FURTHER INFORMATION CONTACT: Pamela Lew, (202) 622-3950, (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

In Notice 95-53 (1995-2 C.B. 334) (modified and superseded by Notice 2003-55) (2003-34 I.R.B. 395), the IRS and Treasury Department stated that regulations under section 7701(l) would be issued to recharacterize lease strips to prevent tax avoidance. On December 27, 1996, a notice of proposed rulemaking (REG-209817-96) relating to the treatment of certain obligation-shifting transactions was published in the Federal Register (61 FR 68175). An obligation-shifting transaction is transaction in which the transferee (the assuming party) assumes obligations or acquires property subject to obligations under an existing lease or similar

agreement and the transferor (the property provider) or any other party has already received or retains the right to receive amounts that are allocable to periods after the transfer.

The proposed regulations recharacterize obligation-shifting transactions in a manner intended to reflect the economic substance of the transactions and to clearly reflect the income of the parties to the transaction. Under the recharacterization, the property provider and the assuming party must report the income from the underlying property allocable to their respective periods of ownership. This result is achieved by imputing a series of transactions to both the assuming party and the property provider that results in a rent-leveling process based on the constant rental accrual method described in ' 1.467-3(d). The assuming party is required to recognize rental income for the period in which it owns the property or leasehold interest. The property provider must adjust its income for any differences between amounts it recognized and amounts it would have recognized if it had reported income on a level-rent basis for the periods that it owned the property or leasehold interest. To account for the difference between rental income the assuming party is required to recognize and rental income the assuming party actually receives, the proposed regulations treat the assuming party as issuing an interest-bearing note to the property provider as additional consideration for the obligation-shifting transaction. Both parties must account for the resulting interest income and expense appropriately. To account for any differences in timing or amount between payments the property provider actually receives after the transaction and payments treated as being made to the property provider under the note from the assuming party, the property provider is treated as an obligor or obligee under a second loan, for which the property provider must account accordingly.

After careful consideration, the IRS and Treasury Department have concluded that the complexity presented by these proposed regulations is not necessary to prevent tax avoidance in these transactions. Since the publication of the proposed regulations, the Court of Appeals for the District of Columbia Circuit has held that the partnership used in a lease strip was not a valid partnership because the participants did not join together for a non-tax business purpose. Andantech L.L.C. v. Commissioner, Nos. 02-1213; 02-1215, (D.C. Cir. June 17, 2003), 2003 U.S. App. LEXIS 11908, aff=g in part and remanding for reconsideration of other issues T.C. Memo 2002-97 (2002). Also, in Nicole Rose v. Commissioner, 320 F.3d 282 (2d Cir. 2002) aff=g per curiam 117 T.C. 328 (2001), the United States Court of Appeals for the Second Circuit upheld the Tax Court=s determination that a lease transfer did not have economic substance.

In the opinion of the IRS and Treasury Department, the claimed tax treatment for lease strips improperly separates income from related deductions, and lease strips do not produce the tax consequences desired by the participants. See Notice 2003-55 (2003-34 I.R.B. 395).

List of Subjects in 26 CFR Part 1

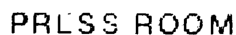
Income taxes, reporting and recordkeeping requirements.

Withdrawal of Notice of Proposed Rulemaking

Accordingly, under the authority of 26 U.S.C. 7805, the notice of proposed rulemaking (REG-209817-96) that was published in the Federal Register on December 27, 1996 (61 FR 68175) is withdrawn.

Dale F. Hart

Acting Deputy Commissioner for Services and Enforcement.



PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 5, 2003
JS-979

U.S. Treasury Secretary Snow, Remarks to the Economic Club of Washington, Washington, DC

Good evening. It is a pleasure to speak to the Economic Club of Washington again, this time in my capacity as Treasury Secretary. Thanks to former Senator George Mitchell for inviting me.

Tonight I'd like to provide an overview of where the U.S. economy stands, and where we see it heading. We've seen a real turnaround this year, and the recovery is clearly solidifying. But I would also emphasize that President Bush believes we have a lot more progress to make, especially with regard to employment. His administration remains committed to economic policies that will sustain and bolster the kind of growth we saw last quarter.

First, consider our present situation. Last week the Commerce Department reported that economic growth increased at a remarkable annualized rate of 7.2 percent in the third quarter. That's well above expectations and it's the largest increase since 1984. While it will be difficult to grow at quite that pace in the coming quarters, it seems clear that we have entered a new phase of economic expansion.

The signs of growth have been emerging since this spring. Personal consumption increased in the second quarter, with help from automotive sales incentives and home mortgage refinancings. Investment demand such as new orders and shipments of nondefense capital goods increased as well, and the recovery in real equipment and software investment that we saw in last three quarters of 2002 resumed in the second quarter of 2003. The factors contributed to annualized real GDP growth of 3.3 percent in the second quarter.

These improvements point back to the passage of the President's Jobs and Growth Act in May, which provided immediate support for the economy. In July, withholding tables were revised to reflect reduced marginal tax rates on individual income, and the child tax credit checks went out in the mail. The increase in bonus depreciation and quadrupling of the expensing limit for small businesses encouraged business investment. The reduction in taxes increased households' cash flow by an estimated $35 billion and spurred businesses to take advantage of enhanced capital expensing. Dividend tax relief has had a positive effect on the markets, and enhanced families' sense of financial well-being. In fact, equity prices have climbed about 30 percent since mid-March, improving financing conditions for businesses, and adding to household net worth.

In short, the Jobs and Growth Act had a major impact on our economy. Total consumer spending grew at a 6.6 percent rate in the third quarter, the largest gain since 1997, and equipment and software investment surged at a 15.4 percent pace, the fastest since early 2000. Production responded to the pickup in final demand in the last two quarters, and manufacturing output rose near a 3 percent annual rate.

This week, there has been additional evidence of a recovery in the manufacturing sector. The Institute for Supply Management's Purchasing Managers' index for manufacturing jumped sharply in October to 57.0 – the highest since January 2000. That's the fourth consecutive monthly reading signaling an expansion in manufacturing. ISM's non-manufacturing index also rose in October to the second highest level in its six-and-a-half year history. In addition, this week we saw that construction activity continues to be strong.

Much of the strength we saw in the third quarter is likely to continue. In other words, this is not a fleeting glimmer – there is real muscle behind the growth trend. One key factor is the extraordinary productivity growth of American workers. The 3.9 percent annual rate of advance in nonfarm productivity since late 2000 has

been the strongest of any comparable period in 30 years. The 9 percent increase in nonfarm business output seen in last week's GDP data suggests that another large productivity gain is in store for the third quarter.

Productivity remains the foundation for higher standards of living in this country. Productivity gains are starting to register as rising profits and cash flow for businesses, paving the way for further growth in business investment and hiring. Small business optimism recently reached a record high level, according to the National Federation of Independent Business, and the Conference Board reported that confidence among large-company CEOs was the strongest in 11 years. Improved business optimism is a first step in the revitalization of labor markets. Boosted by the President's jobs and growth plan, real disposable personal income is rising, up at a 3.8 percent annual rate in the first three quarters of the year. That means more money in the pockets of average Americans. Household and business balance sheets gained from low interest rates over the past few years, leaving those sectors in a good position to continue to spend. Rates are still very low, and yield spreads are narrowing, enhancing prospects for investment.

Of course, the housing sector has also been an engine of growth through the past recession and recovery. Homeownership has risen to a record 68.2 percent of households, an achievement of which the President is proud. Housing continued to expand through the third quarter and construction starts and permits point to further growth in residential investment. Simply put, this Administration has a stellar record on housing, and the Treasury Department remains deeply committed to the President's housing goals.

Overseas, economies appear to be improving, providing a growing market for U.S. exports. Exports rose 9.3 percent at an annual rate in real terms in the third quarter, for the first quarterly gain in a year. Production related to replenishing inventories should also contribute to growth. Through the past few quarters inventories have fallen to very low levels as businesses met a relatively large portion of demand out of existing stockpiles. That is expected to turn around with the revival of strong demand.

Recent consensus forecasts expect real GDP growth to of about 4 percent in the fourth quarter and maintain close to that pace through next year. That rate is above the estimated potential rate of growth of the economy, and the sustained trend above potential should lead to a pickup in employment.

We have already seen signs of a budding upturn in labor markets, with payroll jobs growing by 57,000 in September -- the first job increase in eight months. The Conference Board's latest consumer confidence survey found the assessment of both current and future employment conditions was more upbeat, contributing to a 4-point increase in the confidence index in October.

Professional forecasters expect that the acceleration in real growth in the third quarter and over the following four quarters will lead to a sizable increase in employment.

Though positive signs are emerging and the outlook is favorable, it appears to be taking longer for labor markets to respond to the upturn in economic activity. Creating new jobs is a top priority for this Administration, and President Bush recently unveiled a six-point plan to reduce barriers and uncertainties that may impede businesses from hiring additional workers.

The plan includes a series of measures to help the economy operate more efficiently.

First, we are working to make health care more affordable and its costs more predictable, so employers can add new workers without also adding a large and uncertain burden from health care costs. We need to create an environment where health care spending is focused on providing high quality, high value care.

Second, we are working to prevent frivolous lawsuits from diverting money from job creation into legal battles. We also intend to ensure that when necessary lawsuits proceed, the settlements are paid to the victims, not the trial lawyers.

Third, we are working to build a more affordable, reliable energy system that can support the expansion of our economy.

Fourth, we are streamlining regulations and needless paperwork requirements that reduce business productivity and deter growth.

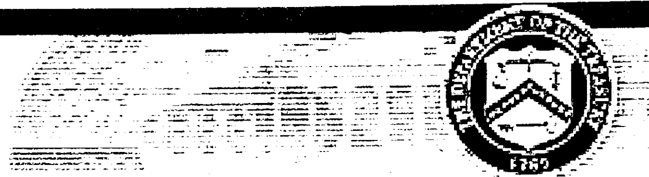
Fifth, we are opening new markets to high value American products and bringing down prices for American consumers through trade agreements.

And sixth, we are working to make tax relief permanent, so businesses and families alike can plan for the future with confidence.

The economy is growing and the outlook is bright. But President Bush and this Administration will not be satisfied until every American looking for work can find a job. We are continuing to work to spur job creation and reduce the barriers to achieving our economy's greatest potential.

-30-

PRESS ROOM



FROM THE OFFICE OF PUBLIC AFFAIRS

November 10, 2003
JS-981

Treasury Department Announces Appointment of New Chief of Staff

Treasury Secretary John Snow today announced the appointment of Christopher Smith to serve as his Chief of Staff, replacing Tim Adams, who resigned.

Smith has served as Counselor to the Treasury Secretary since the beginning of the George W. Bush Administration. Prior to that appointment, Smith worked for the House Committee on Ways and Means for twelve years from 1988-2000 in a variety of capacities including Chief of Staff. Before moving to the Committee, Smith was a budget examiner and a special assistant at the Office of Management and Budget from 1987-1988, and a program evaluator at the U.S. General Accounting Office from 1986-1987.

Adams' resignation is effective November 28th; Smith begins his new duties as Chief of Staff December 1st.

In his resignation letter, Adams thanked Secretary Snow and his predecessor Paul O'Neill, for "the wonderful opportunity to serve at such a storied and respected institution." Adams also wrote, "It has also been an enormous honor to serve in the Administration of President George W. Bush."

Secretary Snow praised Adams' tenure at the Department. "I want to publicly thank Tim Adams for his outstanding service, his dedication to the Department and the President, and for his valued advice. Tim possesses outstanding policy instincts and leadership abilities that will certainly be missed."

"At the same time, I couldn't be more pleased Chris Smith has agreed to serve as my Chief of Staff. Chris brings with him a wide range of Capitol Hill experience, legislative expertise and a profound knowledge of the Department. Chris' keen perspective will be a valuable asset as we continue to implement the President's agenda for economic growth and job creation. I look forward to a seamless transition" Secretary Snow said.

The Chief of Staff is responsible for managing the day-to-day operations of the Department generally and the Secretary's office specifically, coordinating policy development and review within the Department and with other agencies and the White House and assisting in setting the overall strategic direction of the Department. The Chief of Staff is also responsible for advising the Secretary on a wide variety of policy and management issues as well as on economic and market conditions.

ATTACHMENTS:

ADAMS LETTER TO SECRETARY SNOW

ADAMS BIOGRAPHY

SMITH BIOGRAPHY

ADAMS LETTER TO SECRETARY SNOW

November 10, 2003

The Honorable John W. Snow
Secretary of the Treasury
1500 Pennsylvania Ave
Washington, D.C. 20220

Dear Mr. Secretary:

This letter is to inform you of my resignation from the position of Chief of Staff of the United Sates Treasury Department effective November 28, 2003. I want to thank you and your predecessor, Paul H. O'Neill, for the wonderful opportunity to serve at such a storied and respected institution. It has also been an enormous honor to serve in the Administration of President George W. Bush.

As I reflect back on the close to three years that I've served in my current capacity, I am awed by the depth and breadth of challenges that we have encountered and am extremely proud at how the Treasury Department, as well as the entire Administration, responded. Obviously, our first and most important priority was to address the struggling U.S. economy, which had begun to implode months before the start of this Administration. Under the President's bold leadership, we enacted two major tax cuts that allowed working families to keep more of their earnings that have fuelled economic growth and generated new jobs. In fact, recent economic data indicate that the economy clearly is on a trajectory of solid and sustainable growth, but we can not grow complacent until everyone who wants a job has one.

I am also proud of our response to the tragic events of September 11.th Former Under Secretary Peter Fisher and other senior Treasury officials worked diligently to restore the New York financial markets to working order in record time and I remember fondly as Secretary O'Neill stood with other leaders at the opening bell of the re-opening of New York Stock Exchange. Working in concert with others in the Administration, we also moved quickly to provide needed funds so that New York City could begin the recovery process. The Treasury Department also distinguished itself in answering the President's call to fight and overcome the agents of terror and those that support and harbor them. General Council David Aufhauser, Juan Zarate and scores of individuals from International Affairs, the General Council's office, OFAC, FINCEN and the IRS have helped advance this critical cause.

The Treasury Department has also played a key role in our government's effort to rebuild a war-ravaged Afghanistan and to ensure that it is no longer a training ground for terrorism. From the Tokyo donor's conference in January of 2002 to our recent visit to Kabul to participate in the issuance of licenses for several new banks, Treasury has been at the forefront of prompting positive change in that country. Iraq too has offered the Treasury Department an opportunity to employ our expertise and show leadership. Under Secretary John Taylor, Peter McPherson, George Wolfe and scores of others have successfully engaged in an historic effort, often in harsh conditions and in harm's way, to help the Iraqi people rebuild their lives and economy after decades of unimaginable fear and oppression. I believe that Iraq will one day stand as a monument to America's resolve to do what is right rather than what is popular and to our willingness to make great sacrifices to bring peace and freedom to those have never experienced it.

Finally, in addition to our efforts to restore economic growth, prosecute the financial war on terrorism and assist government efforts in rebuilding Afghanistan and Iraq, I am proud of the leadership this Department has shown in addressing the needs of the world's poor and those suffering from HIV/AIDS. We witnessed first hand that disease's tragic consequences for the continent of Africa and sought to help our fellow citizens better understand the enormity of the crisis and the need for action. We also witnessed the many heroes that toil away each day in anonymity in a compassionate drive to relieve pain and suffering.

In response, this Administration has reversed years declining foreign assistance for the poorest, moved the international financial institutions away from adding to the burden of debt by emphasizing grants and challenged the donor community – both public and private – to focus on outcomes rather than inputs. Moreover, I believe that the President's proposed Millennium Challenge Account will prove to be an historic catalyst for changing the way in which we deliver foreign assistance and will improve its effectiveness so that we can better comfort those in need. In fact, I am reminded by the President's remarks at the announcement of the MCA: "We cannot leave behind half of humanity as we seek a better future for ourselves. We cannot

accept permanent poverty in a world of progress. There are no second-class citizens in the human race."

Sincerely,

Timothy D. Adams

ADAMS BIOGRAPHY

Tim Adams, Chief of Staff since January 2001, comes to the Treasury Department after several years in the private sector as an advisor to global financial institutions and previous public service in the first Bush Administration.

In his current position, Adams is responsible for managing the day-to-day operations of the Department generally and the Secretary's office specifically, coordinating policy development and review within the Department and with other agencies and the White House and assisting in setting the overall strategic direction of the Department. He is also responsible for advising the Secretary on a wide variety of policy and management issues as well as on economic and market conditions.

Prior to his current appointment, Adams spent most of 2000 in Austin, Texas as a full-time senior member of the Bush-Cheney campaign policy staff. While in Austin, he worked on a variety of macroeconomic and technology related issues, coordinated the policy operations at the 2000 Republican Platform and National Convention in Philadelphia, directed the policy operations for Vice Presidential candidate Cheney and, later, headed up the Treasury transition operations for the newly elected team. Adams first became involved with the Bush for President effort in January 1999 when he joined a small group of economists advising then-Governor-Bush on a variety of economic and technology policy matters.

From early 1993 until March of 2000, Adams held several positions at the G7 Group, which he co-founded and later led as the Managing Director. The G7 Group is a Washington-based consulting firm that forecasts and interprets economic and political events for global financial institutions.

In the first Bush Administration, Adams held several policy-related positions, including stints at the Ex-Im Bank, Treasury Department and the Office of Management and Budget. Most notably, he served in the White House Office of Policy Development from mid-1990 to January 1993, working on a broad range of economics issues for Larry Lindsey, who formerly served as the chief economic policy advisor to President George W. Bush.

Adams is a native of Kentucky. He holds an undergraduate and two graduate degrees from the University of Kentucky.

SMITH BIOGRAPHY

Christopher A. Smith is Counselor to the Secretary of the Treasury. He provides advice and counsel to the Secretary and senior members of the Administration's economic team. He concentrates his efforts on advancing high priority legislative and policy matters on the Administration's domestic agenda, including: tax relief, economic growth and jobs, health care, retirement security, homeland security, the budget, and domestic finance. He serves as a coordinating agent among the various offices encompassing domestic policy within Treasury, and with the National Economic Council. In particular, he works closely with the Office of Tax Policy to advance the Administration's tax agenda. He represents the Department on a number of interagency and White House working groups. He acts on the Secretary's behalf as an advocate and liaison to the Congress, primarily to the tax writing Committees and Congressional Leadership, as well as with external groups, and advises the Secretary on legislative and political strategy.

Mr. Smith served on the Bush-Cheney Presidential Transition Team's Treasury policy group from December, 2000 through inauguration. In particular, he helped

prepare the President-elect's budget and tax relief plans for subsequent action. He conducted in-depth reviews of selected Treasury transition areas, and advised the Secretary-designate in preparation for Senate confirmation.

In 2000, Mr. Smith was the Chief of Staff for the House Committee on Ways and Means. He advised Chairman Bill Archer, Committee Members, and the House Leadership on all matters coming before the Committee, including legislative, policy, budget, and political strategies. He implemented these strategies by overseeing the Committee's 50 person majority staff and its diverse work in the areas of taxation, trade, health care, Social Security, and human resources.

Mr. Smith was the Ways and Means Deputy Chief of Staff from 1995 until 2000. He coordinated day to day management of committee operations during action on key initiatives such as the Contract with America, welfare reform, the 1997 balanced budget and tax relief legislation, and the IRS Restructuring and Reform Act. He served as a senior advisor to the Chairman and Chief of Staff on legislative, policy, budget, and political decisions and on general legal matters.

Mr. Smith served on the Ways and Means Minority staff from 1988 to 1994 as a Professional Assistant for International Trade, where he was a key participant in legislation implementing major trade agreements, including the Uruguay Round and North American Free Trade Agreements; and as a Professional Assistant for Oversight and Investigations, where he conducted significant oversight investigations and advanced remedial legislation on a variety of issues.

Before moving to the Committee, Mr. Smith was a budget examiner and special assistant at the Office of Management and Budget from 1987 1988, and a program evaluator at the U.S. General Accounting Office from 1986 1987

Mr. Smith received a B.A. degree in economics from Dickinson College in 1983 and a Master of Public Administration degree from the George Washington University (GWU) in 1986. He was awarded a Presidential Management Internship (PMI) under the Reagan Administration upon graduation. Mr. Smith received the GWU Department of Public Administration's Distinguished Alumni Award in 1997.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 10, 2003
JS-982

The Time to Accelerate Reconstruction in Afghanistan
John B. Taylor
Under Secretary of Treasury for International Affairs
Afghanistan-America Summit
Georgetown University
November 10, 2003

It was exactly two years ago today. In the first major battle of Operation Enduring Freedom, the Taliban were driven from the town Mazar-e-Sharif, a strategic crossroads dating back to the days of Alexander the Great. Mazar's fall represented the start of a major acceleration of the war to end the Taliban's terrible rule over Afghanistan. Before the fall of Mazar, pundits were warning of many, many months of fierce fighting before the end of the Taliban's control. Yet only three days after the fall of Mazar, Kabul fell, then Kandahar fell, and then the remnants of the Taliban fled to the mountains. By the end of November, the international community was meeting in Washington to discuss our plans for economic reconstruction. I remember that upbeat meeting very well.

Now is the time to start another major acceleration, but this time on the economic reconstruction front. As in the case of the battle for Mazar, much has been done to prepare the way. The Afghan Transitional Authority under President Karzai is in control of the economic functions of government. Finance Minister Ghani has embarked on an impressive program to increase revenue. A new currency, the afghani, has been successfully introduced. A law creating an independent central bank has been passed. New commercial banking laws now allow foreign banks to open in Kabul. An Afghan Investment Support Agency has been created to reduce the red tape that entrepreneurs have had to endure when they start up or expand their business. Afghanistan is also working to improve regional trade and transit with its neighbors.

Construction of roads, bridges, airports and tunnels is underway. Schools have been reopened, refurbished, or built from scratch; and millions of girls and boys are back in school. The United States has fully supported this reconstruction effort. And so have many other donors following that initial upbeat meeting in Washington two years ago.

The World Bank, the Asian Development Bank, the International Monetary Fund, and the UN agencies have played an important role.

Measurement systems are being put in place to measure the results of reconstruction assistance with set timelines, so that financial aid is used effectively. For example, the timeline for paving the U.S.-funded road construction from Kabul to Kandahar is December 31. The same date applies to the road construction from Kandahar to Spin Boldek funded by the Asian Development Bank.

In sum, the stage has been set. A surge in our reconstruction effort can now yield big payoffs both economically and politically. Afghanistan is an extremely poor country. Without strong economic growth, it will stay poor for a long time. An acceleration of the economic reconstruction effort now will help stimulate that economic growth. It will also help to lock-in politically the important gains that have been achieved thus far. When the Afghan people go to the polls next June, how will they view the improvements in their own lives? Will they feel that the transitional government and the international community have met their commitments to help reconstruct Afghanistan? Will they feel that the progress lives up to their expectations? We want the answer to be "Yes."

To help make this acceleration effort a reality, last week the U.S. Congress passed, and the President signed, a supplemental appropriations bill with an additional $1.2 billion for Afghanistan. We have also re-programmed funding from the regular budget to bring the total acceleration to over $1.6 billion. Our goal is to use these funds to generate visible, measurable, on-the-ground results

As I have argued on many occasions, timelines for achieving measurable results are needed if our assistance is to be effective. Timelines are especially needed if you what to accelerate assistance; timelines measure the extent of the acceleration. We plan to finish this accelerated effort by June 2004. So, for each sector, we have set specific interim and final goals through June 2004.

A major part of our accelerated assistance will go towards improved security, which is needed for an improved investment climate and for raising economic growth. About $700 million will go for police, army training and counter narcotics. Our stated goal is for over 19,000 police to be trained by June. About $900 million will go to economic assistance, including roads, schools, health clinics, power generation, and private sector initiatives. We plan for 1,000 kilometers of secondary roads to be completed. To further stimulate private sector economic activity, we have a goal of building 100 market centers and 5 new industrial parks. And to help establish the rule of law we are planning on 16 new provincial courthouses.

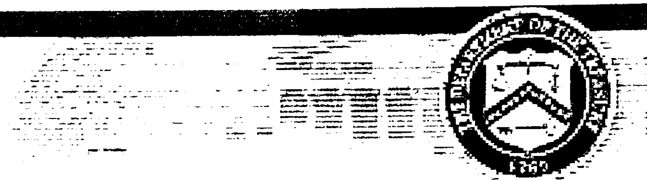
This acceleration plan will not work if other donors do not also accelerate their assistance. Even with the increased U.S. funding, there are still many areas in urgent need.

See "Making Reconstruction Work in Afghanistan," Council on Foreign Relations, October 6, 2002.

These include irrigation projects, rebuilding major sections of the city of Kabul, and the National Solidarity Program, which provides block grants for community projects throughout Afghanistan.

To be successful the acceleration by other donors requires both speeding up disbursements of existing pledges and making new pledges to be disbursed during this crucial period. This, indeed, is what the United States is doing. For this reason, the government of Afghanistan is urging other donors to accelerate their assistance by moving forward commitments and by pledging additional funds this month. We, along with the government of Afghanistan, are also asking donors to set measurable results and timelines to meet those results. The reconstruction of Afghanistan is a collaborative effort and it is imperative that donors work together closely. We are pleased that the European Community has already come forward with an additional pledge. Japan has also committed to accelerating a portion of its assistance. We urge others to join in.

The United States is committed. We will continue to work with the international community. We look to Afghan government's continued leadership role. Our ultimate goal is nothing short of security, freedom, and prosperity for the Afghan people. With this timely acceleration, the Afghan people will be given the chance to achieve that goal.



PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 7, 2003
JS-983

Acting Assistant Secretary Mark J. Warshawsky
U.S. Department of the Treasury
Luncheon Speech for The Florida Council of 100
Friday, November 7, 2003

It is a pleasure to join you today to discuss developments in the U.S. economy, the Administration's economic policies, and the important role of international trade.

Current Developments in the U.S. Economy

In the Office of Economic Policy at the Treasury Department, my staff and I track a broad array of economic and financial data every day. As a result of this scrutiny, I can tell you that economic fundamentals are sound and the U.S. economy is firmly established on an upward path. Last week the Commerce Department reported that economic activity increased at a 7.2 percent annual rate in the third quarter. While some slowdown from that elevated pace is to be expected, we, as well as private forecasters, expect strong expansion to continue through the fourth quarter and well beyond.

After growing at a rather sluggish pace late last year and early this year, positive signs of improvement began to build through the spring. The swift expulsion of the regime of Saddam Hussein in Iraq lifted the consumer mood. Attractive auto incentives and the extraction of home equity through a surge in mortgage refinancing also contributed to an acceleration of personal consumption expenditures in the second quarter. Indicators of investment demand such as new orders and shipments of nondefense capital goods perked up as well, and the nascent recovery in real equipment and software investment resumed in the second quarter of 2003. The firmer tone to investment and consumption helped raise real GDP growth to a 3.3 percent annual rate in the second quarter, more than double the pace of the prior two quarters.

The passage of the Jobs and Growth Tax Relief Reconciliation Act in May provided almost immediate additional support for the economy in the third quarter. By July, withholding tables reflected reduced marginal tax rates on individual income, and the child tax credit checks began to be delivered to households. This raised households' cash flow and spurred consumer spending.

The increase in bonus depreciation and quadrupling of the expensing limit for small businesses encouraged business investment.
The impact was substantial. Total consumer spending surged in the third quarter and equipment and software investment shot up at its fastest rate since the first quarter of 2000. Production responded to the pickup in final demand in the last two quarters, and manufacturing output rose at almost a 3 percent annual rate in the third quarter after declines in the prior three quarters.

Many of the strengths that were evident going into the third quarter are likely to continue to provide support to the economy going forward. Productivity growth has been exceptional, including very substantial gains in the past two quarters. The 4.3 percent rate of increase since the fourth quarter of 2000 – a period that includes both recession and recovery – was the strongest of any eleven-quarter period in 40 years. Higher productivity means higher real wages for workers and rising standards of living.

Businesses are beginning to reap the benefits of those productivity improvements. Profits and cash flow are growing and unit costs have been held in check, paving the way for further gains in investment. Small business optimism recently reached

a record high level, according to the National Federation of Independent Business, and the Conference Board reported that confidence among large-company CEOs was the strongest in 11 years. Improved business optimism is a first step in the revitalization of labor markets.

Equity prices have climbed about 30 percent since mid-March, improving financing conditions for business as well as adding to household net worth. Boosted by the tax cuts, real disposable personal income is rising. Household and business balance sheets benefited from low interest rates over the past few years, leaving those sectors in a good position to continue to spend. Rates are still quite low and credit yield spreads are narrowing, enhancing prospects for investment.

The housing sector has been an engine of growth throughout the recession and recovery and the homeownership rate has risen to a record 68.2 percent. Housing continued to expand through the third quarter and construction starts and permits point to further growth in residential investment ahead. This view is supported by the highest level in four years of homebuilder optimism regarding the six-month outlook, according to the National Association of Home Builders. Even with the recent rise in interest rates, more than 80 percent of consumers still think it is a good time to buy a home, according to the Michigan consumer sentiment survey.

Overseas economies appear to be improving and providing a growing market for U.S. exports, which surged more than 9 percent at an annual rate in real terms in the third quarter for the first quarterly gain in a year. The October index of manufacturers' orders for exports of the Institute for Supply Management suggests additional strength going forward. Inventory rebuilding and the production that it stimulates should also contribute to growth. Through the past few quarters inventories have been trimmed to very low levels as businesses met demand out of existing stockpiles.

That is expected to turn around with the revival of strong demand. Recent consensus forecasts expect real GDP growth to ease in the fourth quarter to 4.0 percent and roughly maintain that pace through next year. That rate is above the estimated potential rate of growth of the economy, and the sustained trend above potential should lead to a pickup in employment. In fact, the Labor Department announced today that the unemployment rate dipped from 6.1 percent in August and September to 6.0 percent in October. Payroll employment rose by 126,000 and results for August and September were revised up substantially. Today's figures show that the economy created 286,000 jobs during the past three months, the best performance since before the recession. More recent weekly unemployment insurance claims suggest further progress was made after the October employment survey was taken.

The improvement in labor markets is already evident in Florida. Although still somewhat elevated, Florida's unemployment rate has eased from a recent peak of 5.8 percent in late 2001 and now stands at 5.2 percent – roughly a percentage point below the national average. Florida has added jobs since the economy entered recession in early 2001. Since January of that year, nonfarm payroll employment in the state has expanded by 176,000. That is the biggest increase of any state over that period.

Professional forecasters expect that the acceleration in real growth in the third quarter and over the coming year will lead to a sizable increase in employment. Estimates are converging on a job gain of about 2 million over the four quarters ending in the third quarter of 2004.

Though positive signs are emerging and the outlook is favorable, we have seen during the latest recession and recovery how sensitive labor markets have become compared to the experience of previous cycles. It appears to be taking longer for labor markets to respond to an upturn in economic activity. Since creating new jobs is a top priority of the Administration, in addition to the stimulus packages already at work, the President recently unveiled a six-point plan to reduce barriers and uncertainties that may be impeding businesses from hiring additional workers. The plan includes a series of measures to help the economy operate more efficiently, such as tort reform, providing an affordable energy supply, streamlining regulation, making tax cuts permanent, improving the affordability of health care, and opening new markets for U.S. products.

U.S. and the Global Economy

As all of you are well aware, opening new markets and increasing foreign demand for U.S. goods and services is a key factor in enhancing our continued domestic economic growth. Both empirical work and recent trends suggest that the behavior of export markets has a far greater impact on manufacturing employment than import competition. One study found that a 10 percent rise in overall sales due to exports is associated with a 7 percent increase in employment, while a similar rise in the import share of domestic sales is linked to a smaller 4 percent decline in employment.

I probably don't have to do too much explaining to this audience about the benefits of foreign trade, as Florida ranks as the eighth largest export-producing state in the nation and is the sixth largest recipient of foreign direct investment (FDI). Foreign affiliates provided over 300,000 jobs to state residents in 2000 (latest available), ranking Florida fourth in the nation for FDI-related jobs. Like the rest of the country, Florida's merchandise exports dropped in 2002. The decline was larger than the national loss in percentage terms, as the State's key overseas markets, particularly those in Latin America, generally experienced greater deterioration in economic conditions. The diverse array of export goods produced in Florida, however, along with its high value-added services exports such as consulting, legal, medical, and financial services, should serve Florida well in the international marketplace going forward.

I would now like to discuss the overall U.S. position in the world economy and the Administration's efforts to enhance free trade and promote export growth. The dimensions of total U.S. transactions with the rest of the world is typically measured by the current account. The current account balance is equal to the difference between national saving and investment, and mainly reflects the balance of trade in goods and services, as well as net investment income and transfer payments. Neither a deficit nor a surplus is inherently bad or good. We would not be concerned with a current account deficit if investment growth was strong and well directed, increasing future economic growth that will be used to pay foreigners for the financing of that investment, and still leave us with something left over to enjoy in terms of an improved standard of living. Similarly, we can expect foreign developed economies in general (especially Japan and Western Europe) to tend to lend to us more than we lend to them because their economies are aging faster than ours and because of the investment opportunities afforded by our high-productivity economy.

Nevertheless, these trends can become worrisome and be overdone if the current account deficit is being used simply to finance increases in consumption with no prospect of repayment. One sign of trouble would be an increase in domestic interest rates. Flexibility of exchange rates is a good thing in general because it helps the economy adjust to market forces, and allows the monetary authority to focus on macroeconomic conditions (in the short run) and price stability (in the long run), rather than trying to manage the exchange rate.

Recently our economic growth has improved greatly and we are seeing an acceleration in investment (aided by fiscal policy measures that increased depreciation write-offs for business equipment). This has led to an increase in the current account deficit, to an annual rate of $554.7 billion in the second quarter or 5.1 percent of GDP. Our domestic interest rates are, however, still remarkably low.

We believe that much of the current account deficit is due to unnecessarily slow foreign economic growth, which is impeding our exports. To correct that situation, the Administration is aggressively encouraging pro-growth policies in other countries. Secretary Snow and other top officials such as Commerce Secretary Evans and U.S. Trade Representative Zoellick have been traveling to Europe, China, Japan and other key areas to encourage reforms that will raise growth. Progress has been made, with the G-7 countries agreeing to a new "Agenda for Growth" that incorporates accountability for performance as one of its features.

Domestically, we see a need to increase our national saving, both through personal savings (which would be spurred by the Administration's two proposed tax-free savings vehicles--retirement savings accounts and lifetime savings accounts), and through decreased Federal deficits (by constraints on spending).

Regarding China, we have encouraged the adoption of a flexible, market-based exchange rate. While there has been a great deal of attention to exchange rates, we have a broad agenda with China including seeking a direct opening of product

and services markets to U.S. companies in accordance with China's commitments to the World Trade Organization. China has made some progress in moving into compliance with WTO rules but there has been a loss of momentum, and complaints from U.S. exporters have arisen regarding intellectual property rights, trading rights and distribution services, transparency, and others. China has agreed to move to an open market-based economy and to abide by WTO rules, but the pace of change has been very slow. As complaints have mounted, Secretary Evans has urged the Chinese that they "must move faster by opening markets, dropping trade barriers, and letting market forces determine economic decisions." In an important recent development, Vice Premier Huang has accepted an invitation to come to the U.S. to engage in high-level talks with Secretary Snow.

Regarding Japan, the Administration has urged pro-growth reforms to bring about a lasting recovery. These efforts appear to be bearing fruit. The Bank of Japan has aggressively increased the money supply to counter deflation, and progress is being made in addressing problems in the banking system. While further efforts at structural reforms would be beneficial, the Japanese economy is beginning to show signs of improvement.

Remaining Barriers to Growth: Rising Health Care Costs

In addition to barriers to growth arising from imperfections in the flow of international trade, I would like to touch on another structural impediment to growth in the U.S.—rising health care costs. After a period of relatively slow health spending growth in the late 1990s, growth has accelerated with the retreat of managed care. Health spending now makes up over 14 percent of the economy. The Bureau of Labor Statistics' Employment Cost Index for health benefits has risen 10.1 percent over the past year, following an 11.2 percent increase the previous year. Employers are struggling to control health care costs without reducing or dropping coverage, because private-sector efforts to improve value and efficiency are in their nascence and are not well developed. Sustained health care cost increases are preventing firms from hiring new workers, while many workers may be reluctant to change jobs for fear of losing health insurance coverage.

In discussing the problem of rising health care costs, a distinction must be made between low-value care and high-value care. Much of the growth in health expenditures stems from life-saving technological progress. Mortality rates from cardiovascular disease, the number one cause of death in this country, have fallen by half over the past 40 years, much of that attributable to the technological revolution in health care. Yet, in a Doctor Jekyll and Mr. Hyde sort of way, despite the technological progress, the health care sector is inefficient, as studies have indicated.

Going back to cardiovascular care, bypass surgery is ten times more common in the U.S. than in Canada, yet health outcomes are very similar among patients with heart disease in both countries, according to one study. Dartmouth researchers have found that there are wide geographic disparities in per capita Medicare expenditures, even after controlling for age, sex, and race of the relevant populations. These differences cannot be explained by differences in the price of services or the health status of the relevant populations. Study after study has shown that around 30 percent of health care expenditures are wasted: they do nothing to improve, and in some cases may even harm, health.

The increasing strain of high and fast-growing health care costs is placing a growing burden on the federal budget. Already, one-quarter of federal outlays are dedicated to health care expenses. A mere one percentage point decrease in the anticipated rate of growth of health care spending would reduce the national debt by more than $600 billion over the next 10 years. This is why the Administration is committed to rooting out the underlying causes of wasteful care to moderate the long-term growth rate of health care expenditures.

Conclusion

Let me wrap up by reiterating a few points before I take questions. The U.S. economy is on solid footing and the outlook going forward is bright. The Administration will continue to strive to increase the rate of job growth and to reduce any inefficiencies and barriers that may inhibit the economy from maximizing its growth potential, including opening new markets abroad for U.S. exports and working to reduce growth in health care costs.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 29, 2003
JS-980

Treasury's Office of Financial Education Recognizes Cedar Point Federal Credit Union's Retirement Education Program

U.S. Treasury Assistant Secretary for Financial Institutions Wayne A. Abernathy today formally recognized the Cedar Point Federal Credit Union's Retirement Education Program, RETIREMENT... Do You Have A Plan? with an honorary certificate of recognition for their efforts in providing financial education to the community of Lexington Park, MD.

"The Cedar Point Federal Credit Union Retirement Education Program is helping potential retirees learn proactive ways to plan for their future," said Assistant Secretary Abernathy. The transition from work to retirement comes with emotional adjustments and financial concerns. Financial education can help older adults budget and plan, avoid scams and other forms of financial abuse, and use proceeds from lump-sum or other payments wisely. People can afford retirement with determination, hard work, a sound savings habit, and a well-designed financial plan.

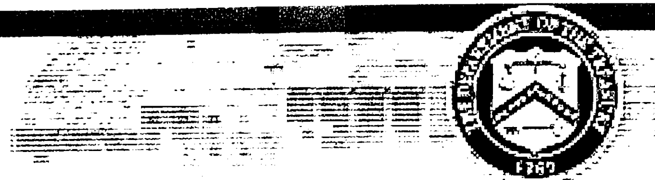
**Statistics show that workers employed by firms that offer financial education programs have higher participation rates in and contributions rates to 401(k) plans compared to firms that do not provide these programs. A lack of financial education may cause workers to start saving too late in life to realize they understated retirement goals. Individuals who do not plan for retirement have lower net wealth and are less likely to invest in assets with higher expected returns.

Cedar Point Federal Credit Union is a member owned financial institution dedicated to providing its sponsor, charter members, and potential members in the local community with product and service excellence. This commitment is what led them to establish their wholly owned subsidiary company Cedar Point Financial Services, Inc. (CPFS). CPFS was originally established to educate credit union members and potential members. Through the relationship CPFS has with Horner Townsend and Kent, Inc. the credit union is able to provide the local community with access to high quality educational tools to include no-cost, retirement-planning seminars. The seminars are presented by William D. Morrison, CFP of Maryland Agency Financial Group (MAFG), a branch office of Penn Mutual Life Insurance Agency, located in Towson Maryland

The Treasury Department in 2002 established the Office of Financial Education to strengthen the financial literacy of all Americans, and to provide guidance to organizations providing financial

* (Robert Clark, Ann McDermed, Kshama Sawant, and Madeleine d'Ambrosio, "Financial Education and Retirement Savings," Federal Reserve Bank Paper, March 2003)

education programs. The Office works to ensure that people can gain the practical knowledge and skills necessary to make informed financial choices throughout various life stages. It focuses on four key areas: basic savings, credit management, homeownership and retirement planning. More information can be found at www.treasury.gov/financialeducation



PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 10, 2003
js984

Keynote Address for Deputy Assistant Secretary Juan C. Zarate Before the Investment Company Institute "Securing the Financial System against Rogue Capital"

November 10, 2003

I am very pleased to be with you today as you meet to discuss the Investment Company Institute and mutual fund industry's involvement in the comprehensive efforts to secure the financial system against rogue capital. The events of September 11th and the attacks we have seen worldwide since then – including this weekend's attacks in Riyadh – demonstrate, time and again, that we are engaged in a long term battle against those who both despise and strive to destroy our way of life.

I appreciate the opportunity to speak with you because in this post-9/11 world, you, and the financial community at large, are a vital partner in our efforts. Certainly, the Treasury has needed to call on its established relationships in the private sector and to cultivate new ones to ensure we are doing everything in our power to prevent additional catastrophic attacks and to protect the financial mediums around the world from terrorist and criminal taint.

I was recently in Saudi Arabia with Secretary Snow, where we met with government officials, to discuss, among other things, the common terrorist threat we face and the measures we are taking to combat terrorist financing and money laundering. In our meeting with Crown Prince Abdullah, he said something that has deep resonance for those of us who have been working on these issues for over two years now. He said quite plainly that the US Treasury and Finance Ministries are the greatest enemies of the terrorists.

Aside from being flattering to our work, I believe his words carry great truth on several levels.

Since September 11th, we have led a global campaign to identify, disrupt, and dismantle the sources and means of funding for al Qaida and global terrorism. As this Administration has declared, the bankers of terror will be bankrupted and will be held accountable for their facilitation of murder. The world's attention is now focused on the short and long-term threats of terrorist financing and has created a global system that is now seized of this issue. It is clear that the world now looks at the problems of terrorism and complex criminal enterprises through the prism of financial disruption and deterrence.

International terrorist groups need money to attract, support, and retain adherents throughout the world as well as to secure the loyalty of other groups that share the same goals. Thus, they need to devise schemes to raise, collect, and distribute money to operatives preparing for attacks. Their fundraising schemes and the movement of money internationally makes the terrorist funds vulnerable to detection if we have the right safeguards in place. It is now an accepted axiom worldwide that when you track and stop tainted money, you can dismantle international networks and save lives.

In this regard, we have designated over 330 individuals and entities as terrorists or terrorist supporters and have worked with other governments to freeze over $136 million and seize well over $60 million. Over 170 countries have taken relevant freezing measures and other steps to ensure that terrorists are deprived of the means and channels of funding.

These actions not only capture funds found in the formal financial system at the time blocking actions are taken but they serve to cut off those channels from the formal financial system and deter like-minded supporters. This cooperative system

also signals an enormous success in garnering international support in our efforts. In our actions and in our words, the Treasury Department and Finance Ministries have shown quite clearly that in this war, financial intermediaries and facilitators who infuse terrorist organizations with money, materiel, and support will be held accountable along with those who perpetrate terrorist acts.

These have been our most public and striking efforts, but we have also undertaken wide-scale reform of international standards of transparency and accountable in all sectors. In conjunction with the Financial Action Task Force, we worked to promulgate the Eight Special Recommendations on Terrorist Financing. In these Special Recommendations, the Finance Ministries of the world have drawn their attention to the international risks that are specific to terrorist financing. For example, the Special Recommendations require jurisdictions to register or license informal banking sectors, like hawalas, which have operated under the radar of government scrutiny until now. Countries like the United Arab Emirates have taken proactive and important steps to inject transparency into this sector.
In addition, the Special Recommendations point out the need to set out new ways to monitor the non-profit sector. One of the heinous revelations of the post 9/11 world is the fact that al Qaida and like-minded terrorist groups have co-opted charities worldwide to raise money and to facilitate their agenda. We have taken steps not only to freeze the assets of 24 such charities, but we have worked with our international partners to ensure that charitable giving is not corrupted. Countries like Saudi Arabia have taken significant strides in controlling and monitoring a previously unregulated medium of financial activity. The worldwide actions to shine the light of oversight on these previously unregulated financial sectors are a success story that goes largely untold.

In that same vein, the international community has taken steps to toughen anti-money laundering standards. We certainly know that criminals and terrorists alike use similar channels to move and launder money. That is why we have focused much attention on how the world views the problem of money laundering and anti-money laundering controls. This year, for example, the FATF completed the revision of the 40 Recommendations on Money Laundering. The changes reflect many of the concepts that we now hold essential to a vibrant AML regime. For example, key changes to the 40 Recommendations include: (1) enhanced due diligence with respect to correspondent banking accounts; (2) increased scrutiny for politically exposed persons; and (3) prohibition on the use of shell banks.

Again, these changes are having real effects. Countries like Russia, which was previously considered a non-cooperative country on these matters, have made wholesale changes to their laws and financial practices. Transparency and accountability are now the modus operandi of the international community.

Domestically, we have worked to expand our anti-money laundering regime, in a smart and effective way. Title III of the USA PATRIOT Act supplied Treasury with a host of new and important weapons to both systematically eliminate known risks to our financial system as well as to identify and nullify new risks that develop. The tragic events of September 11 have taught us three key lessons about financial crime:

(1) although distinct in important respects, our ability to combat terrorist financing is inextricably linked with our ability to combat money laundering generally;

(2) we must remain vigilant in our continuing efforts to identify the new ways in which criminals and terrorists will attempt to use our own financial system to fuel their enterprises; and

(3) the ability of governmental entities to obtain and share financial information is critical to our success in identifying and bringing down terrorist networks.

Title III of the PATRIOT Act reflects these lessons, providing us with the mechanisms, the authority, and the initiative to take the steps necessary to protect our financial system.

As former General Counsel David Aufhauser indicated recently, once complete and if properly enforced, these changes will go far to prevent not only the laundering of illicit proceeds, but also aid the financial system in preventing the use of clean money to finance terror. The Act's principal focus on financial intermediaries, the international gateways to the US financial system, the expansion of due diligence and monitoring requirements, enhanced reporting obligations, and renewed commitment to information sharing comprise the elements of a comprehensive anti-terrorist financing regime. While the end goal of devising systems capable of

proactively identifying potential terrorist financing activities remains elusive, we are creating the necessary infrastructure within financial institutions that will one day support such systems.

For example, several sections of the Act focus on the correspondent account, the international gateway to the US financial system. These provisions require financial institutions to conduct greater due diligence both before opening such accounts and while they are open. The scrutiny given to these accounts not only augments the audit trail, but also serves to deny certain foreign financial institutions access to the US financial system in the first place. Uniform customer identification regulations recently issued will require all financial institutions to take important steps to verify the identity of their customers. Additionally, we have created a system pursuant to section 314(a) of the Act to enable law enforcement to locate quickly the accounts and transactions of those suspected of money laundering or the financing of terrorism. While we are still working closely with law enforcement and the financial community on the operation of the system, since its creation, the system has been used to send the names of well over 250 persons suspected of terrorism financing to financial institutions. This has resulted in 1,739 matches that were passed on to law enforcement.

A particularly important provision is Section 311 of the Act, which provides the Secretary with the necessary ability to protect the US financial system against specific terrorist financing threats posed by foreign financial institutions, accounts, transactions, or even entire jurisdictions. The Secretary can require US financial institutions to take appropriate countermeasures against such threats, countermeasures which include requiring the termination of any correspondent accounts involving the threat. We have utilized this authority in the money laundering context – against Nauru and the Ukraine -- and we are presently considering its use against financial institutions in connection with the financing of terrorism, money laundering, and other financial crimes.

Since its passage, Treasury, the Financial Crimes Enforcement Network (FinCEN), the financial regulators, and the Department of Justice have worked together to draft and issue extensive regulations that implement the Act's provisions. As David Aufhauser recently outlined, among other things, we have published regulations that --

(i) Permit and facilitate the sharing of critical information between law enforcement and the financial community, as well as among financial institutions themselves;
(ii) Close off our financial borders to foreign shell banks, require additional due diligence for correspondent accounts maintained for foreign financial institutions, and require foreign banks with correspondent accounts in the United States to supply the name of a US agent for service of process as well as the identities of their owners;
(iii) Require US financial institutions to establish customer identification and verification procedures for all new accountholders;
(iv) Expand the universe of financial institutions reporting potentially suspicious activities to FinCEN; and
(v) Expand our basic anti-money laundering regime to include a wide range of financial service providers, such as the securities and futures industry and money services businesses.

Our work is not yet finished in this field. We are now completing several regulatory packages that have direct relevance to your industry.

We are using the USA PATRIOT Act and the implementing regulations to combat terrorist financing. While it is still premature to evaluate their impact, we do have some indication of their effectiveness. For example, the section 314(a) system has been used in many cases and has resulted in a substantial number of leads. The additional reporting and recordkeeping authorities have enhanced the database FinCEN uses for its research and analysis in supporting terrorism investigations – since September 11th, FinCEN has supported 2,692 terrorism investigations. The Terror Hotline established by FinCEN has resulted in 789 tips passed on to law enforcement. Since the World Trade Center Attacks, FinCEN has made 519 proactive case referrals to law enforcement based upon an analysis of information in the Bank Secrecy Act database. With the expansion of the suspicious activity reporting regime, financial institutions have filed 2,655 suspicious activity reports ("SARs") reporting possible terrorist financing. In addition to passing these reports on to law enforcement, FinCEN has and will continue to analyze the SARs to report on systemic patterns in the financing of terrorism.

What has been essential in all of these efforts has been the partnership we have felt with the private sector. As we have often said, the financial community, and

especially those who are coming into the regulatory fold, are on the front lines of the battle to secure the financial system. Since passage of the Act, the willingness of the financial community to work with us in this fight has been remarkable. Cooperation comes in the form of formal and informal feedback on new regulations, one-on-one assistance with specific investigations, and the proactive identification of potential instances of the movement of funds to finance terrorism. While we expect the financial community to join us in this fight -- and they have done so -- we also recognize and appreciate these efforts, from the largest of financial institutions to the smallest of the community banks.

We also recognize a responsibility on the part of the government, and the Treasury in particular, to provide better service and contact to ensure the efficient, smart, and effective implementation of the regulatory system. We will need the help of the financial community as we move forward, but there are certain things that the Treasury and US government must do in the coming months:

1. We must ensure that the regulatory burden is commensurate with the identified risks. Much of this calculus will depend on the interaction we have with the private sector to ensure that the regulations in place are effectively targeted and implemented.
2. The government must strive to improve the feedback it provides to the financial community. From the 314(a) process to general trend analysis, feedback on the importance and usefulness of your efforts will help you make necessary adjustments and cost calculations for your compliance systems and concomitant proactive efforts and investments.
3. The government and the private sector must build on the important information sharing underway. Financial information, well developed and analyzed, helps uncover the footprints of criminal activity. The PATRIOT Act, at its heart, is a piece of legislation that intends to break down artificial walls to allow for the sharing of timely information. In this respect, the private sector, itself, needs to take greater advantage of the ability to share information with your counterparts.
4. The government must ensure that we are using technology to help us amplify the use of financial information and reporting that is flowing into FinCEN and the law enforcement community. We need to ensure that relevant, suspicious financial information and trends are being analyzed and tracked in the most cost-effective manner possible.

All of this will further engender cooperation between the financial community and the government in a manner that further allows you to serve vigilantly on the front lines.

For those of us who have been working on these issues since 9/11, it is clear that a centerpiece of the Treasury and Finance Ministries' ability to stem the flow of illicit capital through the financial system is the relationship we share with the private sector. It is this perhaps that the Crown Prince noted when he stated that we are the greatest enemies of the terrorists. We have certainly taken important steps to freeze assets and to make structural reforms. But perhaps more importantly, the Treasury and the Finance Ministries have the strength of the relationship with the private sector upon which to call and the expertise and diligence of the financial community upon which to rely.

Thank you again for the kind invitation to speak with you today. We look forward to continuing to work with you and the mutual fund industry.

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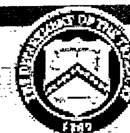
PRESS ROOM



FROM THE OFFICE OF PUBLIC AFFAIRS

November 11, 2003
JS-987

REMARKS BY TREASURY SECRETARY JOHN SNOW TO THE ARIZONA STATE CHAMBER OF COMMERCE PHOENIX, ARIZONA TUESDAY, NOVEMBER 11, 2003

Last week we heard some good news about the effects of tax relief on the American economy. The Department of Labor reported that our economy added 126,000 new jobs in October. And over the past three months, there were 286,000 new jobs. The unemployment rate fell to 6 percent. The four-week average for jobless claims has declined in six of the past seven weeks. And manufacturers reported that orders and shipments are both rising.

This news comes one week after we heard that economic output rose at a 7.2 percent annual rate in the third quarter, the fastest pace of growth in nearly 20 years. ISM's manufacturing index advanced to 57.0 in October, its highest level since January 2000. The non-manufacturing index rose to 64.7, the second highest level on record. Factory shipments were up 1.4 percent in September and new orders by 0.5 percent. Construction expenditures rose 1.3 percent in September for a fourth increase in a row

America's economy is getting stronger every day. American companies are investing. Americans are buying homes at a record pace, and homeownership is near record levels. Stock market values have risen, adding about $2 trillion in wealth for investors since the beginning of the year.

Arizona's economy has been growing stronger. The state's unemployment rate fell to 5.6 percent in September from 6 percent in August. This compares favorably with the national unemployment rate of 6.1 percent. Arizona added about 28,000 jobs in September. According to a recent report from Arizona's Office of Economic Security, Arizona's cyclical industries are continuing to improve. In addition, home sales have been robust.

We can all be encouraged, but we cannot be satisfied. These are early signs of progress. Now we must turn this progress into broad and lasting gains for all Americans.

The most important thing we can do to help those looking for work is to make sure our current economic growth results in more new jobs. President Bush has proposed a six-point economic plan to encourage companies to expand and hire workers. We must bring health care costs under control, reform our civil courts to end the junk lawsuits hurting small businesses, cut needless regulations so that small business owners can focus on pleasing their customers, instead of pleasing bureaucrats. We must pass a national energy policy to ensure an affordable and reliable supply of energy to our economy, promote free trade agreements that bring good jobs to America, and make tax relief permanent, so the gains we have seen do not disappear when tax relief is scheduled to go away.

The tax relief of the past two years was based on a principle that when Americans keep more of their own earnings, they spend more and invest more and move the economy forward. We're now seeing that happen. Our economy is on a rising road, and now we must take the remaining steps to ensure that our economy becomes a lasting expansion, and our prosperity extends to every corner of America.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 12, 2003
JS-990

Remarks by Deputy Assistant Secretary Michael A. Dawson before the Jewelers Vigilance Committee, the Jewelers Board of Trade, and Manufacturing Jewelers and Suppliers of America on the USA PATRIOT Act Regulations for the Jewelry Industry

I am here today to speak to an important category of financial institutions jewelers. Some may not think of jewelers as financial institutions. Most think of jewelers as retailers, wholesalers, dealers, manufacturers, importers, and cutters and refiners of raw product. But not financial institutions.

Unfortunately, criminals can and do think of jewelers as financial institutions. Your products can be - and have been - used by criminals to launder criminal proceeds, store value, transport value to other jurisdictions, and convert the value into liquid forms to fuel criminal enterprises. In Operation Meltdown, for example investigators in this city discovered Colombian narcotics traffickers who were converting their profits into gold; disguising the gold by alloying it with other elements or casting it into the shape of industrial objects, like wrenches; shipping it to Colombia; and re-selling it for cash.

Fortunately, jewelers are vigilant. They recognize that criminals are trying to abuse their products and services. Jewelers have organized to protect their industry and their individual reputations. Historically, jewelers organized to prevent criminals from passing off artificial or impure product as the real McCoy. Over time, however, your vigilance has extended to guard against the possibility that criminals would use your products and services to launder money and finance terrorism.

I am here today to thank you for your vigilance. Thank you for working with us as we studied your industry and drafted proposed regulations. Thank you for your comments on those proposed regulations. Thank you for your strong commitment to comply with those regulations.

The USA PATRIOT Act

As many of you know, the President signed the USA PATRIOT Act into law on October 26, 2001, just a few weeks after the attacks of September 11th. As President Bush noted at its enactment, the Act provides "intelligence and law enforcement officials important new tools to fight a present danger."

Some of these new tools help us fight money laundering and terrorist financing. They are concentrated in Title III of the Act.

There are many important new tools in Title III. I will focus on just one, the one which happens to be most relevant to your industry. That tool is

Section 352, which directs the Treasury to require "financial institutions" to create, implement, and test anti-money laundering programs.

Congress has defined the term "financial institution" very broadly. It was defined well before the PATRIOT Act to include banks, credit unions, securities firms, futures firms, insurance companies, finance companies, casinos, vehicle sellers, pawn brokers, travel agents, telegraph companies, real estate settlements and closings firms, the U.S. Postal Service, and, of course, dealers in precious metals, precious stones and jewels. In case it missed anybody, Congress also gave the Secretary of the Treasury the authority to deem additional businesses "financial institutions."

Prior to the PATRIOT Act, the Treasury had the discretion to issue anti-money laundering regulations for any of these financial institutions, so long as an administrative record to support such regulations. What is new under the PATRIOT Act is that the Treasury is now obligated, not just authorized, to issue anti-money laundering regulations for this wide array of financial institutions. In other words, Congress has made the determination that money laundering regulations should be imposed on every "financial institution."

The breadth of Title III of the PATRIOT Act generally and Section 352 specifically reflects a recognition by Congress that criminals are opportunistic. They seek the path of lowest resistance to laundering their money. As we improve the controls in one avenue, such as banks, they will turn to other avenues, such as precious metals or gems. Success in one industry will drive criminals toward another industry. For a regulatory approach to fighting money laundering to be successful, therefore, we must adopt a comprehensive approach.

As mentioned, Congress gave Treasury much of the responsibility to implement Title III of the Act. Since the passage of the Act we have promulgated final or proposed rules requiring anti-money laundering programs for a wide array of financial institutions including securities and futures firms, mutual funds, money service businesses, credit card systems operators, unregistered investment companies, investment advisors, commodity trading advisors, life insurance and annuity companies, and, of course, jewelers.

While the specifics of such regulations vary from industry to industry, the required anti-money laundering programs must each have four common elements:

1.a written anti-money laundering program;

2.the designation of one or more individuals to head the program and to provide guidance to other employees on the program and to oversee its implementation;

3.training for employees; and

4.independent testing of the program to ensure that it is operating appropriately and effectively.

Not long after the passage of the Act, we reached out to your industry, and found in you partners ready, willing and able to shoulder this common burden. All parts of the industry, from manufacturers, to retailers, and from gold, silver, and platinum group metals, from diamonds to colored stones dealers, all were extremely helpful and gracious as we learned, and

continue to learn about this varied and fascinating industry.

As you know, we published a proposed regulation, and received many helpful comments, which we are continuing to examine. I cannot comment on our specific thoughts regarding those comments and the shape of the final rule. But I can say that your input will be evident in the final rules. We are grateful for your comments.

I can also say that we have learned lessons in applying our regulations to a diverse array of financial institutions. In my experience, these lessons apply generally, whether you are talking about regulating banks, credit unions, broker-dealers, mutual funds, commodity futures merchants, money transfer businesses, or jewelers. I wish to speak to three such lessons.

Diversity

First, we have learned the incredible diversity of the industries we regulate. I have already spoken to horizontal diversity, the diversity of the different industries we now regulate. As mentioned, we have taken steps to recognize this diversity in the rules that we have made for each industry. A dealer in colored stones operates very differently from a bank, an insurance company, or a settler of commercial real estate deals. We recognize that important differences exist and seek to tailor our regulations to the realities of each industry.

We have also sought to recognize this horizontal diversity in other ways. For example, we recently expanded the Bank Secrecy Act Advisory Group to include many industries that are newly regulated under the Bank Secrecy Act. This Advisory Group was established by Congress to provide the Secretary of the Treasury with the expertise, views, and perceptions of the regulated community. In October, the Director of the Financial Crimes Enforcement Network hosted the first meeting of the reconstituted Advisory Group. The membership is now much more diverse. It includes, for example not only representatives from depository institutions and their regulators, but also representatives from securities firms, commodities firms, insurance firms, money transfer businesses, casinos, and others.

In addition to horizontal diversity across industries, there is vertical diversity within industries. For example, we regulate money center banks in Manhattan and community banks in Oberlin, Ohio. We regulate the Pentagon Federal Credit Union, with over $5 billion under management, and credit unions operating one day a week out of a church basement. Vertical diversity is particularly evident in the jewelry industry. For example, jewelers include retailers as large as Wal-Mart or as rarified as Tiffany and Company. Jewelers include small businessmen and women operating one or two room shops to wholesalers with fully integrated operations from extraction to sale. Jewelers include dealers in precious gems and precious metals. Broadly conceived, jewelers include those whose products are used for ornament and those whose products are used for industrial purposes.

Our proposed regulations for jewelers recognize this vertical diversity in several ways. For example, they recognize that dealers in industrial diamonds or industrial sapphires are less likely to be used by money launderers than gem quality stones. As another example, our proposed regulations recognize that many retailers sell jewelry as an incidental line of business or as a hobby. Accordingly, the proposed regulations exempt from compliance those who do $50,000 or less in jewelry business a year.

In addition, our proposed regulations allow individual firms to tailor their anti-money laundering programs to the specific risks they face and to the specific nature of their businesses. For example, the program for a small two-person business will generally be different from the program of a large business with thousands of employees. As another example, although it is required that you designate one or more individuals as responsible for the program, it is not required as a general matter that this program be a full-time position. Of course, in large enterprises with significant levels of money laundering risk it may be, but in most cases this will represent a fraction of someone's duties, especially once the program is up and running. In brief, the level and quality of your efforts should be commensurate with the money laundering risks that exist. In other words, you should first stratify your money laundering risk and then act accordingly.

Focus

A second lesson we have learned is that there is a danger that overly-prescriptive regulation will change the focus from the people we are trying to stop - criminals - to the people we need to stop them - honest financial institutions. Overly prescriptive or inflexible regulations focus attention on complying with the regulations, rather than on stopping money laundering. Bad regulation can result in honest businesses being more concerned about the legal risks they face for not complying with some aspect of our regulations than about the risk that their businesses will be victims of money launderers or terrorist financiers. If that happens, we lose. The stakes are too high, to take our eyes off the ball. There are people out there who are trying to kill us and our allies. The moment you start worrying more about government bureaucrats than criminals, we have got you worried about the wrong thing. You are our biggest ally in this fight. You are on the front lines. We need you focused on stopping people from using your business to finance terror.

Guidance & Feedback

Third, in all your efforts to stop the potential for criminal abuse of your businesses, you need and deserve quality guidance and feedback from the government. We recognize that one of our tasks is to help you to identify how criminals are targeting your industry and how your efforts are making a difference. Such information is vital if you are to guard against money laundering abuse effectively. We also recognize that we cannot expect you all to become anti-money laundering experts. You have a right to the anti-money laundering expertise that exists in the government so that your efforts can be better focused, more useful, and ultimately more effective. Accordingly, we have made an effort to issue questions and answers along with our regulations. This is part of our statutory obligation to issue a staff commentary with our regulations. We need to issue such commentary more systematically. We are also working to share information in other ways. For example, we indicated our willingness to offer staff views on industry best practices, with an emphasis on providing what we know about money laundering abuse. We are open to any ideas from any industry on how we can maximize the quality as well as the quantity of such information sharing.

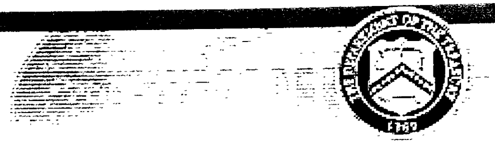
Conclusion

It is regrettable that criminals seek to exploit your businesses. Fortunately, we are prepared to meet them. Congress gave us the tools. But, as

importantly, you gave us your trust. That was crucial. It made it possible for us to work together to calibrate anti-money laundering regulations to maximize their effectiveness and minimize their burdens on you and your customers.

I know that many of you have already begun the effort to establish your anti-money laundering programs, and I commend those efforts. By the time we formally promulgate an anti-money laundering program requirement, many of you will already have such systems in place, due in part to training such as this conference. As a result, your employees will already be effectively watching for money laundering abuse.

Thank you for your vigilance. Thank you for this opportunity to speak with you today. Specifically, Cecilia Gardner, thank you for your kind invitation.



PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 11, 2003
JS-991

U.S. Treasury Secretary John W. Snow
Remarks to Center for Energy and Economic Development Board Dinner
November 11, 2003
Scottsdale, Arizona

Good evening. It is my pleasure to join you for dinner tonight to speak to you about two very important, and closely related subjects: energy and the economy. I'll take the second part first, if you don't mind, because I see energy as a key component of an overall economic development strategy.

Before I begin, I bring greetings from Spencer Abraham, our Energy Secretary, and my close friend on the cabinet. He is an exceptional spokesman for the President on energy policy. He has shown real leadership on energy issues, and he is at the forefront of our efforts to work with Congress on the energy legislation presently before Congress.

First, let's talk about the state of the economy. It's doing better. When you consider what this country has gone through in the past three years, the body blows of a recession, terrorist attacks, a bursting bubble, and a rash of corporate scandals, it's quite amazing that the economy is growing at its current pace. That's a real testament to the strength of President Bush's economic leadership, to the flexibility of the American economic system, and the perseverance and industry of the American people.

Let me point out a couple specific indications of growth: last week the Department of Labor reported that our economy added 126,000 new jobs in October. And over the past three months, there were 286,000 new jobs. The unemployment rate fell to 6 percent. The four-week average for jobless claims has declined in six of the past seven weeks. And manufacturers reported that orders and shipments are both rising. This news comes one week after we heard that economic output rose at a 7.2 percent annual rate in the third quarter, the fastest pace of growth in nearly 20 years. ISM's manufacturing index advanced to 57.0 in October, its highest level since January 2000. The non-manufacturing index rose to 64.7, the second highest level on record. Factory shipments were up 1.4 percent in September and new orders by 0.5 percent. Construction expenditures rose 1.3 percent in September for a fourth increase in a row.

America's economy is getting stronger every day. American companies are investing. Americans are buying homes at a record pace, and homeownership is near record levels. Stock market values have risen, adding about $2 trillion in wealth for investors since the beginning of the year.

We can all be encouraged, but we cannot be satisfied. These are early signs of progress. Now we must turn this progress into broad and lasting gains for all Americans. The most important thing we can do to help those looking for work is to make sure our current economic growth results in more new jobs. President Bush has proposed a six-point economic plan to encourage companies to expand and hire workers.

I will get to that plan in a moment. First, however, I think its important to point out that this economic growth we are beginning to see didn't just happen by accident.

The President's Jobs and Growth Act passed in May, and it clearly provided the boost the economy needed to get back on track. In July, withholding tables were revised to show reduced marginal tax rates on income, and child tax credit checks went out in the mail. That lifted consumer spending.

The President's plan also increased bonus depreciation and quadrupled the expensing limit for small businesses, encouraging business investment. Dividend tax relief had a positive effect on the markets. In fact, equity prices have climbed about 30 percent since mid-March, improving financing conditions for businesses, and adding to household net worth.

Still, the labor markets aren't picking up as fast as we'd like to see. I can tell you that President Bush is not going to be satisfied with this recovery until every American who wants a job has got one. We're not sitting back watching the number roll in – we're out there making this economy better – making condition better for growth, investment, and job creation.

President Bush unveiled the aforementioned six-point plan to further strengthen this economy, and set us on a long-term path toward growth.

First, we are working to make health care more affordable and its costs more predictable, so employers can add new workers without also adding a large and uncertain burden of health care costs. We need to create an environment where health care spending is focused on providing high quality, high value care.

Second, we are working to prevent frivolous lawsuits from diverting money from job creation into legal battles. We also intend to ensure that when necessary lawsuits proceed, the settlements are paid to the victims, not the trial lawyers.

Third, we are working to build a more affordable, reliable energy system that can support the expansion of our economy. I'm going to dig into this one in a minute.

Fourth, we are streamlining regulations and needless paperwork requirements that reduce business productivity and deter growth.

Fifth, we are opening new markets to high value American products and bringing down prices for American consumers through trade agreements.

And sixth, we are working to make tax relief permanent, so businesses and families alike can plan for the future with confidence.

Now, let me dig into point three back there, on energy, because I know you're interested in that. Obviously, energy is a key sector in our economy. All the more important because our economy is getting back on track, and that's going to mean more demand for energy than ever before. Everything else we do relies on energy – nobody works when the lights are out and the car won't start.

The President's energy bill has been bouncing around in Congress for two years, and in the meantime we've seen all kinds of signs that we need to get that thing passed. We had the blackouts all through the Northeast this summer. We've had fluctuating gas and oil prices, trading on political situations in the Middle East. The energy bill is in conference now, final negotiations between the House and Senate, and we're urging them to get it to the President, with his proposals intact.

As the President succinctly put it a few weeks ago, "we need to encourage production, and we need to encourage conservation. We need to use energy resources we've got in an environmentally friendly way. And we need to advance new kinds of energy."

Here's an overview of the President's energy vision.

To keep our economy moving far into the future, we must have a sound national energy policy. Every person who owns a home, or works on an assembly line, or drives a truck, or runs a small business depends on affordable, reliable supplies of energy. Our economic security and our national security require secure sources of energy. Congress must pass a sound energy plan - and that plan must have a few key elements:

First, America needs more energy production close to home in our own country, in our own hemisphere so that we are less dependent on energy from unstable parts of the world. Our nation and our hemisphere are rich in clean-burning natural gas

but developing this resource has been hampered by restrictions on exploration. The Congress should allow responsible exploration, bring more gas to market, and lower costs for everyone. The Congress should promote research into next-generation nuclear plants and encourage investment in existing nuclear plants - to expand a clean and unlimited source of energy. And the Congress should encourage clean coal technology, so we can use our nation's most plentiful energy resource in an environmentally responsible way.

Let me touch on coal for a moment. Coal is our most abundant domestic energy resource and that we must ensure it has a strong future in our energy policy. This is why the Administration supports $2 billion over 10 years for clean coal technology to ensure a future for coal; new source review rulemakings which provided regulatory certainty that coal plants could engage in routine maintenance without triggering the application of unnecessary new source emissions controls; Clear Skies legislation that would reduce emissions of Nox, SO2 and Mercury while providing regulatory certainty; and a commitment to support a $1 billion public-private partnership to design, build and operate a virtually emissions-free, coal-fired, electricity and hydrogen plant.

Second, America has an immediate need for better infrastructure pipelines, gas terminals, and power lines - so that the flow of energy is reliable. The current grid is old and inefficient - but Federal laws actually discourage new investment in infrastructure, by keeping many investors from entering the electric or natural gas business. The Congress needs to encourage new investment in a modern electric grid by ending those rules, which are nearly seven decades old. We need mandatory - not voluntary -- reliability standards for our power companies. Right now,

the placement of new power lines often gets bogged down because local authorities can block transmission wires which would go through their states. The Congress should give Federal energy officials the authority to site new power lines when necessary - so we can create a reliable, national transmission grid.

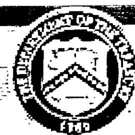
Third, America must develop and deploy the latest technology to provide a new generation of cleaner and more efficient energy sources. A lot of companies are doing this ground-breaking research – and we need more of it. The Congress should expand tax credits for renewable energy sources like wind and solar power. The Congress should fund new research into hydrogen fuel technology - engines that run on hydrogen, and produce water, not exhaust fumes. We should encourage fuels made from renewable sources, such as corn. We would much rather replace oil from the Middle East with farm products that come from the heartland of America. In all these ways, we can grow our economy and clean our environment at the same time.

Both the House and Senate have passed energy bills that include these proposals. Now they need to iron out their differences and send the President a bill. Our economy and our country have waited long enough. The President sent the Congress a comprehensive energy plan more than two years ago. And two years later, our energy challenges are only more difficult. The Congress should not wait for further blackouts and price spikes before they act. For the sake of our economic security, for the sake of American jobs and workers, the Congress should finalize a comprehensive energy bill and take action this year to make America less dependent on foreign sources of energy.

Thanks again for inviting me to Scottsdale. It's been a pleasure to see all of you. It's an exciting time for the U.S. economy, and it's my privilege to share the President's vision with you.

-30-

PRESS ROOM



FROM THE OFFICE OF PUBLIC AFFAIRS

November 12, 2003
JS-993

U.S. Designates 15 Members of Italian Al-Qaida Cell
Designation Comes in Response to the Submission by Italy of These Individuals to the UN

WASHINGTON – Today the U.S. Treasury Department announced the November 10th designation of fifteen individuals as terrorists. This action comes in support of the submission by Italy of these individuals to be listed as terrorists by the United Nations.

The individuals are designated for their involvement in Al Qaida terrorist cells in Milan, Cremona, and Parma. According to documents provided by the Italian government, the fifteen individuals have helped illegal immigration to Italy, and have provided financial and material support for terrorist activities in Italy and elsewhere in Europe. Some of the fifteen have also recruited volunteers for military camps in Iraq, organized by the Ansar al Islam group. The Italian government has frozen the assets of these individuals within Italy. Most of the fifteen are already in the custody of Italian authorities.

The action follows from obligations to freeze the assets of individuals and organizations pursuant to UN Security Council Resolutions and is consistent with the Financial Action Task Force's Special Recommendation III on Terrorist Financing. These names are being submitted by Italy for listing by the UN, which will mean that all Member States are required to freeze the assets of those listed and to bar cross-border travel. Although the UN listing is still pending, the U.S. has determined that these individuals meet the standards for designation.

With the action, the U.S. and our international partners have designated 342 individuals and organizations as terrorists and terrorist supporters and have frozen over $136.8 million and seized more than $60 million in terrorist-related assets.

Related Documents:

- A fact sheet providing further details, including the names of the 15 individuals

U.S. Treasury
Office of Public Affairs

FACT SHEET

Designation of 15 Individuals Tied to an Al Qaida Cell in Italy

Since 1999, Italian law enforcement agencies, have conducted several terrorist related investigations in order to expose terrorist cells linked with Al Qaida and operating in Italy. The Tribunale Ordinario di Milano has found all fifteen individuals listed below to be involved in Al Qaeda-related criminal activities and members of terrorist cells located in Milan, Cremona, and Parma. According to information provided by the Italian government, the fifteen individuals have helped illegal immigration to Italy and provided financial and material means for terrorist activities in Italy and Europe. Some of the fifteen have also recruited volunteers for military camps in Iraq, organized by the Ansar Al Islam group.

The Italian government has frozen the assets of these individuals within Italy. Most of the fifteen are already in the custody of Italian authorities. All are charged with participating in crimes such as the following:

- Fabricating, receiving, providing, and hiding forged documents to be used by individuals in order to reach military camps in Iraq and to move throughout Europe in order to maintain contacts with other transnational cells and to assist illegal immigrants in entering Italy and the European Union;
- Recruiting individuals for training in military camps, mainly in Iraq;
- Collecting money for terrorist-related activities;
- Organizing actions to carry out the terrorist cell's plans;
- Planning to commit international terrorist activities in Italy and Europe;
- Providing terrorists living in European and Middle-East countries with forged documents;
- Maintaining contacts throughout Europe, the Middle-East, and Western Asia - in Pakistan, Iran, Yemen, Iraq, Malaysia, Afghanistan;
- Sharing religious and extremist ideals; and
- Providing cell members with weapons and explosives.

As participants of the cells in Italy, each of the 15 individuals has acted for or on behalf of Al Qaeda. In particular, some have acted for or on behalf of Ahmed Fadhil Nazar AL-KHALAYLEH (a.k.a. Abu Mussab AL-ZARQAWI), a terrorist leader with close operational ties to Al Qaeda, who was designated by the United States government on September 23, 2003, and has also been designated by the UN 1267 Sanctions Committee. Some of the following individuals has assisted or provided financial, material or other support or services to or in support of Zarqawi's terrorist activities.

The Milan-based terrorist cell, organized and headed by El Ayashi, functioned as an associative structure within the transnational terrorist organization led by Zarqawi. The cell was involved in forging passports, collecting donations, and facilitating the illegal entry and departure of recruits into and out of Italy to combat coalition forces in Iraq. In addition, this cell recruited "brothers" to send to Iraq via Syria to the camps of Ansar Al Islam (a terrorist organization operating in Northern Iraq, linked to Al Qaeda, and designated by the United States Government and the UN). The Milan cell also had key individuals located in Parma and Cremona.

The cell included high-ranking Al Qaida operatives in direct contact with the organization's

leadership in Syria and Iraq. It supported itself with criminal activities with ramifications throughout Italy and across Europe. Their key activity was to issue forged identification, transit, and residency documents in order to aid individuals in other European countries, and even East Asia, to reach Western countries freely and securely. The cell was organized according to specific roles, with the firm intention to eventually strike imminently with acts of terrorism in different countries.

Some of the 15 individuals have acted for or on behalf of the following SDGT's, terrorist leaders designated for their close operational ties to Al Qaeda: Ramzi Mohammed Abdullah BINALSHIBH, a terrorist leader responsible for planning the September 11 attacks and with close operational ties to Al Qaeda, who was designated on September 30, 2002; Sami Ben Khemais ESSID, designated on April 19, 2002; Es Sayed Abdelkader MAHMOUD, was designated on April 19, 2002; Tarek MAAROUFI, designated on August 29, 2002; Mokhtar BOUCHOUCHA, designated on April 19, 2002; Abdel RAHMAN, designated on October 12, 2001; Abdelkader Mahmoud ES SAYED, designated on April 19, 2002; Adel Ben SOLTANE, designated on August 29, 2002.

Individuals

1.	**EL AYASHI, Radi Abd El Samie Abou El Yazid (POB: Egypt)**
2.	**CABDULLAAH, Ciise Maxamed (POB: Somalia)**
3.	**HAMMID, Mohammed Tahir (POB: Iraq)**
4.	**MOSTAFA, Mohamed Amin (POB: Iraq/Kurdish)**
5.	**MOHAMED, Daki (POB: Morocco)**
6.	**AL SAADI, Faraj Farj Hassan (POB: Libya)**
7.	**SAADI, Nassim (POB: Tunisia)**
8.	**BEN ABDELHAKIM, Cherif Said (POB: Tunisia)**
9.	**RIHANI, Lotfi (POB: Tunisia) – Wanted by the Italian authorities**
10.	**BOUYAHIA, Hamadi (POB: Morocco)**
11.	**ROUINE, Lazher Ben Khalifa Ben Ahmed (POB: Tunisia)**
12.	**ZARKAOUI, Imed Ben Mekki (POB: Tunisia)**
13.	**TRABELSI, Mourad (POB: Tunisia)**
14.	**HAMRAOUI, Kamel Ben Mouldi (POB: Tunisia)**
15.	**DRISSI, Noureddine (POB: Tunisia)**

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
November 12, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 4-WEEK BILLS

Term: 28-Day Bill
Issue Date: November 13, 2003
Maturity Date: December 11, 2003
CUSIP Number: 912795PA3

High Rate: 0.890% Investment Rate 1/: 0.903% Price: 99.931

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 51.17%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 39,981,891	$ 13,959,651
Noncompetitive	40,460	40,460
FIMA (noncompetitive)	0	0
SUBTOTAL	40,022,351	14,000,111
Federal Reserve	2,555,600	2,555,600
TOTAL	$ 42,577,951	$ 16,555,711

Median rate 0.880%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 0.850%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 40,022,351 / 14,000,111 = 2.86

1/ Equivalent coupon-issue yield.

JS 994

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 12, 2003
JS-~~994~~
995

Remarks By Treasury Secretary John Snow
To The Albuquerque Chamber Of Commerce
Albuquerque, New Mexico
November 12, 2003

Last week we heard some good news about the effects of tax relief on the American economy. The Department of Labor reported that our economy added 126,000 new jobs in October. And over the past three months, there were 286,000 new jobs. The unemployment rate fell to 6 percent. The four-week average for jobless claims has declined in six of the past seven weeks. And manufacturers reported that orders and shipments are both rising.

This news comes one week after we heard that economic output rose at a 7.2 percent annual rate in the third quarter, the fastest pace of growth in nearly 20 years. ISM's manufacturing index advanced to 57.0 in October, its highest level since January 2000. The non-manufacturing index rose to 64.7, the second highest level on record. Factory shipments were up 1.4 percent in September and new orders by 0.5 percent. Construction expenditures rose 1.3 percent in September for a fourth increase in a row.

America's economy is getting stronger every day. American companies are investing. Americans are buying homes at a record pace, and homeownership is near record levels. Stock market values have risen, adding about $2 trillion in wealth for investors since the beginning of the year.

New Mexico's economy is changing, becoming much more diversified, with more high-tech production and tourism. Although New Mexico's unemployment rate is 6.1 percent, the same as the national average (as of September), the jobless rate did not increase as much in New Mexico as it did nationally. In fact, employment has increased in the past few years and the unemployment rate is lower than it was in some of the national boom years of the late 1990s. According to the New Mexico Department of Labor, construction is now the state's fastest growing industry, having not long ago been one of the state's weakest. As of September 2003, employment in the construction industry was up 6.6 percent from a year ago.

We can all be encouraged, but we cannot be satisfied. These are early signs of progress. Now we must turn this progress into broad and lasting gains for all Americans.

The most important thing we can do to help those looking for work is to make sure our current economic growth results in more new jobs. President Bush has proposed a six-point economic plan to encourage companies to expand and hire workers. We must bring health care costs under control, reform our civil courts to end the junk lawsuits hurting small businesses, cut needless regulations so that small business owners can focus on pleasing their customers, instead of pleasing bureaucrats. We must pass a national energy policy to ensure an affordable and reliable supply of energy to our economy, promote free trade agreements that bring good jobs to America, and make tax relief permanent, so the gains we have seen do not disappear when tax relief is scheduled to go away.

To turn this six point plan for job creation into reality, we need to work with Congress. Let me close by saying it's an honor to work closely with Congresswoman Heather Wilson. Heather is an important ally to me, as well as the President, as we work to implement his agenda to strengthen the economy and create jobs.

The tax relief of the past two years was based on a principle that when Americans keep more of their own earnings, they spend more and invest more and move the economy forward. We're now seeing that happen. Our economy is on a rising road, and now we must take the remaining steps to ensure that our economy becomes a lasting expansion, and our prosperity extends to every corner of America.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 11:00 A.M.
November 10, 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 $15,001 million of publicly held 4-week Treasury bills maturing November 13, 2003, and to pay down approximately $1,001 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 $13,664 million of the Treasury bills maturing on November 13, 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.

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

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

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

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

oOo

Attachment

JS 996

HIGHLIGHTS OF TREASURY OFFERING
OF 4-WEEK BILLS TO BE ISSUED NOVEMBER 13, 2003

November 10, 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.................... $11,500 million

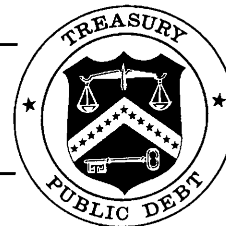
Description of Offering:
Term and type of security..........28-day bill
CUSIP number........................912795 PA 3
Auction date........................November 12, 2003
Issue date..........................November 13, 2003
Maturity date.......................December 11, 2003
Original issue date.................June 12, 2003
Currently outstanding...............$44,800 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 11:00 a.m. eastern standard time on auction day
Competitive tenders:
Prior to 11:30 a.m. eastern standard time on auction day

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

PUBLIC DEBT NEWS



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

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

FOR IMMEDIATE RELEASE
November 12, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Interest Rate:	3 3/8%	Issue Date:	November 17, 2003
Series:	K-2008	Dated Date:	November 15, 2003
CUSIP No:	912828BQ2	Maturity Date:	November 15, 2008

High Yield: 3.430% Price: 99.749

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 65.74%. All tenders at lower yields were accepted in full.

Accrued interest of $ 0.18544 per $1,000 must be paid for the period from November 15, 2003 to November 17, 2003.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

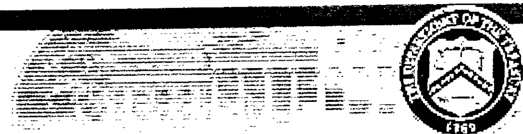
Tender Type	Tendered	Accepted
Competitive	$ 36,184,290	$ 15,815,650
Noncompetitive	184,383	184,383
FIMA (noncompetitive)	0	0
SUBTOTAL	36,368,673	16,000,033 1/
Federal Reserve	2,178,499	2,178,499
TOTAL	$ 38,547,172	$ 18,178,532

Median yield 3.400%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 3.300%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 36,368,673 / 16,000,033 = 2.27

1/ Awards to TREASURY DIRECT = $110,487,000

JS 997



FROM THE OFFICE OF PUBLIC AFFAIRS

November 12, 2003
2003-11-12-15-22-22-20942

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 $83,554 million as of the end of that week, compared to $83,947 million as of the end of the prior week.

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

	October 31, 2003			November 7, 2003		
TOTAL		83,947			83,554	
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	7,729	14,287	22,016	7,676	14,392	22,039
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,642	2,870	15,512	12,534	2,891	15,425
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
2. IMF Reserve Position [2]			23,397			23,179
3. Special Drawing Rights (SDRs) [2]			11,979			11,867
4. Gold Stock [3]			11,043			11,043
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	October 31, 2003			November 7, 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

	October 31, 2003			November 7, 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

November 12, 2003
JS-998

Treasury Department Names William Fox as Director of The Financial Crimes Enforcement Network

Secretary of the Treasury John W. Snow today announced the appointment of William J. Fox to be Director of the Financial Crimes Enforcement Network. Mr. Fox is currently the Acting Deputy General Counsel and Associate Deputy General Counsel where he has served as the principal assistant to the General Counsel on terrorist financing and money laundering issues.

"Mr. Fox's demonstrated skill as an attorney and manager, his extensive experience in financial enforcement issues, and his great working relationship with the law enforcement, intelligence and financial regulatory communities will be a tremendous asset as the Treasury Department cracks down on financial crimes across the country and around the world," said Secretary Snow.

Mr. Fox has served in the Office of the General Counsel at the Department of the Treasury since December 2000, in several positions including Deputy Assistant General Counsel for Enforcement and Senior Advisor to the General Counsel. From 1988 to 2000, Fox served at the Bureau of Alcohol, Tobacco and Firearms, first as an Attorney in the Bureau's Chicago Office, then as Senior Counsel for Alcohol and Tobacco and finally as Deputy Chief Counsel. Mr. Fox received both his Bachelor's degree and Law degree from Creighton University in Omaha, Nebraska.

Mr. Fox's appointment will be effective December 1, 2003, upon the departure of current Director James F. Sloan.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 13, 2003
JS-999

U.S Treasury Secretary John W. Snow
Keynote Address to the Tax Foundation
November 13, 2003
Washington, DC

Good afternoon. It's a pleasure to join the Tax Foundation today. Your tireless efforts to educate the public about America's tax burden have made a big difference here in Washington, and throughout the fifty states. Our tax policies are better for it, and our economy is stronger.

Let's talk about the state of the economy. Thanks in part to the President's tax policies, it's doing a lot better lately. When you consider what this country has gone through in the past three years, the body blows of a recession, terrorist attacks, a bursting bubble, and a rash of corporate scandals, it's quite amazing that the economy is growing at its current pace. That's a real testament to the strength of President Bush's economic leadership, to the flexibility of the American economic system, and the perseverance and industry of the American people.

Let me point out a couple specific indications of growth: last week the Department of Labor reported that our economy added 126,000 new jobs in October. And over the past three months, there were 286,000 new jobs. The unemployment rate fell to 6 percent. The four-week average for jobless claims has declined in six of the past seven weeks. And manufacturers reported that orders and shipments are both rising. This news comes one week after we heard that economic output rose at a 7.2 percent annual rate in the third quarter, the fastest pace of growth in nearly 20 years. ISM's manufacturing index advanced to 57.0 in October, its highest level since January 2000. The non-manufacturing index rose to 64.7, the second highest level on record. Factory shipments were up 1.4 percent in September and new orders by 0.5 percent. Construction expenditures rose 1.3 percent in September for a fourth increase in a row.

America's economy is getting stronger every day. American companies are investing. Americans are buying homes at a record pace, and homeownership is near record levels. Stock market values have risen, adding about $2 trillion in wealth for investors since the beginning of the year.

We can all be encouraged, but we cannot be satisfied. These are early signs of progress. Now we must turn this progress into broad and lasting gains for all Americans. The most important thing we can do to help those looking for work is to make sure our current economic growth results in more new jobs.

President Bush has proposed a six-point economic plan to encourage companies to expand and hire workers. I will get to that plan in a moment. First, however, I think it's important to point out that this economic growth we are beginning to see didn't just happen by accident.

The President's Jobs and Growth Act passed in May, and it clearly provided the boost the economy needed to get back on track. In July, withholding tables were revised to show reduced marginal tax rates on income, and child tax credit checks went out in the mail. That lifted consumer spending.

The President's plan also increased bonus depreciation and quadrupled the expensing limit for small businesses, encouraging business investment. Dividend tax relief had a positive effect on the markets. In fact, equity prices have climbed about 30 percent since mid-March, improving financing conditions for businesses,

and adding to household net worth.

Now, consider the situation we might have without the President's tax plans. The Treasury Department ran an analysis on that scenario, and the results were stark. Without the passage of the President's plans, by the second quarter in 2003, the unemployment rate would have been nearly 1 percentage point higher. As many as 1.5 million fewer Americans would be working, and real GDP would have been as much as 2 percent lower.

What's more, without the President's tax cuts, it is likely that by the end of 2004 the unemployment rate would be as much as 1.6 percentage points higher than it will be. 3 million fewer Americans would be working, and real GDP would be as much as 3.5 to 4 percent lower.

Still, the labor markets aren't picking up as fast as we'd like to see. I can tell you that President Bush is not going to be satisfied with this recovery until every American who wants a job has got one. We're not sitting back watching the numbers roll in – we're out there making this economy better – making conditions better for growth, investment, and job creation.

President Bush has unveiled a six-point plan to further strengthen this economy, and set us on a long-term path toward growth. Several of the planks are tax-related.

First, we are working to make health care more affordable and its costs more predictable, so employers can add new workers without also adding a large and uncertain burden of health care costs. We need to create an environment where health care spending is focused on providing high quality, high value care.

Second, we are working to prevent frivolous lawsuits from diverting money from job creation into legal battles. We also intend to ensure that when necessary lawsuits proceed, the settlements are paid to the victims, not the trial lawyers.

Third, we are working to build a more affordable, reliable energy system that can support the expansion of our economy. I'm going to dig into this one in a minute.

Fourth, we are streamlining regulations and needless paperwork requirements that reduce business productivity and deter growth.

Fifth, we are opening new markets to high value American products and bringing down prices for American consumers through trade agreements.

And sixth, we are working to make tax relief permanent, so businesses and families alike can plan for the future with confidence.

I would say that the fourth and sixth points are tax related. That is, streamlining regulatory burdens and making the tax cuts permanent.

The complexities of tax law compliance are among the toughest regulatory burdens in our economy. I can't think of any other kind of paperwork that puts a greater crimp in job creation than the many thousand page brick of the tax code and the productive resources that are wasted on complying with its rules. In other words, excessive taxes reduce investment in our economy, but so do the excessive burdens of complying with those tax laws.

Over the years, we have enacted both minor changes and major overhauls of our tax laws. We have grafted on more and more components to the point that the cost of complying with the tax laws – just on the individual side – is at least $70 billion. That doesn't count the cost of businesses' complying or the cost of the IRS' administering it.

Some of the changes reflect an increasingly complicated world. But many do not. Whatever the case, we have paid insufficient attention to the costs we impose on society – the business world, in particular – in complying with the tax laws.

In the tax world, we have done the opposite of what the business world has done to

increase productivity. While the business world has simplified to increase productivity, in the tax world, we've complicated things. While the business world has taken every process down to its constituent parts and cut out the inefficiencies, the points of friction that prevent the most streamlined operation and the standardization of transactions, we keep adding complexity in the tax world. The result is an ever-increasing regulatory burden. More paperwork. Less output.

One area where we intend to take action to lighten regulatory burdens is on simplified retirement savings rules. Retirement account regulations are among the most complex in our tax code. As Assistant Secretary for Tax Policy Pam Olson has pointed out, in 1982, the IRS publication explaining individual retirement accounts was 12 pages long. Now it is 104 pages long. Today, there are six different savings accounts with confusing and seemingly endless rules. The direct result is that the tax code makes it more difficult for Americans to save for retirement, or save for other key life events, such as education, health care, and unexpected emergencies.

Last February, as part of the President's budget, he proposed two simple accounts – retirement savings accounts and lifetime savings accounts – that will make saving for everyday life and retirement security easier and more attractive. This simplification will encourage Americans to save more for their future, and thereby invest more in our economy.

Another key area where the six point plan hits tax policy is point six: making tax relief permanent. Nothing will kill our prosperity faster than a repeal of the President's tax relief, which is scheduled to happen at the end of this decade if we don't take action now.

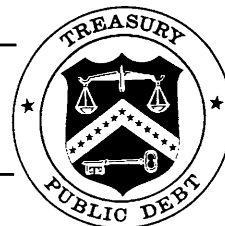
Consider this: if the 2001 and 2003 tax relief acts were to expire now, it would raise taxes by an average of $1,544 for 109 million taxpayers in 2003.

One of the key elements of making tax relief permanent is making permanent the repeal of the death tax. The death tax falls on income that has already been taxed, sometimes twice before. It forces the destruction of thousands of small family businesses, and it discourages work, savings and asset-accumulation. It diverts resources into tax avoidance and enforcement that could be spent in economically productive activities. And in the end, studies show, it may all be a wash. It costs the government as much as it collects.

We're looking forward to working with the Tax Foundation to continue to get smart tax policies enacted. Thanks again for keeping American taxpayers educated about the tax laws and their government. We appreciate your support.

PUBLIC DEBT NEWS

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



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

FOR IMMEDIATE RELEASE
November 13, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 10-YEAR NOTES

Interest Rate:	4 1/4%	Issue Date:	November 17, 2003
Series:	E-2013	Dated Date:	November 15, 2003
CUSIP No:	912828BR0	Maturity Date:	November 15, 2013

High Yield: 4.360% Price: 99.116

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 70.60%. All tenders at lower yields were accepted in full.

Accrued interest of $ 0.23352 per $1,000 must be paid for the period from November 15, 2003 to November 17, 2003.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 32,172,507	$ 16,844,417
Noncompetitive	155,610	155,610
FIMA (noncompetitive)	0	0
SUBTOTAL	32,328,117	17,000,027 1/
Federal Reserve	1,633,874	1,633,874
TOTAL	$ 33,961,991	$ 18,633,901

Median yield 4.330%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 4.300%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 32,328,117 / 17,000,027 = 1.90

1/ Awards to TREASURY DIRECT = $91,007,000

JS 1000

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 11:00 A.M.
November 13, 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 $31,828 million of publicly held 13-week and 26-week Treasury bills maturing November 20, 2003, and to raise new cash of approximately $172 million. Also maturing is an estimated $17,000 million of publicly held 4-week Treasury bills, the disposition of which will be announced November 17, 2003.

The Federal Reserve System holds $14,581 million of the Treasury bills maturing on November 20, 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 November 18, 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 $990 million into the 13-week bill and $757 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

JS 1001

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED NOVEMBER 20, 2003

November 13, 2003

Offering Amount	$16,000 million	$16,000 million
Maximum Award (35% of Offering Amount)	$ 5,600 million	$ 5,600 million
Maximum Recognized Bid at a Single Rate	$ 5,600 million	$ 5,600 million
NLP Reporting Threshold	$ 5,600 million	$ 5,600 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 PL 9	912795 PZ 8
Auction date	November 17, 2003	November 17, 2003
Issue date	November 20, 2003	November 20, 2003
Maturity date	February 19, 2004	May 20, 2004
Original issue date	August 21, 2003	November 20, 2003
Currently outstanding	$21,725 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

November 14, 2003
JS-1002

Statement by Treasury Secretary John Snow Following today's meeting of the President's Working Group on Financial Markets

"One of the issues we discussed today were the reports about improprieties in the mutual fund industry. Given the mutual fund industry's substantial contribution to financial markets, it is critical that the working group be kept up-to-date on reform efforts in this area. Chairman Donaldson briefed the other members of the working group on the status of the Commission's ongoing review and anticipated policy reforms of the mutual fund industry. More than 54 million Americans households use mutual funds as an effective way to invest and save for their families and their futures. Mutual funds are an important part of our vision for an ownership society. If any insider in the mutual fund business engaged in improprieties to the detriment of hard-working investors, they should be held to account. Chairman Donaldson at the SEC is very focused on cracking down on wrongdoing . I am confident that the reforms he has initiated will help to protect mutual fund investors, and that wrongdoers will be punished to the fullest extent of the law."

Background on the President's Working Group on Financial Markets

The President's Working Group on Financial Markets (the "Working Group") was established by Executive Order 12631 in March 1988 in response to the stock market crash in October 1987. The chairman of the Working Group is the Secretary of the Treasury, and the other members are the chairmen of the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission, and the Commodity Futures Trading Commission.

The Working Group issued its report on the 1987 market crash in May 1988, and conducted follow-up work in 1991. The Working Group did not meet regularly in the early 1990s and was relatively inactive until 1994, when it was reactivated by then-Secretary Bentsen.

Although the Working Group was created originally to address issues related to the 1987 stock market crash, it now serves as a forum through which the participating agencies exchange information on and coordinate regulatory policy regarding U.S. financial markets more generally. For example, the Working Group has drafted and proposed legislation designed to improve financial contract netting, and it has written reports and developed recommendations on circuit breakers, hedge funds, and over-the-counter derivatives markets. It also is a forum used to exchange information during market turmoil through ad hoc conference calls and meetings.

federal financing bank NEWS
WASHINGTON, D.C. 20220

FEDERAL FINANCING BANK

2003 PRESS RELEASE

November 2003

Brian Jackson, Chief Financial Officer, Federal Financing Bank (FFB) announced the following activity for the month of November 2003.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $32.1 billion on November 30, 2003, posting a decrease of $427.5 million from the level on October 31, 2003. This net change was the result of a decrease in holdings of agency debt (U.S. Postal Service) of $612.4 million and a net increase in holdings of government-guaranteed loans of $184.9 million. The FFB made 44 disbursements and received 7 prepayments during the month of November.

Below are tables presenting FFS November loan activity and FFB holdings as of November 30, 2003.

FEDERAL FINANCING BANK
November 2003 ACTIVITY

JS-1003

wer	Date	Amount of Advance	Final Maturity	Interest Rate	Semi-Annually Quarterly
CY DEBT					
OSTAL SERVICE					
ostal Service	11/17	$226,800,000.00	11/18/03	1.051%	Semi-Annually
ostal Service	11/21	$694,000,000.00	11/24/03	1.061%	Semi-Annually
ostal Service	11/24	$941,000,000.00	11/25/03	1.051%	Semi-Annually
ostal Service	11/25	$609,000,000.00	11/26/03	1.051%	Semi-Annually
ostal Service	11/26	$506,000,000.00	11/28/03	1.061%	Semi-Annually
'ostal Service	11/28	$850,000,000.00	12/1/03	1.092%	Semi-Annually
'ostal Service	11/28	$287,600,000.00	12/1/03	1.081%	Semi-Annually
:RNMENT-GUARANTEED LOANS					
:RAL SERVICES ADMINISTRATION					
rancisco OB	11/10	$60,008.19	8/1/2005	2.007%	Semi-Annually
OF EDUCATION					
Atlanta University	11/25	$10,219,482.71	1/1/2011	3.039%	Semi-Annually
Atlanta University	11/25	$13,681,385.32	7/1/2004	1.094%	Semi-Annually
stone College	11/25	$131,699.28	7/1/2031	4.881%	Semi-Annually
L UTILITIES SERVICE					
enburg Electric #882	11/03	$3,900,000.00	4/1/2024	5.005%	Quarterly
unty EMC #814	11/03	$1,700,000.00	12/31/2036	5.043%	Quarterly
Kentucky Power #2019	11/04	$25,000,000.00	1/3/2033	5.024%	Quarterly
iole Electric #679	11/5	$39,838,000.00	12/31/2019	4.333%	Quarterly
o Electric #653	11/06	$649,000.00	1/3/2034	5.035%	Quarterly
ngton Electric #655	11/06	$550,000.00	1/2/2035	5.054%	Quarterly
arroll E.M.C. #859	11/07	$6,193,000.00	1/3/2011	3.904%	Quarterly
Telephone Co. #719	11/07	$463,000.00	3/31/2004	1.009%	Quarterly
orne Elec. Coop. #2007	11/10	$1,236,000.00	12/31/2031	5.086%	Quarterly
r's Rural Elec. #2046	11/10	$1,000_,.000.00	3/31/2004	1.018%	Quarterly
ois Power #792	11/10	$1,150,000.00	1/2/2035	5.141%	Quarterly
ois Power #2020	11/10	$7,059,000.00	1/3/2033	5.107%	Quarterly
ck-Wood Elec. #842	11/12	$2,100,000.00	12/31/2036	5.180%	Quarterly
ye Power #2080	11/13	$23,470,000.00	12/31/2025	4.743%	Quarterly
ye Power #2081	11/13	$19,398,000.00	12/31/2025	4.743%	Quarterly

ɜntucky Power #2019	11/14	$25,000,000.00	1/3/2033	4.940%	Quarterly
e Elec. #843	11/18	$5,000.00	12/31/2035	4.901%	Quarterly
'adkin Elec. #852	11/18	$500,000.00	3/31/2004	0.988%	Quarterly
o Elec. #869	11/19	$1,285,000.00	1/3/2005	1.364%	Quarterly
ıha Elec. #616	11/20	$4,763,000.00	1/3/2034	4.916%	Quarterly
ıchian Elec. #748	11/20	$4,660,000.00	12/31/2031	4.871%	Quarterly
ɜt-Craven Elec #608	11/19	$1,296,000.00	12/31/2029	4.817%	Quarterly
rs Mutual Elec. Co. #898	11/20	$120,000.00	12/31/2036	4.969%	Quarterly
ıai Elec. #752	11/21	$2,600,000.00	12/31/2031	4.806%	Quarterly
te #475	11/21	$8,682,000.00	12/31/2025	4.722%	Quarterly
ıte #757	11/21	$6,015,000.00	12/31/2025	4.596%	Quarterly
ıte #2052	11/21	$32,694,000.00	I/03/34	4.860%	Quarterly
unty Electric #876	11/21	$1,000,000.00	3/31/2014	4.111%	Quarterly
ɔn County rural #609	11/24	$1,000,000.00	1/3/2034	4.836%	Quarterly
ıl Georgia Elec. #2010	11/25	$2,044,000.00	1/3/2012	3.887%	Quarterly
;entral Energy #660	11/25	$7,076,000.00	1/2/2035	4.921%	Quarterly
;entucky Power #2019	11/25	$25,000,000.00	1/3/2033	4.886%	Quarterly
sage Electric Coop. #815	11/26	$500,000.00	12/31/2036	4.921%	Quarterly

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FEDERAL FINANCING BANK HOLDINGS
November 2003
(in millions of dollars)

Program	***Federal Financing Nov. 30, 2003***	***Bank Holdings October 31, 2003***	***Monthly Net Change 11/1/03-11/30/03***	***Fiscal Year Net Change 10/1/03-11/30/03***
Agency Debt:				
U.S. Postal Service	$3,387.60	$4,000.00	($612.40)	($3,885.80)
Subtotal*	$3,387.60	$4,000.00	($612.40)	($3,885.80)
Agency Assets:				
FmHA-RDIF	$805.00	$805.00	$0.00	$0.00
FmHA-RHIF	$1,830.00	$1,830.00	$0.00	$0.00
Rural Utilities Service-CBO	$4,270.2	$4,270.2	$0.00	$0.00

Subtotal*	$6,905.20	$6,905.20	$0.00	$0.00
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	$1,673.10	$1,685.80	($12.70)	($15.40)
DoEd-HBCU+	$103.90	$79.80	$24.00	$24.60
DHUD-Community Dev. Block Grant	$1.30	$1.30	$0.00	($0.90)
DHUD-Public Housing Notes	$1,054.80	$1,133.20	($78.50)	($78.50)
General Services Administration+	$2,143.10	$2,147.20	($4.1)	($4.00)
DOI-Virgin Islands	$9.60	$9.60	$0.00	$0.00
DON-Ship Lease Financing	$607.50	$607.50	$0.00	$0.00
Rural Utilities Service	$16,127.20	$15,869.20	$257.90	$509.00
SBA-State/Local Development Cos.	$73.60	$75.40	($1.80)	($3.70)
DOT-Section 511	$3.10	$3.10	$0.00	$0.00
Subtotal*	$21,797.10	$21,612.20	$184.90	$431.10
Grand total*	**$32,089.90**	**$32,517.40**	**($427.50)**	**($3,454.70)**

figures may not total due to rounding; +does not include capitalized interest

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Last Updated on 1/22/04

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 14, 2003
JS-1089

U.S. - EU Cooperation on Financial Issues
Keynote Speech by Randal K. Quarles
U.S. Treasury Assistant Secretary for International Affairs
Armonk, NY
November 14, 2003

I am very pleased to join you this evening at the opening of the second annual symposium on Building the Financial System of the 21st Century. My compliments to Hal Scott, head of the Program on International Financial Systems at Harvard Law School, and his colleagues for putting this event together, and to Citigroup for making this facility available.

This is my second tour of duty in Washington, the two stints punctuating about 20 years spent in the practice of law on Wall Street – and each time back inside the Beltway I have been struck by how rapidly the Fourth Estate begins to seem of transcendent importance. We all read the headlines, and sometimes they are unpleasant for policy-makers. And in the area of the US-European relationship, the headlines of late have not been great: "Europe opposes U.S. at the UN", "US-EU relationship strained on trade issues", "US and EU, again at loggerheads" Well, my message for you tonight is altogether different. In the financial sphere, the US-European relationship is strong and cooperation is excellent. To make this point, I am going to spend a little time tonight reviewing US-European cooperation in three important areas: strengthening global growth, promoting a strong and integrated transatlantic capital market, and furthering our common efforts to fight the financing of terrorism.

Agenda for Growth

If you were to sum up this Administration's economic policy in one word, it would be "growth" Whether considering the industrialized countries, the emerging markets of Latin America or Asia, or the developing countries of Africa and elsewhere, economic growth is the principal means of addressing the quite different challenges each of these countries faces. And we have made this a theme of our engagement in each area. In developing countries we have stressed that private-sector-led growth, not aid from the official sector, will be the strongest and most durable means of ending poverty. In the emerging markets we have stressed that steps to promote stability—while important—cannot be allowed to stifle growth. And in the industrialized world we have stressed that each of the major economies must take the necessary steps – different for each of us – to get back on a path of strong GDP growth.

The US has been doing its part. Last week's US economic data was unambiguously strong. Productivity growth remained exceptional, GDP growth far exceeded expectations, and the employment data showed that the economy is creating jobs.

Clearly, the U.S. economy is recovering. Other parts of the world are also growing – Canada, the United Kingdom, and Asia. But in continental Europe, growth remains weak, and on the whole the world relies too much on the United States as the engine for growth. Much of the focus over European growth is currently on macroeconomic tools. But perhaps more significantly, there is widespread and growing recognition among US and European officials that the acid test for boosting productivity lies with supply side policy changes, such as pension, labor market and tax policy reforms, and increasingly concrete actions are being taken to back up this recognition.

As you know, Germany is now moving forward with Agenda 2010, including labor

market reform, and France—not to be outdone—is moving ahead with Agenda 2006, including ways to address the pension issue. The Berlusconi government is also putting forward pension and tax proposals. All of these efforts are consistent with the EU's Lisbon Agenda, which in itself moves growth forward more than might once have been expected from the EU.

Less than two months ago, at the G-7 Ministerial in Dubai, all the G-7 Ministers and Central Bank Governors committed to an Agenda for Growth. Under this Agenda, the G7 will focus on "supply side" surveillance and they will benchmark progress in implementing structural reforms aimed at bolstering medium term growth. While we should not expect immediate and heroic progress, the Agenda for Growth shows that US and European officials are committed to working together to strengthen the world economy and in a way that we in the US, at least, think is focused on the right and most central topic.

US-EU Financial Markets Dialogue

Our common efforts to support global growth are a natural transition for a discussion of the US-EU financial markets dialogue, which is a key focus of this conference. Various studies have underscored that in a decade, an integrated and efficient European capital market could boost European growth by over one percentage point.

The agenda for this conference highlighted the term "*greater disharmony of regulation*". I will admit that when I read this, I thought of the phrase from the great Persian Persian mystic Jalal ad-Din Rumi: "All of your anxiety is because of your desire for harmony: Seek disharmony. Then you will gain peace." Yet, as aesthetically satisfying as it might have been for me to take that as my theme tonight, in the end I could not—for in my view we are not witnessing disharmony. To the contrary, we are witnessing meaningful and significant steps in Europe and the US toward regulatory convergence. Rather than there being a *breach over financial issues*, officials on both sides are working together to accommodate or resolve extra-territorial effects caused by law or regulation. The move toward global financial markets, and the positive implications that entails for saving, investment and growth, is continuing, and it is being substantially facilitated by *cooperative management of the US-EU financial relationship.*

Eighteen months ago, a technical team from the US -- consisting of the Treasury, the Fed, and the SEC -- met with the European Commission to begin the informal financial market dialogue. Since then, US and EU officials have met almost quarterly at either the senior working level or the policy level in Brussels and Washington. Financial regulators from both sides have actively participated, and rightly so since so many of the issues involved fall within their spheres of responsibility. The US and EU participants in the process see eye-to-eye on the purposes and objectives of the process. Both sides understand how fundamentally important this process is, and we are in 100% agreement on the agenda.

For our part, we have been interested in discussing with the Commission Europe's Financial Services Action Plan (FSAP). This is a bold plan, consisting of 42 directives, regulations and other measures aimed at quickly building the legal and policy infrastructure for an integrated European capital market.

- As noted, the US has a profound interest in seeing faster growth in Europe and financial market liberalization and integration is one key component of this agenda.
- We are also interested in seeing the development of a robust transatlantic capital market that rewards competition and innovation, and that contributes to improving the allocation of global resources at lower cost to consumers.
- And needless to say, US financial institutions are globally based; they have major interests in Europe; we have an interest in seeing them be able to compete fairly throughout the world.

The United States strongly supports the Financial Services Action Plan. But, unsurprisingly, buried in the details of these 42 measures are many thorny issues.

The EU also cares deeply and understandably about financial market developments in the US. Though the start of the dialogue predated the Enron and WorldCom imbroglios, with the rapid progression of Sarbanes-Oxley Act, which sailed through

Congress in July 2002, Europe had all the more reason to accelerate talks with us on corporate governance issues. I know that Commissioner Campos will touch on these issues tomorrow night. Both Europe and the United States are interested in other financial issues as well, such as the evolution of Basle II and clearing and settlement processes.

All of us in the US and EU who are party to the dialogue know that both sides have different legal, historical, and cultural traditions; that we are not identical; and that our actions have unintended "spillover" effects on each other. Recognizing this, our overarching goal in the Dialogue is to see through these differences, and to work together to achieve our common objectives in substance. That is why we meet often. We don't negotiate, though – regulatory agencies such as the SEC, Fed and OTS are independent agencies, whose job is to protect a sound financial system at home. But we discuss, and we avoid public spats. We seek to identify issues coming down the pike; we discuss the implications of these issues for each other; and on the basis of improved understandings, we seek to iron out legitimate problems ex ante; and when such problems arise, we seek to work them out. We know that if this process is managed successfully, it is a win-win for the US, Europe and the world.

Let me tee up some key issues that we will undoubtedly delve into during the conference.

The EU's top agenda item in the Dialogue has been the implementation of Sarbanes-Oxley, especially the implications of its provisions on auditor independence, loans to bank executives and directors, certification of financial statements by CEOs and CFOs, and standards related to audit committees. These issues were thoroughly discussed through the dialogue and a timelines document agreed to between the US and EU, as well as in SEC roundtables and other bilateral contacts. While the letter and spirit of Sarbanes-Oxley were fully observed, EU concerns were accommodated.

The EU is also closely following developments related to auditor registration under the Public Company Accounting Oversight Board – the PCAOB. Under the direction of PCAOB Chairman McDonough, one of our country's foremost international financial statesmen, the PCAOB has launched bilateral talks with the EU to better understand and address ongoing EU concerns, and both sides are confident that the many difficult issues will be resolved.

EU officials have also raised the issue of the SEC allowing foreign trading screens in the US that would compete with US exchanges. This presents difficult and complex regulatory issues. The SEC staff continues to work through these issues.

On the US side, we are keenly interested in the Financial Conglomerates Directive, the Investment Services Directive and other directives and developments. Regarding the FCD, I want to note that because of a conflict, I have not been personally involved in dealing with this topic. So in the following remarks I will be describing Treasury's position with the caveat that it is not one that I have personally been involved in formulating.

- The FCD requires that foreign supervisory regimes be "equivalent" for foreign-based firms to operate in the European financial market without costly legal and financial infrastructural changes. We, of course, believe that US supervision across the board is top flight. But Europe has focused on the prudential position of financial conglomerates at the "top" company level, whereas in the US, investment banks are supervised at the broker-dealer level. An equivalence finding is essential.
- Europe is putting forward an investment services directive. In many European countries, equities are only traded on exchanges. In the US, investment banks can "internalize" transactions and provide "price improvements" for larger customers, a practice that is also prevalent in the UK market. Again, the dialogue is about rewarding efficiency and innovation and respecting market practices.
- The nature of the process of European rule-making is also important. We want to see an open, transparent process in which there is healthy consultation with market participants. The markets are always a step ahead of the regulators; they know their business. Sound regulation is essential, but excessive regulation that stymies market innovation should be avoided. Regulators and markets need to work together to achieve the best outcome.

I'm pleased to say that under the FSAP, consultation and transparency with markets have vastly improved.

- We would also like to see strengthened procedures for M&A activity through takeovers in Europe, which would benefit efficiency, the investment climate and European growth. Notions of reciprocity – allowing restrictions to investors from the US because our rules are different -- would go in the opposite direction. The data speak clearly -- different rules have not stifled vigorous M&A activity between US and EU firms.

To add to this already very full discussion plate, a large and overhanging issue is international work in the FASB and IASB to converge global accounting standards. Serious work is proceeding apace on this score, and this is a welcome and healthy development. Once there is one standard, accounting in the US and EU – if consistently applied, implemented, and enforced -- will be very similar, though not identical, exercises. In the meantime, difficult issues are raised. For example, under Europe's transparency directive, all securities admitted to trading in European markets by 2005 will have to have to produce financial reports on the basis of IAS and there is no provision for grandfathering of existing securities. But US firms that are huge issuers in the Euromarkets use US GAAP. Will they no longer be able to tap the Euromarkets on this basis after the beginning of 2005? We will need to continue tackling this issue resolutely and expeditiously in the Dialogue. But we should not lose sight of the bigger picture -- surely convergence between the US and Europe will accelerate momentum toward an even more dynamic and enormous transatlantic capital market.

In the final analysis, the Dialogue aims to put in place a key piece of global financial market infrastructure for the 21st century and a new pillar for stronger world growth. The potential benefits are enormous. It is important that the dialogue succeeds, and I believe it will.

US-EU Cooperation in Combating Terrorist Financing

Finally, let me say a few words about US-EU cooperation in the combating of terrorist financing. Since September 11th, the United States and the EU have campaigned jointly to publicly identify and designate terrorist entities and their financial backers, and freeze their assets. For example, nearly every terrorist individual and entity designated by the United States also has been designated by the EU or some of its member states. In a joint action in May 2002, the U.S. and EU simultaneously designated 18 terrorists and terrorist groups. Moreover, the United States and the EU have established a fluid, informal mechanism for sharing information on terrorists and their supporters.

Recent terrorist finance developments at the EU member-state level also are positive. Just this Monday, the Treasury Department designated 15 individuals in support of the Italian submission of these individuals, as terrorists linked to al Qaida, to the United Nations. In June, we joined Italy in designating 16 individuals associated with the Algerian based Armed Islamic Group. The same day, Treasury designated a member of the Hamburg, Germany, al Qaida cell that planned the September 11th attacks. With the support of the United States, Italy and Germany submitted these names to the United Nations. Last year, the U.S. and Italy also joined together last year in submitting to the UN the names of 25 individuals and entities linked to al Qaida. And in May of this year, the U.S. joined several European countries in designating the al-Aqsa International Foundation, a charity funding Hamas.

As for Hamas itself, we were very encouraged by the September decision of the EU Foreign Ministers to designate the group as a whole. Before this, the EU had only designated the military wing of HAMAS.

Despite these positive developments, particularly that on Hamas, there is room for improvement by the EU on both substantive and procedural issues. First, the submission and coordination of terrorist names for designation by the EU could be significantly accelerated. EU's "Clearinghouse" process, which is the mechanism the EU has established to designate individuals and entities as terrorists or terrorist supporters, needs to be streamlined. The Clearinghouse's unanimity requirement, its very high designation standard and its bureaucratic nature, combine to make the process too lengthy and cumbersome.

Second, the assets of "internal terrorists" are being left unblocked in a number of European countries. This is because under current EU treaty interpretation, the EU cannot direct member states to block the assets of individuals and entities of so-called "internal terrorists." We hope our European friends will close this loophole.

Our EU counterparts know that the United States is pressing for resolution on these critical issues, which we believe will enhance the EU's ability to combat terrorist financing more effectively. Still, the day-to-day cooperation between Europe and the US has been excellent and much has been achieved.

Conclusion

The US-EU efforts to strengthen global growth, to promote a transatlantic capital market through the informal financial markets dialogue, and to combat the financing of terrorism reflect our desire to achieve greater harmony and efficiency on both sides of the Atlantic. Good progress is being made on all fronts through cooperation and hard work, which will surely benefit the United States, Europe, and the world. That is why I believe the US-EU economic and financial relationship is strong and healthy and yet another reason why it's important for everyone – particularly those of us in Washington – to remember that you can't always believe what you read in the papers.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 14, 2003
JS-1004

TREASURY AND IRS SUSPEND TAX EXEMPT STATUS OF THREE ORGANIZATIONS IDENTIFIED WITH TERRORISM

Today the Treasury Department and the Internal Revenue Service announced the suspension of the tax exempt status of three organizations: Benevolence International Foundation, Inc., Global Relief Foundation, Inc., and Holy Land Foundation for Relief and Development. The tax exempt status of these organizations is being suspended because they have been designated as supporting or engaging in terrorist activity or supporting terrorism. Contributions made to an organization during the period that the organization's tax-exempt status is suspended are not deductible for federal tax purposes.

"We will continue to use all available means to fight the financial war on terrorism," stated Treasury Assistant Secretary for Tax Policy Pam Olson. "Today's announcement is another example of that effort. Organizations found by the United States government to support terrorism should not be exempt from federal income tax and contributions to those organizations should not be deductible for federal tax purposes."

"The IRS supports the war on terrorism," said IRS Commissioner Mark W. Everson. "The agency's efforts include scrutinizing tax-exempt organizations that may support terrorism. In addition, our criminal investigators follow the flow of terrorist-related financing to countries around the world, including the Middle East. In Iraq, our special agents help trace and recover assets from Saddam Hussein's regime."

Prior to the effective date of suspension of exemption under section 501(p), these three organizations were designated under Executive Order 13224, entitled "Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism." Contributions made to these organizations in violation of the Executive Order prior to this suspension are not tax deductible under the Internal Revenue Code.

Related Documents:

- The text of Announcement 2003-74

Suspension of Tax-Exempt Status of Organizations Identified With Terrorism

Announcement 2003- 74

I. Purpose

This announcement is a public notice of the suspension under section 501(p) of the Internal Revenue Code of the federal tax exemption of certain organizations that have been designated as supporting or engaging in terrorist activity or supporting terrorism. Contributions made to an organization during the period that the organization's tax-exempt status is suspended are not deductible for federal tax purposes.

II. Background

The federal government has designated a number of organizations as supporting or engaging in terrorist activity or supporting terrorism under the Immigration and Nationality Act, the International Emergency Economic Powers Act, and the United Nations Participation Act of 1945. Federal law prohibits most contributions to organizations that have been so designated.

Section 501(p) of the Code was enacted as part of the Military Family Tax Relief Act of 2003 (P.L. 108-121), effective November 11, 2003. Section 501(p)(1) suspends the exemption from tax under section 501(a) of any organization described in section 501(p)(2). An organization is described in section 501(p)(2) if the organization is designated or otherwise individually identified (1) under certain provisions of the Immigration and Nationality Act as a terrorist organization or foreign terrorist organization; (2) in or pursuant to an Executive Order which is related to terrorism and issued under the authority of the International Emergency Economic Powers Act or section 5 of the United Nations Participation Act of 1945 for the purpose of imposing on such organization an economic or other sanction; or (3) in or pursuant to an Executive Order issued under the authority of any federal law, if the organization is designated or otherwise individually identified in or pursuant to the Executive Order as supporting or engaging in terrorist activity (as defined in the Immigration and Nationality Act) or supporting terrorism (as defined in the Foreign Relations Authorization Act) and the Executive Order refers to section 501(p)(2).

Under section 501(p)(3) of the Code, suspension of an organization's tax exemption begins on the date of the first publication of a designation or

identification with respect to the organization, as described above, or the date on which section 501(p) was enacted, whichever is later. This suspension continues until all designations and identifications of the organization are rescinded under the law or Executive Order under which such designation or identification was made.

Under section 501(p)(4) of the Code, no deduction is allowed under any provision of the Internal Revenue Code for any contribution to an organization during any period in which the organization's tax exemption is suspended under section 501(p). Thus, for example, no charitable contribution deduction is allowed under section 170 (relating to the income tax), section 545(b)(2) (relating to undistributed personal holding company income), section 556(b)(2) (relating to undistributed foreign personal holding company income), section 642(c) (relating to charitable set asides), section 2055 (relating to the estate tax), section 2106(a)(2) (relating to the estate tax for nonresident aliens) and section 2522 (relating to the gift tax) for contributions made to the organization during the suspension period.

Prior to the effective date of suspension of exemption under section 501(p), the three organizations listed below were designated under Executive Order 13224, entitled "Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism." Contributions made to these organizations in violation of the Executive Order prior to this suspension are not tax deductible under the Internal Revenue Code.

III. Notice of Suspensions and Nondeductibility of Contributions

Organizations whose tax exemption has been suspended under section 501(p) and the effective date of such suspension are listed below. Contributions made to these organizations during the period of suspension are not deductible for federal tax purposes.

Benevolence International Foundation, Inc.

Palos Hills, Illinois

Effective Date: November 11, 2003

Global Relief Foundation, Inc.

Bridgeview, Illinois

Effective Date: November 11, 2003

Holy Land Foundation for Relief and Development

Richardson, Texas

Effective Date: November 11, 2003

IV. Federal Tax Filings

An organization whose exempt status has been suspended under section 501(p) does not file Form 990 and is required to file the appropriate Federal income tax returns for the taxable periods beginning on the date of the suspension. The organization must continue to file all other appropriate federal tax returns, including employment tax returns, and may also have to file federal unemployment tax returns.

V. Contact Information

For additional information regarding the designation or identification of an organization described in section 501(p)(2), contact the Compliance Division at the Office of Foreign Assets Control of the U.S. Treasury Department at 202-622-2490. Additional information is also available for download from the Office's Internet Home Page at www.treas.gov/ofac.

For additional information regarding the suspension of the federal tax exemption of an organization under section 501(p), contact Robert Fontenrose at (202) 283-9484 at the Internal Revenue Service.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 18, 2003
JS-1005

U.S Treasury Secretary John W. Snow
Remarks to the Confederation of British Industry
November 18, 2003
Birmingham, U.K.

Good morning. It is a great pleasure to be with you today and have this opportunity to renew my ties with the CBI and so many of you that I knew from my private life where my days were filled with the same worries and concerns as yours are today. It's also very nice to be here with my good friend Chancellor Brown.

It's been said before, but the relationship between the U.S. and the U.K. is a special one, in political, cultural, security and economic terms. I'm going to focus on the latter, the economic terms, of course. Not only is the U.K. a major market for American products and services, and vice versa, as well as a leading source of investment and joint venture opportunities in both directions. The United Kingdom is also a bridge between the United States and continental Europe. Working together, Chancellor Brown and I have helped to give the G7 finance ministers a newfound focus on productivity and economic growth. Thus our relationship is even larger and more significant than the direct flows of trade and investment between our nations would suggest.

People from the world of finance, commerce and industry share much in common whether their companies are based in the UK or the USA. Under the relentless pressures of the marketplace, we are all compelled to worry about our cost structures, our competitive position, new opportunities for growth, building effective organizations, and creating shareholder value. Even the most successful business people always keep on guard for the new products, the new technologies, and the new ideas that threaten their position.

We all know that success depends on continuously getting better and better; that market positions of prominence are not foreordained; that profitable growth and rising shareholder value require relentless effort and infinite attention to detail. Success depends on hard work and always being open to new ideas, new technologies, and new products. The life of business is inherently restless and uncertain. We talk about the virtues of competition in the abstract and we are all made better because of our competitors, but the fact is that competition makes sure that none of us have a quiet or tranquil life. You know that from your years in business and I know it from mine. And those realities of business life are a shared heritage of all of us who have made industry our calling.

Let me say as well that the world is a better place because we don't have the luxury of quiet life. Because we are continuously forced to innovate, reduce costs and become more productive, business and industry are at the very center of the wealth creation process that does so much to enhance the prosperity and wellbeing of the world. Our high standards of living and economic abundance depend deeply on business and industry generating jobs and the wealth, and the new products that change the world and make it a better place. Across the globe people are striving to have higher standards of living, to know prosperity and abundance, and business lies at the very center of the process; it makes abundance and prosperity possible.

So I applaud you for what you do.

But the government also has a critical role to play. Its role is to create an environment in which you can be successful -- not by propping you up, not by subsidizing you, not by protecting your market position. Those strategies have been tried and they never really work in the long run. No, government's role is

something altogether different. Its job is to establish the conditions in which you can succeed, to allow you to earn the rewards for your best efforts and your best ideas; to give you the freedom to innovate, grow, adopt new technologies; and continuously hone and adjust production, including the relationship of labor to capital, to create wealth for your owners.

Businesses need to be able to plan, and to plan they need to know with some certainty the rules of the game. Government sets the rules of the game and they have an obligation to do so in a way that is open and transparent so that businesses can plan with a reasonable measure of certainty for their future. Having spent a career in business I know that the great enemy of enterprise is uncertainty uncertainly with respect to tax policy, trade policy, regulatory policy, competitive policy – all areas where government plays a dominant role.

Government also has responsibility to establish sound monetary and fiscal policy, to maintain the value of the currency and keep inflation and deflation in check. At a bare minimum, government must protect property rights. Capital is and must be cowardly. It goes where it feels safe and protected and respected. As stewards of capital, you know this to be the case and carefully assess "country risks" before investing capital. This is a message that Chancellor Brown and I emphasize over and over to developing and emerging market countries. Enhanced prosperity in these countries depends upon foreign direct investment, which will only be forthcoming where property rights are honored.

Finally, government has an obligation to continuously assess the barriers to greater growth and prosperity and to take steps to eliminate them. These impediments to prosperity are found in all economies and are widely observed: labor market policies that inhibit appropriate mobility; regulatory policies that add more to society's costs than to its benefits; industrial policy that subsidizes non-competitive enterprises and frustrates the play of competitive forces; state pension plans that claim a disproportionate share of a nation's capital and thereby frustrate private capital formation. In the United States, I would add our notorious tort liability system as another example.

Removing these impediments to growth and prosperity takes political will and political courage. In the United States, President Bush has laid out an ambitious agenda for maximizing growth and job creation. He proposed a six-point plan to address these challenges, focusing on making health care more affordable and its costs more predictable; working to prevent frivolous lawsuits from diverting money from job creation into legal battles; working to build a more affordable, reliable energy system; streamlining regulations and needless paperwork requirements; opening new markets to high value American products; and working to make tax relief permanent, so businesses and families alike can plan for the future. Achieving progress in these areas requires a significant degree of commitment and personal leadership from the President.

It is clear to me that Prime Minister Blair and Chancellor Brown have demonstrated a remarkable degree of leadership and commitment to achieve productivity gains and sustained economic growth here in the United Kingdom. I look forward to working with the Chancellor on our new joint initiative to encourage further achievements in our economies.

Leadership pays off. As various private sector economists have remarked recently, the U.S. recovery has real muscle to it and is sustainable. That is good news for us, but it is good news for the UK and the rest of the world as well.

There can be no doubt about the fact that the last three years have been difficult for the U.S. economy as we have faced an unprecedented number of challenges beginning with a steep decline in economic activity that President Bush inherited. As we look back on it there can be no doubt that the economy was in a decline as the new Administration took office. Beyond that we have had to weather the terrorist attacks of 9-11, the dotcom bubble and the collapse of the stock market, which took $2 trillion out of our equity markets. Then emerged the corporate scandals that shook confidence in our capital markets, a regional energy crisis, and two wars – Iraq and Afghanistan. And of course all of this was occurring while the other major industrial economies of the world were weak.

I am often asked by my fellow finance ministers and others how the American economy could weather such shocks and still perform as well as it did. The answer

lies in the inherent flexibility and resiliency of the U.S. economy.

Things we did thirty years ago to deregulate our transportation sector are paying huge dividends today in making our economy more flexible and resilient. Financial sector policies adopted years ago: deregulation of the fixed fee arrangement for brokers; opening up financial services to allow banks into non-banking financial services and vice versa; and the development of hedge funds and derivatives, which played a part in spreading risks and reducing their concentration in the banking sector.

Our basic labor market policy has been extraordinarily important in creating high degrees of labor mobility and avoiding labor market rigidities. Over the course of many years the U.S. has adopted policies to make the economy more flexible, competitive and resilient, as we faced the unprecedented shocks of the last three years.

With the economy coming back we are beginning to see positive signs on the jobs front as well. Here again, it is important to put the jobs situation into context. With the "bubble economy" of the 1990s, many firms in many industries expanded rapidly. They had the wind in their sails and it looked like the clear path to profitability lay in growth. And grow they did and expand they did.

But the bubble burst and American industry found that it no longer had the wind in its sails. Demand slowed markedly beginning in the latter part of 2000 and it only recently has begun to come back. With the much weaker demand conditions, and unable to rely on growth to propel earnings, American business began to aggressively attack their cost structures. For the better part of the last three years cost reductions, streamlining and reworking processes have been the focal point of management's attention.

Today our cost structures have been "leaned out." Our enterprises are much more productive, and as the economy rebounds that should produce much better earnings and free cash flow for U.S. businesses. In fact, it is already beginning to happen as indicated by the earnings reports for the second and third quarters.

Two things happened here that affected jobs. First, having been burdened by over-expansion management has been reluctant to add additional workers until they are convinced that the strong demand conditions will continue well into the future. And of course in the aftermath of the corporate scandals and new governance laws, American businesses became more cautious and risk averse.

A second factor at work is the high productivity in American industry today, which means we can do more with less. Higher productivity is a good thing. It leads to higher real wages and greater disposable income. It leads to better cash flows and higher profitability, which in turn drives equity values. But it has also slowed down the job creation process.

Fortunately, as I have said, we are entering into a much better environment for job creation and signs are pretty good that we have turned the corner.

The more interesting question is: where will we find the jobs of the future?

We know that jobs are more abundant when people have ample disposable income. Increasing people's disposable income was a key objective of the President's Jobs and Growth Bill. We also know that jobs are tied to capital and the willingness of someone to invest. In the United States there is roughly $100,000 of capital behind every job. To create new jobs someone needs to have the incentive to invest and investment, of course, occurs when the expected returns exceed the cost of capital.

By reducing the cost of capital the President's plan is designed to encourage more investment and create new jobs. Strong aggregate demand, ample disposable income, capital availability, and investment all have an important role to play.

But regarding precisely where the jobs of the future will come from, I think the honest answer is no one knows for sure. Jobs come from new ideas, from discovery, from innovations. And by its very nature the innovations of the future are

not known today. What we do know is that new ideas, new discoveries, new technologies and innovation lie ahead of us if we take the steps to properly encourage the process of innovation.

I don't know where new jobs will come from, but I know how they come: from capital and labor finding the most productive opportunities in the market, from new ideas and investors and innovators prepared to risk their capital and their efforts to create something new. Essentially, what a prominent Scotsman from Kirkaldy – no, not Chancellor Brown -- Adam Smith! – called the invisible hand.

The policies that will create jobs faster and better are those that create greater flexibility in the economy – policies that acknowledge that elected leaders in a capitalist democracy are at their best when they let markets decide rather than trying to pick the winners.

I'll share with you a figure that illuminates my point. Over the past decade in the United States, around 30 million jobs have been lost every year, give or take a few million. In fact, in the year 2000, when unemployment hit its lowest point in the decade, 33 million jobs were lost. The key is that over the same period, about 30 million jobs were created every year, give or take a few million. In some years the gain is slighter greater than the loss. In other years the opposite is true.

Policymakers do best when they focus their efforts on policies that create a climate in which net jobs are created. That means focusing on flexibility, openness, capital formation, and, ultimately, productivity.

When these conditions exist innovative ideas with flourish and entrepreneurs and businesses will identify new opportunities for profits and move capital and labor to take advantage of them. The result of that process is higher productivity – higher output per hour worked and per dollar invested, and over time that productivity creates higher living standards. What this process provides is a continuous path from lower value activity to higher value work and keeping the economy open and flexible so that this process can work is the central role of economic policy makers.

In well functioning economies new ideas are displacing old ideas; new management processes are displacing old management processes; new technologies are displacing older technologies. And all the while productivity is rising, the standard of living is rising, and wealth is rising and people have the opportunity to lead more abundant lives.

That is the path of progress and looked at from an historical perspective the effects are staggering. A century ago 40% of the U.S. workforce was in agriculture, at a time when our population totaled 40 million. Today agriculture accounts for less than 2% of our workforce and we're a nation of nearly 300 million people. Imagine the United States today if with 40% of its workforce in farming. Of course if that were the case we wouldn't have the necessary workers for our huge growth industries such as information technology, biotechnology and healthcare.

It sounds nice in theory, of course. But when you look closely it can be messy. The process, when it's working, constantly disrupts the status quo. Let's face it – aggressive entrepreneurs and businesses are constantly trying to put their competition out of business, and if they're successful, the competition goes looking for new work.

At the same time, businesses that pursue a new opportunity are taking a risk. They often fail. The key is that they learn, and try again. The secret of American economic success in a sense is failure – or perhaps the fact that we allow people to fail and start over again. If it were easy to exploit new opportunities, they wouldn't be opportunities for long.

Those who take the risks – with their time, money, and reputations, must be able to claim their reward when they succeed, and claim their lessons when they fail. A lot of people learned lessons in the dotcom boom and bust, for example. Some succeeded, but most did not. But there is no stigma in America for having worked for a start-up company that failed.

With all this economic disruption, the perpetual temptation of government, which

naturally caters to the status quo, is to block change. Think about that. Vested interests always have a greater stake in the past than the future. The past created them, and keeps them where they are.

But a wise government has to balance those interests with a vision for the future. It needs to allow the visionaries, the entrepreneurs, to keep pushing ahead, falling down, and getting up – creating jobs and prosperity. At the same time, it needs to attend to those who suffer from the disruption, with education, training and other assistance to help them onto their feet.

Raising standards of living and creating jobs doesn't happen by accident – good policies that preserve flexibility -- such as low marginal tax rates, low taxes on capital, low barriers to trade and labor movement – these kinds of bottom-up policies encourage growth. Investment in education and training is also important, because it allows people to find opportunities and adapt to change more quickly.

But policies that direct growth, that smack of central planning, tend to jam the signals from the market. And even if they push the economy forward in the short term, they eventually lead to collapse. They often push it in the wrong direction. They don't heed the call of the market, or of competition, they heed only political expedience.

We strive to encourage entrepreneurship, capital formation, and education, and we're starting to see the results. This year's tax program was the first in decades to focus on reducing taxes on capital formation, such as taxes on dividends and capital gains. At the same time, the President's "No Child Left Behind" Act invests more in education, and it introduced key concepts of innovation and competition into the market for education. In education, as in business, there should be rewards for success.

We've also focused on enhancing the mobility of labor. Our mobile society is a key factor in our prosperity and economic resilience. We've introduced proposals to strengthen the functionality and security of national credit standards to make ease mobility in our economy.

Labor mobility facilitates another kind of mobility, which also lies at the heart of America's success – that is the mobility within income categories. Mobility within income categories has helped avoid the dangers of class consciousness. Immigrants are inherently optimistic and feel they and their families have the chance to enjoy greater prosperity.

Efficient financial markets also play a role. In the financial markets, we've been rebuilding investor trust with strong but fair oversight and disclosure measures. Investors need to know what kind of risks they're taking with their capital – they should expect reasonable risks to partake in new market opportunities. That's the fair part. But they should not ever have to take a risk on the character and honesty of those managing their capital. That's the strong part.

Financial market regulations, like tax policy, should encourage the right kind of risk taking, but they should leave no doubt about the integrity of the system. Innovations in finance have been as essential to the success of the American economy as innovations in technology. The prominence of venture capital may be the most obvious, truly American financial innovation.

A marketplace where innovative ideas and innovative capital work together has created some of our greatest economic success stories in places like Silicon Valley and Boston's Route 28. Our university system also has played a big part by allowing faculty and students to test their ideas in the marketplace, even as they pursue academic careers. It is no accident that venture-funded tech start-ups tend to cluster around our top research universities.

Other innovations in finance such as stock options have allowed managers and employees to participate more fully in the success of their businesses. While there have been cases of abuse involving stock options, their appropriate use can allow small companies with great ideas to compete with large companies with great wealth.

Innovations in mortgage financing have allowed American homeownership to reach all time highs, near 70% of households, and new kinds of mortgages, as well as innovations in credit markets, have put homeownership in reach of millions who could never before achieve it.

Innovations in derivatives have spread financial risks more broadly in markets, and allowed the American economy to bounce back from the body blows of recent years.

That economic bounce back has been much in the financial news of late. 7.2% growth last quarter, after 3.3% the previous quarter. And it looks like the balance in the labor markets is beginning to favor the forces of job creation – but it's still early in the process, and we have no intention of resting on our laurels. Not in the U.S., and not in the global economy, where higher growth and productivity is more needed than ever.

As we look at the global economy today it is hard to escape the conclusion that growth has been far too uneven – particularly in the largest industrial nations. The U.S., now starting to experience the benefits of the fiscal policy, and the Federal Reserve's monetary policies, is now growing at a healthy pace. The Britain has demonstrated consistent growth, but the other major world economies – particularly Japan, Germany and France, are performing well below their potential.

This is an issue for all of us. With the dramatic expansion of trade in recent decades, the world economy is more connected than ever before. For the United States, this means that our success in creating jobs and sustained economic growth depends in no small measure on other economies. When other economies are growing and expanding, their demand for the things we produce is greater.

By the same token, as the United States grows, we generate more domestic income and buy more from the rest of the world. Successfully managing our economy is as important to the rest of the world as their success is to us. For the UK, integrated into the single European market, this is doubly true

We must all take steps to accelerate growth, especially in those economies that are lagging. At the recent G-7 finance ministers meeting in Dubai, my colleagues and I agreed on an Agenda for Growth, as each nation committed to increase growth at home. This acknowledgement, in my view, was a milestone. The barriers to growth in each of our countries are different, but we have all agreed to tackle those we face, and to monitor and discuss each other's progress.

Enhancing the outlook for global growth will be the focus for the G-7 next year when the U.S. hosts the leaders Summit at Sea Island. The following year, when Prime Minster Blair will chair the leaders Summit, I hope we will be in a position to point to real progress across all of our economies. Chancellor Brown and I share a deep commitment to seeing that happen and have had several conversations on the question how can we combine our efforts to press forward on the global growth agenda. The United States chairs the G7 finance minister meetings next year and the Britain the following year, so Chancellor Brown and I will make the most of this back-to-back opportunity.

Though we all face challenges to faster growth, the issue is most pressing for the major economies in Europe where growth is stagnant. Chancellor Brown knows this. A few weeks ago in the Wall Street Journal, he pointed to some of the key areas where Europe could do better and offered sound counsel for the EU. If I may quote my esteemed colleague, he observed that "the right response to global competitive pressure is to liberalize, deregulate, remove the old state aid subsidies, agree an open competition policy, and remove barriers that hamper companies crossing borders."

The Chancellor knows whereof he speaks. In a recent OECD study of industrial economies, the UK was found to have the least overall restrictive regulatory regime. The study looked at things like barriers to trade, administrative regulation and economic regulation. It's no coincidence that the UK was able to avoid the major slowdown seen in other large European economies or that, along with the US, it ranks at the forefront among industrial countries in information technology investment as a share of GDP, a key to productivity growth.

The Chancellor also said "Europe must embrace labor-market flexibility as the only modern route to full employment, put current and new regulations to that flexibility test, and devise new incentives to help people move from welfare to work."

Finally he said that "Europe must be outward-looking and internationalist... and that a strong transatlantic economic partnership – and a pro-European, pro-Atlantic consensus – is critical to long-term prosperity." I couldn't agree more. This was the essence of our discussions in Dubai, where we renewed our commitment to tackling our domestic challenges to benefit our own economies and lay a basis for balanced global growth.
In the United States, President Bush's reforms emanate from the same broad policy outlook: create an environment that encourages flexibility, capital formation and innovation, and in turn leads to job creation, productivity, and higher living standards.

The UK has its own important agenda – improving skills and labor productivity, expanding research and development tax credits, supporting entrepreneurs and job seekers, and reforming the financial sector.

I look forward to working with our UK friends on our common economic challenges. Together, we plan to expand the flows of trade and investment across the Atlantic and enhance cooperation between our universities in areas such as entrepreneurship and technology transfer. I also look forward to hosting a business-government forum next year with Chancellor Brown to discuss common opportunities to promote innovation, raise productivity and increase research and development, while encouraging closer ties between academic centers and enterprise
.
I think this is an historic moment.

The world's leading economies are all committed to ending the period of stagnation, and moving forward to renewing growth and creating jobs in all of our countries. We have begun to make progress – passing President Bush's jobs and growth package in the United States, and moving forward with his six-point plan for the economy. The UK, too, has made great strides in providing an environment for enterprise, innovation, growth and prosperity. I have confidence in Great Britain's leadership and industry, and I believe that you, and our other European and international partners, are up to the challenge.

Thank you.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 17, 2003
JS-1006

TREASURY DEPARTMENT NAMES ROY RAMTHUN AS SENIOR ADVISOR TO THE SECRETARY FOR HEALTH INITIATIVES

Today, Roy J. Ramthun joins the Treasury Department as Senior Advisor to the Secretary for Health Initiatives.

In this position, Mr. Ramthun is responsible for advising the Secretary and senior Administration officials regarding the Administration's health initiatives. Ramthun will coordinate Treasury's activities in support of the Administration's health objectives, including those directed at health care costs and access to affordable health insurance, including proposals in the President's budget for health care tax credits, as well as continued implementation of the Health Coverage Tax Credit enacted under the Trade Act of 2000 (HCTC), and other related matters.

Mr. Ramthun succeeds Mr. Ruben King-Shaw, who previously held this position at Treasury.

Mr. Ramthun mostly recently worked for Humana, Inc. in Louisville, KY, from 1999 to 2003. At Humana, Inc., one of the nation's largest publicly traded health benefits companies, Mr. Ramthun served in a variety of senior capacities, most recently in the internal Consulting Practice. He served from 1996 to 1999 as Director, Federal Affairs for Humana, Inc. in Washington, DC.

From 1990 to 1995, he served as a Professional Staff Member on the U.S. Senate Finance Committee, where he developed and wrote legislation for Medicaid, long-term care insurance, health care reform, and maternal and child health. Prior to joining the Senate Finance Committee, he worked as a Legislative Analyst at the U.S. Department of Health and Human Services, Health Care Financing Administration, Office of Legislation and Policy, Division of Medicaid Legislation.

Mr. Ramthun earned his Bachelor of Science degree in Biochemistry from the University of Michigan, and his Master of Science in Public Health from the University of North Carolina.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 5, 2003
JS-1007

Remarks of
The Honorable Randal K. Quarles
Assistant Secretary for International Affairs
U.S. Department of the Treasury
Before the
Organization for International Investment (OFII)
Fourth Annual General Counsel Conference

Introduction

Thank you for inviting me to be here today. I appreciate the opportunity to review with you the current climate for foreign direct investment, the commitment of the Administration to the traditional open investment policy of the United States, and the optimism that can be gleaned from the hopeful signs of a rebound in U.S. economic activity.

Unfortunately, the last couple of years have been colored by a pessimism that was difficult to avoid in the midst of what were dramatic shocks to our nation and its economy, including terrorist attacks, global conflict, corporate scandals, and a recession. All these factors combined to create uncertainty about the present and apprehension about the future prospects for the U.S. economy. At the same time, sluggish activity in the other major economies of the world meant that there was no significant stimulus to spur global economic growth, and no cause for foreign investors to feel confident that future prospects for corporate revenues and profits would be improving.

As Secretary Snow continues to stress in his discussions with international financial leaders -- most recently at the G-20 Finance Ministers Meeting in Mexico in October -- the United States cannot be the sole engine of global economic growth. Other industrial nations need to take appropriate steps -- including fundamental structural reforms where necessary -- to move their economies forward, increasing economic activity, creating jobs, and generally contributing to global prosperity.

While much remains to be done, the policies of the Administration designed to foster a pickup in U.S. economic activity are beginning to be felt. Last month the economy exceeded expectations and added new jobs. Inflation is low. After-tax incomes are rising. Productivity is high. Industrial production is on the rise. Housing starts remain strong. Confidence among large-company CEOs reached its highest level in eleven years according to the Conference Board. Corporate earnings are showing a nice upturn, with many exceeding expectations.

In short, it appears to be an excellent time for foreign investors to reevaluate postponed decisions about investing in the United States and to consider new opportunities.

It will come as no surprise to OFII members that foreign direct investment in the United States was much slower during this period of pessimism than it had been in recent years. In fact, in 2002 total foreign direct investment in the United States actually decreased for the first time since at least 1946, when data were first complied by the Department of Commerce. Though the decrease was only a slight 1%, it followed an 8% increase in 2001. At least part of the slowdown was inevitable given the robust pace of the 1998-2000 period. Foreign direct investment in the United States increased 14% in 1998, 23% in 1999, and 32% in 2000. It stands to reason, however, that some of the decline in foreign direct investment is

the result of uncertainty about when the U.S. economy would recover, and about whether the future path of economic activity would be unduly curtailed because of the necessary adjustments that have to be made to bolster our security protections.

In that regard, some foreign investors have expressed concern that in the aftermath of 9/11 and the follow-up emphasis on protecting national security that the United States would alter its traditional policy toward foreign investment.

U.S. Investment Policy

U.S. investment policy is based on a two-pronged approach:

First, the United States is open to foreign direct investment; and

Second, the United States seeks to promote similar open investment regimes in other nations around the world.

As a nation we have traditionally held to this open investment policy because it is in our interest to do so. The United States is the host for more foreign direct investment than another other country in the world. This investment brings new technologies and management techniques, which increase productivity, create jobs, and increase economic growth -- all factors that contribute to a rising standard of living for all Americans. It also increases consumer choice and welfare.

This is a challenging time for the United States as it seeks to shore up and improve security and, at the same time, preserve the welcoming climate for foreign direct investment that has been an important contributor to the strength and vitality of the U.S. economy -- recognizing that the strength of our economy is itself an important element in maintaining our overall security. This tension between security and openness is nowhere more evident than in the implementation of the so-called Exon-Florio provision by the Committee on Foreign Investment in the United States (CFIUS).

CFIUS and the Implementation of Exon-Florio

Treasury chairs the interagency CFIUS that was established by Executive Order of the President in 1975 and which in 1988 was given certain responsibilities to act on behalf of the President in implementing the Exon-Florio provision (section 721 of the Defense Production Act of 1950). Exon-Florio provides authority to the President to investigate foreign acquisitions of U.S. companies from a national security perspective and to take action, if necessary, to prohibit a transaction that, in his judgment, threatens the national security when existing laws are not adequate to ameliorate the threat. CFIUS has twelve member agencies with the addition of the Department of Homeland Security this past February and includes Defense, State, Justice, and Commerce.

In implementing Exon-Florio, CFIUS seeks to balance national security concerns with the open investment policy. The CFIUS membership includes some agencies with a policy focus more closely attuned to national security concerns as traditionally conceived and others focused more on maintaining the open investment climate. As the chair, Treasury's goal is to bring these views together into a coherent policy approach, so that CFIUS can implement Exon-Florio to meet the national security objectives of the statute and do so in a manner that does not compromise our open investment policy.

We believe we have been successful in achieving this goal. The implementation of Exon-Florio by CFIUS has not chilled the overall climate for foreign investors by imposing arbitrary and unjustified bureaucratic performance requirements. The existence of Exon-Florio raises the awareness of foreign investors contemplating acquisitions of U.S. companies to the importance of national security considerations and it helps to ensure that foreign investments are structured in ways to avoid national security problems.

While the confidentiality provided under Exon-Florio precludes a discussion of the details of any particular CFIUS review, enough information has filtered to the press for most of you to know that in recent months there have been a couple of contentious reviews that have strained the balance between national security and

open investment. In an era where the attention of the government has been drawn to efforts to secure our homeland, it is inevitable that there will be a consideration of what constitutes our "critical infrastructure" and how best to protect this infrastructure. The debate is on-going. While it is essential in the current environment to reemphasize a continued commitment to protecting the national security, it is also essential that the fundamental principle of U.S. policy be kept in clear focus -- foreign investment is enormously beneficial to the U.S. economy and our economic strength is one of the most important bulwarks of our security itself. Foreign investment is an important auxiliary to domestic investment, providing an added spur to economic growth, job creation and a higher standard of living. In the competitive global economy, the enviable position of the United States as the leader in attracting and retaining foreign investment is best maintained by an open investment policy.

International Investment Initiatives

This openness to foreign investment at home also provides the United States with the necessary credibility in the international community to encourage other countries to adopt more liberal investment regimes. Congressional approval of Trade Promotion Authority (TPA) legislation in 2002 has given the Administration greater opportunities to conclude market-opening trade and investment agreements.

The Administration has taken advantage of these opportunities by pursuing several initiatives designed to increase investment opportunities for U.S. companies overseas, which is the largest group of investors abroad. For example, the U.S. recently concluded negotiations on bilateral free trade agreements (FTAs) with Chile and Singapore. These FTAs provide U.S. investors with access to the Chilean and Singaporean markets, as well as important protections for their investments.

The U.S. is currently negotiating FTAs with thirty-four western hemisphere countries (the Free Trade Area of the Americas or FTAA), Australia, five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua), Morocco, and the Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa, Swaziland). The U.S. is pressing for high standard investment chapters in these agreements. Also, the U.S. has announced its intention to pursue an FTA with Bahrain and the Dominican Republic and is considering FTA negotiations with other countries.

In addition, Trade Ministers met in Cancun in September to consider launching investment negotiations under the auspices of the WTO as part of the Doha Round of multilateral trade negotiations. While the United States was prepared to establish the institutional framework within the WTO to establish rules on investment, and to begin negotiating rules governing transparency affecting international investment, WTO Members were unable to reach a consensus to start the negotiations. As appropriate, the U.S. will continue to work toward the negotiation of WTO rules on investment that maintain high levels of protection for U.S. investors and help facilitate investment flows globally.

Furthermore, the U.S. has reinvigorated the Bilateral Investment Treaty (BIT) program, which was initiated in 1982 as a way to encourage investment liberalization and economic development overseas. The U.S. is working diligently to complete a new prototype BIT, which incorporates the TPA investment policy objectives. The U.S. Government looks forward to putting this new prototype into practice by negotiating high standards BITs with appropriate candidates.

Conclusion

While this is a demanding time for our nation as we seek to ensure security protections, we also have to be mindful that these safeguards do not impose undue barriers to foreign direct investment. This is also a time of opportunity -- a time for the United States to reaffirm its commitment to an open investment policy at home, securing the liberalization of investment regimes overseas, and to reestablish its conviction that this policy can coexist with strong national security laws and regulations. In particular, we believe that the Exon-Florio provision and the CFIUS process are sufficiently flexible to meet the requirements of protecting national security without discouraging foreign investment. Proposals that seek to advance security protections by tipping the balance away from open investment are

counterproductive because foreign investment is essential to the continued growth and prosperity of our economy and a healthy economy is a vital component of our security as a nation.

Thank you.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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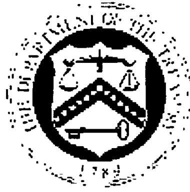
November 18, 2003
JS-1008

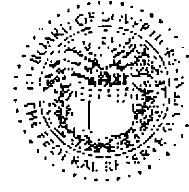
Snow, Greenspan Letter to Committee Chairmen on Mutual Funds

Mutual Fund

Related Documents:

- Mutual Fund





November 18, 2003

The Honorable Richard C. Shelby
Chairman
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Shelby:

Much recent public attention has been focused on mutual funds, and rightly so. Whether we consider their role in providing financial resources to fund business growth and development and job creation, or we consider their significant service in helping people invest for education, retirement, or other needs, mutual funds are financial intermediaries that occupy a major place in our national economy.

In view of their importance, we applaud efforts to strengthen and protect the trust in the integrity of mutual funds and to bring to justice those who have violated that trust. Such misdeeds harm investors while threatening the ability of mutual funds to fulfill their valuable economic mission.

As Congress considers this matter, we would urge you to keep a few key principles in mind:

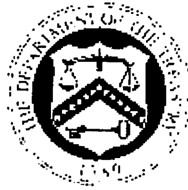
- Criminals who use mutual funds to steal from investors or otherwise engage in fraud and misdeeds must be apprehended and punished promptly in order to preserve the integrity of these financial institutions and to preserve the trust placed in them.
- We should make sure that fees associated with mutual funds are fully subject to the competitive tests of the market place.
- Information and disclosure requirements should be designed to provide investors with real value rather than serve mainly to increase costs and decrease returns.

We appreciate your leadership and commitment to a strong and vibrant financial system that employs capital, through the intermediation of mutual funds and other financial institutions, efficiently and productively to promote economic growth and higher standards of living. We look forward to continuing to work with you in that effort.

Sincerely,

John W. Snow
Secretary of the Treasury

Alan Greenspan
Chairman
Board of Governors of the Federal Reserve System



November 18, 2003

The Honorable Michael G. Oxley
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Oxley:

Much recent public attention has been focused on mutual funds, and rightly so. Whether we consider their role in providing financial resources to fund business growth and development and job creation, or we consider their significant service in helping people invest for education, retirement, or other needs, mutual funds are financial intermediaries that occupy a major place in our national economy.

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Sincerely,

John W. Snow
Secretary of the Treasury

Alan Greenspan
Chairman
Board of Governors of the
Federal Reserve System

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 18, 2003
JS-1009

Statement of Arnie Havens
Before the Senate Committee on Finance

Mr. Chairman, Senator Baucus, and Members of the Committee, thank you for the opportunity to appear before you today, and especially for your prompt scheduling of this hearing. I am honored to be President Bush's nominee to serve as General Counsel for the Department of the Treasury, and I am grateful to Secretary Snow for his confidence in me. If you will permit me, I will take a moment to introduce the members of my family that are here today.

As you may know, I grew up in Evanston, Illinois. My parents were passionate about a number of things, but chief among them was assuring that my sister and I received a quality education, and they sacrificed much to give us that opportunity. They also taught us by example the importance of giving back to our community in recognition of the obligation we have as citizens living in a democracy. Volunteering and assuming positions of responsibility in community organizations, albeit at times challenging, was simply a given in our family. These important lessons and others help to explain why - for me - public service is both a privilege and an obligation. The opportunity to return to public service at this time seems especially important in this post 9/11 environment. Today, our Nation faces challenges that we must and can meet so that our children's and their children's freedoms and futures remain bright. I welcome the opportunity, if confirmed, to contribute what I can toward meeting these challenges.

Mr. Chairman, I believe that the solid education my parents encouraged and helped me achieve along with the professional experiences that followed have prepared me well for the responsibilities I will undertake as General Counsel, if I am confirmed by the Senate. My legal training has prepared me throughout my career to solve complex problems by identifying issues, assessing relevant statutory and regulatory provisions, and crafting solutions to meet the goals of my clients.

My government service as an Assistant Legislative Counsel for the House of Representatives and the Minority Counsel and Staff Director of the House Energy and Commerce Committee taught me to be precise, analytical and thorough in developing legal proposals, and gave me a detailed understanding of the legislative and regulatory processes.

In the private sector, I have provided strategic advice to my clients, and have advocated their interests in a variety of forums. This has helped me to formulate clear and cogent legal and policy arguments, and to present them in a persuasive and effective manner.

I understand the responsibilities of the position to which I have been nominated are great. The legal issues facing the Treasury Department today are among the most important and sweeping in government, ranging from the financial war on terrorism to interpretation of the tax code. Decisions of the Department directly impact individual citizens and businesses in very profound and personal ways. It is clear to me that

assuming leadership of the Treasury's legal division and providing candid advice to the Secretary and other Treasury clients will be both challenging and immensely rewarding. If confirmed, I welcome this challenge, and pledge to you that I will work hard every day to carry out my responsibilities.

I thank you again, Mr. Chairman, for allowing me to appear before you today, and I am happy to answer any questions that you and other members of the Committee may have.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 18, 2003
JS-1009

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I thank you again, Mr. Chairman, for allowing me to appear before you today, and I am happy to answer any questions that you and other members of the Committee may have.

2003 National Money Laundering Strategy

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 19, 2003
JS-1011

Treasury & IRS Shut Down Abusive Tax Avoidance Transaction Involving Contested Liability Trusts

Today the Treasury Department and the Internal Revenue Service issued guidance to prevent the use of trusts to accelerate deductions for liabilities that a taxpayer is contesting. The use of a trust to accelerate improperly deductions under section 461(f) is now a "listed transaction". A taxpayer using a trust for this purpose will have to disclose it to the IRS and an advisor promoting its use will be required to keep a list of taxpayers.

"The notice and regulations are part of our continuing efforts to identify and shut down abusive tax avoidance transactions," stated Treasury assistant Secretary for Tax Policy Pam Olson. "Once again, we have put taxpayers on notice. A taxpayer that uses improperly a trust to accelerate a deduction for a contested liability will have to disclose that to the IRS."

Taxpayers have transferred their own stock or the stock or note of a related party to contested liability trusts to satisfy the requirements of section 461(f). The temporary regulations provide that such a transfer does not satisfy the requirements of section 461(f). In addition, the temporary regulations clarify that a taxpayer's transfer of money or other property to a trust, escrow account, or court to provide for the satisfaction of a contested workers compensation, tort, or other payment liability generally does not satisfy the economic performance requirement of the Code. Rather, economic performance occurs when payment is made to the claimant.

Notice 2003-77 also denotes as listed transactions certain transfers to contested liabilities trusts, including transfers in which the transferor has retained control over the trust assets.

-30-

Related Documents:

- Notice 2003-77
- TD 9095
- Reg. 136890-02

Part III - Administrative, Procedural, and Miscellaneous

Transfers to Trusts to Provide for the Satisfaction of Contested Liabilities

Notice 2003-77

The Internal Revenue Service and Treasury Department are aware of certain transactions that use contested liability trusts improperly to attempt to accelerate deductions for contested liabilities under ' 461(f) of the Internal Revenue Code. This notice alerts taxpayers and their representatives that these transactions are tax avoidance transactions and identifies these transactions, and substantially similar transactions, as listed transactions for purposes of ' 1.6011-4(b)(2) of the Income Tax Regulations and '' 301.6111-2(b)(2) and 301.6112-1(b)(2) of the Procedure and Administration Regulations. This notice also alerts parties involved with these transactions of certain responsibilities that may arise from their involvement with these transactions.

LAW

Section 461(f) provides an exception to the general rules of tax accounting by allowing a taxpayer to deduct a contested liability in a year prior to the resolution of the contest if the following conditions are satisfied: (1) the taxpayer contests an asserted liability; (2) the taxpayer transfers money or other property to provide for the satisfaction of the asserted liability; (3) the contest with respect to the asserted liability exists after the time of transfer; and (4) but for the fact that the asserted liability is contested, a deduction would be allowed for the taxable year of the transfer (or for an earlier taxable year) determined after the application of the economic performance rules. If these requirements are satisfied, a taxpayer may deduct the liability in the taxable year of the transfer.

On November 19, 2003, the Service and Treasury Department filed with the Federal Register proposed and temporary regulations under ' 461(f). Section 1.461-2T(c)(1) of these temporary regulations, which replaces and restates ' 1.461-2(c)(1), provides that a transfer for the satisfaction of an asserted liability is a transfer of money or property beyond the taxpayer=s control to: (1) the person asserting the liability; (2) an escrowee or trustee pursuant to a written agreement (among the escrowee or trustee, the taxpayer, and the person who is asserting the liability) providing that the money or other property be delivered in accordance with the settlement of the contest; (3) an escrowee or trustee pursuant to an order of a court or government entity providing that the money or other property be delivered in accordance with the settlement of the contest; or (4) a court with jurisdiction over the contest. An account is in the taxpayer=s control unless the taxpayer has relinquished all authority over the money or other property transferred.

Section 1.461-2T(c)(1)(iii) provides that the following actions are not transfers to provide for the satisfaction of an asserted liability: (1) the purchase of a bond to guarantee payment of the asserted liability; (2) an entry on the taxpayer=s books of account; and (3) a transfer to an account in the taxpayer=s control. The temporary regulations clarify that a transfer in taxable years beginning after December 31, 1953, and ending after August 16, 1954, of any indebtedness of a taxpayer or any promise by the taxpayer to provide services or property in the future is not a transfer to provide for the satisfaction of an asserted liability. In addition, the temporary regulations provide the express rule that a transfer (other than to the person asserting the liability) of a taxpayer=s stock, or the indebtedness or stock of a person related to the taxpayer (as defined in section 267(b)), is not a transfer to provide for the satisfaction of an asserted liability.

Section 461(h)(2)(C) provides that, if a workers compensation or tort liability requires a payment to another person, then economic performance occurs as payments to the person are made. The Conference Report accompanying enactment of ' 461(h) states:

> In the case of workers= compensation or tort liabilities of the taxpayer requiring payments to another person, economic performance occurs as payments are made to that person. Since payment to a section 461(f) trust is not a payment to the claimant and does not discharge the taxpayer=s liability to the claimant, such payment does not satisfy the economic performance test.

H.R. Rep. No. 861, 98th Cong., 2d Sess. 871, 876 (1984).

Section 461(h)(2)(D) provides that in the case of other liabilities, economic performance occurs at the time determined under regulations prescribed by the Secretary. Section 1.461-4(g)(2) through (7) describes other liabilities for which payment is economic performance.

Section 1.461-4(g)(1)(ii)(A) provides that payment does not include the furnishing of a note or other evidence of indebtedness of the taxpayer.

Section 1.461-4(g)(1)(i) provides that, for certain liabilities for which payment is economic performance, economic performance does not occur as a taxpayer makes payments in connection with the liability to any other person, including a trust, escrow account, court-administered fund, or any similar arrangement, unless the payments constitute payment to the person to which the liability is owed. In *Maxus Energy Corporation and Subsidiaries v. United States*, 31 F.3d 1135, 1144, 1145 (Fed. Cir. 1994), the taxpayer=s payment to a settlement fund effectively constituted payment to the person to which the liability was owed because the claimants agreed to look solely to the fund to satisfy their claims and, therefore, the taxpayer=s payment to the fund discharged its liability to the claimant.

Section 1.461-2T(e)(2) provides that, except as provided in ' 468B or the regulations thereunder, economic performance does not occur when a taxpayer transfers money or other property to a trust, escrow account, or court to provide for the satisfaction of a contested workers compensation, tort, or other liability designated in ' 1.461-4(g) unless the trust, escrow account, or court is the claimant or the taxpayer=s payment to the trust, escrow account, or court discharges the taxpayer=s liability to the claimant.

ANALYSIS

The Service and Treasury Department have become aware of transactions in which taxpayers have established trusts purported to qualify under ' 461(f), but that fail to comply with the requirements of ' 461(f) or the regulations by reason of: (1) retention of powers over the trust assets (such as the power to substitute assets, to pay the contested liabilities out of assets other than those in the trust, or to limit the trustee=s ability to sell the taxpayer=s assets that the taxpayer transferred to the trust), contrary to the requirement that the taxpayer relinquish control over the property transferred; (2) transfer to the trust of related party notes under circumstances indicating the liability is not genuine or that there is no intent between the parties to enforce the obligation, which is not a valid transfer to provide for the satisfaction of an asserted liability; or (3) establishment of trusts for contested tort, workers compensation, or other liabilities designated in ' 1.461-4(g), for which economic performance requires payment to the claimant.

Transactions that are the same as, or substantially similar to, the following transactions are identified as Alisted transactions@ for purposes of ' ' 1.6011-4(b)(2), 301.6111-2(b)(2) and 301.6112-1(b)(2):

(1) transactions in which a taxpayer transfers money or other property in taxable years beginning after December 31, 1953, and ending after August 16, 1954, to a trust purported to be established under ' 461(f) to provide for the satisfaction of an asserted liability and retains any one or more of the following powers over the money or other property transferred: to pay any liabilities ultimately due to the claimant out of assets other than those transferred to the trust; to substitute money or other property for property transferred to the trust; to prohibit payment to the claimant by the trustee until instructed by the taxpayer; to prohibit notification to the claimant of the trust=s establishment; to limit the trustee=s ability to sell the property after it is transferred to the trust; and to limit the trustee=s ability to enforce notes or rights relating to other property transferred to the trust;

(2) transactions in which a taxpayer transfers any indebtedness of the taxpayer or any promise by the taxpayer to provide services or property in the future in taxable years beginning after December 31, 1953, and ending after August 16, 1954, to a trust purported to be established under ' 461(f) to provide for the satisfaction of an asserted

liability;

(3) transactions in which a taxpayer transfers money or other property after July 18, 1984, to a trust purported to be established under ' 461(f) to provide for the satisfaction of a workers compensation or tort liability;

(4) transactions in which a taxpayer transfers money or other property in taxable years beginning after December 31, 1991, to a trust purported to be established under ' 461(f) to provide for the satisfaction of a liability for which payment is economic performance under ' 1.461-4(g), other than a liability for workers compensation or tort; and

(5) transactions in which a taxpayer transfers stock issued by the taxpayer, or indebtedness or stock issued by a party related to the taxpayer (as defined in ' 267(b)), on or after November 19, 2003, to a trust purported to be established under ' 461(f) to provide for the satisfaction of any asserted liability.

Independent of their classification as Alisted transactions,@ transactions that are the same as, or substantially similar to, the transactions described in this notice may already be subject to the disclosure requirements of ' 6011 (' 1.6011-4), the tax shelter registration requirements of ' 6111 (' ' 301.6111-1T, 301.6111-2), or the list maintenance requirements of ' 6112 (' 301.6112-1). Persons required to register these tax shelters under ' 6111 who have failed to do so may be subject to the penalty under ' 6707(a). Persons required to maintain lists of investors under ' 6112 who have failed to do so (or who fail to provide such lists when requested by the Service) may be subject to the penalty under ' 6708(a). In addition, the Service may impose penalties on parties involved in these transactions or substantially similar transactions, including the accuracy-related penalty under ' 6662.

Transactions that are the same as, or substantially similar to, the transactions described in this notice are identified as "listed transactions" for purposes of §§ 1.6011-4(b)(2), 301.6111-2(b)(2) and 301.6112-1(b)(2) effective November 19, 2003, the date this notice is released to the public. The references to specific taxable years and dates in the description of transactions covered by this notice are intended to provide consistency with the temporary and proposed regulations under § 461(f) filed with the Federal Register on November 19, 2003. Only those transactions covered by the provisions (including the effective date provisions) of the disclosure, tax shelter registration, and list maintenance requirements under §§ 6011, 6111, and 6112 and the regulations thereunder will be subject to those requirements.

DRAFTING INFORMATION

The principal author of this notice is Norma Rotunno of the Office of the Associate Chief Counsel (Income Tax & Accounting). For further information regarding this notice, contact Ms. Rotunno at (202) 622-7900 (not a toll-free number).

[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[TD 9095]

RIN 1545-BA91

Transfers to Provide for Satisfaction of Contested Liabilities

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final and temporary regulations.

SUMMARY: This document contains regulations relating to transfers of money or other property to provide for the satisfaction of contested liabilities. The regulations affect taxpayers that are contesting an asserted liability and that transfer their own stock or indebtedness, the stock or indebtedness of a related party, or a promise to provide services or property in the future, to provide for the satisfaction of the liability prior to the resolution of the contest. The regulations also affect taxpayers that transfer money or other property to a trust, an escrow account, or a court to provide for the satisfaction of a liability for which payment is economic performance. The text of these temporary regulations also serves as the text of the proposed regulations set forth in the notice of proposed rulemaking on this subject in the Proposed Rules section in this issue of the **Federal Register**.

DATES: Effective Date: These regulations are effective November 19, 2003.

Applicability Dates: For dates of applicability, see ' 1.461-2T(g).

FOR FURTHER INFORMATION CONTACT: Norma Rotunno, (202) 622-7900 (not a toll

free number).

SUPPLEMENTARY INFORMATION:

Background

This document contains amendments to the Income Tax Regulations (26 CFR Part 1) under section 461(f) of the Internal Revenue Code (Code) relating to the transfer of money or other property to provide for the satisfaction of an asserted liability that a taxpayer is contesting. Section 461(f) provides an exception to the general rules of tax accounting by allowing a taxpayer to deduct a contested liability in a year prior to the resolution of the contest if the following conditions are met: (1) the taxpayer contests an asserted liability, (2) the taxpayer transfers money or other property to provide for the satisfaction of the asserted liability, (3) the contest with respect to the asserted liability exists after the time of transfer, and (4) but for the fact that the asserted liability is contested, a deduction would be allowed for the taxable year of the transfer (or for an earlier taxable year) determined after the application of the economic performance rules. If these requirements are satisfied, a taxpayer may deduct the liability in the taxable year of the transfer.

Section 461(f)(2) requires the taxpayer to transfer money or other property to provide for the satisfaction of the asserted liability. Neither the statute nor the regulations specifically define money or other property. The examples in the regulations and the legislative history involve only transfers of cash.

Under ' 1.461-2(c)(1) of the Income Tax Regulations, a transfer for the satisfaction of an asserted liability is a transfer of money or other property beyond the

taxpayer=s control to: (1) the person asserting the liability, (2) an escrowee or trustee pursuant to a written agreement (among the escrowee or trustee, the taxpayer, and the person who is asserting the liability) providing that the money or other property be delivered in accordance with the settlement of the contest, (3) an escrowee or trustee pursuant to an order of a court or government entity providing that the money or other property be delivered in accordance with the settlement of the contest, or (4) a court with jurisdiction over the contest. The taxpayer must relinquish all authority over the money or other property transferred.

To qualify for a deduction, section 461(f)(4) provides that a deduction is allowed in the taxable year of the transfer only if, but for the fact that the asserted liability is contested, a deduction would be allowed for the taxable year of the transfer (or for an earlier taxable year) Adetermined after application of subsection (h).@ Congress added the quoted language to section 461(f)(4) when Congress enacted section 461(h), which provides, for amounts with respect to which a deduction would be allowable after July 18, 1984, that the all events test is not met any earlier than when economic performance has occurred with respect to the liability. Section 461(h)(2)(C) provides that payment to another person is required to satisfy economic performance for liabilities arising out of any workers compensation act or any tort. The Conference Report accompanying enactment of section 461(h) explains the impact of the economic performance requirement on trusts established under section 461(f):

> In the case of workers= compensation or tort liabilities of the taxpayer requiring payments to another person, economic performance occurs as payments are made to that person. Since payment to a section 461(f) trust is not a payment to the claimant and does not discharge

> the taxpayer=s liability to the claimant, such payment does not satisfy the economic performance test.

H. R. Rep. No. 861, 98th Cong., 2d Sess. 871, 876 (1984).

For transfers in taxable years beginning after December 31, 1991, '1.461-4(g)(2)-(7) expands the list of liabilities for which payment Ato the person to which the liability is owed@ constitutes economic performance (payment liabilities). The additional payment liabilities listed in '1.461-4(g)(2)-(6) include liabilities for breach of contract (to the extent of incidental, consequential, and liquidated damages) or violation of law, rebates and refunds, awards, prizes, jackpots, insurance, warranty and service contracts, and taxes. In addition, '1.461-4(g)(7) characterizes as payment liabilities other liabilities for which other specific rules are not provided.

Section 1.461-4(g)(1)(ii)(A) provides that payment does not include the furnishing of a note or other evidence of indebtedness of the taxpayer.

Section 1.461-4(g)(1)(i) provides that, for liabilities for which payment is economic performance, economic performance does not occur as a taxpayer makes payments in connection with a liability to any other person, including a trust, escrow account, court-administered fund, or any similar arrangement, unless the payments constitute payment to the person to which the liability is owed under paragraph (g)(1)(ii)(B). Section 1.461-4(g)(1)(ii)(B) states that payment is accomplished if a cash basis taxpayer in the position of the person to which the liability is owed would be treated as having actually or constructively received the amount of the payment as gross income under section 451.

Explanation of Provisions

Transfers of Property to Provide for the Satisfaction of an Asserted Liability

The regulations remove '1.461-2(c)(1) and add '1.461-2T(c)(1). The temporary regulations restructure the provisions of current '1.461-2(c)(1) for greater clarity but retain all of the rules in '1.461-2(c)(1), including the requirement that the taxpayer must transfer money or other property beyond the taxpayer=s control and relinquish all authority over the money or other property transferred. The temporary regulations clarify that the transfer of the indebtedness of a taxpayer or of any promise by the taxpayer to provide services or property in the future is not a transfer to provide for the satisfaction of an asserted liability. See Eckert v. Burnet, 283 U.S. 140 (1931); Willamette Industries, Inc., v. Commissioner, 92 T.C. 1116 (1989), aff=d, 149 F. 3d 1057 (9th Cir. 1998). In addition, the temporary regulations provide the express rule that a transfer (other than to the person asserting the liability) of a taxpayer=s stock, or the indebtedness or stock of a person related to the taxpayer (as defined in section 267(b)), is not a transfer to provide for the satisfaction of an asserted liability. These rules are consistent with section 468B(d)(1)(B), which excludes as a qualified payment to a designated settlement fund the transfer of any stock or indebtedness of the taxpayer (or any related person). See '1.461-4(g)(1)(ii)(A), which provides that payment does not include the furnishing of a note or other evidence of indebtedness of the taxpayer or a promise of the taxpayer to provide services or property in the future.

Economic Performance Rules for Payment Liabilities

Section 1.461-4(g) provides that economic performance occurs in the case of a liability requiring payment to another person arising out of a workers compensation act,

tort, or other designated liability as payments are made to the person to which the liability is owed. Therefore, the temporary regulations provide in ' 1.461-2T(e)(2) that, except as provided in section 468B or the regulations thereunder, economic performance does not occur when a taxpayer transfers money or other property to a trust, escrow account, or court to provide for the satisfaction of a contested workers compensation, tort, or other liability designated in ' 1.461-4(g) unless the trust, escrow account, or court is the claimant or the taxpayer=s payment to the trust, escrow account, or court discharges the taxpayer=s liability to the claimant. See Maxus Energy Corporation and Subsidiaries v. United States, 31 F.3d 1135 (Fed. Cir. 1994). Rather, economic performance occurs in the taxable year in which the taxpayer transfers money or other property to the person asserting the liability that the taxpayer is contesting, or in the taxable year in which payment from the trust, escrow account, or court registry is made to the person to which the liability is owed.

Effective Date

In general, the temporary regulations apply to transfers made in taxable years beginning after December 31, 1953, and ending after August 16, 1954. However, the temporary regulations apply to transfers of any stock of the taxpayer or any stock or indebtedness of a related person on or after November 19, 2003. Section 1.461-2T(e)(2)(i) applies to transfers of money or other property after July 18, 1984, the effective date of section 461(h). Similarly, ' 1.461-2T(e)(2)(ii) applies to transfers of money or other property after July 18, 1984, to satisfy workers compensation or tort liabilities, and applies to transfers of money or other property in taxable years beginning

after December 31, 1991, the effective date of ' 1.461-4(g), to satisfy payment liabilities designated under ' 1.461-4(g) (other than liabilities for workers compensation or tort).

Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations. Please refer to the cross-referenced notice of proposed rulemaking published elsewhere in this issue of the **Federal Register** for applicability of the Regulatory Flexibility Act (5 U.S.C. chapter 6). Pursuant to section 7805(f) of the Code, these temporary regulations will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on their impact on small business.

Drafting Information

The principal author of these regulations is Norma Rotunno of the Office of the Associate Chief Counsel (Income Tax & Accounting). However, other personnel from the IRS and Treasury participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Amendments to the Regulations

Accordingly, 26 CFR part 1 is amended as follows:

PART 1-- INCOME TAXES

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

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

Par. 2. Section 1.461-2 is amended by:

1. Removing paragraph (a)(5).

2. Revising paragraph (c)(1).

3. Redesignating paragraph (e)(2) as paragraph (e)(3) and revising it.

4. Adding new paragraph (e)(2).

The addition and revisions read as follows:

<u>' 1.461-2 Contested liabilities</u>.

* * * * *

(c) * * *

(1) [Reserved]. For further guidance, see ' 1.461-2T(c)(1).

* * * * *

(e) * * *

(2) [Reserved]. For further guidance, see ' 1.461-2T(e)(2).

(3) <u>Examples</u>. The provisions of this paragraph are illustrated by the following examples:

<u>Example 1</u>. A, an individual, makes a gift of certain property to B, an individual. A pays the entire amount of gift tax assessed against him but contests his liability for the tax. Section 275(a)(3) provides that gift taxes are not deductible. A does not satisfy the requirement of paragraph (a)(1)(iv) of this section because a deduction would not be allowed for the taxable year of the transfer even if A did not contest his liability to the tax.

<u>Example 2</u>. [Reserved]. For further guidance, see ' 1.461-2T(e)(3), <u>Example 2</u>.

* * * * *

Par. 4. Section 1.461-2T is added to read as follows:

' 1.461-2T Contested liabilities (temporary).

(a) and (b) [Reserved]. For further guidance, see ' 1.461-2(a) and (b).

(c) Transfer to provide for the satisfaction of an asserted liability--(1) In general. (i) A taxpayer may provide for the satisfaction of an asserted liability by transferring money or other property beyond his control to--

(A) The person who is asserting the liability;

(B) An escrowee or trustee pursuant to a written agreement (among the escrowee or trustee, the taxpayer, and the person who is asserting the liability) that the money or other property be delivered in accordance with the settlement of the contest;

(C) An escrowee or trustee pursuant to an order of the United States or of any State or political subdivision thereof or any agency or instrumentality of the foregoing, or of a court, that the money or other property be delivered in accordance with the settlement of the contest; or

(D) A court with jurisdiction over the contest.

(ii) In order for money or other property to be beyond the control of a taxpayer, the taxpayer must relinquish all authority over the money or other property.

(iii) The following are not transfers to provide for the satisfaction of an asserted liability--

(A) Purchasing a bond to guarantee payment of the asserted liability;

(B) An entry on the taxpayer=s books of account;

(C) A transfer to an account that is within the control of the taxpayer;

(D) A transfer of any indebtedness of the taxpayer or of any promise by the

taxpayer to provide services or property in the future; and

(E) A transfer to a person (other than the person asserting the liability) of any stock of the taxpayer or of any stock or indebtedness of a person related to the taxpayer (as defined in section 267(b)).

(c)(2) through (d) [Reserved]. For further guidance, see ' 1.461-2(c)(2) through (d).

(e) Deduction otherwise allowed--(1) [Reserved]. For further guidance, see ' 1.461-2(e)(1).

(2) Application of economic performance rules to transfers under section 461(f). (i) A taxpayer using an accrual method of accounting is not allowed a deduction under section 461(f) in the taxable year of the transfer unless economic performance has occurred.

(ii) Economic performance occurs for liabilities requiring payment to another person arising out of any workers compensation act or any tort, or any other liability designated in ' 1.461-4(g), as payments are made to the person to which the liability is owed. Except as provided in section 468B or the regulations thereunder, economic performance does not occur when a taxpayer transfers money or other property to a trust, an escrow account, or a court to provide for the satisfaction of an asserted workers compensation, tort, or other liability designated under ' 1.461-4(g) that the taxpayer is contesting unless the trust, escrow account, or court is the person to which the liability is owed or the taxpayer=s payment to the trust, escrow account, or court discharges the taxpayer=s liability to the claimant. Rather, economic performance

occurs in the taxable year the taxpayer transfers money or other property to the person that is asserting the workers compensation, tort, or other liability designated under ' 1.461-4(g) that the taxpayer is contesting or in the taxable year that payment is made from a trust, an escrow account, or a court registry funded by the taxpayer to the person to which the liability is owed.

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

Example 1. [Reserved]. For further guidance, see ' 1.461-2(e)(3), Example 1.

Example 2. Corporation X is a defendant in a class action suit for tort liabilities. In 2002, X establishes a trust for the purpose of satisfying the asserted liability and transfers $10,000,000 to the trust. The trust does not satisfy the requirements of section 468B or the regulations thereunder. In 2004, the trustee pays $10,000,000 to the plaintiffs in settlement of the litigation. Under paragraph (e)(2) of this section, economic performance with respect to X=s liability to the plaintiffs occurs in 2004. X may deduct the $10,000,000 payment to the plaintiffs in 2004.

(f) [Reserved]. For further guidance, see ' 1.461-2(f).

(g) Effective date. (1) Except as otherwise provided, this section applies to transfers of money or other property in taxable years beginning after December 31, 1953, and ending after August 16, 1954.

(2) Paragraph (c)(1)(iii)(E) of this section applies to transfers of any stock of the taxpayer or any stock or indebtedness of a person related to the taxpayer on or after November 19, 2003.

(3) Paragraph (e)(2)(i) of this section applies to transfers of money or other property after July 18, 1984.

(4) Paragraphs (e)(2)(ii) and (e)(3) of this section apply to--

(i) Transfers after July 18, 1984, of money or other property to provide for the satisfaction of an asserted workers compensation or tort liability; and

(ii) Transfers in taxable years beginning after December 31, 1991, of money or

other property to provide for the satisfaction of asserted liabilities designated in '1.461-4(g) (other than liabilities for workers compensation or tort).

Mark E. Matthews,

Deputy Commissioner for Services and Enforcement.

Approved: November 12, 2003.

Pamela F. Olson,
Assistant Secretary of the Treasury.

[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG-136890-02]

RIN 1545-BA90

Transfers to Provide for Satisfaction of Contested Liabilities

AGENCY: Internal Revenue Service (IRS), Treasury.

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

SUMMARY: In the Rules and Regulations section of this issue of the **Federal Register**, the IRS is issuing temporary regulations relating to the transfer of indebtedness or stock of a taxpayer or related persons or of a promise to provide services or property in the future to provide for the satisfaction of an asserted liability that the taxpayer is contesting. The temporary regulations also relate to transfers of money or other property to a trust, an escrow account, or a court to provide for the satisfaction of a liability for which payment is economic performance. The text of those temporary regulations also serves as the text of these proposed regulations. This document also provides notice of a public hearing on these proposed regulations.

DATES: Written or electronic comments must be received by February 19, 2004. Requests to speak and outlines of topics to be discussed at the public hearing scheduled for March 23, 2004, must be received by March 2, 2004.

ADDRESSES: Send submissions to: CC:LPD:PR (REG-136890-02), room 5226,

Internal Revenue Service, POB 7604, Ben Franklin Station, Washington, DC. 20044. Submissions may be hand delivered Monday through Friday between the hours of 8 a.m. and 4 p.m. to: CC:LPD:PR (REG-136890-02), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, NW., Washington, DC., or sent electronically via the IRS Internet site at www.irs.gov/regs. The public hearing will be held in the 7th floor auditorium, Internal Revenue Building, 1111 Constitution Avenue NW., Washington, DC.

FOR FURTHER INFORMATION CONTACT: Concerning the hearing, submission of comments, and/or to be placed on the building access list to attend the hearing, Guy Traynor, (202) 622-7180; concerning the proposed regulations, Norma Rotunno, (202) 622-7900 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Background and Explanation of Provisions

Temporary regulations in the Rules and Regulations section of this issue of the **Federal Register** amend the Income Tax Regulations (26 CFR Part 1) relating to section 461(f) of the Internal Revenue Code (Code). The temporary regulations provide the express rule that transfers of the indebtedness of a taxpayer or of any promise to provide services or property in the future, or transfers (other than to the person asserting the liability) of a taxpayer=s stock, or the indebtedness or stock of a person related to the taxpayer (as defined in section 267(b)), are not transfers to provide for the satisfaction of an asserted liability. The temporary regulations also provide rules relating to the application of the economic performance rules to transfers of money or other property under section 461(f) to provide for the satisfaction of a contested workers

compensation or tort liability, or other liability for which payment is economic performance under ' 1.461-4(g). The text of the temporary regulations also serves as the text of these proposed regulations. The preamble to the temporary regulations explains the amendments.

Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations, and because the regulation does not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Comments and Public Hearing

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

A public hearing has been scheduled for March 23, 2004, in the 7th floor

auditorium of the Internal Revenue Building, 1111 Constitution Avenue NW., Washington, DC. Due to building security procedures, visitors must enter at the Constitution Avenue entrance. In addition, all visitors must present photo identification to enter the building. Because of access restrictions, visitors will not be admitted beyond the immediate entrance area more than 30 minutes before the hearing starts. For information about having your name placed on the building access list to attend the hearing, see the AFOR FURTHER INFORMATION CONTACT@ section of this preamble.

The rules of 26 CFR 601.601(a)(3) apply to the hearing. Persons who wish to present oral comments at the hearing must submit written comments and an outline of the topics to be discussed and the time to be devoted to each topic (signed original and eight (8) copies) by March 2, 2004. A period of 10 minutes will be allotted to each person for making comments. An agenda showing the scheduling of the speakers will be prepared after the deadline for receiving outlines has passed. Copies of the agenda will be available free of charge at the hearing.

Drafting Information

The principal author of these regulations is Norma Rotunno, Office of the Associate Chief Counsel (Income Tax & Accounting). However, other personnel from the IRS and Treasury Department participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Proposed Amendments to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

PART 1-- INCOME TAXES

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

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

Par. 2. Section 1.461-2 is amended by revising paragraphs (c)(1), (e)(2), (e)(3), and (g) to read as follows:

' 1.461-2 Contested liabilities.

[The text of proposed paragraphs (c)(1), (e)(2), (e)(3), and (g) is the same as the

text of ' 1.461-2T(c)(1), (e)(2), (e)(3), and (g) published elsewhere in this issue of the **Federal Register**.]

Deputy Commissioner for Services and Enforcement.

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
November 17, 2003

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	November 20, 2003
Maturity Date:	May 20, 2004
CUSIP Number:	912795PZ8

High Rate: 1.010% Investment Rate 1/: 1.033% Price: 99.489

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 70.04%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 38,220,074	$ 14,902,142
Noncompetitive	1,023,576	1,023,576
FIMA (noncompetitive)	75,000	75,000
SUBTOTAL	39,318,650	16,000,718 2/
Federal Reserve	5,892,642	5,892,642
TOTAL	$ 45,211,292	$ 21,893,360

Median rate 1.005%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 0.980%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 39,318,650 / 16,000,718 = 2.46

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $813,621,000

JS 1112

FROM THE OFFICE OF PUBLIC AFFAIRS

November 18, 2003
2003-11-18-15-59-20-26890

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 $84,666 million as of the end of that week, compared to $83,554 million as of the end of the prior week.

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

	November 7, 2003			November 14, 2003		
TOTAL		83,554			84,666	
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	7,676	14,392	22,039	7,826	14,507	22,333
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,534	2,891	15,425	12,799	2,914	15,713
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]			23,179			23,529
3. Special Drawing Rights (SDRs) [2]			11,867			12,047
4. Gold Stock [3]			11,043			11,043
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	November 7, 2003			November 14, 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

	November 7, 2003			November 14, 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:

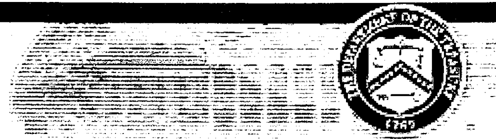
1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values. Foreign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

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November 19, 2003
JS-1013

Report on Implementation of Recommendations Made by the International Financial Institutions Advisory Commission

Report(s):

- Report on Implementation of Recommendations Made by the International Financial Institutions Advisory Commission

Report on Implementation of Recommendations Made by the International Financial Institutions Advisory Commission

October 2003

The international financial institutions (IFIs) play a pivotal role in the international community's effort to strengthen the foundations for global growth, particularly in reducing the frequency and depth of financial crises and supporting productivity gains essential to poverty reduction.. The March 2000 report by the International Financial Institutions Advisory Commission, chaired by Dr. Alan Meltzer, provided insights into the how the IFIs might better realize their goals.

This is the third and final annual xeport updating the Administration's progress "to implement such recommendations as are deemed feasible and desirable" in the Department of the Treasury's response to the Commission's report.,[1] The need to increase the effectiveness of the IFIs is ongoing and, as such, Treasury's work in improving these organizations will continue.

HIPC

The Commission unanimously recommended that the IMF and MDBs "write-offin their entirety all claims against heavily indebted poor countries (HIPCs) that implement an effective economic and social development strategy."

In the three years since the report was published, 27 countries have reached the so-called HIPC Decision Point – when the country begins to receive both IFI and bilateral debt reduction. Eight of the HIPC countries have gone on to achieve the Completion Point – when outstanding debt stock is irrevocably cancelled. The United States and all other G-7 countries now forgive 100 percent of outstanding concessional debt contracted prior to the 1999 Cologne Summit and have called on all bilateral creditors to do the same. Additionally, the U.S. and several other countries have agreed to cancel all non-concessional debt contracted before the Cologne Summit.

To reduce the accumulation of more debt, the World Bank and the African Development Bank have sharply increased proportion of assistance given in the form of grants rather than loans. Measures that reward good policies, strengthen institutions, and encourage growth in developing countries ultimately offer the best hope for sustained growth and poverty reduction.

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[1] The Treasury response was prepared pursuant to section 603(i)(1) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999 (section 101(d) of Public Law 105-277) Previous update reports from 2001 and 2002 are available on the U S Department of the Treasury's website at http://www.treas.gov/press/releases/reports/meltzer.pdf and http://www.treas.gov/press/releases/reports/meltzer02.pdf, respectively

INTERNATIONAL MONETARY FUND

The Commission directed many of its recommendations at the role and functions of the International Monetary Fund (IMF)

A number of the Commission's insights have led to serious debate and, with strong support from the Department of the Treasury, the IMF has undertaken several reforms over the past three years

Crisis Prevention

The prevention of international financial crises lies at the heart of the IMF's mission The Treasury has focused intensely on strengthening the IMF's perfomiance in crisis prevention over the past three years. The IMF's debt sustainability analyses were recently improved to better account for likely shocks and various policy compliance outcomes.

Industrial countries have by far the largest role to play in crisis reduction. This is why work on standards and codes in industrial countries is a central aspect of the IMF's crisis prevention efforts. The Financial Sector Assessment Program (FSAP), created jointly with the World Bank, now incorporates vulnerability analysis into surveillance and program work with industrial countries. Another joint IMF/Bank undertaking, the Reports on the Observance of Standards and Codes (ROSCs), further helps countries identify sectors for concern and leads to focused technical assistance programs. In existence since 1999, ROSCs cover eleven economic sectors, allowing markets and policymakers to compare country performance against a global benchmark. In November 2002, IMF/World Bank Boards added a twelfth area, anti-money laundering and combating the financing of terrorism (AML/CFT), to the list.. Over 50 ROSCs were carried out over the past year, bringing the total number completed to nearly 350, with almost half of IMF members conipleting at least one. The U.S. has supported this effort, and Treasury has posted the completed U.S. ROSCs on its website.

In addition, three more countries subscribed to the Special Data Dissemination Standard (SDDS) this year, bringing the total to 53 countries (plus the European Central Bank) whose data are available publicly through the IMF's SDDS website. The broader General Data Dissemination Standard (GDDS) continues to serve a dual role as a framework for countries to improve their statistical systems as well as a primary database covering countries not yet linked to international capital markets.

Adding Predictability in the Case of Debt Restructuring

Over the last year, major progress has also been made in improving IMF crisis resolution strategies. Collective action clauses in sovereign debt (CACs) are becoming the market standard – an important step in institutionalizing a contractual method of speeding resolution of unsustainable sovereign debt situations. The U.S. led a consultative group of G10 representatives to explore options for the design of CACs, and the IMF provided market research to demonstrate that countries' use of such clauses do not dampen market appetite or otherwise decrease prices on international debt. The IMF now actively

promotes the uses of CACs in its bilateral and multilateral surveillance and through workshops with issuers and legal practitioners, and the U.S. continues to work with the IMF to ensure that emerging markets consider the use of CACs before they tap international markets. In the second quarter of 2003, new issuances with CACs outpaced those Without CACs for the first time.,

---

Transparency and Accountability at the IMF
The IMF has improved the transparency of its own operations and its dialogue with member countries. Over the past three years, the IMF has improved transparency of its finances – a strong Commission recommendation. Independent audits of IMF finances are carried out by private independent firms. To improve accountability, a new Independent Evaluation Office (IEO) within the IMF was created in 2002. The IEO is to make arms-length analyses that inform and accelerate reform efforts. The IEO completed two new studies this year on capital account crises and the role of fiscal adjustment in IMF-supported programs, both of which provided insight for IMF management leading to operational changes.

The IMF has increased transparency of program and surveillance (Article IV) consultations with member countries. Since the IMF authorized voluntary publication of Article IV staff reports in June 1999, the majority of these reports have been published. Data ending March 2003 indicate this hend is strengthening: 64% of Article IV and Use of Fund resources staff reports were published over the past year, compared with 59% during the previous year. The same data indicate that 82% of public information notices were published following Article IV consultations. Effective July 2004, the IMF will implement a new transparency policy, including "voluntary but presumed publication" for Article IV documents and Use of Fund resources reports.

Clarifying Limits on Access to Large Scale Loans
As part of a major reform effort to clarify the limits on access to large scale IMF loans, a new exceptional access report is required. Where exceptional access to IMF resources is considered appropriate, the Managing Director will now generally not recommend Board approval unless the country consents to staff report publication, making this exceptional access report public.

More Focused Conditionality
In recent years, the IMF conditions had become too wide ranging and excessively detailed. For this reason, new guidelines for conditionality were adopted in 2002. The guidelines returned the IMF to its core mandate of monetary, fiscal, and exchange rate policy, and limited the IMF's core responsibilities to efforts to ensue proper functioning of both domestic and international financial markets.

Many IMF programs are provided for "seal of approval" reasons. The practice of linking donor flows to IMF-supported programs can lead to pressure to take on IMF lending when no financial need exists. Treasury has worked with the IMF to identify substitutes for signaling in lieu of funded programs. An IMF policy change in January 2003 created

an "Assessment Letter" that will allow donors to evaluate the quality of a country's macroeconomic policy.

The new IMF policy on safeguards ensures country accountability for IMF loans by requiring accounting, reporting and/or auditing assessments under program conditionality for many borrowing countries. New safeguards assessments were completed for 14 member countries in the first six months of 2003

Poor Countries
Strategies for lending to poor countries have been examined over the past year, and the IMF has invited discussion of its role in helping poor countries,. In many cases, the IMF need not lend to poor countries in order to have a policy impact. The Treasury bas voiced its desire to see poor countries draw on the IMF's technical assistance and expertise, particularly in countries where accumulation of large debts can be counterproductive. Treasury has been persistent in pressing for up front policy achievements in countries that previously have failed to demonstrate policy commitment to economic stability and growth.. The goal is to raise the quality of monetary and fiscal policy in the poorest countries. As the IMF moves forward to develop poor country strategies, Treasury will advocate that the Poverty Reduction and Growth Facility (PRGF) be, at least partly, in tlie form of grants rather than loans.

MULTILATERAL DEVELOPMENT BANKS

The majority report of the Meltzer Commission recommended a number of operational and policy reforms to improve the policy performance of the multilateral development banks (MDBs).

The MDBs are important instruments for helping to support economic growth and raise living standards around the world. Treasury is working with the MDBs to improve their effectiveness in improving the lives and prospects of the world's poor. This requires increasing grant financing, mainstreaming results measurement, focusing assistance on good performers, increasing transparency, and supporting private sector-led growth.

Increasing Grant Financing
The Meltzer Commission recommended that grants should replace loans in MDB operations in poor countries without capital market access.

As a result of strong U.S. leadership in the 13th IDA replenishment negotiations in 2001-2002 (the 1.3" round of replenishment negotiations where donors push for reforms and commit financing for IDA, the World Bank's concessional arm), the IDA-13 Agreement provides for a significant expansion in grant funding for the world's poorest countries. Starting in July of 2002 and continuing for three years, IDA grants account for 18-21% of overall IDA resources, a total of about $4.5 billion. Grants are therefore now a major factor in IDA's overall assistance – having risen far beyond IDA's historical level of grant funding of less than 1% of overall IDA resources. 52 projects have come to the IDA Board from July 2002 through September 2003. Of this group, approximately 12"

projects have begun to disburse funds and are in the early stages of implementation. There have been many examples of strong results measurement frameworks in the grant-financed projects, demonstrating measurable indicators and expected outcomes of the grant fmancing.

U S. leadership on grants was also crucial in the 2002 replenishment agreement for the African Development Fund, known as AfDF-9, more than doubling the share of grants to 18-21%. In both IDA and AfDF, grants will be used for productivity-enhancing assistance for education, health, nutrition and potable water and sanitation; for HIV/AIDS projects and natural disaster reconstruction; and for post-conflict assistance. Donors to the International Fund of Agricultural Development (IFAD) also agreed in the IFAD-6 replenishment to increase grants to 10% (from the historical average of 5%) of total annual assistance, beginning in 2004.

Mainstreaming Results Measurement

The MDBs must give top priority to delivering and measuring development results at all levels. At the suggestion of the United States, the World Bank has taken this challenge on by establishing an "Incentive Contribution" structure in its latest IDA agreement that allows donors to increase their levels of funding if concrete measurable results are achieved.. Donors and developing countries alike will benefit from routinely quantifying development achievements and understanding the reasons for success or failure. This will significantly increase accountability.

Under IDA-13, World Bank management agreed to measure concrete progress toward

- Establishing a new results measurement system, drawing on timely and high quality diagnostic analyses that identify a country's ability to make the best use of IDA resources. These include assessments of public expenditure processes, financial accountability regulations, and investment climates., World Bank management made good on this commitment, and in April 2003 Treasury pledged the first installment of the U.S. Incentive Contribution ($100 million). In addition, IDA developed a series of long-term results indicators for the next replenishment (IDA-14).

- Achieving specific targets in IDA borrowing countries relating to education, health and private sector development to which the United States has tied its $200 million incentive contribution for the coming year. These targets include increasing the primary education completion rate and measles immunization coverage (both in terms of population-weighted average and numbers of countries with positive growth), and decreasing *the* time and cost required for business start-up by 7%. Treasury has suggested that the World Bank explore the concept of an audit of its own performance in meeting this commitment.

The United States also achieved agreement to improve results measurement in recently completed replenishment agreements for the African Development Bank's concessional window (AfDF), IFAD and the Global Environment Facility (GEF). The AfDF will develop quantifiable and monitorable performance indicators for all sectors, and

rigorously incorporate these in its operations. The African Development Bank (AfDB) is also developing a results-based management system. IFAD will establish a system to measure and report quantifiable results, both for individual projects and aggregated by category across the organization. Donors to GEF agreed to estimate and track project and program results for each environmental focal area, and both GEF and IFAD will establish independent evaluation units. The Inter-American Development Bank (IDB) is also putting in place an enhanced results measurement system that will be led by a Chief Development Effectiveness Officer, a new senior management position. The European Bank for Reconstruction and Development (EBRD) recently created a new monitoring system to measure project results (the Transition Impact Monitoring System) in order to improve its measuring and monitoring of projects during the implementation stage.

This isjust the start of actions that Treasury wants to see the MDBs take to fundamentally shift their focus to mainstream measurable results. Outcome goals, baselines and post-completion evaluations must be embedded in the design and implemented throughout the life of country, sector, and institutional strategies as well as loans. Treasury is promoting this in replenishment negotiations, policy statements at the MDB Boards, and meetings with management representatives of the MDBs. We have gained the support of G-8 colleagues – setting out an ambitious results measurement agenda for all of the MDBs to undertake.

Focusing Assistance on Good Performers

Last year at Monterrey, President Bush and other world leaders committed to a new partnership between developed and developing countries that link sound policies, good governance, and the rule of law to the mobilization of additional funds to achieve our common development goals. In the MDBs, we will continue to emphasize the importance of linking assistance to sound policies through performance based allocation systems. Such systems are in place or being developed in the concessional windows of all the institutions. For example, the IDA-13 Agreement called for a stronger emphasis on governance in its performance-based allocation formula – with the result that 17 countries had their IDA lending allocations reduced due to poor governance ratings for FY03. As a result of U.S. leadership, agreement was reached to establish performance based allocation systems for the first time in last year's replenishment negotiations for IFAD and GEF. We have urged the World Bank to move aggressively toward full disclosure of the performance rating system it uses to allocate resources to poor countries, including individual country performance scores used to apportion concessional IDA resources as well as the scores of the components that make up the country performance scores.

Increasing Transparency

As a result of consistent U.S pressure, the MDBs now systematically disclose to the public a broad range of key documents on their lending operations and country and sector strategies. There has been an extraordinary increase in the disclosure of World Bank documents since its new disclosure policy took effect at the beginning of 2002. The policy, which bas been complemented by a more pro-active outreach effort, provided for the release of a greater number of project-related documents; disclosure of the Chairman's

summaries of Board discussions on Country Assistance Strategies (CASs) and Sector Strategy Papers (SSPs); and a more systematic approach (with a reduced lapse of time) to accessing Bank arcliives.

In April *2003,* the EBRD adopted revisions to its Public Information Policy that increase the scope of information made available to the public through the publication of certain project evaluation documents and a schedule of forthcoming Board discussions. While positive steps, the U S . believes them to be insufficient and continues to urge greater disclosure of key documents, including environmental reviews, draft country strategies and summaries of Board discussions. The information disclosure policies at the Asian, African and Inter-American Development Banks are currently under review and the Administration is emphasizing the need for each of these institutions to implement "best practices" and a presumption of disclosure in all cases. Among the specific transparency measures we are pushing for are: disclosure of documents prior to their consideration by *the* Boards of Directors; issuance of the minutes of the Boards of Directors meetings; publication of output and outcome indicators and results for projects while they are being executed and when they are completed; and posting of annual reports on fraud by corruption investigations units, including statistical summaries and case studies.

Increasing Support for Private Sector Led Growth
Treasury is working with each of the MDBs to find better ways to promote private sector-led growth which is essential for poverty reduction, including through diagnostics and support to improve developing countries' investment climates., The focus of next year's World Development Report, the World Bank's flagship document, is on the links between investment climate improvements, growth and poverty reduction. Tlie World Bank's "Doing Business" program is helping developing countries to identify and take steps to remove obstacles to investment. IDA has committed to establish targets for beneficiary countries to meet in reducing business start-up times and costs. To emphasize the importance of these actions, the United States has based its *$200* million additional contribution to IDA partially on progress in these areas. The IFC and IDA – because of U.S. insistence – have launched promising initiatives to expand small and nlicro businesses' access to credit. The EBRD continues its work supporting loans to small and micro enterprises through local partner banks in many of its countries of operations.

BANK FOR INTERNATIONAL SETTLEMENTS

The Commission made four main recommendations concerning the Bank for International Settlements (BIS) that the BIS continue in its role as a financial standard setter, that tlie BIS align its risk measures more closely with credit and market risk; that the BIS streamline its organizational structure; and that the BIS undertake only membership expansion "gradually and deliberately

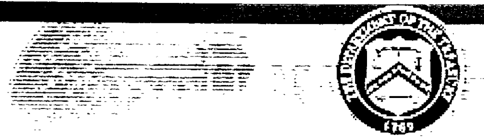
Recent developments at the BIS broadly coincide with these recommendations. The BIS continues to serve as the primary forum for cooperation among central banks to address international financial and monetary stability issues, and also acts as a prime counterparty

and provider of financial instruments for central banks The research and publication functions of the BIS add much value to the world of international banking and finance, and the BIS's Financial Stability Institute has expanded its series of seminars and workshops worldwide.

The BIS has focused on the collection of higher quality data and in February announced a series of steps to improve international consolidated banking statistics. The Basel 11 Capital Accord, slated for implementation at year-end 2006, will improve the international capital adequacy framework through a three-pillared approach: new minimum capital requirements, enhanced supervisory review of capital adequacy, and greater public disclosure,. Several countries, including the United States, have already begun work on rules to integrate the new standards.

The BIS this year changed its unit of account from the gold franc to the SDR. The General Manager explained the move would "assist in managing the Bank's operations and economic capital more efficiently and enhance the transparency of its accounts." The BIS also recently elected to repurchase all privately held shares in order to maintain control exclusively among its central bank shareholders.

Membership in the BIS has risen by six since 1999, to 51 countries. In addition, the BIS has opened two representative offices (one in Hong Kong and the other in Mexico City) to improve information exchange with emerging economies in Asia and the Americas.



PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 19, 2003
JS-1014

Treasury Department Designates Burma and Two Burmese Banks to be of "Primary Money Laundering Concern" and Announces Proposed Countermeasures

Secretary of the Treasury John W. Snow today announced the designation of Burma and two Burmese banks to be of "primary money laundering concern" under Section 311 of the USA PATRIOT Act. In conjunction with this designation, Treasury announced a notice of proposed rulemaking that would require U.S. financial institutions to terminate correspondent accounts involving Burmese financial institutions, subject to certain specified exemptions. Correspondent accounts involving the two specific banks that have been designated, Myanmar Mayflower Bank and Asia Wealth Bank, would have to be terminated without exception.

"President Bush and the Department of the Treasury are committed to cracking down on money laundering wherever it occurs. By employing the tough new tools of the PATRIOT Act against Burma, we send a strong message around the world that the United States will safeguard our own financial system from under-regulated banking systems and financial institutions that facilitate criminal activity," said Secretary Snow.

The designation of Burma is the result of its failure to remedy serious deficiencies in its anti-money laundering system, and is consistent with the Financial Action Task Force's (FATF) call on November 3, 2003, for its members to take anti-money laundering countermeasures against Burma.

The designation of Myanmar Mayflower Bank and Asia Wealth Bank represents the first designation by the Secretary of specific foreign financial institutions found to be of "primary money laundering concern." These two institutions have been linked to narcotics trafficking organizations in Southeast Asia.

Treasury will continue to work with Burma to implement a comprehensive and effective anti-money laundering system in that country. Until Burma implements an anti money laundering regime that meets international standards, Treasury will continue to take steps necessary to ensure that criminal proceeds emanating from Burma do not reach the U.S. financial system.

Section 311 of the USA PATRIOT Act gives the Secretary of the Treasury the authority to designate a foreign jurisdiction, foreign financial institution, type of account or a type of transaction to be of primary money laundering concern. Once designated, the Secretary can require U.S. financial institutions to take appropriate special measures against the concern. The Treasury Department has employed Section 311 twice before against Ukraine and Nauru.

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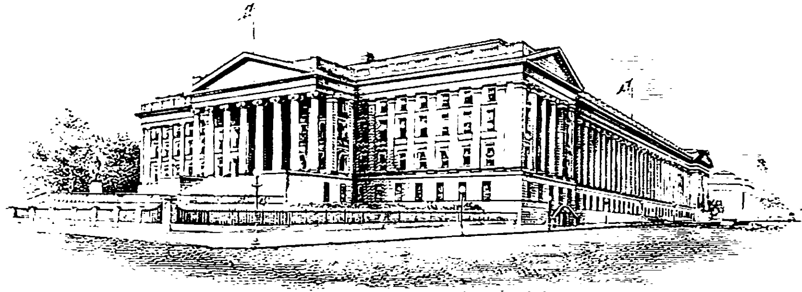
Related Documents:

- Fact Sheet



DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

November 19, 2003

Treasury Department Designates Burma and Two Burmese Banks to be of "Primary Money Laundering Concern" and Announces Proposed Countermeasures Under Section 311 of the USA PATRIOT Act

Fact Sheet

Overview:
The Treasury Department today announced the designation of Burma and two Burmese banks, Myanmar Mayflower Bank and Asia Wealth Bank, to be of "primary money laundering concern." In conjunction with this designation, Treasury announced a notice of proposed rulemaking that would require U.S. financial institutions to terminate correspondent accounts involving Burmese financial institutions, subject to certain specified exemptions. Correspondent accounts involving the two specific banks that have been designated would have to be terminated without exception.

Background:

Section 311

- Title III of the USA PATRIOT Act amends the anti-money laundering provisions of the Bank Secrecy Act (BSA) to promote the prevention, detection, and prosecution of international money laundering and the financing of terrorism.

- Section 311 authorizes the Secretary of the Treasury – in consultation with DOJ, the State Department, and appropriate Federal financial regulators – to designate a foreign jurisdiction, institution, class of transactions, or type of account to be of "primary money laundering concern," and to require U.S. financial institutions to take certain "special measures" against the primary money laundering concern.

- These special measures could range from enhanced recordkeeping or reporting requirements to a requirement to terminate correspondent banking relationships with the designated entity and are meant to provide Treasury with a range of options to most effectively target specific money laundering and terrorist financing concerns.

Financial Action Task Force (FATF)

- Established in 1989, the FATF is the premier international body dedicated to the fight against money laundering and terrorist financing. FATF sets international standards in the areas of money laundering and terrorist financing, and seeks to ensure global compliance with those standards.

- Among the FATF's most important and successful initiatives is the Non-Cooperative Countries and Territories (NCCT) process. Through the NCCT process, the FATF identifies and takes action against countries that fail to implement comprehensive anti-money laundering regimes. Once a country is placed on the NCCT list, FATF members inform their respective financial institutions of the designation. If the designated jurisdiction continues to fail to take appropriate remedial action after a period of time, FATF then calls upon its members to impose additional countermeasures.

- FATF has called on members to impose countermeasures only three times – in the cases of Ukraine, Nauru, and now Burma. In each instance, the U.S. has designated the jurisdiction a "primary money laundering concern" under Section 311.

  For further information on the FATF, please go to www.fatf-gafi.org.

Burma's Anti-Money Laundering System

In June 2001 Burma was placed on the FATF NCCT List for its lack of basic anti-money laundering provisions and weak oversight of its banking system. Following up on this designation by the FATF, in April 2002, FinCEN issued an advisory to U.S. financial institutions advising that enhanced scrutiny be given to all transactions involving Burma. In taking these actions, FATF and FinCEN cited to the following significant, structural deficiencies in the Burmese anti-money laundering system:

- Burma lacked a basic set of anti-money laundering laws and regulations.
- Money laundering was not a criminal offense for crimes other than drug trafficking in Burma.
- The Burmese Central Bank had no anti-money laundering regulations for financial institutions.
- Banks licensed by Burma were not legally required to obtain or maintain identification information about their customers.
- Banks licensed by Burma were not required to maintain transaction records of customer accounts.
- Burma did not require financial institutions to report suspicious transactions.
- Burma had significant obstacles to international co-cooperation by judicial authorities.

In June 2002, Burma responded to this international pressure by enacting an anti-money laundering law that purportedly addressed some of these deficiencies. The necessary regulations required for its effective implementation, however, are not in place. As a result, the Burmese anti-money laundering law is ineffective and unenforceable, and cannot be regarded as effectively remedying the identified deficiencies.

As a result of Burma's lack of progress, on October 3, 2003, the FATF called upon its member jurisdictions to impose additional countermeasures on Burma as of November 3, 2003.

Myanmar Mayflower Bank and Asia Wealth Bank

The U.S. has information that two Burmese banks - Myanmar Mayflower Bank and Asia Wealth Bank - are controlled by and used to facilitate money laundering for such groups as the United Wa State Army – among the most notorious drug trafficking organizations in Southeast Asia. The Burmese government has failed to take any regulatory or enforcement action against these financial institutions, despite their well-known criminal links.

The designations of Myanmar Mayflower Bank and Asia Wealth Bank are independent from the designation of Burma as a jurisdiction, and represent the first time that the Treasury Department has used its authority under Section 311 against a foreign financial institution.

Effect of Application of Section 311

The designation of Burma is intended to deny Burmese financial institutions access to the U.S. financial system through correspondent accounts. Thus, the proposed rule would prohibit U.S. financial institutions from establishing or maintaining any correspondent account for, or on behalf of, a Burmese financial institution. This prohibition would extend to any correspondent account maintained by a U.S. financial institution for any foreign bank if the account is used by the foreign bank to provide a Burmese financial institution indirect access to the U.S. financial system. In such a case, the U.S. financial institution would be required to ensure that the account no longer is used to provide such access, including, if necessary, terminating the correspondent relationship. The proposed rule does provide for limited exemptions, referred to as general licenses, in order to allow for financial services to be provided consistent with those permitted by Treasury's Office of Foreign Assets Control's Burma sanctions program.

A list of the general licenses can be found at
www.treas.gov/offices/eotffc/ofac/sanctions/snactguide-burma.html

Myanmar Mayflower Bank and Asia Wealth Bank are covered by the general Burma designation and proposed rule. Treasury, however, has taken independent action in order to reinforce the importance of termination of relationships with these two institutions, and to ensure that no exemptions are available for them. The designation of these two institutions will remain in place until it is demonstrated that they have severed their links with narcotics trafficking organizations. Under this designation transactions would not be permitted with Myanmar Mayflower Bank and Asia Wealth Bank under the limited exemptions that apply to other Burmese financial institutions.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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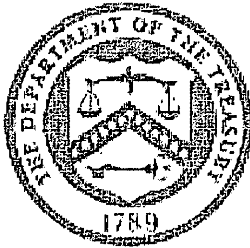
November 19, 2003
JS-1015

Implementation Of Legislative Provisions Relating To The International Monetary Fund

Report(s):

- Legislative Mandates Report

IMPLEMENTATION OF LEGISLATIVE PROVISIONS RELATING TO THE INTERNATIONAL MONETARY FUND



A Report to Congress

in accordance with

Sections 1503(a) and 1705(a) of the
International Financial Institutions Act

and

Section 801(c)(1)(B) of the
Foreign Operations, Export Financing, and Related Programs
Appropriations Act, 2001

United States Department of the Treasury
October 2003

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Introduction

This is the fifth report prepared in accordance with Sections 1503 and 1705(a) of the International Financial Institutions Act (the IFI Act – codified at 22 United States code sections 262o-2 and 262r-4).[1] This report also covers policies set forth in Section 801(c)(1)(B) of the Foreign Operations, Export Financing, and Related Program Appropriations Act 2001, [2] as required by amended Section 1705 of the IFI Act. The report reviews actions taken by the United States during fiscal year 200.3 to promote these legislative provisions in International Monetary Fund ("IMF" or the "Fund") country programs. Earlier reports under these provisions are available on the Department of the Treasury's website (www.treas.gov/press/reports.html).

The Treasury Department and the Office of the United States Executive Director ("USED") at the IMF consistently endeavor to build support in the IMF's Executive Board for the objectives set out in this legislation. These efforts include meetings with IMF staff and other Board members on individual program and IMF policies, as well as formal statements by the USED in the IMF Board. Our objective in doing so has been to support strengthened commitments in IMF programs, policy actions by program countries, and policy decisions at the IMF itself.

An assessment of the overall effectiveness of the Treasury and USED's office in promoting the legislative provisions was published in a GAO Report dated January 2001.[3] The report found that the "Treasury has instituted a systematic process for applying legislative mandates concerning the Fund to individual countries, based on their economic circumstances."

Report on Specific Provisions

I. Section 1503(a)

(1) Exchange Rate Stability

Article I of the IMF's Articles of Agreement states that one of the purposes of the IMF is "to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation." The IMF advises countries that exchange rate stability can only be achieved through the adoption of sound macroeconomic policies. While the Fund recognizes the right of each member country to choose its own exchange rate regime, it

[1] These provisions were enacted in Sections 610 and 613 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999(Public Law 105-277, division A, § 101(d), title VI, §§ 610 & **613**). Section 1705(a) was amended by Section 803 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001 (Public Law 106-429, title VIII, § 80.3).

[2] Public Law 106-429, title VIII, § 801(c)(1)(B).

[3] *Efforts to Advance United States **Policies** at the Fund*, General Accounting Office (GAO), January 2001. As required under section 504 of H R. 3425, as enacted in Appendix E to section 1000(a)(5) of Public Law 106-113 (making consolidated appropriations for Fiscal Year 2000), the GAO conducted a review of Treasury's implementation of legislative objectives for IMF reform Its work focused "on the measures taken by United States agencies to promote IMF practices that are consistent with United States policies set forth in federal law and the influence United States policy has over the IMF's operations and other members' positions, as illustrated by specific cases."

advises countries on macroeconomic and financial policies necessary to support the sustainability of that regime and raises caution where it views arrangements to be inconsistent with broader macroeconomic policy choices.

(2) Policies to increase the effectiveness of the IMF in promoting market-oriented reform, trade liberalization, economic growth, democratic governance, and social stability through:

(A) Establishment of an independent monetary authority

With the support of the United States, the IMF has been a consistent advocate of greater independence of monetary authorities across a range of countries. IMF conditionality frequently includes measures to strengthen central bank autonomy and accountability. The IMF also provides technical assistance to help countries achieve these goals. In addition, the Fund promotes these objectives through assessments of compliance with internationally-agreed upon standards and codes, as well as rules for safeguarding the use of IMF resources. Examples of United States activities in the last year with regard *to* these issues include the following:

- In discussions with the Brazilian authorities, the United States continued to highlight the benefit of increased central bank independence, including the importance of operational autonomy to strengthen the credibility of the inflation-targeting regime, to reinforce lower inllationary expectations, and to allow interest rates to fall.

- In a June 200.3 discussion on Argentina, tlie USED emphasized the importance of steps to strengthen central bank autonomy and legal protection for its officials.

(B) Fair and open internal competition among domestic enterprises

With United States support, the IMF encourages member countries to pursue policies that improve internal economic efficiency. These measures may include ending directed lending (or other relationships between government and businesses based on favoritism), improving anti-trust enforcement, and establishing a sound and transparent legal system. While the World Bank has tlie lead mandate on these issues, the IMF has at times incorporated related measures into programs when it considered them critical to macroeconomic stability. For example,

- The USED recently supported the inclusion of structural benchmarks in Uruguay's IMF program that require tlie issuance of decrees to foster competition in the telecommunications (observed in March 200.3) and oil (scheduled for December 200.3) sectors.

(C) Privatization

While the World Bank is primarily concerned with privatization, tlie IMF has made it a component of country program where significant distortions and government ownership of business enterprises have created substantial inefficiencies in the allocation of resources and tlie production of goods. Collaborating with the World Bank, the Fund lias supported tlie use of competitive and transparent means of privatization so that borrowing countries might achieve

gains in economic efficiency and improve their fiscal positions. Examples of IMF programs in wliicli tlie USED has advocated privatization include tlie following:

- The state-ownerl bank, Guyana National Cooperative Bank ("GNCB"), was privatized in March 200.3. In September 2002, tlie USED supported tlie approval of Guyana's three-year PRGF, which called for tlie privatization or resolution of GNCB. This was also made a completion point trigger under its Heavily Indebted Poor Countries ("HIPC") program.

- In tlie IMF Board discussion of South Africa's Article IV review in August 200.3, the USED welcoined the sale of a significant share of Telekom and encouraged the government to follow through on plans to accelerate tlie privatization and restructuring of public enterprises to increase efficiency and growth.

(D) Economic deregulation and strong legal frameworks

Markets are distorted and entrepreneurship is stifled without strong property rights, enforcement of contracts, and fair and open competition. While these issues are addressed as part of tlie World Bank's mandate, tlie IMF periodically includes measures in its programs, in collaboration with the World Bank, when they are considered critical to tlie member country's macroeconomic performance. Examples of USED efforts to encourage these reforms include the following:

- During discussions of Bosnia in 2003, tlie USED encouraged the government to take steps to improve tlie business climate and raise its growth rate, including through deregulation.

- In April 200.3, tlie USED noted that Belarus had not taken tlie steps needed to put tlie economy clearly on a market-oriented path and urged a number of steps, including deregulation, to improve tlie inhospitable business climate.

(E) Social safety nets

The World Bank takes tlie lead on issues involving tlie design and implementation of social safety nets, but it is imperative that social safety nets fit into a sound fiscal framework, an issue in which tlie IMF takes tlie lead. While growth is tlie key ingredient for poverty reduction, social safety nets can play an important role in promoting ownership and alleviating tlie impact of poverty on the most affected segments of society. Against this background, tlie United States encouraged efforts by tlie IMF, World Bank, Asian Development Bank and Inter-American Development Bank to develop social safety net guidelines, building on tlie lessons of experience in Latin America and East Asia. Additionally, the United States has been a strong proponent of increased IFI funding for productivity-building investments in public education, health and other social services. Finally, tlie United States continues to press its grants initiative with tlie multilateral development banks and has supported steps taken by tlie IFIs to revise their lending frameworks to focus more on tlie reduction of poverty indicators. The United States has supported this policy goal in tlie following examples:

- At a Board discussion in May 2003, the USED urged Kazakhstan to focus on increasing resources devoted to education, health, and the provision of a well-targeted social safety net.
- In July 2003, the USED argued that Dominica should enhance its social safety net to help cushion the blow of potential civil service layoffs, assuming resources could be found.

(F) Opening of markets for agricultural goods through reductions in trade barriers

The IMF, with the support of the United States, has been a consistent advocate of open markets and trade liberalization, while recognizing that further reform is primarily a matter for member countries to pursue. The IMF encourages a multilateral, rules-based approach to trade liberalization across all sectors of the global economy, including, but not limited to, the agricultural sector. The Fund is prepared, along with the World Bank, to provide transitional assistance to member countries, which are experiencing payment imbalances arising from the passage of trade reform. Examples of when the United States has supported trade liberalization:

- In its 2003 Board statements, the USED urged Brazil to pursue further trade liberalization
- In 2002 and 2003, the USED suggested that certain European countries, including Belgium and Germany, could act as voices within the European Union for more rapid trade liberalization.

(3) ***Strengthened financial systems and adoption of sound banking principles and practices***

The joint IMF-World Bank *Financial Sector Assessment Program* ("FSAP") has emerged as a critical instrument for financial sector surveillance and advice. Fifty-seven FSAP assessments had been completed with fourteen additional reviews underway and twenty-nine reviews planned as of August 200.3

Results from the FSAPs are used to generate assessments of compliance with key financial sector standards such as the Basel Committee's *Core Principles for Effective Banking Supervision,* the International Organization of Securities Commission's *Objectives and Principles of Securities Regulation,* and the IMF's own *Code of Good Practices on Transparency in Monetary and Financial Policies.* The latter report is often provided to the public through the *Reports on the Observance of Standards and Codes* ("ROSCs").

In 2002, the Executive Boards of the IMF and World Bank reached conditional agreement on incorporating Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) into areas and standards useful to their work, and endorsed a 12-month pilot program of AML/CFT reviews as part of their FSAP and Off-Shore Financial Center ("OFC") assessments. Some key examples of where the USED has supported the strengthening of financial systems are:

- Strengthening the banking sector has been a central pillar of Turkey's program. The United States took the lead in advancing these issues through discussions with IMF staff and Turkish authorities. Some of the program's conditions include addressing weak state banks (including designing and adhering to a privatization strategy for three state banks), reducing

nonperforming loans in tlie banking system, and strengthening tlie regulatory oversight of tlie bank regulator.

- In tlie discussion of Bangladesh's request for a PRGF in June 2003, the USED strongly recommended that all national commercial banks be privatized during tlie PRGF term. Tlie USED noted experiences in other countries where state ownership of large banks led to repeated mismanagement and public bailouts.

- In Board statements in 200.3, tlie USED encouraged Uruguay to restructure Banco de la Republica, tlie largest state owned bank, and to ensure that it meets prudential norms.

(4) ***Internationally acceptable domestic bankruptcy laws and regulations***

Tlie IFIs have continued to build upon worlc started after tlie Asian financial crisis to promote more effective insolvency and debtor-creditor regimes. While tlie World Bank normally leads reviews of domestic insolvency laws, tlie IMF is supporting this agenda in several important ways. Additionally, tlie IMF and tlie World Bank have supported adoption of tlie Model Law on Cross-Border Insolvency developed by tlie UN (the UNCITML Model Law) to facilitate tlie resolution of increasingly complex cases of insolvency, where companies have assets in several jurisdictions. Finally, tlie IFIs provide technical assistance to help emerging market economies develop efficient insolvency regimes. With tlie support of the United States, tlie IMF has worked with tlie World Bank to promote improved insolvency regimes in a number of countries.

- In 2002 aiid 2003, tlie USED continued to emphasize the need for a clear and impartial legal framework for bankruptcy proceedings in Argentina that would, among other things, help to improve investor confidence.

- During 2002 and 2003, tlie USED encouraged Brazil to reform weak bankruptcy laws and allow lenders to collect on collateral, which would boost bank lending aiid contribute to lower borrowing spreads. Tlie USED also stressed that increasing tlie efficiency of the judicial system would be necessary to maximize tlie benefits of banluuptcy reform, particularly in light of tlie large bacltlog of bankruptcy cases.

(5) ***Private Sector Involvement***

The United States continues to work to assure that tlie private sector plays an appropriate role in tlie resolution of financial crises. In tlie last year, tlie IMF, with tlie support of tlie United States, has taken important steps towards achieving tlie reform agenda on crisis prevention and resolution, as specified in tlie G-7 Action Plan of April 2002. The Fund lias strengthened its surveillance of member countries and instilled more discipline in tlie use of official sector financing, especially through tlie establishment of rules aiid procedures governing exceptional access to Fund resources. Additionally, tlie emergence of collective action clauses (see Section C, below), supported by tlie IMF, as an accepted contractual, market-based approach to sovereign debt restructurings will lend predictability aiid efficiency to crisis resolution frameworks. In particular, tlie United States lias advocated policies that include:

(A) Increased Crisis Prevention through Improved Surveillance and Debt and Reserve Management

The United States has urged the IMF to strengthen further its surveillance function and crisis prevention capabilities, especially its assessment of debt sustainability, balance sheet vulnerabilities, and currency mismatches.

- In the past year, the IMF took additional steps to iinprove its assessment of public and external debt sustainability. In April 200.3, the Fund incorporated a revised, more robust analytical framework for evaluating debt sustainability into selected surveillance assessments and all Use of Fund Resources reports.

- In July 200.3, tlie Board reviewed tlie role of balance sheet impacts and currency mismatches in financial crises and determined that a strengthened analytical framework was required to identify related vulnerabilities during the Fund's surveillance assessments.

The IMF continues to encourage, with strong United States support, member countries to make their economic and financial conditions more transparent. Countries are urged to provide additional information to private market participants by publishing Article IV assessments and program documentation as well as by regularly releasing data consistent with the IMF's Special Data Dissemination Standard (SDDS) (see Section 12).

- In September 2003, the Board amended tlie Fund's document publication guidelines, determining that the publication of Use of Fund Resources staff reports and Article IV surveillance reports (after July 2004) will remain voluntary, but presumed. Additionally, after July 2004, all exceptional access reports will generally be published as a pre-condition for tlie Board's approval of such an arrangement.

(B) Strengthening of Emerging Markets' Financial Systems

The IMF continues to work with other IFIs to promote stronger financial systems in emerging market economies (see Section 3). It is also actively involved, with the World Bank, in monitoring the implementation of the ***Core Principles for Effective Banking Supervision.*** The IMF, with United States support, has increased its cooperation with the World Bank in this area, through the joint FSAP and cooperative assessments of other standards and codes (see Section 12).

(C) Use of Collective Action Clauses in Sovereign Bonds

Sovereign debt instruments governed by New York law conventionally have included majority enforcement but not inajority restructuring provisions. As a result, debt restructurings of these emerging market instruments have tended to be protracted, with adverse consequences for sovereigns and bondholders.

The United States has worked actively with the IMF and the private sector to promote the market's adoption of majority restructuring provisions (together with inajority enforcement

provisions, "collective action clauses") in order to improve debt restructuring processes. Critical advances were made in 200.3, and emerging market issuers, including Brazil, Korea, South Africa, and Turkey, are increasingly including collective action clauses in sovereign debt offerings governed by New Yorlc law.

Tlie IMF, encouraged by tlie United States, has made collective action clauses an important element of its crisis resolution agenda. Tlie IMF will continue to encourage future issuers to follow this trend in strengthening market practices through bilateral and multilateral surveillance.

(D) Lending into Arrears

The IMF's policy enables tlie Fund to provide financial support for policy adjustments, despite tlie presence of actual or impending arrears on a country's obligations to private creditors, where: (i) prompt IMF support is considered essential for tlie successful implementation of the member's adjustment program; and (ii) tlie member is pursuing appropriate policies and is making a good faith effort to reach a collaborative agreement with creditors. In September 2002, tlie IMF, with support from tlie United States, took steps to clarify its assessment of "good faith" actions, seeking to reduce tlie market's uncertainty about when and under what conditions tlie IMF will lend into arrears. To meet the IMF's criteria, member countries should (i) expeditiously initiate a dialogue with creditor classes and continue these discussions until the debt restructuring is resolved, (ii) provide creditors with lion-confidential information in a timely manner, and (iii) provide creditors with tlie opportunity to influence the restructuring program.

(E) Promotion of Orderly Workouts

In April 200.3, tlie International Monetary and Financial Committee, with the strong support of tlie United States, concluded that collective action clauses, rather than a statutory restructuring mechanism, would more effectively address workout problems while retaining private iiiarlcet support.

(F) Formal Linkage between Provision of Official Financing and Private Sector Involvement

The United States continues to press tlie IMF to improve tlie selectivity with which it lends

- In September 2002, tlie United States worked to clarity that for tlie Fund to extend resources beyond normal borrowing limits, the following criteria must be met at a minimum: (i) the member must be experiencing "exceptional balance of payments pressures on tlie capital account" which cannot be addressed with normal resources, (ii) an analysis concludes that debt levels will be sustainable, (iii) reasonable prospects exist for the member to regain access to private capital markets during tlie program term, and (iv) tlie member's policy program can reasonably be expected to succeed.

- In January and February 200.3, tlie Fund, with support from the United States, published procedures to guide its decision-making process on granting exceptional access. These guidelines require tlie following: (i) a "higher burden of proof in program documentation",

(ii) early consultation with the Board on sovereign-creditor negotiations, (iii) the issuance of a staff note specifically outlining all of the relevant considerations, and (iv) an ex-post evaluation of such programs within twelve months of their completion.

(G) Facilitation of Discussions between Debtors and Creditors

~~As noted above, the United States is working closely with the IMF and others in the official~~ and private sectors to promote the use of collective action clauses in external sovereign bond contracts, to encourage early dialogue, coordination and communication between sovereigns and bondholders, and to discourage disruptive legal action. In addition, improving interaction between debtor countries and private creditors has been a key focus of the IMF's Capital Market Consultative Group (CMCG).

(H) Combining the Provision of IMF Funding with Efforts to Achieve Private Sector Involvement

The IMF promotes private sector involvement and aims to develop a system in which countries can address debt problems in a market-based, orderly fashion. It recognizes the need to preserve the fundamental principle that creditors should bear the consequences of the risks they assume, while neither undermining the equally essential principle that debtors should honor their obligations nor encouraging default.

(6) Good governance

The IMF's commitment to promoting good governance is outlined in its 1996 *Declaration on Partnership for Sustainable* Global *Growth* and its 1997 Guidelines *on Good Governance*. The IMF also supports good governance through its emphasis on transparency and its promotion of market-based reforms.[4] Recently, the IMF has been particularly active in promoting good governance through its efforts to protect against abuse of the financial system and to fight corruption.

Protecting against Abuse of the Financial System, including Money Laundering

The United States and other IMF members have stressed the importance of integrating anti-money laundering and counter-terrorist financing issues into the IFI's financial sector assessments, surveillance, and diagnostic activities., As a result, and after a year of preparatory work among the FATF, the IMF and World Bank, in the fall of 2002, the Executive Boards of the IMF and World Bank endorsed a 12-month pilot project. The program will assess global compliance with the anti-money laundering and counter-terrorist financing standards based on the FATF 40 Recommendations on Money Laundering and the 8 Special Recommendations on Terrorist Financing.

These assessments are being conducted by the IMF and World Bank, with the FATF's and the FATF-style regional bodies' (FSRBs) participation, in the context of financial sector and off-

[4] IMF financing is provided to central banks to address balance of payments difficulties The IMF does not lend to fund specific projects in member countries aimed at procurement and financial management controls

shore financial center assessments. Tlie methodology applied in these assessments was developed jointly by the IFI's and the FATF, with input from the FSRBs, and represents a comprehensive and unified method for measuring countries' implementation of the FATF Recommendations. Over 50 assessments are expected to be completed during tlie pilot project which ends in October 2003. Tlie pilot is progressing well and will be reviewed by the IMF and World Bank policy-making bodies during tlie first half of next year. 'Tlie goal is that such AML/CFT assessments will become a permanent part of tlie IMF and World Bank's oversight aiid surveillance of financial systems. This is crucial to the wai on terrorism and will help anchor the foundations of sustainable growth and development.

- In April 200.3, tlie USED recognized Russia's efforts to combat money laundering and the financing of terrorism that led FATF to remove Russia from the list of non-cooperative countries. However, further progress is needed on the legal framework and enforcement mechanisms, such as allowing banks to terminate relationships with customers suspected of laundering funds.

- In June 2003, the USED urged additional steps by Madagascar to regulate the gemstone mining sector since its current unregulated status leaves the country vulnerable to money-laundering and other criminal activity aiid serves as a source of possible terrorist financing. The USED also encouraged Madagascar to continue working with the World Bank on a Mineral Resources Governance project to help reduce illegal activities in tlie mining sector.

Other Good Governance nnd Anti-Corruption Measures

The Fund's involvement has focused on those governance aspects that are generally considered part of tlie IMF's core expertise, such as improving public administration, increasing government transparency, enhancing data dissemination, aiid implementing effective financial sector supervision. However, members have agreed that the IMF's role should also extend into other areas, where anti-corruption efforts would clearly have a positive impact on tlie macroeconomic environment. Transparency is central to good governance and accountability, and the 2003 *G-8 Declaration on Fighting Good Governance and Improving Transparency* called for full disclosure of IMF Article IV staff reports. Tlie IMF Board of Directors has since agreed that the publication of the staff reports will be presumed beginning in July 2004 (see Section 5). Examples of United States aiid IMF support for policies that encourage good governance include the following:

- Commenting on Kenya in May 200.3, the USED cited "corruption as perhaps the single most immediate barrier to good policies and growth – and poverty reduction" and stressed the importance of implementing recently passed anti-coiruption measures.

- Tlie 2003 Interim Poverty Reduction Strategy Paper ("PRSP") for Bangladesh has the promotion of good governance as one of its key focal areas. With the help of the Bank aiid the Fund, Bangladesh has begun to take steps to address its fiduciary and financial management weakness, but more is needed, and we have encouraged the IFIs to remain active in this area.

- Haiti's IMF Staff-Monitored Program includes steps to reduce discretionary ministerial accounts and to audit public enterprises. The United States has put great emphasis on the inclusion of these measures to improve transparency and accountability in Haiti.

(7) ***Channeling public funds away from unproductive purposes, including large "show case" projects and excessive military spending, and toward investment in human and physical capital to protect the neediest and promote social equity***

The Fund published a *Code of Good Practices on Fiscal Transparency* in 1998 that aims to enhance fiscal policy transparency, promote quality audit and accounting standards, and reduce or eliminate off-budget transactions, which are often the source of unproductive government spending. As of May 2003, 55 countries had completed IMF-led fiscal transparency reviews, which compare local budgetary practices with internationally-agreed upon standards and codes. The IMF also encourages countries to conduct "public expenditure reviews" with the World Bank. Below are several examples of efforts to focus government expenditure on investment in human capital and other productive purposes:

- In a June 2002 Board statement, the USED expressed concern about the accuracy of Rwanda's military spending reports and supported bringing all spending on-budget as transparency is critical for maintaining donor confidence. The USED also stressed that Rwanda's continued involvement in the Congo diverts resources from priority sectors and deters foreign investment in the region.

- At the July 200.3 review of the Democratic Republic of Congo's PRGF, the USED expressed disappointment that the government did not meet its commitment on priority spending for the poor. The USED highlighted that the sum of defense, security, and institutional expenditure again amounted to approximately 50% of total government primary expenditure, while social expenditures, at 7% of primary expenditures, fell far short of the program's 15% target.

(8) ***Economic prescriptions appropriate to the economic circumstances of each country***

The United States has supported flexibility in Fund programs while emphasizing the need to focus conditionality on issues critical to growth and macroeconomic stability using measurable results. Further, countries that borrow from the IMF on concessional terms prepare PRSPs through a participatory process designed to ensure that each program meets the specific needs of the country that prepares it.

(9) ***Core Labor Standards (CLS)***

To assist the USED in addressing labor issues, the Treasury Department works closely with the United States Labor Department and the State Department to assess labor standards in IMF program countries. Core labor standards provide a useful benchmark for assessing countries' treatment of workers against internationally agreed-upon standards. As has been noted in past reports, there is some reluctance by many member countries to address this issue in the IMF, particularly in the context of the effort to focus Fund conditionality more narrowly. However,

during the past year, tlie USED lias made an effort to raise critical labor issues in Board discussions. For example,

- In October 2002, tlie USED urged Guatemala to continue implementing labor reforms regarding the rights of association and collective bargaining.

- In March 2003, the USED called for further analysis of new labor market legislation in Indonesia and encouraged adherence to core labor standards.

- In April 2003, the USED argued that core labor standards in Sri Lanka should be fully respected, including in export processing zones.

(10) ***Discouraging practices that may promote ethnic or social strife***

By helping lo create the conditions for a sound economy, IMF assistance facilitates the reduction of ethnic and social strife, to the extent such strife is driven in part by economic deprivation. For example, with United States support, tlie IMF has increasingly encouraged the strengthening of social safety nets. Tlie IMF also encourages consultation with various segments of society in the development of prograins so that they have an opportunity to participate in the implementation of national priorities. IMF assistance has helped to free up resources for more productive public investment by contributing to a reduction in country military expenditures. The United States has also advocated that an analysis of tlie impact on tlie poor, carried out by the World Bank, be conducted and that remedial measures, as appropriate, be incorporated into Fund programs. As an example of United States advocacy in this area:

- In a June 2003 review of Sudan's Staff-Monitored Program, the USED opposed the government's request for credit towards a "Rights Accumulation Program", which would have permitted Sudan to accumulate credit in the IMF, to be disbursed at a future dale. Tlie USED argued that Sudan must first achieve peace before proceeding to such a level of engagement with the Fund.

(11) ***Link between environmental and macroeconomic conditions and policies***

Tlie World Bank has the lead responsibility for environmental issues in individual countries, but environmental policies at times can be transparent from a fiscal perspective. Tlie United States has urged tlie inclusion of measures in IMF programs to tax polluting activities, fund environmental protection efforts, and remove subsidies on environmentally-harmful products or activities. Tlie following are a few examples in which the United States has commented on environmental policies in country programs:

- In a February 200.3 Board discussion, the USED highlighted the importance of forestry policy to Cambodia's economy and stressed tlie need to develop sustainable forestry management plans that would help raise rural incomes, in particular, by fixing tlie forestry concession process so that it is more transparent and effective.

- In June 2003, the USED noted tlie importance of forestry to Papua New Guinea's economy and stressed tlie need to implement sustainable policies to maximize tlie long-run benefits from this sector.

(12) *Greater transparency*

Over tlie last several years, tlie IMF has increased significantly the amount of information on its programs that it lias made available to tlie public. The United States lias stressed the need to build on this progress and expand the number of publications and IMF practices open to public scrutiny. In September 200.3, tlie Board amended the Fund's document publication guidelines, determining that tlie publication of Article IV (effective July 2004) and Use of Fund Resources staff reports will be presumed. After July 2004, all exceptional access reports, including a special report setting out tlie justification for tlie proposed program and supporting data, including debt sustainability, will be published generally as a pre-condition for the Board's approval of such an arrangement.

- 135 countries, 73% of IMF members, have chosen to publish at least one staff Article IV paper, compared to only 82 countries when this Treasury Department report was last published in October 2002. Additionally, 170 countries, or 92% of members, have published at least one Public Information Notice ("PIN").

- 459 *Reports on Observance of Standards and Codes* ("ROSCs") modules for 98 members have been completed, of which 318 have been publislied for 81 economies.

- The United States has made available self-assessments on 9 of tlie 12 ROSC modules aiid recently completed an IMF-led fiscal policy transparency ROSC.

The United States lias advocated greater transparency in member countries in the following examples:

- At Malaysia's Article IV review in October 2002, tlie USED stressed that greater transparency with respect to nonfinancial public enterprises would clarify tlie counter-cyclical role of fiscal policy, support more efficient use of public resources, and permit a better understanding of public debt dynamics.

- In a September 2003 program review for Mongolia, tlie USED expressed strong concern about tlie lack of transparency in tlie financing arrangements for several large infrastructure projects and urged that mining sector revenues be handled in a transparent manner as they come on line.

(13) *Greater IMF accountability and enhanced self-evaluation*

In April 2000, witli tlie strong urging of the USED, tlie Executive Board agreed to establish an Independent Evaluation Office ("IEO") to supplement existing internal and external evaluation activities. The IEO provides objective and independent evaluation on issues related to

the IMF and operates independently of Fund management and at arm's length from the IMF Board.

- In 2002-200.3, the IEO completed three evaluations, examining (i) the prolonged use of IMF resources, (ii) the role of the IMF in the capital account crises in Brazil, Indonesia, and Korea, and (iii) fiscal adjustment in IMF-supported programs.,

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- The Executive Board discussed the IEO's report on prolonged use in September 2002 and again in March 2003, following the release of findings by a designated staff-level Task Force. The Board has taken steps to implement the IEO's recommendations, including suggested changes to its surveillance functions, program conditionality terms, and program design

- In May 2003, the Board discussed the IEO's report on the IMF's role in selected capital account crises. Executive Directors agreed with the central recommendation that the Fund's surveillance functions must be enhanced through more rigorous stress-testing of capital account exposure. The Board endorsed the report's conclusions on program design and is examining ways to evaluate more effectively balance sheet effects and to improve program conditionality and flexibility in capital account crises.

- In August 2003, the Executive Board reviewed the IEO report on fiscal adjustment in IMF-supported programs and supported its recommendations that program documents should more fully justify fiscal adjustment requirements and that internal reviews should more carefully assess near-term program implications.

(14) ***Structural reforms which facilitate the provision of credit to small businesses, including microenterprise lending***

The provision of micro-credit is an important component of structural adjustment, especially in economies where state-directed lending is prevalent and the provision of credit to individuals and small companies is limited., Responsibility for assistance in establishing micro-finance programs lies with the World Bank and regional development banks. The Treasury Department strongly supports these efforts by the multilateral development banks.

- In an IMF Board statement, the USED commended the Brazilian government's plans to develop credit cooperatives and to increase lending to microenterprises and SMEs. The United States also encouraged the authorities to adopt best practices for lending in the SME sector in order to guarantee the long-term durability of these initiatives,.

11. <u>Section 801(c)(1)(B)</u>

(I) ***Suspension of IMF financing if funds are being divertedfor purposes other than the purposefor which the financing was intended***

With strong United States support, the IMF has taken steps in the past several years to ensure that IMF resources are used solely for the purposes for which they are intended. These

steps constitute a serious and far-reaching initiative to strengthen the system for safeguarding the use of Fund resources and for deterring the misreporting of data to the IMF.

The IMF's safeguards framework, which toolc effect in 2000, requires countries receiving funds to submit to external financial audits of their central bank's data. This process is designed to provide assurances that central banks have adequate control, accounting, reporting and ~~auditing systems in place to protect central bank resources, including IMF disbursements. Any~~ critical gaps identified during the assessment process must be remedied before additional IMF resources can be disbursed. In April 2002, with the support of the United States, the Executive Board agreed to adopt safeguards assessments as a permanent policy.

As of June 2003, the IMF had completed 79 safeguard assessments, comprising 52 full and 27 transitional reviews and covering 65 central banks. Member countries had implemented **88%** of the Fund's high-priority recommendations, proposed under program conditionality or letter of intent commitments? The USED continues to focus on implementation of this policy, raising its concerns with the Board where appropriate.

- In March 2003, the USED encouraged continued efforts to address weaknesses identified in Indonesia's safeguards assessment.

- In June 2002, the USED strongly emphasized the importance of completing a safeguards assessment in Vietnam. To date in 2003, no IMF disbursements have been made due to the government's failure to make progress on this issue.

(II) IMF financing as a catalyst for private sector financing

The IMF recognizes that if structured effectively, official financing can complement and attract private sector flows., The Fund promotes policy reforms that catalyze private financing and allow countries to regain access to international private capital markets as quickly as possible. (See Section 5 above for a more in-depth discussion of private sector involvement.)

(III) Financing must be disbursed (i) ON the basis of specific prior reforms; or (ii) incrementally upon implementation of specific reforms after initial disbursement

The United States has been an advocate of conditionality on IMF loans and has supported the Fund's stepped-up focus on results-oriented lending. IMF disbursements are tranched based on a country's performance against specified policy actions, both prior to and during the program.

- In September 2002, the IMF approved new guidelines on the conditionality terms of Fund programs, seeking to tailor reforms to country specific economic conditions, eliminate provisions not central to reaching program objectives, and increase national responsibility for reforms. These policies are also expected to improve the consistency between structural conditions and the Fund's core expertise, reduce costly and inefficient overlap with the World Bank, and focus greater attention on performance measurement and structural

[5]As of June 2003, member countries had implemented 64% of the Fund's lower priority recommendations, not proposed by program conditionality or letters of intent The implementation rate was 71% for all recommendations

benchmarks in Stand-By Arrangements and Extended Fund Facility arrangements. The IMF will complete a review of these guidelines in 2004.

(IV) Open markets and liberalization of trade in goods and services

The IMF has been a consistent advocate of open markets and trade liberalization. (See Section 2)

(V) IMF financing to concentrate chiefly on short-term balance of payments financing

In September 2000, with strong United States support, the IMF agreed to reorient IMF lending to discourage casual or excessive use, and provide incentives to repay as quickly as possible. In particular, the IMF shortened the expected repayment periods for both Stand-By and Extended Arrangements and established surcharges for higher levels of access.

(”I) Graduation from receiving financing on concessionary terms

The United States supports comprehensive growth strategies to move countries from concessional to market-based lending. The United States works closely with the IMF and World Bank to promote a growth-oriented agenda in developing countries based on strong monetary and fiscal policies, trade liberalization, and reduction of impediments to private sector job creation. The IMF extends concessional credit through the PRGF.. Eligibility is based principally on a country's per capita income and eligibility under the International Development Association ("IDA"), the World Bank's concessional window (the current cutoff point for IDA eligibility is a 1999 per capita GDP level of $885). Factors that would contribute to reduced reliance on concessional resources include a country's growth performance and prospects, capacity to borrow on non-concessionary terms, vulnerability to adverse external developments such as swings in commodity prices, and balance of payments dynamics. To lower reliance on concessional lending and promote debt sustainability, the G-7 countries, acting on the initiative of the United States, have agreed to expand the use of grants in multilateral development bank lending to the world's poorest countries.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 20, 2003
JS-1016

Remarks of D. Scott Parsons
Director, Office of Critical Infrastructure Protection and Compliance Policy
Before the Financial and Banking information Infrastructure Committee and the Financial
Services Sector Coordinating Council's Conference on Protecting the Financial Infrastructure
Cleveland, Ohio

I am here in Cleveland today because the financial infrastructure we seek to protect exists outside Washington, D.C. As Secretary Snow has said, our financial system is the engine of our economy. No where is that more evident than in a city like Cleveland, where world-class financial institutions stand should to shoulder with leaders of our industrial economy.

In partnership with the FDIC, the Department of the Treasury and our colleagues in the public and private sectors are speaking to audiences in twenty-four cities across the United States. After our eighteen month tour, we will have spoken to 6,000 individuals; on average, 250 people per city. Through this outreach, we hope to encourage you – stewards of financial services in Cleveland – to implement policies and programs that will further strengthen the U.S. critical financial infrastructure.

As recent events attest, the United States financial system is remarkably resilient. During the power outage in August that affected cities from Cleveland to New York City, the financial system performed extraordinarily well. With one exception, the bond and major equities and futures markets were open the next day at their regular trading hours.

Major market participants were well prepared, having invested in contingency plans, procedures, and equipment such as backup power generators. Our job is to ensure that the financial system remains resilient and that Americans and the world continue to have confidence that the system will be there for them – especially in times of stress or adversity, which is when people need it most.

Four principles guide our efforts to assist in the protection of the U.S. financial infrastructure. These principles guided our decisions as the financial system recovered from the attacks of September 11th. They guide our actions still. First and foremost, the financial system is about people. We at the Department of the Treasury, our sister regulators, and you in the private sector have a responsibility to protect the people who work in the financial sector, such as tellers, loan officers, traders and technicians.

These individuals make up the institutions upon which we all rely. It was the heroic commitment of these professionals to their institutions, customers, and colleagues that helped the system recover from the attacks of September 11th and weather the power outage of August 14-15. Also, it is people who use the financial system and rely on it to finance the American Dream: buying a house, financing their children's education, and investing in a secure retirement. We must ensure that people continue to have confidence in their financial institutions.

That brings me to the second principle: confidence. Confidence in the reliability of financial institutions to clear checks, execute transactions, and satisfy insurance obligations helps the system weather significant disruption from evolving threats. By relying on the system, Americans can make business decisions for the future and conduct necessary business in the present.

Third, we must ensure that the financial system remains accessible and open for

business when the safety of the employees permits. During times of disaster, investors depend on markets to price the impact of the disruption on assets. The longer markets are closed, the longer investors must go without knowing what the impact will be. This uncertainty can itself be harmful to the economy, compounding the impact of any disruption. The sooner we can eliminate this uncertainty, the more we can mitigate the impact and speed recovery.

Fourth, we want to promote responsible decision-making and problem-solving within the private sector. Financial institutions should make the appropriate decisions without waiting for guidance from Washington. After all, it is you who own and operate the majority of the systems. And it is you who have the expertise on how to fix them. We will help when needed, but we intend for you to find the necessary solutions.

With these principles in mind our strategy is clear. The President himself established this strategy when he called for close and voluntary relationships between the government and the private sector to protect our critical physical and cyber infrastructure. As the President wrote, "the success of our protection efforts will require close cooperation between government and the private sector at all levels."

One successful manifestation of this strategy is the Financial Services Information Sharing and Analysis Center (FS/ISAC). The FS/ISAC has emerged as a leader in information sharing for the financial sector, allowing authorized users to submit reports on security threats and solutions. Earlier this year, for example, the FS/ISAC was instrumental in alerting its members to the existence of the Internet worm called "Slammer." We believe that the FS/ISAC's efforts helped minimize the worm's impact on the U.S. financial system.

Next month, the Treasury Department will help launch a next-generation FS/ISAC. This next-generation FS/ISAC will integrate physical and cyber threat information, allow members to tailor the alerts they receive, provide a secure medium for collaboration, and enable the financial sector to coordinate their responses in real time. Treasury is pleased to be making a significant investment in one-time upgrades in the technology that supports the FS/ISAC. I hope that all of you will consider joining the FS/ISAC as members.

I would like to close with the words of President George W. Bush. As he wrote in the National Strategy for the Physical Protection of Critical Infrastructure, "[t]he terrorist enemy that we face is highly determined, patient, and adaptive. In confronting this threat, protecting our critical infrastructures and key assets represents an enormous challenge. We must remain united in our resolve, tenacious in our approach, and harmonious in our actions to overcome this challenge and secure the foundations of our Nation and way of life."

I would like to thank Chairman Powell and the hard-working professionals at the FDIC for organizing this conference. And thank you all for attending.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 21, 2003
JS-1017

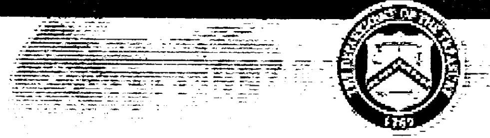
Media Advisory:
United States and Aruba will sign Tax Information Exchange Agreement on Friday

Treasury Secretary John Snow will hold the United States-Aruba tax information exchange agreement signing ceremony at 1:15 p.m. EST on Friday, November 21, 2003 in the Treasury Department's Media Room (Room 4121), 1500 Pennsylvania Avenue, NW. Treasury Secretary John Snow and Aruba's Prime Minister Nelson O. Oduber, will be signing the tax information exchange agreement.

The Room will be available for pre-set at 12:30 p.m.

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

PRESS ROOM



FROM THE OFFICE OF PUBLIC AFFAIRS

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November 21, 2003
JS-1018

United States and Aruba Sign Agreement to Exchange Tax Information Statement by Treasury Secretary John Snow

Today Treasury Secretary Snow signed a new agreement with the Kingdom of the Netherlands that will allow for exchange of information on tax matters between the United States and Aruba. The agreement was signed by Treasury Secretary John Snow and Prime Minister Nelson Oduber of Aruba.

At the signing ceremony, Treasury Secretary Snow delivered the following remarks:

"I would like to thank you all for being here today and welcome our friends from the Kingdom of the Netherlands, particularly Prime Minister Oduber of Aruba and Aruba's Minister of Finance Nilo J.J. Swaen.

The United States and Aruba have developed a close and cooperative relationship on law enforcement matters. We greatly value this cooperation, particularly now as we continue to work to ensure that no safe haven exists anywhere in the world for the funds associated with illicit activities, including terrorism, money laundering, and tax evasion.

We have an obligation to enforce our tax laws, because failing to do so undermines the confidence of honest taxpayers in the fairness of the U.S. tax system. Access to needed information is vital to our efforts to ensure full and fair enforcement of our civil and criminal laws.

This new tax information exchange agreement is an important development. I want to thank Prime Minister Oduber for his participation in this signing ceremony and for demonstrating that Aruba and the United States share the common goals of upholding international standards and ensuring that our financial institutions are not used to further illicit activities of any kind.

This new tax information exchange agreement we are signing today is the ninth such agreement the United States has signed with a significant financial center in the last two years. It is the first such agreement that I will have the privilege to sign, and I do not intend for it to be the last. I hope that Aruba's cooperation with the United States will serve as an example to other financial centers in the region and around the world.

We will continue to work vigorously to extend our network of exchange of information agreements to cover additional financial centers throughout the world and to improve our existing information exchange relationships."

Background Information

In the last two years, the United States has negotiated and concluded important new tax information agreements with eight significant offshore financial centers: Antigua and Barbuda, The Bahamas, the British Virgin Islands, the Cayman Islands, Guernsey, Isle of Man, Jersey, and the Netherlands Antilles. Each of these agreements reflects the international standards for tax information exchange that the United States has been a leader in establishing.

In January 2003, the United States entered into a Mutual Agreement with Switzerland under the current U.S.-Swiss Income Tax Convention that is intended to facilitate more effective tax information exchange between the two countries. At the same time, the two governments agreed that more must be done to bring the U.S.-Swiss tax information exchange relationship up to international standards.

Related Documents:

- "Tax Information Exchange Agreement"

Associated Links:

- Photo

AGREEMENT BETWEEN THE UNITED STATES OF AMERICA AND THE KINGDOM OF THE NETHERLANDS IN RESPECT OF ARUBA FOR THE EXCHANGE OF INFORMATION WITH RESPECT TO TAXES

The United States of America and the Kingdom of the Netherlands in respect of Aruba;

Desiring to facilitate the exchange of information with respect to taxes, recognizing the critical importance of sharing information with one another to prevent abuse of their respective fiscal laws, and determined to cooperate in the prevention of financial crimes and to combat terrorism through sharing of information;

Have agreed as follows:

ARTICLE 1

OBJECT AND SCOPE OF THE AGREEMENT

1. The Contracting Parties shall assist each other to assure the accurate assessment and collection of taxes, to prevent fiscal fraud and tax evasion, and to develop improved information sources for tax matters. The Contracting Parties shall provide assistance through exchange of information, authorized pursuant to Article 4, and such related measures as may be agreed upon by the competent authorities pursuant to Article 5.

2. Information shall be exchanged to fulfill the purpose of this Agreement without regard to whether the person to whom the information relates is, or whether the information is held by, a resident or national of a Contracting Party, provided that information is present within the territory, or in the possession or control of a person subject to the jurisdiction, of the requested Party.

3. As regards the Kingdom of the Netherlands, this Agreement shall apply only to Aruba.

ARTICLE 2

TAXES COVERED BY THE AGREEMENT

1. This Agreement shall apply to the following taxes imposed by or on behalf of a Contracting Party:

a) in the case of the United States of America, the following taxes:

(i) Federal income taxes;

(ii) Federal taxes on self-employment income;

(iii) Federal estate and gift taxes; and

(iv) Federal excise taxes; and

b) in the case of Aruba, the following taxes:

(i) the income tax (inkomstenbelasting);

(ii) the wages tax (loonbelasting);

(iii) the profit tax (winstbelasting);

(iv) the dividend withholding tax (dividendbelasting);

(v) the inheritance tax (successiebelasting); and

(vi) the excise tax (accijnzen).

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

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

4. This Agreement shall not apply to taxes imposed by political subdivisions of either Contracting Party and, in the case of the United States, to taxes imposed by states or possessions of the United States.

ARTICLE 3

DEFINITIONS

1. In this Agreement, unless otherwise defined:

a) The term "competent authority" means:

(i) in the case of the United States of America, the Secretary of the Treasury or his delegate; and

(ii) in the case of Aruba, the Minister of Finance and Economic Affairs or his authorized representative.

b) The term "Contracting Party" means the United States or the Kingdom of the Netherlands in respect of Aruba as the context requires.

c) The term "national" means:

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

(ii) in the case of Aruba, any individual who is a citizen of Aruba and any person other than an individual deriving its status as such from the laws of Aruba.

d) The term "person" includes an individual and a partnership, corporation, trust, estate, association or other legal entity.

e) The term "tax" means any tax to which the Agreement applies.

f) The term "information" means any fact or statement, in any form whatever, including (but not limited to) declaration of an individual and documents, records, or tangible property of a person or a Contracting Party.

g) The terms "applicant Party" and "requested Party" mean, respectively, the Contracting Party applying for or receiving information and the Contracting Party providing or requested to provide such information.

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

i) For purposes of determining the geographical area within which jurisdiction to compel production of information may be exercised, the term "Aruba" means that part of the Kingdom of the Netherlands that is situated in the Caribbean area and consisting of the Island Aruba.

2. Any term not defined in this Agreement, unless the context otherwise requires or the competent authorities agree to a common meaning pursuant to the provisions of Article 5, shall have the meaning which it has under the laws of the Contracting Party relating to the taxes which are the subject of this Agreement.

ARTICLE 4

EXCHANGE OF INFORMATION

1. The competent authorities of the Contracting Parties shall exchange information that is foreseeably relevant to the administration and enforcement of the domestic laws of the Contracting Parties concerning taxes covered by this Agreement, including information to effect the determination, assessment, and collection of tax, the recovery and enforcement of tax claims, or

the investigation or prosecution of tax crimes or crimes involving the contravention of tax administration.

2. The competent authority of the requested Party shall provide information upon request by the competent authority of the applicant Party for the purposes referred to in paragraph 1. If the information available in the tax files of the requested Party is not sufficient to enable compliance with the request, that Party shall take all relevant measures, including compulsory measures, to provide the applicant Party with the information requested.

a) The requested Party shall have the authority to:

(i) examine any books, papers, records, or other tangible property which may be relevant or material to such inquiry;

(ii) question any person having knowledge or in possession, custody or control of information which may be relevant or material to such inquiry;

(iii) compel any person in possession, custody, or control of information which may be relevant or material to such inquiry to appear at a stated time and place, and produce the books, papers, records, or other tangible property;

(iv) provide for a signed certification, from a person who is qualified by reason of position, authority, and knowledge, of the authenticity of such books, papers, records, or other tangible property, that if falsely made would subject the person providing the certification to criminal penalty under the laws of the requested Party; and

(v) compel any individual having knowledge of information which may be relevant or material to such inquiry to appear at a stated time and place and to give a declaration under circumstances that, if the declaration were falsely given, would subject the individual to criminal penalty under the laws of the requested Party.

b) Privileges under the laws or practices of the applicant Party shall not apply in the execution of a request but shall be preserved for resolution by the applicant Party.

3. The requested Party shall provide information requested pursuant to the provisions of this Article regardless of whether the requested Party needs such information for purposes of its own tax. Moreover, if specifically requested by the competent authority of the applicant Party, the requested Party shall:

a) specify the time and place for the taking of a declaration or the production of books, papers, records, and other tangible property;

b) permit the presence of individuals designated by the competent authority of the applicant Party as being involved in or affected by execution of the request, including an accused, counsel for the accused, individuals charged with the administration and enforcement of domestic laws of the applicant Party covered by this Agreement, and a commissioner or magistrate present for the purpose of rendering evidentiary rulings or determining issues of privilege under the laws of the applicant Party;

c) provide individuals permitted to be present with an opportunity to question, directly or through the executing authority, the individual giving a declaration or producing books, papers, records, and other tangible property;

d) secure original and unedited books, papers, records, and other tangible property;

e) secure or produce true and correct copies of original and unedited books, papers, and records;

f) determine the authenticity of books, papers, records, and other tangible property produced;

g) examine the individual producing books, papers, records, and other tangible property regarding the purpose for which and the manner in which the item produced is or was maintained;

h) **permit the competent authority of the applicant Party to provide written questions to which the individual producing books, papers, records, and other tangible property is to respond regarding the item produced;**

i) **obtain from a person who is qualified by reason of position, authority, and knowledge a signed certification of the authenticity of such books, papers, records, or other tangible property that if falsely made would subject the person providing the certification to criminal penalty under the laws of the requested Party;**

j) **ensure both that the individual giving the declaration does so under circumstances that, if the declaration were falsely given, would subject the individual to criminal penalty under the laws of the requested Party, and that the individual evidences his awareness of such circumstances;**

k) **perform any other act not in violation of the laws or at variance with the administrative practice of the requested Party; and**

l) **certify either that procedures requested by the competent authority of the applicant Party were followed or that the procedures requested could not be followed, with an explanation of the deviation and the reason there fore.**

4. **The provisions of the preceding paragraphs shall not be construed so as to impose on a Contracting Party the obligation:**

a) **to carry out administrative measures at variance with the laws and administrative practice of that Party or of the other Contracting Party;**

b) **to supply particular items of information which are not obtainable:**

i) **under the laws or in the normal course of the administration of that Party; or**

ii) **under the laws or in the normal course of the administration of the other Contracting Party;**

c) to supply information which would disclose any trade, business, industrial, commercial, or professional secret or trade process;

d) to supply information, the disclosure of which would be contrary to public policy;

e) to supply information requested by the applicant Party to administer or enforce a provision of the tax law of the applicant Party, or any requirement connected therewith, which discriminates against a national of the requested Party. A provision of tax law, or connected requirement, will be considered to be discriminatory against a national of the requested Party if a national of the requested Party is subject to treatment thereunder that is more burdensome than the treatment to which a national of the applicant Party that is in the same circumstances, particularly with respect to taxation on worldwide income, is or may be subject;

f) notwithstanding subparagraphs (a) through (e) of this paragraph, the requested Party shall have the authority to obtain and provide, through its competent authority, information held by financial institutions, nominees, or persons acting in agency or fiduciary capacity (not including information that would reveal confidential communications between a client and an attorney, solicitor, or other legal representative where the client seeks legal advice), or information in respect of ownership interests in a person.

5. Except as provided in paragraph 4, the provisions of the preceding paragraphs shall be construed so as to impose on a Contracting Party the obligation to use all legal means and its best efforts to execute a request. A Contracting Party may, in its discretion, take measures to obtain and transmit to the other Party information which, pursuant to paragraph 4, it has no obligation to transmit.

6. The competent authority of the requested Party shall allow representatives of the applicant Party to enter the requested Party to interview individuals and examine books and records with the consent of the individuals contacted.

7. Any information received by a Contracting Party shall be treated as secret in the same manner as information obtained under the domestic laws of that Party and shall be disclosed only to individuals or authorities (including judicial and administrative bodies) involved in the determination, assessment, collection, and administration of, the recovery and collection of claims derived from, the enforcement or prosecution in respect of, or the determination of appeals in respect of, the taxes which are the subject of this Agreement, or the oversight of the above. Such individuals or authorities shall use the information only for such purposes. These individuals or authorities may disclose the information in public court proceedings or in judicial decisions.

8. To demonstrate the foreseeable relevance of the requested information the applicant Party shall at least provide the following information:

a) the identity of the person under examination or investigation; and

b) the tax purpose for which the information is requested.

ARTICLE 5

MUTUAL AGREEMENT PROCEDURE

1. The competent authorities of the Contracting Parties shall agree to implement a program to carry out the purposes of this Agreement. This program may include, in addition to exchanges specified in Article 4, other measures to improve tax compliance, such as exchanges of technical know-how, development of new audit techniques, identification of new areas of non-compliance, and joint studies of non-compliance areas.

2. The competent authorities of the Contracting Parties shall endeavor to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of this

Agreement. In particular, the competent authorities may agree to a common meaning of a term and may determine when costs are extraordinary for purposes of Article 6.

3. The competent authorities of the Contracting Parties may communicate with each other directly for the purposes of reaching agreement under this Article.

ARTICLE 6

COSTS

Unless the competent authorities of the Contracting Parties otherwise agree, ordinary costs incurred in providing assistance shall be borne by the requested Party and extraordinary costs incurred in providing assistance shall be borne by the applicant Party.

ARTICLE 7

IMPLEMENTATION

A Contracting Party shall enact such legislation as may be necessary to effectuate this Agreement.

ARTICLE 8

ENTRY INTO FORCE

This Agreement shall enter into force upon an exchange of notes between the Contracting Parties confirming that each has met domestic, constitutional, statutory and any other requirements necessary to effectuate this Agreement.

ARTICLE 9

TERMINATION

This Agreement shall remain in force until terminated by one of the Contracting Parties. Either Contracting Party may terminate the Agreement at any time after the Agreement enters into

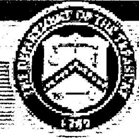
force, provided that at least three months prior notice of termination has been given through diplomatic channels.

DONE at Washington, in duplicate, this 21st day of November, 2003.

FOR THE UNITED STATES OF AMERICA:

FOR THE KINGDOM OF THE NETHERLANDS IN RESPECT OF ARUBA:

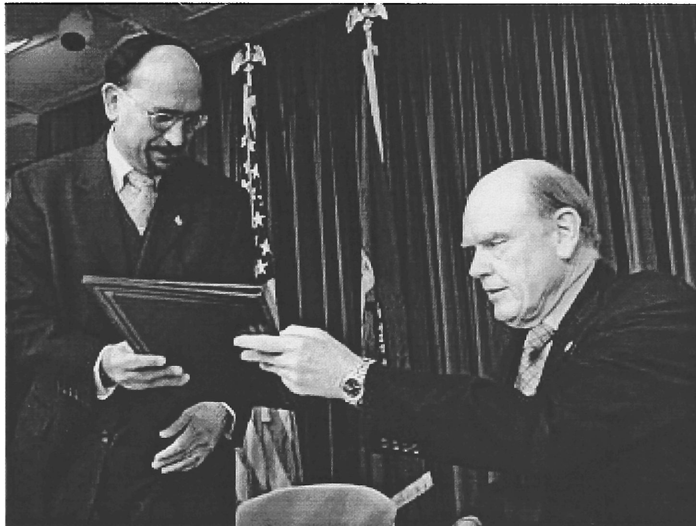
PRESS ROOM



FROM THE OFFICE OF PUBLIC AFFAIRS

November 21, 2003
2003-11-21-15-23-11-14960

Secretary John Snow and Prime Minister Nelson Oduber of Aruba Sign Tax Information Exchange Agreement



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Only call this number if you are a member of the media.

High Resolution Image

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 21, 2003
JS-1019

Statement by Secretary Snow on the Fair Credit Reporting Act Conference Report

I congratulate Chairman Oxley and Chairman Shelby, subcommittee chairman Bachus, Ranking Members Frank and Sarbanes, and the House and Senate conferees on completing their excellent work to strengthen the provisions of the Fair Credit Reporting Act. This legislation embodies the Administration recommendations I outlined on June 30 to fight identity theft and to make our credit reporting system, which is the envy of the world, even more effective in extending credit and financial services to more and more people. Because of the work of the conferees, American consumers and law enforcers will have important new tools to fight identity theft, and consumer credit information will be more accurate and will be handled more safely than ever before. We will all benefit from this major legislation.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 24, 2003
JS-1020

Secretary John Snow, Statement regarding the Passage of the Medicare Prescription Drug Bill

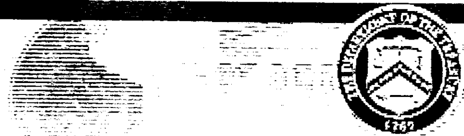
Today's action by the House on bipartisan Medicare Prescription Drug legislation brings us one step closer to strengthening America's commitment to the health of our senior citizens. This Administration is very pleased with the results of House passage, and we are looking forward to swift Senate passage and speeding the final bill to the President's desk for his signature. I applaud the leadership of Secretary Thompson who helped get us to this historic point.

As Managing Trustee of the Medicare Trust Fund, let me point out that this bill has the support of Democrats, Republicans, and the AARP - the largest seniors organization in this country - -because it is good for 40 million seniors and disabled persons on Medicare. The bill will help seniors pay for prescription drugs, and it gives the greatest benefits to those who most need help. That assistance will help ensure economic security for seniors, many living on fixed incomes.

These benefits will give every American senior citizen the same kinds of health care choices enjoyed by member of Congress and most working Americans. Seniors who are happy with their current coverage need not make any change. It also greatly expands the former Medical Savings Accounts into new and innovative Health Care Savings Accounts, which will be a welcome option for many Americans. In addition, this bill includes reforms that will ensure the future of the Medicare system, so it is available to Americans in the decades ahead. Congress and the President have a historic opportunity to deliver prescription drug benefits to all American seniors. I urge the Senate to now keep our commitment, and pass this bill.

-30-

PRESS ROOM



FROM THE OFFICE OF PUBLIC AFFAIRS

November 24, 2003
JS-1021

Remarks of
Randal K. Quarles
Assistant Secretary of the Treasury for International Affairs
The Latin American Federation of Banks Annual Assembly
Miami, Florida

U.S. Engagement with Latin America – The Economic Dimension

Thank you for inviting me to speak with you today. It is a pleasure to be here, especially at a time when the further integration of our Hemisphere is at such a critical juncture.

I know this audience is following the progress of FTAA negotiations—or ALCA, as it is better known throughout much of our Hemisphere—very closely. As you know, the U.S. Treasury Department is highly engaged in these discussions, particularly with respect to the negotiations on trade in financial services. Improving the conditions for financial institutions to provide services throughout the Hemisphere is part of our trade liberalization agenda in the WTO, the FTAA, CAFTA, as well as bilateral agreements. Our goal is to provide banks with the right to establish a commercial presence in any partner country and have these operations treated on the same basis as any other domestic institution. In a phrase, we want trade in financial services to be based on the principle of national treatment. Under this principle, the same rules would apply to all, taking into account the specific characteristics of each country's national regulatory system. Given how highly regulated the financial sector is in every country, we are also seeking commitments to regulatory transparency, so that banks will know in advance what kind of reporting they will be required to make and can comment on proposed regulations in order to avoid any unintended consequences.

Recent economic research shows how important open, transparent financial sectors are to higher economic growth. A 2001 World Bank study found that countries with fully open financial services sectors grow 1 percent faster, on average, than other countries—for developing countries, the average increase in GDP growth was even higher. Liberalization attracts scarce capital in the form of foreign direct investment and introduces foreign competition, improving efficiency in accumulating and allocating funds. With foreign firms, comes international best practices and new technology exposure for local managers. Savers and borrowers benefit from reduced inefficiencies, which lower costs and improve service and quality. These benefits can include access to better service channels, faster access to services, better credit assessment procedures and information-gathering techniques, and a wider choice of products and vendors.

Treasury's interest in the FTAA negotiation is much broader than liberalization of trade in financial services. Historical experience is clear: reducing barriers to trade and investment is a catalyst for economic growth and development. President Bush has made free trade a central component of his global economic policy because free trade provides a foundation for raising living standards in the United States and throughout the world. The successful negotiation of the FTAA is critical to economic growth, development, and the reduction of poverty in Latin America and the Caribbean.

The FTAA negotiations are one element of the Bush Administration's agenda for raising economic growth in our Hemisphere. I would like to spend the rest of my time today discussing other parts of this agenda—in particular, the steps the Bush Administration is taking to assist countries of the region resolve and prevent economic crises, and to help promote economic development in the countries of

Latin America and the Caribbean. As I believe this summary will show, we are engaged with the region on the financial side as never before, laying the basis for what we hope will be a more prosperous future for all of our citizens.

Economic Interdependence of the United States and Latin America

A few statistics tell the story of the deep economic links between the United States and Latin America and the Caribbean:

• According to the U.S. Census Bureau's Foreign Trade Statistics, the United States imported more than $200 billion in goods from Latin America and the Caribbean in 2002, and the United States exported nearly $150 billion in goods to the countries of the region. That was more than one-fifth of total U.S. exports last year.

• As of 2002, the United States had more than $270 billion invested in Latin America and the Caribbean. Just ten years ago, total U.S. investment in the region was one-third that amount.

• More than 37 million people of Hispanic origin currently reside in the United States, representing 13 percent of our population. Some have made the United States their permanent home. But millions of others work in the United States with the intention of returning to their countries.

• According to the IDB, workers sent an estimated $32 billion in remittances to their home countries in Latin America and the Caribbean in 2002. The vast majority of that came from the United States. In several countries, remittance flows equal or exceed earnings from major exports, and account for at least 10 percent of GDP in six countries in the region.

The United States has a vested interest in seeing all the countries of Latin America and the Caribbean prosper. Following the events of 9/11, there was fear that U.S. engagement in the Hemisphere would be limited to tightening border controls and tracking financial flows. The institutions that many of you represent are key allies in these efforts. Securing the global financial system from criminals and the financiers of terror is critical to ensuring the world's security.

To guard against criminal abuses, financial institutions must institute customer due diligence procedures and anti-money laundering/counter terrorist financing compliance programs in line with international standards, as established by the Basel Committee on Banking Supervision and the Financial Action Task Force. Such compliance programs include designation of compliance officers and other measures to ensure that all suspicious transactions are identified and reported to the appropriate authorities; provision of training to educate employees on current reporting obligations and procedures, as well as indicators of suspicious activity; ensuring adequate screening procedures and high standards are used when hiring staff; and, establishment of an auditing function to test the system.

These efforts are critical, to be sure. But these initiatives alone do not begin to capture the breadth of U.S. financial engagement in the region. The Bush Administration has sought to advance a range of regional and country-specific initiatives to increase economic growth and stability in the Hemisphere.

Crisis Resolution and Crisis Prevention

As we all know, the Latin America and Caribbean region has experienced serious economic difficulties during the last few years. The United States has provided critical assistance to the countries of the region to help them try to prevent the outbreak of financial crises and to weather them when they occur so that economic stability can be reestablished as quickly as possible. Let me describe a few examples.

In August 2001, the United States supported a $15 billion IMF program for Brazil to help provide a cushion for that country from the effects of the crisis in Argentina. In part due to this assistance, the situation in Brazil remained relatively stable even as Argentina slid more deeply into crisis. Later in 2002, Brazil began to experience intense financial pressures of its own in the lead-up to the presidential election last October. Bank lines to Brazil were reduced sharply, the real fell rapidly, and the government's borrowing spreads reached a high of about 2,400 basis points above U.S. Treasuries. In this context, the United States supported a $30 billion IMF

program for Brazil in August 2002 to bolster stability during this period of pre-election financial market volatility and provide a solid economic policy framework for the incoming Brazilian administration.

Since taking office at the beginning of this year, the administration of President Lula has taken bold moves to strengthen Brazil's fiscal position, ensure the integrity of the inflation targeting regime and restore market confidence that Brazil is moving in the right direction. The Lula team has aggressively pursued structural reforms, such as pension and tax reform. Market confidence has improved dramatically. Brazil's borrowing spreads have fallen to less than 600 basis points over U.S. Treasuries, and the currency has strengthened more than 20 percent since the beginning of 2003. The IMF program did not create these conditions, but we think that our support for the program helped to create the space for Lula to prove the commitment of his administration to strong policies.

The United States also provided vital support to Uruguay in 2002, as that country dealt with a banking crisis that originated with the turmoil in neighboring Argentina. With banking system deposits falling rapidly and the government's borrowing spreads surging, the United States provided a $1.5 billion short-term bridge loan to Uruguay in August 2002 until expanded assistance from the IMF, World Bank, and Inter-American Development Bank could be approved. We were determined to try to avoid a collapse of the banking sector that would have put even more pressure on the currency and increased the government's debt burden. As we have seen elsewhere, the collapse of the banking sector and the payments system can turn temporary contractions into deep and prolonged depressions. Assistance from the U.S. government and the international financial institutions allowed Uruguay to end the bank run, avoid a collapse of the payments system, and resume economic growth. In the spring of 2003, Uruguay completed a highly successful market-based debt exchange (with over 90 percent participation) that substantially reduced its debt service obligations in near-term years. Economic growth in Uruguay has resumed, with real GDP increasing at an annual rate of 9 percent in the first quarter and 14 percent in the second quarter of 2003.

The United States has played an integral role in supporting efforts to reestablish economic stability and restore economic growth in Argentina. U.S. leadership was crucial to facilitating the launch of Argentina's $3 billion transitional IMF program at the beginning of this year. The purpose of the transitional program was to lock in sound fiscal and monetary policies that would allow Argentina to stabilize its economy in the period leading up to and immediately following the presidential elections in May. U.S. support for the transitional program was controversial; critics predicted that Argentina would quickly fall off-track and that the program would fail. In fact, Argentina's real GDP grew at annual rates of 10 percent and 6.5 percent in the first two quarters of 2003. This strong growth helped the government out-perform its IMF fiscal targets during the transitional program. International reserves have grown $2.5 billion since the beginning of the year, the currency has appreciated 18 percent, and the Argentine government unfroze $4 billion in bank deposits last spring without igniting a renewed crisis as many had feared.

The philosophy underlying the transitional program was that it would provide a bridge until a new presidential administration with a popular mandate came into office—an administration that could implement the broad-based economic reforms needed to lay the foundation for sustainable long-run growth in Argentina. This new three-year IMF program launched in September provides a framework for the Argentine government to tackle some of the key impediments to growth through tax reform; measures to strengthen the banking system; reform of fiscal relations between the federal government and the provinces (which played such a large role in the crisis); and the institutionalization of good monetary policy. It also requires Argentina to proceed with a debt restructuring and normalize its relations with creditors. The success of the IMF program is dependent upon the effectiveness of the Argentine government's efforts to implement it. In the area of debt negotiations, consistent with the IMF's policy on lending into arrears, we expect the Argentine government to maintain a collaborative dialogue with its creditors. This dialogue should be consistent with a viable economic program and take into account the broad financial parameters which determine the envelope of resources available for restructured claims. It should also be open to creditors' input on restructuring strategies and the design of individual instruments.

The case of Colombia provides a good example of successful crisis prevention through a combination of effective domestic policies and strong U.S. support for engagement by the international financial institutions. In September 2002, risk

spreads on Colombian bonds jumped to nearly 1,100 basis points and the peso depreciated close to 20 percent, as investors focused on a possible financing gap in 2003. President Uribe took bold measures to restore market confidence, passing important tax, pension and labor market reforms and defining a strong economic program for the future. The United States supported the efforts of the international financial institutions to build on these measures through budget support by the multilateral development banks and approval of a two-year, $2 billion IMF program. The measures helped restore market confidence and Colombia was able to return to international markets, issuing a $500 million, 10-year Global bond in December 2002. Today, risk spreads for Colombia are less than 500 basis points and the currency is stable.

The United States continues its efforts to assist countries facing economic crisis. Recent events in Bolivia provide a new set of challenges. The United States has worked closely with the new administration of President Mesa and the international financial institutions to define Bolivia's immediate needs and mobilize the financial resources needed to address them. In the Dominican Republic, the United States acted to help stabilize the deteriorating financial situation in the wake of a major banking crisis last spring. Negotiation of an IMF program during the summer led to an improvement in financial conditions, though recent government actions with respect to the electricity sector have led to renewed concerns. The United States is working directly with Dominican authorities and with the IMF, World Bank, and Inter-American Development Bank to get the economic program back on track and restore stability.

I would also like to mention the leadership countries in the region have provided to promote economic stability in global capital markets. In 2002, the United States proposed the inclusion of collective action clauses in sovereign bond contracts to facilitate the resolution of sovereign debt crises when they occur. Mexico was the first country to introduce such clauses in February 2003, and was followed soon after by Brazil and Uruguay. The use of collective actions clauses represents an important step in institutionalizing a contractual method of speeding resolution of unsustainable sovereign debt situations. Thanks to the leadership provided by Mexico, Brazil, Uruguay, and others, collective action clauses are becoming the market standard—in the second quarter of 2003, new sovereign debt issuances with CACs outpaced those without CACs for the first time.

Promoting Economic Development

Our efforts to increase economic stability go hand-in-hand with the Administration's policies to increase economic growth and promote economic development in the Hemisphere.

The United States has supported economic development through a variety of channels. The first is official bilateral support. Through the United States Agency for International Development (USAID), the United States provides annual investment of more than $850 million to improve the quality of life and strengthen the economies of Latin American and Caribbean countries. These funds are being used, for example, to strengthen educational systems, address key health concerns, and improve countries' climate and capacity for trade and investment activities.

Lower-income countries in Latin America and the Caribbean will also be eligible to benefit from the Administration's major new initiative in the area of foreign aid—President Bush's proposed Millennium Challenge Account, or MCA. The MCA represents an entirely new way of providing development assistance. Under the MCA, assistance funds will be channeled to countries that are pursuing policies that have been shown to increase economic growth. The MCA selection criteria are designed to identify countries that are "ruling justly" (such as combating corruption, strengthening the rule of law, and improving civil liberties), "investing in people" (such as making investments in education and health that build human capital), and "promoting economic freedom" (such as opening markets, improving regulation, and improving the environment for private investment). The goal is to provide incentives for countries to adopt these growth-promoting policies and support countries that are laying the foundation for sustained economic growth. President Bush has proposed a 50 percent increase in U.S. official development assistance to fund the MCA—an additional $5 billion per year by FY2006.

The Treasury Department has a special role to play in the U.S. bilateral assistance

effort in the region, providing technical assistance in the areas of tax collection, banking oversight, fiscal planning and other areas related to countries' fiscal and economic stability. Treasury's technical assistance program is aimed at supporting countries' own efforts to build strong institutions capable of meeting the needs of their citizens. Treasury advisors work directly with officials in finance ministries and central banks to establish best practices, increase transparency, and reinforce accountability of governments to the people they serve. Treasury maintains technical assistance programs in a dozen countries in Latin America and the Caribbean. We have full-time resident advisors in Colombia, Honduras, Nicaragua, Paraguay and Peru. I am struck by the frequency with which the finance ministers and central bank governors with whom we meet underline the value of Treasury's technical assistance program to their work.

The Bush Administration has also worked to facilitate access to another powerful source of funds for economic development: remittances from workers in the United States to their families back home in Latin America and the Caribbean. Annual remittance flows to the region are more than four times the annual flow of official development assistance from all sources and provide households with an important source of capital for consumption and investment purposes. However most remittance channels are expensive to use, with fees as high as 40 percent, and often difficult to access. To increase the efficiency of remittance services for senders and receivers and to help make these services more affordable and accessible for more people, the Treasury Department has been working with other U.S. government agencies to promote increased competition in the remittance industry.

Progress has been made in this area under the U.S.-Mexico Partnership for Prosperity, established by President Bush and President Fox to promote greater economic cooperation between our two countries. The Partnership has focused on improving the remittance channels between the United States and Mexico by promoting knowledge of the commercial opportunities presented by the remittance market, strengthening the infrastructure for cross-border payments, and expanding financial literacy programs to increase the number of remittance senders that are comfortable using banks, and other financial institutions.

These efforts have borne fruit. Several financial institutions have introduced new remittance products to Mexico. Since 1999, the average cost of sending remittances has been halved from $31 to $14 per transaction—with some well below $10—as more financial institutions have entered the remittance market. Treasury's "First Accounts" program has helped bring more migrant workers into the financial system by providing $8 million to financial institutions and community-based organizations to foster financial literacy among underserved communities in the United States. Remittances from the United States to Mexico jumped 30 percent during the first half of this year versus the same period in 2002, and are expected to reach $12 billion for all of 2003. Households are using these savings to increase investment in education, and on food and health care for their families.

Under the Partnership, the Federal Reserve Bank of Atlanta and the Bank of Mexico have worked together to strengthen the financial infrastructure for payments between the United States and Mexico by establishing a cross-border automated clearing house (ACH) system that will enable any bank in the United States to transfer money to any bank in Mexico at a very low rate. I am pleased to announce that the ACH is scheduled to become operational for all payments from the United States to Mexico starting in December. The ACH represents a powerful tool for increasing the use of banks for remittances and commercial payments since it promises to substantially reduce the cost of such transfers, particularly for smaller banks. I strongly encourage those here today to look into the new commercial opportunities provided by the ACH and contact the Federal Reserve Bank of Atlanta to find out how to sign up for the service.

The U.S.-Mexico Partnership for Prosperity is one example of the bilateral and multilateral dialogues the Bush Administration has launched to advance policies that increase economic growth in the Hemisphere. Secretary Snow's first foreign trip—aside from travel associated with the regular meetings of the G-7—was to Brazil, Colombia, and Ecuador to get a first-hand look at the steps these governments are taking to strengthen their economies. At the U.S.-Brazil Presidential Summit in June 2003, President Bush and President Lula announced the formation of the U.S.-Brazil Group for Growth, which held its inaugural session in August. Treasury has also initiated a series of meetings with different groupings of hemispheric finance ministers, beginning with a meeting of all the finance

ministers of the Western Hemisphere in September 2002 and continuing with Secretary Snow's meeting with the Central American finance ministers in April 2003. We plan to hold another such meeting with finance ministers from some South American countries in the upcoming months.

Conclusion

Some have expressed the fear that the recent political and economic turbulence in Latin America presages a turn away from market-oriented economic reform in the region. In considering this view, I find it worthwhile to look at the example of Brazil. President Lula is clearly a leader with an ambitious vision for social progress in Brazil, articulated so eloquently in his inauguration speech. His words then—and the reforms that his administration has pursued since—recognized the inextricable link between the achievement of macroeconomic stability and economic growth, on the one hand, and the achievement of social objectives such as ending hunger, on the other. The Lula administration's effective implementation of economic policy to date enhances its capacity to focus attention and resources on the critical work of improving social conditions for all Brazilians. One might contrast Brazil's situation with that of Venezuela, where the turn away from market-oriented policies has resulted in a sharp economic contraction and intensification of social pressures.

Political leaders in the region have the ultimate responsibility for building the domestic political consensus needed to support the adoption and implementation of policies that promote economic growth. It is a task that requires constant attention to convincing the public of the centrality of good economic policies to the achievement of higher living standards, less poverty, and a better life for all citizens.

The United States stands ready to support the countries of the region in this endeavor.

FROM THE OFFICE OF PUBLIC AFFAIRS

November 25, 2003
2003-11-25-13-0-35-16825

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 $84,992 million as of the end of that week, compared to $84,666 million as of the end of the prior week.

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

	November 14, 2003			November 21, 2003		
TOTAL		**84,666**			**84,992**	
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	7,826	14,507	22,333	7,949	14,448	22,397
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,799	2,914	15,713	12,989	2,902	15,891
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]			23,529			23,586
3. Special Drawing Rights (SDRs) [2]			12,047			12,076
4. Gold Stock [3]			11,043			11,043
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	November 14, 2003			November 21, 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

	November 14, 2003			November 21, 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

November 25, 2003
JS-1022

Treasury Department Announces Proposed Regulation Implementing Claims Procedures Under the Terrorism Risk Insurance Act

The Treasury Department today announced a proposed regulation under the Terrorism Risk Insurance Act of 2002, which was signed into law by President Bush on November 26, 2002.

Today's regulation contains procedures for insurers to follow in filing claims for payment of the federal share of compensation for insured losses under the Terrorism Risk Insurance Program. It is the latest in a series of regulations that Treasury has issued throughout the year to implement this program. Insurers and other interested parties will have the opportunity to submit formal comments on the regulation, and the comment period will last for 30 days from the date of the regulation's publication in the Federal Register.

"The Terrorism Risk Insurance Program plays an important role in strengthening the nation's economy against the effects of international terrorism" said Treasury Assistant Secretary for Financial Institutions Wayne Abernathy, who oversees the Program. "This temporary backstop for insurers promotes the availability of terrorism risk insurance coverage and encourages the development by the private sector of increasingly available resources for this protection."

Previously issued regulations laid the groundwork for the program, clarified the program scope, and implemented disclosure requirements of the Act. This proposed rule lays out the requirements and conditions insurers must meet in order to file for federal payment for covered losses. It clarifies elements of insured losses that are to be reimbursed under the Program and establishes fundamental documentation and recordkeeping necessary for insurers to receive the federal share of compensation for terrorism losses.

"Treasury seeks to establish operational procedures that suitably emulate the best practices of the reinsurance industry" added Jeffrey S. Bragg, Executive Director of the Terrorism Risk Insurance Program. "Our goal is to respond quickly to insurer claims for payment while maintaining appropriate financial controls over the use of taxpayer funds."

The Terrorism Risk Insurance Program is a temporary federal reinsurance program designed to encourage the development of private sector resources and arrangements for managing risk of loss due to acts of international terrorism. The authority for the program expires on December 31, 2005.
Regulations and other information related to the Terrorism Risk Insurance Program can be found at http://www.treasury.gov/trip/.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 25, 2003
JS-1023

Secretary John Snow, Statement Regarding
Senate Passage of the Medicare Prescription Drug Bill

Today's Senate passage of bipartisan Medicare Prescription Drug legislation is an important victory for the health of America's senior citizens. This Administration is very pleased with the work of the House and Senate, and we are looking forward to speeding the final bill to the President's desk for his signature. I applaud the good work by Secretary Thompson and the President's leadership that helped get us to this historic point.

As Managing Trustee of the Medicare Trust Fund, let me point out that this bill received the support of Democrats, Republicans, and the AARP the largest seniors' organization in this country - -because it is good for 40 million seniors and disabled persons on Medicare. The plan will help seniors pay for prescription drugs, and it gives the greatest benefits to those who most need help. That assistance will help ensure economic security for seniors, many living on fixed incomes.

These benefits will give every American senior citizen the same kinds of health care choices enjoyed by member of Congress and most working Americans. Seniors who are happy with their current coverage need not make any change. It also greatly expands the former Medical Savings Accounts into new and innovative Health Care Savings Accounts, which will be a welcome option for many Americans. In addition, this plan includes reforms that will ensure the future of the Medicare system, so it is available to Americans in the decades ahead. Congress and the President have taken historic action to deliver prescription drug benefits to all American seniors, and should be commended for their efforts.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 25, 2003
JS-1024

Secretary John W. Snow's Statement on the 2003 Third Quarter Gross Domestic Product Report

Today's reports of strong real GDP growth in the third quarter and improving consumer confidence are further evidence that the President's economic policies are moving the U.S. economy in the right direction. Growth cannot be expected to continue at such rapid rates, but on balance, these indicators are providing continued positive evidence that our economy is beginning to recover. And while this news is encouraging, our work will not be complete until we ensure that every American who wants a job can find a job. It will be important to make steady progress on President Bush's economic program to sustain growth and create jobs.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 26, 2003
JS-1026

Treasury and IRS Simplify Reporting Requirements For US Persons With Canadian Retirement Plans

Today the Treasury Department and the Internal Revenue Service issued guidance simplifying the U.S. reporting rules that apply to U.S. persons with interests in two common types of Canadian retirement plans. Notice 2003-75 sets forth the information that U.S. persons holding interests in Canadian Registered Retirement Savings Plans ("RRSPs") and Canadian Registered Retirement Income Funds ("RRIFs") are required to include on a statement attached to their U.S. tax returns. The Treasury and the IRS are developing a simple form for this information reporting.

These new simplified reporting rules are designed to permit taxpayers holding interests in RRSPs and RRIFs to meet their information reporting obligations by using readily available information. The new simplified reporting rules represent a substantial reduction in paperwork burden for the U.S. citizens and residents who hold interests in these retirement plans.

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Related Documents:

- Notice 2003-75

Part III - Administrative, Procedural, and Miscellaneous

RRSP and RRIF Information Reporting

Notice 2003-75

SECTION 1. BACKGROUND.

Notice 2003-25, 2003-18 I.R.B. 855, and Notice 2003-57, 2003-34 I.R.B. 397, provided guidance to taxpayers regarding their 2002 taxable year information reporting obligations with respect to Canadian registered retirement savings plans ("RRSPs") and registered retirement income funds ("RRIFs"). These Notices stated that Treasury and the IRS intended to develop an alternative, simplified reporting regime for these Canadian retirement plans for future taxable years.

This notice describes the new simplified reporting regime that Treasury and the IRS have developed for taxpayers who hold interests in RRSPs and RRIFs. The new reporting regime, which is effective for taxable years beginning after December 31, 2002, is in lieu of the filing obligations under section 6048 (Form 3520 (Annual Return to Report Transactions with Foreign Trusts and Receipt of Certain Foreign Gifts) and Form 3520-A (Annual Information Return of Foreign Trust with a U.S. Owner)) that otherwise apply to U.S. citizens and resident aliens who hold interests in RRSPs and RRIFs and to the custodians of such plans. The new simplified reporting regime is designed to permit taxpayers to meet their reporting obligations by using information that is readily available to them.

SECTION 2. NEW REPORTING REGIME.

.01. New Form. Under the authority of section 6001 of the Internal Revenue Code, Treasury and the IRS are designing a new form that a U.S. citizen or resident alien who holds an interest in an RRSP or RRIF must complete and attach to his or her Form 1040. The new form also will coordinate the reporting rules with the procedure set forth in section 4 of Revenue Procedure 2002-23, 2002-1 C.B. 744, for making the election under Article XVIII(7) of the U.S.-Canada income tax convention to defer U.S. income taxation of income accrued in the RRSP or RRIF.

.02. Interim Reporting Rules for Beneficiaries Making the Election to Defer U.S. Income Taxation on Income of an RRSP or RRIF. Until the form referred to in section 2.01 of this notice is available, any U.S. citizen or resident alien who is a beneficiary (as defined in section 2.06 of this notice) of an RRSP or RRIF and who has made the election described in section 4 of Revenue Procedure 2002-23 with respect to the RRSP or RRIF, or who is making such election effective for the 2003 taxable year and subsequent taxable years, must

(i) attach a copy of each such election to his or her Form 1040;
(ii) indicate the balance in each RRSP or RRIF at the end of the taxable year either on the copy of the election or by attaching a copy of a statement issued by the custodian of the RRSP or RRIF; and
(iii) comply with section 2.05 of this notice if he or she has received any distributions during the taxable year from such RRSP or RRIF.

.03. Interim Reporting Rules for Beneficiaries Not Making the Election to Defer U.S. Income Taxation on Income of an RRSP or RRIF. Until the form referred to in section 2.01 of this notice is available, any U.S. citizen or resident alien who is a beneficiary (as defined in section 2.06 of this notice) of an RRSP or RRIF and who has not made the election described in section 4 of Revenue Procedure 2002-23 with respect to the RRSP or RRIF, and who is not making such election for the 2003 taxable year, must attach a statement to his or her Form 1040 that includes the following information:

(i) The caption "CANADIAN RRSP" or "CANADIAN RRIF," whichever is applicable;
(ii) The taxpayer's name and taxpayer identification number;
(iii) The taxpayer's address;
(iv) The name and address of the custodian of the RRSP or RRIF and the plan account number, if any;
(v) The amount of contributions to the RRSP or RRIF during the taxable year;
(vi) The undistributed earnings of the RRSP or RRIF during the taxable year in each of the following categories: interest, dividends, capital gains, and other;
(vii) The total amount of distributions received from the RRSP or RRIF during the taxable year; and
(viii) The balance in the RRSP or RRIF at the end of the taxable year.

The taxpayer must provide a separate statement for each RRSP or RRIF of which he or she is a beneficiary. In addition to attaching the statement described in this section 2.03 to his or her Form 1040, the taxpayer must report the undistributed earnings for that taxable year of all such RRSPs and RRIFs on Schedule B (Interest and Ordinary Dividends) or D (Capital Gains and Losses), as appropriate, and on line 8a, 9, 13, or 21 of the Form 1040. The taxpayer must also comply with section 2.05 of this notice if the taxpayer has received any distributions during the taxable year from such RRSP or RRIF.

.04. Interim Reporting Rules for Annuitants of RRSPs and RRIFs. Until the form referred to in section 2.01 of this notice is available, if a U.S. citizen or resident alien is an annuitant (as defined in section 2.06 of this notice) under an RRSP or RRIF that has no beneficiary (as defined in section 2.06 of this notice), and the annuitant receives a distribution from the RRSP or RRIF, the annuitant must in the year of distribution attach a statement to his or her Form 1040 that includes the following information:

(i) The caption "ANNUITANT UNDER CANADIAN RRSP' or "ANNUITANT UNDER CANADIAN RRIF," whichever is applicable;

(ii) The annuitant's name and taxpayer identification number;
(iii) The annuitant's address;
(iv) The name and address of the custodian of the RRSP or RRIF and the plan account number, if any;
(v) The total amount of distributions received from the RRSP or RRIF during the taxable year; and
(vi) The balance in the RRSP or RRIF at the end of the taxable year.

The annuitant must provide a separate statement for each such RRSP or RRIF from which he or she has received a distribution during the taxable year. The annuitant must comply with section 2.05 of this notice with respect to such distributions.

.05. Distributions. A U.S. citizen or resident alien who has received any distributions during the taxable year from an RRSP or RRIF must report the total amount of distributions received during the taxable year from all such RRSPs and RRIFs on line 16a of the Form 1040 and the taxable amount of all such distributions (as determined under section 72) on line 16b of the Form 1040.

.06. Definition of Beneficiary and Annuitant. For purposes of the new simplified reporting regime described in this notice, a beneficiary of an RRSP or RRIF is an individual who is subject to current U.S. income taxation on income accrued in the RRSP or RRIF or would be subject to such taxation had the individual not made the election under Article XVIII(7) of the U.S.-Canada income tax convention to defer U.S. income taxation of income accrued in the RRSP or RRIF. For these purposes, an annuitant of an RRSP or RRIF is an individual who is designated pursuant to the RRSP or RRIF as an annuitant.

.07. Record Retention. Taxpayers must retain supporting documentation relating to information required by the new reporting regime, including Canadian Forms T4RSP, T4RIF, or NR4, and periodic or annual statements issued by the custodian of the RRSP or RRIF.

SECTION 3. SECTIONS 6048 AND 6677 ARE NOT APPLICABLE

The new simplified reporting regime, instituted under the authority of section 6001, provides the information needed for tax compliance purposes. Therefore, pursuant to section 6048(d)(4), no reporting will be required under section 6048 with respect to RRSPs and RRIFs that have beneficiaries or annuitants who are subject to the new simplified reporting regime. Accordingly, the associated penalties described in section 6677 do not apply to such RRSPs and RRIFs and their beneficiaries or annuitants. A beneficiary or annuitant of an RRSP or RRIF may, however, be subject to other penalties.

SECTION 4. EFFECT ON OTHER DOCUMENTS.

Notice 2003-25, Notice 2003-57, and section II.E of Notice 97-34 (pertaining to

reporting for certain transfers to RRSPs), 1997-1 C.B. 422, are superseded to the extent inconsistent with this notice.

SECTION 5. EFFECTIVE DATE.

This notice is effective for taxable years beginning after December 31, 2002.

SECTION 6. PAPERWORK REDUCTION ACT.

The collection of information contained in this notice has been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1545-1865.

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

The collection of information in this notice is in section 2. This information will be used to compute and collect the right amount of tax. The likely respondents are individuals.

The estimated total annual reporting burden under the new simplified reporting regime for taxpayers who hold interests in RRSPs and RRIFs is 1,500,000 hours. The estimated annual burden per respondent varies from 0.5 hour to 5 hours, depending on individual circumstances, with an estimated average of 2 hours. The estimated number of respondents is 750,000.

The estimated annual frequency of responses is once per respondent per plan.

The new simplified reporting regime substantially reduces the reporting burden of taxpayers who hold interests in RRSPs and RRIFs. Under the prior regime, the average estimated reporting burden was more than 50 hours per Form 3520 (more than 100 hours per respondent). In addition, the new simplified reporting regime eliminates the requirement to file Form 3520-A, reducing the burden of a custodian by more than 40 hours per RRSP or RRIF.

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

SECTION 7. DRAFTING INFORMATION.

The principal author of this notice is Willard W. Yates of the Office of Associate Chief Counsel (International). For further information regarding this notice contact Willard W. Yates on (202) 622-3880 (not a toll-free call).

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 26, 2003
JS-1027

Treasury & IRS Issue Guidance On Information Reporting On Dividends From Foreign Corporations

Today, the Treasury Department and the IRS issued guidance on information reporting on dividends from foreign corporations under the provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003, which provides for a 15-percent (5-percent for taxpayers in the 10 and 15-percent tax brackets) tax rate for certain dividends received by individuals. By reducing the rate of tax for individuals on certain dividends, the 2003 Act reduces the double tax on dividends. Notice 2003-79 provides guidance for persons required to prepare Form 1099-DIV and other information reporting with respect to dividends from foreign corporations and for individuals receiving such forms.

The Form 1099-DIV for 2003 includes a separate box identifying the amount of dividends eligible for the 15-percent (or 5-percent) tax rate. A dividend paid by a foreign corporation is eligible for the reduced tax rate if it satisfies the special rules applicable to foreign dividends under the 2003 Act. For 2003 information reporting, the Notice provides simplified procedures for applying these special rules in connection with the reporting of foreign dividends on Form 1099-DIV. The Notice also provides that an individual who receives a Form 1099-DIV with respect to a foreign dividend generally may rely on that form, unless the individual knows or has a reason to know that the dividend did not in fact satisfy the special rules applicable to foreign dividends for purposes of qualification for the reduced tax rate.

The simplified procedures described in the Notice apply to information reporting for 2003. In addition, the Notice briefly describes the certification procedure Treasury and the IRS intend to develop for use for information reporting with respect to foreign dividends beginning in 2004 and requests comments on that proposal.

The Notice also describes for 2003 when a security (or an American depositary receipt in respect of such security) issued by a foreign corporation that is not ordinary or common stock (such as preferred stock) will be considered readily tradable on an established securities market in the United States for purposes of the 2003 Act rules regarding qualification for the reduced tax rate applicable to certain dividends. (Notice 2003-71 provides guidance on when ordinary or common stock issued by a foreign corporation is considered readily tradable on an established securities market in the United States.)

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Related Documents:

- Notice 2003-79

Part III - Administrative, Procedural, and Miscellaneous

Information reporting for distributions with respect to securities issued by foreign corporations.

Notice 2003-79

SECTION 1. OVERVIEW

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-27, 117 Stat. 752) (the "2003 Act") was enacted on May 28, 2003. Subject to certain limitations, the 2003 Act generally provides that a dividend paid to an individual shareholder from either a domestic corporation or a "qualified foreign corporation" is subject to tax at the reduced rates applicable to certain capital gains. A qualified foreign corporation includes certain foreign corporations that are eligible for benefits of a comprehensive income tax treaty with the United States which the Secretary determines is satisfactory for purposes of this provision and which includes an exchange of information program. In addition, a foreign corporation not otherwise treated as a qualified foreign corporation is so treated with respect to any dividend it pays if the stock with respect to which it pays such dividend is readily tradable on an established securities market in the United States.

This notice provides guidance for persons required to make returns and provide statements under section 6042 of the Internal Revenue Code (e.g., Form 1099-DIV) regarding distributions with respect to securities issued by a foreign corporation, and for individuals receiving such statements. The notice provides simplified procedures for persons required to make such returns and provide such statements for 2003. The notice also describes when a security (or an American depositary receipt in respect of such security) issued by a foreign corporation that is other than ordinary or common stock (such as preferred stock) will satisfy the readily tradable test (as described in Section 2.01 below). The notice also describes generally the certification process that Treasury and the IRS intend to develop for future years.

Section 2 of this notice describes the "qualified foreign corporation" determination under the 2003 Act and describes the information reporting requirements with respect to dividends generally. Section 3 addresses the determinations required under the 2003 Act for information reporting of a distribution with respect to a security of a foreign corporation, including how the readily tradable test applies to a security that is other than ordinary or common stock. Section 4 sets forth simplified procedures for information reporting for 2003. Section 5 briefly describes the certification procedure Treasury and the IRS intend to develop for use beginning in 2004.

SECTION 2. BACKGROUND

.01 The 2003 Act

Section 1(h)(1) of the Internal Revenue Code generally provides that a taxpayer's "net capital gain" for any taxable year will be subject to a maximum tax rate of 15 percent (or 5 percent in the case of certain taxpayers). The 2003 Act added section 1(h)(11), which provides that net capital gain for purposes of section (1)(h) means net capital gain (determined without regard to section 1(h)(11)) increased by "qualified dividend income". Qualified dividend income means dividends received during the taxable year from domestic corporations and "qualified foreign corporations." Section 1(h)(11)(B)(i). Subject to certain exceptions, a qualified foreign corporation is any foreign corporation that is either (i) incorporated in a possession of the United States (the "possessions test"), or (ii) eligible for benefits of a comprehensive income tax treaty with the United States which the Secretary determines is satisfactory for purposes of this provision and which includes an exchange of information program (the "treaty test").[1] Section 1(h)(11)(C)(i). Subject to the same exceptions, a foreign corporation that does not satisfy either of these two tests is treated as a qualified foreign corporation with respect to any dividend paid by such corporation if the stock with respect to which such dividend is paid is readily tradable on an established securities market in the United States (the "readily tradable test").[2] Section 1(h)(11)(C)(ii). A qualified foreign corporation does not include any foreign corporation which for the taxable year of the corporation in which the dividend was paid, or the preceding taxable year, is a foreign personal holding company (as defined in section 552) (a "FPHC"), a foreign investment company (as defined in section 1246(b)) (a "FIC"), or a passive foreign investment company (as defined in section 1297) (a "PFIC") (the "foreign investment company exclusion test"). Section 1(h)(11)(C)(iii).

A distribution with respect to a security issued by a qualified foreign corporation also is subject to the other limitations in section 1(h)(11). In particular, the recipient must satisfy the holding period requirements of section 1(h)(11)(B)(iii) (the "holding period test"). In addition, the distribution must constitute a dividend for U.S. federal income tax purposes. Accordingly, the security with respect to which the distribution is made must be equity rather than debt for U.S. federal income tax purposes (the "equity test"), and the distribution must be out of the corporation's earnings and profits rather than a return of capital (the "E&P test").

The determination whether a distribution with respect to a security issued by a foreign corporation is eligible for the reduced rates of tax under the 2003 Act therefore requires a series of separate determinations. These determinations are discussed in more detail in Section 3. First, the security with respect to which the distribution is made must satisfy the equity test. Second, the distribution must satisfy the E&P test. Third, the security must satisfy the readily tradable test, or the foreign corporation must satisfy either the possessions test or the treaty test. Fourth, the foreign corporation must satisfy the foreign investment company exclusion test. Fifth, the recipient of the distribution must satisfy the holding period test.

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1 Notice 2003-69, 2003-42 I.R.B. 851, contains the current list of the U.S. tax treaties that meet these requirements.

2 Notice 2003-71, 2003-43 I.R.B. 922, provides guidance on when ordinary or common stock is considered readily tradable on an established securities market in the United States.

.02 Information Reporting

In General. Any person that makes payments of dividends aggregating $10 or more during any calendar year, or any person that receives payments of dividends as a nominee and makes payments aggregating $10 or more in a calendar year to another person with respect to the dividends received, must report those payments to the IRS by filing an information return. Section 6042(a). In addition, a person filing such a return must furnish to every person with respect to whom such information is reported a statement of the aggregate amount of payments required to be shown on the information return. Section 6042(c). If a person furnishing such a statement is unable to determine the portion of the payment that constitutes a dividend or is paid with respect to a dividend, the person making the payment is required to treat it as a dividend or an amount paid with respect to a dividend. Section 6042(b)(3).[3]

Information Returns. Information returns under section 6042 must be filed on Form 1099, which specifies that the aggregate amount of dividends (or, in the case of a nominee, amounts paid with respect to dividends) is reported on Form 1099-DIV.[4] Form 1099-DIV and its instructions have been revised to reflect the 2003 Act. The instructions require filers to enter in Box 1a of the form the aggregate amount of ordinary dividends paid and to enter in Box 1b the portion of dividends in Box 1a that qualifies for reduced rates under the 2003 Act ("qualified dividends"). The instructions direct filers to include in Box 1b dividends for which it is impractical to determine whether the holding period test has been met. As described above, a distribution with respect to a security issued by a foreign corporation must satisfy specific requirements under the 2003 Act in order to be considered a qualified dividend.

Regulations under section 6042 provide that a person required to make an information return under that section generally must do so not later than February 28 (March 31 if filed electronically) of the year following the calendar year in which the dividend was paid. Section 1.6042-2(c) of the Income Tax Regulations. A person required to furnish a payee statement under that section generally must do so not later than January 31 of the year in which the information return is to be filed.[5]

Penalties. Section 6721 imposes a penalty if a person fails to file a timely correct information return, including a return under section 6042. Section 6722 imposes a penalty if a payor fails to furnish to a payee a timely correct information statement, including a statement under section 6042. Section 6724(a) provides that the penalties under sections 6721 and 6722 do not apply if the failure to comply is due to reasonable cause and not to willful neglect.

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3 Notice 2003-67, 2003-40 I.R.B. 752, provides guidance to brokers and individuals regarding provisions in the 2003 Act that affect information reporting for payments in lieu of dividends.

4 Revenue Procedure 2002-57, 2002-39 I.R.B. 575, provides circumstances under which a person required to file Form 1099 may file a substitute.

5 See Section 1.6042-3 of the Income Tax Regulations for guidance on when dividends are subject to information reporting.

Recipients of Payee Statements. Section 6662 imposes a penalty if a taxpayer substantially understates its income tax liability. Section 6664(c) provides that no penalty shall be imposed under section 6662 with respect to any portion of an underpayment if it is shown that there was a reasonable cause for such portion and that the taxpayer acted in good faith with respect to such portion. The regulations under section 6664 provide that the determination of whether a taxpayer acted with reasonable cause and in good faith is made on a case-by-case basis, taking into account all pertinent facts and circumstances. Under those regulations, a taxpayer's reliance on erroneous information reported on a Form 1099 indicates reasonable cause and good faith, provided the taxpayer did not know or have reason to know that the information was incorrect. Section 1.6664-4(b)(1) of the Income Tax Regulations. For these purposes, a taxpayer generally knows, or has reason to know, that the information on an information return is incorrect if such information is inconsistent either with other information reported or furnished to the taxpayer or with the taxpayer's knowledge of the transaction. Id.

The instructions to Form 1040 for 2003 state that some distributions that are reported as qualified dividends in Box 1b of Form 1099-DIV may not actually be qualified dividends. For example, the instructions provide examples illustrating situations in which amounts reported as qualified dividends in Box 1b of Form 1099-DIV are not qualified dividends because the recipient of the dividends failed to satisfy the holding period test.

SECTION 3. ANALYSIS

This Section discusses the information reporting determinations with respect to each of the tests relevant to whether a distribution with respect to a security issued by a foreign corporation is a qualified dividend.

.01 Equity Test

In order to be a qualified dividend, a distribution must be made with respect to equity rather than indebtedness, as determined under U.S. federal income tax principles. The characterization of an instrument for U.S. federal income tax purposes depends on the terms of the instrument and all surrounding facts and circumstances. See, e.g., Notice 94-47, 1994-1 C.B. 357.

Common or ordinary shares generally are treated as equity for U.S. federal income tax purposes. For a security issued by a foreign corporation other than a common or an ordinary share (such as a preferred share), a person required to make a return under section 6042 may not be aware of all the information relevant to determining whether a particular security is debt or equity, although such a person does have access to information contained in public filings with the SEC. A foreign corporation generally will have all the information relevant to applying the equity test.

For 2003 information reporting, a person required to make a return under section 6042 for a distribution with respect to a security issued by a foreign corporation shall

treat the security as satisfying the equity test if the security is a common or an ordinary share. In addition, if the security is not a common or an ordinary share, such person shall treat the security as satisfying the equity test if the foreign corporation has a public statement filed with the SEC stating that the security will be, should be, or more likely than not will be properly classified as equity rather than as debt for U.S. federal income tax purposes.

For 2004 and future information reporting, Treasury and the IRS intend to issue regulations providing a certification procedure under which foreign corporations may certify that a security with respect to which a distribution is made meets the equity test. As discussed below, it is expected that it will be possible to make such certification either in a public SEC filing (such as in a Form 20-F) or in a public statement with a copy filed with the IRS.

.02 E&P Test

In order to be a qualified dividend, a distribution must be a dividend. Section 316 generally provides that a dividend means any payment made by a corporation to its shareholders out of earnings and profits. A person required to file an information return under section 6042 may not know in a given circumstance whether a distribution by a corporation represents a distribution of earnings and profits. If a person making a payment of or with respect to a distribution by a corporation is unable to determine the portion of such a payment that is a dividend or is paid with respect to a dividend, then under section 6042 the person making the payment must treat the entire payment as a dividend or as an amount paid with respect to a dividend. Section 6042(b)(3).

.03 Tests in the Alternative: Readily Tradable Test, Possessions Test, and Treaty Test

(a) Readily Tradable Test. A foreign corporation is treated as a qualified foreign corporation with respect to any dividend paid by such corporation if the stock with respect to which that dividend is paid is readily tradable on an established securities market in the United States. Notice 2003-71 defines when ordinary or common stock is considered readily tradable on an established securities market in the United States. In addition, for 2003, a security (or an American depositary receipt in respect of such security) issued by a foreign corporation that is other than ordinary or common stock (such as preferred stock) will satisfy the readily tradable test if it is listed on a national securities exchange that is registered under section 6 of the Securities Exchange Act of 1934 (15 U.S.C. § 78f) or on the Nasdaq Stock Market as described in Notice 2003-71. (See Section 3.01 for discussion of the equity test.)

(b) Possessions Test. The 2003 Act provides that, in order to satisfy the possessions test, a corporation must be incorporated in a possession of the United States. For 2003 and future years, a person required to make a return under section 6042 shall treat a corporation incorporated in a possession of the United States as satisfying the possessions test.

(c) Treaty Test. The 2003 Act provides that, in order to satisfy the treaty test, a

corporation must be eligible for benefits of a comprehensive income tax treaty with the United States which the Secretary determines is satisfactory for purposes of section 1(h)(11) and which includes an exchange of information program. Notice 2003-69 contains the current list of treaties that meet the requirements of the 2003 Act.

Treaties generally confer benefits only on "residents" of the countries that are parties to the treaty and frequently include a "limitation on benefits" provision designed to ensure that treaty benefits are not available to persons engaged in "treaty shopping." For example, the mere fact that a corporation is organized in a country may not be sufficient for the corporation to qualify for benefits under the relevant treaty. The terms of each treaty, including any limitation on benefits provision, reflect the particular circumstances of the relevant treaty partner relative to the United States. The determination as to whether a particular foreign corporation would be eligible for benefits under a particular treaty can be a fact-intensive determination. A foreign corporation generally will have all the information relevant to applying the treaty test. For example, a foreign corporation that receives U.S. source income eligible for a reduced rate of withholding under a treaty generally must complete a Form W-8BEN certifying under penalties of perjury that, among other items, it is a resident of the relevant country within the meaning of the relevant treaty and satisfies the limitation on benefits provision, if any, provided in that treaty. As discussed in Section 5 below, for 2004 and future information reporting Treasury and the IRS intend to develop a certification procedure under which a foreign corporation may certify that it meets the treaty test. For corporations that complete a Form W-8BEN for other purposes, it is expected that filing a copy of this form with the IRS could be used as a means of meeting the certification requirement with respect to the treaty test, depending on the circumstances.

Treasury and the IRS recognize that the fact-intensive nature of the determination whether a foreign corporation is eligible for benefits under a treaty, coupled with the need for persons required to make information returns to begin work now on processing those returns and related payee statements, makes it appropriate to use a simplified procedure for 2003 information reporting.

For 2003 information reporting, a person required to make a return under section 6042 shall treat a foreign corporation as satisfying the treaty test provided that (i) the foreign corporation is organized in a country whose income tax treaty with the United States is listed in Notice 2003-69, and (ii) if the relevant treaty contains a limitation on benefits provision, the corporation's common or ordinary stock is listed on an exchange covered by the public trading test in that limitation on benefits provision. However, a person required to make such a return shall not treat a foreign corporation as satisfying the treaty test if such person knows or has reason to know that the corporation is not eligible for benefits under the relevant treaty. For this purpose, a person will be considered to have reason to know the corporation is not eligible for treaty benefits if the corporation has so stated in its most recent SEC annual filing (if any) for the security (e.g., Form 20-F).

For example, assume that a foreign corporation is incorporated in Austria and that its common stock is listed on the Vienna exchange. The U.S.-Austria income tax

treaty is listed in Notice 2003-69, and the Vienna exchange is covered by the public trading test in the limitation on benefits provision of the U.S.-Austria income tax treaty. A person required to make a return under section 6042 would treat the Austrian corporation as satisfying the treaty test unless the person knew or had reason to know that the corporation was not eligible for benefits of the U.S.-Austria income tax treaty.

.04 Foreign Investment Company Exclusion Test

The 2003 Act provides that a qualified foreign corporation does not include any foreign corporation that is a FPHC, FIC, or PFIC for the taxable year in which the dividend was paid or the preceding year. A foreign corporation generally will have all of the information relevant to making these determinations. Many foreign corporations that are publicly traded in the United States currently make these determinations each year and provide discussions regarding one or more of these determinations in their annual filings with the SEC, such as Form 20-F. However, not all foreign companies provide such a discussion in their U.S. public filings. Additionally, many foreign companies that are not publicly traded in the United States do not include discussions regarding these determinations in their public filings in their home jurisdiction.

As discussed below, Treasury and the IRS intend to develop a certification procedure for 2004 and future information reporting under which a foreign corporation may certify that it satisfies the foreign investment company exclusion test. For 2003 information reporting, Treasury and the IRS believe it is appropriate to use a simplified procedure that is based on the knowledge of persons required to make a return under section 6042. Accordingly, a person required to make a return under section 6042 for 2003 shall treat a foreign corporation as satisfying the foreign investment company exclusion test unless the person knows or has reason to know that the corporation is or expects to be a FPHC, FIC, or PFIC. For this purpose, a person would have the requisite reason to know if a corporation has stated in its most recent annual public filing with the SEC that it is or expects to be a FPHC, FIC, or PFIC.[6]

.05 Holding Period Test

The 2003 Act provides that a recipient of a dividend must satisfy certain holding period requirements in order for the dividend to be considered a qualified dividend. The instructions to Form 1099-DIV direct a person required to file Form 1099-DIV to report in Box 1b as qualified dividends any dividends for which it is impractical to determine whether the recipient has met the holding period requirements for the stock with respect to which the dividend is paid. Accordingly, if a person required to make a return under section 6042 has determined that a recipient has satisfied the relevant holding period requirements or if it is impractical for such person to determine whether a recipient has satisfied the holding period requirements, the person required to make such return shall treat the recipient as satisfying the holding period test.

.06 Waiver of Penalties for Reporting Based on Simplified Procedures

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6 A U.S. person owning a share in a foreign corporation may be subject to a number of separate reporting rules. See e.g., Form 8621 (annual return for shareholders owning stock in a PFIC).

The IRS will exercise its authority under section 6724(a) of the Code to waive penalties under sections 6721 and 6722 with respect to reporting of calendar year 2003 payments if a person required to make a return under section 6042 makes a good faith effort to report payments consistent with the simplified procedures contained in this notice.

.07 Distributions That Do Not Satisfy the Simplified Procedures In This Notice

This notice describes simplified information reporting procedures for 2003 for a distribution with respect to a security issued by a foreign corporation. A person required to make a return under section 6042 may believe a particular distribution should be reported in Box 1b of Form 1099-DIV as a qualified dividend even though the distribution does not satisfy the simplified information reporting procedures. In that case, the person required to make a return under section 6042 may report the distribution in Box 1b as a qualified dividend, subject to the applicable penalty provisions.

For example, assume that a foreign corporation incorporated in the United Kingdom issues equity securities to U.S. persons in a private placement under SEC Rule 144A. Assume further that the foreign corporation does not have its ordinary or common stock listed on any stock exchange. Finally, assume that the equity, E&P and holding period tests are satisfied. Under these facts, the securities would not satisfy the readily tradable test (because the privately placed securities would not be considered readily tradable) and the foreign corporation would not satisfy the possessions test (because the corporation is not incorporated in a possession). Additionally, the simplified procedure described in this notice regarding the treaty test would not be satisfied (because the foreign corporation's ordinary or common stock is not listed on exchange covered by the public trading test in the limitation on benefits provision of the U.S.-U.K. income tax treaty). A person required to make a return under section 6042 may nonetheless believe that the foreign corporation is in fact eligible for benefits under the U.S.-U.K. income tax treaty and thus satisfies the treaty test . Such a person could report a distribution with respect to the security in Box 1b of Form 1099-DIV as a qualified dividend. However, a person doing so could be subject to applicable penalty provisions if the foreign corporation did not in fact satisfy the treaty test and such person did not have reasonable cause for believing the foreign corporation satisfied the treaty test.

.08 Payments Reported on Form 1099-DIV for 2003

For taxable years beginning in 2003, a recipient of Form 1099-DIV may treat amounts reported in Box 1b as qualified dividends, unless and to the extent that the recipient knows or has reason to know that such amounts are not qualified dividends. As provided in § 1.6664-4(b)(1), such reliance may constitute reasonable cause and good faith reliance for purposes of applicable penalties, depending on the facts and circumstances. In addition, a recipient of Form 1099-DIV may treat a dividend excluded from Box 1b as a qualified dividend if such person believes the dividend is a qualified dividend, subject to applicable penalties in the event the amount so reported is not in

fact a qualified dividend.

SECTION 4. SUMMARY OF GUIDANCE FOR 2003

.01 Persons Required to File Form 1099-DIV

For 2003 information reporting, a person required to make a return under section 6042 shall report a distribution with respect to a security issued by a foreign corporation in Box 1b of Form 1099-DIV as a qualified dividend if:

1. either the security with respect to which the distribution is made is a common or an ordinary share, or a public SEC filing contains a statement that the security will be, should be, or more likely than not will be treated as equity rather than debt for U.S. federal income tax purposes; and

2. either:

a. the security is considered "readily tradable on an established securities market in the United States";

b. the foreign corporation is organized in a possession of the United States; or

c. the foreign corporation is organized in a country whose income tax treaty with the United States is listed in Notice 2003-69, and if the relevant treaty contains a limitation on benefits provision, the corporation's common or ordinary stock is listed on an exchange covered by that limitation on benefits provision's public trading test, unless the person required to file an information return knows or has reason to know that the corporation is not eligible for benefits under that treaty; and

3. the person required to file Form 1099-DIV does not know or have reason to know that the foreign corporation is or expects to be, in the taxable year of the corporation in which the dividend was paid or was, in the preceding taxable year, a FPHC, FIC, or PFIC; and

4. the person required to make a return under section 6042 determines that the owner of the distribution has satisfied the holding period test or it is impractical for such person to make such determination.

The IRS will exercise its authority under section 6724(a) of the Code to waive penalties under sections 6721 and 6722 with respect to reporting of calendar year 2003 payments if persons required to file Form 1099-DIV make a good faith effort to report payments consistent with the above rules. A person required to make a return under section 6042 may report a distribution in Box 1b as a qualified dividend even if the distribution does not satisfy the simplified information reporting procedures for 2003, subject to the applicable penalty provisions.

.02 Recipients of Form 1099-DIV for 2003

For taxable years beginning in 2003, a recipient of Form 1099-DIV may treat amounts reported in Box 1b as qualified dividends, unless and to the extent the recipient knows or has reason to know that such amounts are not qualified dividends.

SECTION 5. SUMMARY OF EXPECTED GUIDANCE FOR FUTURE YEARS

For years after 2003, Treasury and the IRS intend to issue regulations providing procedures for a foreign corporation to certify that it is a qualified foreign corporation. It is expected that such regulations generally will require persons required to file information returns to report a distribution with respect to a security issued by a foreign corporation as a qualified dividend if the corporation has made an appropriate certification under penalties of perjury to the effect that:

1. for any security that is not a common or an ordinary share, the security is equity rather than debt for U.S. federal income tax purposes;
2. where a security is not readily tradable on an established securities market in the United States and where the foreign corporation is not incorporated in a possession, the foreign corporation is eligible for the benefits of a tax treaty with the United States that meets the requirements of the 2003 Act; and
3. the foreign corporation is not, in the taxable year of the corporation in which the dividend was paid, and was not, in the preceding taxable year, a FPHC, FIC, or PFIC.

It is expected that certifications will be made annually and that these certifications would be made available by the foreign corporation to the public. It is further expected that the regulations will provide procedures under which a foreign corporation submits its certification to the IRS for date stamping. For publicly traded companies, it is expected that the regulations will provide that such certification may be made in a public SEC filing (such as in a Form 20-F).

SECTION 6. EFFECTIVE DATE

This notice is effective for taxable years beginning on or after January 1, 2003.

SECTION 7. COMMENTS

Treasury and the IRS invite interested persons to comment on the information reporting and certification procedures to be developed for years after 2003. Written comments may be submitted to CC:PA:LPD:PR (Notice 2003-79), room 5207, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044. Submissions may be hand delivered Monday through Friday between the hours of 8 am and 5 pm to: CC:PA:LPD:PR (Notice 2003-79), Courier's desk, Internal Revenue Service, 1111 Constitution Avenue, NW, Washington, DC 20224. Alternatively, taxpayers may submit comments electronically via the following e-mail address: Notice.Comments@irscounsel.treas.gov. Please include "Notice 2003-79" in the subject line of any electronic communications.

SECTION 8. PAPERWORK REDUCTION ACT

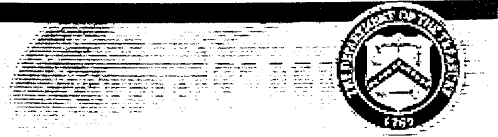
The information collection referenced in this notice has been previously reviewed and approved by the Office of Management and Budget as part of the promulgation of Form 1099-DIV. See OMB Control Number 1545-0110. This notice merely provides additional guidance regarding the proper filing of such returns and furnishing of such statements.

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

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

SECTION 9. CONTACT INFORMATION

The principal author of this notice is Michelle S. Lyon of the Office of Associate Chief Counsel (International). For further information regarding this notice contact Ms. Lyon on (202) 622-3880 (not a toll-free call).



PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 28, 2003
JS-1028

Treasury Names Robert Carroll As Deputy Assistant Secretary For Tax Analysis

The Treasury Department today announced that Robert Carroll has been appointed as Deputy Assistant Secretary for Tax Analysis. He will provide economic advice and analysis for the Office of Tax Policy with regard to all aspects of the economics of Federal taxation. He will be responsible for the development, analysis and implementation of tax policies and programs. He replaces Andrew Lyon and begins his new post on December 1.

Dr. Carroll was most recently a Visiting Scholar in the Tax Analysis Division of the Congressional Budget Office, where he provided analyses of investment incentives, tax reform, income dynamics, and the distributional effects of taxes.

From July 2002 to June 2003 he served as a Senior Economist (Public Finance) with the President's Council of Economic Advisers. He was responsible for providing economic analysis and briefings on a variety of public finance issues, including the President's Jobs & Growth Act, tax reform, tax simplification, international taxation, and retirement security.

Prior to the CEA, he was a Financial Economist with the Treasury Department's Office of Tax Analysis, Revenue Estimating Division from 1996 to 2002, a position he also held from 1990 to 1995. He was responsible for preparing economic analyses of Administration and Congressional proposals. He worked for Ernst & Young, LLP, from 1995 to 1996, as Manager, Policy and Regulatory Economics.

He holds a Ph.D. and a Masters in Economics from Syracuse University and a B.S. in Economics from State University of New York. He resides in Arlington, Virginia.

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