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PRESS RELEASES

The following Press Releases were not used:

2937 and 2999

PRESS ROOM

September 2, 2005
JS-2696

Statement of Treasury Secretary John W. Snow on the August Employment Report

Today's employment numbers are a note of good news in a week when the hearts and prayers of our nation are with those suffering on the Gulf Coast.

The fact that 169,000 more people went back to work in August and the unemployment rate fell to 4.9 percent, the lowest rate in four years, provides further indication that our economy is continuing to expand. More than 4 million jobs have been created since the President signed the Jobs and Growth Act in May of 2003.

Our economic strength is of critical importance at this time of national disaster, and fortunately we are standing on sturdy economic ground at this time. Maintaining and fortifying our economic vitality is an integral part of hurricane recovery efforts. Our economy is the most open, flexible and adaptive in the world and I am confident that it will prove its resiliency through these difficult times.

PRESS ROOM

September 2, 2005
JS-2697

MEDIA ADVISORY
Snow to Hold Press Conference on the Economic Effects of Hurricane Katrina and Treasury's Efforts to Provide Relief

U.S. Treasury Secretary John W. Snow will hold a press conference today to address the economic effects of Hurricane Katrina and Treasury's efforts to provide relief to its victims.

The following event is open to credentialed media with photo identification:

Friday September 2, 2005

5:30 PM Secretary John Snow to hold press conference
Economic Effects of Hurricane Katrina
and Treasury's Efforts to Provide Relief
Treasury Department
Room 4121 (Media Room)
1500 Pennsylvania Ave., NW
Washington, DC 20220
*** Open Press – pre-set may begin at 4:00 PM**
*** Media without Treasury press credentials must contact Frances Anderson at 202-622-2960 or e-mail their name, organization, date of birth and Social Security number to** frances.anderson@do,treas.gov **for clearance by 3:00 PM on 9/2/2005**

PRESS ROOM

September 2, 2005
JS-2698

Treasury and IRS Expand Availability of Housing for Hurricane Victims

WASHINGTON, DC– The Treasury Department and the Internal Revenue Service (IRS) today announced that they will waive low-income housing tax credit rules that prohibit owners of low-income housing from providing housing to victims of Hurricane Katrina who do not qualify as low-income. The action will expand the availability of housing for disaster victims and their families.

Because of the widespread devastation to housing caused by Hurricane Katrina, the Treasury Department and the IRS will temporarily suspend income limitation requirements and non-transient requirements for qualified low-income housing projects located anywhere in the United States.

"The widespread damage caused by the hurricane left many thousands of Americans homeless," stated Treasury Secretary John W. Snow. "We hope that providing this disaster relief will allow states to temporarily house many of the needy whose homes were destroyed."

PRESS ROOM

September 2, 2005
JS-2699

Snow Holds Press Conference on the Economic Effects of Hurricane Katrina

Thank you all for coming. For all Americans, our hearts and prayers are with the people of the Gulf Coast during this difficult time. This is a time for all of us to do whatever we can to help those affected by Hurricane Katrina.

Katrina is a disaster on many levels, but I'm confident that the residents of places like New Orleans and Gulfport, Mississippi, and southern Alabama will recover. It's the spirit of Americans to do so. Americans are resilient. We picked ourselves up after 9/11, we picked ourselves up after other disasters, and we have the will and the resources and the resolve to do so again.

America is a compassionate nation. We are all doing what we can to help. Many people are making donations to charitable organizations like the Red Cross that are assisting in the relief efforts. I was also heartened to see businesses providing assistance as well.

For the federal government, getting assistance to those in need is our first priority. FEMA, under the leadership of Mike Brown, and other federal agencies have been rushing tons of food, medicine, water and ice to the victims of this disaster.

I also commend the Congress for quickly approving the President's request for an additional $10.5 billion in emergency funding to assist in this effort.

At the Treasury, we have been doing our part as well. We have been in regular contact with financial market leaders, banking leaders, business leaders and federal regulators to ensure that we do everything we can possibly do to make sure the financial system is functioning smoothly.

Chairman Greenspan and I just met this afternoon. We discussed the current state of the economy, and potential impacts of Katrina and her aftermath. The devastation in the Gulf Coast region is widespread, encompassing more than 90,000 square miles. People have lost their homes, many have lost their jobs. This is a challenging time for our country.

We are fortunate that we are dealing with this situation from a position of strength. Today we learned that the economy created 169,000 new jobs last month and that the unemployment rate has hit a four-year low at 4.9%. The American economy has been steadily expanding and creating jobs for 27 straight months now.

The oil and gas supply, obviously, is of immediate concern. As the President has said, we view this event as a temporary disruption – one that the government and private sector, together, can address by repairing refineries and getting pipelines up and running. Private citizens can contribute to these efforts, as the President has asked them to do, by conserving energy in their day-to-day lives.

Secretary Bodman is approving loans of crude oil from the Strategic Petroleum Reserve, the EPA has provided a temporary waiver that eases restrictions on gasoline additives as well. I was also pleased that the International Energy Agency has agreed to provide 60 million barrels of oil and gasoline over the next month, 2 million barrels per day.

At Treasury, the IRS today announced that we have waived a tax regulation that will immediately increase the available supply of diesel fuel nationwide by allowing dyed diesel fuel, which is ordinarily not subject to federal excise taxes because it is intended for off-road use in farm equipment or in government vehicles such as school buses, to be used on-road. This will immediately increase the usable supply of diesel fuel nationwide, which is especially needed in Gulf Coast relief efforts. At a time like this, the tax treatment of fuel is far less important than getting fuel to those who need it, particularly those involved in the transportation of food and medical supplies to those affected by the hurricane.

We have also extended the September tax filing and payment deadlines until October 31st for affected areas and have relaxed income-requirements for low-income housing so that victims of Hurricane Katrina can take refuge in any housing available regardless of income. Treasury is actively supporting both the Postal Service and the Social Security Administration to ensure timely delivery of Social Security and Supplement Security Income checks to impacted areas.

Our ability to deal with this catastrophe is enhanced by our economic strength. I am confident that the American economy will continue to prove its incredible vigor and resilience.

PRESS ROOM

September 6, 2005
2005-9-6-16-24-21-20615

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 $73,381 million as of the end of that week, compared to $72,794 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	August 26, 2005			**September 2, 2005**		
TOTAL	**72,794**			**73,381**		
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	11,501	12,042	23,543	11,722	11,610	23,332
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	11,190	5,154	16,344	11,389	5,619	17,008
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]			13,606			13,558
3. Special Drawing Rights (SDRs) [2]			8,260			8,442
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	August 26, 2005			**September 2, 2005**		
	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						
	August 26, 2005			**September 2, 2005**		
	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 IMF data for the prior month end.

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

PRESS ROOM

September 6, 2005
js-2700

Remarks by Secretary Snow at Meeting with Banking Regulators

Thank you for coming. We've just concluded a thorough review of actions being taken by the banking industry to address the disaster recovery effort. I've heard from each of the functional regulators for the banking industry and am pleased to say that while there are challenges, the United States' financial system is functioning well during this time of national emergency and tragedy.

The number-one priority of every agency represented here today, and I believe of every American right now, is to aid and assist the victims of Hurricane Katrina and help them rebuild their shattered lives.

Katrina is a disaster on every level imaginable; the immediate human needs are heartrending. Over the long term, I'm confident that the residents of places like New Orleans and Gulfport Mississippi and southern Alabama will recover. We picked ourselves up after 9/11 and other catastrophic events, and we have the will and the resources and the resolve to do so again. I am confident we will; it's the spirit of Americans to do so.

As President Bush said this weekend, "the tasks before us are enormous, but so is the heart of America."

We are fortunate that we are dealing with this situation from a position of economic strength. The fact that our underlying economic fundamentals are so solid enhances our ability to deal with this disaster.

A crucial part of getting people's lives back to normal will be ensuring they are able to get access to banking services. There is an ongoing, comprehensive effort to ensure that the financial system continues to work. The system possesses credit liquidity, credit is available, and the necessary infrastructure is intact or being restored.

Efforts are being made, across the board, to identify customer needs and to meet those needs. Each of the regulators here today are asking the institutions they oversee to consider all reasonable and prudent steps to assist customers' cash and financial needs in areas affected by Hurricane Katrina.

Many financial institutions are implementing contingency plans involving a variety of actions that will help the people of the Gulf Coast. From waiving ATM fees and easing restrictions on cashing out-of-state and non-customer checks and waiving overdraft fees as a result of paycheck interruption, banks and credit unions are doing what they can to ensure that victims have the cash resources they need to survive this difficult time, financially.

Treasury has been working closely with the insurance industry which has thousands of claims adjusters who are ready to enter the area and begin to help people restore their lives.

Credit institutions are taking steps such as waiving late fees for credit card and other loan balances, easing credit card limits and credit terms for new loans and delaying delinquency notices to the credit bureaus.

I appreciate the steps that these regulators and their constituents are taking to make sure that hurricane victims have access to cash and credit, and to ease worries about things like bill payments and credit status.

The cooperation of this group of regulators, and the institutions they govern, is critical as the region and the country recover from this catastrophe. The ability of the financial system to function, and to function well, is a key component of a resilient economy.

Before I take your questions, I'd like to repeat that I am confident that the American economy will once again prove its incredible vigor and resiliency. The dedication and compassion of the financial industry is necessary, and it is unmistakable on this day.

Thank you again for coming, and I'll take your questions now.

PRESS ROOM

September 7, 2005
JS-2701

MEDIA ADVISORY
Secretary Snow and Commissioner Everson to Discuss Tax Related Assistance to Hurricane Katrina Victims

U.S. Treasury Secretary John W. Snow and IRS Commissioner Mark Everson will hold a press conference tomorrow to discuss tax related assistance to Hurricane Katrina victims.

The following event is open to credentialed media with photo identification:

Thursday September 8, 2005
Secretary John Snow and Commissioner Mark Everson will hold press conference to discuss tax related assistance to Hurricane Katrina victims.
Treasury Department
Room 4121 (Media Room)
1500 Pennsylvania Ave., NW
Washington, DC 20220
12:00 p.m. EDT
*** Open Press – pre-set may begin at 10:30 AM**
*** Media without Treasury press credentials must contact Frances Anderson at 202-622-2960, 202-528-9086 or e-mail their name, organization, date of birth and Social Security number to** frances.anderson@do.treas.gov **for clearance**

PRESS ROOM

September 8, 2005
js-2703

Statement of U.S. Treasury Deputy Secretary Robert M. Kimmitt at the APEC Finance Ministers Meeting

Cheju, KOREA – I am pleased to be here and would like to thank Deputy Prime Minister Han and the People of Korea for hosting the 12th annual APEC Finance Ministers' meeting in Cheju. Asia remains the most dynamic region in the world, and what happens here is critical for the global economy. It was particularly important to me to meet, prior to the APEC meetings, with Deputy Prime Minister Han, other senior Korean officials in Seoul, as well as members of the financial community there.

These followed meetings I had with economic officials in Beijing earlier this week. Korea is an example of the results that come from sound economic policies. Korea has maintained and advanced its program of economic liberalization after the 1997 Asian crisis, and has been rewarded with healthy and sustained economic growth. Korea has established an independent monetary authority, which has built a credible inflation-targeting regime. And Korea has shown that – even for a country heavily reliant on exports – additional exchange rate flexibility can be absorbed without real difficulty, and flexibility is helpful in controlling inflation.

I told Deputy Prime Minister Han that I particularly appreciated his comments on Tuesday about the importance of foreign investment in fostering growth and employment and encouraging faster job growth. I also welcomed the intention to pursue financial deregulation and the decision to allow foreign financial companies to set up financial holding companies in Korea.

We in the United States share the view that an open investment regime, one that welcomes foreign capital, is extremely important in achieving sustained growth and employment. The United States strongly believes that the world economy works best with free trade, the free flow of capital, and flexible exchange rates. China took an important step in July in adopting a new exchange rate mechanism that allows for greater exchange rate flexibility and greater reflection of market forces in determining its exchange rate. As Secretary Snow has made clear, what is important now is that China, and other major economies, allow their currencies to respond to underlying market forces.

I look forward to the discussions with the APEC Finance Ministers to continue the important dialogue on these and other important issues facing our economies and the region.

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PRESS ROOM

September 8, 2005
JS-2704

The Honorable John W. Snow
Prepared Remarks: Announcement of Tax Relief and IRS Actions Relating to Hurricane Recovery Assistance

Good morning; thank you all for coming. I've asked IRS Commissioner Mark Everson to be here today so we can fill you in on the steps that Treasury and the IRS are taking to provide tax relief to hurricane victims, and to encourage charitable giving during this difficult time of national disaster and recovery.

We know that the last thing people in the devastated areas of the Gulf Coast need to worry about right now is taxes. That's why we quickly implemented extensions of tax deadlines, so that people in the affected areas who would otherwise have had taxes or returns due on September 15th don't have to worry about that deadline.

We also waived certain requirements for the low-income housing credit so that displaced victims, regardless of financial status, could have access to that housing during this time of great need.

In the aftermath of Katrina, it quickly became clear that the need for diesel fuel was of great importance in rescue and relief efforts. Treasury has therefore provided relief from penalties for highway use of dyed diesel fuel – a type of fuel that had been limited, by its tax treatment, to certain uses and is more widely available thanks to the lifting of these penalties. This change has made millions more gallons of diesel fuel available.

Another important action that we have taken, along with the Department of Labor and Pension Benefit Guarantee Corporation, is the extension of the deadline for employers in the affected areas to make minimum funding contributions to qualified retirement plans.

We are also pleased to be able to announce today something that we believe will give workers and businesses an easy and effective way to contribute to the charities that are doing so much to rescue, comfort and care for the victims of this terrible tragedy.

This action allows employers to adopt leave-based donation programs under which employees could forego vacation, sick or personal leave, and in turn their employers would make cash contributions to charitable organizations involved in relief efforts.

This is a time to help. The scale of this catastrophe is unprecedented, and the generosity of the American people is extremely important to Katrina's victims. We believe that this announcement will help workers and employers as they seek ways to help their fellow Americans.

America's tradition of generosity, of helping our neighbors, is one the most important advantages we have in terms of recovering from this disaster. We are also fortunate that we are dealing with this situation from a position of economic strength. The fact that our underlying economic fundamentals are so solid enhances our ability to deal with this disaster.

Over the long term, I'm confident that the region will recover and rebuild. We picked ourselves up after 9/11 and other catastrophic events, and we have the will and the resources and the resolve to do so again. I am confident we will; it's the spirit of Americans to do so

I'll let Mark talk about IRS-specific efforts now, and then we'd be happy to take your questions.

PRESS ROOM

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September 8, 2005
JS-2705

Treasury, IRS Announce Special Relief to Encourage Leave-Donation Programs for Victims of Hurricane Katrina

WASHINGTON --- Department of the Treasury and Internal Revenue Service officials announced today special relief intended to support leave-based donation programs to aid victims who have suffered from the extraordinary destruction caused by Hurricane Katrina

REPORTS

- IRS News Release
- Notice 2005-68 Treatment of Certain Amounts Paid to Section 170(c) Organizations under Certain Employer Leave-Based Donation Programs

INTERNAL REVENUE SERVICE

IRS News Release

Media Relations Office | Washington, D.C. | Media Contact: 202.622.4000

www.irs.gov/newsroom | Public Contact: 800.829.1040

Treasury, IRS Announce Special Relief to Encourage Leave-Donation Programs for Victims of Hurricane Katrina

IR-2005-97, Sept. 8, 2005

WASHINGTON --- Department of the Treasury and Internal Revenue Service officials announced today special relief intended to support leave-based donation programs to aid victims who have suffered from the extraordinary destruction caused by Hurricane Katrina.

Under these programs, employees donate their vacation, sick or personal leave in exchange for employer cash payments made to qualified tax-exempt organizations providing relief for the victims of Hurricane Katrina.

Under Notice 2005-68, employees can forgo leave in exchange for employer cash payments made before January 1, 2007, to qualified tax-exempt organizations providing relief for Hurricane Katrina victims. Employees do not have to include the donated leave in their income. Employers will be permitted to deduct the amount of the cash payment.

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Part III – Administrative, Procedural and Miscellaneous

Treatment of Certain Amounts Paid to Section 170(c) Organizations under Certain Employer Leave-Based Donation Programs

Notice 2005-68

In view of the extreme need for charitable relief in the aftermath of Hurricane Katrina, employers may have adopted or may be considering adopting leave-based donation programs to aid victims of this hurricane. Under these programs employees elect to forgo vacation, sick, or personal leave in exchange for cash payments an employer makes to organizations described in § 170(c) of the Internal Revenue Code (§ 170(c) organizations) for the relief of victims of Hurricane Katrina. This notice provides guidance on the treatment of these cash payments for income and employment tax purposes.

Notice 2001-69, 2001-2 C.B. 491, as modified and superseded by Notice 2003-1, 2003-1 C.B. 257, provided similar guidance in view of the extreme need for charitable relief following the September 11, 2001, terrorist attacks. This guidance is provided in view of the extraordinary damage and destruction caused by Hurricane Katrina.

The Service will not assert that cash payments an employer makes to § 170(c) organizations in exchange for vacation, sick, or personal leave that its employees elect to forgo constitute gross income or wages of the employees if the payments are: (1) made to the § 170(c) organizations for the relief of victims of Hurricane Katrina; and (2) paid to the § 170(c) organizations before January 1, 2007.

Similarly, the Service will not assert that the opportunity to make such an election results in constructive receipt of gross income or wages for employees. Electing employees may not claim a charitable contribution deduction under § 170 with respect to the value of forgone leave excluded from compensation and wages.

The Service will not assert that an employer will be only permitted to deduct these cash payments under the rules of § 170 rather than the rules of § 162. Cash payments to which this guidance applies need not be included in Box 1, 3 (if applicable), or 5 of the Form W-2.

For further information, please contact Sheldon A. Iskow of the Office of Associate Chief Counsel (Income Tax and Accounting) at (202) 622-4920 (not a toll-free call).

PRESS ROOM

September 8, 2005
JS-2706

Statement of Treasury Secretary John W. Snow on Resignation of Assistant Secretary for Financial Markets Timothy S. Bitsberger

As the Treasury prepares to bid a fond farewell to one of its top leaders, I offer sincere thanks and good luck on behalf of the Department to Assistant Secretary Timothy Bitsberger.

Tim has served at the Treasury since October of 2001, first as Treasury Deputy Assistant Secretary for Federal Finance and currently as Assistant Secretary for Financial Markets. In each of his roles he has provided critical analysis and advice to me and to the Under Secretary for Domestic Finance.

Tim is a national expert on policy and legislation regarding federal debt management, state and local finance, and financial market oversight and regulation. He has also done an outstanding job overseeing the Federal Financing Bank, and representing Treasury on the Air Transportation Stabilization Board and the Pension Benefit Guaranty Corporation.

His expertise and contributions have been invaluable, and he has been a highly effective leader within the Office of Domestic Finance, as well as among the Treasury management team. Tim's knowledge, experience and instincts will be missed by his colleagues and staff, and I speak on behalf of the Department in saying we wish him the very best in his future endeavors.

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PRESS ROOM

September 9, 2005
JS-2707

U.S. Treasury Urges Waiver of ATM Surcharges for Katrina Evacuees

The U.S. Department of the Treasury is requesting that depository institutions refrain from imposing ATM surcharges on Hurricane Katrina evacuees who use the FEMA Assistance Card to obtain cash from ATMs. The FEMA Assistance Card is a MasterCard-branded debit card that is being issued by Treasury in order to provide Katrina evacuees with access to FEMA benefits.

The FEMA Assistance Card may be used to make point-of-sale purchases at any merchant that accepts MasterCard, and may also be used to withdraw funds from an ATM through use of a Personal Identification Number (PIN). Cardholders may already use the card without incurring a surcharge at any ATM participating in the Allpoint network, and at any ATM owned by JP Morgan Chase, the card issuing bank, including Bank One locations. In light of the urgent need of Katrina evacuees for access to funds for purchasing basic needs, Treasury is urging all other depository institutions to voluntarily waive surcharges at other ATMs where the card can be used. Banks and ATM owners should contact their card associations, network providers or processors for information necessary to identify these cards.

On Sept.1, 2005, The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision (the agencies), and the Conference of State Bank Supervisors asked insured depository institutions to consider all reasonable and prudent steps to help meet the critical financial needs of their customers and communities affected by Hurricane Katrina. The agencies stated that such actions may include waiving ATM fees for customers and non-customers.

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PRESS ROOM

September 9, 2005
JS-2708

The Honorable John W. Snow
Prepared Remarks: Visit to Houston

Good morning. I'm glad to be in Houston with my colleagues from the President's economic team. We're all grateful to have this chance to get a first-hand sense of the needs and the efforts to meet the needs of the hurricane survivors who are here at the Astrodome. It's good to see the good work that is going on here – neighbors helping neighbors – and it's important to see what needs to be done next.

We've seen people here receiving shelter, food and water, and medical attention. They are survivors, but they have lost so much; it is difficult for anyone who has not survived a catastrophic disaster to comprehend this level of loss and grief.

We share their grief as a nation. We also share their will to recover, and together we will help them to recover.

Hurricane survivors need help putting their lives back together, and financial help is a big part of that process. At Treasury, we're working hard to ensure that these people who have lost so much will have easy and secure access to the money they will need to get on the road to recovery. We know that people will have a lot of questions about their money during this difficult time; they will need to ask a lot of questions, and Treasury is putting financial consultants on the ground to help with that.

I've dispatched six people from Treasury's Office of Financial Education who will be setting up in Hall B of the Reliant Center to assist people with using their new debit cards, or with other financial questions. These financial educators will be giving advice and tips on how to protect oneself from fraud and how to keep their FEMA-issued debit cards secure. Their top priority is providing personal counseling and answering individual questions, and I'm awfully glad they are here to help.

It was good to see the work being done, and the help being given, at the Work Force Tent. Finding a job is another key step on this road to recovery, and it's great to see the Department of Labor helping people with that.

America's tradition of generosity, of helping our neighbors, is one the most important advantages we have in terms of recovering from this disaster, so I want to let workers and employers know that Treasury and the IRS have taken action to allow employers to adopt leave-based donation programs under which employees could convert vacation, sick or personal leave into cash contributions for charitable organizations. In turn their employers would make cash contributions to charitable organizations involved in relief efforts.

There is no doubt that we face a long and challenging road ahead as we help our fellow Americans recovery from this terrible disaster. But good work is being done, more help is still on the way, and I am optimistic that the generosity of the American people will continue to lift up their fellow citizens.

Over the long term, I'm confident that the region will recover and rebuild. We picked ourselves up after 9/11 and other catastrophic events, and we have the will and the resources and the resolve to do so again. I am confident we will; it's the spirit of Americans to do so.

I look forward to going on next, today, to Baton Rouge, Louisiana to check on how people are accessing federal financial benefits and re-building their lives. Then we're on to Mobile Alabama, where we'll be listening to state and local leaders and talking with them about rebuilding their communities.

PRESS ROOM

September 9, 2005
JS-2709

Statement of U.S. Treasury Deputy Secretary Robert M. Kimmitt at the 2005 APEC Finance Ministers' Meeting

Cheju, Korea – "We have just completed a productive meeting here on the important issues facing the APEC economies and this region. I am especially thankful to our host, Deputy Prime Minister Han, and to the great people of Korea for their hospitality this week. I also want to offer my deep appreciation to my APEC colleagues for the sympathy that they have expressed for the damage caused by Hurricane Katrina in the United States and for the offers of support by their governments.

"During our meetings yesterday and today we had the opportunity to discuss several issues of particular importance to the United States and to the APEC region. I again emphasized the strongly held view of the U.S. that the world economy works best with free trade, the free flow of capital, and flexible exchange rates. Our discussions touched on each of these themes.

"We continued our ongoing dialogue on the importance of global capital flows. My colleagues here joined me in recognizing that continued liberalization of trade and open investment regimes that welcome foreign capital are critical to achieving sustained economic and job growth.

"We also discussed the importance of bringing the Doha Round of multilateral trade negotiations to a successful conclusion. One of the most important contributions that finance ministers can make is to take a leadership role in advancing financial services liberalization, which, along with services liberalization generally, will be a critical part of a successful Doha Round. In our Communiqué we committed to pursue a meaningful outcome in financial services in the Doha Round.

"Economic growth and the outlook in the APEC region remain strong. We also spoke

about risks to the outlook. High oil prices are a particularly important issue, and we discussed ways to ease the current very tight global supply. We agreed on the importance of encouraging investment to bring forth additional supply. We also recognized the importance of reducing subsidies that artificially encourage energy use, often at great cost.

"The finance ministers noted in the Communiqué the continued threat of terror worldwide and underscored the importance of actions to combat terrorist financing, money laundering, and other abuses of our financial systems. The language complements the recently adopted U.N. Security Council Resolution, 1617, which further targets the support networks of the Taliban, al Qaida, and Usama bin Laden. The Resolution strengthens targeted financial sanctions to cut off al Qaida's lifeline, and sets forth a vigorous global campaign against terrorist financing.

"I want to highlight the discussion on addressing global imbalances. Our Communiqué makes clear that bringing about an orderly adjustment of global imbalances is a shared responsibility, and emphasizes the need for concrete actions by all in a timely and effective manner. By all of us taking the actions required to address global imbalances we can assure a continuation of sustained and rapid growth in global output and employment.

"For Europe and Japan, this means further structural reforms to promote domestic demand-driven growth. It also requires greater exchange rate flexibility in the major Asian economies. The Ministers welcomed the recent moves by China and Malaysia toward greater exchange rate flexibility. As Secretary Snow has made clear, what is important now is that China, and other major economies, allow their currencies to respond to underlying market forces. Finally, the United States has noted its responsibility to raise its domestic savings by cutting the budget deficit. This is a responsibility we take very seriously. The Bush Administration remains committed to reducing the budget deficit's share of GDP, although Hurricane Katrina relief and reconstruction efforts will add to the deficit in the next fiscal year.

"Asia remains the most dynamic region in the world, and what happens here is critical for the global economy. The creation of APEC 16 years ago was an important development in the region that provides for meaningful communication channels and a productive flow of ideas. I am pleased to have had the opportunity this week to participate in discussions on these and other important topics with my APEC colleagues," said Kimmitt.

PRESS ROOM

September 9, 2005
JS-2710

The Honorable John W. Snow
Prepared Remarks: Visit to Baton Rouge

Good afternoon. Mayor Holden, thank you for hosting us in your fine city that has suffered so much since Katrina brought her devastating winds and rains.

I'm glad to be in Baton Rouge with my colleagues from the President's economic team. We want to see what's being done to help people, and we want to know what the next steps need to be, what help needs to come next to help rebuild people's lives.

Today we've seen a lot of great work being done here. The employees of the center we just visited are doing incredible work to help scores of people displaced by Hurricane Katrina get their federal benefits – like unemployment checks or special disaster unemployment payments. They've really been doing great work here and I commend them for their efforts.

Katrina wreaked incredible devastation on the Gulf Coast of Louisiana. In New Orleans, one of America's great cities is submerged. Thousands of businesses have been destroyed and scores of homes have been lost. Hurricane Katrina is having a terrible impact on people's lives. That's why centers such as this are so important in helping people get their basic federal benefits.

We also know that the last thing people here need to worry about right now is taxes. That's why we quickly implemented extensions of tax deadlines, so that people in the affected areas who would otherwise have had taxes or returns due on September 15th don't have to worry about that deadline.

We were also pleased to be able to announce yesterday something that we believe will give workers and businesses an easy and effective way to contribute to the charities that are doing so much to rescue, comfort and care for the victims of this terrible tragedy.

This action allows employers to adopt leave-based donation programs under which employees could convert vacation, sick or personal leave into cash donations for hurricane victims. In turn their employers would make cash contributions to charitable organizations involved in relief efforts.

This is a time to help. The scale of this catastrophe is unprecedented, and the generosity of the American people is extremely important to Katrina's victims. We believe that this announcement will help workers and employers as they seek ways to help their fellow Americans.

America's tradition of generosity, of helping our neighbors, is one the most important advantages we have in terms of recovering from this disaster. We are also fortunate that we are dealing with this situation from a position of economic strength. The fact that our underlying economic fundamentals are so solid enhances our ability to deal with this disaster.

Over the long term, I'm confident that the region will recover and rebuild. We picked ourselves up after 9/11 and other catastrophic events, and we have the will and the resources and the resolve to do so again. I am confident we will; it's the spirit of Americans to do so

PRESS ROOM

September 9, 2005
JS-2711

The Honorable John W. Snow Prepared Remarks: Visit to Mobile

Good afternoon. Governor Riley, thanks to you and your team for having us here. I'm glad to be in Mobile with my colleagues from the President's economic team. I'm looking forward to a good discussion about the needs of Gulf Coast communities as they begin to rebuild in the aftermath of Hurricane Katrina.

I really appreciate the chance to hear first-hand ideas for helping communities like Mobile recover from this devastating disaster. The President has said he wants to seek big ideas and big solutions and we hope our conversation today will help provide those. That's why it was so important to meet with the terrific community and business leaders here today.

We want to encourage re-building and do whatever we can to help. I am pleased to announce that a special effort that should help encourage the economic investment needed to get places like Mobile back on the economic map.

We will be making a couple of key changes to the existing New Markets Tax Credit Program (NMTC) – a competitive tax-credit-incentive program which currently serves to attract private-sector capital investment into the nation's urban and rural low-income areas – to encourage the financing of community development projects, stimulate economic growth and create jobs in hurricane-ravaged areas.

Treasury will immediately implement two changes to that program's application procedures so that its purpose is broadened to this region.

First, the deadlines for NMTC applications will be extended, on a case-by-case basis, for organizations whose principal place of business is located in counties for which FEMA has issued a major disaster declaration.

Second, the NMTC Program allocation application will be changed so that additional consideration will be given to organizations that commit to target their investment activities to affected counties.

This is a significant first step toward encouraging businesses and investors to come back to this area, quickly, to create commerce and jobs. More encouragement will be needed, and Treasury will be working with Congress on how to achieve that in the coming days and weeks. We'll be looking at short and long-term incentives for economic development. This region will be re-built and it will be stronger than ever – that, after all, is the American way and the American spirit.

There is no doubt that we face a long and challenging road ahead as we help our fellow Americans recovery from this terrible disaster. But good work is being done, more help is still on the way, and I am optimistic that the generosity of the American people will continue to lift up their fellow citizens.

Over the long term, I'm confident that the region will recover and rebuild. We picked ourselves up after 9/11 and other catastrophic events, and we have the will and the resources and the resolve to do so again. I am confident we will; it's the spirit of Americans to do so.

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PRESS ROOM

September 9, 2005
JS-2712

Snow Announces Changes to the New Markets Tax Credit Program to Support Hurricane Katrina Recovery Efforts

U.S. Treasury Secretary John W. Snow today announced special relief for Community Development Entities (CDE's)applying under the current round of the New Markets Tax Credit (NMTC) program.

"I applaud the current applicants under the New Markets Tax Credit Program who plan on focusing their business plans in areas affected by Hurricane Katrina," said Snow. "Katrina is a disaster on every level imaginable, and tools like New Markets Tax Credits will assist in the recovery efforts of New Orleans, Louisiana, Mobile, Alabama and the rest of the region."

The Community Development Financial Institutions (CDFI) Fund will immediately implement two changes to the program, in response to the recent declarations of "major disasters" by the Federal Emergency Management Agency (FEMA):

- The CDFI Fund will provide NMTC Program allocation application deadline extensions, on a case-by-case basis, to organizations whose principal place of business is located in counties where FEMA issued a `major disaster declaration' as of 7/15/05.

- The CDFI Fund will modify the NMTC Program allocation application so that additional consideration will be given to organizations that commit to target their investment activities to counties where FEMA issued a `major disaster declaration' as of 7/15/05.

Up to $3.5 billion in tax credits is available under the current round of the NMTC Program, which attracts private-sector capital investment into the nation's urban and rural low-income areas. These tax credits help finance community development projects, stimulate economic growth and create jobs.

The NMTC program, established by Congress in December of 2000, allows individual and corporate taxpayers to receive a federal income tax credit for making qualified equity investments in investment vehicles known as Community Development Entities (CDEs). The credit provided to the investor totals 39 percent of the cost of the investment and is claimed over a seven-year period. Substantially all of the taxpayer's investment must in turn be used by the CDE to make qualified investments in low-income communities. Successful applicants are selected only after a competitive application and rigorous review process administered by Treasury's CDFI Fund.

To learn more about New Markets Tax Credits, please visit the CDFI Fund's website at www.cdfifund.gov .

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PRESS ROOM

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September 12, 2005
JS-2713

Treasury and IRS Announce Guidance Regarding the Temporary Operation of Ships in the Domestic Trade as a Result of Hurricane Katrina

WASHINGTON, DC -- Today the Treasury Department and the IRS announced guidance regarding the temporary operation of ships in the domestic trade as a result of Hurricane Katrina.

Hurricane Katrina damaged many of the Gulf Coast oil refineries and has significantly disrupted the pipeline transportation of oil and refined products from the Gulf Coast States. The Secretary of Homeland Security has waived the Merchant Marine Act of 1920 and related laws for the transportation of petroleum and refined petroleum in response to Hurricane Katrina, including the transportation of petroleum from the Strategic Petroleum Reserve undertaken in response to the circumstances arising from Hurricane Katrina. By the notice issued today, Treasury and the IRS are providing complementary guidance related to the tax treatment of ship operators transporting petroleum and refined petroleum products pursuant to the waiver and the treatment of the crew members of ships operating pursuant to the waiver.

REPORTS

- Notice 2005-65 Announcement of rules relating to the temporary operation of ships in the domestic trade as a result of Hurricane Katrina

Part III - Administrative, Procedural, and Miscellaneous

Announcement of rules relating to the temporary operation of ships in the domestic trade as a result of Hurricane Katrina

Notice 2005-65

As a result of the devastation caused by Hurricane Katrina, the Treasury Department and the Internal Revenue Service (IRS) understand that on September 1, 2005, the Secretary of the Department of Homeland Security waived the Merchant Marine Act of 1920 and related laws for the transportation of petroleum and refined petroleum products for the period until 12:01 a.m., September 19, 2005, and for the transportation of petroleum released from the Strategic Petroleum Reserve undertaken in response to the circumstances arising from Katrina (the waiver). As a result of these unique circumstances, Treasury and the IRS announce the following guidance with respect to the temporary operation of ships in the domestic trade pursuant to the waiver.

The IRS will not challenge a position taken by a foreign corporation, who is otherwise engaged in the international operation of ships, that the transport of petroleum pursuant to the waiver is an activity incidental to its international operation of ships under Treas. Reg. § 1.883-1(g). In addition, Treasury and the IRS consider such activities conducted pursuant to the waiver by enterprises otherwise engaged in the operation of ships in international traffic to be ancillary activities the income from which will qualify for exemption under the shipping article of U.S. income tax treaties.

In light of these unique circumstances, and the special consideration given to foreign crew members reflected in section 861(a)(3), the IRS will not challenge a position that compensation for labor or services performed by a nonresident alien as a regular member of a crew of a foreign vessel during the use of the vessel pursuant to the waiver is income from sources without the United States.

For purposes of section 7701(b)(7), the IRS will not challenge a position taken by an individual who is temporarily present in the United States on any day as a regular member of the crew of a foreign vessel operating in the United States pursuant to the waiver that the individual is not present in the United States on such day unless such individual otherwise engages in any trade or business in the United States on such day.

In addition, for purposes of the alternative tax under subchapter R of the Internal Revenue Code, the IRS will not challenge a position that days operating in the United States pursuant to the waiver are not included in the computation of the 30-day limitation of section 1355(f)(4).

EFFECTIVE DATE

This notice is an emergency measure and relates to the specific circumstances described in the waiver. Except as otherwise provided, the rules of this notice are applicable from September 1, 2005, through September 18, 2005. With respect to the transportation of petroleum released from the Strategic Petroleum

Reserve undertaken pursuant to the waiver, the rules of this notice are applicable from September 1, 2005, through October 31, 2005.

DRAFTING INFORMATION

The principal author of this notice is Patricia A. Bray of the Office of Associate Chief Counsel (International). For further information regarding this notice, contact Patricia Bray or David Lundy at (202) 622-3880 (not a toll-free call).

PRESS ROOM

September 12, 2005
2005-9-12-16-23-45-6317

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 $73,052 million as of the end of that week, compared to $73,381 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	September 2, 2005			**September 9, 2005**		
TOTAL	**73,381**			**73,052**		
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	11,722	11,610	23,332	11,625	11,605	23,230
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	11,389	5,619	17,008	11,297	5,617	16,914
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]			13,558			13,476
3. Special Drawing Rights (SDRs) [2]			8,442			8,391
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	September 2, 2005			**September 9, 2005**		
	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						
	September 2, 2005			**September 9, 2005**		
	Euro	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
1. Contingent liabilities in foreign currency			0			0
1.a. Collateral guarantees on debt due within 1 year						

ıer contingent liabilities						
ign currency securities with embedded			0			0
awn, unconditional credit lines			0			0
th other central banks						
th banks and other financial institutions						
ıartered in the U.S.						
th banks and other financial institutions						
ıartered outside the U.S.						
egate short and long positions of options ɔn						
ɔies vis-à-vis the U.S. dollar			0			0
ort positions						
ʒought puts						
Vritten calls						
ng positions						
ʒought calls						
Vritten puts						

Notes:

es holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and reflect carrying values. Foreign Currency Reserves for the latest week may be subject to revision. Foreign Currency s for the prior week are final.

ɜms, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are ı dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries for the latest week reflect any ry adjustments, including revaluation, by the U.S. Treasury to IMF data for the prior month end.

ɜtock is valued monthly at $42.2222 per fine troy ounce.

PRESS ROOM

September 13, 2005
JS-2714

The Honorable John W. Snow
Prepared Remarks: McDonald's 2005 Government Relations Workshop
Washington, DC

Good morning; it's terrific to be here with all of you.

When I look around this room, I know that I'm looking at a great sample of the heart and soul of our country. The great strength of America has never been more evident than in our response to the devastating hurricane. All over the country people have responded with out-stretched arms to the victims in a genuine spirit of generosity -- and no where is the spirit of generosity more evident than in your great company.

McDonald's owner-operators are the backbone of the McDonald's corporation and as small-business owners you are the backbone of the American economy.

You're good neighbors in whatever community you're in because you create lots of jobs. And in times like these, when so many lives have been devastated by a natural disaster, you're better neighbors than ever.

I appreciate all that McDonalds – as a company and as a group of individuals – is doing to help the survivors of hurricane Katrina. From collecting funds through your Ronald McDonald House Charities canisters to taking care of your owner-operators and employees in the hurricane-ravaged area, you are reaching out and helping with a caring spirit that embodies the spirit of America.

It's been wonderful to see the outpouring of help from companies like McDonalds, Wal-Mart, and Home Depot, to name just a few, over the past couple of weeks.

McDonald's is supplying victims on the ground with food, water and medical help.

Wal-Mart has donated $3 million worth of essential supplies like diapers and toothbrushes to relief centers in three states, and they are doing a terrific job at keeping their area stores stocked with the things people need most, like generators, water, dry ice and readily-prepared meals.

Home Depot has offered any of their employees whose job was affected by Hurricane Katrina the opportunity to continue their employment at any Home Depot store. They made a direct cash donation of $1.5 million to support immediate relief and recovery efforts as well as long-term rebuilding – for example, they made a direct donation of $500,000 to nonprofit organizations that produce and rehabilitate affordable housing for low- to moderate-income homeowners to assist with the repair and rebuilding efforts. They are also working with their suppliers to donate materials, such as tarps, flashlights and bottled water, and generators to emergency management organizations.

Across the board, companies are giving millions in cash donations to the Red Cross and other relief groups. They're running employee donation programs and they're matching their employees' donations. They're giving millions in product donations, from pharmaceutical to technology products.

Johnson and Johnson has donated a quarter of a million dollars worth of products, for example, including 2,000 personal care kits. Pfizer has donated medicines including consumer and animal health products. Tyson Foods is providing truckloads of pre-cooked and shelf-stable meals.

This outpouring of help – both within the companies' families and externally, to the broader relief efforts – reminds us that this is a country where people take care of each other.

And although Katrina is a disaster on many levels – an event that has taken a heartrending human toll – I am confident that the residents of places like New Orleans and Gulfport Mississippi and southern Alabama will recover. We picked ourselves up after 9/11 and other disasters, we have the will and the resources and the resolve to do so again. I am confident we will again. It's the spirit of Americans to do so.

We are committed to rebuilding the communities and as we do so we must help people rebuild their lives with a sense of hope and opportunity. Our overriding goal must be that everyone has an opportunity to build a better life for themselves and their families. Nothing less is acceptable.

The business community has also proved itself to be nimble and responsive to government action. As Treasury and other agencies announce changes in government rules or regulations, or new programs to help hurricane survivors, the business community has stepped up to play their part quickly and efficiently.

I know you see all of this as your responsibility, at McDonalds. You believe that taking care of your own family is just what you do – and, oh, by the way, that family includes your customers and everyone who works for you and their families, too.

At Treasury, we're doing our best to make sure that charitable spirit – that we see in both individuals and companies – is encouraged. Last week, we announced an action that allows employers to adopt leave-based donation programs under which employees could forego vacation, sick or personal leave, and in turn their employers would make cash contributions to charitable organizations involved in relief efforts. We believe that this will help workers and employers as they seek ways to help their fellow Americans.

The immediate responsibility of the government is to ensure that hurricane victims have shelter, food, water and medical attention. And, clearly, the private sector is playing a vital role in that effort.

Next on the list is making sure they have the money in their pockets that they need to re-build their lives.

At Treasury, we're making sure that hurricane survivors can get access to financial resources, starting with the checks they receive from the government, like Social Security and unemployment pay. This is another area where cooperation and support from private industry will help us get the job done.

I met with banking regulators last week, who are asking the institutions they oversee to consider all reasonable and prudent steps to assist customers' cash and financial needs in areas affected by Hurricane Katrina.

Many financial institutions are implementing contingency plans involving a variety of actions that will help the people of the Gulf Coast. From waiving ATM fees and easing restrictions on cashing out-of-state and non-customer checks and waiving overdraft fees as a result of paycheck interruption, banks and credit unions are doing what they can to ensure that victims have the cash resources they need to survive this difficult time, financially.

Treasury has also been working closely with the insurance industry which has thousands of claims adjusters who are ready to enter the area and begin to help people restore their lives.

Credit institutions are taking steps such as waiving late fees for credit card and other loan balances, easing credit card limits and credit terms for new loans and delaying delinquency notices to the credit bureaus.

I appreciate the steps that regulators and their constituents are taking to make sure that hurricane victims have access to cash and credit, and to ease worries about things like bill payments and credit status.

At Treasury and the IRS, we also know that the last thing people in the devastated areas of the Gulf Coast need to worry about right now is taxes. That's why we quickly implemented extensions of tax deadlines, so that people in the affected areas who would otherwise have had taxes or returns due on September 15th don't have to worry about that deadline.

And speaking of taxes – there is a very important point that I want to emphasize: Now is not the time to increase the tax burden on the American people.

Keeping the tax burden lighter leads to innovation, economic growth and job creation. No one knows that better than the entrepreneurs here in this room today.

Katrina is having, and will have, an economic impact on us, and we need to focus on maintaining a thriving economy, not burdening it with taxes that would slow it down.

The President's economic leadership – most notably his well-timed tax cuts – really turned our economy around over the past three years. And although there is clearly no "good time" to be hit by a devastating natural disaster, I do believe that we were fortunate to be standing on very solid economic ground when this terrible storm struck.

The fact that our underlying economic fundamentals are so solid undoubtedly enhances our ability to deal with this disaster.

Over the short term, we'll feel an economic hit from Katrina. Jobs and homes have been lost, and that's a serious blow. The price of gas, already uncomfortably high, has been impacted by the storm, and that hurts, too. High fuel prices act like a tax on your business and on your family budget.

We believe that economic growth will slow in the last quarter of this year as a result of Katrina, but are optimistic that rebuilding efforts will give GDP, jobs and our overall economy a lift by the first quarter of next year.

I could already see the economic hope on the horizon when I visited the Gulf Coast region last week with some of my Cabinet colleagues. We visited a Department of Labor One-Stop center where we found out that employers – employers like you! – in the area are already looking for workers. That's terrific news.

Only the private sector can come in with the ideas, innovation, capital investment and job opportunities that the Gulf Coast needs so badly right now. And I know that the business community isn't going to wait around for the government to re-build Baton Rouge, New Orleans and Mobile. No. You're going to *lead* the effort, and in government we'll do everything we can to encourage and support your hard work.

We are committed to helping the region re-build, to helping people re-build their lives. And we want to do so in a way that is fiscally responsible. Will the relief and reconstruction be costly? Of course it will – but I want to assure you that this Administration is not, and will not stray from our course of federal deficit reduction. With continued economic strength – which we will enjoy with the continuance of the President's good economic policies – we'll be able to help our neighbors and continue to reduce our deficit.

I know and appreciate that the McDonald's family is committed to providing jobs and reopening closed restaurants in the Gulf Coast. I applaud your efforts, both immediate and future, and deeply appreciate the partnership that we have to help our American brothers and sisters recovery from this terrible event.

Thank you very much for having me here today; I hope you have a terrific meeting, and I'd be happy to take your questions now.

PRESS ROOM

September 13, 2005
JS-2715

Statement by the U.S. Treasury Regarding Requests to Postpone Pension Payments Due on September 15

We are deeply concerned about the victims of Hurricane Katrina and have taken numerous steps to provide relief to them in this difficult time. One of the steps taken by the Treasury Department, the IRS, Department of Labor and the Pension Benefit Guaranty Corporation immediately after the hurricane was to extend the deadline for meeting minimum funding requirements under the Internal Revenue Code and ERISA for employers and plans located in the devastated area. This relief was granted in recognition of the administrative problems faced by employers and their service providers in the affected areas due to lost records, and personnel and communications problems, resulting from the devastation caused by Hurricane Katrina. Such relief is not normally granted in other situations.

In addition to this previously announced benefit relief, we have received requests to permit the delay of pension payments due on September 15 for certain employers located outside the devastated area. We have concluded, however, that the best approach is to limit the relief to those employers located within the geographical region of the hurricane. We have reached this conclusion because we believe our primary focus in all of our relief efforts should be to assist those directly in the path of the hurricane's destruction. While targeted relief is appropriate in these extraordinary circumstances, we remain equally committed to the necessary discipline of the funding requirements to protect the interests of workers and retirees, responsible plan sponsors, and ultimately taxpayers by targeting that relief to those directly affected by Katrina.

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PRESS ROOM

September 9, 2005
JS-2716

12th APEC Finance Ministers' Meeting Joint Ministerial Statement
September 9, 2005
Jeju, Korea

I. Introduction

We, the Finance Ministers of the APEC economies, convened our twelfth annual meeting in Jeju, Republic of Korea, on 8-9 September 2005, under the chairmanship of Dr. Han, Duck-Soo, Korea's Deputy Prime Minister and Minister of Finance and Economy. The meeting was also attended by the Managing Director of the International Monetary Fund, the Managing Director of the World Bank, the President of the Asian Development Bank, and the Executive Director of the APEC Secretariat as well as by distinguished representatives from the private sector.

We met under the policy themes of "Free and Stable Movement of Capital" and "Meet the Challenge of Ageing Economies." In discussing these themes, we were pleased to note that APEC economies are moving toward freer and more stable capital flows and acknowledged that we must all play our part by putting in place the appropriate policies and strategies to address the importance and urgency of the challenges that come with ageing economies in the APEC region. With the 4th anniversary of the September 11 terrorist attack approaching and the continued threats of terror worldwide, we reiterate the importance of actions to combat terrorist financing, money laundering, and other abuses of our financial systems, and in this regard, we urge FATF to make progress, as appropriate, in the enlargement of its membership.

We expressed our sympathy for the tragic human losses from natural disasters experienced since we last met, and stressed our commitment to work together in dealing with their consequences.

II. Global and Regional Economic Developments

We note that global economic growth has moderated over 2005, but is still likely to remain robust, despite high oil prices. Though growth in APEC regions is expected to ease in 2005, we observe that member economies are experiencing faster growth than the global economy. On the exchange rate front, we welcome the recent moves by China and Malaysia towards a more flexible exchange rate regime. We also reaffirmed that continued liberalization in trade and investment has been an essential driver for the economic prosperity in the member economies. In order to stimulate growth, and enhance the standard of living in the region, we agreed to promote continued progress towards the Bogor Goals of free and open trade and investment in the APEC economies. We reiterate our support for the successful conclusion of the WTO Doha Development Agenda negotiations within the context of a comprehensive agreement and, to that end, call for making significant progress at the upcoming Hong Kong Ministerial Conference. We also noted the upcoming UN Summit on MDG and look forward to cooperation on achieving the goals for development.

We reiterate that all economies have a shared responsibility to take advantage of the relatively strong global economic performance to address key risks and vulnerabilities in their respective economies. To ensure orderly adjustment of global imbalances and to help achieve more sustainable external positions and stronger medium-term growth, we emphasize the importance of appropriate policies and the need for concrete actions by all in a timely and effective manner. In the APEC region, these include fiscal consolidation to increase national savings in the United States; greater exchange rate flexibility for some economies as appropriate, supported by continued financial sector reform, in emerging Asia; and further structural reforms, including fiscal consolidation, in Japan.

We discussed the risks of sustained high energy prices to economic growth and on-going development in the APEC economies. In this context, we noted the importance of adequate investment in oil production and refining capacity, as well as technology transfer for energy conservation and developing renewable energy sources. In addition, we welcomed recent actions to reduce demand-distorting subsidies and urged continuation of these efforts. Noting the discussions at the G-8 and ASEM meetings, we call for the dialogue between the oil producing and consuming countries to be strengthened through forums such as the International Energy Forum and the G-20.

III. 12th APEC FM Process Policy Themes

On the two policy themes under discussion, we noted the greatly increased importance of capital flows among member economies, and resolved to take measures to address the challenge of ageing population. In particular, bearing in mind the special characteristics of remittances as an alternative source of finance for development, we recognized the need to help improve the efficient flow of remittances in some member economies. We also adopted the "Jeju Declaration on Enhancing Regional Cooperation against the Challenges of Population Ageing" to renew our commitment to address the challenges and seize the opportunities of population ageing.

1. Free and Stable Movement of Capital

We noted the increasing importance of capital flows in the APEC member economies as evidenced by the size of global capital flows into and out of the APEC economies increasing almost 8 times to 1.4 trillion US dollars in the past 20 years, compared to the 3.7 fold increase in the size of APEC's GDP during the same period.

We acknowledged the increasing level of FDI as well as portfolio investment flows into and out of the region. We observed that increased capital flows within the APEC region are, in general, economically beneficial, and these flows reflect the breadth and depth of increased economic activity among APEC economies and between APEC and the rest of the world. As detailed in Annex C, we also noted that worker remittances are an increasingly important component of international financial flows, and encouraged continued efforts to improve formal remittance services.

Recognizing the contribution of free and stable capital flows in supporting economic growth, we emphasized the importance of open, well-supervised, and systemically sound financial services sectors. In that context, we urge all member economies to pursue a meaningful outcome of the financial services negotiations in the Doha Development Round. We resolved to continue our efforts to promote capital account liberalization, in a manner consistent with maintaining financial stability, and to build deep, resilient and efficient capital markets including by developing institutional investor base. We also recognized that the pace and manner of liberalization needs to be well sequenced and tailored to the specific circumstances of each economy.

2. Meet the Challenge of Ageing Economies

We note that some APEC economies are undergoing an unprecedented demographic transition characterized by slowing population growth, a growing proportion of people over 65, and a declining proportion in the population of working age. While the dynamics of the transition vary among member economies, we concurred that all member economies would eventually face the challenge of population ageing.

Studies suggest that population ageing will likely bring significant fiscal pressures. On the one hand, ageing population will bring increased demands for health care, social security and public pension expenditures; on the other hand, tax revenue growth will slow as more taxpayers enter their retirement years. Research also suggests that population ageing may have important impacts on economic growth and on the growth of aggregate savings and investment.

In this context, we acknowledged the urgency and the importance of domestic economic, fiscal and financial market reforms including areas such as sustainable pension systems, wider array of savings products and enhanced financial literacy. We reaffirmed that international cooperation as set out in the "Jeju Declaration" is essential to meet these objectives.

IV. Other Matters and Venue of the Next Meeting

Considering the importance of private sector input, we welcomed the active informal dialogue with the APEC Business Advisory Council (ABAC). Also we appreciate the contribution of the Pacific Economic Cooperation Council (PECC) Finance Forum on ways to promote APEC economies' cooperation and enhance the financial system. They provided both valuable insights from the private and academic perspective and support for the work under the themes of the 12th APEC Finance Ministers' Process.

We thanked the Korean people for their warm hospitality, and the Korean Government and the Ministry of Finance and Economy for the well-organized arrangement of the 12th APEC Finance Ministers' Meeting.

We agreed to meet again in Hanoi, Viet Nam for the 13th APEC Finance Ministers' Meeting on 7-8 September, 2006.

PRESS ROOM

September 14, 2005
js-2717

Prepared Remarks of Daniel L. Glaser
Acting Assistant Secretary for Terrorist Financing and Financial Crimes
Before the Latvian Commercial Bankers Association's Conference:
The Fight Against Money Laundering and Financial Crimes

Riga, LATVIA – Good afternoon. It is an honor to be here today to address Latvia's financial community about the importance of effective anti-money laundering and counter-financing of terrorism (AML/CFT) controls. I would like to thank the Latvian Commercial Bankers Association for helping to bring us together. Thanks also to Ambassador Bailey, Mark Draper and the rest of her staff for their ongoing commitment to this issue. I am also grateful for the informative comments and views of the speakers, panelists and other participants that we have heard from over the past two days. It is conferences like this one that demonstrates how effective public-private partnerships can be in enhancing understanding and communication on both sides.

Latvia sits at the crossroads between east and west. As such, Latvia is well positioned to be a key regional and international financial center. The United States welcomes this role and stands ready to help Latvia achieve all of its aspirations. But with opportunity comes responsibility. The same factors that make Latvia an attractive center for legitimate financial transactions also make it attractive for illicit business. Such illicit business corrupts systems and institutions, and destroys confidence in them.

And this is not just a problem for Latvia – globalization and the computer and telecommunications revolution means that the international financial system is only as strong as its weakest link. Financial centers that are susceptible to abuse provide criminals access to the international financial system as a whole. This is why the efforts to combat money laundering and terrorist financing must be uniform and global. Laxity in just a few jurisdictions undermines the efforts made by the rest. Financial crimes, including terrorist financing, are global threats, which must be addressed by common, global approaches. As members of the financial community, not only are we charged with the responsibility to ensure the movement of capital around the world in pursuit of investment and development, but also to prevent that capital from supporting crime and terror.

Fortunately, the choice between strong AML/CFT measures and a healthy, vibrant financial center is a false one. In fact, you cannot have one without the other. In the end, AML systems are about transparency, and transparency creates the proper conditions for a healthy financial system, reinforcing foundations for sustainable economic growth and development. As we work to implement strong AML/CFT measures, we are creating the basis for a healthy financial center that will enjoy a strong international reputation.

However, this is not simply about such concepts as the integrity of the domestic and international financial system. Put simply, terrorists and organized criminals are supported by complex international financial networks that thrive in non-transparent environments. These organizations kill innocent civilians indiscriminately, pollute our communities with drugs, traffic in weapons of mass destruction, and undermine the very foundations of our societies. As we have witnessed in London, Egypt, Bali, Madrid, Russia, and four years ago in New York and Washington, DC, the stakes in human life are unimaginably high.

It is our collective obligation to do all we can to identify, disrupt and dismantle the financial networks that support these nefarious activities. Working together, we have the ability to make it harder, costlier and less efficient for terrorists and organized criminals to move their funds through our institutions. In the end, this will save lives and constitute a vital contribution to the international effort to combat terrorists and other groups that prey on our society.

Prime Minister Kalvitas and the Latvian government understand these truths and are taking steps to crack down on money laundering. I am encouraged by Latvia's recent passage of an anti-money laundering law, which represents an important development in Latvia's road towards crafting AML/CFT controls in compliance with international standards. There is much more hard work to be done in this area. Passage of the Latvian anti-money laundering law should be followed with comprehensive implementation measures, including vigorous application of relevant regulations and appropriate money laundering prosecutions.

Components of a comprehensive AML/CFT regime are well known and fairly intuitive. They are outlined clearly by the Financial Action Task Force's (FATF) 40 + 9 Recommendations on Money Laundering and Terrorist Financing, which have been endorsed by over 120 countries, the IMF, World Bank and most recently, the United Nations Security Council. They include:

- Criminalization of money laundering and terrorist financing;
- Customer identification and verification requirements;
- Suspicious transaction reporting in a broad range of vulnerable financial sectors;
- Access to information by competent authorities; and
- International cooperation.

Additionally, specific components are related particularly to combating terrorist financing. These include the ability to freeze assets and block transactions, and appropriate targeting of vulnerabilities in the charitable sector and alternative remittance systems.

The United States – like countries throughout the world - is working to ensure that we are implementing an effective and comprehensive regime that is compatible with our legal, regulatory and financial systems. This effort began in earnest in 1970 with the enactment of the Bank Secrecy Act (BSA), which established the first AML-related regulatory requirements in the United States, and has been amended and expanded consistently since that time, most recently by the USA PATRIOT Act. Much of the expanded BSA is similar to regimes in many other jurisdictions. Other aspects provide us with unique authorities, and I'll discuss briefly two of those.

Section 314 of the Patriot Act authorizes the United States Government is to share information with and within its financial sector; that is, both vertically – between the government and the industry – and horizontally – providing a safe harbor that allows industry members to share with each other. The Treasury Department has implemented this section by creating a "pointer" system for law enforcement. The system gives the appropriate authorities, in the right circumstances, the ability to work with the Financial Crimes Enforcement Network (FinCEN) to transmit the names of persons of interest to the financial sector to determine whether those institutions possess any relevant transaction or account information. If there are any "hits," law enforcement can then follow up with a subpoena to obtain specific information. The system has been successful, and a valuable tool for law enforcement.

Beyond Section 314, we have worked hard to establish an embedded ethos of information sharing between financial institutions and government authorities, and directly between individual financial institutions. With this in mind, the Treasury relies heavily on the Bank Secrecy Act Advisory Group (BSAAG) as a forum in which to discuss important issues and emerging threats. The BSAAG is comprised of high-level representatives from financial institutions, federal law enforcement agencies, regulatory authorities, and others from the private and public sectors. Through the BSAAG and other regulatory and educational seminars and programs, the Treasury maintains a close relationship with U.S. financial institutions to ensure a smooth exchange of information related to money laundering and terrorist financing.

Section 311 of the Patriot Act authorizes the Secretary of the Treasury to designate a foreign jurisdiction or institution as a "primary money laundering concern." Once designated as such, the Treasury Department may take a range of regulatory actions to protect the U.S. financial system, including requiring U.S. financial institutions to terminate correspondent relationships with the designated entity. Such a measure essentially cuts the designated entity off from the U.S. financial system.

We have used this tool in several instances to date, which have affected entities across the globe. Targeted jurisdictions and institutions have been located in Ukraine, Nauru, Burma, Syria, the "Turkish Republic of Northern Cyprus" – and here in Latvia. In some of these instances, the designated entities have reversed course and implemented serious reforms, which has resulted in the U.S. lifting the proposed rules against them.

I would also like to take this opportunity to discuss in greater detail the financial war on terrorism. As I discussed earlier, the international community must work in concert to disrupt and dismantle the financial networks that support terrorism. A vital component of this effort must be the application of targeted financial sanctions.

Endorsed by the United Nations through UN Security Counsel Resolutions (UNSCR) 1373 and 1267 – which was just recently expanded and fortified in UNSCR 1617 – targeted financial sanctions are preventive measures quite different from criminal or regulatory action. These endorsements are an acknowledgment that countries need the ability to move without delay to deprive terrorists of resources that may lead to terrorist attacks, and that those who provide financial support to terrorists must be isolated from our financial systems immediately, separate from any efforts to prosecute them criminally.

The United States has responded to this United Nations mandate by designating 408 entities associated with a wide range of terrorist organizations throughout the world, including al Qaida, Hamas, Hizballah, Palestinian Islamic Jihad, ETA and the FARC. I am sad to say, however, that this vital component of any AML/CFT regime – the one component which has the most explicit United Nations endorsement and mandate through two separate UNSCRs – is probably the least understood and most poorly implemented component worldwide. I am not talking simply about countries that do not have the capacity to block terrorist assets. I am referring to entire regions of the world that do not implement this United Nations requirement. This must change.

Although most countries do have some mechanism in place to block the assets of al Qaida-related entities specifically identified for them by the United Nations, too many countries have taken little or no action to block the assets of other terrorist groups as specifically required by UNSCR 1373. It is urgent for countries throughout the world to begin to develop effective administrative mechanisms to do just that.

But the efforts of the international community to implement targeted financial sanctions should not be limited to the fight against terrorism. A concerted international effort should be undertaken to identify, disrupt and dismantle the financial networks that support the proliferation of weapons of mass destruction (WMD), and to financially isolate those who engage in such activities. The United States has already taken the first steps.

President Bush recently signed a WMD Proliferation Financing Executive Order that authorizes the freezing of assets of WMD proliferators and their supporters – and forbids U.S. persons from transacting any type of business with them. We hope that this lays the foundation for expanded international cooperation against WMD networks. In the case of WMD proliferation, just as it is with terrorist financing, the international community must join forces in order to protect our society.

As we face the 4th anniversary of the September 11th attacks, it is more apparent than ever that following dirty money and attacking its illicit sources is an essential part of winning the financial war against terrorist financing and financial crimes. It is also quite clear that the fight against terrorist financing and financial crimes necessitates robust and effective AML/CFT systems, targeted actions and coordinated international public and private sector responses. Illicit threats are constantly evolving, and our foes are elusive. I look forward to working with you to meet these challenges and others that may lie ahead.

Thank you.

PRESS ROOM

September 14, 2005
JS-2718

Treasury Calls for Large Position Reports

The Treasury is calling for Large Position Reports from those entities whose reportable position in the 4-3/8% Treasury Notes of August 2012 equals or exceeds $2 billion as of close of business **Monday, September 12, 2005**. Entities with reportable positions in this note equal to or exceeding this $2 billion threshold must report these positions to the Federal Reserve Bank of New York. Entities with positions in this note below $2 billion are not required to file Large Position Reports. Reports must be received by the Government Securities Dealer Statistical Unit of the Federal Reserve Bank of New York before noon Eastern Time on **Tuesday, September 20, 2005,** and must include the required position and administrative information. Large Position Reports may be faxed to (212) 720-5030 or delivered to the Bank at 33 Liberty Street, 4th floor.

Details on Call for Large Position Reports

Security Description:
4-3/8% Treasury Notes of August 2012, Series D-2012
CUSIP Number:
912828 AJ 9
CUSIP Number of STRIPS Principal Component:
912820 HF 7
Maturity Date:
August 15, 2012
Date for Which Information Must Be Reported:
September 12, 2005 as of COB
Large Position Reporting Threshold:
$2 Billion (Par Value)
Date Report Is Due:
September 20, 2005, before noon Eastern time

This call for large position information is made under Treasury's large position reporting rules (17 CFR Part 420). The notice calling for Large Position Reports is also being published in the *Federal Register*. This press release and a copy of a sample Large Position Report, which appears in Appendix B of the rules at 17 CFR Part 420, are available at the Bureau of the Public Debt's Internet site at www.publicdebt.treas.gov.

Questions about Treasury's large position reporting rules should be directed to Treasury's Government Securities Regulations Staff at Public Debt on (202) 504-3632. Questions regarding the method of submission of Large Position Reports should be directed to the Government Securities Dealer Statistical Unit of the Federal Reserve Bank of New York at (212) 720-7993.

PRESS ROOM

September 14, 2005
js-2719

Statement of Secretary John W. Snow on Trade Liberalization

The President today called for a successful conclusion to the Doha trade talks and challenged nations to join the U.S. in eliminating all tariffs, subsidies and other barriers to the free flow of goods and services as others do the same. This challenge calls upon all nations to take strong actions that will benefit the global economy, most of all developing countries, by bringing critical opportunities for growth and job creation to economies around the world.

Trade in services in particular can greatly benefit developing countries, providing knowledge and infrastructure to facilitate economic growth and create jobs. In fact, services liberalization enhances and multiplies the gains made from liberalizing trade in goods and agriculture. The benefits of a modern services sector spread across an entire economy, touching every producer, transaction and consumer.

This is especially true in the case of financial services. The financial sector is the backbone of a modern economy. An efficient, well-regulated financial sector is a key element for achieving economic growth and stability in developing countries. While there are many ways to strengthen financial sectors, the fastest way to boost competition and efficiency is to introduce the best practices of world-class financial institutions.

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PRESS ROOM

September 15, 2005
JS-2720

Treasury Designates Banco Delta Asia as Primary Money Laundering Concern under USA PATRIOT Act

The U.S. Department of the Treasury today designated Banco Delta Asia SARL as a "primary money laundering concern" under Section 311 of the USA PATRIOT Act because it represents an unacceptable risk of money laundering and other financial crimes.

"Banco Delta Asia has been a willing pawn for the North Korean government to engage in corrupt financial activities through Macau, a region that needs significant improvement in its money laundering controls, said Stuart Levey, the Treasury's Under Secretary for Terrorism and Financial Intelligence (TFI). "By invoking our USA PATRIOT Act authorities, we are working to protect U.S. financial institutions while warning the global community of the illicit financial threat posed by Banco Delta Asia."

In conjunction with this finding, Treasury's Financial Crimes Enforcement Network (FinCEN) issued a proposed rule that, if adopted as final, will prohibit U.S. financial institutions from directly or indirectly establishing, maintaining, administering or managing any correspondent account in the United States for or on behalf of Banco Delta Asia.

Banco Delta Asia SARL

Banco Delta Asia is located and licensed in the Macau Special Administrative Region, China. The bank operates eight branches in Macau, including a branch at a casino, and is served by a representative office in Japan. In addition, Banco Delta Asia maintains correspondent accounts in Europe, Asia, Australia, Canada, and the United States.

Deficiencies at Banco Delta Asia noted in the finding include, but are not limited to, the following:

- Banco Delta Asia has provided financial services for over 20 years to Democratic Peoples Republic of Korea (DPRK) government agencies and front companies. It continues to develop relationships with these account holders, which comprise a significant amount of Banco Delta Asia's business. Evidence exists that some of these agencies and front companies are engaged in illicit activities.
- Banco Delta Asia has tailored its services to the needs and demands of the DPRK with little oversight or control. The bank also handles the bulk of the DPRK's precious metal sales, and helps North Korean agents conduct surreptitious, multi-million dollar cash deposits and withdrawals.
- Banco Delta Asia's special relationship with the DPRK has specifically facilitated the criminal activities of North Korean government agencies and front companies. For example, sources show that senior officials in Banco Delta Asia are working with DPRK officials to accept large deposits of cash, including counterfeit U.S. currency, and agreeing to place that currency into circulation.
- One well-known North Korean front company that has been a client of Banco Delta Asia for over a decade has conducted numerous illegal activities, including distributing counterfeit currency and smuggling counterfeit tobacco products. In addition, the front company has also long been suspected of being involved in international drug trafficking. Moreover, Banco Delta Asia facilitated several multi-million dollar wire transfers connected with alleged criminal activity on behalf of another North

Korean front company.

- In addition to facilitating illicit activities of the DPRK, investigations reveal that Banco Delta Asia has serviced a multi-million dollar account on behalf of a known international drug trafficker.

Background on 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 the Departments of Justice and State and appropriate Federal financial regulators – to find that reasonable grounds exist for concluding that a foreign jurisdiction, institution, class of transactions or type of account is of "primary money laundering concern" and to require U.S. financial institutions to take certain "special measures" against those jurisdictions, institutions, accounts or transactions.

These special measures range from enhanced recordkeeping or reporting obligations to a requirement to terminate correspondent banking relationships with the designated entity. The measures are meant to provide Treasury with a range of options to bring additional pressure on institutions that pose specific money laundering threats.

The Treasury Department has previously identified the following financial institutions as being of "primary money laundering concern," pursuant to Section 311:

- Multibanka and VEF Bank of Latvia in April 2005;
- First Merchant Bank of the "Turkish Republic of Northern Cyprus" ("TRNC") and Infobank of Belarus in August 2004;
- Commercial Bank of Syria and its subsidiary Syrian Lebanese Commercial Bank in May 2004; and
- Myanmar Mayflower Bank and Asia Wealth Bank in November 2003.

The Bush Administration has also taken action, pursuant to Section 311, against the foreign jurisdictions of Burma, Nauru and the Ukraine. The finding of the Ukraine as being of "primary money laundering concern" was lifted after Ukrainian authorities took subsequent and aggressive steps to address the concerns and risks identified in the 311 action.

PRESS ROOM

September 15, 2005
JS-2721

MEDIA ADVISORY
Treasury Secretary Snow to Visit Atlanta to Discuss Hurricane Katrina Relief Efforts

U.S. Treasury Secretary John W. Snow will travel to Atlanta, Georgia, tomorrow to discuss relief efforts following Hurricane Katrina. In Atlanta, Secretary Snow will visit the Home Depot emergency headquarters to see their emergency command center and review how the company assists victims of the hurricane. Following his Home Depot visit, the Secretary and IRS Commissioner Everson will tour an IRS call center where several thousand IRS employees are helping the Federal Emergency Management Agency answer telephone calls from Hurricane Katrina victims seeking to register for federal relief benefits.

The following events are open to credentialed media with photo identification:

Friday September 16, 2005
Site visit to Home Depot Emergency Headquarters
Home Depot Emergency Headquarters
10:00 AM EST
2455 Paces Ferry Road
Atlanta, GA
**** Media must RSVP to David Sandor (770) 384 4439**
**** Media must arrive by 9:15 AM EST**

Site visit to IRS call center with Commissioner Everson
IRS Call Center
12:00 PM EST
2385 Chamblee Tucker Road
Atlanta, GA
**** Media must RSVP to Ivone Tune (770) 815 9645 or (770) 455 2459**
**** Media must arrive by 11:15 AM EST**
****Press Availability immediately following site visit**

PRESS ROOM

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September 15, 2005
JS-2722

Treasury and IRS to Allow Hurricane Katrina Victims to Make Withdrawals and Loans From Retirement Plans

WASHINGTON, DC – The Treasury Department and IRS announced today that 401(k) plans and similar plans, such as those under section 403(b), will be permitted to make loans and hardship distributions to victims of Hurricane Katrina.

"Today's action will allow those devastated by Hurricane Katrina access to much-needed money as they work to rebuild their lives," stated Treasury Secretary John Snow. "I also applaud action taken in the House and Senate today to provide tax relief to Katrina victims and to allow these withdrawals to be made without penalty."

The relief is generally available now through March 31, 2006.

REPORTS

- IRS Announcement 2005-70

Part IV. Items of General Interest

Hurricane Katrina Relief

Announcement 2005-70

Purpose

This announcement provides relief to taxpayers who have been adversely affected by Hurricane Katrina and have retirement assets in qualified employer plans they would like to use to alleviate hardships caused by Katrina. In addition, this announcement provides relief for certain verification procedures that may be required under retirement plans with respect to loans and hardship distributions. The relief provided under this announcement is in addition to the relief already provided by the Service pursuant to News Release IR-2005-96 under § 7508A of the Internal Revenue Code ("Code") for victims of Hurricane Katrina. (See the regulations under § 7508A and Section 8 of Rev. Proc. 2005-27, 2005-20 I.R.B. 1050, for a listing of employee benefit-related acts currently postponed until January 3, 2006, because of the disaster.)

Background

The laws relating to qualified employer plans impose various limitations on the permissibility of distributions and loans from those plans. For example, § 401(k)(2)(B)(i) of the Code provides that in the case of a § 401(k) plan that is part of a profit-sharing or stock bonus plan, elective deferrals may only be distributed in certain situations, one of which is on account of hardship. Section 403(b)(11) provides similar rules with respect to elective deferrals under a § 403(b) plan. Other rules do not permit in-service distributions from certain plans, even if there is a hardship. For example, in-service hardship distributions are generally not permitted from pension plans or from accounts holding qualified nonelective contributions ("QNECs") described in § 401(m)(4)(C) or qualified matching contributions (QMACs") described in § 401(k)(3)(D)(ii)(I). However, Rev. Rul. 2004-12, 2004-7 I.R.B. 478, holds that if amounts attributable to rollover contributions are separately accounted for within a plan, such amounts may be distributed at any time, pursuant to the employee's request. Section 72(p) imposes certain requirements relating to plan loans. Unless those requirements are satisfied, a loan is treated as a distribution under the plan.

In order to make a loan or distribution (including a hardship distribution), the plan must contain language authorizing such loan or distribution. Also, except to the extent a distribution consists of already-taxed amounts, the distribution will be includible in gross income and generally subject to the 10-percent additional tax under § 72(t). Similar rules apply to a distribution from an IRA.

Plan provisions and regulations under certain Code sections establish verification procedures before distributions or loans will be made from the plan. For example, the regulations under § 401(k) set forth certain criteria an employee must meet in order to receive a hardship distribution. A plan may contain procedures designed to confirm that the criteria have been satisfied.

Relief

A qualified employer plan will not be treated as failing to satisfy any requirement under the Code or regulations merely because the plan makes a loan, or a hardship distribution for a need arising from Hurricane Katrina, to an employee or former employee whose principal residence on August 29, 2005, was located in one of the counties or parishes in Louisiana, Mississippi or Alabama that have been or are later designated as disaster areas eligible for Individual Assistance by the Federal Emergency Management Agency because of the devastation caused by Hurricane Katrina or whose place of employment was located in one of these counties or parishes on such date or whose lineal ascendant or descendant, dependent or spouse had a principal residence or place of employment in one of these counties or parishes on such date. Plan administrators may rely upon representations from the employee or former employee as to the need for and amount of a hardship distribution, unless the plan administrator has actual knowledge to the contrary, and such distribution is treated as a hardship distribution for all purposes under the Code and regulations. For purposes of this announcement, a "qualified employer plan" means a plan or contract meeting the requirements of § 401(a), 403(a) or 403(b), and, for purposes of the hardship relief, which could, if it contained enabling language, make hardship distributions. For purposes of this paragraph, a "qualified employer plan" also means a plan described in § 457(b) maintained by an eligible employer described in § 457(e)(1)(A), and any hardship arising from Hurricane Katrina is treated as an "unforeseeable emergency" for purposes of distributions from such plans. For example, a profit-sharing or stock bonus plan that currently does not provide for hardship or other in-service distributions may nevertheless make Katrina-related hardship distributions pursuant to this announcement, except from QNEC or QMAC accounts or from earnings on elective contributions. A defined benefit or money purchase plan, which generally cannot make in-service hardship distributions, may not make hardship distributions pursuant to this announcement, other than from a separate account, if any, within such plan containing either employee contributions or rollover amounts.

The amount available for hardship distribution is limited to the maximum amount that would be permitted to be available for a hardship distribution under the plan under the Code and regulations. However, the relief provided by this announcement applies to any hardship of the employee, not just the types enumerated in the regulations, and no post-distribution contribution restrictions are required. For example, regulations under § 401(k) provide safe harbor hardship distribution standards wherein a hardship is deemed to exist only for certain enumerated events, and after receipt of the hardship amount, the employee is prohibited from making contributions for at least 6 months. Plans need not follow these rules with respect to hardship distributions described in the first two sentences in the immediately preceding paragraph.

If the plan does not provide for loans or hardship distributions, the plan must be amended to provide for loans or such emergency distributions no later than the end of the first plan year beginning after December 31, 2005. To qualify for the relief under this announcement, a hardship distribution must be made on account of a hardship resulting from Hurricane Katrina and be made on or after August 29, 2005, and no later than March 31, 2006. In the case of plan loans made pursuant to this announcement, such loans must satisfy the requirements of § 72(p).

In addition, a retirement plan will not be treated as failing to follow procedural requirements for plan distributions (in the case of all retirement plans, including IRAs) or loans (in the case of retirement plans other than IRAs) imposed by the terms of the plan, merely because such requirements are disregarded for any period beginning on or after August 29, 2005, and continuing through March 31, 2006, with respect to distributions to individuals described in the first paragraph under "Relief", provided the plan administrator (or financial institution in the case of distributions from IRAs) makes a good-faith effort under the circumstances to comply with such requirements. However, as soon as practical, the plan administrator (or financial institution in the case of IRAs) must make a reasonable attempt to assemble any foregone documentation. For example, if spousal consent is required for a plan loan or distribution and the plan terms require production of a death certificate if the employee claims his or her spouse is deceased, the plan will not be disqualified for failure to operate in accordance with its terms if it makes a distribution or loan to an individual described in the first paragraph under "Relief" in the absence of a death certificate if it is reasonable to believe, under the circumstances, that the spouse is deceased, the distribution is made no later than March 31, 2006, and the plan administrator makes reasonable efforts to obtain the death certificate as soon as practical. For purposes of this announcement, "retirement plan" has the same meaning as "eligible retirement plan" under § 402(c)(8)(B).

The Department of Labor has advised Treasury and the Internal Revenue Service that it will not treat any person as having violated the provisions of Title I of the Employee Retirement Income Security Act solely because they complied with the provisions of this Announcement.

Drafting Information

The principal author of this announcement is Roger Kuehnle of the Employee Plans, Tax Exempt and Government Entities Division. For further information regarding this announcement, please contact the Employee Plans taxpayer assistance telephone service at (877) 829-5500 (a toll-free number) between the hours of 8:00 a.m. and 6:30 p.m. Eastern Time, Monday through Friday.

PRESS ROOM

September 15, 2005
js-2723

Remarks of Under Secretary of the Treasury Timothy D. Adams before the to the U.S.-China Business Council

I'm pleased to be here. I'd like to first speak broadly about U.S. economic relations with China. After all, a prosperous and secure China that meets its international obligations and is fully integrated and engaged in the global economy and global economic institutions is in our, and China's, interest.

China's Importance

Let me begin by saying that the driving force behind all of the Administration's international economic policies is the principle that rapid growth, at full potential, around the world is the most effective way to create jobs, raise incomes, and pull countries out of poverty. In the last 25 years, the Chinese economy has made a remarkable transformation from a centrally planned system to an increasingly market-oriented economy. China has posted an average annual real growth rate of 9.7 percent between 1990 and 2003. China is now the world's seventh largest economy (based on market exchange rates), and because of both its rapid growth and size, one with tremendous impact on global markets. Indeed, the United States and China have been the engines of the global economy, accounting for half of global growth in the last few years.

And as the Council membership knows, China is also the world's third largest trading economy. China is not only a major exporter, but also a significant market for other countries' exports. U.S. exports to China alone have grown 81 percent over the last three years. For these reasons our economic relationship is a key lever in addressing global economic imbalances.

Addressing imbalances in the global economy is a shared responsibility among the major economic regions of the world. Each need to take steps to help ensure that adjustments take place in an environment of high, rather than low, growth. For the United States, this means raising domestic savings, in part, by cutting the budget deficit. But our action alone will not be sufficient to unwind global imbalances without a major slowdown in global growth. For Europe and Japan, addressing imbalances means further deregulation of services, goods, and labor markets to raise domestic demand.

We think there are three key elements for East Asia and China in particular: 1) greater exchange rate flexibility; 2) shifting from export-oriented growth to a domestic demand-based economy; and 3) development of the financial sector including capital markets.

Exchange Rate

The issue that has attracted the most press and public attention is exchange rate reform. Treasury has promoted greater exchange rate flexibility because we have always believed that it is first and foremost in China's interest. Giving monetary authorities greater control over interest rates, and other market-based tools, while relying less on direct administrative controls, will lead to more efficient financial intermediation and reduce the risk of a repeat of the boom/bust cycles experienced in the 1980s and 1990s. Given the significant structural changes that China's economy will undergo in the years ahead, allowing markets to drive China's exchange rate will help reduce the risk of misalignment and facilitate smooth and efficient adjustment.

However, given the high import content of Chinese exports, we know that by itself reforming China's exchange rate will not cure global imbalances. But, increased

Chinese exchange rate flexibility will lead to increased exchange rate flexibility in the rest of East Asia. And when added up, this should have a meaningful impact on global imbalances.

In this context, the July 21 move by China to adopt a more flexible exchange rate was welcome, and has created a mechanism that over time will create room for considerable movement in the currency. At the time the announcement was made, Treasury took special note of China's objective of allowing the market to fully play its role in resource allocation as well as "to put in place and further strengthen the managed floating exchange regime based on market supply and demand."

It was this promise of greater exchange rate flexibility and a closer alignment with market forces that was the critical part of China's action. The People's Bank of China has also expanded the range of companies that can trade in the foreign exchange market and can buy and sell foreign exchange forward contracts - actions clearly designed to accommodate greater flexibility. What is important now is that China allows the new exchange rate mechanism to move more closely into alignment with underlying market forces. We at Treasury are monitoring this process closely as we continue and intensify our engagement with the Chinese authorities.

Domestic Demand

The second component of adjustment in China and East Asia is promoting domestic demand-driven growth. According to the IMF, exports of emerging Asia have grown by 10.5 percent per year on average over the past decade, reaching 18 percent annual growth during 2002-04. Exports now account for 45 percent of emerging Asia's GDP. This export-led growth has resulted in surging current account surpluses, and is a major source of tension among Asia's trading partners.

To sustain growth, China and East Asia need to spur the growth of domestic demand and reduce their reliance on exports. A number of measures are available to China to boost domestic demand. One solution is to reform and strengthen China's pension system, healthcare system, and social safety net so that households need to save less for unexpected events and can consume more. Financial service liberalization and increased openness to foreign financial services providers can provide innovative financial products that can better meet households' saving goals. And this is where I'd like to turn to next.

Financial Sector Reform

The third component is the critical issue of financial sector reform. Reform is needed given the history of highly inefficient financial intermediation. Indeed, a more efficient financial sector will better intermediate savings and will also help in pursuit of the goal I just discussed, which is China's transition to consumption-led growth and away from a heavy reliance on the export sector. Regarding financial sector reform let me focus on three aspects.

First is liberalization of the financial sector. Opening China's financial services sector further by allowing overseas securities firms to establish wholly-owned subsidiaries and by expanding the scope of products securities firms can offer would add liquidity and transparency to the capital markets, increase the flow of capital to the most productive Chinese firms, inject management expertise, encourage regulatory reforms, and introduce best-practices for technology, risk management, and control systems. Improvements in corporate governance in the financial sector will also promote the private sector role in banking.

Second is the move to risk-based lending. Last year's deregulation of lending rates will allow banks greater scope to differentiate borrowers based on risk. But more reforms - such as introducing rigorous credit analysis procedures, improving accounting and financial reporting standards and adopting a strong board and corporate management structure -- are needed to better assess risk, improve asset quality and take advantage of higher interest rates to slow excessively aggressive asset growth.

Third is capital market development. Further development of China's equity and bond markets would lead to more efficient allocation of capital, provide greater support for market oriented reforms (as agents would not be so dependent on the government to limit risks), and improve corporate governance. Stock markets are still too often viewed as a way to keep inefficient state enterprises afloat rather than as a way to channel capital to the most competitive firms and sectors and a way to transfer control to more productive owners. Deeper bond markets would reduce corporate reliance on state-controlled lenders and more active derivatives trading would allow firms to better manage risk.

Foreign direct investment in the financial sector specifically would strengthen risk assessment and management in addition to providing capital. China's plan to open the banking sector by the end of 2006 is ambitious and something that Treasury will watch closely so that regulatory impediments do not undermine China's WTO commitments. Particularly welcome is a recent statement from China's chief banking supervisor that a proposal is in the works to lift caps on foreign ownership of Chinese banks. We will continue to press China to open up more to FDI in securities markets, because open economies are strong and resilient.

Treasury Activities

As is obvious from the items I've just discussed, we are actively engaged with our Chinese counterparts. The economic transformation underway in China places tremendous demands on the Chinese economic leadership. It also means that we need to efficiently deploy Treasury's resources to anticipate and respond to developments. You may already know about the Technical Cooperation Program (TCP) that Secretary Snow launched two years ago. In short, the TCP was designed to help the Chinese authorities overcome the obstacles they see to greater exchange rate flexibility at the technical level.

Treasury has hosted a number of exchanges between our banking and securities regulators and their counterparts in China to discuss a variety of regulatory and safeguard issues surrounding a shift to a more flexible exchange rate regime. For example, we've conducted training on developing and regulating financial futures markets in China with the aim of helping the Chinese authorities introduce currency hedging products in an environment of greater exchange rate volatility and learn how to supervise currency risk in banking systems. We plan to continue these efforts and expand on the range of issues I've laid out today. Over the coming year we expect to have numerous interactions with our Chinese counterparts in both bilateral and multilateral fora. And we will use these opportunities to stand with our colleagues at USTR and Commerce in pressing China to abide by its WTO commitments, particularly protections for intellectual property.

Conclusion

Thank you again for giving me the opportunity to share with you some of Treasury's work on China. Developing a constructive and mutually-beneficial economic relationship with China now is vitally important since the decisions we take in the next few years will guide the U.S.-China relationship over the next generation - and the shape and pace of global growth for years to come.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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September 16, 2005
JS-2724

Treasury International Capital Data for July

Treasury International Capital (TIC) data for July are released today and posted on the U.S. Treasury web site (www.treas.gov/tic). The which will report on data for August, is scheduled for October 18, 2005.

Net foreign purchases of long-term securities were $87.4 billion.

- Net foreign purchases of long-term domestic securities were $101.4 billion, $10.4 billion of which were net purchases by foreign $91.0 billion of which were net purchases by private foreign investors.
- U.S. residents purchased a net $14.0 billion in foreign securities.

Foreigners' Transactions in Long-Term Securities with U.S. Residents
(Billions of dollars, not seasonally adjusted)

				12 Months Through				
		2003	2004	July-04	July-05	Apr-05	May-05	J
1	Gross Purchases of Domestic Securities	13,535.4	15,288.2	14,537.1	16,263.0	1,396.1	1,488.3	1,
2	Gross Sales of Domestic Securities	12,813.6	14,371.6	13,716.8	15,330.6	1,341.6	1,417.2	1,
3	Domestic Securities Purchased, net (line 1 less line 2) /1	721.9	916.7	820.3	932.4	54.5	71.1	9:
4	Private, net /2	587.0	681.1	599.4	768.6	43.0	57.9	7
5	Treasury Bonds & Notes, net	161.7	150.9	169.3	174.3	10.8	20.8	-C
6	Gov't Agency Bonds, net	129.9	205.6	144.2	206.5	8.3	18.1	1:
7	Corporate Bonds, net	260.4	298.9	251.6	332.9	18.3	18.9	5:
8	Equities, net	35.0	25.6	34.3	54.9	5.6	0.2	2.
9	Official, net	134.9	235.6	221.0	163.7	11.5	13.2	2:
10	Treasury Bonds & Notes, net	103.8	201.1	188.5	115.0	13.9	6.8	16

11	Gov't Agency Bonds, net	25.9	20.8	24.1	32.8	-1.7	4.6	3
12	Corporate Bonds, net	5.4	11.5	8.0	15.4	-0.1	1.8	2
13	Equities, net	-0.3	2.2	0.4	0.5	-0.7	-0.1	0
14	Gross Purchases of Foreign Securities	2,764.9	3,120.6	3,063.7	3,267.7	286.5	287.7	3(
15	Gross Sales of Foreign Securities	2,834.4	3,233.2	3,159.3	3,419.1	293.7	302.5	3:
16	Foreign Securities Purchased, net (line 14 less line 15) /3	-69.4	-112.6	-95.6	-151.5	-7.1	-14.8	-1
17	Foreign Bonds Purchased, net	19.2	-29.0	0.3	-52.4	-4.6	-10.0	-1
18	Foreign Equities Purchased, net	-88.6	-83.6	-95.9	-99.1	-2.5	-4.8	-1
19	Net Long-Term Flows (line 3 plus line 16)	652.4	804.1	724.7	780.9	47.3	56.3	8(

/1 Net foreign purchases of U.S. securities (+)

/2 Includes International and Regional Organizations

/3 Net U.S. acquisitions of foreign securities (-)

REPORTS

- (PDF) Foreigners' Transactions in Long-Term Securities with U.S. Residents (Billions of dollars, not seasonally adjusted)

DEPARTMENT OF THE TREASURY

OFFICE OF PUBLIC AFFAIRS

Embargoed Until 9 a.m. EDT
September 16, 2005

Contact: Brookly McLaughlin
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TREASURY INTERNATIONAL CAPITAL DATA FOR JULY

Treasury International Capital (TIC) data for July are released today and posted on the U.S. Treasury web site (www.treas.gov/tic). The next release date, which will report on data for August, is scheduled for October 18, 2005.

Net foreign purchases of long-term securities were $87.4 billion.

- Net foreign purchases of long-term domestic securities were $101.4 billion, $10.4 billion of which were net purchases by foreign official institutions and $91.0 billion of which were net purchases by private foreign investors.
- U.S. residents purchased a net $14.0 billion in foreign securities.

Foreigners' Transactions in Long-Term Securities with U.S. Residents
(Billions of dollars, not seasonally adjusted)

		2003	2004	12 Months Through July-04	12 Months Through July-05	Apr-05	May-05	Jun-05	Jul-05
1	Gross Purchases of Domestic Securities	13,535.4	15,288.2	14,537.1	16,263.0	1,396.1	1,488.3	1,514.6	1,279.0
2	Gross Sales of Domestic Securities	12,813.6	14,371.6	13,716.8	15,330.6	1,341.6	1,417.2	1,420.7	1,177.7
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**721.9**	**916.7**	**820.3**	**932.4**	**54.5**	**71.1**	**93.9**	**101.4**
4	**Private, net /2**	**587.0**	**681.1**	**599.4**	**768.6**	**43.0**	**57.9**	**71.0**	**91.0**
5	Treasury Bonds & Notes, net	161.7	150.9	169.3	174.3	10.8	20.8	-0.9	24.9
6	Gov't Agency Bonds, net	129.9	205.6	144.2	206.5	8.3	18.1	17.1	32.1
7	Corporate Bonds, net	260.4	298.9	251.6	332.9	18.3	18.9	52.1	23.6
8	Equities, net	35.0	25.6	34.3	54.9	5.6	0.2	2.7	10.4
9	**Official, net**	**134.9**	**235.6**	**221.0**	**163.7**	**11.5**	**13.2**	**23.0**	**10.4**
10	Treasury Bonds & Notes, net	103.8	201.1	188.5	115.0	13.9	6.8	16.7	3.6
11	Gov't Agency Bonds, net	25.9	20.8	24.1	32.8	-1.7	4.6	3.2	5.7
12	Corporate Bonds, net	5.4	11.5	8.0	15.4	-0.1	1.8	2.6	1.4
13	Equities, net	-0.3	2.2	0.4	0.5	-0.7	-0.1	0.6	-0.3
14	Gross Purchases of Foreign Securities	2,764.9	3,120.6	3,063.7	3,267.7	286.5	287.7	307.9	273.1
15	Gross Sales of Foreign Securities	2,834.4	3,233.2	3,159.3	3,419.1	293.7	302.5	321.0	287.1
16	**Foreign Securities Purchased, net** (line 14 less line 15) /3	**-69.4**	**-112.6**	**-95.6**	**-151.5**	**-7.1**	**-14.8**	**-13.1**	**-14.0**
17	Foreign Bonds Purchased, net	19.2	-29.0	0.3	-52.4	-4.6	-10.0	-1.2	-5.1
18	Foreign Equities Purchased, net	-88.6	-83.6	-95.9	-99.1	-2.5	-4.8	-11.8	-8.9
19	**Net Long-Term Flows** (line 3 plus line 16)	**652.4**	**804.1**	**724.7**	**780.9**	**47.3**	**56.3**	**80.9**	**87.4**

/1 Net foreign purchases of U.S. securities (+)
/2 Includes International and Regional Organizations
/3 Net U.S. acquisitions of foreign securities (-)

PRESS ROOM

September 16, 2005
JS-2725

The Honorable John W. Snow
Prepared Remarks: Visit to the Home Depot
Atlanta, GA

Good morning. Thank you, Bob, for hosting me at this terrific Home Depot facility. Everyone in the Home Depot family is working so hard to help the survivors of Hurricane Katrina, and it was a pleasure to hear about your efforts, first-hand.

It is good to be in Atlanta, and I am glad to be in the South on this National Day of Prayer and Remembrance for our brothers and sisters who were taken from us by a terrible act of Mother Nature, a storm so devastating that this great nation was deeply wounded by it.

Helen Keller once said that: "The world is full of suffering; it is also full of the overcoming of it." The overcoming of this event is going to be a mammoth task, requiring great commitment and dedication from every party involved: government, business and individuals.

In the government, we are committed to rebuilding the communities that were ravaged by Katrina, and as we do so we know we must help people rebuild their lives with a sense of hope and opportunity. Our overriding goal must be that everyone has an opportunity to build a better life for themselves and their families. Nothing less is acceptable.

Everyone here at Home Depot knows that America is a real do-it-yourself country. People who come to your stores, the "weekend warriors" of home improvement, are all working on their piece of the American Dream. That spirit of independence and pride will be at the center of the rebuilding that will take place over the coming months.

We are fortunate to have a really strong, vibrant economy in this country, and that is going to be critical as we pursue rebuilding efforts. With a strong economy, we can afford to meet any challenge.

The first priority of the government, and of corporations like Home Depot, has been to save lives. Rescue, shelter, food and water, medical attention – all these things came first.

The next step is giving people financial footing. Treasury is working to ensure that victims of the hurricane can get access to financial resources, starting with the checks they receive from the government, like Social Security and unemployment pay.

And once hurricane survivors are on their feet, I know they will embrace being back in charge of their own lives, making their own decisions. Katrina derailed their independence for a short time, but they'll get it back. That's what Americans do.

I visited the Gulf Coast last Friday with two of my Cabinet economic team colleagues – Commerce Secretary Gutierrez and Labor Secretary Chao – and was pleased to see that hurricane survivors are already finding new jobs at Department of Labor One-Stop Centers. This is great to see, because finding work, having a job, is essential for every person and every family who is starting their lives over after this tragic event.

Home Depot has always been a good neighbor in whatever community you're in because you create lots of those essential, sometimes life-changing, jobs. And in times like these, when so many lives have been devastated by a natural disaster, you're better neighbors than ever.

I appreciate all that the employees and leadership of Home Depot is doing to help the survivors of Hurricane Katrina. It's been wonderful to see the outpouring of help from companies like you, McDonald's, Wal-Mart and Johnson and Johnson, to name just a few others, over the past couple of weeks.

You've offered employees whose job was affected by Hurricane Katrina the opportunity to continue their employment at any Home Depot store. You made a direct cash donation of $1.5 million to support immediate relief and recovery efforts as well as long-term rebuilding – for example, you made a direct donation of $500,000 to nonprofit organizations that produce and rehabilitate affordable housing for low- to moderate-income homeowners to assist with the repair and rebuilding efforts. You are also working with your suppliers to donate materials, such as tarps, flashlights and bottled water, and generators to emergency management organizations.

Across the board, companies like yours are giving millions in cash donations to the Red Cross and other relief groups. Businesses all over the country are running employee donation programs and matching their employees' donations. They're giving millions in product donations, from pharmaceutical to technology products.

This outpouring of help – both within the companies' families and externally, to the broader relief efforts – reminds us that this is a country where people take care of each other. We help each other get back up on our feet.

Something I want to be clear about today is that increasing the tax burden on the American people at this time won't help in that way – in fact, it would hurt recovery efforts. Keeping the tax burden lighter leads to innovation, economic growth and job creation.

Katrina is having, and will have, an economic impact on us, and we need to focus on maintaining a thriving economy, not burdening it with taxes that would slow it down.

The President's economic leadership – most notably his well-timed tax cuts – really turned our economy around over the past three years. And although there is clearly no "good time" to be hit by a devastating natural disaster, I do believe that we were fortunate to be standing on very solid economic ground when this terrible storm struck.

The fact that our underlying economic fundamentals are so solid undoubtedly enhances our ability to deal with this disaster.

Over the short term, we'll feel an economic hit from Katrina. Jobs and homes have been lost, and that's a serious blow. The price of gas, already uncomfortably high, has been impacted by the storm, and that hurts, too. High fuel prices act like a tax on business and on family budgets.

We believe that economic growth will slow in the last quarter of this year as a result of Katrina, but are optimistic that rebuilding efforts will give GDP, jobs and our overall economy a lift by the first quarter of next year.

Thanks to the generosity of a nation and our unique spirit of hope and independence, I am confident that the residents of places like New Orleans and Gulfport Mississippi and southern Alabama will recover. We picked ourselves up after 9/11 and other disasters, we have the will and the resources and the resolve to do so again. I am confident we will again. It's the spirit of Americans to do so.

We are committed to helping the region re-build, to helping people re-build their lives. And we want to do so in a way that is fiscally responsible. Will the relief and reconstruction be costly? Of course it will – but I want to assure you that this Administration is not, and will not stray from our course of federal deficit reduction. With continued economic strength – which we will enjoy with the continuance of the President's good economic policies – we'll be able to help our neighbors and continue to reduce our deficit.

Thank you very much for having me here today.

PRESS ROOM

September 16, 2005
JS-2726

The Honorable John W. Snow
Prepared Remarks: Visit to IRS Call Center
Atlanta, GA

Good afternoon. It is good to be here in Atlanta, spending some time with the dedicated and hard-working employees of the IRS.

I appreciate being here with Commissioner Everson; I'm very proud of the work that IRS employees, and all Treasury employees, are doing on this day.

At this facility, an IRS call center has become a disaster-relief call center. Working with FEMA, the highly-trained government staff here are taking and directing calls, offering help, kindness and hope to Americans whose lives have been overwhelmed by the cruelty of a terrible storm.

I am also glad to be in the South on this national day of remembrance. We grieve for the losses of our brothers and sisters in the Gulf Coast. But we also look forward to rebuilding the communities that were devastated. Rebuilding will be an essential part of healing wounds that go much deeper than physical wreckage.

As we rebuild infrastructure, homes and businesses, we must also help rebuild lives with a sense of hope and opportunity. Our overriding goal must be that everyone has an opportunity to build a better life for themselves and their families. We look forward to a time when victims take back control of their own lives and begin their promising futures. Nothing less is acceptable.

We are fortunate to have a really strong, vibrant economy in this country, and that is going to be critical as we pursue rebuilding efforts. With a strong economy, we can afford to meet any challenge.

I was thrilled to learn that here in Atlanta, hurricane victims are already being absorbed into the community, actually emptying the shelters that the area is providing. This can only happen when government, employers and individuals are all working, together, to give their fellow Americans a new start in life.

This example of an early start toward the re-establishment of independence for victims is one of the reasons, although Katrina is a disaster on many levels, I am confident the residents of places like New Orleans and Gulfport Mississippi and southern Alabama will recover.

We must not forget, as Americans, that we picked ourselves up after 9/11 and other disasters, we have the will and the resources and the resolve to do so again. I am confident we will again. It's the spirit of Americans to do so.

An outpouring of help from individuals and businesses has not only helped enormously, it has reminded us that this is a country where people take care of each other.

At Treasury and the IRS, we're doing our best to make sure that charitable spirit – that we see in both individuals and companies – is encouraged. Last week, we announced an action that allows employers to adopt leave-based donation programs under which employees could forego vacation, sick or personal leave, and in turn their employers would make cash contributions to charitable organizations involved in relief efforts. We believe that this will help workers and employers as they seek ways to help their fellow Americans.

And yesterday the IRS announced that 401(k) s and similar employer-sponsored retirement plans can make loans and hardship distributions to victims of Hurricane Katrina and members of their families.

This was the first time that the IRS, Treasury and Department of Labor are providing broad-based relief to retirement plan participants affected by a major disaster. This relief will make it possible for people to get their retirement money more quickly, with a lot less red tape.

Treasury and the IRS also know that the last thing people in the devastated areas of the Gulf Coast need to worry about right now is taxes. That's why we quickly implemented extensions of tax deadlines, so that people in the affected areas who would otherwise have had taxes or returns due on September 15^{th} don't have to worry about that deadline.

The IRS also plays a special role in helping hurricane survivors re-build their financial lives. Taxpayers can call, write or walk-in to an IRS center to receive expedited assistance in reconstructing their financial records based on their tax returns, for example.

Using the toll-free disaster hotline 1-866-562-5227, Hurricane Katrina victims can obtain expedited assistance to receive disaster tax loss kits, copies of tax return transcripts, copies of Federal Tax Returns, and guidance regarding records reconstruction. For hurricane victims, the IRS is waiving the fees normally associated with return and transcript requests.

To assist taxpayers that have small businesses, the IRS works in partnership with the Small Business Administration to provide return transcripts to the SBA Office of Disaster Assistance on an expedited basis. The information is used for income verification and cash flow analysis for immediate lending determinations and assistance with records reconstruction.

These are just a few examples of the help that IRS can offer during this difficult time of recovery and rebuilding. Again, I want to thank the employees of the IRS for their help, for being there when your fellow Americans are in their hour of greatest need.

Helen Keller once said that: "The world is full of suffering; it is also full of the overcoming of it."

The overcoming of this event is going to be a mammoth task, requiring great commitment and dedication from every party involved: government, business and individuals. But we are up for the task. Together, this country will ensure that the victims of Hurricane Katrina can look forward to very bright futures.

Thank you, again, for having me here today.

PRESS ROOM

September 19, 2005
js-2727

Treasury Designates Bin Laden, Qadi Associate

The U.S. Department of the Treasury today designated Dr. Abdul Latif Saleh pursuant to Executive Order 13224 for providing support to Usama bin Laden and al Qaida.

"Saleh has multiple ties to al Qaida, ranging from the Al Haramain Foundation to Yasin Qadi to Usama bin Laden," said Stuart Levey, the Treasury's Under Secretary for Terrorism and Financial Intelligence (TFI). "This designation identifies him as a terrorist facilitator and ensures that he will no longer be able to operate unencumbered."

Saleh is closely associated with Usama bin Laden and was expelled from Albania on suspicion of membership in a "radical Islamic Jihad group." Bin Laden provided Saleh with $600,000 to encourage the establishment of extremist groups in Albania. In addition, Saleh is closely associated with a number of non-governmental organizations in Albania with links to the Egyptian Islamic Jihad, a terrorist organization tied to al Qaida.

Saleh founded and organized an Albanian jihadist organization that has been financed by the Al Haramain Foundation, a non-governmental organization linked to al Qaida. The mission of the Albanian jihadist group has been to destabilize the internal situation in Albania by fomenting conflict among the different religious groups in the country. Al Haramain recruited members from this organization, which Saleh directly assisted in vetting.

Saleh is also associated with Yasin Qadi, who was named a specially designated global terrorist by the Treasury Department in October 2001. Qadi was known to be an active supporter of, and fundraiser for, Saleh's jihadist group.

Saleh and Qadi had entered into several business partnerships with one another, including a sugar importing business, a medical enterprise, and a construction business. Saleh served as the general manager of all of Qadi's businesses in Albania and reportedly holds ten percent of the Qadi Group's investments in Albania.

In 1998, six individuals were arrested in Albania, two of which were tried and executed in Egypt as perpetrators of terrorist attacks. In their testimony, the individuals said it was Saleh who had helped them come to Albania. Saleh was identified as "the one who had helped them in every respect, beginning with picking them up at the airport."

The United States is taking action today pursuant to United Nations Security Counsel Resolution 1617, which requires member states to financially isolate individuals and entities added to the UN 1267 Committee's consolidated list of terrorists tied to the Taliban, al Qaida and UBL.

"Resolution 1617, recently adopted by the UN Security Council, makes the international sanctions regime against the Taliban, al Qaida, and its affiliate groups stronger, more accessible, and more transparent," Levey continued. "Today's action illustrates the power the global community now has to take unified, decisive action against al Qaida's support networks."

Identifier Information

Dr. Abdul Latif Saleh

A.K.A: SALEH, Abdul LatifA.A.

A.K.A: SALEH, Abdyl Latif

A.K.A: SALEH, Dr. Abd al-Latif

A.K.A: SALEH ABU HUSSEIN, Abdul Latif A.A.

A.K.A: SALIH, Abd al-Latif

A.K.A: Abu Amir

DOB: March 5, 1957

POB: Baghdad, Iraq

Citizenship: Jordanian/Albanian

Identification Numbers: Jordanian Passport Number D366 871

Last known residence: United Arab Emirates

Today's action prohibits any transactions between U.S. persons and Saleh and also freezes any assets he may have within U.S. jurisdiction.

-30-

PRESS ROOM

September 19, 2005
js-2728

Financial Literacy and Education Commission to Hold Meeting On Providing Financial Education Resources to Katrina Victims

Treasury Secretary John W. Snow will join members of the Financial Literacy and Education Commission tomorrow to discuss ways in which Commission members are assisting Katrina victims with financial matters.

Treasury's Office of Financial Education coordinates the efforts of the Financial Literacy and Education Commission, which is composed of representatives from 20 federal departments, agencies and commissions. The Commission works to improve financial literacy and education throughout the United States.

WHAT
Meeting of the Financial Literacy and Education Commission

WHO
Secretary John W. Snow and Commission Representatives

WHEN
September 20, 2005
8 a.m. (EDT) – Meeting Begins
8:30 a.m. (EDT) – Secretary Snow Delivers Remarks

WHERE
American Institute of Architects
1735 New York Avenue
Washington, DC

-30-

PRESS ROOM

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September 20, 2005
JS-2729

Treasury Secretary John W. Snow
Prepared Remarks to Financial Literacy & Education Commission Meeting
Washington, DC

Good morning. Thank you all for having me here today, and thank you for the terrific work you are doing on this Commission.

Your purpose is true, and your work is meaningful. Yours is the kind of public-private coordination that really makes a difference in people's lives, and you are to be commended for that. Every time your work gives a young person – or a new American, or a baby boomer – the tools and knowledge they need to strengthen their financial future, you have made an historic contribution to our country.

Today your group, and our nation, is faced with a considerable challenge: the rebuilding and revitalization of the region and the lives devastated by Hurricane Katrina.

In the government, we are committed to rebuilding the communities that were ravaged by Katrina, and as we do so we know we must help people rebuild their lives with a sense of hope and opportunity. Our overriding goal must be that everyone has an opportunity to build a better life for themselves and their families. Nothing less is acceptable.

We are fortunate to have a really strong, vibrant economy in this country, and that is going to be critical as we pursue rebuilding efforts. With a strong economy, we can afford to meet any challenge.

The first priority of the government has been to save lives. Rescue, shelter, food and water, medical attention – all these things came first.

The next step is giving people financial footing. Treasury is working to ensure that victims of the hurricane can get access to financial resources, starting with the checks they receive from the government, like Social Security and unemployment pay.

Of course, knowing about the resources available, how to take advantage of them, and how to manage, financially, during this time can be very difficult. That's why Treasury's Office of Financial Education has developed a brochure – which will be available this week – that serves as a roadmap, a financial guide to hurricane recovery for victims of the storm.

The brochure will have toll-free phone numbers to resources that can help with the collection of unemployment insurance, Social Security benefits and FEMA benefits. It provides direction on managing debt, bank and credit union accounts in light of the fact that homes, records and paperwork may have been destroyed. It also some basic tips on budgeting. Perhaps most importantly, it outlines 10 tips for avoiding scams – something that is of concern during a time that tends to be overwhelming and confusing, making individuals vulnerable to things like identity theft.

The brochure will be available for free by calling 1-888-MyMoney, or online at www.mymoney.gov. We'll also make it available, of course, to financial institutions and will even be able to distribute the brochure directly to hurricane survivors in San Antonio later this week, as our Financial Education office will be sending a team of financial counselors to resource and recovery centers in those areas.

As the President said in his September 15th address to the nation, the task of rebuilding "will require the creative skill and generosity of a united country" and our vision of the future is not just to rebuild, but to rebuild "higher and better."

After devastating loss, hurricane survivors can look forward to a new start, and the President's vision is that the new life will be better than the one left behind. Government resources and financial education can help them get a foothold on that new life.

And once hurricane survivors are on their feet, I know they will embrace being back in charge of their own lives, making their own decisions. Katrina derailed their independence for a short time, but they'll get it back. That's what Americans do.

Thanks to the generosity of a nation and our unique spirit of hope and independence, I am confident that the residents of places like New Orleans and Gulfport Mississippi and southern Alabama will recover. We picked ourselves up after 9/11 and other disasters, we have the will and the resources and the resolve to do so again. I am confident we will again. It's the spirit of Americans to do so.

We are committed to helping the region re-build, to helping people re-build their lives. And we want to do so in a way that is fiscally responsible. We are a generous people, but we are also a prudent and responsible people. And in government, we have a solemn responsibility to spend the peoples' money well, honestly, effectively.

Will the relief and reconstruction be costly? Of course it will – but I want to assure you that this Administration is not, and will not stray from our course of federal deficit reduction. With continued economic strength – which we will enjoy with the continuance of the President's good economic policies – we'll be able to help our neighbors and continue to reduce our deficit.

Thank you again for having me here today; have a terrific meeting.

REPORTS

- Katrina

WEATHERING THE STORM:

Financial Tips and Resources for Hurricane Recovery

FINANCIAL ASSISTANCE (CASH)

- FEMA provided one-time emergency cash assistance and can provide rental and repair assistance. To register or if you have any questions, call **800-621-3362 (24 hours)** or **800-462-7585** (TTY only) or visit **http://www.fema.gov**.
- American Red Cross: Providing various amounts of financial assistance, including vouchers, cash, and checks. Call **800-975-7585**.
- You may be eligible to receive a low-interest loan from the Small Business Administration (SBA) to repair a home, replace personal property such as furniture and clothing, or re-build a business. Information on applying for these loans is available from FEMA and from SBA by calling **800-659-2955** or at **http://www.sba.gov/disaster**.

INSURANCE

- Contact your insurance company. A list of insurance companies can be found at: **http://www.disasterinformation.org/**, or:

  For Louisiana call **800-259-5300** or **225-342-5900** (in Baton Rouge) or visit **http://www.ldi.state.la.us/whats_new/HurricanePhoneNumbers.pdf**;

  For Mississippi call **866-856-1982** (out of state), **800-562-2957** (in state), or **601-359-2453** (Jackson area). Hours are 7 a.m. to 7 p.m.;

  For Alabama call **800-433-3966** (in-state) or **334-269-3550**.

  For Texas, call **800-578-4677** or **512-463-6169** (Monday-Friday 8 a.m. to 5 p.m.) or visit **http://www.tdi.state.tx.us/commish/storms/index.html**.
- Flood insurance. If you don't know the insurer or administrator, call the National Flood Insurance Program at **800-427-4661**.

UNEMPLOYMENT INSURANCE

- Unemployment Insurance:

  Alabama residents, call **866-234-5382**

  Louisiana residents, call **866-783-5567**

  Mississippi residents, call **888-844-3577**

  Texas residents, call **800-939-6631** (Monday-Friday 8 a.m. to 5 p.m.). This number provides information in English and Spanish. Or visit **http://www.twc.state.tx.us/ui/bnfts/claimantinfo.html**.
- Disaster Unemployment Assistance for self-employed and newly employed who are ineligible for Unemployment Insurance:

  Alabama residents, call **866-234-5382**

  Louisiana residents, call **866-783-5567**

  Mississippi residents, call **866-783-5567**

  Texas residents, call **800-818-7811**

OTHER FEDERAL AND STATE BENEFITS

- Social Security: Available at local Social Security offices. For locations, call **800-772-1213**.
- Veterans benefits and compensation: call U.S. Department of Veterans Affairs: **800-827-1000 (24 hours)**.
- Louisiana Human and Social Services Hotline (food stamps, Medicaid, other): **888-524-3578 (7 a.m. – 7 p.m.)**.
- If you do not already receive your Federal benefits by direct deposit, you should consider doing so. Direct deposit means that your benefits are electronically sent to your bank or credit union account. Direct deposit is safer, faster and more reliable than receiving a check by mail. To register or for more information, call **800-333-1795** (English) or **800-333-1792** (Spanish), or visit **http://www.godirect.org** (English) or **http//:www.directoasucuenta.org** (Spanish).

DEBT

- Call your creditors. Many will defer your loan payments, waive late fees, or raise your credit limit temporarily.
- If you need help identifying your creditors, get your free credit report. Call **877-322-8228** or visit **http://www.annualcreditreport.com**.

BANK AND CREDIT UNION ACCOUNTS

- For information about accessing bank accounts, lost records, ATM cards, direct deposits or how to reach your bank, call the FDIC at **877-275-3342** (24 hours) or visit **http://www.fdic.gov**.
- For information about credit unions, visit **http://www.ncua.gov/Katrina/index.htm** or call **800-827-6282**, press 2 then for:

  Louisiana and Texas **press 1**

  Alabama and Mississippi **press 2**
- Banks and credit unions keep extensive back-up records to ensure that customer account information is accurate and protected.
- Banks and credit unions generally have their computer systems operating so customers can access their money through debit and ATM cards, even if the physical office is damaged or closed.
- Most safe deposit boxes are located in fireproof and waterproof areas. If possible, contact the branch or office where your box was located to determine the condition of your box.

MANAGING A DEBIT CARD

- Can be used to get cash from an ATM with a Personal Identification Number (PIN).
- Can be used in many stores to purchase goods such as groceries and clothing.
- Keep the PIN safe and separate from the card.
- If you have a FEMA debit card that gets lost or stolen, you lose the PIN, or have other questions, call **888-606-7058**.

RECONSTRUCTING FINANCIAL AND TAX INFORMATION

- Tax Returns: IRS can provide free copies of your tax returns. Call **866-562-5227** (Monday-Friday 7 a.m. to 10 p.m.) or visit **http://www.irs.gov/**.

  Write "Hurricane Katrina" in red across the top margin of the Form 4506, Request for Copy of Tax Return.

  IRS can also answer other questions about tax payments, filing, and other issues.
- Credit Report: You can request a free credit report. Call **877-322-8228** or visit **http://www.annualcreditreport.com**.

BUDGET

It is a good idea to develop a budget for the months ahead. Some things to include in a budget:

- Housing (security deposit, monthly rent),
- Transportation (bus, subway or car),
- Communications expenses (phone, fax), and
- Work related equipment/other costs (equipment, uniform).
- Free resources may be available for food, clothing and furniture. Explore these options first.

10 TIPS FOR AVOIDING SCAMS

1 – Before you give out your personal information (Social Security number, date of birth, FEMA case number), make sure it is absolutely necessary and that the person asking for it represents a legitimate organization (such as a government agency or charity).

2 – Avoid "officials" who require payment to get FEMA or other government benefits. No government agency charges application fees for disaster relief benefits.

3 – Always keep critical personal information and documents in a safe place.

4 – Don't pay in advance for job listings, especially for a 900 phone number. Report job scams to the FTC, **http://www.ftc.gov**, or **877-FTC-HELP**.

5 – Don't pay in advance for offers of housing.

6 – Avoid offers for loans or credit cards that require payment in advance.

7 – For home repairs, ask for references and referrals.

8 – For home repairs, get more than one estimate in writing. Don't pay the full amount for the work until the work is completed and you're satisfied.

9 – Pest control or water purification offers may not provide real services. Check these out before accepting offers, even for "free" tests or services. Read the "fine print" and get a second opinion.

10 – If an offer sounds too good to be true, it probably is.

If you believe you may be a victim of ID theft, contact the fraud departments of any one of the three major credit bureaus at their toll-free numbers to place a "fraud alert" on your credit file: Equifax at **1-888-766-0008**, Experian at **1-888-397-3742**, or TransUnion at **1-800-680-7289**. This can help prevent a thief from opening new accounts or making changes to your existing accounts.

For more information about guarding against identity theft and resolving problems, visit **http://www.consumer.gov/idtheft**.

OTHER RESOURCES

- For a variety of free federal government publications related to financial issues, visit **http://mymoney.gov** or **888-mymoney**.
- For other federal government resources, visit **http://www.firstgov.gov**.

Compiled from: California Society of Enrolled Agents, Federal Deposit Insurance Corp., Federal Trade Commission, Home Builders Association of Alabama, Internal Revenue Service, National Credit Union Administration, by the Office of Financial Education, September 2005.

PRESS ROOM

September 20, 2005
JS-2730

Statement of Patrick M. O'Brien
Nominee to be Assistant Secretary for Terrorist Financing
U.S. Department of the Treasury
Before the Senate Committee on Banking, Housing and Urban Affairs

Chairman Shelby, Ranking Member Sarbanes, and members of the Committee, good morning. Thank you for scheduling this hearing. I realize what a full schedule you have, and I appreciate the opportunity to be with you this morning and answer your questions.

With your permission, I would like to introduce the Committee to several members of my family who were able to join me this morning. First, my mother and father, Terry and Jack O'Brien, who join us from Minneapolis, MN. I am also very proud to introduce my wonderful wife, Maureen, and our two daughters: Molly, who will be two in December, and Margaret (Maggie), who is four months old. I am extremely blessed to have such a wonderful family, and I will never be able to repay the love and support they have shown me throughout my life. I would also like to thank my sister and brothers, Katie Mason, Tom O'Brien and Dan O'Brien, who were unable to be here today, as well as my extended family and friends who have enriched my life beyond measure.

I am humbled to sit before you today as the President's nominee to be the Assistant Secretary of the Treasury for Terrorist Financing. I would like to thank the President for nominating me and for the support of Secretary Snow and Under Secretary Levey. I also greatly appreciate Senator Hatch for his support and for his introduction this morning.

It is a great honor to be asked to serve our country. It is also a great responsibility that I take very seriously. Should the Senate confirm me, I will give my absolute best to be an effective Assistant Secretary and to help the Treasury Department, our colleagues across the government, as well as our international partners, target and disrupt illicit financial networks, build effective systems to prevent abuse of financial institutions, and isolate and punish those who threaten our security.

I will bring to this position a variety of professional experiences that, I believe, enable me to be an effective addition to the Department of Treasury. I am very fortunate to have served in all three branches of government: as a law clerk in federal district court, as a counsel on the Senate Judiciary Committee, and in a variety of jobs at the Department of Justice. I have had significant experience working in the interagency environment, and in particular, I have direct experience as the Justice representative to the Terrorist Financing Policy Coordinating Committee (PCC). I believe this background and my ability to work collaboratively with others will help me to be a valuable addition to what is truly a government-wide – and even global – effort.

I am fortunate to be nominated to join a very strong team at the Treasury Department. If I am confirmed, I am committed to furthering the development and strength of the Office of Terrorism and Financial Intelligence – or TFI. As the Committee is aware, the concept behind TFI, one that I strongly support, is to marshal Treasury's unique authorities, financial intelligence, analysis, and international relationships to attack the financial underpinnings of national security threats. If confirmed, I will dedicate myself to developing the Treasury's ability to play this strategic role by providing policy development and coordination to support TFI initiatives, and building partnerships and coalitions to extend the implementation of sound financial practices and the impact of targeted financial sanctions.

Additionally, we must continue to develop expertise across industries and financial disciplines, as well as regional expertise around the world, to expand policies that address the wide variety of financial means that can be utilized by illicit financial networks.

Indeed, partnerships must be fostered and maintained both domestically and internationally. I am committed to building the strongest possible cooperative relationships with our colleagues across the United States Government. These threats cannot be addressed by any one agency alone. If confirmed, I will build on the strong relationships that currently exist between Treasury and its partners at Justice, FBI, State, Defense, DHS, CIA, and the greater interagency community. We must think and act as a single government to achieve a shared set of goals.

It is also essential that we internationalize the impact of sound financial systems and targeted financial sanctions. This requires strong bi-lateral and multilateral relationships. If confirmed, I will continue Treasury's efforts, in conjunction with the State Department and other federal agencies, to promote accepted international standards for sound financial practices and to increase partner capacity and cooperation through organizations like the United Nations, the Financial Action Task Force (FATF), and the Egmont Group. The activities of illicit financial networks do not stop at our borders, and thus we must continue to internationalize our efforts.

Thank you again for holding this hearing. I would be pleased to answer any questions you may have.

PRESS ROOM

September 20, 2005
JS-2731

The Honorable John W. Snow
Prepared Remarks to the National Association of Federal Credit Unions (NAFCU)
Washington, DC

Thank you so much for having me here today.

I meet and work with financial leaders every day, and it has not escaped my notice that credit unions tend to have great heart. That's especially important during times like these, when financial structure and resources are so very important to our fellow Americans, our brothers and sisters who have survived – and are surviving the aftermath of – Hurricane Katrina.

I believe it speaks to the strength, determination and heart of the credit union community that all 139 of the federally insured credit unions in the path of Katrina were at least partially operational as of the close of business last Friday. Cash and check cashing services are now available to those 681,000 Federal Credit Union members, and that's terrific news.

For some, services for now will be at a shared branch location – an important option that your members utilized during this difficult time. There is no doubt that branching helped restore services quickly to customers, and I applaud your teamwork on that effort.

I've been in touch with JoAnn Johnson at the NCUA about the need to ensure that NCUA's regulations are appropriate for the conditions that credit unions in the area are operating under.

I was pleased when NCUA advised credit unions they could assist consumers and members by doing things like waiving ATM fees for members and non-members, increasing ATM daily cash withdrawal limits, easing restrictions on cashing out-of-state and non-customer checks, waiving overdraft fees as a result of paycheck interruption and waiving early withdrawal penalties on time deposits

Allowances like these are so important to the victims of Katrina as they recover from this disaster, and I know that you need to hear, from your regulators, that the government is going to view your actions with an eye for the difficulty of the times and the generosity of your spirit. You are helping both customers and non-customers right now, and that is invaluable. It is appreciated.

I also appreciate that there are still some distressed institutions in the Gulf Coast. There is no doubt that full recovery and rebuilding will take a lot of time, a strong will and a vast amount of resources.

Your institutions will be part of that rebirth, and I appreciate very much the services that you will be giving to your customers going forward as they rebuild their lives.

As the nation – government, the private sector and charities – rebuilds infrastructure, homes and businesses, we must also help rebuild lives with a sense of hope and opportunity. Our overriding goal must be that everyone has an opportunity to build a better life for themselves and their families. We look forward to a time when victims take back control of their own lives and begin their promising futures. Nothing less is acceptable.

As the President said in his September 15th address to the nation, the task of rebuilding "will require the creative skill and generosity of a united country" and our vision of the future is not just to rebuild, but to rebuild "higher and better."

I know that you want nothing less, and will accept nothing less, for your customers.

I believe that we are fortunate to have a really strong, vibrant economy in this country, and that is going to be critical as we pursue rebuilding efforts. With a strong economy, we can afford to meet any challenge.

After devastating loss, hurricane survivors can look forward to a new start, and the President's vision is that the new life will be better than the one left behind.

And once hurricane survivors are on their feet, I know they will embrace being back in charge of their own lives, making their own decisions. Katrina derailed their independence for a short time, but they'll get it back. That's what Americans do.

Thanks to the generosity of a nation and our unique spirit of hope and independence, I am confident that the residents of places like New Orleans and Gulfport Mississippi and southern Alabama will recover. We picked ourselves up after 9/11 and other disasters, we have the will and the resources and the resolve to do so again. I am confident we will again. It's the spirit of Americans to do so.

In the government, we are committed to helping the region re-build, to helping people re-build their lives. And we want to do so in a way that is fiscally responsible. We are a generous people, but we are also a prudent and responsible people. In government, we have a solemn responsibility to spend the peoples' money well, honestly, effectively.

Will the relief and reconstruction be costly? Of course it will – but I want to assure you that this Administration is not, and will not stray from our course of federal deficit reduction. With continued economic strength – which we will enjoy with the continuance of the President's good economic policies – we'll be able to help our neighbors and continue to reduce our deficit.

Thanks again for all the good work you do and will be doing over the coming months. Before I take your questions, I do want to reiterate something that I hope you already know – that that this administration understands the basic economic principle that you get less of anything you tax, and we don't want less of what you do. And that isn't going to change.

Thank you again for having me here today; have a terrific meeting.

PRESS ROOM

September 20, 2005
JS-2732

**Treasury Releases Schedule for
September G7 Meeting**

Wednesday, September 21, 2005

3:00 PM Under Secretary for International Affairs Tim Adams
Pre-G7 Press Briefing
Treasury Department
Room 4121 (Media Room)
1500 Pennsylvania Ave., NW
Washington, DC
*** Open Press – pre-set may begin at 1:30 PM**
*** Media without Treasury press credentials must contact Frances Anderson at 202-622-2960 or e-mail their name, organization, date of birth and Social Security number to** frances.anderson@do.treas.gov **for clearance by 1:00 PM on 9/21/2005**

Thursday, September 22, 2005

9:00 AM Iraq Joint Commission on Reconstruction and Economic Development Meeting
Treasury Department
1500 Pennsylvania Ave., NW
Washington, DC
*** Pool photo at top of meeting**
*** Media please contact James Anderson by phone at 202-622-2960 or e-mail at** james.anderson@do.treas.gov **by 12:30 PM on 9/21/2005**

Friday, September 23, 2005

9:00 AM Under Secretary for International Affairs Tim Adams
Remarks on U.S. views on IMF Reform
Institute for International Economics
1750 Massachusetts Ave., NW
Washington, DC
*** Open Press**

12:00 PM G7 Working Lunch with Brazil, China, India, Russia and South Africa Treasury Department
1500 Pennsylvania Ave., NW
Washington, DC
*** Pool photo at top of meeting**

1:30 PM G7 Meeting
Treasury Department
1500 Pennsylvania Ave., NW
Washington, DC
*** Pool photo at top of meeting**

3:30 PM G7 Group Photo
Treasury Department
1500 Pennsylvania Ave., NW
Washington, DC
*** Open photo, pool reporter**
*** Photographers should arrive at the Treasury Department no later than 2:30 PM for security sweep**
*** Media without Treasury press credentials must contact Frances Anderson at**

202-622-2960 or e-mail their name, organization, date of birth and Social Security number to frances.anderson@do.treas.gov **for clearance by 1:00 PM on 9/21/2005**

6:30 PM G7 Press Conference
Office of Thrift Supervision
1700 G Street, NW
Washington, DC
*** Open Press**
*** Media should arrive at OTS no later than 5:30 PM for security sweep**
*** Text for release; will be posted on** www.treasury.gov
*** Treasury, White House, IMF/WB Annual Meetings press credentials accepted – no additional clearance is needed**

***** Additions to the schedule may follow**

PRESS ROOM

September 20, 2005
JS--2733

Statement of Emil Henry
Nominee for Assistant Secretary of the Treasury for Financial Institutions
Financial Institutions
U.S. Department of the Treasury
before the Senate Committee on Banking, Housing, and Urban Affairs

Chairman Shelby, Ranking Member Sarbanes and Members of the Committee, thank you for the opportunity and privilege to appear before you today to discuss my nomination to become the Assistant Secretary of the Treasury for Financial Institutions.

Before my formal statement, and with your indulgence, I would very much like to introduce members of my family here with us today. My wife Jody, was my college sweetheart at Yale where she and I graduated together. She is much smarter than I am, she's my best friend and she's a full-time mother. With her are our two daughters: Madeleine 13, and Parker, 12. Our third child and Parker's twin brother, Ames, is pursuing his dream at a tennis academy in Florida.

I want to begin by expressing my thanks to President Bush for nominating me for this important position. I am truly honored to have his confidence and, if confirmed, I will focus daily upon earning and re-earning the trust he has placed in me. I would also like to thank Secretary Snow, Under Secretary Randal Quarles and other fine individuals the President has nominated to the Treasury for their support. If confirmed, I look forward to working with them on the many important issues currently before the Treasury Department, and many more that are certainly to come.

My thanks also go to my friend and Congresswoman Sue Kelly for taking the time to come here today, and for her thoughtful and kind introduction. Representative Kelly and I share a beautiful hometown, Katonah, New York. Her constituents, including myself, hold her in high esteem for her attention to her District and for her measured wisdom on the House Financial Services Oversight and Investigations Subcommittee and her leadership on terrorist financing issues.

Lastly, I would like to thank my parents for inspiring me to enter public service. My dad was Chairman of the FCC under Presidents Kennedy and Johnson and my mother headed the Women's Office of the SBA for the Clinton Administration. From the time I could recognize my own name, I have believed that public service is not only a high calling but a natural and necessary part of a productive life.

I come before you today in the long-standing tradition of one who has spent his entire career in the private sector before being called to service. As my resume shows, I have no formal public service experience. Yet, I do have over 20 years experience on Wall Street and in the financial community, and much of my time has been spent at a senior level in some of the more sophisticated and complex sectors of the capital markets.

All of the firms I have been associated with have the highest regard of their peers and of the financial community. At First Boston, my first job after Yale, I was fortunate to be picked to work in the Capital Markets Division which, at the time, was at the forefront of the advent of early derivatives such as interest rate swaps, options and futures. At Morgan Stanley, I was a member of a team charged with building a pre-eminent principal investment business involving management buyouts, equity and debt financings, mergers, acquisitions and bank financings. For the past 15 years I have been at Gleacher Partners where I am now Managing Director and also Chairman of our core investment business and a member of our

Investment Committee. Our businesses invest in a sophisticated array of alternative investments including private mezzanine debt and private equity and hedge funds where our investments are exposed to most of the products and securities offered in the capital markets.

I believe my experience has given me a broad and deep understanding of the activities of the financial institutions that participate in today's increasingly complex and fast moving capital markets. As founder and Chairman of an investment business, I appreciate the essential importance of safety and soundness in our markets and institutions, I understand the value of disclosure and transparency, and I am sensitive to the importance of balancing the costs and benefits of regulation.

If confirmed, I believe my role as Assistant Secretary would benefit from my extensive experience and I would hope to complement the extraordinary reservoir of talent at the Treasury, and, in my judgment, the most effective organizations are those populated by individuals whose skills and experience complement each other. I would also look forward to working closely with members of this Committee and the House Financial Services Committee on crucial issues such as GSE reform and terrorism risk insurance. I will also devote myself to the oversight of the critical infrastructure of our nation's financial institutions. The recent disaster in the Gulf States highlights the vital need to be prepared for natural or man-made disasters, and if confirmed, I expect to spend a significant amount of time focusing on the preparedness of the U.S. financial system.

Thank you again for the honor and privilege to appear before you. I would be delighted to answering any questions you may have.

PRESS ROOM

September 21, 2005
JS-2934

UPDATE:
Treasury Releases Schedule for September G7 Meeting

3:30 PM G7 Group Photo
Treasury Department
1500 Pennsylvania Ave., NW
Washington, DC
*** Open photo, pool reporter**

*** Photographers should arrive at the Treasury Department Hamilton entrance (15thSt.) no later than 2:00 PM for security sweep**

*** Media without Treasury press credentials must contact Frances Anderson at 202-622-2960 or e-mail their name, organization, date of birth and Social Security number to** frances.anderson@do.treas.gov **for clearance by 1:00 PM on 9/21/2005**

PRESS ROOM

September 21, 2005
2005-9-21-14-57-35-21344

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 $72,253 million as of the end of that week, compared to $73,052 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	September 9, 2005			**September 16, 2005**		
TOTAL	**73,052**			**72,253**		
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	11,625	11,605	23,230	11,409	11,428	22,837
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	11,297	5,617	16,914	11,103	5,532	16,635
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]			13,476			13,398
3. Special Drawing Rights (SDRs) [2]			8,391			8,342
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	September 9, 2005			**September 16, 2005**		
	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						
	September 9, 2005			**September 16, 2005**		
	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 IMF data for the prior month end.

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

PRESS ROOM

September 21, 2005
JS-2935

Statement of Under Secretary for International Affairs
Tim Adams Pre-G7 Press Conference

Secretary Snow looks forward to hosting G-7 Finance Ministers and Central Bank Governors here on Friday, September 23 - and to a productive weekend of meetings at the IMF and World Bank.

The meeting comes at a time when the United States is working intensively to meet challenges within its own economy - namely to deal with the impact and aftermath of Hurricane Katrina and to put the Gulf Coast on the road to recovery. We deeply appreciate the support offered by so many countries around the world.

I expect that Secretary Snow will update his colleagues on our work in the Gulf Coast region when they meet on Friday. He will report that recovery and reconstruction are already underway. And he will underscore that the impact on overall economic growth will be noticeable but short-lived.

Indeed, the U.S. economy is well positioned to deal with the shock of Hurricane Katrina. Growth in the first half of this year was a solid 3.5 percent. Forecasters anticipate a slowdown in the immediate term as a result of Katrina, but rebuilding activities will likely to boost growth in early 2006.

The global economy has also been growing strongly, with the outlook positive going forward. Nonetheless, risks remain.

Energy supply disruptions that raise prices put a damper on growth. I expect Ministers and Governors will discuss steps taken to address supply and efficiency issues, as well as technical measures such as the improvement of data availability. Higher oil prices are also causing problems for some emerging markets, particularly those that control domestic prices at low levels.

The challenge of addressing global imbalances will also be a focus of discussions on Friday. Secretary Snow will reiterate the United States' commitment to reduce the federal budget deficit. We remain on track to cut the deficit in half by FY 2009.

Even in light of increased emergency costs, we are delivering on our commitment. But I expect that Secretary Snow will underscore the need for action also in the rest of the world to address imbalances. This means more labor and product market reform in Europe and Japan, more financial sector and corporate reform in Asia, and greater exchange rate flexibility. We need significantly more domestic demand-led growth from other parts of the world; at this time it is hard to see growth in major industrial countries rising much above 2 percent, perhaps not even 1 ¾ percent. The global economy needs more stimulus than that. And emerging markets have developed export-dependent growth models that skew growth away from domestic demand and depend inordinately on U.S. absorption. This is in no one's interest. The U.S. has no current account target and will not set one. Nor will we slow growth simply to correct external imbalances. What is needed is not less growth in the U.S., but more engines of growth from more countries and new reforms to appreciably boost potential growth rates.

Increasing the free flow of trade in goods and services is a vital part of promoting global growth. The Secretary will underscore President Bush's strong message last week about the value of free trade, the importance of a successful conclusion to the Doha Round, and the United States' willingness to move decisively. President Bush's challenge to all nations is unambiguous and far-reaching: the complete elimination of all tariffs, subsidies and other barriers to the free flow of goods and services as other nations do the same. As the President said, "this is key to overcoming poverty in the world's poorest nations." One of our priorities in the G7 is to create the conditions that will allow each and every nation to reach its potential, and this must now also include greater progress in trade liberalization. In this regard, Secretary Snow will focus in particular on financial services - given the key contribution that an efficient, well-regulated financial sector can make to economic growth and stability in developing countries.

This new challenge on trade follows historic accomplishments on our agenda to assist developing countries. In addition to our significant increases in development assistance, and the shift to grants instead of loans, this weekend we hope to see adoption of the proposal for 100 percent debt cancellation of Heavily Indebted Poor Countries' (HIPCs) debt obligations to IDA, AfDF, and the IMF. We insisted on 100 percent debt cancellation because it will help to foster long-term debt sustainability, conclusively end the lend-and-forgive approach to development assistance and provide additional resources for countries' efforts to reach the goals of the Millennium Declaration (MDGs). We are calling upon all shareholders of the World Bank, African Development Bank, and IMF to support this important initiative.

The strategic direction of the International Financial Institutions is a key item on the agenda for Ministers and Governors. The Secretary will stress the need for ongoing reform to make the institutions as effective as they can be. This includes modernizing the governance structure to keep the IMF relevant for its members. We hope to build support for our proposals in this area over the weekend.

Finally, as President Bush again emphasized before the UN last week, we must work tirelessly to identify and disrupt the networks providing financial and materiel support to terrorist organizations worldwide and the G7 must continue to lead this global effort. We have a collective duty to do all we can to make the world a safer place by targeting and disrupting terrorist networks. The United States is committed to combating the scourge of terrorist financing and we call on our partners around the globe to stand with us in this charge. Secretary Snow and Under Secretary Levey will continue to press this issue in both multilateral and bilateral meetings over the course of this weekend. Stemming the flow of terrorist financing is among our highest priorities.

Thank you for your attention, and I look forward to your questions.

PRESS ROOM

September 21, 2005
js-2936

Statement by Treasury Secretary John Snow on Hurricane Katrina Bill

I commend Senate and House negotiators for reaching bipartisan agreement on the Hurricane Katrina emergency tax relief bill. I am pleased that the House acted to pass the bill this afternoon and look forward to quick Senate action. This aid comes at exactly the right time to help victims of Hurricane Katrina as they rebuild their lives. Hurricane Katrina was a devastating blow to our Gulf Coast and this aid package will be an important part of the recovery effort.

We also look forward to working with the Congress in the coming weeks to enact the President's proposals for Gulf Opportunity Zones, Worker Recovery Accounts and the Urban Homesteading initiative to help revitalize areas affected by Hurricane Katrina. Finally, it is important that Congress act to ensure the future health of our national economy by making the President's tax cuts permanent. A strong national economy is crucial to rebuilding the Gulf economy.

PRESS ROOM

September 22, 2005
JS-2938

Statement of Treasury Secretary John W. Snow

Today we welcomed our friends and colleagues from the Iraqi Ministry of Finance and Central Bank for productive discussions on the ongoing efforts to ensure continuing reconstruction and economic development in Iraq. We hope that later this week the next milestone would be reached with the IMF, and the IMF would, with Iraq, be able to announce that they are moving into the negotiations phase of the standby agreement. That would be an important next step on the path to a standby agreement for the country. I commend Minister Allawi and Governor Shabibi for their terrific leadership, courage, and the skill and confidence that they bring to the monetary and fiscal economic policy issues of their country. Iraq is fortunate to have people of their ability holding these posts at this historical time.

PRESS ROOM

September 22, 2005
JS-2939

U.S.-Iraq Macroeconomic and Financial Forum Meets

Secretary Snow and Iraqi Finance Minister Ali Allawi today co-chaired the first meeting of the U.S.-Iraq Macroeconomic and Financial Forum. This new Forum is part of the broader bilateral economic dialogue known as the Joint Commission on Reconstruction and Economic Development (JCRED). They discussed key policy and implementation issues affecting Iraq's economic reconstruction, with a focus on the macroeconomy and the financial sector.

They were joined in the discussion by key members of the U.S. and Iraqi economic teams, including Governor of the Central Bank of Iraq Dr. Sinan al-Shabibi, and participants from the State Department, National Security Council, World Bank, Federal Reserve Board, and the Federal Reserve Bank of New York.

Much of the session was devoted to Iraqi efforts to secure passage of a fully-financed 2006 budget and to develop a system for sound budget formulation and execution. There was also extensive discussion of the monetary policy instruments needed for Iraq to maintain price stability. The participants discussed ways in which to ensure that Iraq's oil wealth is used to promote economic growth, to better mobilize the Iraqi private sector and to revitalize the banking sector.

Secretary Snow and Minister Allawi noted substantial progress over the past year in many areas of fiscal and monetary policy:

- Iraq is well on the way to executing a fully-financed budget in 2005.
- Iraq's 2006 budget will include measures to reduce meaningfully the cost of the government's subsidy program both in 2006 and beyond.
- The Iraqi dinar remains sound and stable.
- The Central Bank of Iraq has been expanding its set of monetary policy tools.

In addition, Secretary Snow and Minister Allawi also welcomed progress on settling Iraq's commercial debt and signing bilateral sovereign debt agreements under the Paris Club.

PRESS ROOM

September 23, 2005
JS-2940

Remarks by Under Secretary for International Affairs
Timothy D. Adams
The IMF: Back to the Basics
Institute for International Economics Conference on
Reform of the International Monetary Fund

I would like to thank Fred Bergsten and the IIE for the invitation to this conference on IMF Reform. This conference is another reminder of how fortunate the United States Treasury is to have outstanding think-tanks like the IIE nearby to promote debate on key international economic policy issues. Fred and the other senior fellows have opened their doors to me and I greatly appreciate their gracious support and indispensable wisdom.

As I flipped through the newspapers very early this morning in preparation for today's G-7 Finance Ministers and Central Bank Governors meeting and other meetings throughout the weekend, I was reminded why this issue – IMF reform – is so important and so topical. The challenges we – policymakers – face are extraordinary and we must have effective, adaptable institutions to assist us as we craft solutions.

So, let me start my remarks today by stating that I am a believer in the IMF – that is, an IMF as a facilitator of international monetary cooperation. History has repeatedly demonstrated how much the world needs such an institution – from the maintenance of a fixed exchange rate system centered on the major industrialized countries in the 1950s and 60s, to the resolution of the Latin American debt crisis of the 1980s, to the economic transformation of Eastern Europe, to the emerging market crises of the 1990s. There is a role of for the Fund.

Yet the IMF now faces fresh, tough questions about its relevance. For example, is there any meaningful role for the IMF in the industrialized countries? With emerging market economies implementing better domestic economic policies, steadily repaying their IMF debts, and self-insuring through increasingly large reserve accumulation, will the IMF simply cease to matter to this key group? Should the IMF react by shifting more of its policy and financing focus to low-income countries?

In a generalized response to these questions, I think that the best way to strengthen the IMF's relevance is to refocus on the core mission envisaged by the IMF's founders at Bretton Woods – international financial stability and balance of payments adjustment. We should measure IMF effectiveness by how well it helps countries and the global system avert or recover from financial crises, not by the volume of Fund lending. Managing Director De Rato's Strategic Review is a good first step, and I urge you to pay close attention to what he has to say.

For my part, allow me to touch on five key priorities.

Quota and Representation Reform

First, it is necessary for us to address the governance structure of the IMF. The IMF's governance structure should ensure that every member has a voice, with each country's vote scaled to reflect its weight in the world economy. This shareholder structure provides for both universal representation and weighted influence, while keeping the Fund's financial position strong so that it can meet its systemic responsibilities and come to the aid of members when needed.

At the Spring Meetings of the IMF and World Bank, Secretary Snow stated that the governance of the IMF should evolve along with the world economy, so that countries have a rightful stake in the institution. The world economy has evolved considerably, as some countries have grown more quickly than others and Europe has achieved monetary union and deepened integration.

The quotas for many fast-growing emerging market countries are much smaller than the IMF's own calculations would suggest they should be. For example, Korea is 66% underweight; Mexico about 35% underweight; and Turkey about 32% underweight. The IMF's quota formulas also do not reflect many countries' weight in the world economy. This is true for the United States, whose quota is 17% of the total while U.S. GDP was roughly 29% of global GDP in 2004.

The IMF's liquidity is at a record high by any measure. There is no need to increase its resources – either through a general or an ad hoc increase. The United States is not seeking to increase its own quota share, and will not accept any decline. Rather, we wish to explore ways to improve the balance.

Within that context, what can be done?

- First, a voluntary rebalancing of quotas, within the existing total, from "overweight" countries to the most "underweight" emerging markets would be a major step forward. This will depend on countries whose quotas are out of proportion to their global economic weight stepping forward to help modernize the Fund.
- Second, the poorest countries are among the most overweight relative to calculated quota or share of GDP, but should be held harmless so that their quota does not fall.
- Third, in addition to rebalancing quotas, representation on the Executive Board should better reflect the IMF's full membership. Consolidation of European chairs would help to increase the relative voice of emerging market and developing country members.

These are complex issues and the United States will not be able to effect change alone. But together, the IMF's membership can begin a process that will bring a better balance to IMF governance and that of the international financial institutions more broadly.

Exchange Rate Surveillance

Second, the IMF needs to be far more ambitious in its surveillance of exchange rates.

IMF Article IV requires that the IMF exercise "firm surveillance" over the exchange rate policies of members. After the collapse of the Bretton Woods fixed exchange rate system, the IMF in 1977 developed surveillance guidelines that determine its approach to what is still called the "Article IV" process. Those guidelines included domestic policies, since domestic policies can impact a country's balance of payments position.

Over time, however, domestic policies have come to dominate Article IV reviews, and it is not uncommon to read an Article IV review with only a brief reference to a member's exchange rate policy and its consistency with both domestic policies and the international system. There is almost never discussion of whether an alternative regime could be more appropriate, or how to transition to it.

Many large emerging market countries would benefit from regimes that allow substantial exchange rate flexibility. Research, including by the IMF, has shown that for developing countries integrating into international capital markets, the requirements for sustaining pegged exchange rate regimes have become very demanding.

The IMF also has standing authority to initiate "special consultations" whenever one member's exchange rate policy is having an important impact on another member. However, in over a quarter century, the IMF has held special consultations exactly twice. This has placed increased pressure on bilateral mechanisms and actions to address instances of protracted currency misalignment.

We understand that tough exchange rate surveillance is politically difficult for the IMF. It is also true that a country has the right to determine its own exchange rate regime. Nevertheless, the perception that the IMF is asleep at the wheel on its most fundamental responsibility – exchange rate surveillance – is very unhealthy for the institution and the international monetary system.

Public Debt Sustainability

A third issue, also related to crisis prevention, is public debt sustainability in emerging markets. High public debt keeps domestic borrowing costs high (which is a tax on their citizens), limits scope for countercyclical fiscal policy, and eventually could lead to explicit default or implicit default through high inflation. The banking sector often holds domestic debt, making any restructuring particularly difficult given the potential impact on bank capital. Domestic debt can be a problem even in countries with large amounts of international reserves, and what starts as a domestic debt crisis can rapidly spill over to the external accounts through capital flight.

The IMF has been further ahead of the curve on this issue, most notably its September 2003 World Economic Outlook which pointed to the risks of high public debt levels in emerging markets.

But while emerging markets have made progress over the last two years amid an exceptionally benign external environment, the average public debt ratio is still uncomfortably high at 60%.

Accordingly, countries should seize the day before the benign conditions dissipate. This means greater focus on fiscal consolidation, debt structures and structural fiscal reforms. The IMF should deepen its traditional focus on fiscal policy by increasing efforts to help countries improve their debt structures and by stressing structural fiscal reforms in its surveillance and programs.

Crisis Resolution

The fourth issue is crisis resolution. Crises cannot always be prevented – they will sometimes develop in the most unexpected ways. The IMF's crisis resolution framework is a mix of policy adjustment, official finance and private finance. On policy adjustment, there will inevitably be a tough judgment on how much is necessary and politically feasible. On official finance, the IMF's framework for exceptional access should provide increased predictability for markets and aid in the difficult differentiation between illiquidity and insolvency.

The real unresolved question is private sector involvement, and in particular sovereign debt restructuring. It is clear to me that a market-based approach to sovereign debt restructuring is preferable and there remains no need for a Sovereign Debt Restructuring Mechanism. However, it is also clear that we will have to think creatively about how to improve the market-based sovereign debt restructuring process.

There has been considerable discussion about whether the IMF should set the "resource envelope" for debt restructuring through the primary fiscal surplus in a Fund program. It is helpful for a country and the IMF to reach agreement on the primary surplus. This greatly facilitates a subsequent determination of whether the country is making a good faith effort to resolve its defaulted debt to private creditors – a precondition for the IMF to lend.

Outside of the IMF, a natural step would be to build on the recent progress in collective action clauses in international bonds – a remarkable success story due in no small measure to my predecessor, John Taylor. We can also examine the extent to which the draft Principles of Stable Capital Flows and Fair Debt Restructuring in Emerging Markets complements official sector efforts to clarify the crisis resolution framework.

Low-Income Countries

Finally, partly as a result of the historic G-8 debt deal to end the lend-and-forgive cycle at the World Bank, African Development Bank, and IMF, much of the discussion at this year's Annual Meetings will revolve around the role of the Fund in Low-Income Countries. The United States believes that the IMF has a very important function in helping low-income countries establish a sound macroeconomic framework through surveillance, technical assistance, a new non-borrowing program for countries that desire Fund engagement but do not need IMF finance, and IMF lending when appropriate.

However, the IMF is not a development institution, and it is clear that the IMF's financial involvement in low-income countries has gone terribly awry. The IMF's own work on PRGF programs shows that not only do many countries not achieve the external adjustment targeted, but what is targeted is not enough to restore external viability. There are also far too many follow-on programs and repeat borrowers – so much that the IMF has established "access norms" stretching out six programs. For example, in Guyana and Malawi, fiscal and debt sustainability remains elusive even after HIPC debt relief and multiple IMF programs.

The issue is not whether the United States favors concessional flows to low-income countries. We clearly do, and that is why we have substantially increased our contributions to IDA and bilateral assistance programs. The issue is that the IMF should remain an institution that provides short-term financing in response to an actual balance of payments need. IMF finance is concessional so low-income countries can afford it. But it does not follow that the IMF should increase flows to low-income countries simply because they are concessional. IMF lending, while concessional compared to market rates, is far less concessional than IDA lending, while an IDA grant is 100% concessional.

Conclusion

When faced with calls for reform, the typical response of any institution is that it is already undertaking it. The IMF can legitimately say it has already begun its work. IMF Managing Director De Rato has laid out a vision for his Strategic Review that can incorporate these priorities.

Yet UCLA basketball coaching legend John Wooden would warn us to never confuse activity with achievement. To achieve, the IMF needs to refocus and deliver.

Ultimately, the IMF's relevance will be determined not by how much it broadens its mandate but how well it carries out its existing one.

PRESS ROOM

September 23, 2005
JS-2941

Prepared Remarks of Daniel L. Glaser
Acting Assistant Secretary for Terrorist Financing and Financial Crimes
Before the Annual Meetings Program of Seminars:
The Importance of Expanding Targeted Financial Sanctions Programs around the Globe: Challenges and Opportunities

Good morning. It is an honor to be here today to address the IMF, World Bank and international delegations on about the importance of expanding targeted financial sanctions programs around the world and the most effective ways to work together to fight the financial war against terrorism. I would like to thank our moderator Agustín Carstens, and the organizers Barry Johnston, Jean-François Thony, and Latifah Osman Merican, for organizing this seminar on this crucially important topic. I would also like to recognize my co-panelists Cesare Calari, Martín Redrado, and Sally Scutt.

It is vital to recognize that the financial mechanisms we use to facilitate international economic growth, deliver aid to those in need, and carry out day-to-day financial transactions, are the same mechanisms that terrorist financiers have sought to abuse in pursuit of their illicit activities. We must protect our financial systems from such abuse, and exploit the financial vulnerability of terrorist organizations and their support networks, by adopting and implementing effective anti-money laundering and counter-financing of terrorism (AML/CFT) controls.

As members of the financial community, not only are we charged with the responsibility to ensure the movement of capital around the world in pursuit of investment and development, but also to protect that capital from use and abuse by criminals and terrorists.

Fortunately, the choice between implementing strong AML/CFT measures and fostering healthy, vibrant financial centers is a false one. These are not mutually exclusive, but rather mutually reinforcing; in fact, you cannot have one without the other. In the end, AML systems are about transparency, and transparency creates the proper conditions for a healthy financial system, reinforcing foundations for sustainable economic growth and development. As countries work to implement strong AML/CFT measures, they create the basis for a healthy financial center that will enjoy a strong international reputation.

But even as we remember the important links between strong AML/CFT regimes and economic development, we must not lose sight of what lies at the heart of our efforts to combat terrorist financing. The horrendous attacks on the London subway system serve as a chilling reminder of the importance of identifying and disrupting terrorist networks.

Terrorist financing is a problem that the entire world faces. The nature of today's financial system is international, and the terrorist threat we face is global. As we have witnessed in London, Sharm el-Sheikh, Bali, Madrid, Beslan, and four years ago in New York and Washington, DC, terrorists do not discriminate between race, religion or creed. The international financial system is only as strong as its weakest link. Financial centers that are susceptible to abuse provide terrorists and criminals access to the international financial system as a whole. Therefore efforts to combat terrorist financing must be uniform and global. Laxity in just a few jurisdictions undermines the efforts made by the rest. No jurisdiction can absolve itself of responsibility.

The global nature of both the financial system and the terrorist threat requires a global effort to effectively combat terrorist financing. This global effort must focus on adoption and implementation of anti-money laundering and terrorist financing controls in compliance with international standards. While there are a large number of important tools the international community is using to fight these groups, I want to focus my remarks today on the importance of targeted financial sanctions.

The international community's response to the tragic attacks of 9/11 was United Nations Security Counsel Resolution (UNSCR) 1373, which, among other measures, calls for freezing the assets of all terrorists groups without delay. The strength of this resolution is that it expands the pre-9/11 commitment to attack the financing of al Qaida to attacking the financing all terrorist organizations.

It is ironic that this component of the international AML/CFT regime, the one that has the most explicit UN endorsement and mandate – including multiple UNSCRs – is probably the least understood and most poorly implemented component worldwide. These failures range not only from countries that do not have the capacity to block terrorist assets, but also to entire regions of the world that do not even attempt to implement this UN requirement.

Understanding the importance of this UN requirement must begin with a recognition that terrorist organizations require significant funding. Although individual terrorist attacks may be inexpensive, terrorist organizations require far more than explosives to sustain themselves. They need money to train, recruit, pay operatives and their families, travel, bribe officials, procure cover and false documents, as well as purchase arms. If implemented effectively, targeted financial sanctions can put terrorist organizations in a financial box, effectively depriving them of the resources they need to conduct this range of activities.

Yet the value of our terrorist financing designations cannot be measured by the amount of assets we collectively freeze. In addition to freezing terrorist related funds, targeted financial sanctions shut down the pipeline through which terrorists raise and move money.

If implemented effectively, these sanctions can also have a severe disruptive effect. Constricting the flow of cash to terrorist groups can increase dissension within their ranks, triggering hasty communications and cumbersome movements that expose operatives, donors, facilitators and organizers to the sharp eyes of intelligence and law enforcement.

In this respect, targeted financial sanctions represent an important means of gaining financial intelligence. Often more important than the money found in frozen accounts or blocked in illicit transactions is the information associated with them. Financial investigators can exploit this information downstream to identify terrorist cells and operatives and upstream to identify donors and supporters.

Perhaps most importantly, targeted financial sanctions are preventive. It is impossible to overestimate the value of designation actions when viewed from this perspective.

The effectiveness of targeted financial sanctions, as with all economic sanctions, multiplies exponentially as more countries adopt and implement them. We must now focus our efforts here.

The United States has responded to these and similar mandates by designating 408 individuals and entities as terrorists or terrorist supporters. These designees were tied to a wide range of terrorist organizations throughout the world, including al Qaida, Hamas, Hizballah, Palestinian Islamic Jihad, ETA and the FARC.

Countries should not implement targeted financial sanctions because the U.S. is asking. Countries should implement targeted financial sanctions because it is their obligation to do so as UN members and as responsible members of the international community. Each country needs to ask itself the following questions:

- What action has your government taken in response to UNSCR 1373?
- What mechanisms do you have in place to identify and target terrorists and their networks within your country?
- How many targets have you designated?
- What mechanisms do you have in place to communicate these designations

to your financial community?
- How many designations have you communicated?
- What mechanisms do you have in place to ensure that your financial institutions are complying with these obligations?
- How many terrorist related transactions and accounts have you identified?
- How many targets have you referred to international allies or the UN for coordinated multilateral action?

Although most countries do have some mechanism in place to block the assets of al Qaida-related entities pursuant to UNSCR 1617, too many countries have taken little or no action to block the assets of other terrorist groups as specifically required by UNSCR 1373. It is urgent for countries throughout the world to begin to develop effective administrative mechanisms to provide these UN Resolutions with the bold effect they were meant to have on terrorist support networks.

So what is the role of the international financial institutions in all of this? In March 2004, the IMF and World Bank Boards agreed to assess countries' compliance with international AML/CFT standards as articulated by the Financial Action Task Force (FATF) as a regular part of their assessments of financial sectors and offshore financial centers. Their long-term commitment to this effort is vitally important, as is the expertise that the IMF and World Bank can provide to countries as they develop effective AML/CFT systems. We encourage them to continue to deliver coordinated, prioritized and efficient technical assistance.

Indeed, the efforts of the international community to implement targeted financial sanctions should not be limited to the fight against terrorism. A concerted international effort should be undertaken to identify, disrupt and dismantle the financial networks that support the proliferation of weapons of mass destruction (WMD), and to financially isolate those who engage in such activities.

The United States has recently designated several entities associated with WMD proliferation activity under the newly established Presidential authority, Executive Order 13382. As with our terrorist financing designations, the Order freezes any assets the designee may have in the U.S. financial system and forbids U.S. persons from transacting any type of business with them. We hope that this lays the foundation for expanded international cooperation against WMD networks. In the case of WMD proliferation, just as it is with terrorist financing, the international community must join forces in order to protect our society.

It is our collective obligation to do all we can to identify, disrupt and dismantle the financial networks that support terrorism and WMD proliferation. By working together, we have the ability to make it harder, costlier and riskier for the ill-intentioned to move their funds through the international financial system. In the end, our efforts can save lives and constitute a vital contribution to the international effort to combat terrorists and other groups that prey on our society. The time for aggressive action is now. Only together will we succeed in meeting the challenges before us. I look forward to working with you to meet these challenges and others that may lie ahead.

Thank you.

PRESS ROOM

September 23, 2005
js2942

ATSB to Explore Remarketing of Loans and Sale of Warrants

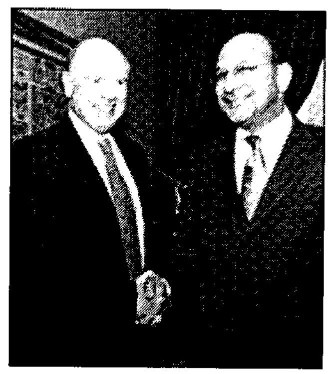
The Air Transportation Stabilization Board welcomes the confirmation of US Airways' Plan of Reorganization by the Bankruptcy Court last week and supports its planned exit from Chapter 11 and merger with America West Airlines. The Board has worked with both US Airways and America West to restructure their existing guaranteed loans to be compatible with the new business plan of the combined companies (New US Airways).

The Board is working with a financial advisor to assess the remarketing of the two loans to private investors without the government guarantee and to gauge the marketability of the Board's warrant to purchase shares in New US Airways. The ATSB is receiving the warrant in exchange for the original warrant obtained as part of the compensation to the Government for the loan guarantee provided to America West in 2002. In addition, the Board is exploring strategies to sell its remaining warrants in World Airways and Frontier Airlines.

PRESS ROOM

September 23, 2005
2005-9-23-15-4-35-26612

Treasury Secretary John Snow greets South Africa's Finance Minister Trevor Andrew Manuel



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Only call this number if you are a member of the media.

PRESS ROOM

September 23, 2005
2005-9-23-15-10-35-27144

Treasury Secretary John Snow greets Palestinian Minister of Finance Salam Fayyad

All media queries should be directed to
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PRESS ROOM

September 23, 2005
JS-2943

Statement by G-7 Finance Ministers and Central Bank Governors
September 23, 2005

The global economy, as a whole, continues to expand and the outlook is positive for further growth, supported by the containment of underlying price pressures. However, higher energy prices, growing global imbalances, and rising protectionist pressures have increased the risks to the outlook.

We discussed high and volatile oil prices and agreed on the key steps that need to be taken. First, we welcome the action by members of the International Energy Agency and by oil-producing countries to make available additional oil and oil products to the market and we call for a sustained increase in supply by those with spare capacity. Second, significant investment is needed in exploration, production, energy infrastructure, and refinery capacity. Third, oil producing countries should ensure a favorable investment climate, open markets with transparent business practices, and stable regulatory frameworks. We stress the importance of improving the timeliness, quality, and transparency of oil market data and increasing medium-term energy supplies and efficiency. Fourth, we will enhance and expand our dialogue with oil producers. Fifth, we affirm that subsidies and artificial price caps which constrain the price of oil and oil products have an adverse effect on the global market and should be avoided. Sixth, we are committed to fostering and deploying technology and innovation. Seventh, we support energy conservation, renewable and alternative sources of energy as long-term solutions, and encourage the World Bank to promote investment in alternative energy sources and energy efficiency in developing countries. Finally, we commit ourselves to implementing policies and practices to improve the global energy outlook.

The challenge of addressing global imbalances over the medium term is a shared responsibility of the international community and must be undertaken in a way that maximizes sustained growth. The G-7 countries have a critical part to play, as do others. Vigorous action is needed to address global imbalances and foster growth; further fiscal consolidation in the United States; further structural reforms in Europe; and further structural reforms, including fiscal consolidation, in Japan. The G-7 held another outreach session today with Brazil, China, India, Russia, and South Africa. We reaffirm our support for the Agenda for Growth initiative. We agreed to meet again in December in the United Kingdom.

An ambitious outcome from the Doha Round by the end of 2006 is essential to enhancing global growth and poverty reduction. We call for a multilateral rules-based global market. We call for a strong WTO result by all members to substantially increase market access in agriculture, industrial products, and services, especially for developing countries; significantly reduce trade-distorting domestic support; eliminate all forms of export subsidies in agriculture; and make significant progress on services, including financial services, as liberalization in financial sectors is linked to increased growth.

We reaffirm that exchange rates should reflect economic fundamentals. Excess volatility and disorderly movements in exchange rates are undesirable for economic growth. We continue to monitor exchange markets closely and cooperate as appropriate. We welcome the recent decision by the Chinese authorities to pursue greater flexibility in their exchange rate regime. We expect the development of this more market-oriented system to improve the functioning and stability of the global economy and the international monetary system.

We welcome the Managing Director's strategic review of the IMF and agree that maximizing the benefits while limiting the challenges of globalization should be a defining principle for the activities of the IMF. The increased integration of economies and the larger scale of private capital flows are critical to defining the priorities for the IMF. We stress the importance of modernizing the IMF's internal and external governance structure to reflect developments in the world economy. The Bank should strengthen its focus on poverty reduction through economic growth and broader access to economic opportunities, results measurement, and fighting corruption.

We reaffirmed our support for the G-8 proposal on debt relief for Heavily Indebted Poor Countries, while ensuring that the financing capacity of the IFIs is not reduced. This proposal will provide additional resources for countries' efforts to reach the goals of the Millennium Declaration, foster longer-term debt sustainability, and improve balance of payments positions. We call upon all shareholders of the IDA, African Development Fund, and IMF to expeditiously complete and implement this historic and crucial initiative. We remain committed to fully financing this relief on a fair burden share basis and stand prepared to demonstrate our Gleneagles financial commitments consistent with our individual budgetary and parliamentary systems. For the IMF, the G-8 will provide approximately $150 million to the Interim PRGF. The Fund should move forward immediately to implement the shocks window in the PRGF and the Policy Support Instrument. We invite oil producing countries to contribute to the shocks window that would help poor countries respond to commodity shocks, including oil prices. We endorse the Fund's estimate of the need for a self-sustained PRGF. We are committed, on a fair burden share basis, to cover the costs of countries that may enter the HIPC process based on their end-2004 debt burdens. We will review the Enhanced HIPC Initiative in 2006, including the application of the "sunset" clause, and the appropriateness of further action based on the future financing capacity of the international financial institutions.

The tragic events in London in July remind us of the continued threat posed by terrorism. As such, we renewed our commitment to fight terrorist financing through strengthening our asset freezing systems and actions, enhan

PRESS ROOM

September 23, 2005
JS-2944

Statement by Secretary John W. Snow Following the G-7 Meeting Washington, DC

I was pleased to host the G-7 Finance Ministers and Central Bank Governors today here at the Treasury.

We had a very full agenda, with several extremely important issues to address.

Let me remark first on current conditions in the U.S. This is a time oxf concern for those in the path of Hurricane Rita, and those still dealing with the aftermath of Hurricane Katrina. Our thoughts and prayers are with all of you. I briefed my colleagues on our work to get recovery underway on the Gulf Coast, and the President's commitment to help restore and enhance the region. The support I heard today from my colleagues, and that we as a country have received from around the world, is tremendous and deeply appreciated.

As I explained in our meetings, while there never is a good time for such occurrences, with good fiscal and monetary policies contributing to strong and sustainable growth rates and growing revenues, the U.S. economy was well positioned to deal with a shock of this kind. Indeed, while forecasters anticipated a slowdown in the immediate term as a result of Katrina, rebuilding activities are likely to boost growth in early 2006.

Even in light of the short term costs associated with Katrina, and now Rita, let me be very clear--the United States remains firmly committed to a path to cut the deficit in half by fiscal year 2009. We are committed to a recovery effort that is not only compassionate but also fiscally responsible.

More broadly, the global economy continues its expansion, with forecasts indicating that solid growth should continue next year. While strong global performance is encouraging, risks remain. Addressing these risks is a shared global challenge. In this regard, I was particularly pleased to have Brazil, China, India, Russia and South Africa join us to discuss global economic trends. While strong global performance is encouraging, risks remain. Addressing these risks is a key priority for the G-7.

With the United States maintaining solid growth and delivering on our commitment to reduce the fiscal deficit, it is vital that others also act to address global imbalances. In Europe and Japan, further labor and product market reform is essential to increasing the potential for growth. I underscored this message to my colleagues. We also discussed the importance of more financial sector and corporate reform in Asia, and greater exchange rate flexibility for large economies.

Higher energy prices pose a risk for the U.S. economy, since supply disruptions that raise prices put a damper on growth. Hurricane Katrina contributed to those disruptions, and now roughly a quarter of U.S. refinery capacity lies in the path of Hurricane Rita. Today, we welcomed actions being taken by G7 countries to address supply and efficiency issues and agreed on the importance of further steps, including measures to improve data and to create a favorable investment climate for energy resources in producing countries.

To maintain sustainable growth - and advance the goal of reducing poverty around the world - we simply must see more domestic demand-led growth from other parts of the world. Rather than slowing U.S. growth to match that elsewhere, I emphasized the need for more growth from more countries and new reforms to boost potential growth rates appreciably.

Echoing President Bush's strong message last week in New York, I emphasized the value of free trade, based on clear and enforceable rules, as others do the same. Clearly, the United States is willing to move decisively. Together, Ministers and Governors today called for an ambitious outcome from the Doha Round by the end of 2006. We focused in particular on financial services. Significant progress in liberalizing financial services and promoting efficient, well-regulated financial services can make a key contribution in achieving growth and stability especially in developing countries.

Our focus on trade is closely linked to the President's initiative four years ago to provide 100 percent debt cancellation for the world's poorest countries, and shift development assistance for the poorest countries to grants. When we last met in June, we reached what I said at the time was a historic agreement to propose 100 percent cancellation of debt owed to the World Bank (IDA), African Development Bank (AFDF), and the International Monetary Fund (IMF) by countries eligible for HIPC.

Since June, the institutions and our governments have done a great deal of work to follow through on this proposal and set the stage for its implementation. Today, we called on the institutions and their shareholders to move expeditiously to support this initiative. We reiterated our commitment to finance debt relief fully, ensuring that the financing capacity of the international financial institutions is not reduced. We look forward to quick action to make this historic debt cancellation deal a reality.

We also welcomed the strategic review underway in the IMF, which should aim to keep the IMF's work focused and effective. Ministers and Governors also emphasized the need to reform the IMF's governance structure to reflect developments in the world economy, including the rapid growth in many large emerging markets as well as the advent of the euro and deepening European integration. I hope that we can see progress soon on this priority.

In the World Bank, we agreed on the need to strengthen the focus on poverty reduction through economic growth, as well as expanding the focus on results and continuing to fight corruption.

We all expressed our sympathy and outrage about the tragic events in London in July. It is in this light that we continue our fight against terrorist and illicit financing and urged the IMF and World Bank to continue their long-term commitment to work in this area.

Finally, I took note of the encouraging statement this afternoon by IMF Managing Director de Rato regarding progress toward a Stand-By Arrangement with Iraq. Yesterday my staff and I had the opportunity to meet here again with my colleagues from the Iraqi Ministry of Finance and Central Bank. I am pleased to see that negotiations toward a Stand-By Arrangement will soon begin. This would be an important step forward.

Thank you for your attention, and I look forward to your questions.

PRESS ROOM

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September 23, 2005
JS-2945

Letter to World Bank President from G8 Finance Ministers

G8 Finance Ministers have agreed a proposal to complete the process of debt relief for Heavily Indebted Poor Countries by providing additional development resources which will provide significant support for countries' efforts to reach the goals of the Millennium Declaration (MDGs). This proposal was reaffirmed by G8 Heads of State and Government at Gleneagles.

REPORTS

- Letter to World Bank President From G8 Finance Minister

Letter to the President of the World Bank from the G8 Finance Ministers on the G8 Debt Proposal, Washington, 23 September 2005

Dear President Wolfowitz

G8 Finance Ministers have agreed a proposal to complete the process of debt relief for Heavily Indebted Poor Countries by providing additional development resources which will provide significant support for countries' efforts to reach the goals of the Millennium Declaration (MDGs). This proposal was reaffirmed by G8 Heads of State and Government at Gleneagles.

We believe that this proposal will bring major benefits to IDA's membership; that it will preserve and enhance the Bank's key role in supporting low-income countries; and that it will ensure that substantial additional resources are allocated on the basis of need, governance and the ability to use them effectively for poverty reduction and growth.

The key element of the proposal is that debt relief will be fully financed to ensure that the financing capacity of International Financial Institutions is not reduced. For this reason, in IDA and the AfDF, the G8 has committed, based on agreed burden shares, to cover the full cost to offset dollar for dollar the forgone principal and interest repayments of the debt cancelled for the duration of the cancelled loans. This letter reaffirms and sets out the detail of our commitment.

We will make available immediately additional funds to cover the full cost during the IDA 14 period and these funds will be fully additional to the resources already agreed during the IDA 14 replenishment. For the period after IDA 14, we are committed to cover the full costs for the duration of the cancelled loans and we will make contributions additional to regular replenishments of IDA. The G8 has committed, as a whole, to the contribution it made under IDA 13 (70.19%).

In order to create transparency and accountability, we ask that in future replenishment rounds that the costs of the debt relief initiative and the associated donor contributions be reported separately.

We will each implement these commitments expeditiously in line with our individual budgetary and Parliamentary procedures. Indeed, since our meeting in June, and the meeting of G8 Heads of State and Government at Gleneagles, a number of us have been able to make progress:

- The US Administration has provided clear support for a Congressional Bill that would approve the debt relief initiative and to authorise "such sums as may be necessary for payment" for the full duration of the cancelled loans.

- Japan reaffirmed its commitment to cover its share of the costs of the proposal and to exercise its best efforts to obtain necessary Diet approvals on the occasion of the regular replenishments to fulfil its commitment.

- Canada has already made an allocation to cover its share of total costs over the next five years and is currently seeking Parliamentary approval to disburse these funds. The Canadian Government will seek Parliamentary approval to disburse funds over the life of the agreement following its normal budgetary conventions.

- Germany confirms its commitments undertaken at Gleneagles. In particular, Germany remains committed to offset dollar for dollar, based on agreed burden shares, the foregone principal and interest payments of the IDA debt cancelled, subject to decisions to be taken by the new German Government and Parliament.

- The UK is committed to cover its share of the costs for the full duration of the cancelled loans. It had already budgeted to pay its share of the debt service costs of these countries until 2015, and it will make a firm financial commitment to the cover its share of the full cost to IDA for the next ten years through a formal Parliamentary process.

- France is committed to cover its share of the costs for the full duration of the cancelled loans. It will seek in 2005 Parliamentary appropriations for commitment for the financial compensation of the lost reflows covering the period to 2015.

- Italy is committed to bring forward legislation that will authorise payments of its share of the cost for the full duration of the cancelled loans.

- The Russian Federation confirms its commitment to cover its share of the cost for the full duration of the cancelled loans. Necessary steps will be taken by the Government to ensure the budget appropriations will be made in a timely manner.

In addition, we reaffirm our commitment to the long-term role of IDA in the international development architecture and in financing development. In doing so we recognise that IDA will utilise a contribution baseline of the real value of donor contributions under IDA 14 as a means of assessing additionality. We also note that funding for IDA will continue to depend on donors' conviction of IDA's effectiveness in delivering development assistance; IDA reflows; and the performance, financing needs, and absorptive capacity of poor countries.

On the basis of our commitments, and the actions we have taken and will take, we firmly believe that this initiative will strengthen the financial capacity of IDA. We strongly believe that this initiative represents a historic opportunity and we hope it will be seized by the whole membership at the Annual Meetings.

Gordon Brown, Chancellor of the Exchequer, United Kingdom

Gordon Brown

John Snow, Secretary to the Treasury, United States of America

John W Snow

Ralph Goodale, Minister of Finance, Canada

Thierry Breton, Minister for the Economy, Finance and Industry, France

Caio Koch-Weser, State Secretary, Ministry of Finance, Germany

Giulio Tremonti, Minister of Economy and Finance, Italy

Sadakazu Tanigaki, Minister of Finance, Japan

Alexei Kudrin, Finance Minister, Russia

PRESS ROOM

September 24, 2005
JS-2946

Secretary John W. Snow Plenary Statement 2005 Annual Meetings of the IMF and World Bank Washington, DC

Chairmen, Governors, Mr. de Rato, Mr. Wolfowitz. I want to welcome all of you to Washington.

We meet at a particularly challenging time for the United States. I want to take this opportunity to thank all those from around the world who have responded with solidarity and offers of support in the wake of Hurricane Katrina.

The U.S. economy is strongly positioned, even in the face of the economic impacts of the hurricanes, to continue on a path of growth and deficit reduction. Growth in the first half of 2005 was a solid 3.5 percent. The unemployment rate fell to 4.9 percent in August, the lowest rate in four years. Although the immediate outlook has softened slightly, recovery efforts are likely to boost growth early next year. The vitality, flexibility, and resilience of the U.S. economy will be tremendous assets as we move forward.

The world economy, too, has continued to expand strongly since we met last year. The outlook is favorable. Nonetheless, we must be mindful of the risks of higher oil prices and persisting global imbalances. We all share responsibility for managing these challenges.

The United States has made clear that we will reduce our fiscal deficit. Although recovery from the hurricane will expand spending in the near term, we remain on track to cut the deficit in half by FY 2009.

But one country's efforts are not enough. Fiscal consolidation in the United States without action elsewhere will yield slower global growth, higher unemployment, and less progress on poverty reduction. Slower growth in the United States is clearly not the answer, and would be in no one's best interest. As I have said, addressing global imbalances is a shared responsibility. We w me the actions taken by China, and also by Malaysia, to adopt a more flexible exchange rate. This is a step forward, but greater flexibility is still needed. And throughout East Asia efforts need to be undertaken to spur the growth of domestic demand and reduce reliance on exports. In addition, structural reforms in labor and product markets are essential in Europe to boost domestic demand and growth, as are reforms to enhance productivity growth and the flow of resources among sectors in Japan. In other parts of Asia, financial and corporate reforms are needed to put growth on a solid path.

A vibrant global economy is in all of our interests. Making the benefits of growth available to each and every one of our countries depends on free trade. Tariffs, subsidies and trade barriers are unnecessary impediments to growth. President Bush laid out a very clear message on trade last week at the United Nations. A successful conclusion of the Doha Round will bring benefits for every country – and particularly for the developing world. Trade in services in particular can greatly benefit developing countries, providing knowledge and infrastructure to facilitate economic growth and create jobs. This is especially true in the case of financial services. An efficient, well-regulated financial sector is a key element for achieving economic growth and stability in developing countries.

The IMF and World Bank remain central to the task of promoting growth and stability in the world economy. We want these institutions to be as effective as possible. Together we have made progress on reform. But the United States believes that there is more to accomplish.

In the IMF, ongoing evolution is needed to keep the institution relevant and effective for all its members in the modern global economy. In our view, this means an IMF that is tightly focused on its core mission of promoting international financial stability and balance of payments adjustment. The IMF must set high standards for strong policies, both in its lending programs and through surveillance. It must not shy away from tough judgments – including on exchange rate regimes. The IMF also has an important, but limited, role to play in promoting strong policies in low-income countries whether through the new Policy Support Instrument, technical assistance, or lending in cases of actual balance of payments need. For all members, a modern governance structure is vital to preserve the IMF's centrality. It is time to begin the process of making both quotas and representation reflect the realities of today's world economy.

In the World Bank, we have seen improvements over the past few years as the Bank has strengthened its focus on measurable results at the project and country level. Now the Bank needs to adopt the results approach for the institution as a whole, including evaluating staff on project results rather than volume. The fight against corruption – both in recipient countries and within the institution – must continue unabated. The Bank, too, should stay focused on its core mission - reducing poverty through private-sector-led economic growth. The Bank needs to identify an appropriate role in middle-income countries, whose success means they no longer need the Bank to finance their development needs. This will involve thinking through what the Bank can offer these countries in ways that both fill unmet needs and preserve the Bank's focus on its core mission.

To make growth achievable and future aid more likely to bolster success, we simply must confront unsustainable debt burdens in the poorest countries. We believe it is essential now proceed with implementation of the proposal, endorsed by the G-8 leaders in Gleneagles, to provide full debt cancellation for Heavily Indebted Poor Countries (HIPCs), and conclusively end the lend-and-forgive approach to development assistance. The G-8 countries have collectively pledged to ensure that debt cancellation will not diminish the resources of our institutions, and I personally repeat that pledge today. I call on each of you to join this effort and make debt relief a reality.

I look forward to advancing our shared agenda. Thank you.

PRESS ROOM

September 24, 2005
JS-2947

Statement by U.S. Secretary of the Treasury John W. Snow
International Monetary and
Financial Committee Meeting

I welcome the opportunity to meet with colleagues today to discuss world economic prospects and the role of the IMF in today's global economy. We would like to take this opportunity to express our great appreciation for the generous response of the international community to Hurricane Katrina and its aftermath.

Since our last meeting, the global economy has continued its strong expansion, and the outlook for continued solid growth remains favorable. Nonetheless, there are risks that require attention. The disparities in industrial country growth rates are not closing and in some cases have widened, adding to the challenge of unwinding global imbalances. Rising energy costs also pose challenges. There is work ahead for all of us to strengthen growth.

Despite the challenges of recovery from Hurricane Katrina, economic growth in the United States remains solid, with core inflation pressures under control. The significant progress made on fiscal consolidation - shaving almost a full percentage point of GDP from the budget deficit over the past year - puts us in a position of strength from which to absorb the impact of the hurricane, and we remain well on track to meet our 2003 commitment to halve the fiscal deficit by 2009.

Our collective goal should be to unwind global imbalances while maintaining financial stability and a healthy sustained pace of global growth. Exchange rate flexibility has an important role to play in this process, and we are encouraged by initial steps by China and Malaysia to adopt more flexible exchange rates, though greater flexibility is still needed. Also necessary for smooth global adjustment is a shift from export-led to domestic demand-led growth. In Europe, this means structural reform in labor and product markets, while in Asia the focus should be on financial and corporate sector reform. Further trade liberalization being advanced in the Doha round -- including greater opening of financial services sectors and reduction of trade-distorting policies - can provide impetus to growth-enhancing reforms. Further fiscal consolidation is also important, and U.S. efforts are proceeding apace. To ensure that global growth is sustained, growth-enhancing reforms abroad should proceed vigorously alongside efforts to increase savings in the United States.

Oil prices remain a significant risk to global growth. Increased investment to bring forth additional supply and reduction of subsidies that artificially encourage energy use are both needed to help ease tight global supply conditions.

International trade has an important role to play in improving economic competitiveness and spurring growth. As President Bush underscored last week, the United States places a very high priority on an ambitious outcome from the Doha Development Round, reducing barriers to trade in goods, including agriculture, and substantial progress in liberalizing services, including financial services. The benefits of liberalizing trade in goods are well known. World Bank research shows that liberalization in services can multiply these gains, and that countries with fully open financial services sectors on average grow faster than other countries. We urge countries to use the run-up to the WTO Ministerial meeting in December to make substantial progress in these areas.

Strategic Directions of the IMF

It is appropriate that last year's 60^{th} anniversary of the Bretton Woods Institutions has generated serious reflection on the purposes and functions of the IMF. Periodic stock-taking is crucial to ensure that the IMF adapts effectively to address the needs and challenges of a rapidly evolving international monetary system. Rather than responding to global developments by expanding its mandate and making its efforts more diffuse, we believe the IMF needs to adapt and refine its core mission of promoting international financial stability and balance of payments adjustment. The Fund has a unique role in identifying the macroeconomic and financial policies that will allow each member to attain the benefits of globalization while successfully managing the attendant risks.

Firm surveillance over exchange rates and related macroeconomic policies is the cornerstone of the IMF's crisis prevention function, and we see a number of areas that merit strengthening.

- First, given that lack of exchange rate flexibility in large economies and protracted misalignment can contribute to global imbalances and increase external vulnerabilities in individual countries, we believe the IMF needs to exercise significantly greater ambition in its surveillance of exchange rates.
- Second, greater attention is needed to public debt dynamics, which are increasingly a major source of crisis vulnerability in emerging markets, despite high reserve accumulation. The time to reduce vulnerabilities is now, while the external environment remains relatively benign.
- Third, the IMF has a critical role to play in understanding the interplay of financial flows, macroeconomic policies and financial sector health. We welcome efforts to better integrate financial expertise into surveillance and to enhance monitoring of financial stability issues through assessment of compliance with financial standards and codes.
- Fourth, the IMF's long-term commitment to assessing the observance of FATF anti-money laundering and counter terrorist financing standards in its financial sector surveillance work, and to coordinated, prioritized, and effective technical assistance, is key to protect the integrity of the international financial system.
- Finally, increasing the candor of surveillance is an on-going challenge which deserves continued effort.

An effective IMF also needs a modern governance structure that legitimately represents its members. The IMF is a shareholder institution, and its governance needs to evolve to reflect developments in the global economy such as the growing weight of emerging markets - particularly emerging Asia - and monetary union in Europe. We welcome the attention that quota reform has received in the months since we last met. This is an important start to an effort that will require a concerted, cooperative effort.

With IMF liquidity at an historic high, a general quota increase remains unnecessary. In our view, members need to develop a plan for a voluntary transfer of quota shares from some of the most overweight to the most underweight large emerging market countries, while protecting the shares of the poorest countries. EU integration also needs to be better reflected in the governance structure. Addressing these issues will take time and will require leadership. For our part, the United States is not seeking additional quota, even though our quota share is quite small relative to our weight in global GDP. Increasing the quotas of underweight countries alone would raise the size of the IMF and result in a share reduction for all countries, whether merited or not; this is not an appropriate path.

Debt Relief and the IMF's Role in Low-Income Countries

We look forward to implementation of the proposal, endorsed by the G-8 leaders in Gleneagles, to provide full debt cancellation for Heavily Indebted Poor Countries (HIPCs), and end the lend-and-forgive approach to development assistance. The G-8 proposal will provide significant support for countries' development efforts, promote lasting sustainability, and improve balance of payments positions. Close monitoring and greater use of grants will be essential to preventing a renewed buildup of debt. It is our hope that the G-8 proposal will lay the basis for a more productive partnership between the IFIs and their low-income members.

We look forward to the adoption of a Policy Support Instrument (PSI), which will provide a framework for IMF policy advice and technical assistance for countries without a balance of payments financing need. A number of countries have indicated interest. Maintaining high-quality program standards under the PSI will be necessary to ensure the PSI becomes an effective tool not only for borrowers, but also for donors and markets for whom it is intended to provide a credible signal.

We welcome the stronger growth performance of many low-income countries in recent years, as economies have benefited from a combination of improved policies, debt relief, and a relatively benign external environment. The IMF has an important role to play in low-income countries through the full range of its activities - surveillance, technical assistance, and lending when appropriate. However, studies of prolonged use of IMF resources, and more recent analysis of PRGF program design, have revealed that, too often, PRGFs have not aimed squarely at achieving fiscal or external viability, and that serial PRGFs can undermine development of domestic policy institutions and processes. We believe the PRGF ought to be more flexible, more directly responsive to actual balance of payments needs, and aim more directly at achieving fiscal and debt sustainability. It is also important to maintain a distinction between the role of the IMF in promoting macroeconomic stability and sustainability and providing exceptional balance of payment supports and the World Bank's role for providing longer-term project and budgetary financing.

We attach a high priority to working together to ensure that the IMF remains relevant and responsive to the needs of its members. Thank you.

PRESS ROOM

September 25, 2005
JS-2948

U.S. Treasury Secretary John W. Snow
Development Committee Statement

This committee meets at a time of tremendous opportunity for global growth and developing countries. It is also a time of great sadness and challenge here in the U.S. as the forces of nature have wreaked havoc on our Gulf Coast.

Natural disasters like these are painful reminds us that not one of us is immune from the awesome forces of nature. We would like to take this opportunity to express our sincere appreciation to those around the world who have offered support for the victims of this terrible tragedy.

The U.S. Federal Government is committed to helping the region re-build, to helping people re-build their lives. And we want to do so in a way that is fiscally responsible. The relief and reconstruction will be costly, but the Bush Administration is not, and will not stray from our course of federal deficit reduction. With continued economic strength - which we will enjoy with the continuance of the President's good economic policies - we'll be able to help our neighbors and continue to reduce our deficit.

Katrina and, now, Rita, have reminded us that the international community must continue to provide the assistance needed by others subject to natural disasters including the victims of last December's devastating tsunami. It also reminds us that for hundreds of millions throughout the world, the effort to find a secure dwelling and a healthy meal remains a life-long struggle.

Reasons for Optimism

Though the challenges are great, on the broad macroeconomic front there is good reason to be optimistic. While oil prices remain a significant risk, the forecast for global growth remains favorable. Economic growth among developed countries is critical for fighting poverty in developing countries. Not only does it generate a "pull factor" in terms of increased imports, but it also generates additional revenues for development assistance. To put this in stark terms, if the rest of the OECD had grown as fast as the United States over the last decade, an additional $80 billion would have been generated for official aid (holding the 1995 ratio of official development assistance to GNP constant).

Growth among developing countries also remains favorable. In fact, if current growth projections hold, the worldwide poverty headcount index will fall from 28 percent in 1990 to 10 percent in 2015, far exceeding the goal set out in the 2000 Millennium Declaration. With the exception of Sub-Saharan Africa, which has been devastated by the HIV/AIDS pandemic, indicators of social progress are improving at unprecedented rates. For example, since 1980 developing countries have consistently reduced the mortality rate of children under five, and record numbers of countries have reached the point of universal primary education.

Recognizing that private sector-led growth is a necessary condition for poverty reduction, the most recent Doing Business report issued by the World Bank indicates that, while much more should be done, many governments continue to take steps to remove impediments to investment. Last year, 99 countries enacted 185 reforms to improve their business climates, ranging from strengthening property rights to reducing the cost of exporting and importing goods and services. There are success stories on every continent, from India in Asia, to Brazil in Latin America, to Rwanda in Africa.

Donor Response

The donor countries have responded with large increases in development assistance, new initiatives to fight infectious diseases, and renewed efforts to increase the efficiency and effectiveness of foreign aid. For our part, the United States government has launched a number of new programs, such as the Millennium Challenge Account, the President's Emergency Plan for AIDS Relief, the recently-announced Initiative on Malaria, and the Initiative to End Hunger in Africa. In terms of resources, the United States has nearly doubled Official Development Assistance (ODA) since 2000, from $10 billion to $19 billion in 2004. Most recently, at the G8 Gleneagles Summit, we proposed to double aid to Sub-Saharan Africa between 2004 and 2010.

As we stated in Monterrey in 2002, the United States will continue to increase aid to those high performing countries that can demonstrate how our assistance will result in greater growth and poverty reduction. At the same time, the World Bank and other multilateral development institutions must deepen and broaden their continuing efforts to measure the concrete results of the assistance they provide so that resources can be applied most effectively.

But the most significant action that we can take is to maintain a healthy pace for global growth. U.S. fiscal consolidation must continue to be met with much more aggressive policies than to-date to stimulate domestic demand-led growth in Europe and Japan, as well as increased exchange rate flexibility in major emerging market countries. In the aid to gross national income ratio, more attention should be focused on ways to increase the denominator in a sustained manner.

Africa Action Plan

While there are many reasons to be optimistic, to-date Africa has not shared the benefits of increased growth and poverty reduction to the same degree as the rest of the globe. Africa is the one continent which will likely not achieve any of the MDGs. While much has been done over the years to address the rising poverty rates in Africa, in Gleneagles, a much more aggressive course was chosen. All leaders made substantial new commitments to support the fight against poverty, hunger and disease in Africa. The G8 also agreed on measures to improve coordination of additional donor assistance. The Bank's Africa Action Plan (AAP) responds to this charge. It defines concrete, monitorable actions to ensure that the World Bank Group and the development community focus on achieving measurable outcomes at the country, sector, and project levels.

The AAP is to be commended for its results-driven approach. We particularly support the focus on economic growth through increased productivity as the *sine qua non* for poverty reduction, and the importance placed on infrastructure development, financial sector reform and improvements in governance. As well, the Plan reflects consideration of the macroeconomic effects of aid. Given the large increases in official assistance pledged for Africa, we urge the Bank to continue to coordinate closely with the IMF on the question of absorptive capacity and the macroeconomic effects of additional flows.

Debt Relief and Challenges Ahead

Agreement on 100% debt stock cancellation of obligations owed by countries eligible for the HIPC Initiative to the World Bank (IDA), African Development Bank (AfDF), and International Monetary Fund represents both an extraordinary opportunity, as well as an enormous challenge. For some forty years, many of the poorest countries have been getting loans for projects to support health, education, and other basic development needs. The result is that for many important projects without near-term financial returns, such as building schools, these poor countries were burdened with additional debt that needs to be repaid by future generations. With the crushing debt burden lifted, countries can focus their efforts on generating economic growth by investing in infrastructure to help move goods from producers to purchasers, and by investing in their people.

And while there are positive signs in the global economic outlook, many governments continue to construct roadblocks to growth. While the Doing Business report shows that many countries took steps last year to improve the business climate, another 20 countries made it more difficult. It is particularly worrisome that in Africa, where entrepreneurs face more obstacles than in any other region, the reform effort has been the weakest. This year's report on governance issued by the

World Bank Institute is also troubling, for it points to deterioration in a number of countries in key areas such as regulatory quality, rule of law, and control of corruption. Moreover, World Bank projects aimed at improving public financial management have had very limited success and there is increasing recognition of the fiduciary risks associated with programmatic lending and budget support programs.

The debt relief agreement will, in part, address these concerns. Additional donor contributions, to offset foregone debt repayments, will be allocated to all IDA-only countries based upon the existing IDA and African Development Fund performance-based allocation systems where governance is a significant factor. But more must be done to fight the corrosive impacts of corruption. Though the harmonization objectives of the Paris Declaration are well intended, we must fight the urge to use country systems for procurement that do not meet existing World Bank policy and documentation requirements, which have set a high international standard that must be retained. And the Bank and the Fund should increase their support for the Public Expenditure and Financial Accountability program, a results-based approach for helping countries improve their public expenditure, procurement, and financial accountability systems. Finally, while the IFIs can do more to fight corruption, the impact will be limited without strong leadership and support from all the developing countries. As was agreed in Monterrey, developing countries will take responsibility for their own economic progress through good governance and sound policies and the rule of law.

Removing Trade Barriers

Arguably, the greatest step our governments can take to generate increased growth and poverty reduction is through the removal of trade barriers under the Doha Round negotiations. The United States people currently benefit from having one of the least restrictive trade regimes in the world. According to the World Bank's own Global Monitoring Report, the U.S. has among the lowest overall trade restrictions for imports from low-income countries, least developed countries, and Sub-Saharan African countries. This not only benefits U.S. consumers but also exporting countries, the producers who provide the goods, and the individuals and families who see their living standards increase with new and better paying jobs.

The Doha Development Agenda (DDA) places particular emphasis on integrating developing countries into the global economy so that they may increasingly reap the benefits of trade liberalization. As the World Bank has shown, about *three-quarters of the projected income gains from global trade liberalization for developing countries are expected to come from reducing their own barriers.* For developing countries to realize these benefits, however, they too need to reduce their own trade barriers substantially. We therefore welcome the Bank and Fund's support for an ambitious outcome in the DDA, particularly in the core market access areas of agriculture, non-agricultural market access (NAMA), and services.

Liberalization in services could deliver some of the greatest gains from the Doha round and is an essential element to the DDA. The income gains from services trade have been estimated to be much greater than from the liberalization of goods alone. The World Bank estimated that if developing countries were to liberalize four key infrastructure services they could, by 2015, generate income gains four and a half times greater than the gains from goods liberalization alone.

Financial sector liberalization is particularly important for economic growth and poverty reduction, yet the quality and quantity of offers made has been extremely disappointing. Without a change in course, we are concerned that the Doha round could generate almost no new liberalization in trade in services -- a missed opportunity for development and poverty reduction. Therefore all countries, but especially developing countries which stand to benefit the most, should make WTO commitments to provide effective market access in services, including financial services.

The United States is committed to helping developing countries participate in negotiations, implement commitments, and broadly benefit from trade opportunities. To this end, we have nearly doubled our bilateral assistance since 2000 for trade capacity building to $920 million. Overall, we agree with and strongly support the premise that Aid for Trade can best be enhanced by leveraging existing mechanisms like the Integrated Framework (IF) and the IMF's Trade Integration

Mechanism (TIM). In this regard, we support the commitment of the Bank to provide sustained assistance as part of its current programs for trade-related capacity building for those members that request it as part of their development strategies. Similarly, we believe the Bank and the Fund can work closely with other donors, including members of the WTO, to address regional or cross-country aid for trade needs.

As President Bush stated in his recent address to the United Nations, eliminating trade barriers is the key to overcoming poverty in the world's poorest nations. And so he said, "the United States is ready to eliminate all tariffs, subsidies and other barriers to free flow of goods and services as other nations do the same." While not all may be willing to meet this challenge, we strongly urge other members of the Development Committee and their constituencies, whether they be from high-income, middle-income, or low-income countries, to offer significant, broad trade liberalization measures by the Hong Kong Ministerial so the growth and development potential of the Doha Round can be realized.

Closing

The global economic expansion remains broadly on track, with its attendant benefits to peoples around the world. However, imbalances do exist which the international financial institutions and their shareholders, individually and collectively, must work to address. These imbalances include a world where hundreds of millions still live in extremely impoverished conditions. We have joined with fellow G8 members and many other countries in adopting additional measures this year to assist less developed nations raise living standards, particular countries in Sub-Saharan Africa. We encourage continued efforts in this regard, and the effective involvement of the international financial institutions. But our efforts to succeed will continue to be limited if the recipient countries themselves do not take the necessary actions to improve conditions for investment and sustainable growth, and all of us do not take immediate steps to lay the groundwork for a successful conclusion to the Doha Round.

PRESS ROOM

September 25, 2005
JS-2949

Statement of Secretary John W. Snow on Cancellation of HIPC debt

I was very pleased to see that the World Bank Development Committee today strongly endorsed the proposal for 100 percent cancellation of HIPC debt. We expect the executive boards of the IMF and World Bank to swiftly give final approval and move on to implementing it.

President Bush set 100 percent debt cancellation as a priority objective of America's comprehensive plan to assist poor countries. As we developed the plan for 100 percent debt cancellation, we knew it would be a long road to reach this goal, but it's gratifying to see our persistence and commitment pay off. We look forward to working with the institutions, donor countries, and, most importantly, the countries that benefit from this plan as we try to attain the ultimate goal of raising living standards of poor people everywhere.

PRESS ROOM

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September 26, 2005
JS-2950

Statement by D. Scott Parsons, Treasury Deputy Assistant Secretary for Critical Infrastructure Protection and Compliance Policy, before the U.S. House of Representatives, Committee on Government Reform, Subcommittee on Government Management, Finance, and Accountability Financial Market Preparedness for Wide-Scale Disasters or Disruptions: A Treasury Perspective

Introduction

Chairman Platts and Ranking Member Towns, thank you for inviting me here today to testify on the financial services sector's preparedness to handle a wide scale disruption. I am pleased to tell you that the financial sector has made tremendous progress to ensure its resiliency to withstand both manmade and natural disasters. President Bush has led the development and implementation of an effective program to defend our country's critical infrastructure. The financial services sector plays an indispensable role in the nation's economic system, providing individuals, businesses, and the government with credit and liquidity, short and long-term investments, risk-transfer products, various payment systems, and depository services. It enables people to save for their education, retirement, to purchase their homes, and to invest in their dreams. The financial services system is essential to America's overall economic well being.

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- Statement by D. Scott Parsons

Introduction

Chairman Platts and Ranking Member Towns, thank you for inviting me here today to testify on the financial services sector's preparedness to handle a wide scale disruption. I am pleased to tell you that the financial sector has made tremendous progress to ensure its resiliency to withstand both manmade and natural disasters. President Bush has led the development and implementation of an effective program to defend our country's critical infrastructure. The financial services sector plays an indispensable role in the nation's economic system, providing individuals, businesses, and the government with credit and liquidity, short and long-term investments, risk-transfer products, various payment systems, and depository services. It enables people to save for their education, retirement, to purchase their homes, and to invest in their dreams. The financial services system is essential to America's overall economic well being.

I note that we have experienced a number of events in recent years that test the resilience of the sector. The attacks of September 11, 2001, the power outage of August 14 – 15, 2003, and the elevation of the threat level for the financial sector in August 2004 have all tested the preparedness and resolve of the sector. Most recently, Hurricane Katrina caused unprecedented devastation in multiple states. Yet the financial system has survived each of these events, and through hard work and investment, becomes stronger and better able to contend with such disruptions.

Organizing to Protect the Critical Financial Infrastructure

President Bush has mandated that the Federal Government work closely with the private sector to protect the nation's critical assets and infrastructure from major disruption. A unique insight that guides the Administration's strategy is that nearly all of the financial infrastructure is owned by the private sector. Therefore, the success of our protective efforts depends on close cooperation between the government and the private sector.

On December 17, 2003, our President issued Homeland Security Directive 7 (HSPD-7), which establishes a national policy for Federal departments and agencies to identify and prioritize United States infrastructure and key resources and to protect them from terrorist attacks. HSPD-7 recognized that various Departments and agencies have specific knowledge, expertise, and experience in working with certain sectors. Therefore, this directive provided for Sector Specific Agencies, or lead agencies, for given sectors. The Department of the Treasury is designated as the Sector Specific Agency for the banking and finance sector.

Under this designation, the Treasury collaborates with appropriate private sector entities to encourage the development of information sharing and analysis mechanisms, and to support sector-coordinating mechanisms to: (1) identify, prioritize, and coordinate the protection of critical infrastructure and key resources; and (2) facilitate sharing of information about physical and cyber threats, vulnerabilities, incidents, potential protective measures, and best practices.

As the lead agency for the financial services sector, the Treasury fulfills its responsibilities under HSPD-7 primarily through the encouragement and support for the development and use of public-private partnerships. I will discuss these partnerships and other related efforts that serve to coordinate relevant parties and provide for the sharing of information.

Secretary Snow has a strong commitment to ensuring the financial system continues to serve all Americans. He has tasked the Treasury Department's Office of Critical Infrastructure Protection and

Compliance Policy to be responsible for developing and executing policies affecting the physical and cyber security of the United States financial system. The majority of these efforts require close cooperation and partnership with the public and private sector. In carrying out these efforts, the Treasury continues to:

- Work with government agencies, private sector firms, national and regional organizations to have each establish a single points of contact for critical financial infrastructure issues;
- Promote strong relationships between financial institutions and the State and local governments where their operations are located;
- Inform the private and public sectors about the available resources that protect the financial infrastructure; and
- Support the availability of accurate and timely information about potential threats on a national and regional level.

National Partnerships

Following the attacks of September 11, 2001, the Department reacted quickly to organize the financial services sector. First, it initiated an intensive evaluation of the threats against the sector, and then analyzed efforts to address any potential vulnerabilities. To more effectively focus efforts and resources on these goals, the Treasury Department established a single point of contact within relevant public and private entities – the Financial Services Sector Coordinating Council for the private sector and the Financial and Banking Information Infrastructure Committee for the public sector group. I understand that you will be receiving testimony later from the head of that private sector council.

Financial and Banking Information Infrastructure Committee

To coordinate Federal efforts and to ensure the sharing of vital information, and pursuant to an Order by the President[1], the Treasury Department chairs the Financial and Banking Information Infrastructure Committee (FBIIC), and held its initial meeting on January 10, 2002. The President's Working Group on Financial Markets sponsors the FBIIC and oversees its role of coordinating the efforts of Federal financial regulators on critical financial infrastructure issues. The FBIIC, composed of Federal and State financial regulators, coordinates efforts to ensure the resilience of the financial system in the face of major disruptions. The Treasury Assistant Secretary for Financial Institutions chairs the FBIIC, which includes experienced representatives from almost 20 organizations that have regulatory authority over different segments of the financial services sector.[2] I have had the privilege and responsibility to serve as Acting Chair since January 2005.

The FBIIC has made significant achievements through the collaboration of its members. These accomplishments include: analyzing the critical infrastructure assets; the analysis of the financial services sector's dependencies on the energy, transportation, telecommunications, and information technology sectors; and the sharing of critical information among Federal, State, and local authorities.

Furthermore, the FBIIC has published reports with the Financial Services Sector Coordinating Council. These publications include "Lessons Learned by Consumers, Financial Sector Firms, and Government

E.O. 13231, October 16, 2001

Commodities Futures Trading Commission (CFTC), Conference of State Bank Supervisors (CSBS), Farm Credit Administration (FCA), Federal Deposit Insurance Corporation (FDIC), Federal Housing Finance Board (FHFB), Federal Reserve Bank of New York (FRB NY), Federal Reserve Board (FRB), , National Association of Insurance Commissioners (NAIC), National Association of State Credit Union Supervisors (NASCUS), National Credit Union Administration (NCUA), North American Securities Administrators Association (NASAA), Office of the Comptroller of the Currency (OCC), Office of Federal Housing Enterprise Oversight (OFHEO), Office of Thrift Supervision (OTS), Securities and Exchange Commission (SEC), and Securities Investor Protection Corporation (SIPC).

Agencies during the Recent Rise of Phishing Attacks" and "Impact of the Recent Power Blackout and Hurricane Isabel on the Financial Services Sector."[3] For each publication, individuals from the FBIIC and Financial Services Sector Coordinating Council solicited and collected written contributions from their member organizations.

The FBIIC agencies have done much for the recovery from Hurricane Katrina, and I have been privileged to work with so many selfless individuals in the Federal, State, local, and private sectors. During the events surrounding Katrina, the FBIIC met frequently, often several times a day, in order to share and exchange information to help the recovery effort by the financial sector. Although much work remains, I'm pleased to report that every financial institution in the impacted areas is now in an operating capacity.

Financial Services Sector Coordinating Council

The Department encouraged the creation of a corresponding entity to the FBIIC within the private sector. This organization, the Financial Services Sector Coordinating Council (FSSCC), develops and coordinates major policy issues for the private sector regarding the protection of the critical financial infrastructure. The FSSCC was inaugurated on June 19, 2002 in the Cash Room of the Treasury Building.

The FSSCC fosters and facilitates the coordination of financial services sector-wide voluntary initiatives to improve critical infrastructure protection and homeland security. The Department designates the chair of the FSSCC, whose membership consists of financial trade associations and organizations.[4] The FSSCC member trade associations represent the majority of the financial services sector.

The FSSCC is vitally important to our efforts to coordinate across the financial sector. We are fortunate that we have Don Donahue as the financial sector coordinator and chair of the FSSCC.

The members of the FBIIC and FSSCC meet together several times a year to share information and discuss progress on various initiatives and emerging concerns. These meetings give representatives from the public and private sector an opportunity to inform each other of their respective projects and successes. For example, during the March 2005 meeting, members of the FBIIC and FSSCC discussed the Department of Homeland Security's National Infrastructure Protection Plan, as well as the FBIIC and FSSCC plans for 2005.

Regional Partnerships

One of the insights on preparedness that we recognize is that any disruption will first and foremost require a rapid local or regional response. After establishing the national partnerships, the Treasury Department turned its attention to the support of regional partnerships. Because the financial community in New York City already had ties to the New York City Office of Emergency Management, the Treasury Department turned its attention to Chicago, Illinois. Chicago's financial services industry is among the most diverse in the United States, and encompasses futures and securities exchanges, large and small banks, futures and securities clearinghouses, and check clearing and cash operations.

[3] These publications are available at http://www.treas.gov/offices/domestic-finance/financial-institution/cip/.

[4] America's Community Bankers, American Bankers Association, American Council of Life Insurers, American Insurance Association, American Society for Industrial Security (ASIS) International, Bank Administration Institute, Bond Market Association, ChicagoFIRST, Chicago Mercantile Exchange, Clearing House , Consumer Bankers Association, Credit Union National Association, Depository Trust & Clearing Corporation (DTCC), Fannie Mae, Financial Services Information Sharing and Analysis Center (FS-ISAC), The Financial Services Roundtable/BITS, Futures Industry Association, Independent Community Bankers of America, Investment Company Institute, Managed Funds Association, NASDAQ Stock Market., National Association of Federal Credit Unions, National Association of Securities Dealers (NASD), NACHA — The Electronic Payments Association, Options Clearing Corporation, Securities Industry Association (SIA), Securities Industry Automation Corporation (SIAC), and VISA USA Inc.

Beginning in the summer of 2002, the Treasury Department met with and assisted financial institutions in Chicago that had an interest in coordinating homeland security efforts for downtown businesses.

In early 2003, several Chicago financial firms came together to discuss joining forces to address their common business continuity concerns. Their efforts produced a new kind of organization, named ChicagoFIRST, devoted to building and maintaining relationships between the financial community and the city, State, and Federal government, especially with law enforcement and emergency response officials. ChicagoFIRST's unique membership consists of financial institutions with a variety of charters and licenses, including national banks, insurance companies, securities and futures firms, securities and futures exchanges, and clearing organizations[5]. ChicagoFIRST fosters relationships with the public sector, trade associations, and other entities through periodic meetings with its "Strategic Partners."[6]

The Department of the Treasury has worked closely with ChicagoFIRST to improve its effectiveness as a regional coalition. In March 2003, the Treasury Department asked the City of Chicago to provide ChicagoFIRST a seat at the City's Joint Operations Center, which the City provided a few months later. In August 2003, the Treasury Department, the FSSCC, and ChicagoFIRST members participated in a seminar for the City of Chicago on the criticality of the Chicago financial community. In July 2004, the Treasury Department sponsored in part an emergency response exercise for Chicago's financial community and Federal, State, and local government officials. This exercise tested the assumptions and emergency response plans of Chicago's financial community, the City of Chicago, the State of Illinois and the Federal Government. In December 2004, the Treasury Department, in conjunction with BITS and other parties, published a report on the ChicagoFIRST as a model for regional coalitions, entitled *Improving Business Continuity in the Financial Services Sector: A Model for Starting Regional Coalitions.*[7]

There have been preliminary discussions on forming new coalitions in Miami/South Florida, the San Francisco Bay Area, and Tampa Bay. We will continue to work encourage other cities and regions to embrace this important concept. We believe that regional coalitions such as ChicagoFIRST are essential to protecting and strengthening the financial services sector.

Outreach

With the primary support of the Federal Deposit Insurance Corporation, the FBIIC and the FSSCC have held a series of conferences in cities across the country, entitled "Protecting the Financial Sector: A Public and Private Partnership." The first conference was held in May 2003 in Chicago. In January 2005, the 29th and last conference in this series took place in New York City. These conferences, which reached over 4,000 individuals in the financial services industry, highlighted the importance of public-private cooperation to minimize the effect of manmade and natural events on the financial sector.

[5] ABN/AMRO/LaSalle Bank; Allstate; Archipelago; Bank of America; Bank One; Chicago Board of Trade; Chicago Board Options Exchange; Chicago Federal Home Loan Bank; Chicago Mercantile Exchange; Chicago Stock Exchange; Harris Bank; Mesirow Financial; Mizuho Securities USA Inc; Northern Trust Bank; The Options Clearing Corporation; UBS; and William Blair & Company.

[6] ChicagoFIRST's Strategic Partners include the City of Chicago, the U.S. Department of the Treasury, the Department of Homeland Security, BITS – the Financial Services Roundtable, the Securities and Exchange Commission, the Commodity Futures Trading Commission, the Federal Deposit Insurance Corporation, the Illinois Commissioner of Banks and Real Estate, the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, U.S. Secret Service, the Federal Bureau of Investigation, the Financial Services Sector Coordinating Council, and the Futures Industry Association.

[7] This report is available at http://www.treas.gov/offices/domestic-finance/financial-institution/cip/.

The conferences brought together public officials and experts from the private sectors who, in various ways, protect the nation's critical financial infrastructure. These individuals included United States Secret Service Special Agents, officials from the Departments of the Treasury and Homeland Security, representatives of the FBIIC and FSSCC, and members of ChicagoFIRST. The speakers at the conferences stressed the importance of joining or forming a public-private partnership to ensure the continued operation of the region's financial services sector in the face of adverse circumstances. This type of training, I believe, assists and has positively helped financial services professionals in recovering from incidents like Katrina.

Financial Services Information Sharing and Analysis Center

In 1999, with the encouragement of the Department, several leading financial institutions formed the Financial Services Information Sharing and Analysis Center (FS-ISAC) to share information about physical and cyber threats to the financial services sector. The FS-ISAC analysts gather information from financial services providers, commercial firms, Federal, State and local government agencies, law enforcement and other resources for secure dissemination.

The Department of the Treasury has long supported the FS-ISAC in its efforts to disseminate important information to the entire financial services sector. In addition to advising the FS-ISAC board, Department officials have worked closely with the organization and publicly supported its efforts. For example, in September 2004, the Secretary of the Treasury held a meeting with FS-ISAC members to commend their commitment to financial services sector resilience and their involvement in the public-private partnership.

In 2003, the Department commissioned an independent study of the FS-ISAC to determine its value to the financial services sector. The study found that members of the FS-ISAC benefited from its services, but that the former structure of the FS-ISAC only served a small portion of the financial services sector. In response to this conclusion, the Department then acquired $2 million in services from the FS-ISAC, with the effect of thereby making the Next Generation FS-ISAC a reality. By December 2004, all five Next Generation projects were completed: 1) a metrics dashboard to display key statistics related to value, membership, and alert volume; 2) alert dissemination confirmation; 3) a cyber security baseline; 4) secure online chat; and 5) the ability to process commercial security feeds. The Next Generation project has improved the FS-ISAC's ability to share threat warnings with the financial services sector.

National Communication Systems Programs

The Department of Homeland Security's National Communications System (NCS) administers a number of telecommunication programs in which the private sector participates. These programs include the Government Emergency Telecommunications Service (GETS), the Wireless Priority Service (WPS), and the Telecommunications Service Priority (TSP). The GETS program allows participants to receive priority access to the public telephone network if there is heavy traffic on the system. The WPS grants priority service to those calling from a cellular telephone. The TSP program grants participants priority restoration for very important telecommunications lines.

Through the sponsorship of the Department, critically important financial services sector institutions are eligible to participate in this program. The FBIIC Federal financial regulators consider the applications of the financial institutions and determine which are eligible for the programs. These programs have been successfully promoted through numerous FBIIC and FSSCC initiatives.

From Preparation to Action

The Department takes its responsibility to ensure and enhance the resilience of the financial services sector very seriously and realizes that it can only be done through cooperation between the government and the private sector. Since September 11, 2001, the Department has pursued an aggressive agenda working with the public and private sectors to prevent or diminish major disruptions to the financial sector in the event of a natural or manmade disaster. The Department has worked with key institutions, in participation with State and local officials, to ensure their business continuity plans are sound and effective.

Conclusion

We need look only to devastation caused by Hurricane Katrina to remind us of the need to prepare for large scale disasters. Our efforts to minimize the impact of crises, as they may occur in the future, are grounded in the President's goals and vision for the Treasury Department – a vision that is based on a shared commitment by the Federal government, the financial services sector, and State and local government, to prevent incidents from occurring where possible, and a vision that emphasizes preparation for events, so as to minimize their extent, and speed recovery. I am constantly reminded of what President Lincoln told us all more than 140 years ago: "Leave nothing for tomorrow which can be done today." Those words continue to guide us all as we face incidents that challenge our age, and the 21st century.

Thank you.

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PRESS ROOM

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Statement of
Under Secretary of the Treasury for International Affairs Timothy Adams
House Committee on Financial Services
Subcommittee on Domestic and International Monetary Policy, Trade and Technology

Thank you Chairman Pryce, Vice Chairman Biggert, Ranking Member Maloney, and members of the Subcommittee. I am very pleased to be here today to talk about key elements of the Bush Administration's international development agenda, including the historic G8 debt relief initiative and the recent replenishment of the International Development Association.

Before getting into the details, I would like to put the debt relief proposal and the IDA14 replenishment agreement into perspective. Since the beginning of President Bush's time in office, he has pursued an aggressive agenda on development. This agenda is comprehensive and contains key themes, such as a commitment to increase aid, but only with a clear purpose and in countries where it could be most effectively used to stimulate growth and reduce poverty. The agenda also recognizes that the single most important factor to lift vast numbers of people out of poverty is increased trade.

President's Vision for Development

The President has charted a new, exciting course for international development. His groundbreaking approach, which gained international consensus in Monterrey in 2002 by developing and developed countries alike, focuses on results achieved, not on resources spent. It recognizes that developing countries must take primary responsibility for their development by encouraging the sources that produce wealth: economic freedom, political liberty, the rule of law and human rights. Developed countries' assistance plays an important role, particularly in the fight against hunger and disease and in reinforcing political and economic reform. The vision affirms private sector activity as the primary engine of poverty-reducing growth, and accordingly supports reforms and policies that promote trade and investment, which provide the vast majority of financing for development.

To realize this vision, President Bush has delivered concrete results. To fight the scourge of disease, he established a $15 billion Emergency Plan for AIDS Relief in 2003 to treat 2 million sufferers of the disease, prevent 7 million new infections, and provide care for 10 million affected individuals, including orphans. He has pledged $1.2 billion over five years to help eliminate malaria as a major killer of children in Africa, seeking to reach more than 175 million people in at least 15 countries and cut mortality from the disease in half. He has launched an initiative to address Humanitarian Emergencies in Africa and Break the Cycle of Famine. He established the Millennium Challenge Account to deliver assistance to those countries that are helping themselves – by investing in the health and education needs of their people, fighting corruption, and demonstrating a commitment to economic freedom. Finally, the President has been a champion of opening markets abroad to ensure that American farmers, workers, and business can compete on a level playing field. Through his work and vision, the U.S. has taken a leadership role under the multilateral WTO Doha round negotiations, has passed numerous bilateral and multilateral free trade agreements, and secured the passage of trade promotion authority. An ambitious and successful Doha trade round will spread economic gains – and the developing world stands to gain the most. Historically, developing nations that open themselves up to trade grow at several times the rate of other developing countries. The elimination of barriers to trade and services, including financial services, could lift hundreds of millions of people out of poverty over the next fifteen years.

Debt Relief for the Poorest Countries – Time for Bold Action

Building upon this strong track record of achievements, the Administration launched an ambitious proposal for 100 percent debt cancellation to eligible Heavily Indebted Poor Countries (HIPCs).

For many of the poorest countries, there has been a history of repeated lend and forgive cycles. The HIPCs alone have accounted for nearly 250 debt relief treatments in the Paris Club over the last 25 years. This means that many countries have been getting debt reschedulings, or partial debt reduction, every two or three years. At the same time, the international financial institutions (IFIs) have been increasing their lending volumes to fill up any space created by the temporary debt treatments. Between 1989 and 2002, debt relief to HIPCs totaled $40 billion while new loans totaled more than twice that – $93 billion.

Shifting to grants going forward helps to break this cycle – and this Administration has led a very successful initiative in the IFIs to do this over the last few years. However, there also needs to be a correction of history, a cleaning of the balance sheets so that future generations can work to achieve higher economic growth and poverty alleviation without the heavy burden of unsustainable debt.

To achieve this objective, the President publicly proposed last year a complete write-off of all official debt to the poorest countries. We were the first country to do so. This included as much as $60 billion in HIPC countries' debt owed to the IDA, the AfDF and the IMF.

I want to stress that many Members of Congress, including Members sitting in this subcommittee, along with NGOs, have been extremely supportive and helpful in this campaign from the start. Thus, the U.S. has presented a very united front to the world on this issue, and that has been critical in convincing other countries to join us.

The Historic Agreement

In early June, President Bush and Prime Minister Blair reached agreement on a comprehensive debt relief package, including both the U.S. proposal for 100 percent debt cancellation of debt obligations owed to the World Bank, the AfDF and the IMF for eligible HIPC countries and a commitment to maintain the financial strength of the IFIs. This agreement represented a critical breakthrough in the fight to cancel the debt for the poorest countries. This led to an agreement on June 11th by G8 Finance Ministers, endorsed by Heads of State at the Gleneagles Summit in July, on a debt relief plan that largely reflects the one we began to discuss one year ago. As Treasury Secretary John Snow has stated, "President Bush's commitment to lift the crushing debt burden on the world's poorest countries has been achieved. This is an achievement of historic proportions."

The four key elements of the G8 proposal include:

1. ***100 percent IDA, AfDF, and IMF Debt Stock Relief.*** For International Development Association (IDA) and African Development Fund (AfDF) debt, 100 percent stock cancellation for eligible HIPC countries will be delivered by offsetting gross assistance flows by the amount forgiven. IMF debt relief for eligible countries will be financed from existing IMF resources, not through gold sales.
2. ***Additional Donor Contributions to IDA and AfDF.*** Donors will provide additional contributions, based on agreed burden shares, to offset foregone debt repayments (principal and interest) to IDA and AfDF. Additional funds will be made available immediately to cover the IDA-14 and AfDF-10 period and through regular replenishments for subsequent periods. For IDA-14 and AfDF-10, the U.S. will fulfill this commitment to the MDBs by utilizing flexibility in the timing of planned annual payments and will not require appropriations in addition to requests for those payments.
3. ***Focus on Strong Performance***. The additional donor contributions will be allocated to all IDA-only countries based upon the existing IDA and AfDF performance-based allocation systems. This approach ensures equity between HIPCs and non-HIPCs – since all countries receive additional assistance commensurate with performance – and creates an incentive for

countries to pursue responsible, pro-growth policies. Based upon existing performance levels, we estimate that roughly half of the additional contributions will be allocated to non-HIPC countries.

4. ***Utilize grant financing from IDA and AfDF to ensure that countries do not immediately re-accumulate unsustainable external debts***. IDA and AfDF donors will develop a forward-looking debt sustainability framework that will determine grant allocations for poor countries. This framework will help ease HIPCs into new borrowing over time based upon their capacity to repay.

Under the plan, 18 HIPC countries will be immediately eligible for IDA, AfDF, and IMF debt forgiveness: Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia. The remaining HIPCs will also become eligible as they reach their HIPC Completion Point.

The total amount forgiven for the 18 HIPC completion point countries will be $40 billion in nominal terms, of which IDA accounts for $30 billion, the AfDF $6 billion and the IMF $4 billion. The full application of the cancellation of existing debt repayments could amount to as much as $60 billion as countries complete the process.

At the World Bank and IMF Annual Meetings this past weekend, shareholders strongly endorsed this important initiative. While several technical details, such as the dates for implementation and the cut-off for eligibility, will need to be resolved in the coming weeks, the broad-based support will allow implementation to move forward as envisioned.

Improving Development Effectiveness – IDA-14 Replenishment

Debt relief alone, however, will not be enough to ensure that highly indebted countries jump start growth and meet their development objectives. We must also ensure that the aid architecture effectively helps countries accomplish the goal of lasting poverty reduction through sustainable economic growth. Shaping the financial, policy, and program parameters of the MDB concessional assistance windows is one of the most effective ways to accomplish this. The achievements of the IDA-14 agreement resulted directly from strong U.S. leadership. This is also the case for the recent replenishments for the African Development Fund and the Asian Development Fund for which authorizations are currently pending before Congress. By focusing consistently – even stubbornly – on a few basic principles since the first days of the Bush Administration, the U.S. has advanced the reform agenda to new frontiers on results management, grants, accountability, and transparency. IDA is one of the most effective delivery mechanisms for assistance to poor countries, and we are encouraged by the strides IDA and the other MDBs have made in recent years to improve their effectiveness.

From a financial perspective, the U.S. pledged to IDA-14 a total of $2.85 billion over three years, representing a $100 million annual increase over the IDA-13 base level. While the U.S. share declined from 20 percent in IDA-13 to 13 percent in IDA-14, the U.S. remains the largest cumulative donor to IDA at 22 percent of total contributions.

The focus on measurable results builds on the progress made in IDA-13. Specifically, IDA-14 established a two-tiered system to monitor results: (1) country outcomes, and (2) IDA's contribution to country outcomes. Tier one captures how IDA is helping countries meet their development objectives on the basis of 14 country outcome indicators, such as under-5 child mortality, time required to start a business, and access to roads, compared to only three under IDA-13. Tier two measures institutional effectiveness to ensure that IDA country strategies are tied to specific results, and that project monitoring and portfolio quality are maintained.

Not only will IDA-14 focus on achieving results, but it will also deliver significantly more assistance to countries that are well governed and enact pro-growth policies. This means that the additional money IDA receives from the G8 debt deal will be allocated according to IDA's performance allocation system, which has one of the most selective systems of any donor in the world, thereby rewarding the strong performers. The Bank's strategy for FY06-08 envisions providing the top 10 percent of country performers with nearly seven times as much assistance on a per capita basis as the lowest 10 percent.

In addition to an emphasis on results, IDA-14 also marks a significant increase in the grant share of IDA. About 31 percent of IDA-14 resources – and 45 percent of assistance to the very poorest IDA-only countries – will be provided in the form of grants. This represents a 60 percent increase over the IDA-13 level. An agreement on very similar grant levels was achieved in the African Development Fund replenishment as well, and a substantial grant window was established for the first time in the Asian Development Fund agreement.

Recognizing that growth is the key to poverty reduction, IDA-14 also encompasses a private-sector growth strategy. The strategy entails two broad objectives: 1) improving the investment climate – especially with respect to micro, small, and medium enterprises; and 2) improving access to basic infrastructure and social services through private sector participation.

As stated in the September 23, 2005 letter from the G8 finance ministers to the President of the World Bank, Paul Wolfowitz, "funding for IDA will continue to depend on donors' convictions of IDA's effectiveness in delivering development assistance, IDA reflows, performance, financing needs, and absorptive capacity of poor countries."

Fighting Corruption

IDA-14 also represents great strides in improving transparency – recognizing that transparency improves development effectiveness by fostering accountability for results, and can aid in donor coordination and donor participation. Transparency is an essential ingredient in fighting corruption because it places accountability with countries and institutions alike. The IDA-14 agreement helps reinforce the World Bank's accountability by calling on the World Bank Board to: (1) disclose Board minutes; (2) strengthen procedures for documenting public consultation processes; (3) make interim results of projects during their execution publicly available; and (4) require an independent audit or assessment of internal management controls and procedures for meeting operational objectives. Following an earlier decision by the Bank's Board, all the scores for IDA's Country Performance and Institutional Assessments (CPIA), by which IDA's allocations are determined, will be made publicly available in 2006.

More broadly, fighting corruption at and through the MDBs is an issue we take very seriously. We are committed to every possible effort to help prevent, detect, and punish corruption associated with development assistance provided by the MDBs. Such corrupt acts are intolerable and, as custodians of taxpayer dollars intended to stimulate economic growth and alleviate global poverty, we have the obligation to help ensure that the MDBs take all the steps necessary to have an effective anti-corruption apparatus.

Our efforts to strengthen anti-corruption efforts are focused on three levels. First, at the institutional level, we are focused on improving the functioning of MDB internal control processes for internal auditing, investigative mechanisms, whistleblower protections, and corporate procurement – and increasing the disclosure and accountability of MDB operations.

Second, at the project level, we are focused on encouraging the MDBs to conduct analysis and design projects that help reduce opportunities for corruption, strengthen fiduciary standards, and help ensure that MDB funds will be well spent.

Third, at the country level, we focus on enhancing the transparency and accountability of recipient countries' governance systems and disclosure in MDB operations and analysis, and to channel MDB resources toward countries that have good governance in place. Treasury reports annually to the Congress on the country specific anti-corruption programs supported by each MDB, and actions taken by recipient countries.

Overall, the MDBs have taken important steps to combat corruption and the United States is at the forefront of continuing efforts to broaden and deepen those initiatives, including ensuring the full effectiveness of new anti-corruption units. The managements of the MDBs are to be commended for the positive steps they have taken in recent years to fight corruption, following the example set by the World Bank. Clearly more needs to be done, however, and we are fully dedicated to these efforts.

Conclusion

I want to once again thank the subcommittee for giving me this opportunity to testify and for its past support for the Administration's international development programs. As I hope my testimony today demonstrates, we believe we have built a recent record that merits your continued support. Our collective efforts have a concrete impact on the ability of the poorest countries to generate economic growth and reduce poverty. I look forward to continuing those efforts and will be pleased to answer any questions you may have.

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PRESS ROOM

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Iannicola Commends Jacksonville Financial Education Program

Treasury today formally recognized the FreshMinistries' Financial Education Program, *the Jacksonville Individual Development Account (IDA) Partnership*, with the John Sherman Award for Excellence in Financial Education. Deputy Assistant Secretary Dan Iannicola, Jr. presented the award at a ceremony hosted by Mayor John Peyton at City Hall to honor the work of FreshMinistries in providing financial education to the community of Jacksonville, Florida.

In addition to providing financial literacy, the IDA's goal is to help low-income individuals reach financial independence. Through the IDA program, participants put money into a special account which is matched two-to-one by FreshMinistries. The account may be used to buy a home, pay for a college education or to start a business.

"You can give a person just about anything. Anything, that is, except self-esteem - that must be earned. For people to feel the pride of accomplishment they have to know they put something in, before they get something out. Otherwise it is just a gift," Iannicola said. "The FreshMinsitries program helps low-income clients earn that self-esteem by offering them a hand up instead of a hand out."

Following the ceremony, Iannicola conducted a financial literacy roundtable with financial education providers and other representatives of the Jacksonville business community. Iannicola commended the participants for their commitment to financial literacy while participants discussed the issues they are confronting in the area of financial education. In addition, Iannicola shared best practices from other programs across the country with the roundtable participants.

FreshMinistries is a faith-based non-profit active for the last ten years in incubating interfaith initiatives for community restoration. FreshMinistries organized more than 20 community partners into the Jacksonville IDA Partnership which has been expanding financial literacy training across the community and enrolling participants into the matched savings accounts.

Using the FDIC approved Money Smarts curriculum and similar financial literacy programs, the Jacksonville IDA Partnership has been helping lower income residents in the area learn to better manage their money. Training has occurred at public housing sites and other locations convenient for the participants. FreshMinistries has also partnered with the Real Sense Prosperity Campaign to expand the use of the earned income tax credit and provide recipients with the opportunity for financial literacy training.

The Department of the Treasury is a leader in promoting financial education. Treasury established the Office of Financial Education in May of 2002. The Office works to promote access to the financial education tools that can help all Americans make wiser choices in all areas of personal financial management, with a special emphasis on saving, credit management, home ownership and retirement planning. The Office also coordinates the efforts of the Financial Literacy and Education Commission, a group chaired by the Secretary of Treasury and composed of representatives from 20 federal departments, agencies and commissions, which works to improve financial literacy and education for people throughout the United States. For more information about the Office of Financial Education visit: www.treas.gov/financialeducation.

PRESS ROOM

September 27, 2005
2005-9-27-12-2-34-25663

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 $71,750 million as of the end of that week, compared to $72,253 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	September 16, 2005			September 23, 2005		
TOTAL	72,253			71,750		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	11,409	11,428	22,837	11,291	11,346	22,637
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	11,103	5,532	16,635	10,982	5,493	16,475
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]			13,398			13,310
3. Special Drawing Rights (SDRs) [2]			8,342			8,287
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	September 16, 2005			September 23, 2005		
	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						
	September 16, 2005			September 23, 2005		
	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 IMF data for the prior month end.

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

PRESS ROOM

September 28, 2005
JS-2953

The Honorable John W. Snow
Prepared Remarks
Unveiling of the New $10 Note

Thank you, Tom. It's a great pleasure to be here today.

American currency – the dollar, the "greenback" – is a terrific and enduring symbol of our country. Like no other currency in the world, the sight of American money means security. Our bills are symbols of our country's vast freedom and the strength – economic and otherwise – that comes from that unique freedom.

I am proud to celebrate our currency, in its newest and most sophisticated form yet, during a time when our country very much needs its inherent strength and resiliency.

As we rebuild infrastructure, homes and businesses after the terrible natural disasters in the Gulf Coast, we must also help rebuild lives with a sense of hope and opportunity. Our overriding goal must be that everyone has an opportunity to build a better life for themselves and their families. Nothing less is acceptable; anything less would be un-American.

We are fortunate to have a strong, vibrant, growing economy in this country, and that is going to be critical as we pursue rebuilding efforts. Because with a strong economy, we can afford to meet any challenge.

The ten dollar bill is special to me because it is graced by the countenance of my most famous and revered predecessor: the first Treasury Secretary, Alexander Hamilton.

All Treasury Secretaries owe an awful lot to Hamilton. More than anyone else, he put in place the economic structure that secured the future of the Union created by the American Revolution. More than any other founding father, Alexander Hamilton was a true visionary who saw the vast potential that lay ahead for the young and fragile republic.

Americans primarily used coins back in Hamilton's time. But Hamilton often spoke of the importance of steering the country to a national system of paper currency.

Several of Hamilton's observations are especially relevant to today's unveiling. It was Hamilton who first proposed that United States money feature the pictures of Presidents, other famous Americans and national symbols as a way to boost patriotism.

And, in a comment that's very appropriate, Hamilton said great care and workmanship should go into the making of our money "as a great safeguard against counterfeits."

Thanks to Tom Ferguson and his team at the Bureau of Engraving and Printing, the craftsmanship that goes into our currency is unmatched anywhere in the world. So is our commitment to safeguarding that currency.

To an extent the Founding Fathers never imagined, people around the world rely on the strength and stability of United States currency. Thanks to the changes we've made in currency design, thanks to aggressive law enforcement led by the U.S. Secret Service, and thanks to an informed public, we've been able to stay ahead of counterfeiters.

Your government is committed to keeping it that way. We expect to update currency every seven to ten years, so that we may continue to stay ahead of counterfeiters. The enhanced security features built into this new $10 note design – and into the $20 and $50 note designs that preceded it in the new series – will help maintain global confidence in our currency going forward.

I'm delighted to be here today and share with you the design for the new $10 note, and I'm awfully proud to have my signature on that note alongside the likeness of Alexander Hamilton as a symbol of our continuous commitment to a safer, smarter and more secure currency.

It is now my pleasure to introduce Anna Cabral, our United States Treasurer, whose signature can also be found on the new $10 note. Madame Treasurer....

PRESS ROOM

September 28, 2005
JS-2954

Testimony of
Deputy Assistant Secretary of the
Treasury David Loevinger
before the House Ways and Means Committee

Chairman Thomas, Ranking Member Rangel, and other Committee members, thank you for this opportunity to talk about developments in the Japanese economy and the Administration's engagement with Japan on macroeconomic and financial issues. This hearing is timely, as it is taking place at a time of growing optimism both about the possibility of sustained domestic demand-led growth in Japan and more rapid economic reforms following this month's elections.

My colleagues have testified on a number of sectoral trade issues. The Treasury Department works closely with USTR, Commerce, and other agencies on these issues through the Trade Policy Review Group. Moreover, Treasury has focused particular attention on access to the Japanese market by U.S. financial services providers.

In addition to these sectoral issues, Treasury pays close attention to the overall growth of the Japanese economy. Strong, sustained, and domestic demand-led growth in Japan – the world's second largest economy – would boost U.S. exports and jobs and would also contribute to more balanced global growth. For the last decade Treasury has consulted closely with Japanese authorities on ways to achieve this.

Japan has struggled for the past decade and a half to overcome the effects of the collapse of the late-1980s asset price "bubble." Falling property prices – with commercial land prices down more than 80 percent in Japan's major metropolitan areas between 1991 and 2004 – hit corporate and household balance sheets. Banks were hit by the financial stress of their customers and by falling collateral values when they tried to foreclose.

Firms that had built up capacity and staffing during the late-1980s boom reduced their investment spending. They also held down hiring, cut back on overtime and bonuses, and replaced permanent employees with part-time workers. The resulting drop in wages slowed household consumption.

The government responded to the economic downturn with a series of fiscal stimulus packages, mostly public works spending yielding low returns. Regulatory forbearance allowed banks to remain technically solvent without dealing with their growing bad loans. This led to the eventual failure of many banks, including some systemically large institutions, and large infusions of public funds since the late 1990s.

Japan's slowness in dealing with failing banks and delinquent corporate debtors kept it, until now, from achieving sustained domestic demand-led growth. Evergreening loans to zombie borrowers locked resources up in non-productive activities, and heavy debt burdens limited investment in new activities. Short-lived economic rebounds in 1993, 1995-96, and 1999-2000 faded quickly back into recession once the initial fiscal or export stimulus faded. The protracted economic slowdown led to persistent deflation.

Over the past decade U.S. engagement with Japan focused on resolving banking sector problems, overcoming deflation, and restoring sustained, domestic demand-led growth. At times this discussion was acrimonious. The Bush Administration established a quieter, more cooperative dialogue with Japan, focused on creating the fundamentals for sustained growth rather than encouraging fiscal stimulus to pump up growth over the next few quarters.

Japan's struggle to emerge from the deflation, sluggish growth, and banking sector problems may finally be coming to an end. The Koizumi Administration made clear that restoring growth would require structural reforms such as increasing competition in domestic markets and improving the efficiency of financial intermediation, and could no longer rely on fiscal stimulus. The Koizumi government also brought tougher banking regulation, which forced the banks to raise capital and deal with their problem borrowers. Corporate restructuring has strengthened firms' finances and reduced excess debt and capacity.

There are also growing signs that the labor market is finally strengthening: the number of full-time employees rose recently for the first time in seven years, and the number of part-time workers fell for the first time in a decade. While exports, especially to China, helped fuel the early stages of Japan's current recovery, household consumption and investment have been the key growth engines in recent quarters. So, at least for the Japanese economy, after several false dawns, a new day may have finally arrived.

But the Japanese economy still faces numerous headwinds. Deflation, though diminished, still persists. Many small banks and small firms still remain weak. After years of stimuli, Japan now has the largest fiscal deficit and government debt, relative to GDP, of any G7 country. A large fiscal retrenchment is inevitable. Moreover, a rapidly aging population will necessitate increased public spending on health care and pensions, while a shrinking workforce will limit the growth of income and payroll tax receipts, making the fiscal retrenchment more difficult. By 2025, Japan is projected to have more than half as many elderly as working-age people, up from less than one-third today. In the United States, in contrast, that ratio is projected to rise from about one-in-five today to about one-in-three by 2025.

Japan's long-term potential growth rate is estimated to be only about 1½ percent per year, vs. 3½ -4 percent in the United States. We share Prime Minister Koizumi's view that, given these headwinds, far-reaching structural reforms are needed to boost productivity so that the Japanese economy can navigate the challenges of the 21st century and make a larger contribution to global growth.

Financial Sector Issues

The length of the post-bubble economic troubles and the high costs of cleaning up the banking sector owe much to the financial system that Japan maintained after the Second World War. Bank-dominated, heavily segmented and regulated, and closed to outsiders, the Japanese financial system failed to innovate and develop the credit analysis and risk assessment tools that financial institutions in the United States introduced.

For the past two decades, starting with the Yen-Dollar talks in the 1980s, the Treasury has pressed Japanese financial regulators to reform and modernize Japan's financial system and open the sector up to foreign investment. The U.S.-Japan Financial Services Agreement, negotiated in 1995, opened up a number of sectors for U.S. financial services firms, including the management of public pension funds. The "Big Bang" financial liberalization decontrolled prices and fees, opened up financial markets to new entry and new products, and shifted regulation and supervision to a modern market- and risk-based system. Regular discussions between Treasury, Japan's Ministry of Finance, and Japan's Financial Services Agency have continued to expand opportunities for U.S. firms – in managing the assets of Postal Savings system and offering 401(k) pension products, structured asset products, investment advisory and custodial services, and many others.

Ten years ago, foreign participation in Japan's domestic financial market was almost unthinkable. Today, market access and national-treatment are no longer prominent issues in our financial sector dialogue. U.S. investors own two large Japanese banks and several small ones. And the market share of U.S. and other foreign securities firms is growing, as it is for foreign pension and mutual fund managers. Those developments are reflected in the rapid growth of U.S. direct financial services investment in Japan, which has grown from $6.5 billion in 1994 to more than $38 billion last year on a historical cost basis. Income from those investments has grown even more rapidly, from around $400 million in 1994 to nearly $5 billion last year.

We still have a very active engagement with Japan on financial sector issues, but the issues have shifted from market access to market development. These have included restrictions on short sale transactions, the ability to conduct global risk management across financial entities, participation of global custodians in government bond settlement, and taxation of mutual funds.

One recent example illustrates the importance of this engagement. A revision of section 821 of Japan's proposed Corporation Law, submitted to the Diet this year, could have required many foreign financial and non-financial firms to reincorporate as Japanese subsidiaries, in many cases with substantial tax liability on realized capital gains. Our financial attaché in Tokyo worked closely with U.S. firms and the Japanese Diet to craft a legislative history exempting foreign firms. We continue to monitor this issue to determine if this will suffice or if corrective legislation is necessary.

The most important financial sector issue now is the privatization of Japan's postal financial institutions – Postal Savings and Postal Life. These are huge institutions, by far the world's largest savings bank and life insurer, accounting for a third of Japan's deposits and 40 percent of its life insurance policies. We believe Prime Minister Koizumi's postal privatization bills can help increase the efficiency of financial intermediation, and potentially reduce the need for such high precautionary savings, boosting growth and imports. One key to success, as Secretary Snow and other Treasury officials have stressed to our Japanese counterparts, will be ensuring a level playing field so that the competitive advantages enjoyed by the privatized postal savings and postal life insurance firms are eliminated. Another key will be strict regulation, especially to limit risk transfers or cross-subsidization among the privatized financial and non-financial corporations.

But postal privatization will not be enough, as Prime Minister Koizumi recognized when he called for sweeping reforms including labor and product market deregulation and fundamental reforms of government lending institutions. Japan also needs continued progress in capital market and corporate governance reforms to ensure that corporate managers are focused on shareholder value. Our own experience shows that allowing the full range of foreign and domestic M&A activity helps develop the market for corporate control, which can contribute to better resource allocation, higher returns on investment, and faster growth and imports.

Exchange Rate Policy

Japan has intervened in the foreign exchange market in the past, sometimes in large amounts. We have discussed foreign exchange market issues with Japanese officials, and they are fully aware of our views that the world economy works best with free trade, free flow of capital, and flexible exchange rates for large economies. Japanese authorities have not intervened in the foreign exchange market since March 2004. Japan has also supported the G7 position on exchange rates, expressed in a series of G7 Communiqués, calling for greater exchange rate flexibility. And Japan has worked with us to bring about greater exchange rate flexibility in China and in other large economies in East Asia. We will continue to strongly express our views that major economies should have flexible exchange rates, determined in the market with intervention kept to a minimum.

Thank you again for this opportunity to testify before you. Ensuring vigorous, domestic demand-led growth, increased financial sector dynamism and opportunities for U.S. firms, and flexible, market-determined exchange rates in Japan and other large economies will continue to be priorities for the Treasury and the Administration.

PRESS ROOM

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September 28, 2005
JS-2955

Treasury's Office of Financial Education Offers Financial Counseling to Hurricane Evacuees

Treasury's Deputy Assistant Secretary for Financial Education Dan Iannicola, Jr. led a team of financial educators at the Disaster Recovery Center in Baton Rouge, LA today, where they are providing financial education and counseling to those affected by recent hurricanes. The team also distributed materials providing financial tips and resources for those displaced by the storms.

Over the last few weeks, the Office of Financial Education has provided counseling and materials at five hurricane relief sites including the Astrodome complex in Houston, TX; the Red Cross Center at Kelly USA in San Antonio, TX; the One-Stop Joint Assistance Center in Pensacola, FL; the DC Armory in Washington, DC; and the Disaster Recovery Center in Baton Rouge, LA. The FDIC played a key role in helping Treasury perform some of this outreach.

"Right now is the point in the recovery process when evacuees are trying to make the most of their limited funds, while dealing with financial issues and avoiding frauds and scams. Our teams have been on the ground to help our neighbors from the Gulf Coast states get a handle on these topics while they work to put their lives back together," said Iannicola. "There is never a bad time for financial education, but at some points in life it is especially helpful. That is the case here."

In addition to offering one-on-one counseling, Treasury developed a brochure entitled "Weathering the Storm: Financial Tips and Resources for Hurricane Recovery," which describes federal, state and local financial information resources for individuals affected by Hurricane Katrina or Hurricane Rita. The resources listed in the brochure cover the states of Alabama, Louisiana, Mississippi and Texas. The brochure has been distributed at various shelters and resource centers across the country through government agencies and private sector organizations, and is also available on the Financial Literacy and Education Commission's website, <www.mymoney.gov>, and the Treasury's website, <www.treasury.gov/financialeducation>.

REPORTS

- Hurricane Relief

WEATHERING THE STORM:

Financial Tips and Resources for Hurricane Recovery

THE DEPARTMENT OF THE TREASURY 1789

FINANCIAL ASSISTANCE (CASH)

- FEMA provided one-time emergency cash assistance and can provide rental and repair assistance. To register or if you have any questions, call **800-621-3362 (24 hours)** or **800-462-7585** (TTY only) or visit **http://www.fema.gov**.
- American Red Cross: Providing various amounts of financial assistance, including vouchers, cash, and checks. Call **800-975-7585**.
- You may be eligible to receive a low-interest loan from the Small Business Administration (SBA) to repair a home, replace personal property such as furniture and clothing, or re-build a business. Information on applying for these loans is available from FEMA and from SBA by calling **800-659-2955** or at **http://www.sba.gov/disaster**.

INSURANCE

- Contact your insurance company. A list of insurance companies can be found at: **http://www.disasterinformation.org/**, or:

  For Louisiana call **800-259-5300** or **225-342-5900** (in Baton Rouge) or visit **http://www.ldi.state.la.us/whats_new/HurricanePhoneNumbers.pdf**;

  For Mississippi call **866-856-1982** (out of state), **800-562-2957** (in state), or **601-359-2453** (Jackson area). Hours are 7 a.m. to 7 p.m.;

  For Alabama call **800-433-3966** (in-state) or **334-269-3550**.

  For Texas, call **800-578-4677** or **512-463-6169** (Monday-Friday 8 a.m. to 5 p.m.) or visit **http://www.tdi.state.tx.us/commish/storms/index.html**.
- Flood insurance. If you don't know the insurer or administrator, call the National Flood Insurance Program at **800-427-4661**.

UNEMPLOYMENT INSURANCE

- Unemployment Insurance:

  Alabama residents, call **866-234-5382**

  Louisiana residents, call **866-783-5567**

  Mississippi residents, call **888-844-3577**

  Texas residents, call **800-939-6631** (Monday-Friday 8 a.m. to 5 p.m.). This number provides information in English and Spanish. Or visit **http://www.twc.state.tx.us/ui/bnfts/claimantinfo.html**.
- Disaster Unemployment Assistance for self-employed and newly employed who are ineligible for Unemployment Insurance:

  Alabama residents, call **866-234-5382**

  Louisiana residents, call **866-783-5567**

  Mississippi residents, call **866-783-5567**

  Texas residents, call **800-818-7811**

OTHER FEDERAL AND STATE BENEFITS

- Social Security: Available at local Social Security offices. For locations, call **800-772-1213**.
- Veterans benefits and compensation: call U.S. Department of Veterans Affairs: **800-827-1000 (24 hours)**.
- Louisiana Human and Social Services Hotline (food stamps, Medicaid, other): **888-524-3578 (7 a.m. – 7 p.m.)**.
- If you do not already receive your Federal benefits by direct deposit, you should consider doing so. Direct deposit means that your benefits are electronically sent to your bank or credit union account. Direct deposit is safer, faster and more reliable than receiving a check by mail. To register or for more information, call **800-333-1795** (English) or **800-333-1792** (Spanish), or visit **http://www.godirect.org** (English) or **http//:www.directoasucuenta.org** (Spanish).

DEBT

- Call your creditors. Many will defer your loan payments, waive late fees, or raise your credit limit temporarily.
- If you need help identifying your creditors, get your free credit report. Call **877-322-8228** or visit **http://www.annualcreditreport.com**.

BANK AND CREDIT UNION ACCOUNTS

- For information about accessing bank accounts, lost records, ATM cards, direct deposits or how to reach your bank, call the FDIC at **877-275-3342** (24 hours) or visit **http://www.fdic.gov**.
- For information about credit unions, visit **http://www.ncua.gov/Katrina/index.htm** or call **800-827-6282**, press 2 then for:

  Louisiana and Texas **press 1**

  Alabama and Mississippi **press 2**
- Banks and credit unions keep extensive back-up records to ensure that customer account information is accurate and protected.
- Banks and credit unions generally have their computer systems operating so customers can access their money through debit and ATM cards, even if the physical office is damaged or closed.
- Most safe deposit boxes are located in fireproof and waterproof areas. If possible, contact the branch or office where your box was located to determine the condition of your box.

MANAGING A DEBIT CARD

- Can be used to get cash from an ATM with a Personal Identification Number (PIN).
- Can be used in many stores to purchase goods such as groceries and clothing.
- Keep the PIN safe and separate from the card.
- If you have a FEMA debit card that gets lost or stolen, you lose the PIN, or have other questions, call **888-606-7058**.

RECONSTRUCTING FINANCIAL AND TAX INFORMATION

- Tax Returns: IRS can provide free copies of your tax returns. Call **866-562-5227** (Monday-Friday 7 a.m. to 10 p.m.) or visit **http://www.irs.gov/**.

  Write "Hurricane Katrina" in red across the top margin of the Form 4506, Request for Copy of Tax Return.

  IRS can also answer other questions about tax payments, filing, and other issues.
- Credit Report: You can request a free credit report. Call **877-322-8228** or visit **http://www.annualcreditreport.com**.

BUDGET

It is a good idea to develop a budget for the months ahead. Some things to include in a budget:

- Housing (security deposit, monthly rent),
- Transportation (bus, subway or car),
- Communications expenses (phone, fax), and
- Work related equipment/other costs (equipment, uniform).
- Free resources may be available for food, clothing and furniture. Explore these options first.

10 TIPS FOR AVOIDING SCAMS

1 – Before you give out your personal information (Social Security number, date of birth, FEMA case number), make sure it is absolutely necessary and that the person asking for it represents a legitimate organization (such as a government agency or charity).

2 – Avoid "officials" who require payment to get FEMA or other government benefits. No government agency charges application fees for disaster relief benefits.

3 – Always keep critical personal information and documents in a safe place.

4 – Don't pay in advance for job listings, especially for a 900 phone number. Report job scams to the FTC. **http://www.ftc.gov**, or **877-FTC-HELP**.

5 – Don't pay in advance for offers of housing.

6 – Avoid offers for loans or credit cards that require payment in advance.

7 – For home repairs, ask for references and referrals.

8 – For home repairs, get more than one estimate in writing. Don't pay the full amount for the work until the work is completed and you're satisfied.

9 – Pest control or water purification offers may not provide real services. Check these out before accepting offers, even for "free" tests or services. Read the "fine print" and get a second opinion.

10 – If an offer sounds too good to be true, it probably is.

If you believe you may be a victim of ID theft, contact the fraud departments of any one of the three major credit bureaus at their toll-free numbers to place a "fraud alert" on your credit file: Equifax at **1-888-766-0008**, Experian at **1-888-397-3742**, or TransUnion at **1-800-680-7289**. This can help prevent a thief from opening new accounts or making changes to your existing accounts.

For more information about guarding against identity theft and resolving problems, visit **http://www.consumer.gov/idtheft**.

OTHER RESOURCES

- For a variety of free federal government publications related to financial issues, visit **http://mymoney.gov** or **888-mymoney**.
- For other federal government resources, visit **http://www.firstgov.gov**.

Compiled from: California Society of Enrolled Agents, Federal Deposit Insurance Corp., Federal Trade Commission, Home Builders Association of Alabama, Internal Revenue Service, National Credit Union Administration, by the Office of Financial Education, September 2005.

PRESS ROOM

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September 29, 2005
JS-2956

Treasury and IRS Propose Regulations on Deferred Compensation

WASHINGTON, DC -- The Treasury Department and IRS today issued proposed regulations on deferred compensation under section 409A. Section 409A governs plans and arrangements that provide nonqualified deferred compensation to employees, directors or other service providers. These regulations implement new provisions established by the American Jobs Creation Act (AJCA).

The proposed regulations announced today identify which plans and arrangements are covered under section 409A, outline operational requirements for deferral elections and permissible timing for deferred compensation payments made under the rules.

The rules also extend the deadline for documentary compliance with the new rules to December 31, 2006. The deadline was initially December 31, 2005.

The proposed regulations provide a framework for implementing the requirements of section 409A, taking into account the numerous comments received from the public on Notice 2005-1, issued last December.

The effective date proposed for the regulations is January 1, 2007. Taxpayers may rely on the proposed regulations until final regulations are effective.

REPORTS

- A copy of the proposed regulations

[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG-158080-04]

RIN 1545-BE79

Application of Section 409A to Nonqualified Deferred Compensation Plans

AGENCY: Internal Revenue Service (IRS), Treasury.

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

SUMMARY: This document contains proposed regulations regarding the application of section 409A to nonqualified deferred compensation plans. The regulations affect service providers receiving amounts of deferred compensation, and the service recipients for whom the service providers provide services. This document also provides a notice of public hearing on these proposed regulations.

DATES: Written or electronic comments must be received by January 3, 2006. Outlines of topics to be discussed at the public hearing scheduled for January 25, 2006, must be received by January 4, 2006.

ADDRESSES: Send submissions to: CC:PA:LPD:PR (REG-158080-04), room 5203, Internal Revenue Service, PO Box 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:PA:LPD:PR (REG-158080-04), 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 or via the Federal eRulemaking Portal at www.regulations.gov (IRS REG-158080-04). The public hearing will be held in the Auditorium, Internal Revenue Building, 1111 Constitution Avenue, NW., Washington, DC.

FOR FURTHER INFORMATION CONTACT: Concerning the proposed regulations, Stephen Tackney, at (202) 927-9639; concerning submissions of comments, the hearing, and/or to be placed on the building access list to attend the hearing, Richard A. Hurst at (202) 622-7116 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Background

Section 409A was added to the Internal Revenue Code (Code) by section 885 of the American Jobs Creation Act of 2004, Public Law 108-357 (118 Stat. 1418). Section 409A generally provides that unless certain requirements are met, amounts deferred under a nonqualified deferred compensation plan for all taxable years are currently includible in gross income to the extent not subject to a substantial risk of forfeiture and not previously included in gross income. Section 409A also includes rules applicable to certain trusts or similar arrangements associated with nonqualified deferred compensation, where such arrangements are located outside of the United States or are restricted to the provision of benefits in connection with a decline in the financial health of the sponsor.

On December 20, 2004, the IRS issued Notice 2005-1 (2005-2 I.R.B. 274 (published as modified on January 6, 2005)), setting forth initial guidance with respect to the application of section 409A, and supplying transition guidance in accordance with the terms of the statute. Notice 2005-1 requested comments on all aspects of the application of Section 409A, including certain specified topics. Numerous comments were submitted and all were considered by the Treasury Department and the IRS in formulating these regulations. In general, these regulations incorporate the guidance provided in Notice 2005-1 and provide substantial additional guidance. For a discussion of the continued applicability of Notice 2005-1, see the **Effect on Other Documents** section of this preamble.

Explanation of Provisions

I. Definition of Nonqualified Deferred Compensation Plan

A. In general

Section 409A applies to amounts deferred under a nonqualified deferred compensation plan. For this purpose a nonqualified deferred compensation plan means any plan that provides for the deferral of compensation, with specified exceptions such as qualified retirement plans, tax-deferred annuities, simplified employee pensions, SIMPLEs and section 501(c)(18) trusts. In addition, section 409A does not apply to certain welfare benefit plans, including bona fide vacation leave, sick leave, compensatory time, disability pay, and death benefit plans.

In certain instances, these regulations cross reference the regulations under section 3121(v)(2), which provide a special timing rule under the Federal Insurance Contributions Act (FICA) for nonqualified deferred compensation, as defined in section 3121(v)(2) and the regulations thereunder. However, unless explicitly cross-referenced in these regulations, the regulations under section 3121(v)(2) do not apply for purposes of section 409A and under no circumstances do these proposed regulations affect the application of section 3121(v)(2).

B. Section 457 plans

Section 409A does not apply to eligible deferred compensation plans under section 457(b). However, section 409A applies to nonqualified deferred compensation plans to which section 457(f) applies, separately and in addition to the requirements applicable to such plans under section 457(f). Section 409A(c) provides that nothing in section 409A prevents the inclusion of amounts in gross income under any other provision of the Code. Section 409A(c) further provides that any amount included in gross income under section 409A will not be required to be included in gross income under any other Code provision later than the time provided in section 409A. Accordingly, if in a taxable year an amount subject to section 409A (but not required to be included in income under section 409A) is required to be included in gross income under section 457(f), that amount must be included in gross income under section 457(f) for that taxable year. Correspondingly, if in a taxable year an amount that would otherwise be required to be included in gross income under section 457(f) has been included previously in gross income under section 409A, that amount will not be required to be included in gross income under section 457(f) for that taxable year.

These proposed regulations are intended solely as guidance with respect to the application of section 409A to such arrangements, and should not be relied upon with respect to the application of section 457(f). Thus, state and local government and tax exempt entities may not rely upon the definition of a deferral of compensation under §1.409A-1(b) of these proposed regulations in applying section 457(f). For example, for purposes of section 457(f), a deferral of compensation includes a stock option and an arrangement in which an employee or independent contractor of a state or local government or tax-exempt entity earns the right to future payments for services, even if those amounts are paid immediately upon vesting and would qualify for the exclusion from the definition of deferred compensation under §1.409A-1(b)(5) of these proposed regulations. However, until further guidance is issued, state and local government and tax exempt entities may rely on the definitions of bona fide vacation leave, sick leave, compensatory time, disability pay, and death benefit plans for purposes of section 457(f) as applicable for purposes of applying section 409A and §1.409A-1(a)(4) of these proposed regulations to nonqualified deferred compensation plans under section 457(f).

C. Arrangements with independent contractors

Consistent with Notice 2005-1, Q&A-8, these regulations exclude from coverage under section 409A certain arrangements between service providers and service recipients. Under these regulations, amounts deferred in a taxable year with respect to a service provider using an accrual method of accounting for that year are not subject to section 409A. In addition, section 409A generally does not apply to amounts deferred pursuant to an arrangement between a service recipient and an unrelated independent contractor (other than a director of a corporation), if during the independent contractor's taxable year in which the amount is deferred, the independent contractor is providing significant services to each of two or more service recipients that are unrelated, both to each other and to the independent contractor. In response to comments, these regulations clarify that the determination is made based upon the independent contractor's taxable year in which the amount is deferred.

Commentators also requested clarification of the circumstances in which services to each service recipient will be deemed to be significant, as required for the exclusion. Determining whether services provided to a service recipient are significant generally will involve an examination of all relevant facts and circumstances. However, two clarifications have been provided. First, the analysis applies separately to each trade or business in which the service provider is engaged. For example, a taxpayer providing computer programming services for one service recipient will not meet the exception if, as a separate trade or business, the taxpayer paints houses for another unrelated service recipient. To provide certainty to many independent contractors engaged in an active trade or business with multiple service recipients, a safe harbor has been provided under which an independent contractor with multiple unrelated service recipients, to whom the independent contractor also is not related, will be treated as providing significant services to more than one of those service recipients, if not more than 70 percent of the total revenue generated by the trade or business in the particular taxable year is derived from any particular service recipient (or group of related service recipients).

PRESS ROOM

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September 30, 2005
js-2957

Preliminary Annual Report On U.S. Holdings Of Foreign Securities

Preliminary data from an annual survey of U.S. portfolio holdings of foreign securities at year-end 2004 are released today and posted on the U.S. Treasury web site at (http://www.treas.gov/tic/fpis.html). Final survey results, which will include additional detail as well as revisions to the data, will be reported by December 30, 2005.

The survey was undertaken jointly by the U.S. Treasury, the Federal Reserve Bank of New York, and the Board of Governors of the Federal Reserve System.

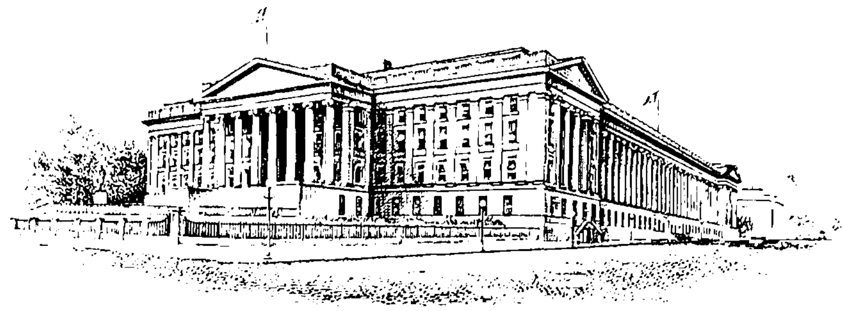
A complementary survey measuring foreign holdings of U.S. securities also is conducted annually. Data from the most recent such survey, which reports on securities held on June 30, 2005, are currently being processed. Preliminary results are expected to be reported by April 28, 2006.

Overall Preliminary Results

The survey measured U.S. holdings at year-end 2004 of approximately $3.8 trillion, with $2.6 trillion held in foreign equities, $1.0 trillion in foreign long-term debt securities (original term-to-maturity in excess of one year), and $233 billion held in foreign short-term debt securities. The previous such survey, conducted as of year-end 2003, measured U.S. holdings of approximately $3.2 trillion, with $2.1 trillion held in foreign equities, $874 billion in foreign long-term debt securities, and $199 billion held in foreign short-term debt securities.

REPORTS

- Preliminary Annual Report On U.S. Holdings Of Foreign Securities



DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

Embargoed Until 4 p.m. EDT
September 30, 2005

CONTACT: Brookly McLaughlin
(202) 622-1996

PRELIMINARY ANNUAL REPORT ON U.S. HOLDINGS OF FOREIGN SECURITIES

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Table 1. U.S. holdings of foreign securities, by type of security, as of survey dates[1]
(Billions of dollars, except as noted)

Type of Security	Dec. 31, 2003	Dec. 31, 2004
Long-term Securities	2,954	3,553
Equity	2,079	2,560
long-term debt	874	993
Short-term debt securities	199	233
Total	3,152	3,787

U.S. Portfolio Investment by Country

Table 2. U.S. holdings of foreign securities, by country and type of security, for the countries attracting the most U.S. investment, as of December 31, 2004
(Billions of dollars)

				Debt securities:	
		Total	Equities	Long-term	Short-term
1	United Kingdom	738	456	171	110
2	Japan	384	330	36	17
3	Canada	345	180	152	12
4	France	217	165	42	10
5	Netherlands	202	136	55	11
6	Germany	201	124	68	10
7	Cayman Islands	196	70	114	12
8	Bermuda	164	154	10	1
9	Switzerland	142	138	2	2
10	Australia	103	57	40	6
11	Italy	78	57	17	3
12	Korea, Republic of (South)	74	67	7	*
13	Spain	69	63	5	1
14	Mexico	66	38	29	*
15	Brazil	63	43	20	*
16	Sweden	62	38	15	10
17	Ireland	55	32	14	9
18	Finland	39	34	4	1
19	Luxembourg	38	8	27	4
20	Hong Kong	37	35	2	*
21	Taiwan	35	35	*	*
22	Israel	34	19	15	*
23	Norway	30	18	10	2
24	Netherlands Antilles	30	29	2	*
25	Singapore	29	24	5	*
	Rest of world	354	211	131	13
	Total value of investment	3,787	2,560	993	233

[1] The stock of foreign securities for December 31, 2004 reported in this survey may not, for a number or reasons, correspond to the stock of foreign securities on December 31, 2003, plus cumulative flows reported in Treasury's transactions reporting system. The final report on U.S. holdings of foreign securities as of end-year 2004 will contain an analysis of the relation between the stock and flow data.

* Greater than zero but less than $500 million.

PRESS ROOM

October 3, 2005
JS-2958

ATSB Announces Sale of US Airways Warrant

The Air Transportation Stabilization Board today announced that it reached an agreement with US Airways for the repurchase of the Board's warrant in the newly merged company for $115.8 million. Net proceeds from the sale will go to the Treasury Department general fund.

PRESS ROOM

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October 3, 2005
JS-2959

United States and Sweden Sign Protocol to Income Tax Treaty

WASHINGTON, DC – Today the Treasury Department announced that Assistant Secretary of State for Economic and Business Affairs E. Anthony Wayne and Swedish Ambassador Gunnar Lund signed a new Protocol to amend the existing bilateral income tax treaty, concluded in 1994, between the two countries. The Protocol was signed Friday afternoon.

The agreement significantly reduces tax-related barriers to trade and investment flows between the United States and Sweden. It also modernizes the treaty to take account of changes in the laws and policies of both countries since the current treaty was signed. The Protocol brings the tax treaty relationship with Sweden into closer conformity with U.S. treaty policy.

The most important aspect of the Protocol deals with the taxation of cross-border dividend payments. The Protocol is one of a few recent U.S. tax agreements to provide an elimination of the withholding tax on dividends arising from certain direct investments.

The Protocol also strengthens the treaty's provisions preventing so-called treaty shopping, which is the inappropriate use of a tax treaty by third-country residents.

REPORTS

- US Note
- Protocol
- Swedish Note

September 30, 2005

Excellency:

I have the honor to refer to the Protocol Amending the Convention between the Government of the United States of America and the Government of Sweden for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, which was signed today, and to confirm, on behalf of the Government of the United States of America, the following understandings reached between our two Governments.

1. With reference to clause ii) of subparagraph e) of paragraph 2 of Article 17 (Limitation on Benefits) of the Convention

It is understood that in applying clause ii) of subparagraph e) of paragraph 2 of Article 17 (Limitation on Benefits) in the case of Sweden the amount of a person's deductible payments and gross income for the taxable year shall be

His Excellency
Gunnar Lund,
Ambassador of Sweden.

reduced by the amount of group contributions paid to a Swedish resident or Swedish permanent establishment.

2. With reference to paragraph 6 of Article 17 (Limitation on Benefits) of the Convention

It is understood that in applying paragraph 6 of Article 17 (Limitation on Benefits), the legal requirements for the facilitation of the free flow of capital and persons within the European Union, together with the differing internal income tax systems, tax incentive regimes, and existing tax treaty policies among member states of the European Union, will be considered. Under that paragraph, the competent authority is instructed to consider as its guideline whether the establishment, acquisition or maintenance of a company or the conduct of its operations has or had as one of its principal purposes the obtaining of benefits under this Convention. The competent authority may, therefore, determine, under a given set of facts, that a change in circumstances that would cause a company to cease to qualify for treaty benefits under paragraphs 2 and 3 of Article 17 need not necessarily result in a denial of benefits. Such changed circumstances may include a change in the state of residence of a major shareholder of a company, the sale of part of the stock of a Swedish company to a person resident in another member state of the European Union, or an expansion of a company's activities in other member states of the European Union, all under ordinary business conditions. The competent authority will consider these changed circumstances (in addition to other relevant factors normally considered under paragraph 6 of Article 17) in determining whether such a company will remain qualified for treaty benefits with respect to income received from United States sources. If these changed circumstances are not attributable to tax avoidance motives, this also will be considered by the competent authority to be a factor weighing in favor of continued qualification under paragraph 6 of Article 17.

3. With reference to Article 26 (Exchange of Information) of the Convention

It is understood that the powers of each Contracting State's competent authorities 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 that would reveal confidential communications between a client and an attorney, solicitor or other legal representative, where the client seeks legal advice), and information relating to the ownership of legal persons, and that each Contracting State's competent authority is able to exchange such information in accordance with the Article.

If this is in accordance with your understanding, I would appreciate an acknowledgment from you to that effect.

Accept, Excellency, the renewed assurances of my highest consideration.

For the Secretary of State:

PROTOCOL
AMENDING THE CONVENTION BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF SWEDEN 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 Sweden, desiring to amend the Convention between the Government of the United States of America and the Government of Sweden for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, signed at Stockholm on September 1, 1994 (hereinafter referred to as "the Convention"),

Have agreed as follows:

ARTICLE I

Article 1 (Personal Scope) of the Convention is amended by:

a) omitting the last sentence of paragraph 4 and substituting the following sentence:

"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."; and

b) adding a new paragraph as follows:

"6. In the case of an item of income, profit or gain derived by or through a person that is fiscally transparent under the laws of either Contracting State, such item shall be considered to be derived by a resident of a State to the extent that the item is treated for the purposes of the taxation law of such State as the income, profit, or gain of a resident."

ARTICLE II

Article 2 (Taxes Covered) of the Convention is amended by omitting subparagraph b) of paragraph 1 and substituting the following:

"b) in Sweden:

i) the national income tax;

ii) the withholding tax on dividends;

iii) the income tax on non-residents;

iv) the income tax on non-resident artistes and athletes;

v) for the purpose of paragraph 3 of this Article, the national capital tax;

vi) the excise tax imposed on insurance premiums paid to foreign insurers; and

vii) the municipal income tax."

ARTICLE III

Article 4 (Residence) of the Convention is amended by omitting paragraph 1 and substituting the following:

"1. a) For the purposes of this Convention, the term "resident of a Contracting State" means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, place of management, place of incorporation, or any other criterion of a similar nature, and also includes that State and any political subdivision or local authority thereof. This term, however, does not include any person who is liable to tax in that State in respect only of income from sources in that State or of profits attributable to a permanent establishment in that State.

b) A United States citizen or an alien lawfully admitted for permanent residence in the United States is a resident of the United States, but only if such person has a substantial presence, permanent home, or habitual abode in the United States. If such person is also a resident of Sweden under this paragraph, such person will also be treated as a United States resident under this paragraph and such person's status shall be determined under paragraph 2.

c) The term "resident of a Contracting State" includes a legal person organized under the laws of that Contracting State and that is generally exempt from tax in that State and is established and maintained in that State either:

i) exclusively for religious, charitable, scientific, artistic, cultural, or educational purposes; or

ii) to provide pensions or other similar retirement benefits pursuant to a plan."

ARTICLE IV

1. Article 10 (Dividends) of the Convention shall be omitted and the following shall be substituted:

"ARTICLE 10

Dividends

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

2. However, such dividends may also be taxed in the Contracting State of which the company paying the dividends is a resident, and according to the laws of that State, but if the beneficial owner of the dividends is a resident of the other

Contracting State, the tax so charged shall not exceed:

a) 5 percent of the gross amount of the dividends if the beneficial owner is a company that owns shares representing at least 10 percent of the voting power in the company paying the dividends;

b) 15 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 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, shares representing 80 percent or more of the voting power in the company paying the dividends for a 12-month period ending on the date on which entitlement to the dividends is determined, and:

i) satisfies the conditions of clause i) or ii) of subparagraph c) of paragraph 2 of Article 17 (Limitation on Benefits);

ii) satisfies the conditions of clauses i) and ii) of subparagraph e) of paragraph 2 of Article 17, provided that the company satisfies the conditions described in paragraph 4 of that Article with respect to the dividends;

iii) is entitled to benefits with respect to the dividends under paragraph 3 of Article 17; or

iv) has received a determination pursuant to paragraph 6 of Article 17 with respect to this paragraph; or

b) a pension fund that is a resident of the other Contracting State, provided that:

i) such dividends are not derived from the carrying on of a trade or business by the pension fund or through an associated enterprise; and

ii) such pension fund does not sell or make a contract to sell the holding from which such dividend is derived within two months of the date such pension fund acquired such holding.

For the purposes of determining whether a company is entitled to benefits with respect to the dividends under paragraph 3 of Article 17, within the meaning of clause iii) of subparagraph a) of this paragraph, the determination of whether a person owning shares, directly or indirectly, in the company claiming the benefits of this Convention is an equivalent beneficiary shall be made by treating such person as holding the same voting power in the company paying the dividends as the company claiming the benefits holds in such company.

4. a) Subparagraph a) of paragraph 2 and subparagraph a) of paragraph 3 shall not apply in the case of dividends paid by a U.S. Regulated Investment Company (RIC) or a Real Estate Investment Trust (REIT). In the case of dividends paid by a RIC, subparagraph b) of paragraph 2 and subparagraph b) of paragraph 3 shall apply. In the case of dividends paid by a REIT, subparagraph b) of paragraph 2 and subparagraph b) of paragraph 3 shall apply only if:

i) the beneficial owner of the dividends is an individual or pension fund, in either case holding an interest of not more than 10 percent in the REIT;

ii) the dividends are paid with respect to a class of shares 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 REIT's shares; or

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

b) For purposes of this paragraph, a REIT shall be "diversified" if the value of no single interest in real property exceeds 10 percent of its total interests in real property. For the purposes of this provision, foreclosure property shall not be considered an interest in real property. Where a REIT 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 its interest in the partnership.

5. The term "dividends" as used in this Article means income from shares or other rights, not being debt-claims, participating in profits, as well as income from other corporate rights that is subjected to the same taxation treatment as income from shares by the laws of the State of which the company making the distribution is a resident, and income from arrangements, including debt obligations, carrying the right to participate in profits to the extent so characterized under the laws of the Contracting State in which the income arises as well as, in the case of the United States, contingent interest of a type that would not qualify as portfolio interest.

6. The provisions of paragraphs 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, or performs in that other State independent personal services from a fixed base situated therein, and the dividends are attributable to such permanent establishment or fixed base. In such case, the provisions of Article 7 (Business Profits) or Article 14 (Independent Personal Services), as the case may be, shall apply.

7. A Contracting State may not impose any tax on dividends paid by a company which is not a resident of that State, except insofar as:

a) the dividends are paid to a resident of that State; or

b) the dividends are attributable to a permanent establishment or a fixed base situated in that State.

8. A religious, scientific, literary, educational, or charitable organization that is resident in Sweden and that has received substantially all of its support from persons other than citizens or residents of the United States shall be exempt in the United States from the United States excise taxes imposed with respect to private foundations.

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 items of income that may be taxed in that other State under Article 6 (Income from Real Property) or under paragraph 1 of Article 13 (Gains), may be subject in that other Contracting State to a tax in addition to the tax allowable under the other provisions of this Convention. Such tax, however, may:

a) in the case of the United States be imposed only on:

i) the portion of the business profits of the company attributable to the permanent establishment, and

ii) the portion of the income referred to in the preceding sentence that is subject to tax under Article 6 or paragraph 1 of Article 13,

that represents the "dividend equivalent amount" of those profits and income; the term "dividend equivalent amount" shall, for the purposes of this subparagraph, have the meaning that it has under the law of the United States as it may be amended from time to time without changing the general principle thereof; and

b) in the case of Sweden be imposed only on that portion of the income described in subparagraph a) that is comparable to the amount that would be distributed as a dividend by a locally incorporated subsidiary.

10. The tax referred to in subparagraphs a) and b) of paragraph 9 shall not be imposed at a rate exceeding the rate specified in paragraph 2 a). In any case, it shall not be imposed on a company that:

a) satisfies the conditions of clause i) or ii) of subparagraph c) of paragraph 2 of Article 17;

b) satisfies the conditions of clauses i) and ii) of subparagraph e) of paragraph 2 of Article 17, provided that the company satisfies the conditions described in paragraph 4 of that Article with respect to an item of income, profit, or gain described in paragraph 9;

c) is entitled under paragraph 3 of Article 17 to benefits with respect to an item of income, profit, or gain described in paragraph 9; or

d) has received a determination pursuant to paragraph 6 of Article 17 with respect to this paragraph.

11. The term "pension fund" as used in this Article means any person that:

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

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

c) is exempt from tax in that Contracting State with respect to the activities described in subparagraph b).

2. Paragraph 5 of Article 24 (Non-Discrimination) shall be omitted and the following paragraph shall be substituted:

"5. Nothing in this Article shall be construed as preventing imposition of a tax described in paragraph 9 of Article 10 (Dividends)."

ARTICLE V

Article 17 (Limitation on Benefits) of the Convention shall be omitted and the following Article substituted:

"ARTICLE 17

Limitation on Benefits

1. A resident of a Contracting State shall be entitled to benefits otherwise accorded to residents of a Contracting State by this Convention only to the extent provided in this Article.

2. A resident of a Contracting State shall be entitled to all the benefits of this Convention if the resident is:

a) an individual;

b) a Contracting State or any political subdivision or local authority thereof;

c) a company, if:

i) its principal class of shares (and any disproportionate class of shares) is regularly traded on one or more recognized stock exchanges, and either:

A) its principal class of shares is primarily traded on a recognized stock exchange located in the Contracting State of which the company is a resident (or, in the case of a company resident in Sweden, on a recognized stock exchange located within the European Union or in any other European Economic Area state or in Switzerland or, in the case of a company resident in the United States, on a recognized stock exchange located in another state that is a party to the North American Free Trade Agreement); or

B) the company's primary place of management and control is in the Contracting State of which it is a resident; or

ii) at least 50 percent of the aggregate voting power and value of the shares (and at least 50 percent of any disproportionate class of shares) in the company are owned directly or indirectly by five or fewer companies entitled to benefits under clause i) of this subparagraph, provided that, in the case of indirect ownership, each intermediate owner is a resident of either Contracting State;

d) a person described in subparagraph c) of paragraph 1 of Article 4 (Residence), provided that, in the case of a person described in clause ii) of that subparagraph, either:

i) more than 50 percent of the person's beneficiaries, members or participants are individuals resident in either Contracting State; or

ii) the organization sponsoring such person is entitled to the benefits of this Convention pursuant to this Article; or

e) a person other than an individual, if:

i) on at least half the days of the taxable year at least 50 percent of each class of shares or other beneficial interests in the person is owned, directly or indirectly, by residents of the Contracting State of which that person is a resident that are entitled to the benefits of this Convention under subparagraph a), subparagraph b), clause i) of subparagraph c), or subparagraph d) of this paragraph; and

ii) less than 50 percent of the person's gross income for the taxable year, as determined in the person's State of residence, is paid or accrued, directly or indirectly, to persons who are not residents of either Contracting State entitled to the benefits of this Convention under subparagraph a), subparagraph b), clause i) of subparagraph c), or subparagraph d) of this paragraph in the form of payments that are deductible for purposes of the taxes covered by this Convention in the person's State of residence (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 bank that is not related to the payor).

3. A company that is a resident of a Contracting State shall also be entitled to the benefits of the Convention if:

a) at least 95 percent of the aggregate voting power and value of its shares (and at least 50 percent of any disproportionate class of shares) is owned, directly or indirectly, by seven or fewer persons that are equivalent beneficiaries; and

b) less than 50 percent of the company's gross income, as determined in the company's State of residence, for the taxable year is paid or accrued, directly or indirectly, to persons who are not equivalent beneficiaries, in the form of payments (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 bank that is not related to the payor), that are deductible for the purposes of the taxes covered by this Convention in the company's State of residence.

4. a) A resident of a Contracting State will be entitled to benefits of the Convention with respect to an item of income derived from the other Contracting State, regardless of whether the resident is entitled to benefits under paragraph 2 or 3, if the resident is engaged in the active conduct of a trade or business in the first-mentioned State (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 bank, insurance company or registered securities dealer), and the income derived from the other Contracting State is derived in connection with, or is incidental to, that trade or business.

b) If a resident of a Contracting State or any of its associated enterprises carries on a trade or business activity in the other Contracting State which gives rise to an item of income, subparagraph a) of this paragraph shall apply to such item only if the trade or business activity in the first-mentioned State is substantial in relation to the trade or business activity in the other State. Whether a trade or business activity is substantial for purposes of this paragraph will be determined based on all the facts and circumstances.

c) In determining whether a person is "engaged in the active conduct of a trade or business" in a Contracting State under subparagraph a) of this paragraph, 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 voting power and at least 50 percent of the aggregate value of the shares in the company or of the beneficial equity interest in the company) or 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 voting power and at least 50 percent of the aggregate value of the shares in the company or of the beneficial equity interest in the company) in each person. In any case, a person shall be considered to be connected to another if, based on all the relevant facts and circumstances, one has control of the other or both are under the control of the same person or persons.

5. Notwithstanding the preceding provisions of this Article, where an enterprise of Sweden derives insurance premiums, interest, or royalties from the United States, and, pursuant to a tax convention between Sweden and a third state, the income consisting of such premiums, interest, or royalties is exempt from taxation in Sweden because it is attributable to a permanent establishment which that enterprise has in that third state, the tax benefits that would otherwise apply under the other provisions of the Convention will not apply to such income if the tax that is actually paid with respect to such income in the third state is less than 60 percent of the tax that would have been payable in Sweden if the income were earned in Sweden by the enterprise and were not attributable to the permanent establishment in the third state. Any interest or royalties to which the provisions of this paragraph apply may be taxed in the United States at a rate that shall not exceed 15 percent of the gross amount thereof. Any insurance premiums to which the provisions of this paragraph apply will be subject to tax under the provisions of the domestic law of the United States, notwithstanding any other provision of the Convention. The provisions of this paragraph shall not apply if:

a) in the case of interest, as defined in Article 11 (Interest), the income from the United States is derived in connection with, or is incidental to, the active conduct of a trade or business carried on by the permanent establishment in the third state (other than the business of making, managing, or simply holding investments for the enterprise's own account, unless these activities are banking, or securities activities carried on by a bank, or registered securities dealer); or

b) in the case of royalties, as defined in Article 12 (Royalties), the royalties are received as compensation for the use of, or the right to use, intangible property produced or developed by the permanent establishment itself.

6. A resident of a Contracting State that is not entitled to benefits pursuant to the preceding paragraphs of this Article shall, nevertheless, be granted benefits of the Convention if the competent authority of the other Contracting State determines that the establishment, acquisition, or maintenance of such person and the conduct of its operations did not have as one of its principal purposes the obtaining of benefits under the Convention. The competent authority of the other Contracting State shall consult with the competent authority of the first-mentioned State before denying the benefits of the Convention under this paragraph.

7. For the purposes of this Article:

a) the term "principal class of shares" means the ordinary or common shares of the company, provided that such class of shares represents the majority of the voting power and value of the company. If no single class of ordinary or common shares represents the majority of the aggregate voting power and value of the company, the "principal class of shares" are those classes that in the aggregate represent a majority of the aggregate voting power and value of the company;

b) the term "disproportionate class of shares" means any class of shares of a company resident in a Contracting State that entitles the shareholder to disproportionately higher participation, through dividends, redemption payments, or otherwise, in the earnings generated in the other Contracting State by particular assets or activities of the company when compared to its participation in overall assets or activities of such company;

c) the term "shares" shall include depository receipts thereof;

d) the term "recognized stock exchange" means:

i) the NASDAQ System owned by the National Association of Securities Dealers, Inc. and any stock exchange registered with the U.S. Securities and Exchange Commission as a national securities exchange under the U.S. Securities Exchange Act of 1934;

ii) the Stockholm Stock Exchange (Stockholmsbörsen), the Nordic Growth Market, and any other stock exchange subject to regulation by the Swedish Financial Supervisory Authority;

iii) the Irish Stock Exchange and the stock exchanges of Amsterdam, Brussels, Copenhagen, Frankfurt, Hamburg, Helsinki, London, Madrid, Milan, Oslo, Paris, Reykjavik, Riga, Tallinn, Toronto, Vienna, Vilnius and Zurich; and

iv) any other stock exchanges agreed upon by the competent authorities of the Contracting States;

e) a class of shares is 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;

f) a company's primary place of management and control will be in the Contracting State of which it is a resident only if executive officers and senior management employees exercise day-to-day responsibility for more of the strategic, financial, and operational policy decision making for the company (including its direct and indirect subsidiaries) in that State than in any other state, and the staffs conduct more of the day-to-day activities necessary for preparing and making those decisions in that State than in any other state;

g) the term "equivalent beneficiary" means a resident of a member state of the European Union or of any other European Economic Area state or of a party to the North American Free Trade Agreement. or of Switzerland, but only if that resident:

i) A) would be entitled to all the benefits of a comprehensive tax convention between any member state of the European Union or any other European Economic Area state or any party to the North American Free Trade Agreement, or Switzerland, and the State from which the benefits of this Convention are claimed under provisions analogous to subparagraph a), subparagraph b), clause i) of subparagraph c) or subparagraph d) of paragraph 2, provided that if such convention does not contain a comprehensive limitation on benefits provision, the resident would be entitled to the benefits of this Convention by reason of subparagraph a), subparagraph b), clause i) of subparagraph c), or subparagraph d) of paragraph 2 if such person were a resident of one of the Contracting States under Article 4 (Residence); and

B) with respect to insurance premiums and to income referred to in Article 10 (Dividends), 11 (Interest), or 12 (Royalties), would be entitled under such convention to a rate of tax with respect to the item of income for which benefits are being claimed under this Convention that is at least as low as the rate applicable under this Convention; or

ii) is a resident of a Contracting State that is entitled to the benefits of this Convention by reason of subparagraph a), subparagraph b), clause i) of subparagraph c), or subparagraph d) of paragraph 2;

h) with respect to dividends, interest, or royalties arising in Sweden

and beneficially owned by a company that is a resident of the United States, a company that is a resident of a member state of the European Union will be treated as satisfying the requirements of subparagraph g) i) B) for purposes of determining whether such United States resident is entitled to benefits under this paragraph if a payment of dividends, interest, or royalties arising in Sweden and paid directly to such resident of a member state of the European Union would have been exempt from tax pursuant to any directive of the European Union, notwithstanding that the tax convention between Sweden and that other member state ofthe European Union would provide for a higher rate of tax with respect to such payment than the rate of tax applicable to such United States company under Article 10, 11, or 12."

ARTICLE VI

Article 20 (Government Service) shall be amended by adding the following new paragraph:

"4. Notwithstanding paragraph 2, Sweden shall not tax a pension, paid by the U.S. Government to Swedish citizens and residents (and those beneficiaries entitled to survivors benefits), if the relevant individual was hired prior to 1978 by the U.S. Government to work for the United States embassy in Stockholm or the United States consulate general in Gothenburg and was covered under the United States Civil Service Retirement pension plan."

ARTICLE VII

Article 23 (Relief from Double Taxation) of the Convention shall be amended by:

a) adding the words "or former citizen or former long-term resident" after the words "United States citizen" both in the chapeau to paragraph 3 and at the very end of subparagraph a) of paragraph 3; and

b) adding the words "or former citizenship or former long-term residency" after the word "citizenship" in clause (i) of subparagraph a) of paragraph 4.

ARTICLE VIII

1. This Protocol shall be subject to ratification in accordance with the applicable procedures of each Contracting State. Each Contracting State shall notify the other through the diplomatic channel, accompanied by an instrument of ratification, when it has completed the required procedures.

2. This Protocol shall enter into force on the 30th day after the later of the notifications, accompanied by an instrument of ratification, referred to in paragraph 1, and its provisions shall have effect:

a) in the case of the United States:

i) in respect of taxes withheld at source, for amounts paid or credited on or after the first day of the second month next following the date on which the Protocol enters into force;

ii) in respect of other taxes, for taxable years beginning on or after the first day of January next following the date on which the Protocol enters into force;

b) in the case of Sweden:

i) in respect of the taxes on income covered by Article VI, for income derived on or after January 1, 1996;

ii) in respect of taxes withheld at source, for amounts paid or credited on or after the first day of the second month next following the date on which the Protocol enters into force;

iii) in respect of other taxes, for taxable years beginning on or after the first day of January next following the date on which the Protocol enters into force.

3. This Protocol shall remain in effect as long as the Convention remains in force.

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

DONE in duplicate at Washington on the day of September, 2005, in the English language.

FOR THE GOVERMENT OF THE UNITED STATES OF AMERICA

FOR THE GOVERNMENT OF SWEDEN

Her Excellency
Condoleezza Rice,
Secretary of State of the
United States of America.

Excellency:

I have the honor to acknowledge the receipt of your note of September 30, 2005 which reads as follows:

I have the honor to refer to the Protocol Amending the Convention between the Government of the United States of America and the Government of Sweden for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, which was signed today, and to confirm, on behalf of the Government of the United States of America, the following understandings reached between our two Governments.

1. With reference to clause ii) of subparagraph e) of paragraph 2 of Article 17 (Limitation on Benefits) of the Convention

It is understood that in applying clause ii) of subparagraph e) of paragraph 2 of Article 17 (Limitation on Benefits) in the case of Sweden the amount of a person's deductible payments and gross income for the taxable year shall be reduced by the amount of group contributions paid to a Swedish resident or Swedish permanent establishment.

2. With reference to paragraph 6 of Article 17 (Limitation on Benefits) of the Convention

It is understood that in applying paragraph 6 of Article 17 (Limitation on Benefits), the legal requirements for the facilitation of the free flow of capital and persons within the European Union, together with the differing internal income tax systems, tax incentive regimes, and existing tax treaty policies among member states of the European Union, will be considered. Under that paragraph, the competent authority is instructed to consider as its guideline whether the establishment, acquisition or maintenance of a company or the conduct of its operations has or had as one of its principal purposes the obtaining of benefits under this Convention. The competent authority may, therefore, determine, under a given set of facts, that a change in circumstances that would cause a company to cease to qualify for treaty benefits under paragraphs 2 and 3 of Article 17 need not necessarily result in a denial of benefits. Such changed circumstances may include a change in the state of residence of a major shareholder of a company, the sale of part of the stock of a Swedish company to a person resident in another member state of the European Union, or an expansion of a company's activities in other member states of the European Union, all under ordinary business conditions. The competent authority will consider these changed circumstances (in addition to other relevant factors normally considered under paragraph 6 of Article 17) in determining whether such a company will remain qualified for treaty benefits with respect to income received from United States sources. If these changed circumstances are not attributable to tax avoidance motives, this also will be considered by the competent authority to be a factor weighing in favor of continued qualification under paragraph 6 of Article 17.

3. With reference to Article 26 (Exchange of Information) of the Convention

It is understood that the powers of each Contracting State's competent authorities 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 that would reveal confidential communications between a client and an attorney, solicitor or other legal representative, where the client seeks legal advice), and information relating to the ownership of legal persons, and that each Contracting State's competent authority is able to exchange such information in accordance with the Article.

If this is in accordance with your understanding, I would appreciate an acknowledgment from you to that effect.

Accept, Excellency, the renewed assurances of my highest consideration."

I have the honor to confirm, on behalf of the Government of Sweden, that the references to clause ii) of subparagraph e) of paragraph 2 of Article 17, paragraph 6 of Article 17 and Article 26, as specified by you, is in accordance with our understanding.

Accept, Excellency, the renewed assurances of my highest consideration.

Dated at Washintgon, D.C., September 2005

[Gunnar Lund]

PRESS ROOM

October 3, 2005
JS-2960

Treasury Designates Seven Al Qaida Associates

The U.S. Department of the Treasury designated seven Egyptian individuals pursuant to Executive Order 13224 for acting for and on behalf of Egyptian Islamic Jihad (EIJ), a terrorist group that merged with al Qaida in 2001.

"This action targets the financing mechanisms used by those rogue actors supporting al Qaida," said Robert Werner, Director of the Treasury's Office of Foreign Assets Control (OFAC). "Designations are central to identifying and disrupting the support networks fueling al Qaida's agenda."

The activities of these individuals included training and providing material support to al Qaida, as well as conspiring to commit terrorist acts. One of the individuals, Madhat Mursi Al-Sayyid Umar, was an explosives and chemical substances specialist for al Qaida. Another designee, Abdullah Muhammad Rajab Abd Al-Rahman, was responsible for coordinating al Qaida's work with other terrorist organizations.

These individuals are wanted by Egyptian authorities for their involvement in terrorist cases and membership in a terrorist organization.

The United States is taking this action pursuant to United Nations Security Counsel Resolution 1617, which requires member states to financially isolate individuals and entities added to the UN 1267 Committee's consolidated list of terrorists tied to the Taliban, al Qaida and UBL.

Identifying Information

AL-SIBA'I, Hani Muhammad Yusuf
AKA: YUSUF, Hani al-Sayid Al-Sibai
DOB: 1 March 1961
POB: Qaylubiyah, Egypt
Nationality: Egyptian

UMAR, Madhat Mursi Al-Sayyid
DOB: 19 October 1953
POB: Alexandria, Egypt
Nationality: Egyptian

HUSAYN ALAYWAH, Al-Sayyid Ahmad Fathi
DOB: 30 July 1964
POB: Suez, Egypt
Nationality: Egyptian

AHMAD, Zaki Izzat Zaki
DOB: 21 April 1960
POB: Sharqiyah, Egypt
Nationality: Egyptian

ABD AL-RAHMAN, Abdullah Muhammad Rajab
AKA: ABU AL-KHAYR, Ahmad Hasan
DOB: 3 November 1957
POB: Kafr al-Shaykh, Egypt
Nationality: Egyptian

AL-ISLAMBULI, Muhammad Ahmad Shawqi
DOB: 21 January 1952
POB: Minya, Egypt

Nationality: Egyptian

MUSTAFA BAKRI, Ali Sa'd Muhammad
AKA: AL-MASRI, Abd Al-Aziz
DOB: 18 April 1966
Nationality: Egyptian

This action prohibits any transactions between U.S. persons and the designees and also freezes any assets they may have within U.S. jurisdiction.

PRESS ROOM

October 3, 2005
JS-2961

Treasury Secretary Snow Appoints
David Loevinger as Financial Attaché in China

Treasury Secretary John W. Snow today announced that he is appointing David Loevinger as the Department's Financial Attaché in China. Loevinger will be responsible for direct engagement with China on a broad array on economic issues including banking, capital markets, financial regulation, monetary policy, and exchange rate policy.

"David's deployment comes at a critical juncture in the United State's economic dialogue with China," said Secretary Snow. "I'm pleased we will have him on the ground to lead our extensive communications with Chinese economic authorities at all levels and maintain the close and continual communications on the many economic issues that face both of our countries and the global economy."

Loevinger is currently the Deputy Assistant Secretary for Africa, the Middle East and Asia reporting to the Assistant and Under Secretary for International Affairs. Loevinger advises senior Treasury officials on activities of the International Monetary Fund, World Bank, and regional development banks in these regions. He has led efforts to encourage Asian economies to adopt flexible exchange rates in fora such as the Asia-Pacific Economic Cooperation (APEC) and in improving the effectiveness of U.S. financial assistance provided to Turkey, Israel, Egypt, and Pakistan. His earlier positions at Treasury (he first joined in 1991 as a staff economist) included Director of the Office of East Asian Nations, Special Assistant to the Under Secretary, Economist on the Mexico Crisis Task Force, and Assistant Attaché in Paris.

In 1995-1999, Loevinger worked at the IMF, first in the U.S. Executive Director's office and then as an economist in the Caribbean Division.

Loevinger received a B.A. from Dartmouth College in 1984. In 1988, he completed a Master's in Public Policy from the Kennedy School and then spent three years working for the Office of the U.S. Trade Representative, the Senate Banking Committee, and the U.S. Commerce Department.

PRESS ROOM

October 3, 2005
JS-2962

Treasury Secretary Snow to Travel to Japan and China
Visit Will Include Meetings of G-20 and the U.S.-China Joint Economic Commission

Treasury Secretary John W. Snow will visit Tokyo and three cities in China next week on the way to meetings of the Group of 20 finance ministers and central bank governors in Beijing.

The Secretary will be in Tokyo October 10-11 for meetings with economic officials. Secretary Snow is expected to meet with Japanese Finance Minister Tanigaki to discuss economic developments in the region -- in particular, the recent return to economic growth in Japan.

From Tokyo, Secretary Snow will travel to Shanghai, China's predominant trade and finance center. On October 11-13 he will meet with financial sector leaders based in Asia, and other representatives of the business community, including a visit to the Shanghai Stock Exchange. He will also visit a new office of operations for China's foreign exchange trading system.

On October 13, Secretary Snow will travel to Chengdu, located in Sichuan province in western China. There the delegation will have the opportunity to observe the progress of economic reform in China outside of the major coastal centers. The visit will include a visit to a flight school that trains commercial pilots, a credit institution, visits to Chengdu's business district, and other meetings.

Secretary Snow will join other finance ministers and central bank governors in Grand Epoch City, located outside of Beijing, on October 14. The G-20 meetings will conclude on Sunday, October 16.

Following the G-20 meetings, Secretary Snow will lead the U.S. delegation at the U.S.-China Joint Economic Commission (JEC). Joining Snow for the JEC will be Federal Reserve Chairman Alan Greenspan, Chairman of the Securities and Exchange Commission Chris Cox, and Chairman of the Commodity Futures Trading Commission Reuben Jeffery III.

The Treasury delegation will include Tim Adams, Under Secretary for International Affairs, and David Loevinger, recently appointed as the Treasury Department's permanent financial attaché in Beijing.

PRESS ROOM

October 4, 2005
2005-10-4-13-55-12-7669

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 $71,428 million as of the end of that week, compared to $71,750 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	September 23, 2005			September 30, 2005		
TOTAL	71,750			71,428		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	11,291	11,346	22,637	11,257	11,232	22,489
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,982	5,493	16,475	10,969	5,439	16,408
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]			13,310			13,245
3. Special Drawing Rights (SDRs) [2]			8,287			8,245
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	September 23, 2005			September 30, 2005		
	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

p://www.treas.gov/press/releases/js

III. Contingent Short-Term Net Drains on Foreign Currency Assets						
	September 23, 2005			September 30, 2005		
	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 IMF data for the prior month end.

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

PRESS ROOM

October 5, 2005
JS-2963

Treasurer to Discuss Strengthening Social Security and Financial Education in San Antonio, TX

U.S. Treasurer Anna Escobedo Cabral will travel to San Antonio, TX on Friday to discuss President Bush's efforts to strengthen and preserve Social Security and increase financial education in America.

The following events are open to the media:

WHAT
Hispanic Women's Network of Texas 19th Annual Conference, Keynote Speaker

WHERE
Omni Hotel
9821 Colonnade Boulevard
San Antonio, TX

WHEN
Friday, October 7, 2:00 p.m. CDT

PRESS ROOM

October 6, 2005
JS-2964

Testimony of the Honorable John W. Snow
Before the Committee on Finance
U.S. Senate

Chairman Grassley, Ranking Member Baucus and Members of the Committee, thank you for the work you have done and are doing to help the people of the Gulf Coast region survive and recover. And thank you for inviting me to appear before this committee to explore the ways that Congress and the Administration can assist in the long-term rebuilding of the Gulf Coast region.

As a nation, we continue to grieve over the losses experienced by our fellow Americans who made the Gulf Coast region their home. There was a heartrending loss of life and extensive loss of possessions and property. For many survivors, there is nothing left.

The devastation of Katrina and the repeated misery brought by Rita left a scar on this nation. But America is a strong nation and Americans are profoundly resilient. And many are already rebuilding their communities or are anxiously waiting to start. We intend to help them.

People in the region must rebuild their infrastructure, their homes and their businesses. The overriding goal must be that everyone has an opportunity to build a better life for themselves and their families. We look forward to a time when victims can make their own future. Nothing less is acceptable.

It is critically important – and the President has made this clear – that as we help the region, we do so in a fiscally responsible way. The President called upon Congress this week to pay for as much of hurricane relief as possible by cutting spending. And we will work with you to identify offsets that will free up money for the reconstruction efforts.

Economic Background

We have a strong, vibrant economy, and that is going to be critical as we pursue rebuilding efforts. While there is clearly no "good time" to be hit by a devastating natural disaster, we were fortunate to be standing on very solid economic ground, with robust underlying fundamentals, when these terrible storms struck. Our economic strength undoubtedly enhances our ability to deal with this disaster.

With a strong economy, we can better afford to meet any challenge. I know that this committee is keenly aware of that fact, and I appreciate your work to make our economy the strongest and most adaptive in the world. The work that Congress did to pass economy-invigorating tax cuts in 2001, 2002 and 2003 is one of the reasons we are standing on solid economic ground today.

While the President's tax cuts were designed for the good of the American people in terms of economic growth and job creation, we are reminded today that a strong economy can also serve as a type of shelter against storms – natural or economic that are beyond our control.

Over the short term, our economy will feel the impact of Katrina and Rita, as jobs, property, and businesses have been lost, and gas prices have edged higher. High fuel prices are a burden on businesses and family budgets.

These terrible storms likely took away from economic wealth in the third quarter, but I am optimistic that rebuilding efforts will restore lost GDP by the first quarter of next year.

We can encourage this rebound even further by preserving the tax cuts that gave our economy the opportunity to grow and put us on the solid footing we enjoy today. Let me be clear on this point: now is not the time to increase the tax burden on the American people. Lower tax burdens encourage innovation, economic growth and job creation – all the things we need to help hurricane-ravaged communities recover and rebuild.

Treasury and IRS Action in the Wake of the Hurricanes

As the topic of this hearing recognizes, well-tailored fiscal policy is an effective tool during times of disaster recovery. In the wake of both Katrina and Rita, the Treasury Department and the IRS took immediate action to provide tax relief to hurricane victims, and also to encourage the charitable giving that is so important to both short and long-term recovery efforts.

We appreciate that the last thing people in the devastated areas needed to worry about, in the days following these terrible storms, is taxes. So we granted tax filing and payment relief to all affected taxpayers. We also waived certain requirements for developers to receive the low-income housing tax credit so that displaced victims, regardless of financial status, could have access to that housing during this time of great need.

In the aftermath of Katrina, it quickly became clear that diesel fuel was needed for rescue and relief efforts. Treasury has therefore provided relief from penalties for highway use of dyed diesel fuel – a type of fuel that had been limited to certain uses for tax purposes – in order to increase availability of diesel fuel.

We've also announced that we'll be providing additional help for business development by giving a priority to applicants from the Gulf region for New Markets Tax Credits. This step will help encourage businesses and investors to come back to the region quickly to create commerce and jobs.

The IRS also assigned thousands of employees to augment the FEMA hurricane victim registration effort and established its own dedicated toll-free disaster number and a special section of their internet web site. So far IRS employees have answered well over 760,000 registration calls for FEMA. They have answered more than 30,000 calls on the special IRS toll-free line for affected taxpayers, and they have filled orders for nearly 180,000 Disaster Relief Kits.

Commissioner Everson and the terrific employees of the IRS have done an outstanding job. I applaud their dedication and thank them for their excellent service to the American people.

At Treasury, we are also making sure that hurricane survivors have access to the financial resources they need, starting with the checks they receive from the government, like Social Security, unemployment payments, and direct disaster assistance. This is an area where cooperation and support from private industry is also helping us get the job done.

We also worked closely with banking regulators, who have asked the institutions they oversee to consider all reasonable and prudent steps to assist their customers' cash and financial needs in areas affected by Katrina and Rita.

Rebuilding: Higher, Better, Responsibly

As the President said in his September 15th address to the nation, the task of rebuilding "will require the creative skill and generosity of a united country" and our vision of the future is not just to rebuild, but to rebuild "higher and better."

The Administration is committed to helping the region re-build – and we should do so in a manner that is fiscally responsible.

The relief and reconstruction efforts will be costly and are likely to have a short-term impact on the deficit. But these will be one-time costs. And they can be met while also meeting the President's commitment to halve the deficit by 2009.

I appreciated the story that the President told, in his September 15th speech, about a man in New Orleans who had lost his home. When asked by a reporter if he would relocate, the man said, "No, I will rebuild – but I'll build higher."

Every party involved in the rebuilding and revitalization of the region – from individuals to businesses to government – must embrace the attitude of that man, an individual who has lost so much but will prevail because he lives by a code of common sense and responsibility as well as all-American optimism.

To spend taxpayer dollars on anything that does not "build higher," that does not provide essential relief or generate real progress, or that can be washed away by the next storm, would be irresponsible.

While it is impossible, at this point, to assign a dollar figure to the federal rebuilding efforts, we are committed to principled, disciplined spending that is commensurate with the needs of the region.

We must approach this task with a number of clear goals and be mindful of avoiding moral hazard.

First, we must minimize the exposure of individuals to harm from future disasters. Clearly, the physical disaster protection needs of the region must be met.

Second, redevelopment plans must minimize the future exposure of all taxpayers, in recognition of the fact that the federal government is effectively often the insurer of last resort in large-scale disasters. In other words, we should not set a precedent that the taxpayer is the first-dollar insurer in all disasters.

Finally, redevelopment must tap the resources of the private sector and all of the efficiency and innovation that it brings.

Federal Action to Date

As you well know, over $60 billion has been appropriated to the FEMA Disaster Relief Fund by Congress for the Katrina emergency response. As of last week, $19.1 billion of the Disaster Relief Fund has been allocated for programs consistent with the Stafford Act and past practice, namely human services (mostly housing assistance), infrastructure, mitigation, operations and administration.

You have also passed tax relief to assist the victims and encourage rebuilding, and I applaud you for these actions. The people of the region are appreciative to the members of this Committee for acting quickly and decisively, and in a bipartisan manner. We look forward to working with you and hope the same spirit and cooperation will produce a second tax bill in the coming weeks.

The President's Proposals

The President has proposed a number of initiatives to spur rebuilding – and a better life – in the Gulf Coast. We look forward to working with the members of this Committee to bring these proposals to fruition, and I'd like to outline their basic purpose for you today.

A Gulf Opportunity Zone, or GO Zone, would help local economies devastated by Hurricane Katrina by providing tax relief and loans for businesses and entrepreneurs who invest in the region and create jobs. Small businesses in the GO Zone would be able to double their business expensing from $100,000 to $200,000 for investments in new equipment, take advantage of a 50 percent bonus depreciation, and receive tax relief for the building of new structures.

The GO Zone would also make available more funding for loans and loan guarantees for small businesses, including minority-owned enterprises, to get them up and running again.

The Gulf Coast hurricanes were specific and devastating events. But there is an American truism that will apply to the recovery of the area just as it has applied to the incredible growth and success of our country since its inception: entrepreneurship will create jobs and opportunity and help break the cycle of poverty. GO Zones are designed to facilitate that power of entrepreneurship and small business to the Gulf Coast.

The President has also proposed worker recovery accounts to help those who need extra help finding a job – a key to independence and a better life.

Finally, the President has proposed an urban homesteading initiative to provide a new beginning, in the form of a new home, for lower-income hurricane evacuees. Homeownership is one of the great strengths of any community, and it must be a central part of our vision for the revival of this region.

The Federal Role: Getting the Right Balance

The size and the scope of hurricane damage is unprecedented in our history. On an individual level, losses came in the form of homes, jobs and loved ones. Economically, lost income and infrastructure damage have national significance.

That said, it is essential that the Federal government play an appropriate role, but it should avoid taking steps that are excessive. We must tailor our response appropriately.

No one can say with certainty how much it will take to rebuild the region. The Federal government is still assessing the cost of lost infrastructure, for example. State and local governments are still grappling with the most immediate needs; they and community leaders will need time to plan.

How can we draw the lines? Much of that has yet to be determined. We must first be sure we understand the nature of the losses, some of which will be covered by insurance and reserves.

The Administration is seeking a backstop for local and municipal governments, to the extent traditional forms of support such as their own tax base, borrowing capacity, and state aid prove insufficient to provide essential services. We will work with the Congress to make sure this aid is effective.

For instance, some have proposed guarantees or other backstops of local and municipal bond issuance. In this area, I want to be very clear: while relief is needed, federal assumption or guarantees of localities' debt is highly undesirable and something Treasury would oppose. A federal bailout in the form of Treasury guaranteeing municipal securities could result in a risk premium on Treasury issuance going forward.

Providing a guarantee – a government-sponsored protection of investors – would be an intrusion in the private markets, disrupting the assessment of risk, which is essential to the proper function of markets. More importantly, such a guarantee would do little to put actual money in the hands of those who need it most - the individual victims. We cannot support that.

The Task Ahead

The task ahead is not simple, but America is no stranger to struggle, nor to solutions. We picked ourselves up after 9/11 and other disasters, and we have the will and the resources and the resolve to do so again. It is the spirit of Americans to pick themselves up, to rebuild and to be stronger than ever before.

Let me close by laying out a course of action that I believe will translate to the fiscally responsible rebuilding that I believe we are all committed to:

- Build infrastructure that mitigates the future exposure to storm damage.
- Avoid moral hazard by taking steps to promote and encourage prudent future planning including the appropriate role of insurance.

- Avoid damaging the national economy and our financial system.

Thank you, we look forward to working with you, and I look forward to taking your questions.

PRESS ROOM

October 6, 2005
JS-2965

Statement of Jennifer L. Dorn
Nominee for United States Alternate Executive Director
of
The International Bank for Reconstruction and Development
Before the Committee on Foreign Relations

Chairman Lugar, Senator Biden, and distinguished Members of the Committee, thank you for the opportunity to appear before you today. I am grateful to President Bush for my nomination to serve as the United States Alternate Executive Director of the International Bank for Reconstruction and Development. If confirmed, it will be an honor to serve under Secretary Snow and work with the Treasury Department to help ensure that America's investments in the World Bank stimulate growth and reduce poverty in developing countries throughout the world.

This is a critical time in the history of the World Bank. The international community is facing profound challenges in fighting acute poverty, disease and strife. At the same time, President Bush has made unprecedented commitments to development and democracy throughout the world; the U.S. Congress, with the leadership of this Committee, has provided historic levels of support; and Mr. Wolfowitz brings strong leadership to an institution with an increasingly complex and vital mission.

It has been my privilege to enjoy a life-long career in public service. I have held leadership positions in a wide range of not-for-profit and government organizations, from the Federal Transit Administration to the American Red Cross; from the National Health Museum to the U.S. Department of Labor. I have been honored to work for and with people, like Senator Dole, who are dedicated to making a difference in the lives of people in need.

In its many ambitious and important projects, the World Bank strives to promote economic growth, while living up to the highest standards of financial stewardship; to improve the quality of life of millions of people in need, while protecting the environment. This mission is both inspiring and extraordinarily difficult.

Notwithstanding my passion for the mission of the World Bank, I recognize that wanting to "do good" is not enough; results are the true measure of success and measurement of results is critical to insure that taxpayer investment -- domestic or international – produce the intended effect. At the Federal Transit Administration, for example, I put into place a system of executive performance accountabilities tied to the effectiveness of a $7 billion annual investment in public transportation.

Among the important results we identified, none was more meaningful than living up to the President's charge to "bring back New York" after the horrific events of September 11. Our urgent mission was to expeditiously deliver and ensure good stewardship of $4.5 billion appropriated by Congress to restore and rebuild the transportation infrastructure destroyed in Lower Manhattan. Like the other transit projects already underway in Lower Manhattan, this project will help drive economic growth; it will be delivered on time and within budget; and it will be completed with careful attention to complex environmental challenges and the importance of honoring the memory of the victims of September 11.

To ensure rigorous financial discipline, we developed and utilized a risk assessment and management tool that is now an essential component of FTA's evaluation of major capital projects. To minimize negative environmental impacts while expediting these critical projects, we pioneered an effective partnership among Federal, State and local stakeholders that recognized the potential impacts of the multiple construction projects that would be underway simultaneously in Lower

Manhattan. And to help protect the sanctity of the World Trade Center site, we reached out to the victims' families and the affected community as project plans were developed. And I am proud to say, just weeks ago Transportation Secretary Mineta broke ground for the new transit station that will serve millions of passengers at the World Trade Center site.

The challenges we faced in rebuilding New York City were not unique. We knew, as the World Bank knows, that we would find better solutions by building strong partnerships.

As for my International experience, when I was senior vice president of the American Red Cross, I oversaw its international disaster relief and assistance to victims of war. Among other responsibilities, I served as the American Red Cross lead representative to the Federation, composed of Red Cross and Red Crescent societies from 154 countries, and served on its Executive Committee. In addition, I was personally asked and agreed to serve on an international commission to resolve differences between the International Committee of the Red Cross (ICRC) and the Federation of Red Cross and Red Crescent Societies (Federation), to ensure that humanitarian relief efforts could proceed effectively during conflict situations.

During my tenure at the Red Cross, the world faced devastation of unimaginable proportions in Africa, the former Soviet republics, and Armenia. I was awed by the generosity and good will of the American people as they supported Red Cross relief efforts. Today, we are dealing with back-to-back natural disasters in our own country with great confidence that those affected will be able to rebuild their lives. Our confidence in America's resilience is rooted in our commitment to the principles that have been articulated by President Bush as the foundation for effective international aid, as well. As the President has reminded us, "Where there is freedom and the rule of law, every dollar of aid, trade, charitable giving, and foreign and local investment can rapidly improve people's lives."

In America, we have established the fundamental building blocks that you, Mr. Chairman, have recognized as critical to the effectiveness of the investments that American taxpayers make through the World Bank. Fighting corruption and increasing transparency are key priorities of the U.S. government at the World Bank. Your leadership in this arena has made a vital contribution to the efforts of the World Bank and other multilateral banks to improve living conditions around the world. And it has inspired the World Bank to establish some of the highest standards of ethics and stewardship in its own operations. Nonetheless, our work must be expanded because corruption, where it exists, is complex and deeply rooted.

If confirmed, I will dedicate the full measure of my leadership experience to ensuring that the high expectations established by the President and this Committee are achieved. Like President Bush, I believe that "Economic aid that expects little will achieve little. Economic aid that expects much can help to change the world."

Thank you very much, Mr. Chairman.

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

FEDERAL FINANCING BANK SETEMBER 2005

Brian D. Jackson, Chief Financial Officer, Federal Financing Bank (FFB) announced the following activity for the month of August 2005.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $27.6 billion on August 31, 2005, posting an increase of $126.6 million from the level on July 31, 2005. This net change was the result of an increase in net holdings of government-guaranteed loans of $126.6 million. The FFB made 47 disbursements and received 8 prepayments during the month of August.

Attached to this release are tables presenting FFB August loan activity and FFB holdings as of August 31, 2005.

Department of the Treasury
Library

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JS-2966

FEDERAL FINANCING BANK
AUGUST 2005 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
GOVERNMENT-GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
San Francisco OB	8/01	$6,087,444.17	2/01/35	4.581% S/A
San Francisco Bldg Lease	8/01	$89,055,864.27	2/01/35	4.581% S/A
San Francisco OB	8/01	$10,024,555.47	2/01/35	4.581% S/A
San Francisco Bldg Lease	8/09	$3,993,387.97	8/01/35	4.720% S/A
Foley Square Office Bldg.	8/11	$174,770.00	7/31/25	4.639% S/A
San Francisco OB	8/11	$67,672.38	2/01/35	4.697% S/A
Foley Services Contract	8/12	$4,901.74	7/31/25	4.565% S/A
Foley Services Contract	8/22	$5,480.50	7/31/25	4.439% S/A
San Francisco Bldg Lease	8/24	$4,274,968.76	8/01/35	4.511% S/A
DEPARTMENT OF EDUCATION				
Tuskegee Univ.	8/04	$230,783.86	1/02/32	4.488% S/A
RURAL UTILITIES SERVICE				
Brazos Electric #2086	8/01	$5,000,000.00	7/02/35	4.426% Qtr.
Brazos Electric #2086	8/01	$5,000,000.00	7/02/35	4.426% Qtr.
Brazos Electric #2086	8/01	$1,250,000.00	7/02/35	4.426% Qtr.
Brazos Electric #2086	8/01	$5,000,000.00	7/02/35	4.426% Qtr.
Brazos Electric #2086	8/01	$5,000,000.00	7/02/35	4.426% Qtr.
Missoula Elec. #688	8/01	$283,480.00	12/31/29	4.425% Qtr.
Rock County Electric #2029	8/05	$851,000.00	12/31/37	4.485% Qtr.
Scenic Rivers Energy #2013	8/08	$1,544,000.00	12/31/36	4.546% Qtr.
San Miguel Power #824	8/09	$1,760,000.00	12/31/36	4.567% Qtr.
Scott County Telephone #2175	8/09	$600,000.00	12/31/20	4.423% Qtr.
Basin Electric #2210	8/10	$19,571,000.00	1/03/34	4.552% Qtr.
Fox Islands Elec. Coop. #2106	8/12	$21,000.00	12/31/37	4.487% Qtr.
Grundy Elec.Coop. #744	8/12	$1,000,000.00	12/31/35	4.487% Qtr.
Orange County Elec. #2179	8/12	$800,000.00	12/31/08	4.121% Qtr.
Farm Mut Tele Coop IA #2220	8/15	$2,993,277.58	12/31/15	4.143% Qtr.
Fox Islands Elec. Coop. #2106	8/15	$17,000.00	12/31/37	4.403% Qtr.
Blackduck Telephone Co. #2215	8/16	$865,000.00	1/03/22	4.290% Qtr.
Grundy County Elec. #689	8/17	$180,000.00	1/02/35	4.386% Qtr.
Farm Mut Tele Coop IA #2220	8/18	$4,016,554.87	12/31/15	4.178% Qtr.
East Kentucky Power #753	8/19	$3,675,000.00	12/31/30	4.360% Qtr.
McLennan County Elec. #784	8/19	$493,000.00	12/31/35	4.345% Qtr.
Bailey County Elec. #2219	8/22	$1,400,000.00	1/03/40	4.371% Qtr.
Lighthouse Elec. #2090	8/22	$1,329,000.00	12/31/37	4.370% Qtr.
S. Indiana Rural Elec. #2059	8/22	$2,000,000.00	12/31/37	4.370% Qtr.
Kamo Electric #2162	8/23	$9,634,000.00	1/03/39	4.374% Qtr.

FEDERAL FINANCING BANK
AUGUST 2005 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
Sho-Me Power #2160	8/24	$1,400,000.00	12/31/37	4.361% Qtr.
Farmer's Rural Elec. #2046	8/25	$3,000,000.00	12/31/37	4.353% Qtr.
South Miss. Elec. #2109	8/25	$2,316,000.00	1/03/34	4.353% Qtr.
St. Croix Electric Coop. #801	8/25	$650,000.00	12/31/35	4.354% Qtr.
Central Virginia Elec. #2126	8/26	$1,000,000.00	1/03/39	4.343% Qtr.
East Kentucky Power #2171	8/26	$30,000,000.00	1/03/39	4.343% Qtr.
Farmers Elec Coop Corp #877	8/26	$1,000,000.00	1/02/35	4.343% Qtr.
Range Telephone #2231	8/26	$5,839,164.47	12/31/14	4.071% Qtr.
Tri-State #808	8/26	$169,000.00	12/31/31	4.336% Qtr.
Tri-State #2052	8/26	$8,464,000.00	1/03/34	4.342% Qtr.
Tri-State #2172	8/26	$1,258,000.00	12/31/35	4.343% Qtr.
East Kentucky Power #2171	8/30	$30,000,000.00	1/03/39	4.345% Qtr.

S/A is a Semiannual rate.
Qtr. is a Quarterly rate.

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	August 31, 2005	July 31, 2005	Monthly Net Change 8/1/05- 8/31/05	Fiscal Year Net Change 10/1/04- 8/31/05
Agency Debt:				
U.S. Postal Service	$0.0	$0.0	$0.0	-$1,800.0
Subtotal*	$0.0	$0.0	$0.0	-$1,800.0
Agency Assets:				
FmHA-RDIF	$0.0	$0.0	$0.0	-$200.0
FmHA-RHIF	$230.0	$230.0	$0.0	-$450.0
Rural Utilities Service-CBO	$4,270.2	$4,270.2	$0.0	$0.0
Subtotal*	$4,500.2	$4,500.2	$0.0	-$650.0
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	$1,255.3	$1,289.0	-$33.7	-$209.6
DoEd-HBCU+	$125.8	$125.6	$0.2	$7.8
DHUD-Community Dev. Block Grant	$0.2	$0.2	$0.0	-$0.2
DHUD-Public Housing Notes	$971.9	$971.9	$0.0	-$82.9
General Services Administration+	$2,145.9	$2,143.9	$2.0	$4.6
DOI-Virgin Islands	$5.5	$5.5	$0.0	-$2.1
DON-Ship Lease Financing	$375.7	$375.7	$0.0	-$122.9
Rural Utilities Service	$18,197.8	$18,038.4	$159.4	$1,236.7
SBA-State/Local Development Cos.	$40.8	$42.1	-$1.3	-$15.7
DOT-Section 511	$2.7	$2.7	$0.0	-$0.1
Subtotal*	$23,121.7	$22,995.1	$126.6	$815.6
Grand total*	$27,622.0	$27,495.3	$126.6	-$1,634.4

* figures may not total due to rounding
\+ does not include capitalized interest

PRESS ROOM

October 7, 2005
JS-2967

Treasury Releases Schedule for Secretary Snow's Visit to Japan and China

Treasury Secretary John W. Snow will visit Tokyo and three cities in China next week on the way to meetings of the Group of 20 finance ministers and central bank governors in Beijing.

Secretary Snow will be in Tokyo October 10-11 for meetings with economic officials. Secretary Snow is expected to meet with Japanese Finance Minister Tanigaki to discuss economic developments in the region -- in particular, the recent return to economic growth in Japan.

The following events are open to credentialed media with photo identification:

Tuesday, October 11, 2005 – Tokyo, Japan

9:30 AM
Press Conference
U.S. Embassy, Floor 1
10-5 Akaska 1-Chome Minato-Ku
Tokyo, Japan

Wednesday, October 12, 2005- Shanghai, China

11:45 AM
Site Visit to Shanghai Stock Exchange
528 South Pudong Road
Shanghai, China
***Media availability to follow visit**

Thursday, October 13, 2005- Chengdu, China

9:00 AM
Tour of Mulan Market
Mulan Town
Xindu District
Chengdu Municipality
Chengdu, China

9:30 AM
Site Visit to Chengdu Rural Credit Union
Mulan Town
Xindu District
Chengdu Municipality
Chengdu, China
***Media availability to follow visit**

10:30 AM
Meet with Cessna Officials at Civil Aviation Flight University of China Guanghan
Sichuan, China

11:10 AM
Tour of Civil Aviation Flight University of China
Guangham
Sichwan, China

12:30 PM
Formal Greeting Ceremony
Jin Jang Hotel
80 Erduan (2nd Section)
Ren Min Nan Lu-People's South Rd.
Chengdu, China

Sunday, October 16, 2005- Beijing, China

12:30 PM
Post G-20 Press Conference
Zheng'An Palace Hotel
Beijing, China

2:30 PM
U.S.- China Joint Economic Commission
Opening Plenary Remarks
West Multifunction Hall, 3rd Floor
Zheng'An Palace Hotel
Beijing, China
*** Open for photo at top of meeting**

Monday, October 17, 2005- Beijing, China

4:30 PM
U.S.-China Joint Economic Commission
Closing Session
Four Season Hall, 1st Floor, Bldg 6
Diaoyutai Guest House
Beijing, China
*** Open for photo at top of meeting**

Tuesday, October 18, 2005- Beijing, China

9:00 AM
Securities Industry Association
Remarks
Grand Hyatt Hotel
1 East Chang An Avenue
Beijing, China

PRESS ROOM

October 7, 2005
JS-2968

Statement by Treasury Secretary John Snow on September Jobs Report

Today's job numbers show that the U.S. economy has great underlying strength. Despite the devastation wrought by Hurricane Katrina, payrolls declined only 35,000, a much lower figure than expected and also less than the combined upward revisions of 77,000 jobs in the previous two months. We would not be seeing this kind of performance in the face of such a great challenge unless the fundamentals of our economy were exceptionally strong.

The President's economic plan has placed the economy on a path of growth and put us in a stronger position from which to deal with the effects of Hurricanes Katrina and Rita. We must keep the economy on the right path by keeping taxes low and helping individuals and businesses rebuild by implementing the President's reconstruction proposals including Gulf Opportunity Zones, Worker Recovery Accounts and the Urban Homesteading Initiative.

PRESS ROOM

October 11, 2005
js-2969

Statement by Treasury Secretary John Snow
Embassy of the United States
Tokyo, Japan

Good morning. I'd like to thank Ambassador Schieffer for his exceptional advice and counsel and for the first-rate assistance of his staff here at Embassy Tokyo.

I also want to thank my good friend and colleague, Minister Tanigaki, for making time to meet with me during this very busy time. As always, we had an excellent and engaging discussion about economic developments in Japan, the region and in the global economy. I always look forward to our visits. We are in frequent contact and have worked closely together on important issues in meetings of the G7 finance ministers and central bank governors where Minister Tanigaki is recognized as a forceful and effective leader. Japan is fortunate to have Minister Tanigaki leading its economic policy.

During our dinner last night, we discussed the earthquake which hit Pakistan this weekend, and the tragic loss of life there, including the loss of a Japanese aid worker and his son. I took the opportunity to express my sympathy to the Minister for Japan's loss. America's thoughts and prayers are with all of the victims of this disaster. President Bush is committed to assisting in recovery efforts in that nation.

I have visited Japan many times, especially in my previous career in business, so I have long had a special interest in relations between our two nations. It is my view that the relationship between Japan and the United has never been stronger than today. We are inextricably linked by trade and financial exchanges, by our shared democratic values, by mutual security responsibilities, and by the vitality of our growing cultural ties.

As the two largest national economies in the world today, it is vitally important that we have such a strong, cooperative relationship, and it is equally important for our citizens and for the global economy, that we generate strong economic growth.

The U.S. economy, in spite of the devastating hurricanes which hit the Gulf Coast region last month, and high energy prices, continues to demonstrate strong economic growth. Although we will see slightly slower economic growth during this quarter as a result of the storms, I expect robust economic growth to return during the first quarter of 2006 and beyond. It is a testament to the flexibility and resiliency of the U.S. economy that it can withstand the forces of economic shocks. Our ability to do so is a direct result of our commitment to good economic policy, resulting in strong growth, a corresponding increase in tax receipts, and a sharply reduced fiscal deficit this year.

I am very pleased to see that the Japanese economy is also responding to sound policy and demonstrating economic strength. The reform program of Prime Minister Koizumi and Minister Tanigaki is clearly showing results. The improvement in the banking sector with the resolution of non-performing loans, the reduction in unemployment, and the improving health of the corporate sector, for example, are evidence of a strengthening economy. These results -- and the statement of popular support evident from the recent elections -- should serve as a guide to other nations. Implementing economic reforms is never easy in any country, but the fruits of reform are only available to those willing to take risks and implement sound policy. Japan will continue to succeed if it stays on this path.

I was also able to renew my acquaintances with business leaders in Japan - including my good friend Dr. Toyoda. I have developed extensive relationships with Japanese business leaders throughout my career, so it was good to hear their candid assessments of the Japanese economy.

The United States welcomes a vibrant, rejuvenated Japanese economy. A growing, prosperous Japan is in our mutual interest. By sustaining and strengthening our economic relationship, together America and Japan will continue to contribute to global growth and security.

Thank you.

-30-

PRESS ROOM

October 11, 2005
2005-10-11-11-57-57-16568

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 $71,521 million as of the end of that week, compared to $71,428 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	September 30, 2005			October 7, 2005		
TOTAL	71,428			71,521		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	11,257	11,232	22,489	11,311	11,180	22,491
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,969	5,439	16,408	11,025	5,414	16,439
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]			13,245			13,282
3. Special Drawing Rights (SDRs) [2]			8,245			8,268
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	September 30, 2005			October 7, 2005		
	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						
	September 30, 2005			October 7, 2005		
	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 IMF data for the prior month end.

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

PRESS ROOM

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October 11, 2005
JS-2970

Treasury Officials to Join Unveiling of FloridaFIRST in Miami

Treasury Under Secretary for Domestic Finance Randal Quarles and Deputy Assistant Secretary for Critical Infrastructure Protection and Compliance Policy Scott Parsons will be in Miami, Florida on Thursday to join in the unveiling of the FloridaFIRST Regional Coalition.

FloridaFIRST is a regional coalition formed by a group of financial institutions based in Miami with the goal of enhancing the resilience of the financial sector in South Florida to handle threats from terrorism and natural disasters. FloridaFIRST is a collective effort to protect the homeland through public and private partnerships.

This regional coalition will help officials at all levels of government coordinate with the financial sector in South Florida to share information, promote policies and programs that increase preparedness and to speed the recovery of financial institutions should there be an incident of disruption.

FloridaFIRST is the second regional coalition established in the U.S. ChicagoFIRST was created in 2003 and served as a model for private sector coalitions dedicated to working to protect financial institutions. (For more information on ChicagoFIRST: http://www.treasury.gov/press/releases/reports/chicagofirst_handbook.pdf)

The following event is open to the media:

WHO
Under Secretary for Domestic Finance Randal Quarles
Deputy Assistant Secretary for Critical Infrastructure Protection and Compliance Policy Scott Parsons

WHAT
Press Conference on the Unveiling of the FloridaFIRST Regional Coalition

WHERE
Hyatt Regency Coral Gables
50 Alhambra Circle
Coral Gables, FL

WHEN
Thursday, October 13, 2:00 p.m. EDT

PRESS ROOM

October 14, 2005
JS-2971

Treasury Names David Nason Deputy Assistant Secretary

The Treasury Department today announced the appointment of David G. Nason as Deputy Assistant Secretary for Financial Institutions Policy.

Nason comes from the Securities & Exchange Commission where he served as counsel to Commissioner Paul S. Atkins. In this capacity, he served as a primary adviser for capital raising and corporate governance issues, Gramm-Leach-Bliley compliance, and hedge fund and mutual fund initiatives. Prior to joining the SEC, Nason was an attorney at Covington & Burling in Washington, D.C., where he focused on securities offerings, mergers and acquisitions, and federal tax planning. Nason previously served as law clerk to the Honorable Marvin J. Garbis of the U.S. District Court for District of Maryland.

A native of Providence, Rhode Island, Nason received a B.S. in Finance from The American University, and a J.D., *summa cum laude*, from The Washington College of Law at The American University. He is married and has two young daughters.

PRESS ROOM

October 14, 2005
JS-2972

Treasury Names Kevin MacMillan Deputy Assistant Secretary

The Treasury Department today announced the appointment of Kevin MacMillan as Legislative Affairs Deputy Assistant Secretary for Banking and Finance.

MacMillan recently served as senior counsel to the House Financial Services Committee. In this capacity he drafted legislation for members of the Committee, organized legislative and investigative hearings, and performed policy analysis and interpretation on issues including government sponsored enterprises, banking, payment systems, and international trade and monetary policy.

A native of Pittsburgh, Pennsylvania, MacMillan received a B.A. from Gettysburg College, a J.D. from Tulane University School of Law, and an L.L.M. degree in securities and banking regulation from the Georgetown University Law Center.

PRESS ROOM

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October 14, 2005
js-2973

Joint Statement Of John W. Snow, Secretary Of The Treasury, And Joshua B. Bolten, Director Of The Office Of Management And Budget, On Budget Results For Fiscal Year 2005

SUMMARY

The Administration today is releasing the September 2005 Monthly Treasury Statement of Receipts and Outlays of the United States Government . The statement shows the actual budget totals for the fiscal year that ended September 30, 2005, as follows:

- A deficit of $319 billion;
- total receipts of $2,154 billion; and
- total outlays of $2,473 billion.

"The year-end budget report highlights the positive results of the President's economic leadership. Lower taxes and pro-growth economic policies have created millions of jobs and a growing economy that has swelled tax revenues over the last year. While deficits are never welcome, the fact that we finished FY 2005 with a much lower-than-expected deficit is encouraging news.

While the effects of Hurricanes Katrina and Rita will be felt in the short term, we remain on a path to meet the President's goal of cutting the deficit in half by 2009. It's important that we ensure continued economic growth by keeping the President's economic policies in place and making the tax cuts permanent."

- Secretary John W. Snow

"The President's pro-growth policies have succeeded in sustaining an economic expansion that has created 4.2 million jobs since May 2003 and produced a 14.6 percent increase in tax receipts this year.

As we help the people of the Gulf Coast region recover and rebuild from Hurricane Katrina, it is more important than ever that we continue the pro-growth economic policies that have contributed to a strong expansion and a surge in revenues. We must also redouble our efforts to reduce unnecessary spending elsewhere in the budget to help offset recovery costs and keep us on track to meet the President's goal of cutting the deficit in half by 2009."

- Director Joshua B. Bolten

Table 1. TOTAL RECEIPTS, OUTLAYS AND SURPLUS/DEFICIT (-)

(in billions of dollars)

Receipts	Outlays	Surplus/Deficit (-)

2004 Actual	1,880	2,293	-413
FY 2005 Estimates:			
FY 2006 Budget	2,053	2,479	-427
FY 2006 Mid-Session Review	2,140	2,472	-333
Actual	2,154	2,473	-319

The FY 2005 unified deficit was $319 billion, or an estimated 2.6 percent of the Gross Domestic Product (GDP). As a percent of GDP, the 2005 deficit was lower than the deficits of 16 of the last 25 years. The deficit for FY 2005 was $14 billion, or 4.2 percent, lower than projected in the Mid-Session Review (MSR). Receipts were higher by $15 billion and outlays were higher by $1 billion. The deficit was $108 billion, or 25.3 percent, lower than projected less than a year ago in the FY 2006 Budget. Receipts were higher by $101 billion and outlays were lower by $6 billion.

Receipts in 2005 were 14.6 percent higher than in 2004, the highest increase in receipts in over 20 years. Outlays grew by 7.9 percent above the previous year. The 7.9 percent increase in total outlays was driven by growth in five major agencies – the Departments of Agriculture, Defense - Military, Education, Homeland Security, and Veterans Affairs – net interest, and Medicare. Altogether, these outlays grew by 12.6 percent, and accounted for $137 billion of the $180 billion increase in outlays over 2004. The total growth in outlays is somewhat reduced by slower growth rates in a number of other agencies and programs.

RECEIPTS

Total receipts for FY 2005 were $2,154 billion, $15 billion higher than the MSR estimate of $2,140 billion. Almost $13 billion of this increase was attributable to higher-than-estimated collections of corporation income taxes. The remaining increase was attributable to higher-than-expected collections of social insurance and retirement receipts, excise taxes, estate and gift taxes, and miscellaneous receipts, which were partially offset by lower-than-estimated collections of individual income taxes and customs duties. Table 2 displays actual receipts and estimates from the Budget and the MSR by source.

Individual income taxes were $927 billion, $2 billion lower than the MSR estimate. This decrease relative to MSR was attributable to lower-than-estimated withheld tax payments and reallocations of withheld tax payments from individual income taxes to the Social Security and Medicare Trust Funds, which more than offset higher-than-estimated non-withheld tax payments and lower-than-estimated refunds. The reallocations, which are accounting adjustments based on more recent data, did not change the overall level of receipts, only the allocation of collections between individual income taxes and the social insurance trust funds (see the discussion of social insurance and retirement receipts below).

Corporation income taxes were $278 billion, nearly $13 billion greater than the MSR estimate. This increase was the combined effect of higher-than-expected payments and lower-than-estimated refunds.

Social insurance and retirement receipts were $795 billion, $2 billion higher than the MSR estimate. This increase was primarily attributable to the reallocation of withheld tax receipts from individual income taxes to the Social Security and Medicare Trust Funds. The adjustment offsets the adjustment to individual income taxes described above; there is no impact on total receipts.

Other sources of receipts, which totaled $154 billion, exceeded the MSR estimate by a net $2 billion. Excise taxes and estate and gift taxes each exceeded the corresponding MSR estimate by $1 billion. Miscellaneous receipts, which exceeded the MSR estimate by $2 billion, were offset by lower-than-expected customs duties of $2 billion. These changes in miscellaneous receipts and customs duties were in large part due to Congressional inaction on the Administration's proposal to repeal the Byrd Amendment, which would not have changed the overall level of receipts, only the allocation of collections between customs duties and miscellaneous receipts.

OUTLAYS

Total outlays were $2,473 billion, $1 billion above the MSR estimate. The majority of agency outlays were down from the MSR, although a number of agencies had outlays above the MSR estimates. The largest increases occurred in the Departments of Defense and Homeland Security and the largest decrease occurred in the Department of Agriculture. Table 3 displays actual outlays by agency and major program as well as estimates from the Budget and the MSR. The largest changes in outlays were in the following areas:

- Department of Homeland Security – Outlays for the Department of Homeland Security were $39 billion in FY 2005, $5 billion above the MSR estimate. This difference is mainly attributable to the $6 billion increase in outlays in Emergency Preparedness and Response (EP&R) Directorate, primarily due to Hurricane Katrina and the four major Florida hurricanes in 2004. Outlays for the EP&R Disaster Relief Fund and the National Flood Insurance Fund were greater than estimated for individual and public assistance and for insurance claims as a result of these hurricanes.

- Department of Agriculture – Actual net outlays for the Department of Agriculture were $85 billion, a decrease of $4 billion from the MSR estimate. Combined, outlays for the Farm Service Agency (FSA) and the Natural Resources Conservation Service (NRCS) (which include a $1.4 billion cash transfer from the Commodity Credit Corporation (CCC) to the NRCS to cover remaining Farm Bill program expenditures from prior year obligations) were $2 billion below MSR. This decrease is primarily due to lower CCC payments for 2004 disaster programs and lower payments for commodity programs due to higher-than-expected prices for last year's corn and soybeans crop. In addition, FSA outlays were lower due to prepayment of commodity marketing loans by Russia, lower-than-expected guaranteed export loan obligations, and a timing shift in Tobacco Trust payments. Net outlays were also lower than estimated for Child Nutrition and Food Stamp programs, crop insurance payments, fire suppression activities, and rural development credit subsidies. Net outlays for the Rural Utilities Service were $0.6 billion above the MSR mainly due to decreased collections from pre-Credit Reform loans.

- Department of Defense - Military – In FY 2005, outlays for the Department of Defense - Military were $474 billion, an increase of $4 billion from the MSR estimate. This difference can be attributed to higher-than-anticipated fuel prices as well as increased operational activity resulting from the Global War on Terror.

- Department of Health and Human Services – Net outlays for the Department of Health and Human Services were $581 billion in FY 2005, $2 billion lower than MSR. Medicare outlays were $6 billion higher than the MSR estimate. A change in accounting for recoveries of overpayments in 2005 results in $2.5 billion of this increase. Previously these recoveries had been deducted from Medicare's reported outlays, now these recoveries are recorded as offsetting receipts and are not deducted from Medicare's gross outlays. Part A increases primarily result from higher-than-expected spending in both inpatient hospital and skilled nursing facilities. Part B increases are primarily due to faster-than-expected spending in physician fee schedule, other carrier, and outpatient hospital services, caused mainly by greater utilization of health services. Collections of proprietary receipts from the public, primarily associated with Medicare, were $3 billion higher than previously estimated. Medicaid outlays were $5 billion lower than MSR estimates, largely as a result of cost-saving measures implemented by

States.

- Executive Office of the President – As a result of a more rapid expenditure from the Iraq Relief and Reconstruction Fund, FY 2005 outlays for the Executive Office of the President were $8 billion, $2 billion higher than MSR. Large infrastructure projects progressed more quickly than previously expected, accelerating outlays for these projects. In addition, outlays for security and democracy programs were higher than previously estimated.

- Office of Personnel Management – Office of Personnel Management outlays were $60 billion in FY 2005, over $1 billion below MSR. Actual outlays for the Civil Service Retirement and Disability Fund were about $0.8 billion lower than estimated in the MSR, due largely to a lower-than-anticipated increase in the retired employee population. In addition, actual net outlays were about $0.4 billion less for the Employees and Retired Employees Health Benefits Fund due to lower health care costs than estimated in the MSR.

- Railroad Retirement Board – In FY 2005, net outlays for the Railroad Retirement Board were $2 billion, more than $1 billion lower than estimated at MSR. The National Railroad Retirement Investment Trust's earnings on non-Federal securities, which offset the agency's outlays, were over $1 billion higher than the MSR estimates.

- Department of Transportation – The Department of Transportation outlays were $57 billion in FY 2005, $1 billion below the MSR estimate. Outlays were $1 billion below the MSR for the Federal Highway Administration due to the delayed enactment of surface transportation legislation that prevented the obligation of some funding for the Federal-aid Highway Program.

- Department of Justice – In FY 2005, Department of Justice outlays were $23 billion, $1 billion higher than MSR. The largest difference, $1 billion, occurred in the Office of Justice Programs. State and local agencies are submitting requests for reimbursement more quickly than in previous years. In addition, spending for Bureau of Prisons construction and agency-wide information technology occurred faster than anticipated.

- Department of Veterans Affairs – FY 2005 outlays for the Department of Veterans Affairs were $70 billion, $1 billion higher than MSR. The bulk of this difference is the result of an FY 2005 supplemental of $1.5 billion passed in early August to address the shortfall in funding for medical care.

- Department of Treasury – The Department of Treasury had FY 2005 actual outlays of $409 billion, $1 billion higher than the MSR estimate. Interest on the public debt paid to the public was $2 billion above the MSR estimate. Changes in interest paid to trust funds and government accounts were largely offsetting. Higher interest paid to the public was partly offset by lower outlays for interest on Internal Revenue Service refunds ($1 billion).

The September 2005 Monthly Treasury Statement of Receipts and Outlays of the United States Government containing these results can be found on the Financial Management Service website at: www.fms.treas.gov.

REPORTS

- Joint Statement On Budget Results For Fiscal Year 2005

FOR RELEASE AT 2:30 P.M.
October 14, 2005

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(202) 622-2920
OMB Contact: Scott Milburn
(202) 395-7254

JOINT STATEMENT OF
JOHN W. SNOW,
SECRETARY OF THE TREASURY,
AND
JOSHUA B. BOLTEN,
DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET,
ON
BUDGET RESULTS FOR FISCAL YEAR 2005

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(MORE)

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Table 2.--2005 BUDGET RECEIPTS BY SOURCE
(fiscal years; in millions of dollars)

Receipts by Source	2004 Actual	2005 Estimate Budget	2005 Estimate Mid-Session	2005 Actual	Change, 2005 Actual from: Budget	Change, 2005 Actual from: Mid-Session
Individual income taxes	808,958	893,704	929,130	927,222	33,518	-1,908
Corporation income taxes	189,370	226,526	265,761	278,281	51,755	12,520
Social insurance and retirement receipts:						
Employment and general retirement:						
On-budget	154,615	165,273	169,973	170,187	4,914	214
Off-budget	534,744	561,363	575,694	577,475	16,112	1,781
Subtotal, Employment and general retirement	689,359	726,636	745,667	747,663	21,027	1,996
Unemployment insurance	39,453	42,476	43,183	42,999	523	-184
Other retirement contributions	4,596	4,619	4,619	4,459	-160	-160
Subtotal, Social insurance and retirement receipts	733,408	773,731	793,469	795,121	21,390	1,652
Excise taxes	69,855	74,013	71,748	73,093	-920	1,345
Estate and gift taxes	24,831	23,754	23,842	24,764	1,010	922
Customs duties	21,083	24,674	25,130	23,378	-1,296	-1,752
Miscellaneous receipts	32,279	36,443	30,576	32,445	-3,998	1,869
Total, Receipts	1,879,783	2,052,845	2,139,656	2,154,305	101,460	14,649
On-budget	1,345,039	1,491,482	1,563,962	1,576,830	85,348	12,868
Off-budget	534,744	561,363	575,694	577,475	16,112	1,781

NOTE: Detail may not add to totals or changes due to rounding.

Table 3.--2005 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

Outlays by Major Agency	2004 Actual	2005 Estimate Budget	2005 Estimate Mid-Session	2005 Actual	Change, 2005 Actual from: Budget	Change, 2005 Actual from: Mid-Session
Legislative Branch	3,880	4,083	4,176	3,989	-94	-187
The Judiciary	5,396	5,741	5,741	5,562	-179	-179
Agriculture:						
Farm Service Agency:						
Commodity Credit Corporation	10,569	24,049	19,530	20,172	-3,877	642
Other	778	1,099	2,171	1,075	-24	-1,096
Food and Nutrition Service:						
Food stamps	28,621	34,211	32,791	32,613	-1,598	-178
Other	16,369	17,584	17,619	17,216	-368	-403
Agriculture Marketing Service	1,089	1,367	1,367	912	-455	-455
Natural Resources Conservation Service	2,382	2,924	2,984	1,091	-1,833	-1,893
Rural Housing Service	508	-84	286	389	473	103
Risk Management Agency	3,269	3,366	3,369	2,950	-416	-419
Rural Utilities Service	-2,169	-1,052	-2,108	-1,537	-485	571
Forest Service	5,635	5,580	5,599	5,036	-544	-563
Offsetting receipts	-2,638	-1,481	-1,581	-2,214	-733	-633
Other	7,354	7,349	7,515	7,426	77	-89
Subtotal, Agriculture	71,768	94,912	89,542	85,129	-9,783	-4,413
Commerce	5,849	6,278	6,288	6,165	-113	-123
Defense-Military:						
Military Personnel	113,576	109,975	126,525	127,463	17,488	938
Operations and Maintenance	174,049	174,464	181,171	188,120	13,656	6,949
Procurement	76,217	80,238	82,970	82,294	2,056	-676
Research, Development, Test, and Evaluation	60,756	65,563	65,724	65,691	128	-33
Military Construction	6,310	6,550	6,575	5,330	-1,220	-1,245
Revolving and management funds	2,341	2,605	3,240	2,877	272	-363
Other	3,863	4,673	4,673	2,661	-2,012	-2,012
Subtotal, Defense-Military	437,111	444,068	470,878	474,436	30,368	3,558
Education:						
Office of Elementary and Secondary Education	21,180	23,241	23,241	22,916	-325	-325
Office of Special Education and Rehabilitative Services	12,817	13,747	13,747	14,089	342	342
Office of Postsecondary Education	2,247	2,408	2,408	2,254	-154	-154
Office of Federal Student Aid	22,877	26,212	27,486	29,020	2,808	1,534
Other	3,695	5,345	5,345	4,665	-680	-680
Subtotal, Education	62,817	70,953	72,227	72,944	1,991	717
Energy:						
Atomic energy defense activities	16,083	17,293	17,063	17,161	-132	98
Other	3,891	4,885	4,885	4,474	-411	-411
Subtotal, Energy	19,974	22,178	21,948	21,635	-543	-313

Table 3.--2005 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

	2004 Actual	2005 Estimate Budget	2005 Estimate Mid-Session	2005 Actual	Change, 2005 Actual from: Budget	Change, 2005 Actual from: Mid-Session
Health and Human Services:						
Medicare (gross outlays)	301,505	333,442	333,457	339,430	5,988	5,973
Medicaid	176,231	188,497	186,382	181,720	-6,777	-4,662
State children's health insurance fund	4,607	5,343	5,321	5,129	-214	-192
Public Health Service	44,419	46,176	46,148	46,035	-141	-113
Temporary assistance for needy families and payments to States for child support enforcement and family support programs	21,540	22,033	22,033	21,340	-693	-693
Other Administration for Children and Families	24,466	25,026	25,026	25,091	65	65
Proprietary receipts	-33,344	-39,215	-39,345	-42,096	-2,881	-2,751
Other	3,784	4,470	4,616	4,844	374	228
Subtotal, Health and Human Services	543,206	585,772	583,638	581,492	-4,280	-2,146
Homeland Security:						
Border and Transportation Security	12,871	14,146	14,466	13,931	-215	-535
Coast Guard	6,843	7,292	7,395	7,317	25	-78
Emergency Preparedness and Response	4,331	6,902	7,560	13,679	6,777	6,119
Departmental Management	2,430	3,865	3,735	4,079	214	344
Science and Technology	432	1,169	1,169	835	-334	-334
Other	-184	-115	-313	-534	-419	-221
Subtotal, Homeland Security	26,724	33,259	34,012	39,307	6,048	5,295
Housing and Urban Development:						
Public and Indian Housing Programs	30,523	31,339	31,464	31,311	-28	-153
Federal Housing Administration	5,183	1,232	2,079	1,980	748	-99
Other housing programs	859	1,142	1,142	871	-271	-271
Community Planning and Development	8,590	8,682	8,410	8,356	-326	-54
Government National Mortgage Association	-310	-215	-215	-379	-164	-164
Other	180	434	595	375	-59	-220
Subtotal, Housing and Urban Development	45,024	42,614	43,475	42,514	-100	-961
Interior	8,938	9,433	9,448	9,093	-340	-355
Justice:						
Office of Justice Programs	4,710	3,086	3,323	4,206	1,120	883
September 11th victims compensation	6,309	25	25	12	-13	-13
Federal Bureau of Investigations	4,927	5,544	5,599	5,111	-433	-488
Federal Prison System	4,751	4,532	4,532	4,844	312	312
General administration	1,458	1,267	1,424	1,772	505	348
Other	6,799	6,717	6,698	6,794	77	96
Subtotal, Justice	28,953	21,171	21,601	22,740	1,569	1,139
Labor:						
Training and employment services	5,606	5,237	5,311	5,324	87	13
Unemployment trust fund	46,321	39,286	36,533	37,059	-2,227	526
Pension Benefit Guaranty Corporation	-247	-543	-40	94	637	134

Table 3.--2005 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

	2004	2005			Change, 2005 Actual from:	
		Estimate				
	Actual	Budget	Mid-Session	Actual	Budget	Mid-Session
Employment Standards Administration	2,486	3,450	3,448	2,895	-555	-553
Other	2,542	2,604	2,542	2,574	-30	32
Subtotal, Labor	56,708	50,034	47,794	47,946	-2,088	152
State:						
Administration of Foreign Affairs	7,204	7,462	7,833	7,602	140	-231
International organizations and conferences	1,870	2,064	2,595	2,689	625	94
Other	1,868	2,408	2,714	2,547	139	-167
Subtotal, State	10,942	11,934	13,142	12,838	904	-304
Transportation:						
Federal Highway Administration	30,666	32,950	32,950	31,877	-1,073	-1,073
Federal Transit Administration	8,011	8,420	8,420	8,359	-61	-61
Federal Aviation Administration	12,835	13,559	13,559	13,839	280	280
Other	3,029	3,286	3,287	2,859	-427	-428
Subtotal, Transportation	54,541	58,215	58,216	56,934	-1,281	-1,282
Treasury:						
Exchange Stabilization Fund	-604	-473	-473	-542	-69	-69
Interest on the public debt	321,566	347,890	349,916	352,350	4,460	2,434
IRS:						
Earned income tax credit	33,134	33,790	34,527	34,559	769	32
Child tax credit	8,857	13,516	14,749	14,624	1,108	-125
Refunding collections, interest	5,118	6,023	7,420	6,112	89	-1,308
Other	10,285	10,586	10,587	10,115	-471	-472
Financial Management Service:						
Temporary State Fiscal Relief Fund	5,000	0	0	0	0	0
Payment to Resolution Funding Corporation	2,187	2,187	2,134	2,130	-57	-4
Other	5,481	6,114	6,456	6,857	743	401
Federal Financing Bank	-1,043	-1,026	-1,026	-816	210	210
Offsetting receipts	-16,444	-17,601	-17,749	-18,083	-482	-334
Other	1,722	1,966	1,956	1,807	-159	-149
Subtotal, Treasury	375,258	402,972	408,497	409,114	6,142	617
Department of Veterans Affairs	59,556	68,046	68,882	69,995	1,949	1,113
Corps of Engineers	4,842	4,891	4,891	4,767	-124	-124
Other defense civil programs	41,732	43,460	44,090	43,484	24	-606
Environmental Protection Agency	8,335	7,862	7,862	7,918	56	56
Executive Office of the President:						
Iraqi relief and reconstruction fund	3,006	5,361	5,361	7,338	1,977	1,977
Other	303	404	404	387	-17	-17
Subtotal, Executive Office of the President	3,309	5,765	5,765	7,725	1,960	1,960
General Services Administration	-404	459	459	53	-406	-406
International Assistance Programs:						

Table 3.--2005 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

	2004 Actual	2005 Estimate Budget	2005 Estimate Mid-Session	2005 Actual	Change, 2005 Actual from: Budget	Change, 2005 Actual from: Mid-Session
International Security Assistance:						
Foreign Military Financing	5,302	4,899	5,022	4,883	-16	-139
Economic Support Fund	2,854	3,523	2,692	2,723	-800	31
Other	255	381	591	336	-45	-255
Agency for International Development	4,327	3,688	3,740	4,068	380	328
Multilateral assistance	2,586	1,913	2,265	2,395	482	130
Military sales programs	-1,239	0	0	431	431	431
International monetary programs	-647	0	0	54	54	54
Other	300	350	129	-104	-454	-233
Subtotal, International Assistance Programs	13,738	14,754	14,439	14,787	33	348
National Aeronautics and Space Administration	15,186	15,719	15,719	15,611	-108	-108
National Science Foundation	5,118	5,641	5,641	5,432	-209	-209
Office of Personnel Management:						
Civil Service Retirement and Disability Fund	52,277	55,612	55,612	54,790	-822	-822
Employees and Retired Employees Health Benefits Funds	-1,721	-1,323	-1,327	-1,750	-427	-423
Other	5,976	6,675	6,723	6,470	-205	-253
Subtotal, Office of Personnel Management	56,533	60,964	61,008	59,510	-1,454	-1,498
Small Business Administration	4,077	3,036	2,641	2,503	-533	-138
Social Security Administration:						
Old age and survivors insurance (off-budget)	417,078	435,312	436,945	436,892	1,580	-53
Disability insurance (off-budget)	78,550	84,439	85,396	86,468	2,029	1,072
Supplemental security income program	36,411	41,869	41,622	40,940	-929	-682
Other:						
On-budget	12,595	13,881	14,011	13,604	-277	-407
Off-budget	-14,428	-16,453	-16,591	-16,580	-127	11
Subtotal, Social Security Administration	530,206	559,048	561,383	561,324	2,276	-59
Other independent agencies:						
Corporation for National and Community Service	765	923	923	793	-130	-130
District of Columbia	805	658	658	659	1	1
Export-Import Bank	-1,902	-376	-376	-814	-438	-438
Federal Communications Commission:						
Universal service fund	12,790	7,558	7,127	7,264	-294	137
Spectrum auction subsidies	641	1,279	1,279	1,263	-16	-16
Universal service fund income and other	-9,583	-248	-1,071	-978	-730	93
Subtotal, Federal Communications Commission	3,848	8,589	7,335	7,549	-1,040	214
Federal Deposit Insurance Corporation:						
Bank insurance fund	-1,006	354	-91	-651	-1,005	-560
Savings association insurance fund	-411	-67	-299	-465	-398	-166
FSLIC resolution fund (including RTC)	-163	-103	-103	214	317	317
Other FDIC	26	30	30	28	-2	-2
Subtotal, Federal Deposit Insurance Corporation	-1,554	214	-463	-874	-1,088	-411
Federal drug control programs	429	478	478	409	-69	-69

Table 3.--2005 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

	2004	2005			Change, 2005 Actual from:	
		Estimate				
	Actual	Budget	Mid-Session	Actual	Budget	Mid-Session
National Credit Union Administration	-351	-437	-437	-339	98	98
Postal Service:						
On-budget	60	568	568	568	0	0
Off-budget	-4,130	-1,010	-2,783	-1,791	-781	992
Subtotal, Postal Service	-4,070	-442	-2,215	-1,223	-781	992
Railroad Retirement Board	2,792	4,079	3,556	2,123	-1,956	-1,433
Securities and Exchange Commission	-685	-942	-942	-799	143	143
Tennessee Valley Authority	-413	-210	-210	-205	5	5
Other (net)	6,169	7,137	7,296	6,902	-235	-394
Subtotal, other independent agencies	5,833	19,671	15,603	14,182	-5,489	-1,421
Allowances	0	34,899	0	0	-34,899	0
Undistributed offsetting receipts:						
Employer share, employee retirement (on-budget):						
Military retirement and health	-22,210	-27,389	-27,389	-27,045	344	344
Other	-19,889	-20,690	-20,692	-20,930	-240	-238
Employer share, employee retirement (off-budget)	-11,331	-10,911	-10,941	-10,941	-30	0
Interest received by on-budget trust funds	-67,759	-71,457	-69,722	-69,153	2,304	569
Interest received by off-budget trust funds	-86,227	-91,995	-91,906	-91,837	158	69
Rents and royalties on the Outer Continental Shelf lands	-5,105	-5,886	-5,946	-6,144	-258	-198
Spectrum auction receipts	0	-100	-100	-160	-60	-60
Other	0	0	0	0	0	0
Subtotal, undistributed offsetting receipts	-212,522	-228,428	-226,696	-226,210	2,218	486
Total, Outlays	2,292,628	2,479,404	2,472,310	2,472,920	-6,484	610
On-budget	1,913,116	2,080,022	2,072,190	2,070,710	-9,312	-1,480
Off-budget	379,512	399,382	400,120	402,211	2,829	2,091
Deficit (-) / Surplus (+)	-412,845	-426,559	-332,654	-318,615	107,944	14,039
On-budget	-568,077	-588,540	-508,228	-493,880	94,660	14,348
Off-budget	155,233	161,981	175,574	175,264	13,283	-310

NOTE: Detail may not add to totals or changes due to rounding.

PRESS ROOM

October 17, 2005
JS-2974

Excerpts of Deputy Assistant Secretary for Financial Education Dan Iannicola's Remarks to Virginia Financial Literacy Summit

Today, U.S. Treasury Deputy Assistant Secretary for Financial Education Dan Iannicola traveled to Richmond, VA, to participate in the first-ever Virginia Financial Literacy Summit. The following is an excerpt of Iannicola's remarks:

"This summit brings together leaders from business, education, government and the non-profit world to improve financial education in Virginia. By raising the level of financial literacy we can produce better students, employees, consumers and investors. The leaders here today realize that, when it comes to financial education, their organizations have much to *give*, but even more to *gain*."

PRESS ROOM

October 17, 2005
2005-10-17-15-48-46-27251

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 $71,245 million as of the end of that week, compared to $71,521 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	October 7, 2005			**October 14, 2005**		
TOTAL	**71,521**			**71,245**		
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	11,311	11,180	22,491	11,264	11,156	22,420
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	11,025	5,414	16,439	10,991	5,404	16,395
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]			13,282			13,183
3. Special Drawing Rights (SDRs) [2]			8,268			8,206
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	October 7, 2005			**October 14, 2005**		
	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 7, 2005			**October 14, 2005**		
	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 IMF data for the prior month end.

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

PRESS ROOM

October 17, 2005
JS-2974

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"This summit brings together leaders from business, education, government and the non-profit world to improve financial education in Virginia. By raising the level of financial literacy we can produce better students, employees, consumers and investors. The leaders here today realize that, when it comes to financial education, their organizations have much to *give*, but even more to *gain*."

PRESS ROOM

October 18, 2005
JS-2975

Remarks by Secretary Snow to the Securities Industry Association

Good morning and thank you for having me here today. As you know I've just spent the last week traveling through China and in meetings here in Beijing with economic officials from the Group of Twenty leading economies and with my counterparts in China's economic leadership. I'd like to thank my good friend, Ambassador Sandy Randt and his excellent staff here in Beijing, and also in Shanghai and Chengdu. We always receive first-class treatment when we visit, and it is greatly appreciated. I would also like to thank our Chinese hosts, especially Minister Jin at the Ministry of Finance.

Finally, I would very much like to thank Marc Lackritz and the Security Industry Association for inviting me to speak at your meeting today. The themes of financial services modernization and capital market development are ones I have focused on during this visit to China, so the timing of this meeting is perfect.

Traveling through China one cannot but be impressed with the rapid rate of economic growth that this nation has been able to achieve. China's drive toward a fully market-oriented economy is showing results even in some of the further reaches of the country. We have long held that allowing the private sector to thrive is the best way to raise living standards. Perhaps nowhere in history has that notion been proven more dramatically than here in China where in the span of a handful of years, hundreds of millions of people have seen their living standards rise above the poverty line as Chinese authorities have been unleashing restraints on private initiative so that the Chinese people can meet their great potential.

Before arriving in Beijing I visited Shanghai, the financial capital of China on the coast, the city of Chengdu, located in the western province of Sichuan, and a small town, Mulan, about an hour outside of Chengdu in Sichuan.

In Shanghai I had the opportunity to meet with businesspeople who have established firms here and leaders of financial institutions. I had excellent discussions with officials from China's Foreign Exchange Trading System and at the Shanghai Stock Exchange.

In Chengdu, we were able to get a sense of the penetration of economic reforms in China. I suspect that if one had visited Chengdu ten years ago, it would have taken a leap of faith to predict seeing five-star hotels, western brands like Cadillac and Nike, and Starbucks....well, OK, maybe Starbucks!

But it's clear that the economic reforms are quickly transforming the landscape of this great nation. The town of Mulan, a small rural village in Sichuan, has not yet seen the full power of the market economy in its daily life, but I think that is only a matter of time. The people of Mulan are clearly anxious for the good things that greater growth and prosperity make possible.

Certainly it is Mulan, and thousands of towns like it, that occupy the thoughts of China's economic leaders today. They recognize that China's great challenge is to make the country's economic growth more balanced and sustainable. The failure to do so will have wide-ranging implications for the Chinese people – and also, in this interconnected world, for the global economy as well.

Most of the attention involving the U.S. economic relationship with China has focused on the narrow issue of exchange rates. China's foreign exchange regime certainly is important, and it's an issue that we have devoted a great deal of attention to with our Chinese counterparts. Our views on this by now are well known: China and the global economy will both benefit from greater currency flexibility. Greater currency flexibility would increase – not decrease -- stability in output prices and will assist in the adjustment of imbalances in Asia and the global economy. But China's foreign exchange regime is just one of many economic and financial issues that would contribute to this goal. As I have said, greater currency flexibility is a necessary element of reform, but insufficient alone to bring global trade and financial flows into appropriate alignment.

This morning, I would like to spend some time discussing how greater access to financial services and robust capital markets can help China achieve the balanced, sustained growth it desires and why this is important for the global economy.

* * *

China's leaders have committed to pursue financial market reforms as part of their transformation to a market-driven economy. Chairman Greenspan and I discussed these issues in great depth with our Chinese counterparts this week in our annual Joint Economic Committee meetings. It was significant that, in addition to the Fed and Treasury, Chairman Chris Cox of the SEC and Rueben Jeffrey, Chairman of the CFTC, and other U.S. agencies also participated in these meetings. China's most senior economic leaders also participated. In addition today, senior technical level U.S. regulators and supervisors for the first time will be having a full day of discussions with their counterparts. I think that this level of senior official engagement underscores the importance we place on the need for the establishment of a modern, world-class financial system in China and the breadth of our economic and financial relationship.

One goal on which both nations agree is the need for China to transform from a primarily export-driven economy to one that is more balanced and led by domestic demand with a far greater role for the consumer. Recent Chinese economic growth has depended on continued sharp increases in investment and net exports. This pattern of growth has contributed to regional and sectoral imbalances in the Chinese economy and does not provide a basis for sustained long-term growth.

When viewed in the context of external imbalances, China and the United States are mirror images. China's extremely high savings rate – approaching 50% -- contributes to global imbalances, just as does the United States' very low national savings rate of about 13.4%. In the United States we are looking for ways to increase national saving by encouraging greater household savings and reducing our fiscal deficits. The challenge for the Chinese is to lower the propensity to save and to encourage greater domestic consumption.

Such a shift towards domestic demand-led growth -- with more efficient investment and more rapid growth in household consumption – would raise the welfare of the Chinese population, help address regional and income imbalances, and provide the foundation for sustained future growth.

For China, the development of financial services and capital markets will be vital to this transformation. What is noteworthy today is that the development of these sectors need not be delayed, waiting for "homegrown" solutions.

We live in a world today where the acquisition of knowledge, skills, and capital can be immediate, and this should have positive implications for all emerging market countries -- especially here in China.

I was reminded of this fact as I traveled through China and had the opportunity to use some of the excellent hotels available to visitors to Shanghai, Chengdu, and here in Beijing. These world-class hotels are not indigenous to China; they're not "homegrown". In fact, they are imports from other nations – some Western, some Asian. They are expertly run by managers from around the world. The beneficiaries of these hotels, in addition to the visiting tourists, businessmen and government officials who receive the excellent service, are the Chinese themselves. Rather than waiting the years that might be required for a domestic hotel industry to develop, along with the necessary expertise in administration, logistics and staff management, marketing, client knowledge, taste differentiation, it can be acquired – as it has been here in China – essentially overnight. Moreover, the technological and managerial know-how foreign firms bring is absorbed in the domestic economy as Chinese managers who learn best practices go on to run their own hotels.

The same rapid acquisition and transfer of knowledge and skills is available today in economics and finance.

Throughout the world, the "overnight" acquisition of knowledge has already had a dramatic impact, for example, in the field of monetary policy with respect to the understanding of the nature of inflation and the proper application of monetary instruments to combat it. There is near universal understanding among central bankers today that inflation is a monetary phenomenon and that price stability should be a central goal. And so what we have witnessed in recent years is a dramatic reduction in inflation and inflation expectations and the near-absence of cases of hyperinflation, despite the recent sharp rise in energy prices. The conquering of inflation should be viewed as one of greatest contributions in the economic life of people everywhere.

Nowhere was this knowledge indigenous. Rather, it was achieved as the result of very painful trial-and-error, in the United States and elsewhere, and significant development of theory and economic analysis. A great deal of credit for understanding inflation goes to people like Milton Friedman, and certainly to Chairman Greenspan and his predecessor, Paul Volcker. The contribution of John Taylor, my former Under Secretary for International Affairs at the Treasury Department, should also be noted for his now-famous "Taylor Rule" -- a rules-based method of inflation targeting used by countless central banks. So it's not necessary for central banks to go through the upheaval of dealing with an inflation crisis to know that they can use market instruments like short-term interest rates to either inject or reduce liquidity in the money supply. Moreover, many countries, including emerging markets, have found that operationally independent central banks with clear objectives can anchor inflationary expectations with flexible exchange rates.

Likewise, this same rapid acquisition and application of knowledge and skills is available to develop robust financial services and capital markets in emerging market economies. The pace of change in financial products around the globe is breathtaking. Things like asset backed securities, securitization, credit and currency derivatives, options, sophisticated hedging devices, and on and on. These financial instruments allow economic assets to transfer risk to those best able to assess and manage them.

By reducing the uncertainty associated with economic undertakings, these instruments facilitate economic activity – trade in its many forms, investing in the variety of ways it occurs, China can quickly take advantage of these important advances and thereby "leapfrog" in the development of its financial sector.

Undoubtedly, there is a threshold level of proficiency needed on the part of government in order to develop these sectors. Governments must provide clear and transparent regulation and supervision, ensure that the rule of law is enforced, protect private property rights, and ensure that investment decisions are free from political interference. I'm pleased to see China devoting so much effort to putting these key building blocks in place. Governments should also be cautious about attempting to distinguish between good and bad financial instruments or investors. The same tools used to hedge risk can be used to speculate. *Risk-takers* provide important liquidity to markets.

Achieving these standards go hand-in-hand with broader economic development, and sometimes are not easy to achieve. Certainly, even more mature economies still have challenges in these areas. For example, in the United States and Europe we continue to develop and work to implement new rules in areas like corporate governance, accounting standards, oversight of financial markets and banking supervision.

But if these conditions meet this threshold, the delivery of financial services to consumers *can* be acquired very quickly, and with immediate benefits.

China can quickly move forward with further liberalization of its financial services sector by allowing foreign securities firms to establish or acquire wholly-owned subsidiaries, and by expanding the scope of products securities firms can offer, such as trading in A-shares derivatives. This would add liquidity and transparency to the China's capital markets, increase the flow of capital to the most productive Chinese firms, inject management expertise, encourage regulatory reforms, and introduce best-practices for technology, risk management, and control systems. In addition, foreign investment would improve and encourage corporate governance, and increase the efficiency of financial intermediation.

Liberalization must also be accompanied by a shift to risk-based lending. Last year China deregulated lending rates in order to give banks greater scope to differentiate borrowers based on risk. But more reforms - such as introducing rigorous credit analysis procedures, improving accounting and financial reporting standards and adopting a strong board and corporate management structure -- are needed to better assess risk, improve asset quality and take advantage of higher interest rates to slow excessively aggressive asset growth.

Capital market development is particularly necessary in China to achieve balanced growth which translates into real prosperity. For economies to reach their maximum growth potential, capital must be allowed to find those opportunities where it can generate the maximum return. In a global economy, finding those places is a complex process. A small investor in the United States or a pensioner in France – even relatively large businesses and governments around the world – lack the expertise or time to find those places for their savings. This is where the role of financial services and capital markets enters – allowing the "invisible hand" to play its role in organizing economic activity in ways that best advance societies' material well-being.

Financial services and capital markets exist in order to marry the accumulated resources of billions of savers and investors around the world with the myriad of investment opportunities available. This system involves everything from the small Chinese rural credit cooperative I visited in Sichuan province last week, to the large and sophisticated bond and equity traders in New York, London, Tokyo, Hong Kong, and elsewhere. The saver in Tokyo cannot be expected to know that the best investment – the one that provides the security and expected return desired at that precise moment in time -- happens to be an equity offering in Kuala Lumpur. For this you need intermediation, and you need markets.

As I have said, this system has the immediate and obvious benefit of providing maximum return on investment – but only when allowed to operate efficiently, and not impeded by national rules that limit flows of capital, inefficient tax or regulatory structures, corruption or lack of transparency, lack of property rights, or misaligned prices signals due to interference with foreign exchange or interest rates.

This system has the added benefit of creating the flexibility necessary to adjust to constantly changing economic conditions – benefits that accrue to the saver or investor, financial services firms, and national economies, and the global economic system. It also has the great advantage of facilitating a continuous series of benign adjustments which help to avoid disruptions and crises and to minimize their consequences.

In the United States, our bond and equity markets are vital to both investors and firms. U.S. investors – from large companies to small savers – use the bond and equity markets to meet their goals, which can range from making a strategic acquisition to saving for individual retirement. Our firms also benefit from having the ability to tap outside capital – either equity or debt – to fund their growth.

More developed capital markets are also good for financial stability, as firms have more ways to raise funds rather than simply through the banking system. Development of bond and equity markets help corporations source funds when banks experience problems, preventing destabilizing cash crunches. For example, the savings and loan crisis in the United States would have been far more serious, with a deeper impact on our economy, if firms had not had ways to raise funds outside the banking system. Beyond the United States, in Asia and elsewhere we have seen where the excessive reliance on bank financing has contributed to financial crisis. Here in China, it's important to keep in mind that the overwhelming volume of domestic firm financing comes from the banking system. China is at the point where capital markets are increasingly necessary to meet the needs of its people and firms, where such markets could play a helpful role in disciplining economic agents and reducing the cost of capital.

Fully developed capital markets can help China's economy shift from savings to consumption without sacrificing growth, thus improving living standards for the Chinese people. Capital markets can produce higher returns on investment for corporations and more efficient utilization of resources for the country. This would enable China to maintain economic growth with lower savings and higher consumption rates. Not only would this improve living standards, but it would also work to reduce China's external imbalances.

* * *

Fortunately, the reforms I have outlined today are generally supported by China's economic leadership. They understand that development of a real market economy requires progress across a broad horizon of sectors and issues. They agree that increased domestic consumption, the development of modern financial services and capital markets, market interest rates and flexible exchange rates, are all in China's interests and in the interests of the global economy. I also believe that well-developed financial system is essential to buttress the Chinese economy in the face of the inevitable disruptions in the global economy. Where we find our differences, they are largely on the questions of the sequence and pace of reforms, not the direction.

Our economic relationship with China is far-reaching and complex. I am encouraged that we are reaching a level of maturity in our relationship characterized by the understanding that we are not involved in a zero-sum game, but rather a "positive" sum game. Both nations stand to gain from our increased interaction.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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October 18, 2005
JS-2976

Treasury International Capital Data for August

Treasury International Capital (TIC) data for August are released today and posted on the U.S. Treasury web site (www.treas.gov/tic). which will report on data for September, is scheduled for November 16, 2005.

Net foreign purchases of long-term securities were $91.3 billion.

- Net foreign purchases of long-term domestic securities were $87.9 billion, $4.4 billion of which were net purchases by foreign of $83.5 billion of which were net purchases by private foreign investors.
- U.S. residents sold a net $3.5 billion in foreign issued securities.

Foreigners' Transactions in Long-Term Securities with U.S. Residents
(Billions of dollars, not seasonally adjusted)

Foreigners' Transactions in Long-Term Securities with U.S. Residents
(Billions of dollars, not seasonally adjusted)

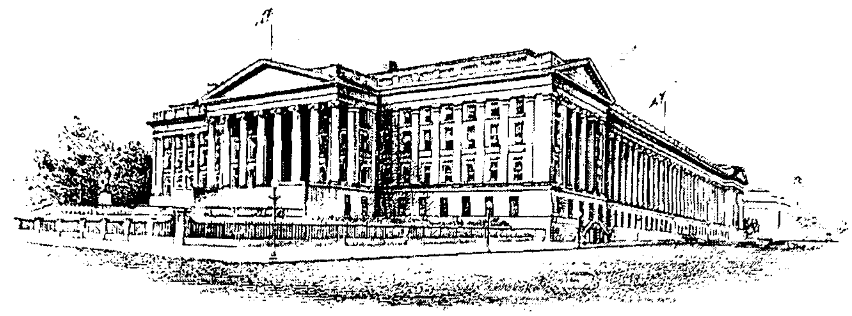
		2003	2004	12 Months Through Aug-	Aug-	May-05	Jun-
1	Gross Purchases of Domestic Securities	13526.0	15178.9	14416.2	16471.0	1500.8	1530.0
2	Gross Sales of Domestic Securities	12806.1	14262.5	13596.1	15510.6	1431.1	1435.1
3	**Domestic Securities Purchased, net** (line 1 less line	**719.9**	**916.4**	**820.1**	**960.3**	**69.7**	**94.8**
4	**Private, net /2**	**585.0**	**680.8**	**576.8**	**811.5**	**56.5**	**71.9**
5	Treasury Bonds & Notes, net	159.7	150.9	146.0	201.2	20.8	-0.9
6	Gov't Agency Bonds, net	129.9	205.6	151.3	208.5	18.1	17.1
7	Corporate Bonds, net	260.3	298.0	258.4	341.6	17.1	51.9
8	Equities, net	35.0	26.2	21.2	60.2	0.6	3.8
9	**Official, net**	**134.9**	**235.6**	**243.3**	**148.9**	**13.2**	**23.0**
10	Treasury Bonds & Notes, net	103.8	201.1	208.5	102.7	6.8	16.7
11	Gov't Agency Bonds, net	25.9	20.8	25.9	29.0	4.6	3.2
12	Corporate Bonds, net	5.4	11.5	8.6	16.5	1.8	2.6
13	Equities, net	-0.3	2.2	0.3	0.7	-0.1	0.6
14	Gross Purchases of Foreign Securities	2761.8	3123.1	3096.9	3348.0	287.7	307.9
15	Gross Sales of Foreign Securities	2818.4	3276.0	3204.2	3512.7	302.5	321.0
16	**Foreign Securities Purchased, net** (line 14 less line	**-56.5**	**-152.8**	**-107.3**	**-164.8**	**-14.8**	**-13.1**
17	Foreign Bonds Purchased, net	32.0	-67.9	-24.8	-51.7	-10.0	-1.2
18	Foreign Equities Purchased, net	-88.6	-85.0	-82.5	-113.0	-4.8	-11.8

19 **Net Long-Term Flows** (line 3 plus line 16)	**663.3**	**763.6**	**712.8**	**795.6**	**54.9**	**81.8**

/1 Net foreign purchases of U.S. securities (+)
/2 Includes International and Regional Organizations
/3 Net U.S. acquisitions of foreign securities (-)

REPORTS

- (PDF) Foreigners' Transactions in Long-Term Securities with U.S. Residents (Billions of dollars, not seasonally adjusted)



DEPARTMENT OF THE TREASURY

OFFICE OF PUBLIC AFFAIRS

October 18, 2005
EMBARGOED UNTIL 9:00 AM

Contact: Taylor Griffin
202-622-2014

TREASURY INTERNATIONAL CAPITAL DATA FOR AUGUST

Treasury International Capital (TIC) data for August are released today and posted on the U.S. Treasury web site (www.treas.gov/tic). The next release date, which will report on data for September, is scheduled for November 16, 2005.

Net foreign purchases of long-term securities were $91.3 billion.

- Net foreign purchases of long-term domestic securities were $87.9 billion, $4.4 billion of which were net purchases by foreign official institutions and $83.5 billion of which were net purchases by private foreign investors.
- U.S. residents sold a net $3.5 billion in foreign issued securities.

Foreigners' Transactions in Long-Term Securities with U.S. Residents
(Billions of dollars, not seasonally adjusted)

				12 Months Through					
		2003	2004	Aug-04	Aug-05	May-05	Jun-05	Jul-05	Aug-05
1	Gross Purchases of Domestic Securities	13526.0	15178.9	14416.2	16471.0	1500.8	1530.0	1278.9	1414.2
2	Gross Sales of Domestic Securities	12806.1	14262.5	13596.1	15510.6	1431.1	1435.1	1177.7	1326.3
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**719.9**	**916.4**	**820.1**	**960.3**	**69.7**	**94.8**	**101.3**	**87.9**
4	**Private, net /2**	**585.0**	**680.8**	**576.8**	**811.5**	**56.5**	**71.9**	**90.9**	**83.5**
5	Treasury Bonds & Notes, net	159.7	150.9	146.0	201.2	20.8	-0.9	24.9	24.9
6	Gov't Agency Bonds, net	129.9	205.6	151.3	208.5	18.1	17.1	32.1	16.9
7	Corporate Bonds, net	260.3	298.0	258.4	341.6	17.1	51.9	23.5	38.1
8	Equities, net	35.0	26.2	21.2	60.2	0.6	3.8	10.4	3.6
9	**Official, net**	**134.9**	**235.6**	**243.3**	**148.9**	**13.2**	**23.0**	**10.4**	**4.4**
10	Treasury Bonds & Notes, net	103.8	201.1	208.5	102.7	6.8	16.7	3.6	3.2
11	Gov't Agency Bonds, net	25.9	20.8	25.9	29.0	4.6	3.2	5.7	-1.2
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13	Equities, net	-0.3	2.2	0.3	0.7	-0.1	0.6	-0.3	0.3
14	Gross Purchases of Foreign Securities	2761.8	3123.1	3096.9	3348.0	287.7	307.9	273.3	311.4
15	Gross Sales of Foreign Securities	2818.4	3276.0	3204.2	3512.7	302.5	321.0	287.1	308.0
16	**Foreign Securities Purchased, net** (line 14 less line 15) /3	**-56.5**	**-152.8**	**-107.3**	**-164.8**	**-14.8**	**-13.1**	**-13.8**	**3.5**
17	Foreign Bonds Purchased, net	32.0	-67.9	-24.8	-51.7	-10.0	-1.2	-5.1	17.0
18	Foreign Equities Purchased, net	-88.6	-85.0	-82.5	-113.0	-4.8	-11.8	-8.7	-13.5
19	**Net Long-Term Flows** (line 3 plus line 16)	**663.3**	**763.6**	**712.8**	**795.6**	**54.9**	**81.8**	**87.5**	**91.3**

/1 Net foreign purchases of U.S. securities (+)
/2 Includes International and Regional Organizations
/3 Net U.S. acquisitions of foreign securities (-)

PRESS ROOM

October 18, 2005
JS-2977

**Statement of Clay Lowery
Nominee to be Deputy Under Secretary for
International Affairs
U.S. Department of the Treasury
Before the Senate Committee on Finance**

Chairman Grassley, Ranking Member Baucus, and members of the Committee on Finance, I am honored to appear before you today as President Bush's nominee to serve as Deputy Under Secretary of the Treasury for International Affairs. Please allow me to express my gratitude to the President and Secretary Snow for the confidence and trust they have shown in me, and I would like to thank you for your consideration of my nomination.

I am pleased to be here with my family – my wife, Diana, and my father, Richard. Together, along with my deceased mother, Gail, my brother, and some very close friends, I owe a debt of gratitude for providing me the foundation and the passion to pursue a career in public service. I want to particularly thank my wife for supporting me in a career that, at times, can feel somewhat like a long flight abroad: little communication when in the field, and interminable hours at the office.

As a career civil servant at the Treasury for the past decade, it has been my privilege to serve in the Administrations of President Clinton and President Bush in a number of positions promoting the national interest in international development, economics, and finance. As a desk officer, economist, negotiator, diplomat and manager, I have been deeply involved in such issues as responding to the emerging-market crises of the 1990s, developing the initiative to provide debt relief to the world's poorest countries, and creating the Millennium Challenge Corporation (MCC).

For the past year and a half – on loan from the Treasury – I have served as a Vice President at the MCC and a member of its Investment Committee. In this capacity, I have been a leader in building and managing a "start-up" government corporation to implement President Bush's pioneering initiative to revamp the model for foreign assistance: reducing poverty by investing in sustainable economic growth in poor countries that rule justly, invest in their people, and encourage economic freedom.

Prior to MCC, I held a variety of positions at the Treasury, most recently Deputy Assistant Secretary for Debt and Development Finance. In this position, I led a team consisting of four offices with responsibilities for debt workouts, trade finance, development policy and cross-cutting financial market analysis. I also worked at the National Security Council as Director of International Finance – a job that allowed me to bring together the complementary imperatives of protecting national security and advancing economic prosperity.

In many of these capacities, I have worked closely with Congress and, if confirmed, I plan to continue such collaboration on a full range of issues.

Mr. Chairman, this range of issues starts with a juxtaposition. In many respects, the global financial picture couldn't be stronger with global growth – led by the U.S. economy – at 30-year highs, inflation around the world relatively benign, and foreign investment on an upswing in emerging-market economies. This positive news, however, is accompanied by worrisome global financial imbalances, potential complacency in financial circles, and large swaths of poverty in the developing world. To me, I think the challenge for the United States is to help the American people seek the great opportunities offered by such an environment while promoting the essential benefits of increased productivity, open markets, and free trade.

If confirmed, I look forward to working with the Administration, the Congress, and the Treasury team in addressing these challenges and opportunities, focusing on such key priorities as promoting economic growth worldwide, preventing financial crises, and opening up foreign markets to U.S. goods and services – particularly through negotiations to conclude a strong Doha Development Round. If confirmed, I also look forward to leading a dedicated Treasury team by continuing to make President Bush's vision of providing more effective development assistance to the poorest people a reality.

Mr. Chairman, Senator Baucus, Members of the Committee, I am grateful for this opportunity to appear before you today. I would be pleased to answer any questions you may have.

PRESS ROOM

October 18, 2005
JS-2978

Treasury Officials to Join Bankers in Schools Across the Nation to Promote the Wise Use of Credit

Treasury is teaming up with the American Bankers Association Education Foundation on Thursday for the third annual Get Smart About Credit Day. Treasury officials will join bankers across the nation to visit high schools, universities and youth groups to teach students how to budget, use credit cards and build a positive payment history.

Media interest should contact Melissa Jones with ABA for press registration at (202) 663-5442.

The following events are open to the press:

Emil Henry, Jr., Assistant Secretary for Financial Institutions
Eleanor Roosevelt High School
7601 Hanover Parkway
Greenbelt, MD
8:15 a.m. EDT

Harold Damelin, Inspector General
T.C. Williams H.S.
3330 King Street
Alexandria, VA
8:30 a.m. EDT

D. Scott Parsons, Deputy Assistant Secretary for Critical Infrastructure Protection
Myers Park High School
2400 Colony Rd
Charlotte, NC
9:00 a.m. EDT

Dan Iannicola, Jr., Deputy Assistant Secretary for Financial Education
University of Rhode Island
Quinn Hall, RM 211
Kingston, RI
9:30 a.m. EDT

West Warwick High School
Webster Knight Drive
West Warwick, RI
12:45 p.m. EDT

James Carroll, Jr., Deputy General Counsel
T.C. Williams H.S.
3330 King Street
Alexandria, VA
9:40 a.m. EDT

Anna Escobedo Cabral, United States Treasurer
Manhattan Center for Math and Science
280 Pleasant Ave
New York, NY
10:00 a.m. EDT

Troy Stang, Community Development Financial Institutions
Cleveland High School
5950 Delridge Way, SW
Seattle, WA
11:00 a.m. PDT

Kimberly Reed, Senior Advisor to the Secretary
Boys and Girls Clubs Thornberry Unit
3831 E. 43rd Street
Kansas City, MO
4:15 p.m. CDT

PRESS ROOM

October 19, 2005
JS-2979

ATSB Announces Sale of US Airways and America West Loans

The Air Transportation Stabilization Board (ATSB) today announced that the ATSB-guaranteed loans issued to US Airways and America West have been sold to private investors without the government guarantee. This remarketing eliminates the risk to the government that had been associated with these loans.

The original US Airways loan was issued on March 31, 2003 in the amount of $1 billion, of which $900 million was guaranteed by the ATSB. At the time of US Airways' exit from bankruptcy, the loan had been paid down, without loss, to $582.9 million, of which $524.6 million was guaranteed. The loan was remarketed at par.

The original America West loan was issued on January 18, 2002 in the amount of $429 million, of which $379.6 million was guaranteed by the ATSB. At the time of the remarketing, the outstanding balance on the loan was $249.6 million, of which $227.7 million was guaranteed. The loan was remarketed at par plus 1 percent.

Of the six loans guaranteed by the Board, four have been paid off in full or remarketed without the government guarantee.

PRESS ROOM

October 19, 2005
js-2980

Henry Sworn In As Assistant Secretary For Financial Institutions

The Treasury Department today announced that Emil W. Henry, Jr. was sworn in as Assistant Secretary of the Treasury for Financial Institutions on October 13, 2005.

As Assistant Secretary, Mr. Henry serves as an advisor to the Secretary of Treasury, Deputy Secretary and Undersecretary of Domestic Finance on matters regarding financial institutions legislation and regulation, legislation affecting federal agencies that regulate or insure financial institutions, securities markets legislation and regulation, and the promotion of consumer access and protection in financial services.

Mr. Henry also oversees the Office of Critical Infrastructure Protection and Compliance, Office of Financial Education, the Community Development Financial Institutions Fund and the Office of Sallie Mae Oversight.

Mr. Henry brings more than 20 years experience on Wall Street and in the financial community to the position. Before joining the Treasury, he most recently served as a senior partner of Gleacher Partners, a worldwide investment banking and investment management firm where he was Managing Director, Chairman of Asset Management, and Chairman of Gleacher Fund Advisors. During his tenure with Gleacher, he had oversight responsibility for the firm's core investment activities which include private equity and mezzanine debt investing and several pooled investment vehicles in the form of hedge funds. Mr. Henry has extensive experience in management buyouts, mergers and acquisitions, equity and debt financing, and a wide array of sophisticated investment vehicles. Prior to his position at Gleacher Partners, Mr. Henry was a member of Morgan Stanley's merchant banking arm responsible for the firm's principal investments.

Mr. Henry graduated *cum laude* in Economics from Yale University in 1983 and received his MBA from Harvard Business School in 1987. Mr. Henry is married with three children and maintains residence in Washington, D.C. and Katonah, NY.

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PRESS ROOM

October 20, 2005
JS-2981

Deputy Secretary Robert M. Kimmitt
U.S. Department of the Treasury
Testimony before the
United States Senate
Committee on Banking, Housing, and Urban Affairs
October 20, 2005

Chairman Shelby, Ranking Member Sarbanes and distinguished members of the Senate Committee on Banking, Housing and Urban Affairs, I appreciate the opportunity to appear before you today to discuss the Committee on Foreign Investment in the United States (CFIUS), and how CFIUS conducts national security reviews of foreign acquisitions of companies as required under the Exon-Florio amendment. I am here speaking on behalf of the Administration, the Treasury Department, and the Committee on Foreign Investment in the United States (CFIUS).

National Security

I wholeheartedly agree with your recent comments that national security cannot take a second place to purely economic considerations. Throughout my years of government service, starting with combat duty in Vietnam 35 years ago and including over eight years with the National Security Council staff, I have built a career premised on the belief that protecting and advancing the national security is a government official's highest priority. Let me assure you that my colleagues and I fully appreciate the national security concerns voiced by the members of this Committee and Congress.

This is a demanding time for our nation as we seek to provide for the security of our country. Indeed, no responsibility of government is more important than protecting the national security, which is also a prerequisite for advancing economic prosperity. In our view, these missions – protecting national security and advancing economic prosperity – are inherently linked.

Safeguarding our national security depends on protecting defense-related information, maintaining our technological edge, protecting the defense industrial base, and securing our critical infrastructures, such as the U.S. telecommunications network and related communications systems. We believe that the Exon-Florio amendment is sufficiently flexible to provide CFIUS and the President the necessary tools to protect these national security assets. CFIUS brings together twelve agencies with diverse expertise and equities to ensure that transactions are considered from a variety of perspectives so that all national security issues are identified and considered in the review of a foreign acquisition. To provide just a few examples, CFIUS assesses whether the foreign investment under review might threaten the national security by harming the nation's communications systems, fostering cyber-crime, or violating the privacy of users of the United States communications systems, and seeks to ensure the protection of sensitive United States information and technology relating to national defense and critical infrastructure.

Member agencies bring particular expertise essential to the assessment of the potential national security implications of specific foreign investments in the United States. This expertise includes knowledge of the level of technological sophistication of the transaction participants, the market position of alternate suppliers, the financial and product service track record, and the future outlook for transaction participants. This expertise gives CFIUS the broad perspective needed for a comprehensive assessment of the national defense, competitive performance, trade and investment policy and commercial issues involved in each transaction. It also enables CFIUS to ensure that the national security is safeguarded in a manner consistent with longstanding United States policy regarding foreign investment in the United States. In addition, since certain member agencies administer U.S. export control programs for both dual use and military/defense items, CFIUS is able to evaluate the compliance record of the foreign acquirer and can offer guidance to ensure that any relevant export control issues are taken into account when the foreign acquisition is completed.

Economic Prosperity

In my view, the concept of national security includes both traditional foreign policy and defense criteria and economic considerations. Indeed, I believe there is an inherent link between our national security and a strong U.S. economy that facilitates free and fair trade, market-based exchange rates, and the free flow of capital across borders. We are mindful of the positive benefits of foreign investment to our country and therefore seek to maintain the traditional U.S. open investment policy.

Indeed, we cannot protect the national security without a strong economy, and foreign investment strengthens the U.S. economy. Foreign companies bring in new technology, managerial expertise, and capital. Foreign companies buy some U.S. companies that would otherwise go out of business or move overseas. Foreign investment enables the United States to import new ways of doing business that revive our industries and increase productivity. Foreign investment in the United States keeps jobs and technology in the United States.

A strong world economy enhances our national security by advancing prosperity and economic freedom in the rest of the world. Economic growth supported by free trade and free markets creates new jobs and higher incomes, spurs economic and legal reform, promotes democratic political systems, and helps lift large numbers of people out of poverty.

The international economy performs best when large economies embrace free trade, the free flow of capital, and flexible currencies. Obstacles in any of these areas prevent smooth adjustments to changes in international conditions. At best, such obstacles result in less than maximum growth; at worst, they create distortions and increase risks.

In the recent past, the United States has placed considerable emphasis on promoting global free trade and investment, multilaterally through its support for the resumption of negotiations in the Doha Round and regionally and bilaterally through the negotiation of Free Trade Agreements, including most recently CAFTA, and bilateral investment treaties. In addition, the United States has urged countries, including China, to adopt more flexible currency policies. However, we also need to promote policies that encourage the global free flow of capital. Too many countries maintain barriers that keep needed foreign portfolio and direct investment out while preventing domestic capital from seeking better returns in overseas financial markets.

If the United States maintains its openness to foreign direct investment, we have the credibility internationally to promote similar investment regimes in other countries. Open investment regimes based on the free flow of capital are crucial to the U.S. economy both because of the benefits provided domestically, including job creation, and because of the reciprocal opportunities such policies in other countries provide for U.S. firms seeking to invest abroad.

INVESTMENT POLICY

U.S. policy towards foreign investment in the United States provides the context in which Exon-Florio is implemented. U.S. investment policy welcomes foreign direct investment and provides national treatment -- treating foreign companies like we would treat U.S. companies. In return, the United States seeks to promote reciprocity in similarly open investment regimes in other nations around the world.

When capital is free to flow in response to market demand, it is channeled into its most efficient use. When the United States makes the best use of capital, as determined by the market, we achieve greater productivity and enhanced international competitiveness. This has direct benefits for our economy, and indirect but clear benefits for our national security.

To illustrate the benefits of foreign direct investment, last year foreign investors invested over $115 billion in U.S. companies in the United States. Further, according to data from the Department of Commerce's Bureau of Economic Analysis, in 2003 foreign firms operating in the United States:

- Employed 5.3 million Americans, 4.7% of employment in non-bank private industries;
- Had payrolls of $318 billion, an average of $60,527 per employee, 31% higher than the average of all companies;
- Accounted for 5.8% of U.S. gross domestic product originating in private industries compared to 4.3% a decade ago (an increase of more than 30%);
- Accounted for over 20% of all U.S. exports; and
- Spent $30 billion on research and development.

I have discussed foreign direct investment, but portfolio investment is another key engine of economic growth. The free flow of capital is one reason for the strong performance of the U.S. economy, and it is gratifying to see that countries around the world increasingly recognize the benefits to be gained from liberalized capital accounts. Openness to capital inflows creates avenues for foreign investors to contribute to economic development. At the same time, it decreases the cost of capital to local entrepreneurs, especially in the small- to medium-sized enterprise sector.

Exon-Florio

Our open investment policy has always recognized the need to protect the national security, a need that is internationally recognized as a defensible exception to an open investment regime. The United States has numerous laws and regulations that provide this critical protection.

CFIUS was established in 1975 by Executive Order of the President with the Secretary of the Treasury as its chair. Its main responsibility was "monitoring the impact of foreign investment in the United States and coordinating the implementation of United States policy on such investment." It analyzed foreign investment trends and developments in the United States and provided guidance to the President on significant transactions. However, it had no authority to take action with regard to specific foreign investments.

The Omnibus Trade and Competitiveness Act of 1988 added section 721 to the Defense Production Act of 1950 to provide authority to the President to suspend or prohibit any foreign acquisition, merger, or takeover of a U.S. company that the President determines threatens to impair the national security of the United States. Section 721 is widely known as the Exon-Florio amendment, after its original congressional co-sponsors.

Specifically, the Exon-Florio amendment authorizes the President, or his designee, to investigate foreign acquisitions of U.S. companies to determine their effects on the national security. It also authorizes the President to take such action as he deems appropriate to prohibit or suspend such an acquisition if he finds that:

(1) There is credible evidence that leads him to believe that the foreign investor might take action that threatens to impair the national security; and

(2) Existing laws, other than the International Emergency Economic Powers Act (IEEPA) and the Exon-Florio amendment itself, do not in his judgment provide adequate and appropriate authority to protect the national security.

The President may direct the Attorney General to seek appropriate judicial relief to enforce Exon-Florio, including divestment. The President's findings are not subject to judicial review.

Following the enactment of the Exon-Florio amendment, the President delegated to CFIUS the responsibility to receive notices from companies engaged in transactions that are subject to Exon-Florio, to conduct reviews to identify the effects of such transactions on the national security, and, if necessary, to undertake investigations. However, the President retained the authority to suspend or prohibit a transaction.

The Secretary of the Treasury is the Chair of CFIUS, and the Treasury's Office of International Investment serves as the Staff Chair of CFIUS. Treasury receives notices of transactions, serves as the contact point for the private sector, establishes a calendar for review of each transaction, and coordinates the interagency process. The other CFIUS member agencies are the Departments of State, Defense, Justice, and Commerce, OMB, CEA, USTR, OSTP, the NSC, the NEC and the newest member, the Department of Homeland Security.

The CFIUS process is governed by Treasury regulations that were first issued in 1991

(31 CFR part 800). Under these regulations, parties to a proposed or completed acquisition, merger, or takeover of a U.S. company by a foreign entity may file a voluntary written notice with CFIUS through Treasury. Alternatively, a CFIUS member agency may on its own submit notice of a transaction. The CFIUS process starts upon receipt by Treasury of a complete, written notice. Treasury determines whether a filing is in fact complete, thereby triggering the start of the 30-day clock, and CFIUS may reject notices that do not comply with the notice requirements under the regulations. Treasury sends the notice to all CFIUS member agencies and to other agencies that might have an interest in a particular transaction, for example, the Departments of Energy and Transportation, or the Nuclear Regulatory Commission. CFIUS then begins a thorough review of the notified transaction to determine its effect on national security. In some cases, this review prompts CFIUS to undertake an "investigation," which must begin no later than 30 days after receipt of a notice. The Amendment requires CFIUS to complete any investigation and provide a recommendation to the President within 45 days of the investigation's inception. The President in turn has up to 15 days to make a decision, for a total of up to 90 days for the entire process.

CFIUS Implementation

Exon-Florio notices are voluntary. Many acquisitions by foreign investors do not implicate the national security, and parties to those transactions choose not to notify. However, companies know that failure to notify leaves their transaction subject to Presidential action indefinitely, and there is no statute of limitations. Companies also know that any CFIUS member may notify a transaction to the Committee.

During the initial 30-day review, each CFIUS member agency conducts its own internal analysis of the national security implications of the notified transaction. As part of the review, agencies with particular areas of competence, such as export controls, protection of classified information or critical infrastructure, examine whether existing laws other than International Emergency Economic Powers Act (IEEPA) are adequate and appropriate to protect the national security with respect to the transaction. The U. S. Intelligence Community provides input to CFIUS reviews. For instance, the Intelligence Community Acquisition Risk Center (CARC) now under the office of the Director of National Intelligence may be called on by CFIUS to provide intelligence support to CFIUS' review process, including threat assessments on the foreign acquirer. Further, the Department of Energy and the Department of Transportation have actively participated in the consideration of transactions that impact the industries under their respective jurisdictions. CFIUS agencies, through the Treasury Staff Chair, can seek clarifications of and supplements to the information provided in the notice by submitting additional questions to the parties to the transaction. In some cases, the parties are asked to meet with CFIUS agency staff.

If within the initial 30-day period CFIUS determines that there are no national security concerns, or any national security concerns have been mitigated, thereby obviating an investigation, Treasury, on behalf of CFIUS, writes to the parties notifying them of that determination. This concludes consideration of the acquisition for Exon-Florio purposes. However, when the Committee believes that unresolved national security issues remain at the end of the 30-day period, CFIUS conducts an investigation that ends with a report and recommendation to the President.

Depending on the facts of a particular case, CFIUS agencies that have identified specific risks that a transaction could pose to the national security may, separately or through CFIUS auspices, develop appropriate mitigation mechanisms to address those risks when existing laws and regulations alone are not adequate or appropriate to protect the national security. Agreements implementing mitigation measures vary in scope and purpose, and are negotiated on a case by case basis to address the particular concerns raised by an individual transaction. Publicly available examples of the general types of agreements that have been negotiated include: Special Security Agreements, which provide security protection for classified or other sensitive contracts; Board Resolutions, which, for instance, require a U.S. company to certify that the foreign investor will not have access to particular information or influence over particular contracts; Proxy Agreements, which isolate the foreign acquirer from any control or influence over the U.S. company; and Network Security Agreements (NSAs), which are used in telecommunications cases and are imposed in the context of the Federal Communications Commission's (FCC) licensing process.

These examples in no way represent an exhaustive list of the kinds of agreements or mitigation measures that have been negotiated by CFIUS agencies. Moreover, because the facts of and issues raised by each transaction are unique, additional or varied mitigation measures will undoubtedly be required to resolve agencies' national security concerns in future transactions. In such cases, once an agreement to implement the mitigation measures is executed by the parties to the agreement and all CFIUS members are satisfied that the national security issues have been adequately addressed. CFIUS concludes its review. When mitigation measures are agreed to during an investigation, companies may request a withdrawal and re-file. CFIUS then concludes its review.

As noted, publicly available NSAs provide some insights into the kinds of concerns that arise in the telecommunications sector. Also, in recent years, CFIUS has taken a close look at transactions involving technologies for either military/defense or dual use applications. For foreign acquisitions in this sector, CFIUS has analyzed the acquiring and acquired firms' records on compliance with U.S. export controls and the potential for unauthorized diversion of these technologies. In addition, in the post-9/11 environment, factors in the review have expanded to include terrorism-related issues. Finally, while CFIUS was always mindful of the potential national security impact of foreign acquisitions of U.S. companies in critical infrastructure, especially in the telecommunications sector, the addition of Homeland Security to the Committee's membership has led to an even closer focus on infrastructure vulnerabilities as they relate to foreign acquisitions under review.

When CFIUS completes a full 45-day investigation, it must provide a report to the President stating its recommendation. If CFIUS is unable to reach a unanimous recommendation after the investigation period, the Secretary of the Treasury, as Chairman, must submit a CFIUS report to the President setting forth the differing views and presenting the issues for decision. The President then has 15 days to announce his decision on the case and inform Congress of his determination.

The Exon-Florio amendment requires that information furnished to any CFIUS agency by the parties to a transaction shall be held confidential and not made public, except in the case of an administrative or judicial action or proceeding. This confidentiality provision does not apply to Congress. Treasury, as chair of CFIUS, upon request of congressional committees or subcommittees with jurisdiction over Exon-Florio matters, has arranged congressional briefings on transactions for which CFIUS has completed a review. These briefings are conducted in closed sessions and, when appropriate, at a classified level. CFIUS members with equities in the transaction under discussion have also been invited to participate in these briefings.

Since the enactment of Exon-Florio in 1988, CFIUS has reviewed over 1,570 foreign acquisitions of companies for potential national security concerns. In most of these reviews, CFIUS agencies have either identified no specific risks to national security or risks have been addressed during the review period. However, 25 cases in total have gone to investigation, twelve of which reached the President's desk for decision. In eleven of those, the President took no action, leaving the parties to the proposed acquisitions free to proceed. In one case, the President ordered the foreign acquirer to divest all its interest in the U.S. company. In another case that did not go to the President, the foreign acquirer undertook a voluntary divestiture. Of the 25 investigations, six were undertaken since 2001 with one going to the President for decision. However, these statistics do not reflect the instances where CFIUS agencies implemented mitigation measures that obviated an investigation or where, in response to dialogue with CFIUS agencies, parties to a transaction either voluntarily restructured the transaction to address national security concerns or withdrew from the transaction altogether.

An important aspect of the Exon-Florio process is the requirement that governmental action be concluded within specified time limits. Those limits -- for instance, the initial 30-day review period -- necessitate that the government act efficiently to assess all factors relating to the case. At the same time, the short time frame does not significantly hold up transactions, which should be driven by the market and can be time-sensitive.

Improving CFIUS

Two weeks ago, this Committee heard from the GAO regarding its recent report, "Defense Trade: Enhancements to the Implementation of Exon-Florio Could Strengthen the Law's Effectiveness." I appreciate the time and resources that the GAO dedicated to this report, and, although I do not agree with all of the assertions in the report, I do recognize a need to review current CFIUS policies and operating procedures, especially those mentioned in the GAO recommendations. The new senior CFIUS team represented at this hearing is involved in an effort to improve the CFIUS process, drawing on comments from members of Congress, the recommendations of the GAO, and the recommendations I have received from the member agencies of CFIUS.

- First, I believe that CFIUS requires high-level attention from Treasury and the other members. You have my commitment that I will work hard to bring that high level of attention going forward. The departmental representation at today's hearing is an important indication of our common commitment in this regard.
- Second, when meeting at the Deputies level, I will chair CFIUS while the Under Secretary of Treasury for International Affairs or his designee will represent the Treasury Department during consideration of a particular transaction. I think that this change will enable me to manage the process to ensure that all viewpoints are identified and given the same equal, careful consideration.
- Third, we are looking carefully at ways to allow more time to assemble the information needed to develop agency positions during the CFIUS process.
- Lastly, I support the idea of enhancing the transparency of the CFIUS process through more effective communication with Congress, while recognizing our shared responsibility to avoid the disclosure of proprietary information that could undermine a transaction or be used for competitive purposes. I am open to suggestions on ways to improve the transparency of the process, such as more regular reports to Congress and congressional briefings.

Conclusion

We are in a time of both challenge and opportunity for our national security interests. Through an improved CFIUS process, we will continue to protect our national security in the context of an open investment policy that recognizes the critical link between national security and economic prosperity.

Thank you for the opportunity to appear before you today.

PRESS ROOM

October 20, 2005
JS-2982

U. S. Treasury Officials Join Bankers in Schools Across the Nation to Promote Financial Education

The U.S. Treasury partnered with the American Bankers Association Education Foundation today for the third annual Get Smart About Credit Day. Nine Treasury officials teamed up with bankers across the nation and visited nearly 900 students in high schools, universities and continuing education classes to teach students how to budget, use credit cards and build a positive payment history.

"Today in classrooms across the country bankers and Treasury officials are teaching our young people that they have the power to determine their financial futures," said Treasury's Deputy Assistant Secretary for Financial Education Dan Iannicola, Jr. "By learning to use credit of all types wisely, young people can avoid things like garnishments and bankruptcy, and can make possible things like a car, a home and a college education. The choice is entirely theirs, and today we're here to help them make the right one."

The ABA Education Foundation, a non-profit subsidiary of the American Bankers Association, is committed to developing and providing education programs that lead to financial literacy. The foundation has supported the banking industry's efforts to teach personal finance skills in schools and communities across the country. It provides programs that are specifically and uniquely created for young children, teenagers and adults to provide them with the skills they need to budget, save, and manage credit.

The Department of the Treasury is a leader in promoting financial education. Treasury established the Office of Financial Education in May of 2002. The Office works to promote access to the financial education tools that can help all Americans make wiser choices in all areas of personal financial management, with a special emphasis on saving, credit management, home ownership and retirement planning. The Office also coordinates the efforts of the Financial Literacy and Education Commission, a group chaired by the Secretary of Treasury and composed of representatives from 20 federal departments, agencies and commissions, which works to improve financial literacy and education for people throughout the United States. For more information about the Office of Financial Education visit: www.treas.gov/financialeducation.

PRESS ROOM

October 21, 2005
JS-2983

Excerpts of Iannicola's Remarks to the JumpStart Coalition for Personal Financial Literacy

U.S. Treasury Deputy Assistant Secretary for Financial Education Dan Iannicola participated in the JumpStart Coalition for Personal Financial Literacy event today in Washington, DC. The following is an excerpt of Iannicola's remarks:

"For years the JumpStart Coalition has been a pioneer in helping America's young people improve their financial literacy. Through state coalitions across the country, JumpStart levers the power of partnerships to do collectively what no one organization could do alone. On behalf of the Department of Treasury I commend you for your efforts and encourage you to continue your important work."

PRESS ROOM

October 21, 2005
JS-2984

Treasury Targets North Korean Entities for Supporting WMD Proliferation

The U.S. Department of the Treasury today designated eight North Korean entities pursuant to Executive Order 13382, an authority aimed at freezing the assets of proliferators of weapons of mass destruction (WMD) and their delivery vehicles. Today's action prohibits all transactions between the designated entities and any U.S. person and freezes any assets the entities may have under U.S. jurisdiction.

"Proliferators of WMD often rely on front companies to mask their illicit activities and cover their tracks," said Stuart Levey, the Treasury's Under Secretary for Terrorism and Financial Intelligence (TFI). "Today's action turns a spotlight on eight firms involved in WMD proliferation out of North Korea. We will continue to expose and designate these dangerous actors."

Today's action builds on President Bush's issuance of E.O. 13382 on June 29, 2005. The Order carried with it an annex that designated eight entities – operating in North Korea, Iran, and Syria – for their support of WMD proliferation. The President at that time also authorized the Secretaries of Treasury and State to designate additional entities and individuals proliferating WMD and the missiles that carry them.

Korea Mining Development Corporation (KOMID), which was designated in the annex of E.O. 13382, is the parent company of two of the Pyongyang-based entities designated today, Hesong Trading Corporation and Tosong Technology Trading Corporation. These direct associations meet the criteria for designation because the entities are owned or controlled by, or act or purport to act for or on behalf of KOMID.

Korea Ryonbong General Corporation, also named in the annex, is the parent company of the remaining six Pyongyang-based entities designated today. These entities include Korea Complex Equipment Import Corporation, Korea International Chemical Joint Venture Company, Korea Kwangsong Trading Corporation, Korea Pugang Trading Corporation, Korea Ryongwang Trading Corporation, and Korea Ryonha Machinery Joint Venture Corporation.

As subsidiaries of KOMID and Korea Ryonbong General Corporation, many of these entities have engaged in proliferation-related transactions.

Identifying Information

HESONG TRADING CORPORATION
Pyongyang, North Korea

KOREA COMPLEX EQUIPMENT IMPORT CORPORATION
Rakwon-dong, Pothonggang District, Pyongyang, North Korea

KOREA INTERNATIONAL CHEMICAL JOINT VENTURE COMPANY
AKA: CHOSON INTERNATIONAL CHEMICALS JOINT OPERATION COMPANY
AKA: CHOSUN INTERNATIONAL CHEMICALS JOINT OPERATION COMPANY
AKA: INTERNATIONAL CHEMICAL JOINT VENTURE CORPORATION
Hamhung, South Hamgyong Province, North Korea
Man gyongdae-kuyok, Pyongyang, North Korea
Mangyungdae-gu, Pyongyang, North Korea

KOREA KWANGSONG TRADING CORPORATION
Rakwon-dong, Pothonggang District, Pyongyang, North Korea

KOREA PUGANG TRADING CORPORATION
Rakwon-dong, Pothonggang District, Pyongyang, North Korea

KOREA RYONGWANG TRADING CORPORATION
AKA: KOREA RYENGWANG TRADING CORPORATION
Rakwon-dong, Pothonggang District, Pyongyang, North Korea

KOREA RYONHA MACHINERY JOINT VENTURE CORPORATION
AKA: CHOSUN YUNHA MACHINERY JOINT OPERATION COMPANY
AKA: KOREA RYENHA MACHINERY J/V CORPORATION
AKA: RYONHA MACHINERY JOINT VENTURE CORPORATION
Central District, Pyongyang, North Korea
Mangungdae-gu, Pyongyang, North Korea
Mangyongdae District, Pyongyang, North Korea

TOSONG TECHNOLOGY TRADING CORPORATION
Pyongyang, North Korea

Recognizing the need for additional tools to combat the proliferation of WMD, President Bush signed Executive Order 13382 authorizing the imposition of strong financial sanctions against not only WMD proliferators, but also entities and individuals providing support or services to proliferators.

The designations announced today are part of the ongoing interagency effort by the United States Government to combat WMD trafficking by blocking the property of entities and individuals that engage in proliferation activities and their support networks.

PRESS ROOM

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October 21, 2005
JS-2985

TREASURY AND IRS ISSUE PROPOSED REGULATIONS ON DOMESTIC PRODUCTION ACTIVITIES DEDUCTION

Today, the Treasury Department and IRS issued proposed regulations under Code section 199 on the recently enacted deduction relating to domestic production activities. The proposed regulations expand on the initial guidance, Notice 2005-14, that was issued in January 2005.

The section 199 deduction relating to domestic production activities was enacted in October 2004 as part of the American Jobs Creation Act. The provision generally allows companies to deduct three percent of income from domestic production activities for 2005 and, by 2010, nine percent of such income. The activities eligible for the deduction include not only the manufacture of personal property such as clothing, goods, and food, but also software development, film and music production, the production of electricity, natural gas, or water, and construction, engineering and architectural services.

The proposed regulations include many of the rules contained in the initial guidance issued in January. In addition, in response to over eighty public comment letters received, the proposed regulations provide many more comprehensive rules, definitions, and examples to assist taxpayers implement this new provision.

The regulations are proposed to be effective for taxable years beginning after December 31, 2004, and taxable years of pass-thru entities beginning after December 31, 2004. Until the proposed regulations are finalized, taxpayers are generally permitted to rely on the Notice as well as the proposed regulations.

REPORTS

- Proposed regulations under section 199

[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG-105847-05]

RIN 1545-BE33

Income Attributable to Domestic Production Activities

AGENCY: Internal Revenue Service (IRS), Treasury.

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

SUMMARY: This document contains proposed regulations concerning the deduction for income attributable to domestic production activities under section 199. Section 199 was enacted as part of the American Jobs Creation Act of 2004, Public Law 108-357 (118 Stat. 1418) (the Act). The regulations will affect taxpayers engaged in certain domestic production activities. This document also provides a notice of a public hearing on these proposed regulations.

DATES: Written or electronic comments must be received by **[INSERT DATE THAT IS 60 DAYS AFTER PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER]**. Outlines of topics to be discussed at the public hearing scheduled for Wednesday, January 11, 2006, must be received by December 21, 2005.

ADDRESSES: Send submissions to: CC:PA:LPD:PR (REG-105847-05), room 5203, 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:PA:LPD:PR (REG-105847-05), 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 or via the Federal eRulemaking Portal at www.regulations.gov (IRS and REG-105847-05). The public hearing will be held in the IRS Auditorium, Internal Revenue Building, 1111 Constitution Avenue, NW., Washington, DC.

FOR FURTHER INFORMATION CONTACT: Concerning §§1.199-1, 1.199-3, 1.199-6, and 1.199-8, Paul Handleman or Lauren Ross Taylor, (202) 622-3040; concerning §1.199-2, Alfred Kelley, (202) 622-6040; concerning §1.199-4(c) and (d), Richard Chewning, (202) 622-3850; concerning all other provisions of §1.199-4, Scott Rabinowitz, (202) 622-4970; concerning §1.199-5, Martin Schaffer, (202) 622-3080; concerning §1.199-7, Ken Cohen, (202) 622-7790; concerning submission of comments, the hearing, and/or to be placed on the building access list to attend the hearing, LaNita Van Dyke, (202) 622-7180 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collections of information contained in this notice of proposed rulemaking have been submitted to the Office of Management and Budget for review in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3507(d)). Comments on the collections of information should be sent to the **Office of Management and Budget**, Attn: Desk Officer for the Department of the Treasury, Office of Information and

Regulatory Affairs, Washington, DC 20503, with copies to the **Internal Revenue Service**, Attn: IRS Reports Clearance Officer, SE:W:CAR:MP:T:T:SP, Washington, DC 20224. Comments on the collection of information should be received by **[INSERT DATE 60 DAYS AFTER PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER]**. Comments are specifically requested concerning:

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

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

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

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

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

The collection of information in these proposed regulations is in §1.199-6(b) involving patrons of agricultural and horticultural cooperatives. This information is required so that patrons of agricultural and horticultural cooperatives may claim the section 199 deduction. The collections of information is mandatory. The likely respondents are business or other for-profit institutions.

Estimated total annual reporting burden: 9,000 hours.

Estimated average annual burden hours per respondent: 3 hours.

Estimated number of respondents: 3,000.

Estimated annual frequency of responses: annually.

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

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

Background

This document contains proposed regulations relating to the deduction for income attributable to domestic production activities under section 199 of the Internal Revenue Code (Code). Section 199 was added to the Code by section 102 of the Act. On January 19, 2005, the IRS and Treasury Department issued Notice 2005-14 (2005-7 I.R.B. 498) providing interim guidance on section 199 and inviting comments on issues arising under section 199. Written and electronic comments responding to Notice 2005-14 were received. The IRS and Treasury Department have reviewed and considered all the comments in the process of preparing these proposed regulations. This preamble to the proposed regulations describes many of the more significant comments received by the IRS and Treasury Department. Because of the large volume of comments received, however, the IRS and Treasury Department are not able to address all of the comments in this preamble.

General Overview

Section 199(a)(1) allows a deduction equal to 9 percent (3 percent in the case of taxable years beginning in 2005 or 2006, and 6 percent in the case of taxable years beginning in 2007, 2008, or 2009) of the lesser of: (a) the qualified production activities income (QPAI) of the taxpayer for the taxable year; or (b) taxable income (determined without regard to section 199) for the taxable year (or, in the case of an individual, adjusted gross income (AGI)).

Section 199(b)(1) limits the deduction for a taxable year to 50 percent of the W-2 wages paid by the taxpayer during the calendar year that ends in such taxable year. For this purpose, section 199(b)(2) defines the term W-2 wages to mean the sum of the aggregate amounts the taxpayer is required under section 6051(a)(3) and (8) to include on the Forms W-2, "Wage and Tax Statement," of the taxpayer's employees during the calendar year ending during the taxpayer's taxable year. Section 199(b)(3) provides that the Secretary shall prescribe rules for the application of section 199(b) in the case of an acquisition or disposition of a major portion of either a trade or business or a separate unit of a trade or business during the taxable year.

Qualified Production Activities Income

Under section 199(c)(1), QPAI is the excess of domestic production gross receipts (DPGR) over the sum of: (a) the cost of goods sold (CGS) allocable to such receipts; (b) other deductions, expenses, or losses directly allocable to such receipts; and (c) a ratable portion of deductions, expenses, and losses not directly allocable to such receipts or another class of income.

Section 199(c)(2) provides that the Secretary shall prescribe rules for the proper allocation of items of income, deduction, expense, and loss for purposes of determining QPAI.

Section 199(c)(3) provides special rules for determining costs in computing QPAI. Under these special rules, any item or service imported into the United States without an arm's length transfer price shall be treated as acquired by purchase, and its cost shall be treated as not less than its value immediately after it enters the United States. A similar rule applies in determining the adjusted basis of leased or rented property when the lease or rental gives rise to DPGR. If the property has been exported by the taxpayer for further manufacture, the increase in cost or adjusted basis must not exceed the difference between the value of the property when exported and its value when imported back into the United States after further manufacture.

Section 199(c)(4)(A) defines DPGR to mean the taxpayer's gross receipts that are derived from: (i) any lease, rental, license, sale, exchange, or other disposition of (I) qualifying production property (QPP) that was manufactured, produced, grown, or extracted

(MPGE) by the taxpayer in whole or in significant part within the United States; (II) any qualified film produced by the taxpayer; or (III) electricity, natural gas, or potable water (collectively, utilities) produced by the taxpayer in the United States; (ii) construction performed in the United States; or (iii) engineering or architectural services performed in the United States for construction projects in the United States. Section 199(c)(4)(B) excepts from DPGR gross receipts of the taxpayer that are derived from: (i) the sale of food and beverages prepared by the taxpayer at a retail establishment; and (ii) the transmission or distribution of electricity, natural gas, or potable water.

Section 199(c)(5) defines QPP to mean: (A) tangible personal property; (B) any computer software; and (C) any property described in section 168(f)(4) (certain sound recordings).

Section 199(c)(6) defines a qualified film to mean any property described in section 168(f)(3) if not less than 50 percent of the total compensation relating to production of the property is compensation for services performed in the United States by actors, production personnel, directors, and producers. The term does not include property with respect to which records are required to be maintained under 18 U.S.C. 2257 (generally, films, videotapes, or other matter that depict actual sexually explicit conduct and are produced in whole or in part with materials that have been mailed or shipped in interstate or foreign commerce, or are shipped or transported or are intended for shipment or transportation in interstate or foreign commerce).

Section 199(c)(7) provides that DPGR does not include any gross receipts of the taxpayer derived from property leased, licensed, or rented by the taxpayer for use by any related person. A person is treated as related to another person if both persons are treated as a single employer under either section 52(a) or (b) (without regard to section 1563(b)), or section 414(m) or (o).

Pass-thru Entities

Section 199(d)(1) provides that, in the case of an S corporation, partnership, estate or trust, or other pass-thru entity, section 199 generally is applied at the shareholder, partner, or similar level, except as otherwise provided in rules applicable to patrons of cooperatives. Section 199(d)(1) further provides that the Secretary shall prescribe rules for the application of section 199, including rules relating to: (a) restrictions on the allocation of the deduction to taxpayers at the partner or similar level; and (b) additional reporting requirements.

The general rule is that section 199 is applied at the shareholder, partner, or similar level. However, section 199(d)(1)(B) limits the amount of W-2 wages from a pass-thru entity that may be used by each shareholder, partner, or similar person to compute the section 199 deduction. Specifically, section 199(d)(1)(B) provides that such person is treated as having been allocated W-2 wages from such entity in an amount equal to the lesser of: (i) such person's allocable share of such wages (without regard to this rule) from such entity as determined under regulations prescribed by the Secretary; or (ii) 2 times 9 percent (3 percent in the case of taxable years beginning in 2005 or 2006, and 6 percent in the case of taxable years beginning in 2007, 2008, or 2009) of the QPAI of that entity allocated to such person for the taxable year.

Individuals

In the case of an individual, section 199(d)(2) provides that the deduction is equal to the applicable percentage of the lesser of the taxpayer's: (a) QPAI for the taxable year; or (b) AGI for the taxable year determined after applying sections 86, 135, 137, 219, 221, 222, and 469, and without regard to section 199.

Patrons of Certain Cooperatives

Section 199(d)(3) provides special rules under which a taxpayer receiving certain patronage dividends or certain qualified per-unit retain allocations from a cooperative (to which subchapter T applies) engaged in the MPGE, in whole or in significant part, or in the marketing of any agricultural or horticultural product is allowed a section 199 deduction with respect to the amount of the patronage dividends or qualified per-unit retain allocations that are: (a) allocable to the portion of the cooperative's QPAI that would be deductible by the cooperative; and (b) designated as such by the cooperative in a written notice mailed to its patrons during the payment period described in section 1382. Such an amount, however, does not reduce the taxable income of the cooperative under section 1382.

In determining the portion of the cooperative's QPAI that would be deductible by the cooperative, the cooperative's taxable income is computed without taking into account any deduction allowable under section 1382(b) or (c) (relating to patronage dividends, per-unit retain allocations, and nonpatronage distributions) and, in the case of a cooperative engaged in marketing agricultural and horticultural products, the cooperative is treated as having MPGE, in whole or in significant part, any agricultural and horticultural products marketed by the cooperative that its patrons have MPGE.

Expanded Affiliated Groups

Section 199(d)(4)(A) provides that all members of an expanded affiliated group (EAG) are treated as a single corporation for purposes of section 199. Taking into account the provisions of the Congressional Letter (as described below), section 199(d)(4)(B) provides that an EAG is an affiliated group as defined in section 1504(a), determined by substituting "more than 50 percent" for "at least 80 percent" each place it appears and without regard to section 1504(b)(2) and (4).

Section 199(d)(4)(C) provides that, except as provided in regulations, the section 199 deduction is allocated among the members of the EAG in proportion to each member's respective amount (if any) of QPAI.

Trade or Business Requirement

Section 199(d)(5) provides that section 199 is applied by taking into account only items that are attributable to the actual conduct of a trade or business.

Alternative Minimum Tax

Section 199(d)(6) provides rules to coordinate the deduction allowed under section 199 with the alternative minimum tax (AMT) imposed by section 55. Taking into account the provisions of the Congressional Letter (as described below), section 199(d)(6) provides that for purposes of determining alternative minimum taxable income (AMTI) under section 55, the section 199 deduction shall be determined without regard to any adjustments under sections 56 through 59, except that in the case of a corporation (including a corporation subject to tax under section 511), the taxable income limitation is the corporation's AMTI.

Authority to Prescribe Regulations

Section 199(d)(7) authorizes the Secretary to prescribe such regulations as are necessary to carry out the purposes of section 199.

Congressional Letter

On July 21, 2005, the Chairman and Ranking Member of the Senate Finance Committee and the Chairman of the House Ways and Means Committee introduced the Tax Technical Corrections Act of 2005, H.R. 3376 and S. 1447, 109th Cong. (2005). In a letter on the same date to the Treasury Department (the Congressional Letter), they provided clarification for several issues so that appropriate regulatory guidance may be issued reflecting their intention. These proposed regulations reflect the intent expressed in the Congressional Letter with respect to section 199.

Summary of Comments

Qualified Production Activities Income

One commentator requested that the proposed regulations clarify the treatment of advance payments, and the costs related to those payments, for purposes of computing QPAI. Section 4.03(3) of Notice 2005-14 provides that, in the case of advance payments (for goods, services, and use of property) that are recognized under the taxpayer's method of accounting in a taxable year earlier than that in which the property or services are delivered, performed, and provided, the taxpayer must accurately identify, based on a reasonable method, whether the receipts (and the corresponding expenses) qualify as DPGR. If a taxpayer recognizes an advance payment in Year 1, and the CGS in Year 2, the commentator asks whether CGS must be applied to reduce DPGR in Year 2, even though the DPGR and CGS are recognized in different taxable years.

The proposed regulations clarify that, in the example the commentator cites involving advance payments, as well as other circumstances (such as taxpayers that use the cash receipts and disbursements method) where gross receipts and corresponding expenses are recognized in different taxable years, taxpayers must take the receipts and expenses into account for purposes of section 199 in the taxable year such items are recognized under their methods of accounting for Federal income tax purposes. The IRS and Treasury Department believe it would be unduly burdensome and complicated to create a separate set of timing rules for purposes of section 199. Thus, gross receipts and costs are taken into account for purposes of computing QPAI in the taxable year they are recognized for Federal income tax purposes under the taxpayer's methods of accounting even if the related gross receipts or costs, as applicable, are taken into account in different taxable years. If the gross receipts are recognized in an intercompany transaction within the meaning of §1.1502-13, see also §1.199-7(d).

A commentator requested clarification of how the advance payment rules would apply in the following scenario. In Year 1, a taxpayer sells for $100 a one-year software maintenance agreement that provides for software updates (that the taxpayer would MPGE

PRESS ROOM

October 21, 2005
js2986

Treasury Names Three To Tax Policy Office

WASHINGTON, DC – The Treasury Department today announced three new appointments in the Office of Tax Policy. Michael J. Desmond was named Tax Legislative Counsel, Harry J. "Hal" Hicks III was named International Tax Counsel and Robert H. Dilworth was named Senior Advisor.

As Tax Legislative Counsel in the Treasury Department's Office of Tax Policy, Michael Desmond will be responsible for a broad range of issues relating to the domestic federal tax law. Desmond assumed this role in an acting capacity June 20.

Prior to joining the Office of Tax Policy, Desmond was a partner at McKee Nelson LLP in Washington, D.C., where his practice focused on large case tax litigation and tax controversy matters. Before joining McKee Nelson, Desmond was a trial attorney with the Tax Division of the U.S. Department of Justice, and served as a law clerk to the Honorable Ronald S.W. Lew in the U.S. District Court in Los Angeles.

Desmond is an Adjunct Professor of Law at Georgetown University Law Center. He received a B.A. degree in Political Science and History from the University of California at Santa Barbara and his J.D. from the Columbus School of Law at the Catholic University of America.

As International Tax Counsel, Hal Hicks will be responsible for all matters relating to international taxation issues and will coordinate Treasury's role in the negotiation of international tax treaties.

Hicks currently serves as the Associate Chief Counsel (International) in the Office of Chief Counsel at the IRS. Prior to joining the IRS, Hicks was a partner in the international law firm of Mayer, Brown, Rowe & Maw. Prior to that he was a partner and Deputy National Director of International Tax Services at Ernst & Young.

Hicks received an LL.M. in taxation from New York University, a J.D. from the University of Virginia School of Law, and a B.A. from the College of William & Mary. Hicks is a member of the Advisory Board at the GW/IRS institute on International Tax. He has been an Adjunct Professor at Georgetown University Law Center since 1992 (teaching corporate and international tax classes).

As Senior Advisor to the Assistant Secretary for Tax Policy, Robert Dilworth will advise on a broad range of tax policy issues. Previously, Dilworth served in the PricewaterhouseCoopers LLP Washington National Tax Services office. During his tenure at PricewaterhouseCoopers, Dilworth served as leader or co-leader of the firm's national Global Structuring group (International Tax Services, Mergers and Acquisitions and Transfer Pricing), the Finance and Treasury group, and the firm's International Tax Services group in the national office.

Prior to joining PricewaterhouseCoopers in July 1999, Dilworth was a partner in Baker & McKenzie, in its Chicago, Taipei, San Francisco and, most recently, its Washington, D.C. offices.

Dilworth received his A.B. degree from Harvard College and his J.D. from Harvard Law School.

PRESS ROOM

October 17, 2005
JS-2987

JOINT STATEMENT
17TH SESSION OF THE CHINA-U.S. JOINT ECONOMIC COMMITTEE
Beijing, China, October 16-17, 2005

At the invitation of Chinese Finance Minister Jin Renqing, U.S. Treasury Secretary John W. Snow led an official delegation to China to co-chair the 17th Session of the China-U.S. Joint Economic Committee (JEC) on October 16-17, 2005. People's Bank of China Governor Zhou Xiaochuan, China Banking Regulatory Commission Chairman Liu Mingkang, China Securities Regulatory Commission Chairman Shang Fulin, NDRC Vice Chairman Zhu Zhixin, Ministry of Finance Vice Minister Li Yong, Ministry of Commerce Vice Minister Ma Xiuhong, People's Bank of China Deputy Governor Hu Xiaolian, China Insurance Regulatory Commission Vice Chairman Li Kemu, State Administration of Foreign Exchanges Deputy Chief Wei Benhua, U.S. Federal Reserve Chairman Alan Greenspan, U.S. Securities and Exchange Commission Chairman Christopher Cox, U.S. Commodities Futures Trading Commission Chairman Reuben Jeffery, U.S. Treasury Under Secretary Timothy D. Adams, and U.S. Ambassador Clark T. Randt, Jr. also participated in the meeting. Both sides noted the important role the JEC has played in strengthening bilateral economic and financial cooperation, maintaining domestic and global economic stability and prosperity, and promoting bilateral relationship development in general.

Macroeconomic Issues: Addressing Global Economic Imbalances

The two sides discussed the situation and outlook in their respective economies, as well as the challenges facing the global economy. Global economic performance remains sound, notwithstanding the impact of rising oil prices. Inflation and inflationary pressure are relatively contained. The Chinese side explained that the China's economic developments remained stable and rapid. The U.S. side noted that economic conditions in the U.S. remain solid. However, both sides noted potential risks associated with high oil prices, tightening of financial market conditions, widened global current account imbalances and rising protectionism.

Global Imbalances

In discussing the situation and outlook for the global economy, the two sides noted that economic growth had not taken place evenly across the world, and that it was necessary to address current account imbalances that have arisen in order to sustain global growth. They acknowledged that they have a shared responsibility, along with other major economies, to implement the policies necessary to reduce these imbalances. The U.S. side affirmed its commitment to reduce its fiscal deficit in order to increase domestic savings. Though Federal outlays for the hurricane relief and recovery efforts are likely to raise the budget deficit in the short term, the deficit outlook over the medium to long range is for steady declines due to tight controls on discretionary spending and continued strong economic growth. The Chinese side reiterated its commitment to undertake policies that would lead to sustained, rapid and more balanced growth of its domestic economy. In this context, the Chinese side affirmed their intention to make efforts on narrowing the gap between savings and investment, particularly by encouraging consumption. They also affirmed their intention to enhance the flexibility and strengthen the role of market forces in their managed floating exchange rate regime. Both sides agreed that exchange rate policy is a sovereign decision, but can have a global impact. Both sides reaffirmed that excess volatility and disorderly movements in exchange rates are undesirable for economic growth.

China's Financial Sector Modernization.

The Chinese side stressed the importance of financial sector reforms in promoting economic growth. Chinese participants described measures being taken to strengthen the banking system and to develop its domestic capital markets, including restructuring of state-owned commercial banks and securities companies, resolving the problem of non-tradable shares in the stock market, strengthening financial market supervision, and further liberalization of financial services. The Chinese side reaffirmed China's commitment to further advance reform in the financial sector by opening up the financing sector to competition, strengthening prudential supervision and risk management, improving corporate governance and continued progress in corporatization and listing state-owned enterprises. The two sides discussed the benefits of financial sector development on increasing consumption and helping to reduce external imbalances. The two sides agreed to enhance the cooperation in financing sector reform and supervision.

U.S. Financial Sector Issues.

The U.S. side pointed out that US financial sector remained resilient. U.S. banks are well capitalized, and non-performing loan ratios remain low. The U.S. side also discussed trends in the U.S. housing and mortgage markets, recent modifications to plan for implementing the new Basel capital framework, and policy issues associated with foreign banks establishing a presence in the U.S. market. There were also discussions of U.S. efforts to restore investor confidence in the wake of recent corporate scandals, including implementation of the Sarbanes-Oxley Act. The Act strengthened regulation in such areas as corporate governance, disclosure, and accountability of top executives and other gatekeepers.

Cooperation in International Affairs

Both sides welcomed the strategic review and the reform agenda of the Bretton Woods Institutions. They agreed that governance of the IMF should evolve along with the world economy so that countries' position better reflect their global weights and all members are more effectively represented.

The two sides discussed U.S. voting policies on MDB loans to China. China expressed its view that the United States should support the full range of Chinese MDB projects. The Chinese side expressed its intention to join the Inter-American Development Bank (IADB). The U.S. side welcomed China's willingness to make a greater contribution to the cause of poverty reduction in Latin America and the world at large. The U.S. side supported China's endeavor to join the IADB. Bilateral consultations on this matter will continue.

China and the United States reiterated the importance of actions to identify and combat terrorist financing and money laundering, and agreed to take necessary steps to prevent abuse of financial systems within their jurisdictions. China affirmed its willingness to join the anti-money laundering and anti-terrorist financing regional bodies, and to take the necessary steps to obtain full membership in the Financial Action Task Force (FATF). The United States supports China's involvement in anti-money laundering and anti-terrorist financing activities, and its efforts to obtain full membership in the FATF, by taking necessary steps to comply with FATF international standards.

The two sides reiterated their support for the successful conclusion of the WTO Doha Development Round negotiations. Both sides agreed to make effort to promote meaningful and balanced outcomes in key areas, including agricultural and financial services negotiations, and called for progress at the upcoming Hong Kong Ministerial Conference.

The Chinese delegation to the JEC consisted of representatives from the Ministry of Finance (MOF), People's Bank of China (PBOC), Ministry of Foreign Affairs (MFA), National Development and Reform Commission (NDRC), Ministry of Commerce (MOFCOM), China Banking Regulatory Commission (CBRC), China Securities Regulatory Commission (CSRC), China Insurance Regulatory Commission (CIRC) and State Administration of Foreign Exchanges (SAFE).

The U.S. delegation included representatives from the Treasury, Federal Reserve Board, Securities and Exchange Commission (SEC), Commodity Futures Trading Commission (CFTC), Federal Deposit Insurance Corporation (FDIC), National

Association of Insurance Commissioners (NAIC), Council of Economic Advisers (CEA), and the U.S. Embassy in Beijing.

PRESS ROOM

October 24, 2005
JS-2988

Statement by Secretary John Snow on Nomination of Ben Bernanke as Federal Reserve Board Chairman

Dr. Ben Bernanke will bring a wealth of experience in economic and monetary policy to the Federal Reserve chairmanship. He will be a worthy successor to Alan Greenspan. Ben's background as a distinguished economics professor and researcher, as chairman of the the Economics Department at Princeton University, as member of the Federal Reserve Board of Governors and, most recently, as an economic policy advisor to the President make him an ideal nominee for this critical position.

I've had the pleasure of working closely with Dr. Bernanke in his capacity as Chairman of the President's Council of Economic Advisors, and I am continually impressed with both his economic acumen and his intellectual integrity.

Alan Greenspan, in his 18-year tenure as Chairman, has expertly helped to guide the Federal Reserve Board and our economy through challenges with prescience and remarkable insight. The American people have reaped the benefit of his wise leadership in the form of a strong growing economy and low inflation. Chairman Greenspan leaves an outstanding legacy. In Ben Bernanke the President has chosen the right person to carry on the strong, independent leadership of the Fed.

PRESS ROOM

October 26, 2005
2005-10-26-12-7-56-884

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 $70,529 million as of the end of that week, compared to $71,245 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	October 14, 2005			**October 21, 2005**		
TOTAL	**71,245**			**70,529**		
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	11,264	11,156	22,420	11,163	10,972	22,135
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,991	5,404	16,395	10,611	5,315	15,926
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]			13,183			13,207
3. Special Drawing Rights (SDRs) [2]			8,206			8,221
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	October 14, 2005			**October 21, 2005**		
	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 14, 2005			**October 21, 2005**		
	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 IMF data for the prior month end.

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

PRESS ROOM

October 26, 2005
JS-2989

The Honorable John W. Snow
Prepared Remarks to the Center for National Policy
Washington, DC

America has the most flexible, resilient and dynamic economy in the world. I want to talk to you today about the President's positive economic reform agenda, designed to ensure that America continues its premier economic position in the years ahead.

I appreciate the work you are doing at the Center for National Policy to encourage innovative thinking and ensure that the best ideas rise to the top of the national debate. What you do helps to ensure that those ideas become the basis for the policies that then benefit the citizens of this great country -- and that's an important contribution.

Today the U.S. economy is the envy of the world. We have been through an absolutely remarkable quarter century of growth and prosperity with rising standards of living for our citizens and, importantly, interrupted by only two brief and shallow recessions. This has occurred despite the fact that the US economy has been subject over that period to a whole series of jolts and shocks:

- the S&L crisis in the late 1980's and disruptions in the banking industry in the early 1990's;
- the 1987 equity market meltdown -- which saw some 20 percent of the value of the NYSE disappear in a single day;
- the emerging market financial crises of the late 1990's;
- the bursting of the high tech bubble in 2000;
- corporate scandals;
- the terrorist attacks of September 11.

Despite all of this, the American economy has rolled along and absorbed the blows and moved to higher levels of output and per capital income without a financial crisis. Our economy has become remarkably flexible, adaptive and responsive with internal shock absorbers that allow us to take external blows, adjust and keep moving forward.

The question is: How has this come about? What made this possible? Chairman Greenspan, Ben Bernanke and others point to the remarkable resiliency and flexibility of the American economy, but how did our economy become so flexible and resilient? The American economy wasn't always so flexible and adaptive.

The answer lies in actions taken decades ago to move large parts of the American economy out from under government controls and to put in place a policy framework that made sure that new and emerging industries -- growth industries -- responded to the marketplace, not government. It is important that government continuously review the obstacles that get in the way of the economy's performance, things that make the economy rigid, inflexible and incapable of changing and adapting.

Thirty years ago I was privileged to serve in another Republican administration under another far-sighted President who recognized the need for continuous reform. That President, Gerald Ford, ushered in the modern era of deregulation and I found myself at the Department of Transportation making the case for removing regulation from various modes of transportation – railroads, motor carriers, barge lines, passenger airlines, air freight and so on. What we started under President Ford came to fruition under President Carter to the great credit of both men.

major sectors of the American economy – communication, electricity and financial services to name three key areas. Spurred on by this new deregulated environment, the American economy responded in an extraordinary way. Nowhere was this more evident than in the financial markets, where today we see a vast array of new products facilitating the whole disintermediation process, moving capital much more efficiently from savers to investors, and providing a whole array of instruments to hedge risk. The developments in financial service markets are extraordinary. Securitization in its many forms, the many developments in the home mortgage market, the development of hedge funds, derivative and hedge devices, credit swaps and credit derivatives, are just a few examples.

Today, we are reaping real benefits from the deregulation reforms. Consumers have far lower prices and far greater choices. Likewise, 30 years from now, our children and grandchildren stand to enjoy a higher standard of living, if we can capitalize on the President's leadership and advance his bold and forward-looking economic reform agenda.

Today I'd like to tie together four broad areas of economic reforms that will set U.S. workers and businesses on a path to compete and win in a fiercely competitive global economy.

First, we are fighting for lower, simpler taxes because we appreciate that lower taxes spur the engine of innovation and entrepreneurship that drives our economy and creates jobs, and ultimately leads to higher government revenues. But low taxes must go hand in hand with fiscal discipline, because excessive government spending creates a burden on the economy, and robs Americans of the opportunity to use their own money as they best see fit. Furthermore, the burden of taxation that is too high and too complicated reduces our ability to compete.

Second, we are working to improve health and retirement security for American workers and retirees, because our citizens should have the opportunity for peace of mind through all phases of life.

Third, we seek to maintain a vibrant and strong financial sector, because it is the very underpinning of a strong and growing economy. Our financial markets are the gold standard for safety and soundness, and the deepest and most liquid in the world. We must ensure that America remains the best place in the world for people to put their money.

And, finally, we embrace trade and open markets because they will produce rising living standards for us and a more secure world.

I'd like to give a little more detail on each of these key reforms, beginning with fiscal discipline and taxes.

Fiscal Discipline and Low Taxes

Low taxes and a strong government balance sheet are not mutually exclusive. The two go hand in hand.

When the executive and legislative branches look at the impact of the federal budget on the economy we should be guided by the President's message that tax dollars must be spent wisely, or not at all.

This is a difficult job, as there are clearly legitimate needs, particularly in the wake of recent devastating natural disasters, and the need to protect the homeland. But there can be no doubt that there are limits in terms of the impact of government budgets on the strength of our economy. Deficits, while understandable in current circumstances, are nonetheless unwelcome and should be avoided. Excessive deficit spending can lead to higher interest rates, and slower growth.

Fiscal responsibility gives us a competitive edge, and that is very much on the minds of Administration leaders as we look at our budgets to tightly control spending. That is why we are encouraging efforts in Congress as we speak to cut excessive spending. Those efforts are to be applauded.

The respect for taxpayers dollars, let me add, must be exercised both on the spending end and the collection end. President Bush pushed Congress to give Americans tax cuts when our economy was struggling, and the economic results have been outstanding – strong GDP growth and job creation. Our citizens, and therefore our economy, responded in a fundamental way to a lighter tax burden. And the result of their efforts has increased the revenues flowing to the federal government. Lower tax rates lead to economic growth, which produces more government revenues. That is why it would be exactly the wrong time, as some have proposed, to raise taxes. The American people and the economy would likely respond in kind, with GDP and job losses. I don't mean to belabor the basic principles of economics, but rather to emphasize the Administration's commitment to and appreciation of those principles, and the irrefutable results.

The collection of revenues not only means the amount, but also the method of collection, for its level of complexity actually acts like an additional tax, taking billions of dollars out of the economy. American taxpayers and businesses in fact spend an estimated $130 billion dollars in lost time and money trying to comply with our increasingly unwieldy tax code. That's $130 billion in resources that could be used to create jobs, invest in new business, or spur consumer spending. The $130 billion burden our tax code places on the American people is a drag on economic growth and our international competitiveness as well as simply being an unnecessary weight for Americans to bear

Next Tuesday, the President's Panel on Tax Reform will release its report, containing both an analysis of the current tax code and two suggested structures for a new code that is simpler, fairer and encourages economic growth. I look forward to receiving that report, evaluating the options it presents, and later making a recommendation to the President on fundamental tax reform.

Spending control, combined with lower tax rates, and a simpler, more pro-growth tax code are a potent reform recipe for jobs, growth, and higher incomes for future generations of Americans.

Taxation and spending, and their relationship to the health of our economy, also lie at the heart of another set of reforms that the Administration is dedicated to: greater security for the health and retirement needs of Americans.

Health and Retirement Security

As America's society ages, the President has rightly been in the forefront of reform to increase the health and retirement security for America's workers and retirees. You know the math--you've heard me and the President talk about before. As the baby boomers enter retirement, the combination of rising cost of health care costs, and the declining number of workers to retirees, both stand to swamp not only the federal budget, but also sap our national income. Well-intentioned policies of the past are already raising the cost and reducing the availability of health insurance, and if private pension reform is not enacted – and it must be done *right* – pension systems that workers have grown to rely on will leave millions at risk. And we must save Social Security, so that our children and grandchildren have the foundation of a secure retirement that so many now enjoy.

Some significant reform of health care policy has already been achieved – namely the advent of Health Savings Accounts and legal reform that will help tame the rising cost of health care – but there is much more to be done. The Administration wants to continue to empower consumers to make their own choices, inserting competitiveness into the health care marketplace that is sorely lacking today. Individuals and small groups – like the employees of small businesses – have been ill served by the current system and reforms must address their needs first. This would include allowing small businesses and civic and community organizations to band together to negotiate lower-priced health insurance for their employees through Association Health Plans (AHPs) and providing a tax credit for contributions to the HSAs of small business employees.

When discussing small business and health care, it is important to note that addressing their needs go far beyond a noble effort to help the "little guy." Because small business is actually the engine of our incredible economy. To them we owe the majority of new job creation and American innovation. When small business loses its competitive edge, America loses its edge.

A small business that enjoys success will grow, and it will increasingly offer greater benefits to its employees... like pension plans. This is a positive occurrence, but in recent years the flaws in the pension system, and the federal government structure that protects workers, have been revealed. Reform in this area must be thoughtful and deliberate, but not put off for another day. President Bush has proposed a comprehensive pension reform to ensure that companies' promises to their workers will not be broken in the future. Central to the proposed reform is better, more market-sensitive accounting, which will ensure that corporations actually put aside the funds needed to make good on their pension promises. Other key measures involve an increase in premiums paid to the Pension Benefit Guaranty Corporation (to strengthen the PBGC's finances and to reflect market insurance rates), new transparency requirements (so that workers will know if their employers are making good on their obligations), and restrictions on the ability of firms with underfunded plans to make new promises to workers. These commonsense measures for defined benefit pensions will help to strengthen an important pillar of our retirement system, company-based pensions.

Another critical pillar of our retirement system is also in serious need of reform. As all of you well know, Social Security is on a financially unsustainable path. Reforming the system will address some critical long-term economic issues. It will help address the looming unfunded obligations which threaten the fiscal outlook. Another key to reform is stopping the practice of the government writing itself IOUs, while spending dollars intended for Social Security on unrelated programs. This has to stop.

That's why the President wants to let younger workers put their Social Security dollars in personal accounts – the ultimate "lock box" for their hard-earned retirement dollars.

We also need to make the program solvent. Progressive benefit growth, which would bring the program about 70 percent of the way to solvency, is another important element of the President's proposed changes. It would mean that the lowest income seniors would have the fastest-growing benefits while benefits for those who are more well off grow more slowly, with protection from inflation.

Americans rightly expect rising incomes in their working years, and a safe and secure retirement. Health, pension and Social Security reform are all essential reforms to address that concern. Without addressing their problems and embracing fiscally responsible solutions, each of these future risks carries the potential to deeply wound our economy and our ability to compete.

Strong and Secure Financial Markets

The very foundation of a strong and growing economy is a vibrant and healthy financial system--one that efficiently allocates savings to the highest and best investment opportunities. This "disintermediation" process lies at the heart of economic growth. A healthy market must also have plenty of "shock absorbers" like futures markets, derivatives, and hedge funds, to build deep, liquid capital markets that spread risk and therefore will help to cushion the blows of economic shocks.

While my general belief, and a guiding principle for this Administration, is that our economy does its competitive best when government leaves it alone, there is also of course a need to look for and punish those who are abusing the system and/or outright committing fraud. Such behavior is a direct assault on our way of organizing economic activity. Fraud is totally antithetical to our system, which simply cannot function unless strong anti-fraud rules are enforced.

Revelations of widespread misconduct that rocked the investment world in the spring of 2002 led to the need for fairly immediate reforms on that front. The scandals threatened to destroy this nation's confidence in corporate leadership and in those entrusted to safeguard our system of corporate capitalism, so considering the context in which it came about, Sarbanes-Oxley actually was in most respects quite a measured response. Despite its celebrated status as the most far-reaching capital market legislation since the creation of the SEC in the thirties, the fact is it essentially reaffirms established norms and codes of corporate governance, albeit with criminal penalties. I know the President was proud to sign this essential reform legislation.

More often than not, reaffirming those norms and codes – versus over-policing or burdening capital markets – is going to be the course of action that will protect, not harm, our economy.

Our national system of housing finance is a critical portion of our financial markets, so I want to speak briefly about reforms that we believe are necessary in that area as well.

Our housing finance system needs to remain strong and healthy so that it can continue to make mortgage credit available and provide financing opportunities for new homeowners. The Administration has therefore proposed reforms that are intended to ensure greater regulatory oversight, enhanced market discipline, and appropriate capital requirements for Government Sponsored Enterprises (GSEs). As we consider these reforms, we are guided by two core objectives: the need for a sound and resilient financial system and increased opportunities for home ownership, especially for less advantaged Americans.

In light of the recent events at the GSEs, the need for meaningful reform has become even more clear. As we originally outlined in detail in 2003, the regulator for the GSEs should have powers comparable in scope and force to those of other world-class financial supervisors and fully sufficient to carry out the agency's mandate. The regulator must have clear general regulatory, supervisory, and enforcement powers with respect to the GSEs. These powers must include the authority to set both minimum capital standards and risk-based capital standards; the power to assess the entities for independent funding outside of the appropriations process; and the ability to place a failed GSE in receivership.

In order to protect against the systemic risk posed by the housing GSEs' mortgage investment business, the Administration also recommends that limitations be placed on the size of the housing GSEs' retained mortgage investment portfolios. After the appropriate phase-in period, given the overall advances in securitization, the large amount of data available on mortgages, and the increased sophistication of mortgage investors, we believe that our capital markets will readily adjust without any loss in mortgage availability.

Our primary goals in developing our GSE reform proposal are to promote the strength and resilience of our housing finance markets, lessen the potential for systemic risk, and continue our progress in meeting the mortgage credit needs of all our Nation's homebuyers. To accomplish those purposes, the fundamental elements of reform that the Administration has proposed are essential.

The Importance of Trade and Open Markets

So far I've primarily addressed what we can do at home to help us compete abroad. But what about our active engagement with global markets, with our trading partners and those with whom we hope to trade? Simply put, we do not operate as an isolated country, and we must always resist inclinations to do so. History tells us that economic isolationism would be a recipe for failure. An open economy that embraces trade and open markets will be a successful one, period.

When discussing the benefits of international trade, I am reminded of a speech that Tony Blair gave where he said that "The pace of change can either overwhelm us, or make our lives better and our country stronger. What we can't do is pretend it is not happening."

He went on to chide those who say that we ought to stop and debate this phenomenon. He said, "You might as well debate whether autumn should follow summer" and then pointed out that the emerging growing economies are not debating it. They are seizing it and all of its possibilities and opportunities.

China, India, Brazil and our close neighbor, Mexico are among the countries that are doing so, which is why they are the countries on my schedule of international travel this year. In Brazil and China I have witnessed this year the great power of good economic reforms for the people of those countries as well as for the citizens of the nations with whom they trade. I look forward to similar visits to India and Mexico before the year is over.

I'm proud to say that this Administration has embraced, and continues to pursue, free trade agreements. The President put the purpose of free trade well on the day he signed CAFTA: "[T]o keep our economy growing and creating jobs, we need to open markets for American products overseas. All of us understand that strengthening our economic ties with our democratic neighbors is vital to America's economic and national security interests. And all of us understand that by strengthening ties with democracies in our hemisphere, we are advancing the stability that comes from freedom."

A vibrant global economy is, indeed, in all of our interests. And making the benefits of growth available to each and every one of our countries depends on free trade. Tariffs, subsidies and trade barriers are unnecessary impediments to growth. President Bush laid out a very clear message on trade in September at the United Nations: A successful conclusion of the Doha Round will bring benefits for every country – and particularly for the developing world. Trade in services in particular can greatly benefit developing countries, providing knowledge and infrastructure to facilitate economic growth and create jobs. This is especially true in the case of financial services. An efficient, well-regulated financial sector is a key element for achieving economic growth and stability in developing countries, and we are deeply involved in advancing that agenda at the Treasury, in partnership with my counterparts in the G7 and G20 nations.

Bold and Forward Looking Reforms

Time doesn't allow me to address other key areas of reform that President Bush is advancing including education, immigration and energy policy. In all of these areas the President has shown strong leadership for reform.

In the tradition of Presidents Theodore Roosevelt and Ronald Reagan, President Bush has advanced a bold and far-reaching reform agenda for America.

By tying together this bold and forward looking economic reform agenda, all aimed at a dynamic, resilient and competitive American economy, I hope to have underscored the basic fact that President Bush understands that responsible government can't stand still. It must move forward and address the obstacles and risks to rising growth and prosperity.

Certainly this does not mean that it has to grow, or that we can spend our way through every problem. Just the opposite, in fact. Government needs to adjust, shift or simply get out of the way in most cases. And that type of reform is the most challenging of all. But we embrace it and we will not grow weary of pursuing it.

Thank you for having me here today.

PRESS ROOM

October 26, 2005
js-2990

Statement by Deputy Secretary Kimmitt at Treasury's Iftaar

U.S. Treasury Department, Washington, DC

"Assalamualaikum and warm Ramadan greetings. I am honored to host you tonight at the Treasury Department for this special meal, and to join you in recognition of the holy month of Ramadan.

"I sincerely appreciate the chance to meet and have a meal together, and the chance to talk with you about the good that comes from this month of prayer and togetherness. Secretary Snow and I stand in admiration of your faith, and of the significance of the fasting and personal sacrifice of Ramadan. This is a time to give thanks for God's blessings through works of charity, which is of the highest purpose.

"I know it deeply saddens all of us to realize that there are some who commit atrocities in the name of this great faith, and that Muslim charities have been abused in the process. At Treasury, we are proud to work closely with you to blunt the effects of those who would use the Muslim faith for ill purposes. Tonight, however, is a time for celebrating your faith, and I am grateful to have had this chance to gather in fellowship and honor the many good deeds and generosity of the Muslim people. Ramadan Mubarak."

PRESS ROOM

October 27, 2005
JS-2991

Treasurer to Discuss Strengthening Social Security and Financial Education in Norcross, Georgia

U.S. Treasurer Anna Escobedo Cabral will travel to Norcross, Georgia on Saturday to discuss President Bush's efforts to strengthen and preserve Social Security and increase financial education in America.

The following event is open to the media:

WHAT
Smart Teens Investing in Their Future
Latino Youth Conference
Keynote Speaker

WHERE
Norcross High School
5300 Spalding Drive
Norcross, GA

WHEN
Saturday, October 29, 2005
9:00 a.m. EDT

PRESS ROOM

October 28, 2005
JS-2992

Statement by Treasury Secretary John W. Snow
On Third Quarter GDP

"I was pleased by today's strong GDP number, which indicates that the American economy is continuing to perform very well. In a quarter where the economy also had to absorb the shock of massive natural disasters, a 3.8% rate of growth is truly outstanding.

"For ten straight quarters, the American economy has grown at a healthy rate of 3.3 percent or more. There can be no doubt that the American economy is an adaptive and resilient marvel, and one that has benefited greatly from good fiscal policies."

"The strong and steady GDP growth we've been experiencing is the result of lower tax rates, sound monetary policy set by the Federal Reserve, and the economy's underlying fundamentals. This growth bodes well for everything from job creation to Treasury receipts. There is little wonder why the American economy is the envy of the world."

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PRESS ROOM

October 28, 2005
js-2993

Media Advisory: Treasury Secretary Snow to Visit Detroit

U.S. Treasury Secretary John W. Snow will travel to Detroit, Michigan Monday October 31, 2005 to discuss the state of the U.S. economy and economic reforms including tax policy and trade issues. In Detroit, Secretary Snow will attend a luncheon hosted by members of the Detroit Economic Club.

The following events are open to credentialed media with photo identification:

Monday October 31, 2005

Luncheon hosted by members of the Detroit Economic Club
Cobo Center
1 Washington Blvd
Detroit, MI 48226
12:00 PM EST

** Media must RSVP to Rashanda Gray (313) 963-8547 by 8:00 AM EST Monday, October 31, 2005

** Media must arrive by 12:00 PM EST

****Press Availability immediately following luncheon**

PRESS ROOM

October 28, 2005
js-2994

Media Advisory: Treasury Secretary Snow to Receive Final Report From The President's Advisory Panel on Federal Tax Reform

Today the Treasury Department announced that Senators Connie Mack and John Breaux, Chairman and Vice-Chairman of the President's Advisory Panel on Federal Tax Reform, accompanied by other members of the Panel, will deliver the Panel's recommendations to reform the U.S. tax code to Treasury Secretary John Snow on Tuesday, November 1, 2005 at 10:00 a.m. in the Treasury Department Diplomatic Reception Room. A briefing by Senators Mack and Breaux will follow.

The Tax Reform Panel was established by President Bush on January 7, 2005. President Bush has charged the bipartisan panel with recommending reforms to the tax code that will make the U.S. tax system simpler, fairer and more growth oriented.

The following events are open to credentialed media with photo identification:

Tuesday November 1, 2005

President's Advisory Panel on Federal Tax Reform Delivers Recommendations to Secretary John W. Snow
Diplomatic Reception Room (Room 3311)
The Treasury Department
1500 Pennsylvania Ave., NW
Washington, DC 20220
10:00 AM EST

***** Media must R.S.V.P. by 4:00 PM EST October 31 to Frances Anderson at (202) 622-2439 or frances.anderson@do.treas.gov with full name, DOB, Social Security number, organization name and country of birth if not U.S.**

PRESS ROOM

October 28, 2005
js-2995

Remarks by U.S. Treasurer Cabral in Visit to Reopening of Gulfport, Mississippi Schools

Thanks so much for your hospitality and for hosting me today. I am so pleased to be visiting this wonderful state.

I feel both touched and honored to be here with all of you today, visiting Gulfport, Mississippi schools. I bring you warm greetings from President Bush and Secretary Snow as you return to class this month, and our best wishes to all – students, teachers, administrators and parents alike.

I would also like to especially thank Dr. Hank Bounds, Mississippi State Superintendent of Education, his wonderful staff, the school principals and teachers of Gulfport for their graciousness in taking valuable time to host me today.

I want to let you know that our nation and our government stand behind you in this challenging time. It is a source of great pride to note how our fellow Americans devastated by this natural disaster have demonstrated grace under fire, and how they have continued to valiantly face the long-term challenges that will be without a doubt overcome. But overcoming these challenges will be a mammoth task requiring great commitment and dedication from every party involved: government, businesses and individuals.

Superintendent Bounds tells me that he is in awe at the great outpouring of support for Mississippi schools both from the American people, as well as from the nonprofit and private sectors. So I want to say to all those who have given: thanks again for providing aid and assistance to these schools and students who so desperately need it. And thank you to all who have committed to helping not just in the short-term, but also in the long-term.

Fortunately, our country and this state are together facing these challenges head-on, with complete determination and optimism. It is also very fortunate that we do so having a really strong and vibrant economy. This is critical as we pursue rebuilding efforts for Mississippi schools and across your state. As my boss Secretary Snow says, "With a strong economy, we can afford to meet any challenge."

I want to assure you that President Bush will continue to work to keep government on the side of economic growth and job creation so America's businesses and workers can compete and prosper – so that the folks in the most affected areas by the Hurricanes can get back on their feet and so their local communities can once again flourish. Even in the face of challenges, such as the devastation caused by the natural disasters of Hurricanes Katrina and Rita, President Bush has acted to maintain pro-growth economic policies.

However, this President recognizes that there is still more work to be done. The future holds tremendous opportunity for the American people, and this Administration is working very hard to ensure that all those pursuing the American Dream have the opportunity to attain it.

How will the President continue to work to achieve these goals? First and foremost, his Administration will continue to work toward keeping taxes low and also work to restrain unnecessary federal spending. The President has called upon Congress to make tax relief permanent to continue to ensure that more money is left in the pockets of the American people. To continue reducing the deficit, the President has submitted a disciplined budget that proposed an actual cut in spending on non-security discretionary programs and will keep the government on track to cut the deficit in half by 2009. As we help the people of the Gulf Coast rebuild, the President will work with Congress to further reduce unnecessary spending and cut programs that are not working, so as to provide for emergency relief in a fiscally responsible way.

As many of you know, this Administration has tended to recommend broad reforms. From education to health care, homeland security to corporate responsibility, Social Security to tax reform, the Bush Administration has actively sought reform across the spectrum of government. We've done so because we appreciate that government often must adapt itself to allow for individual creativity spur market growth.

We also understand the burden that can be left to future generations of taxpayers and policy makers alike if we allow government to become an outdated mechanism that creates a drag on our economy.

At Treasury, much of the reform policy that we focus on is aimed at maintaining an American economy that stands apart as the most flexible, adaptive and resilient in the world. This reform policy can be synthesized in four main or areas.

These four broad areas of reform that I will mention next, if achieved, will keep us ahead of the curve when it comes to our ability to compete in the global marketplace. First, to reiterate, we emphasize lower, simpler taxes and fiscal discipline because we respect the taxpayers' money. We appreciate that spending growth, and therefore government and tax growth, hampers individuals and businesses from using their money to create wealth. Furthermore, the burden of taxation that is too high and too complicated reduces our ability as a country to compete in a global marketplace.

Second, we are working with Congress to improve the social safety nets of health care and retirement security. Only thoughtful changes will help us help our neighbors, while at the same time avoid hampering the security of future generations.

Allow me to elaborate on the topic of improving retirement security. President Bush has proposed a comprehensive plan for pension reform to ensure that companies keep the promises they make to their workers.

Better and more market-sensitive accounting is crucial to this reform, which will ensure that corporations actually put aside the funds needed to make good on their pension promises.

Other key measures involve an increase in premiums paid to the Pension Benefit Guaranty Corporation (to strengthen the PBGC's finances and to reflect market insurance rates), new transparency requirements (so that workers will know if their employers are making good on their obligations), and restrictions on the ability of firms with underfunded plans to make new promises to workers. These commonsense measures for defined benefit pensions will help to strengthen an important pillar of our retirement system, company-based pensions.

Another critical pillar of our retirement system is also in serious need of reform. Social Security is currently on a financially unsustainable path. Reforming the system is necessary, and doing so will address some critical long-term economic issues. I hope to see reform of the system that stops the practice of the government writing itself IOUs while spending taxpayer dollars on unrelated programs.

That's why the President wants to give younger workers the choice to put their Social Security dollars in personal accounts – the ultimate "lock box" for their hard-earned retirement dollars.

President Bush also wants a permanent solution to this problem. So we also need to make the program solvent. Progressive benefit growth, which would bring the program about 70 percent of the way to solvency, is another important element of the President's proposed changes. In this scenario, the lowest income seniors would have the fastest-growing benefits while benefits for those who are better off grow more slowly, with protection from inflation.

Much like a business that hopes to be successful, the government that regulates a free-market economy must look not only at the challenges of the day, but the challenges of the future. Health, pension and Social Security reform all fall into that category. Without addressing their problems and embracing fiscally responsible solutions, each of these future risks carries the potential to critically stagnate our economy and our ability to compete.

Third, we additionally seek regulatory reforms to maintain a vibrant financial sector because strong enforcement must function without creating a burden for good actors.

And fourth, we also encourage both the Congress and the international community to embrace free trade and open markets because we believe it holds great hope not just for our businesses and workers, but for all the citizens of the world.

These reforms together are critical to both revitalizing the areas hardest hit by Hurricanes Katrina and Rita; and they are essential to the continued economic growth and prosperity of our country as a whole.

We owe it to ourselves today, and we owe it to our future generations to keeping moving toward achieving these goals – even as we work to rebuild the communities recently devastated by natural disasters. Achieving them will be a key to keeping our country on the road to increased economic prosperity. If we stay on this course, our children will surely benefit from it.

I sincerely appreciate your invitation to Mississippi. Thank you once again. I am so grateful for your time and for the opportunity to visit with you today. All the folks in Mississippi and in your school districts are all doing an amazing job, and doing that job beautifully.

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PRESS ROOM

October 28, 2005
js-2996

Indexed Amounts for Health Savings Accounts

The Treasury Department and IRS today issued new guidance on the maximum contribution levels for Health Savings Accounts (HSAs) and out-of-pocket spending limits for high deductible Health Plans (HDHPs) that must be used in conjunction with HSAs. These amounts have been indexed for cost-of-living adjustments for 2006 and are included in Revenue Procedure 200r-70, which announces changes in several indexed amounts for purposes of the federal income tax.

The new levels are as follows:

New Annual Contribution Levels for HSAs:

- For 2006, the maximum annual HSA contribution for an eligible individual with self-only coverage is $2,700. (Note: for any individual, the maximum contribution is the lesser of the indexed amount or the deductible of the HDHP.)
- For family coverage the maximum HSA contribution is $5,450.
- Catch up contribution for individual who are 55 or older is increased by statute to $700 for 2006.
- Both the HSA contribution and catch up contribution apply pro rate based on the number of months of the year a taxpayer is an eligible individual.

New Amounts for Out-of-Pocket Spending on HSA-Compatible HDHPs:

- The maximum annual out-of-pocket amounts for HDHP self-coverage increase to $5,250 and the maximum annual out-of-pocket amount for HDHP family coverage is twice that, $10,500.

Minimum Deductible Amounts for HSA-Compatible HDHPs:

- For 2006, the minimum deductible for HDHPs increases to $1,050 for self-only coverage and $2,100 for family coverage.

Note that a fiscal year HDHP that satisfies the requirements for an HSA-compatible HDHP on the first day of its fiscal year may apply that deductible for the entire fiscal year.

PRESS ROOM

October 31, 2005
JS-2997

The Honorable John W. Snow
Prepared Remarks to: the Detroit Economic Club

Good afternoon. I really appreciate you having me here today. In 2003, I gave my first speech as Treasury Secretary to the Detroit Economic Club, and it's a real pleasure to be back here today. Since I was here last, we have seen the economy on a remarkable path of growth. Last week's encouraging advance GDP report for the third quarter was a reminder of the power of the inherent strength and flexibility of the American economy to help us deal with economic challenges. In a quarter where the economy had to absorb the shock of massive natural disasters, we still grew at a healthy rate of 3.8 percent.

Fundamental to our economic strength has been the pro-growth policies the President has championed. Lower tax rates for all taxpayers put money back in the hands of consumers. An increase in expensing for capital investment gave a boost to small businesses. It's important to continue this growth that we make the tax cuts permanent.

It is also important that we exercise fiscal discipline. The increased spending required for hurricane recovery efforts make this all the more important. We are currently on the path to cut the federal deficit in half by 2009, and while economic growth has helped the growth of Treasury receipts quite a bit, spending restraint is the necessary other-half to the deficit-cutting process.

Wise monetary policy from the Federal Reserve has also played a great role in keeping our economy strong. Under Alan Greenspan's leadership, the Federal Reserve has played a significant role in plotting a safe course for the economy through some very difficult economic times. Through the stock market downturn of the late-1980s to the currency crises of the 1990s and two recessions, Chairman Greenspan's deft hand at the helm of the Federal Reserve has been a key element of our economic success.

I was pleased by the President's choice of Ben Bernanke to be his nominee as the next Fed Chairman. I have enjoyed having the opportunity to work with Ben these past few months as he's served as Chairman of the President's Council of Economic Advisors. His intellectual rigor and his deep understanding of the field of economics have greatly impressed me. Ben's background as a respected researcher and chairman of the Economics Department at Princeton University, as a member of the Federal Reserve Board of Governors and, most recently, as an economic policy advisor to the President, make him an excellent choice for this critical position. Greenspan is not an easy act to follow, but Ben, I believe, will truly prove a worthy successor.

A low inflationary environment has been the key to global growth and prosperity over the last few years. It is widely understood today that inflation is a monetary phenomenon. It will fall to the Fed and other leading central banks of the world to continue to put in place the appropriate monetary policy to assure continued non-inflationary growth.

Another key to continued economic growth is the flexibility of our economy. One of the great virtues of a flexible economy is the continuous automatic adjustment process. A flexible market economy is constantly adjusting to avoid large problems that require sharp corrections. In this way the automatic market adjustment processes are like a tea kettle which, upon hitting the boiling point, continues to let off pressure. Under a system of tight regulation and government direction of the economy, the rules and regulations can get far out of touch with underlying economic realities.

In these cases, the underlying pressures will continue to build but without the automatic correction process taking place and without the regulators having a good feel for the fact that things are getting out of balance. They will eventually see that they are out of balance, but by then the required correction will be large and potentially highly disruptive. In other words, de-regulation by allowing markets to operate, reduces risks of major disruptions and thus promotes stability. Imbalances are addressed automatically, so that in most cases no one is even aware that problems have been avoided – it is the tea kettle that did not blow up.

The importance of economic flexibility was readily apparent in the aftermath of the recent hurricanes. Despite very real shocks to the economy, GDP grew in the third quarter at a strong 3.8% pace. Harsh reality means we will face disruptive events from time to time. The best thing we can do is make sure that the U.S. economy and the global economy are able to absorb such shocks.

We have done that pretty well in the U.S. economy by adopting a far-reaching set of policies over the past three decades that have made the American economy much more flexible and much more resilient. A priority for national policy makers must be to resist policy proposals that would introduce rigidity into the economy and instead to press on every front for policies to make the economy even more flexible.

Our tax system is one area where we have a real opportunity to increase economic flexibility. The unwieldy nature of the American tax code is legendary. As I'm sure you know, the President's Panel on Tax Reform will be presenting a comprehensive report to me tomorrow that details both the problems with the current code and suggested replacement structures for it. I'm looking forward to receiving their report.

At Treasury, we'll be taking the Panel's report into consideration as we prepare to then give our reform recommendations to the President.

There are challenges to our economy. High energy prices are something that we are all thinking about. The underlying strong fundamentals of our economy have certainly helped us to adjust to the rise in prices, but all the same, current energy prices are creating real headwinds for the economy. They act like a tax on consumers, reducing their real purchasing power. They also have an adverse psychological effect on consumers, making them more apprehensive and less positive about the economic outlook. They also have adverse effects on the cost structures, operating income and cash flow of energy-intensive businesses.

While high energy prices are leading to a supply-side driven slowdown in the recovery, they have not derailed the recovery. The world economy continues to grow at a strong clip, even in the face of the headwinds created by high energy prices.

Unwelcome as they are, high energy prices lead to behavior changes by both suppliers of energy and consumers of energy, which set in motion a set of forces to moderate the high prices over time. These are natural responses to higher prices. High energy prices are a good incentive to develop both traditional and non-traditional new energy sources. In addition, they provide a strong incentive for energy buyers to conserve and we see that happening already.

The energy bill that President Bush pushed for so hard and so long is finally law. It will help over time and sends a good signal to the markets that our political processes work. In the long run, this legislation will encourage conservation, increased production, and give incentives for developing alternative sources of energy.

But we also need to promote greater access to our abundant energy sources. We need to allow exploration in ANWR. It can be done in an environmentally sensitive way. We need to facilitate expansion of our refinery capacity in the U.S. which has become a real bottleneck for us.

We also need to encourage nuclear energy investment. We need to speed up the regulatory process and create more certainty in it. These are the ideas the Administration is working on today under the leadership of Energy Secretary Sam Bodman.

Another area of particular concern to businesses, and especially businesses in the Detroit area, are rising health care costs. The Administration is exploring ways to address this problem. It can be argued that the future fiscal condition of the federal government will be driven by rising health care costs. In the private sector, employers can be reluctant to hire new employees because of steeply rising health costs.

One necessary reform to deal with this problem is to address frivolous lawsuits that clog up our courts and raise health care costs for everyone. The courts exist to give citizens recourse, but every dollar spent fighting a frivolous lawsuit is a dollar that is not going to care for a patient or to reduce costs. It is important that we turn the courts back into venues for legitimate claims and restrict the opportunity for junk lawsuits to tie up valuable time and resources.

We've also created Health Savings Accounts (HSA) to bring affordable health care within reach of more Americans. Like super-charged IRAs for health care, HSAs are tax free savings accounts that can be used in conjunction with a high deductible health care plan to significantly reduce health care costs. HSAs put consumers in charge of their own health-care choices. If you have not already, I hope all of you consider offering an HSA option to your employees.

I talked earlier about removing government impediments to economic growth, and I want to point out that the importance of this applies to other nations as well. In other words, in a global economy the U.S. cannot continue to be the sole source of growth, nor can we continue to grow if we are isolated from the enormous number of potential customers that exist outside our borders. We look to other countries to improve their economies and to remove barriers to trade. Trade is a two-way street. While we believe in open trade, we believe in trade with rules that everyone must follow.

I just recently returned from a trip to China where we had productive discussions about trade liberalization – in particular, greater access for financial services. I believe financial services liberalization would help China achieve balanced growth, which is critical not just for China, but for the global economy.

China's foreign exchange regime certainly is also extremely important. Our views on this issue by now are well known: China and the global economy will both benefit from greater currency flexibility. We will continue to press China to continue to make progress on reforming their foreign exchange regime.

But we can't forget that constant reform of our own economy is our highest priority if we want to remain the most dynamic economy in the world. For our economy to continue to grow, we must keep it flexible, we must keep taxes low, and we must work with our trading partners to eliminate barriers to trade.

Thank you so much for having me here. I'd be glad to take your questions.

PRESS ROOM

October 31, 2005
JS-2998

Testimony of Robert Werner, Director
Office of Foreign Assets Control
U.S. Department of the Treasury
Before The Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs

Chairman Coleman, Ranking Member Levin and other distinguished members of the Subcommittee, I appreciate the opportunity to discuss the responsibilities of the Office of Foreign Assets Control, or OFAC, as these pertain to the United Nations "Oil-for-Food" program and the Iraqi sanctions.

My testimony today will center on the Committee's interest in OFAC's role regarding the administration, compliance and oversight of U.S. persons authorized to participate in the "Oil-for-Food" program as well as those who obtained licenses to engage in transactions related to travel to, and within, Iraq.

Before turning to a discussion of these responsibilities and processes, however, I would like to provide you with a general overview of OFAC's mission and jurisdictional authorities.

Mission and Jurisdiction

Since becoming Director of OFAC in October of 2004, I have learned first hand that it is an exceptional agency of experienced, knowledgeable professionals dedicated to carrying out the complex mission of administering and enforcing economic sanctions programs based on U.S. foreign policy and national security goals with a workforce of 140 authorized full-time staff.

OFAC currently administers 30 economic sanctions programs against foreign governments, entities and individuals. Though eight of these programs have been terminated, they still require residual administrative and enforcement activities.

OFAC's authority to impose controls on transactions and to freeze foreign assets is derived from the President's constitutional and statutory wartime, and national emergency powers. In performing its mission, OFAC relies principally on delegations of authority made pursuant to the President's broad powers under the *Trading with the Enemy Act* ("TWEA"), International *Emergency Economic Powers Act* ("IEEPA"), and the *United Nations Participation Act* ("UNPA") to prohibit or regulate commercial or financial transactions involving specific foreign countries, entities, or individuals. In administering and enforcing economic sanctions programs, OFAC maintains a close working relationship with other federal departments and agencies to ensure that these programs are implemented properly and enforced effectively. OFAC works directly with the Department of State ("State"); the Department of Commerce ("Commerce"); the Department of Justice, the Federal Bureau of Investigation (FBI), the Department of Homeland Security's U.S. Customs and Border Protection (CBP) and U.S. Immigration and Customs Enforcement (ICE); bank regulatory agencies; and other law enforcement agencies to fulfill our mission.

I would also note, Mr. Chairman, that all of the programs we administer require that we work closely with the broad range of industries potentially affected by these programs. We are expanding and improving our communication with our diverse constituencies ranging from the financial and services sectors to manufacturing and agricultural industries. The cooperation we receive from U.S. corporations in complying with sanctions is generally exceptional.

UN/Iraq Sanctions Overview and Implementation

Following the Iraq invasion of Kuwait on August 2, 1990, the UN Security Council issued UNSC Resolution 661 on August 6, 1990, imposing sweeping economic sanctions against Iraq and providing protective measures with respect to Kuwait. Resolution 661 also established a committee consisting of all members of the UN Security Council to monitor and supervise implementation of the sanctions (the "661 Committee"). Following the invasion of Kuwait, the President also issued Executive Order 12722, on August 2, 1990, which froze the assets of the Government of Iraq in the United States or under the control of U.S. persons and imposed a comprehensive trade embargo against Iraq. Following the adoption of UNSC Resolution 661, the President issued Executive Order 12724 on August 9, 1990, broadening the sanctions previously imposed. These sanctions were implemented by OFAC through the Iraqi Sanctions Regulations, 31 C.F.R. Part 575 (the "Regulations").

Section 575.205 of the Regulations prohibited any goods, technology or services from being exported from the U.S. to Iraq, except for donated articles intended to relieve human suffering that were authorized by OFAC on a case-by-case basis. Under sections 575.520 and 575.521 of the Regulations, U.S. persons could apply to OFAC for authorization to export to Iraq donated food and donated supplies intended strictly for medical purposes.

Except as otherwise authorized, section 575.207 of the Regulations prohibited U.S. persons from engaging in transactions relating to travel to Iraq by any U.S. citizen or permanent resident alien, or to activities by any U.S. citizen or permanent resident alien within Iraq. This prohibition included payments by U.S. persons for their own travel or living expenses while in Iraq. The Regulations did not prohibit travel transactions related to travel to Iraq or to activities within Iraq that were: (1) necessary to effect the departure of a U.S. citizen or permanent resident alien from Kuwait or Iraq; (2) relating to travel and activities for the conduct of the official business of the United States Government or the United Nations; or (3) by persons regularly employed in journalistic activity by recognized newsgathering organizations.

OFAC referred travel applications to the Department of State for foreign policy guidance in appropriate cases, such as when an applicant claimed a compelling humanitarian consideration (e.g., a critical illness of an immediate family member in Iraq), or where circumstances indicated that a national interest was at stake. In these instances, licensing determinations were made on a case-by-case basis in consultation with the Department of State. In addition, U.S. persons planning to travel to Iraq under a U.S. passport were required by the Department of State to have their passports validated for travel to Iraq by the Office of Passport Services.

In April of 1995, the Security Council adopted UNSC Resolution 986 (Oil-for-Food) as a temporary measure to provide for the humanitarian needs of the Iraqi people. In May of 1996, the Government of Iraq signed a Memorandum of Understanding setting out detailed arrangements for the implementation of Resolution 986. Under Oil-for-Food, the Government of Iraq was permitted to sell and to export from Iraq petroleum and petroleum products as well as purchase and import humanitarian materials and supplies to meet the essential needs of the civilian population in Iraq. The proceeds from sales of Iraqi-origin petroleum and petroleum products were to be deposited into a special escrow account at the New York branch of Banque Nationale de Paris ("BNP New York") where they would be used to fund purchases made by the Government of Iraq.

The Secretary-General established a panel of independent experts in the international oil trade to oversee oil-purchase contracts and ensure that they complied with requirements provided for in Resolution 986. The panel was responsible for assessing the pricing mechanisms for petroleum purchases in order to determine whether they reflected fair market value. The panel was also responsible for providing analysis and recommendations to the 661 Committee.

With respect to purchases of humanitarian materials and supplies, the Government of Iraq was required to prepare a categorized list of humanitarian goods and supplies it intended to purchase and import pursuant to Resolution 986 and submit it to the Secretary-General. The Secretary-General would then forward the distribution list to the 661 Committee. Individual contracts for purchases of humanitarian goods and supplies were submitted to the 661 Committee through the relevant UN mission of the exporting state. Committee members could disapprove any contract. Payment from the Iraq escrow account at BNP New York would only be approved for items included in the distribution list, unless the 661 Committee decided otherwise on a case-by-case basis. Experts in the UN Secretariat were to examine each contract, especially regarding quality and quantity of the goods and supplies in order to determine whether a fair price and value were reflected in the document.

Effective December 10, 1996, OFAC amended the Regulations to provide statements of licensing policy with respect to Oil-for-Food, which appeared in the December 11, 1996, edition of the Federal Register. Section 575.522 of the Regulations authorized U.S. persons to enter into executory contracts with the Government of Iraq for the purchase of Iraqi-origin petroleum and petroleum products, and to trade in oilfield parts and equipment and civilian goods, including medicines, health supplies and foodstuffs. U.S. persons were also authorized to enter into executory contracts with third parties outside OFAC's jurisdiction that were incidental to permissible executory contracts with the Government of Iraq. U.S. persons were not authorized to engage in transactions related to travel to, or within, Iraq for the purpose of negotiating and signing executory contracts. However, U.S. persons could enlist and pay the expenses of non-U.S. nationals to travel to Iraq on their behalf for the purpose of negotiating and signing executory contracts.

OFAC required U.S. persons, who had entered into executory contracts with the Government of Iraq for the sale of humanitarian materials and supplies or oilfield parts and equipment, to submit an application to OFAC for a case-by-case review and approval prior to performance of each contract. OFAC referred each application to the Department of State and if appropriate the Commerce Department for guidance on whether to authorize performance of the contract. State was then responsible for submitting the contract to the UN 661 Committee for review concerning whether to authorize release of funds from the Iraq account at BNP New York to pay for the goods upon their delivery to Iraq. OFAC issued a license determination after it received from State a copy of the 661 Committee approval of payment and a separate memorandum from State recommending that a specific license be issued to the applicant.

OFAC issued approximately 1050 specific licenses to U.S. persons for various aspects of the Oil-for-Food program, primarily under three provisions of the Regulations. Sales to the Government of Iraq of oilfield parts and equipment and humanitarian aid were subject to licensing under, respectively, sections 575.524 and 575.525 of the Regulations. Three U.S. companies were authorized under section 575.524 to sell oilfield parts and equipment directly to the Government of Iraq, and 23 U.S. companies were authorized under section 575.525 to make direct sales to the GOI of humanitarian aid. A total of 48 licenses were issued to these 26 U.S. companies authorizing performance of sales contracts entered into with the Government of Iraq.

Section 575.523 of the Regulations authorized the performance of contracts approved by the UN 661 Committee for the purchase of Iraqi-origin petroleum or petroleum products directly from the GOI. Nine U.S. companies were each issued a license under this section.

Most U.S. persons licensed by OFAC under this program were authorized to engage in trade transactions with third country entities who were contractors or subcontractors with the Government of Iraq. In other words, these remaining approximately 1000 specific licenses either authorized U.S. persons to engage in transactions with third parties related to sales to the GOI, or else authorized non-

U.S. persons to engage in transactions involving U.S.–origin goods or components being supplied to the Government of Iraq. For example, under 575.523, OFAC issued thirteen specific licenses to seven U.S. persons for activities that facilitated the purchase of Iraqi oil by third parties.

Finally, the general license in section 575.526 of the Regulations authorized U.S. persons to import into the United States, and otherwise deal in, Iraqi-origin petroleum and petroleum products provided that the goods in question had been approved for purchase and export from Iraq by the 661 Committee.

Outreach

Because of the complexity of the Oil-for-Food program, OFAC engaged in an outreach program to assist licensees in understanding their obligations. OFAC provided guidance about the Program's requirements in hundreds of sanctions workshops. It also published information on Iraqi sanctions in numerous plain-language brochures, including *Iraq: What You Need to Know About U.S. Sanctions*, and *Foreign Assets Control Regulatons for the Financial Community, ... for Exporters and Importers, ... for the Insurance Industry*, and *... for the Securities Industry*. Further, it referenced the program in articles published in industry magazines for bankers, for shippers, and for the international trade community.

In addition to engaging in this general guidance, in January of 1997, OFAC issued a memorandum to the attention of the U.S. Customs Service recommending that Customs require importers of Iraqi petroleum or petroleum products to provide a copy of the 661 Committee approval for which the petroleum or petroleum products in question comprised all or a part of the original purchase. In addition, OFAC suggested that Customs might wish to request from the importer a brief statement describing the type and amount of the imported Iraqi products and affirming that, to the best of the importer's knowledge and belief, the imported Iraqi petroleum or petroleum products comprised all or a portion of the purchase covered in the accompanying UN document. In a memorandum to OFAC dated March 6, 1997, Customs confirmed that it had issued instructions to Customs field offices pursuant to the guidance contained in OFAC's memorandum.

In December of 2000, OFAC also published explicit information about authorized and unauthorized payments under the Oil-for-Food program. This document, entitled "Guidance on Payments for Iraqi Origin Petroleum," was prepared in response to media reports that the Government of Iraq had attempted to force its oil customers to violate UN Security Counsel Resolutions by demanding that they pay premiums in the form of surcharges, port fees or other payments into an Iraqi controlled account. The guidance specifically stated that no transfer of funds or other financial or economic resources to or for the benefit of Iraq or a person in Iraq could be made except for transfers to the 986 Escrow Account. The document mirrored a December 15, 2000, communication from the 661 Committee with the following explicit points:

1.) The Sanctions Committee did not approve a surcharge of any kind on Iraqi Oil.

2.) Payments for purchasing Iraqi crude oil could not be made to a non-UN account.

3.) Therefore, buyers of Iraqi oil should not pay any kind of surcharge to Iraq.

Designation Authority

Under the Iraq sanctions program, OFAC had the authority to specially designate -- that is, to identify publicly and to block assets of any person, whether an individual or a business, that was directly or indirectly owned or controlled by the Government of Iraq, or that purported to act for or on behalf of that government. As an essential element of the Iraq sanctions, OFAC began an initiative to identify front companies and agents used to acquire technology, equipment, and resources for Iraq or to otherwise act for or on behalf of the Government of Iraq. Iraq Specially Designated Nationals (SDN) included Iraqi governmental bodies, representatives, agents, intermediaries or fronts, and could be either overt or covert entities of the government. The designations not only exposed these persons and blocked their assets but also cut them off from participation in the U.S. financial and economic systems. .Ultimately, OFAC named approximately 300 separate entities or individuals as Iraq SDNs.

Enforcement

OFAC also worked closely with federal law enforcement agencies to enforce sanctions against Iraq. For example, CBP has responsibility to interdict goods destined to or from OFAC-sanctioned countries or groups. CBP inspectors contact OFAC's Enforcement Division when suspect goods are detained to determine if OFAC has issued licenses for these goods. OFAC's outreach training to CBP inspectors at the Federal Law Enforcement Training Center and at CBP Ports of Entry throughout the country included information about sanctions against Iraq.

Moreover, OFAC has completed over 300 investigations and audits against U.S. financial institutions, corporations and individuals involving violations of the Iraq sanctions program. The violations investigated ranged from unauthorized attempts to export goods to Iraq by U.S. companies to the operation of brokerage accounts for Specially Designated Nationals of Iraq by brokerage firms. In addition, audits of banking transactions conducted by OFAC have revealed other cases involving funds transfers destined for Iraq transmitted by U.S. banks. OFAC's action against violators included the issuance of warning letters, the imposition of civil monetary penalties and, where no violation was found, no further agency action depending on the nature, circumstances and scope of the violation.

Finally, criminal investigations of OFAC sanctions' programs are conducted by ICE, the Commerce Department's Office of Export Enforcement ("OEE"), and the FBI. OFAC plays a coordinating and advisory role in such cases, and works closely with agents and Assistant U.S. Attorneys. OFAC often provides an expert witness at trial. Criminal charges of IEEPA violations have been brought in at least 13 cases since August 1990, for unlicensed transactions with Iraq. These cases have involved illegal exports, money remittances and dealings in Iraqi oil.

OFAC is also working with agents in a number of on-going criminal investigations, including investigations by the Department of Justice of potential violations of the Oil-for-Food program. In one case, dealing with the purchase of Iraqi oil in excess of the amount authorized by the U.N. under Oil-for-Food, OFAC ordered a U.S. company to place in excess of several million dollars into a blocked account at a U.S. financial institution. In another case, OFAC provided information from an Oil-for-Food license file to a U.S. Attorney's Office.

Conclusion

I thank the Committee for the opportunity to discuss OFAC's role in implementing economic sanctions against Iraq, including its role in the Oil-for-Food program. I look forward to taking your questions.

PRESS ROOM

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October 31, 2005
JS-3000

Treasury Announces Market Financing Estimates

The Treasury Department announced today that it expects net borrowing of marketable debt to total $96 billion in the October – December 2005 quarter. The estimated cash balance on December 31 is $25 billion. On August 1, Treasury announced estimated net market borrowing of $97 billion this quarter and a December 31 cash balance of $25 billion. Adjusting for a beginning-of-quarter cash balance that was $6 billion higher-than-estimated in August, the current borrowing estimate is $5 billion higher than previously announced. The increase in anticipated borrowing is primarily the result of higher outlays partially offset by higher receipts.

Treasury also announced that it expects net borrowing of marketable debt to total $171 billion in the January – March 2006 quarter. The estimated cash balance on March 31 is $15 billion.

Treasury borrowed $52 billion in net marketable debt in the July – September 2005 quarter. The cash balance on September 30 was $36 billion. On August 1, Treasury announced estimated net market borrowing of $59 billion and an end-of-quarter cash balance of $30 billion. Adjusting for the higher-than-estimated cash balance at quarter-end, the net market borrowing need was $12 billion lower than announced in August. The improvement was primarily the result of higher receipts.

Additional financing details relating to Treasury's Quarterly Refunding will be released at 9:00 A.M. on Wednesday, November 2. The following link provides access to Treasury documents related to this Quarterly Refunding. (http://www.treas.gov/offices/domestic-finance/debt-management/quarterly-refunding/)

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REPORTS

- Market Financing Estimates

TREASURY ANNOUNCES MARKET FINANCING ESTIMATES

Today, the Treasury Department announced net borrowing of marketable debt for the October-December 2005 and January–March 2006 quarters.

Quarter	Estimated Borrowing ($ billion)	Estimated End-of-Quarter Cash Balance ($ billion)
Oct-Dec 2005	$96	$25
Jan-Mar 2006	$171	$15

Since 1997, the average absolute forecast error in net borrowing of marketable debt for the current quarter is $10 billion and the average absolute forecast error for the end-of-quarter cash balance is $9 billion. Similarly, the average absolute forecast error for the following quarter is $32 billion and the average absolute forecast error for the end-of-quarter cash balance is $11 billion.

The following tables reconcile the variation between forecasted and actual net borrowing of marketable debt in the July-September 2005 quarter.

Quarter	Estimated Borrowing ($ billions)	Actual Borrowing ($ billions)	Estimated End-of-Quarter Cash Balance ($ billions)	Actual End-of-Quarter Cash Balance ($ billions)
Jul-Sep 2005	$59	$52	$30	$36

Categories	Chg from Aug Estimate
Receipts	$14
Outlays	($3)
Other	$2
Larger End-of-Quarter Cash Balance	($6)

Additional financing details relating to Treasury's Quarterly Refunding will be released at 9:00 A.M. on Wednesday, November 2. The following link provides access to Treasury documents related to this Quarterly Refunding. (http://www.treas.gov/offices/domestic-finance/debt-management/quarterly-refunding/)

PRESS ROOM

October 31, 2005
JS-3001

Assistant Secretary of the Office of Economic Policy
Mark J. Warshawsky
Statement for the Treasury Borrowing Advisory Committee
of the Bond Market Association

In the three months since the Advisory Committee's last meeting, the economic scene has been dominated by the serious hardship suffered by so many Americans as a result of Hurricanes Katrina and Rita. But the quarter's initial, solid momentum, combined with the national economy's overall resilience, provided a foundation of strength. Despite the hurricanes, the U.S. economy continued to grow strongly: real GDP, our most complete measure of activity, grew at a 3.8 percent annual rate in the third quarter as reported in the advance estimate just last Friday, accelerating from the second quarter's 3.3 percent pace. Strength was evident in consumption, selected categories of investment, and residential construction.

Consumer spending continued to anchor the economy. Personal consumption expenditures advanced by a strong 3.9 percent, buoyed early in the quarter by sales of motor vehicles as consumers responded to employee discount incentive programs.

Business capital spending provided more support to growth. Investment in equipment and software increased at an 8.9 percent rate in the third quarter, in line with the 9.5 percent pace of the first half of the year. Business investment in structures continued its recent uneven pattern, dipping 1.4 percent in the third quarter. Nonetheless, we expect to see some rebound in private nonresidential construction expenditures as post-hurricane rebuilding proceeds.

Although remaining at a high level, growth in real residential investment slowed in the third quarter to a 4.8 percent annual rate. Much of the slowdown was due to reduced brokers' commissions as growth in home sales flattened out at a high level.

Inventory investment, which had subtracted 2.1 percentage points from growth in the second quarter, reduced growth by an additional 0.6 percentage point in the third quarter. The private inventory-sales ratio has been cut sharply in the last two quarters, suggesting that businesses may well need to rebuild stocks, and that inventory investment could make a positive contribution to growth over the next few quarters.

The foreign trade deficit narrowed a bit, making a small positive contribution to real GDP growth for the second straight quarter, after six quarters of posing a drag. Both exports and imports were affected by disruptions to port facilities. Complete data for the quarter are not available, yet preliminary figures show exports slowed -- likely owing to hurricane disruptions -- growing by 0.8 percent in the third quarter after eight straight quarters of robust, and sometimes double-digit, growth. Total imports were flat in the third quarter, after falling by 0.3 percent in the second quarter.

Hurricane-related disruptions boosted energy prices and caused the overall inflation rate to jump. The price of West Texas Intermediate crude shot up near the $70 a barrel mark in early September, and gasoline prices briefly exceeded $3 a gallon. The broadest measure of inflation, the GDP price index, rose by 3.1 percent at an annual rate in the third quarter, and consumer prices in September were 4.7 percent above the year-earlier level. Outside of the energy sector, however, the inflation picture remains remarkably tame. The core PCE price index, which excludes energy and also food, rose just 1.3 percent in the third quarter, well below the 2 percent average rate over the preceding two years. Clearly, recent inflationary pressures have been centered in energy, which underscores the importance of the Administration's efforts to encourage the expansion of domestic energy supplies and a more efficient use of energy.

Although underlying employment conditions outside of the affected areas remain healthy, the impact of Hurricane Katrina on employment was significant. We know from regional employment data that Louisiana and Mississippi suffered large one-month job losses of 251,000 and 60,000, respectively. The city of New Orleans alone lost 237,000 jobs -- a drop of almost 40 percent. The national unemployment rate rose 0.2 percentage points to 5.1 percent in September, and payroll employment fell by 35,000 -- the first decline in 28 months. Every effort is being made to rectify the consequences of these job losses through a variety of Administration programs and proposals targeted toward unemployed hurricane survivors. Programs already in place include the "Pathways to Employment" Initiative, the Hurricane Recovery Job Connection, Disaster Unemployment Assistance, and the National Emergency Grant employment program. In addition, the President's Gulf Opportunity Zone proposal would provide immediate job-creating incentives to area businesses.

Overall, we're optimistic that future real growth will remain solid with continued gains in payroll jobs. Crude oil prices have receded by roughly $10 a barrel from their late August peak, and gasoline prices have declined by about 15 percent since then, suggesting the potential for more favorable headline inflation going forward. We agree with private sector estimates suggesting growth above 3 percent in the fourth quarter, accelerating to about 3.5 percent in the first half of 2006 -- above-trend growth as post-hurricane reconstruction proceeds.

As we move from focusing on disaster response to recovery, we will be faced with an array of decisions and choices. The desire to rebuild immediately must be tempered with the need to rebuild wisely. In this regard, it is important that we recognize that all federal choices -- whether explicit or implicit -- will have an impact on future redevelopment. Further, we must ensure that redevelopment plans minimize the future exposure of all taxpayers, in recognition of the fact that the federal government is effectively often the insurer of last resort in large-scale disasters. Fulfilling this task involves accounting for potential future costs in current government decision-making and ensuring that the appropriate incentives are in place for the private sector to do so as well.

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