Department of the Treasury

PRESS RELEASES

The following Press Release number was not used:

JS-3056

PRESS ROOM

November 2, 2005
js-3002

Under Secretary for Domestic Finance Randal K. Quarles November 2005 Quarterly Refunding Statement

We are offering $44.0 billion of notes to refund approximately $38.7 billion of privately held securities maturing or called on November 15, raising approximately $5.3 billion. The securities are:

- A new 3-year note in the amount of $18.0 billion, maturing November 15, 2008;

- A new 5-year note in the amount of $13.0 billion, maturing November 15, 2010;

- A new 10-year note in the amount of $13.0 billion, maturing November 15, 2015.

These securities will be auctioned on a yield basis at 1:00 PM EDT on Tuesday, November 8, Wednesday, November 9 and Thursday, November 10, respectively. All of these auctions will settle on Tuesday, November 15. The balance of our financing requirements will be met with weekly bills, monthly 2-year and 5-year notes, the December 10-year note reopening and 10-year and 20-year TIPS in January. Treasury also is likely to issue cash management bills in early December and January.

Thirty-Year Nominal Issuance

In August, Treasury announced the re-introduction of regular semi-annual auctions of the 30-year nominal security beginning with a bond that will mature on February 15, 2036. Treasury will announce the details of the 30-year bond auction on February 1, 2006 and will hold the auction on February 9, 2006.

Calendar Adjustment

To fit the re-introduction of the 30-year bond into our financing calendar we are revising the dates for the auction and issuance of 5-year notes. Beginning in February 2006, all monthly 5-year notes will be auctioned and settled late in the month with calendar end-of-month maturity and payment dates.

Other Policy Matters Under Consideration

Treasury Securities Lending Facility

Treasury is studying the desirability of a standing, nondiscretionary securities lending facility. Treasury will continue to consult with market participants on how best this lending facility could be structured and used.

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

The next quarterly refunding announcement will take place on Wednesday, February 1, 2006.

-30-

PRESS ROOM

November 2, 2005
js-3003

Report to the Secretary of the Treasury from the Treasury Borrowing Advisory Committee of the Bond Market Association

Dear Mr. Secretary:

Since the Committee's last meeting in August, economic growth has remained firm in spite of the material impact of hurricanes Katrina and Rita, which had a devastating impact along the coast of the Gulf of Mexico. While 2005 GDP growth will be above its long-term trend of 3.2%, it seems likely that growth will soften in the near term due to record energy costs, which have slowed personal spending growth. Investment spending continues to grow strongly, supported by robust home sales and investment in capital equipment. Though capital equipment spending may have moderated at the end of Q3 due to transportation disruptions from the hurricanes and a strike at Boeing, demand remains high, as evidenced by a record level of unfulfilled orders for durable goods.

The hurricanes significantly affected employment, as September non-farm payrolls shrank by 35,000, whereas payroll growth averaged 221,000 in the three months preceding the storm. Accompanying job losses from the hurricanes, the unemployment rate rose to 5.1% in September from a cyclical low of 4.9% in August. In addition, the insured unemployment rate rose to 2.3% in October.

Energy prices have begun to decline from record levels following the hurricanes. However, the moderation did not occur soon enough to prevent headline CPI inflation from reaching 4.7% in September, the highest since 1991. Price increases outside of food and energy have been modest. The core CPI deflator rose at a 1.5% annualized pace in Q3, lower than the 2.0% annualized pace of both Q2 and the 1.7% annualized pace of a year ago. The core PCE deflator increased at a 1.3% annualized pace in Q3, lowering its year-over-year (Y/Y) change in Q3 to 1.9%. The pass-through of higher energy prices and a pickup in unit labor costs raise the risk that increases in core inflation may be ahead. However, with energy prices slipping from record levels, headline inflation should soon return to less elevated observations. Foreign demand looks to have little impact on inflation, as the trade-weighted dollar is virtually flat from a year ago.

Yields on U.S. Treasury securities have risen in anticipation of continued Fed tightening. Rates have backed up across the entire curve, reflecting a combination of higher estimates of the sustainable level of overnight rates and emerging uncertainties about the path of inflation. This process has slowed the intense pace of curve flattening evident throughout the tightening cycle. Forward markets are expecting that the funds rate will peak next year, leveling off in the 4.5% area.

The level of Q3 reported operating earnings is forecasted to be somewhat lower than Q2, although the Y/Y growth rate will increase due to a favorable comparison. Q3 operating earnings look to be 0.4% lower than Q2, but 14.7% higher than a year ago. As of Friday, October 28, 2005, 69% (market capitalization) of the S&P 500 had reported earnings; 78% had met or beaten expectations, while 22% had failed to meet expectations. Operating earnings have thus far surprised to the upside by 1.8%. Continued strength in oil prices supported Energy Sector earnings, with lower earnings evident in the Consumer Discretionary and Materials sectors. Insurance losses from the hurricanes led to lower Financial Sector earnings.

Cyclical forces narrowed the recently completed fiscal year's Federal budget shortfall to $319 billion, or 2.6% of GDP. The expansion should continue to lift tax receipts, albeit at a more moderate pace, in the year ahead. However, public spending may rise by a similar amount given spending blueprints and hurricane-related appropriations.

Against this economic and financial backdrop, Treasury representatives presented a series of charts summarizing the near-term outlook and associated financing requirements. Charts depicting daily operating cash balances, drivers of financing needs, projected net borrowing with hypothetical auction sizes, and distributions of the outstanding debt portfolio were shown. Highlights included projections for a stabilization of average maturity of total outstandings at 55 months due to reintroduction of the 30-year bond, and total outstandings under 3 years continuing to decline with bill pay down. It was observed that the current coupon pattern and issuance amounts will leave Treasury with ample flexibility to handle significant variance to current budgetary forecasts.

In the first section of the charge, Treasury asked the Committee to discuss several prospective changes to its issuance calendar. Specifically, Treasury asked for comments on whether or not it should cluster supply and whether there are advantages to moving 5-year note auctions to month-end during the quarters when it issues 30-year bonds. Treasury also asked whether staggered announcement dates are preferable or not, and lastly, whether the 30-year auction cycle would impact 20-year TIPS auctions. To the first part of the charge, members observed that the amount of duration risk sold at the clustered auction periods would not be large relative to historical volumes and market liquidity. Members generally felt that clustering of auctions would also be advantageous for market attention purposes. Most members felt that regular month-end 5-year note auctions would be preferable to other alternatives and that single announcements of month-end auctions were preferable to staggered announcements. Finally, given the unique and different characteristics of 20-year TIPS and 30-year bonds, members opined that there would be no impact on 20-year TIPS auctions from the February/August 30-year bond issuance cycle.

In the second section of the charge, Treasury asked for the Committee's views as to when and under what circumstances the deployment of an emergency securities lending facility should be offered to the market, a topic previously discussed in August. Treasury asked the Committee to suggest a construct that was only economically attractive during periods of protracted fails as well as to opine generally about the merits of the facility being considered.

Treasury had expressed concern in prior meetings that in periods of market stress, particularly those times when counterparty credit risk is elevated, a protracted fail could hamper transactional liquidity in Treasury obligations, causing borrowing costs to rise. Additionally, Treasury noted that in low-rate environments, chronic fails can persist for very long periods of time as the cost of failing to deliver securities is nominally low.

The Committee engaged in a wide-ranging discussion of the merits and design of such a facility. Most members felt that a facility was clearly a good idea if it lowered the cost of borrowing demonstrably and encouraged Treasury to develop analysis whereby it could test those perceived benefits. Quantifying the benefits of a lending facility through lower cost of borrowing was considered the most important benchmark to determine the merits of the facility. Members then discussed conditional measures to test the merits of the facility if the borrowing cost benefit was clearly demonstrable. Most members felt that the introduction of a facility would be a good idea if it served to limit the potential of a debilitating credit event or other catastrophic occurrence. As such they argued, that establishing a penalty borrowing rate well below the zero bound would allow market participants to fulfill contracts to sell specific securities assuaging counterparty concerns. However, many members counseled Treasury not to link the implementation of the proposed facility to the enforcement of buy-in rules citing a lack of clarity of precedence or understanding of how consistent procedure would be applied. Members strongly encouraged Treasury not to inadvertently tinker with a well functioning market by imposing additional regulatory burdens. They asserted that markets have thrived with less regulatory interference and that Treasury could endanger its enviable borrowing costs through increased regulatory imposition. Some felt that a linkage between buy-in rules and a lending facility would be detrimental to the efficient functioning of the markets, and would promote speculative activity not intended at the outset. Members encouraged Treasury to emphasize simplicity and to clearly define the circumstances under which the facility would be implemented.

At the conclusion of the discussion, members generally felt that adding a lending facility to the list of protracted fail mitigants, namely suasion, large reporting requirements and tap auctions could serve as a valuable policy tool on an infrequent basis. However, members urged Treasury to take great care not to inadvertently disrupt a well functioning marketplace.

In the last section of the charge, the Committee considered the composition of marketable financing for the October-December quarter to refund $38.7 billion of privately held notes and bonds maturing on November 15, 2005, as well as the composition of Treasury marketable financing for the remainder of the October-December quarter and the January-March 2006 quarter. To refund $38.7 billion of privately held notes and bonds maturing November 15, 2005, the Committee recommended a $18 billion 3-year note maturing November 15, 2008, a $13 billion 5-year note due November 15, 2010, and a $13 billion 10-year note due November 15, 2015. For the remainder of the quarter, the Committee recommended a $20 billion 2-year note issued in November, a $20 billion 2-year note issued in December, a $13 billion 5-year note issued in December and a $8 billion reopening of the 10-year note in December. The Committee also recommended a $12 billion 12-day cash management bill issued November 18, 2005 and maturing November 30, 2005 and a $25 billion 9-day cash management bill issued December 6, 2005 and maturing on December 15, 2005. For the January-March quarter, the Committee recommended financing as contained in the attached table. Relevant features include three $20 billion 2-year notes, a $18 billion 3-year note, three $13 billion 5-year notes, a $13 billion 10-year note in February, a $15 billion 30-year bond, followed by a $8 billion reopening of the 10-year note in March. The Committee further recommended a $8 billion 10-year TIPS in January and a $8 billion reopening of the 20-year TIPS.

Respectfully submitted,

Ian G. Banwell
Chairman

Thomas G. Maheras
Vice Chairman

REPORTS

- TBAC Recommended Financing Tables: Q1
- TBAC Recommended Financing Tables: Q4

US TREASURY FINANCING SCHEDULE FOR 1st QUARTER 2006
BILLIONS OF DOLLARS

ISSUE	ANNOUNCEMENT DATE	AUCTION DATE	SETTLEMENT DATE	OFFERED AMOUNT 4-WK	OFFERED AMOUNT 3-MO	OFFERED AMOUNT 6-MO	MATURING AMOUNT	NEW MONEY
4-WEEK AND	12/29	1/3	1/4	10.00	19.00	17.00	49.00	*-3.00*
3&6 MONTH BILLS	1/5	1/9	1/11	8.00	19.00	16.00	46.00	-3.00
	1/12	1/17	1/18	8.00	19.00	16.00	48.00	-5.00
	1/19	1/23	1/25	8.00	19.00	16.00	52.00	-9.00
	1/26	1/30	2/1	12.00	20.00	17.00	42.00	7.00
	2/2	2/6	2/8	19.00	20.00	17.00	40.00	16.00
	2/9	2/13	2/15	19.00	20.00	17.00	40.00	16.00
	2/16	2/21	2/22	24.00	21.00	18.00	40.00	23.00
	2/23	2/27	3/1	24.00	21.00	18.00	43.00	20.00
	3/2	3/6	3/8	24.00	21.00	18.00	49.00	14.00
	3/19	3/13	3/15	24.00	20.00	18.00	48.00	14.00
	3/16	3/20	3/22	24.00	20.00	18.00	53.00	9.00
	3/23	3/27	3/29	17.00	19.00	17.00	54.00	-1.00
					702.00		604.00	98.00
CASH MANAGEMENT BILLS								
12-DAY BILL	2/27	3/1	3/3		15.00		15.00	0.00
	Matures 3/15							
7-DAY BILL	3/3	3/6	3/8		25.00		25.00	0.00
	Matures 3/15							
								0.00
COUPONS						CHANGE IN SIZE		
10-Year TIPS	1/9	1/12	1/17		8.00			8.00
20-Year TIPS (R)	1/19	1/24	1/31		8.00			8.00
2-Year Note	1/19	1/25	1/31		20.00		25.61	-5.61
5-Year Note	1/19	1/26	1/31		13.00			13.00
3-Year Note	2/1	2/7	2/15		18.00			18.00
10-Year Note	2/1	2/8	2/15		13.00		13.57	-0.57
30-Year Note	2/1	2/9	2/15		15.00		3.71*	11.29
2-Year Note	2/20	2/22	2/28		20.00		26.00	-6.00
5-Year Note	2/20	2/23	2/28		13.00			13.00
10-Year Note (R)	3/6	3/9	3/15		8.00			8.00
2-Year Note	3/20	3/22	3/31		20.00		26.01	-6.01
5-year Note	3/20	3/23	3/31		13.00			13.00
					169.00		106.69	74.11

*20-year bonds
R = Reopening
A = Announced
Actual Amounts in Italics

Treasury announced a Q4 borrowing need of $171 billion on October 31st

NET CASH RAISED THIS QUARTER: 172.11

US TREASURY FINANCING SCHEDULE FOR 4th QUARTER 2005
BILLIONS OF DOLLARS

ISSUE	ANNOUNCEMENT DATE	AUCTION DATE	SETTLEMENT DATE	OFFERED AMOUNT 4-WK	OFFERED AMOUNT 3-MO	OFFERED AMOUNT 6-MO	MATURING AMOUNT	NEW MONEY
4-WEEK AND 3&6 MONTH BILLS	9/29	10/3	10/5	*8.00*	*17.00*	*15.00*	*42.01*	*-2.01*
	10/6	10/11	10/12	*10.00*	*18.00*	*16.00*	*40.02*	*3.98*
	10/13	10/17	10/19	*13.00*	*18.00*	*16.00*	*39.95*	*7.05*
	10/20	10/24	10/26	*18.00*	*19.00*	*17.00*	*40.74*	*13.26*
	10/27	10/31	11/2	18.00	18.00	16.00	37.00	15.00
	11/3	11/7	11/9	22.00	18.00	16.00	39.00	17.00
	11/10	11/14	11/16	22.00	18.00	16.00	43.00	13.00
	11/17	11/21	11/23	20.00	18.00	16.00	49.00	5.00
	11/23	11/28	11/30	20.00	18.00	16.00	48.00	6.00
	12/1	12/5	12/7	18.00	17.00	15.00	52.00	-2.00
	12/8	12/12	12/14	13.00	16.00	14.00	52.00	-9.00
	12/15	12/19	12/21	14.00	16.00	14.00	49.00	-5.00
	12/22	12/27	12/28	16.00	17.00	15.00	49.00	-1.00
					642.00		580.72	61.29
CASH MANAGEMENT BILLS								
11-DAY BILL	10/3	10/5	10/6		*13.00*		*13.00*	*0.00*
	Matures 10/17							
12-DAY BILL	11/16	11/17	11/18		10.00		10.00	0.00
	Matures 11/30							
9-DAY BILL	12/2	12/5	12/6		25.00		25.00	0.00
	Matures 12/15							
								0.00
COUPONS						CHANGE IN SIZE		
5-Year Note	10/6	10/12	10/15		*13.00*			*13.00*
10-Year TIPS (R)	10/6	10/13	10/15		*8.00*			*8.00*
5-Year TIPS (R)	10/20	10/25	10/31		*7.00*			*7.00*
2-Year Note	10/24	10/26	10/31		*20.00*		*25.82*	*-5.82*
3-Year Note	11/2	11/8	11/15		18.00			18.00
5-Year Note	11/2	11/9	11/15		13.00		23.22	-10.22
10-Year Note	11/2	11/10	11/15		13.00		15.51*	-1.51
2-Year Note	11/17	11/22	11/30		20.00		25.35	-5.35
5-year Note	12/5	12/7	12/15		13.00			13.00
10-Year Note (R)	12/5	12/8	12/15		8.00			8.00
2-Year Note	12/22	12/28	12/30		20.00		26.01	-6.01
					153.00		115.91	38.09

*Includes $2.8 billion of maturing 25-year bonds

R = Reopening
A = Announced
Actual Amounts in Italics

Treasury announced a Q4 borrowing need of $96 billion on October 31st

NET CASH RAISED THIS QUARTER: 99.38

PRESS ROOM

November 2, 2005
js-3004

Minutes Of The Meeting Of The Treasury Borrowing Advisory Committee Of The Bond Market Association November 1, 2005

The Committee convened in closed session at the Hay-Adams Hotel at 3:00 p.m. Three members of the Committee, Keith Anderson, Susan Estes, and James Capra, were not present. Undersecretary for Domestic Finance Randal Quarles welcomed the Committee and gave them the charge. Office of Debt Management (ODM) Director Jeff Huther then proceeded to address the Committee.

Director Huther highlighted a few of the quarterly refunding charts released on October 31, noting that Treasury's borrowing in fiscal year 2005 was less than projected earlier in the year and that this is largely due to increased tax receipts and higher-than-expected SLGS issuance. He also noted the potential for volatility in Treasury's borrowing needs in the next few fiscal years, with estimated borrowing needs rising in FY2006. In addition, recent disaster related relief may create additional volatility in bill and coupon issuance in FY 2006. However, Director Huther highlighted the fact that such expenditure was within the expected range of Treasury forecast scenarios for FY 2006, and could be financed by increasing the size of bill and coupon issuance from their low current levels over the course of the fiscal year. He emphasized that Treasury had great flexibility in its financing needs during fiscal year 2006 even considering the appropriations bill.

A Committee member asked if Treasury knew why SLGS issuance was so high in the previous fiscal year. Director Huther stated that one of the primary reasons for increased issuance was the desire to lock in low interest rates and refinance existing levels of debt. He anticipated that such issuance would return to more normal levels in the coming fiscal year.

The Committee then addressed the first question in the Committee charge (attached) regarding potential adjustments to Treasury's auction calendar in order to accommodate the introduction of 30-year bond issuance. Director Huther presented a series of charts regarding calendar issues and changes, including the recommendation that the 30- year bond be included in the Quarterly Refunding semiannually and moving all 5-year note auctions to month-end. He noted that historically Treasury has not auctioned four coupon securities during refunding week and referred to a chart stating that such issuance could create excess risk for primary dealers which could lead to higher borrowing costs for the Treasury. Director Huther said that Treasury was currently planning on auctioning the 30-year bond be auctioned on a February/August cycle in 2006 with a dated date on the 15th of the month to ensure fungibility with outstanding bonds, and with a settlement date on the 15th of the month or the next business day if it were a weekend or holiday. He noted the importance that primary dealers placed on the STRIPS market and stated that Treasury would aim to broaden liquidity in this market following the issuance of the 30-year bond.

In addition, Treasury was planning on moving all 5-year note auctions to the end of the month, with an end of month dated date and settlement date. The 5-year note would auction and settle in similar fashion to the monthly 2-year note. In addition, Treasury would announce the 5-year on the same date as the 2-year note, and auction the 5-year note one day after the 2-year auction. Given that 5-year TIPS and 20-year TIPS are auctioned at month end on a semiannual basis, the placement of the 5-year note at month end would, on a quarterly basis, result in 3 coupon auctions in a week. By moving the 5-year to month end, Director Huther stated that these month end auctions could garner greater interest from the investment community, provide additional liquidity to the market, and potentially lower borrowing costs while at the same time improve the management of Treasury's cash balances.

The Committee was asked if there are other issues Treasury should consider as a result of these planned changes in the calendar. In addition, Treasury asked if clustering issues during refunding week and the last week of the month were beneficial to Treasury, and if there were any tradeoffs of which Treasury should be mindful.

A majority of Committee members believed the adjustments to the calendar proposed by Treasury were prudent and reflected various market factors.

A Committee member noted that clustering securities allows Treasury to take advantage of Wall Street's marketing skills and helps in the overall underwriting process. The member also noted that the duration offered during the refundings did not look excessive. The same member noted that Treasury may want to consider its own exposure during refunding week and consider if issuing 10-year notes and 30-year bonds during the same week poses potential problems.

Another Committee member stated that the flexibility Treasury has shown in accommodating various securities may pose potential problems in the marketing of securities over the long run. Another Committee member countered this comment and stated that marketing had little to do with placement on the calendar as shown by the decline in when-issued trading. The member stated that the changes made by Treasury to accommodate various securities have not had an impact on borrowing costs. The member noted that an increase in when-issued trading would potentially indicate issues with Treasury issuance, placement, and marketing.

A Committee member noted that the 30-year bond should be auctioned such that it is fungible with currently outstanding STRIPS. Another member noted that having TIPS auctions during the same week as 2-year note and 5-year note auctions was not a problem because the securities were not necessarily substitutes and that their investor bases were different.

One Committee member suggested that auctioning three securities during the final week of the month may potentially be an issue given that employment numbers are released during that period. The member also noted that such issuance may be costly in December. Director Huther acknowledged this potential cost and stated this factor was considered in Treasury's issuance decisions.

Next the Committee turned to the second discussion point on the Committee charge on the proposed Treasury Securities Lending Facility and possible approaches to setting the borrowing terms so that it is only economically attractive during periods of protracted fails. Director Huther presented a series of slides on the factors that led Treasury to consider such a facility and the initial thoughts on a potential structure for a facility. The first few slides highlighted the costs to Treasury of periods of chronic fails including impaired liquidity in the cash markets, operational costs, and the potential erosion of benchmark status. He noted that these factors ultimately result in higher borrowing costs for Treasury.

The next few slides addressed other alternatives including reopenings or market based solutions such as "prompt delivery trades". Director Huther noted that Treasury had studied these alternative methods to resolve chronic fails and determined they were not suitable because of various factors including the lack of incentive to use such facilities, the reactive – rather than preemptive - nature of such methods, the uncertainty created by issuing the appropriate amount of additional supply, and the potential to introduce additional speculative components to securities prices.

The final set of slides presented by Director Huther showed preferred characteristics of the proposed securities lending facility as well as the possible incentives for using such a facility. The slides noted that such a facility would prevent settlement fails from occurring, ensure that additional supply was temporary, encourage market driven solutions to supply-driven imbalances, and be viewed as a lender of last resort option. Desired attributes include a non-discretionary, standing facility with unlimited supply on renewable terms. The price would be set at a penalty rate to discourage use unless the market was severely stressed. The facility would not be designed to address temporary needs, so the term would likely be greater than overnight. The slides also discussed potential incentives for using such a facility. Director Huther than asked members of the Committee for their thoughts on how such a lending facility should be designed and the risks of introducing such a facility in the Treasury market.

A Committee Member began the discussion by reviewing the minutes of the previous TBAC meeting in which members offered numerous and varied opinions as to the merits of the program, but expressed some reservations regarding the implementation and dynamics of such facility. The Committee member then asked if the Treasury was requesting further context on the facility.

Undersecretary Quarles responded by stating that Treasury wanted to hear what the views of the Committee were since the previous meeting and if the idea as a whole was a good idea.

A Committee member noted that the lending facility was potentially a departure from market conventions. He noted that delivery failures of Treasury securities are a market convention. He noted that the benefits that accrue to Treasury from the specials market versus the costs associated with chronic fails was difficult to define. Another member noted that the low rate environment was exacerbating chronic fails and that such a situation would clear as rates increased.

A Committee member stated that the fails situation was not simply a problem resulting from low rates, but the result of market trends in which Treasury supply was decreasing as an overall portion of the market. Given trends in foreign ownership, such supply related problems may become more frequent in the future.

Another member stated that if Treasury were to institute such a program, they should make the facility as simple as possible and create minimal impact on the market. The member suggested that the NASD and SEC should enforce the buy-in rule, and that Treasury should set up securities facility in tandem. Such a response would have minimal consequences.

A Committee member asked Treasury if it is Treasury's responsibility to enforce the buy-in rule. Director Huther clarified that the buy-in rule is enforced by the various self-regulatory organizations including the NYSE and NASD, and that Treasury can grant extensions. However, beyond this, the penalty for not responding to the buy-in rule was undefined.

In response, a Committee member stated that the facility appeared to be increasing regulatory burdens, and that instituting limits in markets generally encourages speculative behavior. The member stated that Treasury should allow market-based mechanisms to clear chronic fails.

A Committee member then asked if the ultimate benefit of such a facility should be to lower the cost of borrowing for tax payers. The Committee as a whole agreed. A Committee member stated that investors and market makers should also be taken into account when devising the appropriate penalty rate and term.

A Committee member asked the group if system limitations would prevent the implementation of a facility with a negative rate as the penalty fee. Several Committee members stated that their systems could not handle such rates, but that they would make the necessary adjustments if required by regulatory authorities. Another member stated that negative rates would not be necessary if the facility were set up on a term basis with a minimum term of 1 week. The term would act as the penalty in a similar fashion as the negative rates.

A Committee member returned to the point that chronic fails, regardless of the penalty rate utilized, were creating strains in other markets, including mortgages and corporate bond markets, and that implementing some type of backstop facility was prudent. Another Committee member stated that preparing for the worst case scenario was in Treasury's interest, but that the current proposed facility was too restrictive and burdensome.

A Committee member asked if Treasury had ever experienced such a degree of fails when interest rates were above 4%. Director Huther stated that such a high degree of fails was not evident when rates were higher.

Undersecretary Quarles then asked the Committee if they felt that chronic fails were creating a cost for Treasury over time, and if a securities lending facility would be beneficial. A Committee member stated that he did not feel that the costs to Treasury over the long term were high. He stated that other methods to clear fails including persuasion from Fed officials and the Treasury were already working options and that an additional facility created greater ambiguity and potentially, speculative, activities.

Another member stated that a solution that was between large position reports and tapping an issue was optimal, but that the benefits of the proposed securities lending facility to Treasury were not readily apparent.

A Committee member noted that a backstop facility was required, but perhaps with less regulatory impositions. The member noted that some of the other alternatives – such as asking foreign entities to lend securities during periods of chronic fails – were not reasonable, and may reduce investor demand.

Finally, the Committee discussed its borrowing recommendations for the November refunding and the remaining financing for this quarter as well as the January – March quarter. Charts containing the Committee's recommendations are attached. A Committee member suggested that, in the future, the borrowing recommendations would be presented in a calendar format rather than in table format. The Committee made some minor adjustments to its suggested financing tables, moving the 5-year note from mid month to month end in February 2006 and March 2006.

The meeting adjourned at 4:30 p.m.

The Committee reconvened at the Hay-Adams Hotel at 6:30 p.m. Three members of the Committee, Keith Anderson, Susan Estes, and James Capra, were not present. The Chairman presented the Committee report to Director Huther. A brief discussion followed the Chairman's presentation but did not raise significant questions regarding the report's content.

The meeting adjourned at 6:45 p.m.

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Jeff Huther
Director
Office of Debt Management
November 1, 2005

Certified by:

Ian Banwell, Chairman
Treasury Borrowing Advisory Committee
Of The Bond Market Association
November 1, 2005

Treasury Borrowing Advisory Committee Quarterly Meeting
Committee Charge – November 1, 2005

Calendar issues
Treasury is considering inclusion of the 30-year bond in the Quarterly Refunding semi-annually and moving all 5-year note auctions to month end. Treasury seeks the Committee's views on such an adjustment in Treasury's auction calendar. In particular Treasury solicits Committee input on the following questions:

- The clustering of auctions in refunding weeks increases market focus, potentially leading to higher demand, but it also increases the amount of risk market participants must hold, potentially leading to lower demand. How should Treasury evaluate this trade-off when considering where to place securities on the calendar?
- What is the potential impact of a February/August 30-year cycle on 20-year TIPS auctions?
- Are there any advantages to moving the 5-year note auction to month end only during 30-year auction months versus holding 5-year note auctions regularly at month end?
- Are staggered announcements of month end auctions preferable – i.e., consistent with current Treasury policy – or a single announcement of all three coupons?

Treasury Securities Lending Facility

Last quarter Treasury presented some preliminary thinking to the Committee on the need for a backstop securities lending facility to mitigate the risk of recurrent systemic fails. We will present some additional thinking on the potential negative implications of recurrent systemic fails. We seek the Committee's views on possible approaches to setting terms so that borrowing from the facility is only economically attractive during periods of protracted fails.

Financing this Quarter

We would like the Committee's advice on the following:

- The composition of Treasury notes to refund approximately $38.7 billion of privately held notes and bonds maturing on November 15, 2005.

- The composition of Treasury marketable financing for the remainder of the October– December quarter, including cash management bills.

- The composition of Treasury marketable financing for the January-March quarter.

REPORTS

- Link to the Treasury Borrowing Advisory Committee discussion charts

PRESS ROOM

November 2, 2005
js-3005

Randal K. Quarles Appointed to Air Transportation Stabilization Board

Treasury Secretary John W. Snow appointed Under Secretary for Domestic Finance Randal K. Quarles this week to serve as Treasury's designee on the Air Transportation Stabilization Board. Quarles will replace Assistant Secretary for Financial Markets Timothy Bitsberger who resigned from the Treasury Department last month.

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PRESS ROOM

November 3, 2005
2005-11-3-8-50-57-26142

Treasury Secretary John Snow and Deputy Secretary Robert Kimmitt meet with Secretary Jim Baker at the Treasury Department

All media queries should be directed to
The Press Office at (202) 622-2960.
Only call this number if you are a member of the media.

High Resolution Image

PRESS ROOM

November 1, 2005
JS-3006

The Honorable John W. Snow Prepared Remarks Delivery of Final Report from the President's Advisory Panel on Federal Tax Reform Washington, DC

Welcome. I'd like to thank everyone for joining us here today.

I'd like to welcome former Senators Connie Mack and John Breaux, the chair and vice chair of the President's Advisory Panel on Federal Tax reform. I'd also like to welcome the other Panel members – Edward Lazear, James Poterba, Liz Ann Sonders and William Frenzel – and thank them for joining us as well.

In January, the President appointed this bipartisan panel under the leadership of Senators Mack and Breaux to make recommendations to make the tax code fairer for all Americans, simpler so everyone can understand it, and more pro-growth, to help boost our economy. The President also asked that they do so in a way that was revenue neutral and that considered the importance of home ownership and charitable giving in our society.

This Panel has held meetings all over the country; they listened to experts, economists, lawyers, and average taxpayers; they studied all the information that was presented to them, and they have made bold recommendations. The recommendations that they are presenting today will begin the dialogue that will help shape the future of tax policy. Their advice is the starting point, and I look forward to reading their recommendations and considering them carefully before I make a recommendation to the President based on the excellent work carried out by this Panel. I congratulate the panel for their excellent work and a job well done.

Thank you.

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PRESS ROOM

November 1, 2005
JS-3007

Statement of Treasury Secretary John W. Snow on Retirement of House Financial Services Chairman Michael G. Oxley

As Chairman of the House Financial Services Committee, Mike Oxley oversaw a critical period for our nation's financial markets. The landmark corporate responsibility legislation enacted under his leadership – and which bears his name – shored up investors in the face of events which shook their confidence. In addition, his hard work to establish greater transparency and increased disclosures for mutual fund investors provided greater protections and investment security for millions of Americans. And in the wake of September 11, he led the Committee's efforts to swiftly strengthen anti-money-laundering measures and provide law enforcement with better tools to fight the financing of terrorism.

He has well served the people of the 4th District of Ohio in his quarter-century of public service. I commend Mike for his wise oversight for America's financial consumers as chairman of the House Financial Services Committee.

PRESS ROOM

November 1, 2005
js-3008

Treasury Secretary Snow to Visit to India

Treasury Secretary John W. Snow will visit India next week to highlight the growing economic relationship and financial ties between the United States and India, and the benefits to both economies. He will discuss the strong potential of the Indian economy, focusing on efforts to further liberalize the financial sector and improve financing infrastructure, as well as India's role in the upcoming Doha round of trade talks.

Secretary Snow will travel to Mumbai and New Delhi to meet with economic officials and representatives of the local business communities there. The Secretary will meet with Indian Finance Minister Chidambaram in New Delhi to discuss economic developments in the region.

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

Monday, November 7, 1:30 p.m.
Visit to Society for the Promotion of Area Resource Centers Microfinance Headquarters
Mahim Station
Bandra Kurla Complex, T. Junction
Mumbai, India

Tuesday, November 8, 5 p.m.
Visit to National Stock Exchange & National Commodities Exchange
Exchange Plaza
C-1, Block G, Bandra-Kurla Complex
Bandra E
Mumbai, India

Wednesday, November 9, 6 p.m.
Joint Press Conference with Indian Finance Minister Chidambaram
Taj Mahal Hotel
1 Mansingh Road
New Delhi, India

Thursday, November 10, 1 p.m.
Remarks to U.S.-Indian Business Leaders
Hyatt Regency Hotel
Bhikaiji Cama Place, Ring Road
New Delhi, India
-30-

PRESS ROOM

November 3, 2005
JS-3009

Treasury Action Targets Southeast Asian Narcotics Traffickers

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today identified 11 individuals and 16 companies that are part of the financial and commercial network of designated significant foreign narcotics trafficker Wei Hsueh-kang and the United Wa State Army (UWSA). The names were added to OFAC's Specially Designated Nationals and Blocked Persons (SDN) list pursuant to the Foreign Narcotics Kingpin Designation Act (Kingpin Act).

"Wei and the UWSA's opium trafficking plagues the society and economy of Southeast Asia. We're acting to protect the U.S. financial sector from this network's tainted drug profits, as well as ensure Wei and his cohorts can't use the American financial system to move or launder their opium proceeds," said Robert Werner, OFAC Director.

Wei Hsueh-kang (Wei) was designated as a significant foreign narcotics trafficker pursuant to the Kingpin Act on June 1, 2000. Wei serves as a senior commander of the UWSA, which was subsequently designated as a drug kingpin on May 29, 2003. Wei is the subject of a U.S. federal indictment, unsealed in January 2005, from the Eastern District of New York on narcotics-related charges. The U.S. Department of State has offered a $2,000,000 reward for information leading to his capture.

The UWSA, with as many as 20,000 armed fighters located in Burma, is the largest and most powerful drug trafficking organization in Southeast Asia and was responsible for the production of more than 180 metric tons of opium in 2004. Many of its senior leaders are also the subject of an indictment unsealed by the Eastern District of New York in January 2005.

Among the key financial individuals designated by OFAC today are Warin Chaichamrunphan, who is one of Wei's wives, and her brother Winai Phitchaiyot. They act for or on behalf of Wei and the UWSA in various front companies, as well as materially assist in their narcotics trafficking activities. Several relatives of Warin and Winai are among those designated today. The 16 companies named, all of which are located in Thailand, were designated for their role in the financial network of Warin, Winai, Wei and the UWSA. Many of the designated companies have been raided in the past by Thai authorities in connection with an investigation into Wei's money laundering network.

Today's action freezes any assets found in the United States and prohibits all financial and commercial transactions between the designated persons and entities and any U.S. person.

The 27 new names collectively bring the total number of Tier I and Tier II designees under the Kingpin Act to 224: 57 drug kingpins worldwide, 11 individuals and 16 companies in Thailand and 140 companies and other individuals in Mexico, Colombia, Peru and the Caribbean.

This action is part of the ongoing interagency effort of the Treasury, Justice, State, Defense, and Homeland Security Departments, the Central Intelligence Agency, the Federal Bureau of Investigation, and the Drug Enforcement Administration to carry out the Kingpin Act, which was signed into law on December 3, 1999, and which applies economic sanctions against narcotics traffickers on a worldwide basis. The Kingpin Act was modeled after Executive Order 12978 which applies economic sanctions against narcotics traffickers centered in Colombia, and which is also administered by OFAC.

PRESS ROOM

November 3, 2005
2005-11-3-13-13-26-18565

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 $70,911 million as of the end of that week, compared to $70,529 million as of the end of the prior week.

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

	October 21, 2005			October 28, 2005		
TOTAL	70,529			70,911		
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	11,163	10,972	22,135	11,263	11,012	22,275
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,611	5,315	15,926	10,731	5,334	16,065
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]			13,207			13,270
3. Special Drawing Rights (SDRs) [2]			8,221			8,260
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	October 21, 2005			October 28, 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 21, 2005			October 28, 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

November 4, 2005
JS-3010

Statement of Treasury Secretary John W. Snow
On October Employment Report

"Today's report that 56,000 new jobs were created in October is the latest evidence that the fundamental strength of the American economy is helping the nation overcome the challenges presented by the Gulf Coast hurricanes and high energy prices.

"Last week's GDP report that the economy grew at a strong rate of 3.8 percent in the third quarter showed the resilience of an American economy on a steady path of growth.

"By reducing taxes and pursuing pro-growth economic policies, the President has put the economy on the right course. The President's commitment to fiscal discipline and making the tax cuts permanent is key to sustained economic growth."

PRESS ROOM

November 8, 2005
JS-3011

Testimony of Daniel L. Glaser, Deputy Assistant Secretary Office of Terrorist Financing and Financial Crimes U.S. Department of the Treasury Before the Senate Committee on the Judiciary

Chairman Specter, Ranking Member Leahy and other distinguished members of the Committee, thank you for inviting me to testify today before you on the Kingdom of Saudi Arabia. This is an important topic that touches at the very heart of our efforts as a government to combat terrorism throughout the world. We have learned over the last four years that the war on terror requires the collective efforts of every country, working to counter terrorism both within its own borders and in every corner of the globe. In this collective fight, we depend on the wisdom, vigilance, and support of both our allies and those whom we traditionally hold at arm's length. In this mix of relationships, Saudi Arabia is by all measures one of the countries most central to our global counterterrorism efforts. I would characterize the quality of this relationship as one of active partnership aimed at achieving progress on several issues. The success of global anti-money laundering and counterterrorist financing (AML/CFT) efforts relies, in good measure, on ensuring that this partnership is real, focused and lasting.

Like any partnership, however, ours has experienced times of frustration and impatience. Partnerships evolve over time, and those that last, can point to a long list of trials which have tested both sides of it. Our relationship with Saudi Arabia is no exception.

Today, Saudi Arabia is actively countering the threat of terrorism. This is a key success, unfortunately catalyzed by the May 2003 terrorist attacks in Riyadh, which alerted the Kingdom that terrorism was not only a theoretical global problem, but very much a local one. Having now suffered multiple attacks within the Kingdom itself, Saudi Arabia has come to understand the clear and present danger that terrorism and its vast support structures pose to its citizens and the very fabric of everyday life. The United States experienced the same shock on September 11, 2001 and the difficult months and years that have followed.

The Saudis have demonstrated serious determination to take aggressive action against al Qaeda. The Saudi Government has also taken steps to address the more fundamental issue of confronting extremist ideology by waging a campaign within the Kingdom against those it terms "deviants" who pervert Islam to preach violence. This campaign has included working with religious leaders to eliminate hatred-filled sermons and repeated statements by the King addressing this issue. But on counterterrorist financing, the Saudis need to do more. This includes taking steps to ensure that Saudi funds are not sent overseas to promulgate the very hatred and extremism that Saudis are confronting at home.

Saudi Arabia should build on its own domestic efforts to exert active leadership regionally, and by enhancing its bilateral counter-terrorist financing relationships worldwide. It should go after individual contributors to extremist organizations and monitor how Saudi funds sent overseas, including Saudi government funds, are being used. Saudi Arabia is aggressively tackling the scourge of extremism and terrorism it faces within the Kingdom. What happens outside the Kingdom is also of the utmost importance, however, since extremism in one country can easily find its way elsewhere in the world and pose a threat to us all. As Under Secretary Levey has said, wealthy donors in Saudi Arabia are still funding violent extremists around the world, from Europe to North Africa, from Iraq to Southeast Asia. We hope that Saudi Arabia will take effective action against these individuals to disrupt their facilitation of violence and to send a clear message that such activity will not be tolerated by the Kingdom.

Points of Progress

Saudi Arabia has undertaken many measures to stem the tide of terrorist financing within the Kingdom since the terrorist attacks in Riyadh, May 2003. In fact, in some respects Saudi Arabia has gone further than many countries in the region to build serious systems aimed at combating illicit financing. These measures include new regulations in the charitable sector, increased vigilance and sophistication in the financial sector, and regional integration on matters of anti-money laundering and counter-terrorist financing.

Charitable Sector

Among the efforts that we have conducted jointly with the Saudis, the most public and prominent were our joint designations of Al-Haramain Islamic Foundation branches globally for that organization's support to the worldwide al-Qaida network. These branches were listed by the United Nations as well. Public designations of individuals and entities such as Al-Haramain not only cut these supporters off from the global financial system, but also they send the strong public message that the U.S. and its partners will not tolerate the efforts of charities to disguise their activities while engaging in false marketing. The support of Saudi Arabia in these designations reflected our united front against a common enemy.

In addition to these targeted actions, Saudi Arabia has taken concrete steps to systemically protect its charitable sector. Since May 2003, the following regulations have been put in place:

- Enhanced customer identification requirements apply to charitable accounts;
- Each charity must consolidate its banking activity in one principal account;
- No cash disbursements are permitted from charitable accounts; payments are only allowed by check payable to the first beneficiary and must be deposited in a Saudi bank;
- No ATM or credit cards may be issued against a charitable account (all outstanding ATM and credit cards for such accounts have been canceled); and
- No transfers from charitable accounts are permitted outside of Saudi Arabia.

These restrictions are far-reaching in scope and highlight the degree to which Saudi Arabia has taken oversight of this sector seriously. We are also awaiting the establishment of a Charities Commission to oversee all charities and NGOs based in the Kingdom. The financial controls outlined above combined with this oversight body will represent progress made in combating terrorist financing in the Saudi Arabian charitable sector.

Financial Sector

Saudi Arabia has also made systemic changes to its financial sector. Saudi Arabia boasts a sophisticated financial sector, regulated by the Saudi Arabian Monetary Authority (SAMA). As a member of the Gulf Cooperation Council (GCC), Saudi Arabia is subject to mutual evaluations conducted by the Financial Actions Task Force (FATF), the premier international body dedicated to promulgating and seeing global compliance of AML/CFT standards. These mutual evaluations are conducted by a team of experts that evaluate a country's compliance with the internationally-recognized forty recommendations on anti-money laundering and nine special recommendations on counterterrorist financing. In February 2004, FATF produced its assessment of Saudi Arabia and found the Kingdom to have met most of its general obligations with the FATF recommendations.

Saudi Arabia also sits in a region that is comprised of cash-based economies. The entire region is grappling with the challenge of cash couriers, how to track them, how to penalize them, and how to prevent the abuse of cash-based economies. Recently, Saudi Arabia decreased the reporting threshold for cash transiting its borders to $16,000. This reporting enhancement not only reflects significant political will but also allows law enforcement to take more frequent action against those who they suspect of carrying cash into the country for illicit purposes.

The Saudi Government has also created some useful institutions to aid in the fight against terrorist financing. It recently established a financial intelligence unit (FIU) to engage in the essential process of reporting, analyzing, and disseminating critical financial information within Saudi Arabia and internationally. The FIU became operational as of September 10, 2005. FIUs play a crucial role in establishing the backbone of information-sharing among countries worldwide. We expect to engage with our counterparts in the Saudi FIU to increase our effectiveness in preparing reports of suspicious activity for action. We are already actively engaged, moreover, in joint analysis at the Joint Terrorist Financing Task Force in Riyadh where agents from IRS Criminal Investigation Division (IRS-CID) and FBI sit side-by-side with their Saudi counterparts to analyze important streams of data together.

Regional Integration

With respect to Saudi Arabia's regional role on these issues, it is instructive to reflect on the Middle East North Africa Financial Action Task Force (MENAFATF) which held its second plenary in Beirut this past September. Saudi Arabia figures prominently in this regional body, holding the Executive Secretary seat in the MENAFATF's leadership structure. Attended by all 14 members, the recent plenary demonstrated a commitment to raising awareness in the region and becoming a force in the global dialogue on anti-money laundering and counterterrorist financing issues. The plenary adopted three excellent papers on hawala, cash couriers, and charities which underscore the degree to which the region is grappling with the institutions and typologies most subject to abuse by supporters of terrorism. Saudi Arabia co-authored the paper on charities which offers a candid assessment of the issue and prescriptive recommendations for how countries in the region should deal with it.

Anecdotal evidence suggests that all of the measures discussed above have made it more difficult for sponsors of terrorism to fund their causes through the formal financial system. We also must acknowledge the extraordinary efforts of Saudi Arabia's internal security forces, which have been waging an ongoing battle on the ground with al Qaida, and have themselves sustained casualties. In light of these measures, it is clear that Saudi Arabia has taken the threat seriously, especially with regard to the threat of attacks on its own soil.

Challenges Ahead

While we support and welcome these efforts, public and resolute leadership against all aspects of terrorist financing is absolutely crucial and Saudi Arabia needs to take its efforts in this area to the next level. In recent years, Saudi-U.S. cooperation against terrorist finance has increased and achieved important successes. In order for this relationship to mature, however, Saudi Arabia will need to move beyond reacting to information provided by the U.S. and to lead the effort to identify and take action against sources of terrorist financing.

The subject of charities and NGOs has been a lingering concern of ours in the context of counterterrorist financing. As I noted above, Saudi Arabia has taken steps to bring its charities and NGOs under control. We have, however, been repeatedly raising the issue of so-called international NGOs, namely the International Islamic Relief Organization (IIRO), the World Assembly of Muslim Youth (WAMY), and the Muslim World League (MWL). The Saudis have responded that charitable organizations and these international NGOs are de facto prohibited from sending funds abroad. It is not clear to us that this de facto prohibition is having true effect and we remain deeply concerned about this issue. Furthermore, these restrictions do not apply to foreign branches of Saudi-based NGOs and charities, which can transfer money among themselves throughout the world with little accountability to the Kingdom. It is possible, for example, for an IIRO official in Saudi Arabia to advise IIRO branches in country X and country Y to transfer money to each other, outside of Saudi regulatory reach.

Saudi officials must concern themselves beyond the limits of restrictions within the Kingdom. They must recognize that organizations so closely associated with Saudi Arabia, anywhere in the world, are de facto Saudi responsibility. These organizations must become an integral part of Saudi focus and policy. I am not suggesting that Saudi Arabia go it alone. This type of a comprehensive strategy will require the coordination of many regional and global counterparts. But Saudi Arabia itself must be actively engaged in ensuring that these organizations are responsive to Saudi oversight. The Saudis must care not only what happens in IIRO Riyadh but they must also be concerned with what transpires in every other IIRO office around the world.

As my testimony previously notes, the Saudis have repeatedly said that they will form a Charities Commission to officially oversee all charities in the Kingdom. We eagerly await the establishment of this mechanism and expect that all international charities and NGOs will be covered by its oversight.

Even when the Charities Commission takes form, it will not address the issue of private donors. While current regulations take account of the financial activities of charitable concerns, they do not apply to direct donations made by private donors. This issue, which we have raised on numerous occasions with the Saudis, has been a problem in the past and continues to concern us. Especially as charities and NGOs are held under closer scrutiny, it will become increasingly important to focus on the ways in which private giving has and is being abused.

Palestinian Terrorist Groups

The fight against terrorist financing cannot be limited to al-Qaida funding alone. Just as Saudi Arabia is working to ensure that Saudi funds do not support al-Qaida, they must also work equally diligently to thwart the funding of Palestinian terrorist groups that undermine peace and stability in the Middle East.

We were troubled, in this regard, by the recent clip from an August 29, 2005 program aired in Saudi Arabia on Iqra TV, a Saudi-based station, which solicited funds for the Saudi Committee for the Support of the al Quds Intifadah and asked donors to direct funds to a Joint Account 98 at "all banks in the Kingdom of Saudi Arabia." Account 98 had been a regular issue of concern that we have raised with the Saudis at all levels. They have repeatedly assured us that Account 98 no longer exists and that they are making efforts to staunch the flow of funds to these groups. The U.S. shares Saudi Arabia's concern for meeting the humanitarian needs of the Palestinian people, but it is vitally important for Saudi Arabia to act resolutely against all terrorist organizations, and to cut off support for groups like HAMAS intent on undermining progress towards peace and undermining the Palestinian Authority.

CONCLUSION

There is no doubt that Saudi Arabia's perspective on counterterrorism has evolved over the last few years, and with that change in perspective has come real progress on systemic issues within the Kingdom. We encourage Saudi Arabia to make greater efforts to counter terrorism and the financing of terrorism in third countries. Such leadership requires a comprehensive, proactive, and zero-tolerance approach to terrorism that includes widespread vigilance over global charities and wealthy private donors, as well as total intolerance for support to all terrorist organizations. We hope that Saudi Arabia accepts this challenge of leadership, and the greater responsibilities that come along with it. As Saudi Arabia does so, we will be able to say that we have entered into a new stage of our partnership in the war against terrorism.

PRESS ROOM

November 8, 2005
2005-11-8-11-20-18-20308

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 $69,347 million as of the end of that week, compared to $70,911 million as of the end of the prior week.

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

	October 28, 2005			November 4, 2005		
TOTAL	70,911			69,347		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	11,263	11,012	22,275	11,008	10,758	21,766
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,731	5,334	16,065	10,503	5,213	15,716
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]			13,270			12,647
3. Special Drawing Rights (SDRs) [2]			8,260			8,177
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	October 28, 2005			November 4, 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 28, 2005			November 4, 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

November 9, 2005
JS-3012

Treasury Designates Violent Colombian Drug Lord
Action Additionally Targets Four Companies, Ten Associates of North Valle Cartel

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today named Colombian Wilber Varela, a.k.a. "Jabon," as a principal Specially Designated Narcotics Trafficker (SDNT) of the North Valle drug cartel. The Treasury also identified four companies and ten other North Valle associates, including rising North Valle cartel leaders Eduardo Restrepo Victoria, a.k.a. "El Socio" and Ramon Quintero Sanclemente. Today's action was taken pursuant to Executive Order 12978, which applies economic sanctions against Colombian drug cartels.

"An assassin turned drug lord, Varela's trafficking and lethal exploits are fueled through the North Valle cartel's financial flows," said Robert Werner, OFAC Director. "This designation directly targets a financial nucleus of the notorious North Valle cartel."

In May 2004, the District Court for the District of Colombia charged the leaders of the North Valle cartel, including Wilber Varela, with Racketeer Influenced and Corrupt Organizations Act (RICO) violations. The District Court for the Eastern District of New York separately indicted Varela on narcotics trafficking charges. Considered extremely dangerous, Varela is a former assassin who rose to become a North Valle cartel leader by killing competing rival cartel leaders. The United States is offering up to $5 million for information leading to his arrest.

Ramon Quintero Sanclemente and Eduardo Restrepo Victoria are rising North Valle traffickers associated with Varela. In 1999, the Southern District of Florida indicted Ramon Quintero Sanclemente, a.k.a. Lucas, on narcotics trafficking and money trafficking charges. Restrepo Victoria is wanted by Colombian authorities on conspiracy and gunrunning charges.

Also named today are four companies owned and controlled by Varela associates. They include a plastics company, an agricultural company and a professional services firm, all based in Colombia. A Guadalajara, Mexico travel agency is also named.

Today's announcement is a result of the ongoing efforts between OFAC and U.S. law enforcement, particularly the Drug Enforcement Administration and the Federal Bureau of Investigation.

Today's action freezes any assets the designees may have located in the United States and prohibits all financial and commercial transactions between the designees and any U.S. person.

1,230 companies and individuals in Aruba, Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru, Spain, Vanuatu, Venezuela, the Bahamas, the British Virgin Islands, and the Cayman Islands, have been designated pursuant to E.O. 12978. The 464 SDNT businesses include agricultural, aviation, consulting, construction, distribution, financial, investment, manufacturing, mining, offshore, pharmaceutical, real estate, service and travel firms. The SDNT list includes 19 drug kingpins from the Cali, North Valle, and North Coast drug cartels in Colombia, including newly named North Valle cartel leader Wilber Varela.

For a complete list of individuals and entities designated today, please visit:
http://www.treasury.gov/offices/enforcement/ofac/actions/20051109.shtml.

REPORTS

- Varela Drug Trafficking Organization North Valle Drug Cartel November 2005

VARELA Drug Trafficking Organization
North Valle Drug Cartel
November 2005

Department of the Treasury
Office of Foreign Assets Control

U.S. Federal Indictment
Narcotics Trafficking
May 2004

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U.S. Federal Indictment
RICO
May 2004

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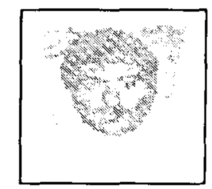

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PRESS ROOM

November 10, 2005
js-3013

Remarks by Secretary Snow

U.S. Treasury Secretary John Snow
Delhi, India
Hosted by FICCI, AmCham, USIBC
"Opportunities for Indo-U.S. Economic Ties"

Thank you. It is a great pleasure to be with you today. I would like to thank my hosts, Mr Kanwar from the Federation of Indian Chambers of Commerce and Industry, Mr. Singh of the American Chamber of Commerce, and of course, Torkel Patterson. I also want to thank my very good friend, Minister Chidambaram, and the Prime Minister, for hosting my delegation this week.

Before I begin my remarks I first want to offer my deepest condolences for the losses India has faced in the tragic attacks that occurred here most recently on October 29th. The U.S. condemns the triple terrorist attacks perpetrated on innocent civilians and we stand with India in efforts to fight against terrorism. The news of bombings in Jordan also serves as a reminder that our constant vigilance against terrorism is needed.

I also want to express my condolences for the loss of your former president, Kocheril Raman Narayanan His long and distinguished service to the people of India is truly remarkable.

This is an important time for relations between our two nations. Our strong Indo-U.S. relationship continues to gain significance in many aspects and at no time in our history have our relations been stronger and deeper than they are today. As countries with strong democratic traditions -- India is the world's largest democracy, while the United States is the world's oldest -- we share a common vision of the importance of democratic institutions and the inherent wisdom of our citizens. We share respect for a free and open press and respect for the rule of law. Our political and security cooperation is growing, as reflected in the agreements reached with Prime Minister Singh and President Bush in July that ranged from cooperation in agriculture technology and aviation to the civil nuclear sector. Moreover, I am proud to say that over 2 million people of Indian heritage call the United States their home, likely more than in any other country outside of India, and hundreds of thousands of young Indians come to study in the U.S.

Our bilateral economic engagement has also expanded significantly in the last decade to the benefit of both India and the United States. Both America and India rely on private enterprise to generate economic growth. America is India's largest trading partner. I was told a remarkable fact this week in meetings with Indian investors that about 80% of private equity

funds in India come from the United States.

Foreign direct investment has been growing in India. But it's important to recognize that the potential here has only been glimpsed. Looking ahead 15-20 years, the U.S-Indian economic relationship should become a key pillar

of strength for both our countries and for the global economy.

I have had the opportunity to meet with India's leaders, both here this week, and in our bilateral meetings in Washington and elsewhere, and it's clear to me that there is a firm commitment to pushing forward on economic reforms to improve the standards of living for Indian citizens. India is truly fortunate to have such talented economic officials to lead this economy. I have come here to work with India's economic officials and to encourage continued progress. I am here to listen, to learn more about India's goals and strategies for achieving success, and how we can help each

other. And I want to highlight America's great interest in seeing India succeed. India's success is important for India, but it is also important for America.

I look forward to reporting back to President Bush with ideas on how to further strengthen our relationship in advance of his visit next year.

Since 1991, India has made great strides in shaking off the legacy of a state-dominated economic system, and this has translated into steady, strong growth rates. India's economic leadership, from successive governments, has moved ahead with policies to liberalize and modernize the Indian economy, and this has shown real results. It's no secret that good policies tend to lead to good results. India has been able to put in place a stable macroeconomic environment, with inflation under control. Foreign exchange reserves have grown significantly and India has pursued an enlightened policy allowing flexibility of its currency. And while further development and liberalization of India's financial services sector would be helpful, the central bank has put in place good supervisory policies so that Indian banks do not face the same systemic risks we see in other emerging market economies.

India's privatization policies are helping to lead to efficient markets that provide better goods and services to consumers at the best price. I was pleased to see the announcement this week to liberalize the telecommunications sector. Progress in the retail sector could also bring benefits.

Real progress has also been made in India's equity markets. Earlier this week I visited the National Stock Exchange and the National Commodities and Derivatives Exchange. I was greatly impressed by the talent and technical capacity of these very important markets. They will add immeasurable value to the Indian economy and play a significant role in directing capital to its best uses. It is this combination of dynamism and efficiency that help to create growth and prosperity.

India's natural advantages make it poised to take a leading role in the global economy. In fact, India has the potential to be an economic powerhouse. India's population will continue to provide new sources of labor, well after European, Japanese, and even Chinese labor resources begin to wane. Indians are properly focused on future job creation for this labor pool, and the investments that India is making now in primary education will pay dividends in the years to come, as more people can participate in the knowledge economy. And, India's widespread English-language skills give it a key edge in the global marketplace. Finally, I would point to India's democratic tradition as providing important political legitimacy and stability.

The achievements in India are significant, but there is so much more to accomplish. I have heard the sentiment that so much progress has been made that now it is time to slow the pace of reforms in India. The pace of reforms will be decided by India's economic leaders and the demands of the global economy, but I think it's important to recognise that there are costs

to going too slow. With huge segments of the population unemployed, underemployed and living in poverty, more rapid growth is an imperative. Furthermore, when reforms are rapid in some sectors of the economy but slower in others, not only are there lost opportunity costs, but risks can develop that can threaten an economy. Reforms in all sectors must "catch-up" to keep pace and prevent distortions.

I believe India could and should play a major and productive role on the international economic stage. India should be at the forefront of large emerging markets, demonstrating how such economies can contribute to global growth and reap significant benefits. In this context, India now has a unique opportunity to become a leader in the effort to open world markets by

taking a proactive negotiating position in the Doha round in favor of liberalized agriculture, manufacturing and services sectors. The World Bank

has estimated that India would be one of the largest beneficiaries from a successful Doha round, but these gains will not be forthcoming if the Doha round fails due to unambitious offers.

To support additional foreign trade, India also faces challenges at home. As the government has recognized, weak infrastructure is a major constraint on trade and growth in India. In a recent survey of worldwide corporate leaders by McKinsey, about 60% of Indian executives cited infrastructure as a significant constraint on growth, compared to less than a quarter of executives worldwide. To meet the government's goal of raising average annual GDP growth from 6.5% to 8%, the IMF estimated that an additional 4% of GDP in annual infrastructure investment will be required. The public sector alone will not be able to finance such investments, so activating private resources is essential.

I think there is a real opportunity here to help India meet its goals. The financial sector could play a much more important role in supporting growth in India, especially in infrastructure. The same McKinsey survey noted that about half of Indian executives cite the lack of access to capital as a significant hindrance on growth. And, I expect the percentage would be higher for small and rural enterprises. Indeed, only about half of small businesses in India have active bank credit lines, compared with 75% of small businesses in Brazil. The relatively high price of capital in India is part of the reason that India's services sector, which requires less capital, has grown more quickly than manufacturing. It is striking that India's service sector is about 55% of GDP while industry is only 23%. In China, industry is a whopping 53% of GDP, compared with services of 33%. While there is no preferred ratio, these figures point to distortions in both the Indian and Chinese economies.

A focus of my visit this week has been to underscore the role that financial sector reform can play in helping this nation achieve its goals in building infrastructure. India's pool of domestic savings has been rising in recent years and will likely continue to do so. The key will be to use market mechanisms to channel such savings into financial institutions that can on-lend them efficiently to productive uses. Currently, bank deposits represent only about 60% of GDP, compared with levels in Japan and China that are 2-3 times higher.

Even after deposits flow into the financial system, they are often not put to the most productive use. Government borrowing is having the effect of crowding out lending that could be made to the private sector. Of their deposit base, Indian banks have put over 40% into government bonds. Further

progress in meeting the fiscal responsibility law would help to reduce crowding out, and reining in state level deficits is necessary to further free up resources for the private sector.

In my view, additional liberalization of the Indian financial sector would also go a long way towards addressing India's pressing needs. In the banking sector, for example, allowing for more engagement by foreign banks would add capital to the banking system, spread credit availability, bring in additional managerial expertise and technology, and result in more capital being channeled to more productive investments. Some may argue that Indian banks are not prepared for global competition. But India's banks have made substantial improvements in their risk management abilities, and many of the banks are eager to expand abroad to prove their competitiveness.
In a similar vein, liberalization of Indian markets in insurance, pensions, and fund management would lead to the development of new sources of capital,

provide new services for consumers, and deepen India's domestic capital markets. India's insurance industry is an example of the positive effects of competition. Liberalization has led to impressive growth in insurance markets. In 2004, Indian insurance companies mobilized over $21 billion, nearly three times as much as in 1999. This kind of capital mobilization provides crucial resources for investment in infrastructure, businesses, long-term bonds, and municipal projects. I welcomed the move yesterday to allow more foreign investment in asset recovery companies.

Many of these policies would be self-reinforcing. A stronger financial sector, combined with steps like the liberalization of the retail sector and more effective use of technology in the agricultural sector, would jump-start a surge in investments in India throughout the agriculture and food processing sectors that would add jobs and increase productivity.

Part of strengthening the financial sector involves protecting it from abuse from criminals and potential terrorists. India has taken a significant step forward this year with the enactment of the Prevention of Money Laundering Act. To meet international standards, India will need to aggressively implement its provisions and address some deficiencies that hamper its effectiveness. In addition, proper regulations need to be developed for informal financial systems such as hawala as risks for illicit financial facilitation in this sector remain high.

India also faces challenges in improving its investment climate. The World Bank's recent study on "Doing Business" around the globe puts India at 116 out of 155 countries. This is 25 slots below China and just below Indonesia and Philippines. One problem is international trade. It takes three times as many official signatures to export a good from India than it takes to export one from China. As McKinsey argued several years ago, India could raise its growth rate by nearly 5 percent per year by removing product and labor market distortions and reducing government ownership of enterprises.

Conclusion

I have benefited from discussing these issues during my visit with many Indians from the official sector, private sector and NGOs. India's leaders are well aware of the economic challenges ahead and the policies that it will take to increase sources of credit, finance infrastructure, and integrate with the world economy, all of which are essential to support growth, reduce poverty, and improve the lives of the Indian public.

I would like to end this speech by quoting one of my gracious hosts, Prime Minister Singh. Just three months ago, he told an Indian audience that "we must seize this moment and grab this opportunity. We need to have the resolve to make our country prosperous. We must have the self confidence to realize that we are second to none, that Indians are as good as the best." With that spirit, India has a great future ahead of it, and we are ready to be partners in your endeavors.

PRESS ROOM

November 9, 2005
js-3014

JOINT STATEMENT
U.S.-INDIA FINANCIAL AND ECONOMIC FORUM
NEW DELHI

At the invitation of Indian Finance Minister P. Chidambaram, U.S. Treasury Secretary John W. Snow led an official delegation to India to co-chair the India-U.S. Financial and Economic Forum, which is part of the broader U.S.-Indian Economic Dialogue. The delegations discussed a number of key issues, including fiscal and tax policies, U.S. and Indian efforts to accelerate the WTO Doha Round negotiations, strengthening India's infrastructure, and collective efforts to combat money laundering and the financing of terrorism.

Besides senior officials from the Ministry of Finance, DEA, Government of India and the Department of Treasury USA, representatives from the Board of Governors of the Federal Reserve, Securities and Exchange Commission, U.S. Trade and Development Agency, Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, PFRDA, and the Ministries of Commerce and Industry, Consumer Affairs and External Affairs participated in the discussion.

The U.S. delegation expressed condolences for the tragic October 29 terrorist attacks on Delhi.

In the official meeting, the discussions focused on the following:

Macroeconomic Issues

The two sides discussed a variety of issues that affect global growth. They noted that global economic performance remains sound, despite the impact of rising oil prices. In India, the growth outlook appears favorable. In the United States, economic conditions remain solid, despite the aftereffects of recent hurricanes. Nonetheless, both the sides noted several potential risks, including the impact of energy prices, the tightening of financial market conditions, and uneven growth in many parts of the world.

Both sides pointed to the need to maintain global growth while reducing global current account imbalances. They noted that major economies have a shared responsibility to implement policies to reduce these imbalances. In this connection flexibility in exchange rate regime becomes crucial. The U.S. side affirmed its commitment to reduce its fiscal deficit and to increase domestic savings. Though 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 Indian side affirmed its intention to pursue policies to maintain strong overall demand.

Financial Sector and Infrastructure Issues

The delegations discussed India's efforts to strengthen its financial system, lower the costs of financial intermediation and increase access to finance for agriculture, small businesses and the poor. Both sides noted the importance of having a strong insurance and pension sector in order to increase long term savings and the availability of long-term financing. Indian officials emphasized their key priorities for financial sector reform, including expansion of financial services to poor and enhancing private sector capabilities. The delegations agreed to arrange further consultations to share experience and expertise on these issues.

Indian officials emphasized their commitment to infrastructure development as a means of reducing poverty and expanding economic opportunities. While public investment in infrastructure will be augmented, the delegations discussed ways of encouraging more private financing for infrastructure projects. The Indian and U.S. sides agreed that a stronger investment climate would encourage more U.S. private sector firms to invest in Indian infrastructure development. Both sides underscored the importance of an effective dispute mechanism that will give greater confidence to investors.

International Cooperation

The two sides reiterated the importance of actions to identify and combat terrorist financing and money laundering. They reaffirmed their intention to implement the recommendations of the Financial Action Task Force (FATF) designed to prevent the abuse of financial systems, and they agreed to work together to identify and freeze terrorists' assets.

Both sides agreed to continue technical cooperation in the area of currency security, including detection and enforcement. Preventing the counterfeiting of national currencies is part of the fight against financial crimes and important to maintaining the integrity of the financial system.

India and the United States stressed that a successful conclusion of the WTO Doha Development Round negotiations is essential to promote global trade and growth. They agreed that a satisfactory outcome on agriculture negotiations, as well as services, would be crucial in this regard. They urged for progress at the upcoming Hong Kong Ministerial.

DEA Secretary Ashok Jha and Ambassador D. Mulford signed a cooperation framework agreement that will facilitate U.S. Trade and Development Agency projects in India.

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PRESS ROOM

November 14, 2005
2005-11-14-15-56-10-4586

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 $69,088 million as of the end of that week, compared to $69,347 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	November 4, 2005			November 10, 2005		
TOTAL	69,347			69,088		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	11,008	10,758	21,766	10,922	10,774	21,696
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,503	5,213	15,716	10,429	5,220	15,649
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]			12,647			12,573
3. Special Drawing Rights (SDRs) [2]			8,177			8,129
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	November 4, 2005			November 10, 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						
	November 4, 2005			November 10, 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

November 15, 2005
js-3015

Iannicola Participates in Financial Education Roundtable in London

Treasury's Deputy Assistant Secretary for Financial Education Dan Iannicola, Jr. participated in the International Comparisons of Financial Education Roundtable Discussion today in London. Iannicola gave a presentation on American financial education followed by an open discussion on international comparisons of financial literacy.

The event was hosted by the Organization for Economic Co-Operation and Development (OECD) in conjunction with the Smith Institute, an independent think tank. In addition to the roundtable, the OECD launched a report entitled, "Improving Financial Literacy: Principles, Programs, and Good Practices." This report provides international guidance to improve financial education. It also highlights the importance of financial education, in terms of helping individuals budget and manage their incomes, save and invest efficiently and avoid becoming victims of fraud.

"Around the world free markets allow people to set their own courses for the future. Financial knowledge can help individuals navigate their way to better lives for themselves and their families regardless of where they live," said Iannicola. "Today, representatives from some of the world's major economies have gathered here in London to discuss what our nations have done and what we have learned as we each seek to help our own country's people by enhancing their financial literacy. The exchange of experiences and ideas will benefit all of us."

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, homeownership 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

November 15, 2005
JS-3016

Assistant Secretary for International Affairs
Clay Lowery
Testimony before the
Subcommittee on Domestic and International Monetary Policy, Trade and Technology
Committee on Financial Services
U.S. House of Representatives

Chairwoman Pryce, Ranking Member Maloney, and distinguished members of the subcommittee, thank you for inviting me to testify about trade in financial services. This hearing is timely as we stand just a few weeks away from the WTO Ministerial meeting in Hong Kong, which we hope will provide impetus to what we see as a key element of the Doha Development Agenda, the negotiations on services, especially financial services.

As Secretary Snow has explained, the three goals of the Administration's international economic policy are to increase economic growth, increase global financial stability, and advance U.S. interests. In many respects, nothing embodies these goals more than our work to promote financial services liberalization in the WTO and in other fora. This is what I would like to highlight in my testimony as well as explain how Treasury is promoting an ambitious financial services agenda as part of the Doha Development Round and as part of our everyday work.

Increasing Economic Growth and Promoting Financial Stability

The case for countries to liberalize trade in financial services is strong in both theoretical and empirical literature. The financial sector is the backbone of a modern economy with virtually every sector of the economy depending on its services. Yet, in developing countries, the financial sector is typically small and inefficient, possibly even controlled by a few large institutions with little incentive to compete. This means that entrepreneurs, small business owners, farmers, and other key drivers of employment and income creation either do not have access to capital or if they do – it is extremely expensive and is not conducive to businesses expansion.

While services account for over half of the world economy, and its share will grow as countries develop, the barriers to services are still high because they were outside the disciplines of the world trading system until the last set of global negotiations, the Uruguay Round. As those barriers are lowered, competition should increase and the benefits of a lower cost of capital and a better allocation of resources to more productive uses should accrue, particularly to those developing countries where the barriers are relatively high. For instance, World Bank studies estimate that:

- by 2015 the benefits of services liberalization in developing countries could provide income gains four and a half times greater than the gains from goods liberalization alone;
- countries with open financial services sectors grow, on average, one percentage point faster than others, with the incremental growth rates being somewhat higher for developing countries; and
- by 2015, the developing world would gain over $300 billion in annual output, or an additional 2 percent of GDP, from financial sector liberalization.

The benefits of financial services liberalization extend beyond economic growth, however. The requests to WTO members by the United States for enhanced foreign participation, national treatment, and greater regulatory transparency – as will be explained in more detail by my colleague from USTR – also promotes financial stability. Foreign participation in the financial sectors of developing countries brings in strong new players that provide greater liquidity to the market, greater loss-absorption capabilities, and enhanced risk management techniques. The benefits of introducing global experience into the domestic market go far beyond their direct impact. There is a transfer of skills to local workers who go off to domestic firms where improvements in market practices are emulated. This kind of qualitative benefit is harder to measure, but research has borne it out.

A WTO study of 27 emerging market countries found that allowing foreign financial institutions to establish locally and engage in a broad spectrum of financial activities contributed to greater financial sector stability. For banks in particular, a study of financial crises in emerging markets in Latin America showed that during periods of crisis, foreign banks established in those countries actually increased their local lending relative to domestically-owned institutions. This is aided by such institutions having an international capital base and not having concentrated pre-crisis lending to the country involved, unlike domestic institutions in the affected countries.

A more competitive financial system also puts pressure on policy makers to make regulatory and supervisory structures more predictable and transparent as well as to follow sound macroeconomic policies, which are beneficial to economic growth and financial stability.

Promoting National Interests

Trade in financial services holds the promise of significant economic benefit for all countries, including the United States. As I'm sure that some of the speakers in your next panel will highlight, the financial services sector plays an indispensable role in America, providing individuals, businesses, and the government with credit and liquidity, short and long-term investments, risk-transfer products, various payment systems, and depository services. The financial services sector is not only a vital part of our economy -- accounting for over 8% of U.S. GDP – but it is a sector growing in importance -- roughly 70% greater than it was in 1980. In 2004, finance, insurance, real estate, rental, and leasing contributed more than any other industry group to real GDP growth – about 25 percent. Finance and insurance alone (excluding real estate, rental and leasing) are also key engines of job creation: 6 million jobs (about 4.5 percent of all employment) and growing.

Financial services--from banking to asset management to insurance--represent one of the most dynamic sectors of our economy. Consumers enjoy the convenience of ATMs, online banking, and a host of other innovations that make financial transactions cheaper and less time-consuming. Businesses today rely on a sophisticated range of financial products to hedge risk and make their services more competitive. The WTO negotiations provide an opportunity to eliminate barriers in foreign markets to U.S. financial services firms. Improving the access of U.S. financial institutions to foreign markets helps our exporters continue to expand and develop new markets, building upon U.S. competitive advantage in the provision of these services. U.S. firms have led the way in our economy and can bring those innovations to developing countries.

Engagement

We have been disappointed in the progress that has been made in the WTO on financial services. At Treasury, we have worked with our colleagues at USTR, State, and other agencies to heighten our engagement over the last year. In just the past few months, led by Secretary Snow and Deputy Secretary Kimmitt, Treasury has highlighted the development benefits of open financial sectors and encouraged WTO members to put forward high-quality offers in multilateral fora -- the G-7, G-20, IMF, World Bank, and APEC – and through bilateral discussions in some of the most important developing markets -- Brazil, China, India, and Korea.

Multilaterally, we have made good progress, winning endorsement in each of these key organizations for an ambitious Doha Round. Bilaterally, we have made some progress, but much works remains to be done. The Hong Kong Ministerial is an important milestone, but not the end of the road. We will continue to press for further liberalization in services, especially financial services, through these various fora. We will also continue to push this issue in our bilateral meetings with economic leaders across a broad spectrum of countries.

Beyond the WTO

Given the importance of further liberalization in services, especially financial services, to the global economy, we have recognized the need to complement the WTO discussions by advancing the cause of liberalization elsewhere. We do this through bilateral and regional Free Trade Agreements (FTAs) and through financial dialogues.

Bilaterally and regionally, the United States is conducting ongoing negotiations of FTAs, which include state of the art financial services provisions. These are making an important contribution to trade liberalization. Bilateral and regional FTAs can lead to increased confidence in the benefits of liberalization both from countries having made some of the hard choices that go with negotiating an FTA and from directly experiencing the benefits. We have completed high standard financial services chapters with Bahrain, Chile, Singapore, Morocco, and Australia to name a few. We are negotiating with Thailand, the Andeans, Panama, the Southern African Customs Union (SACU) and UAE. These agreements have provided our industry with substantial new opportunities in many cases and in others locked in the open regimes of our trading partners. For instance, beginning in July of this year, U.S. banks will be able to obtain licenses in Singapore for full services banks that were restricted prior to the FTA. In the first year of the Singapore and Chile FTAs, U.S. exports to those countries together increased by $4 billion. More broadly, the Administration has achieved more than $64 billion in tariff reduction commitments in its FTAs.

For several years, the Treasury Department and U.S. financial regulators have been conducting dialogues with our counterparts from a number of countries with three important objectives in mind. One is to promote a stronger global economy, because dynamic financial markets that are soundly regulated have been proven both in our historical experience and throughout the world to stimulate competition, discipline economic agents, enhance opportunities afforded savers and investors, and to drive growth. Two is to encourage movement toward more competitive, better regulated financial regimes abroad, which enhance global financial stability. Three is to find ways to mitigate actual or potential cross border frictions in the financial services realm. In support of these dialogues and our ongoing work on financial services liberalization, we routinely reach out to U.S. private sector financial officials and trade associations for their input and expertise. Let me make brief remarks about a few of these dialogues.

U.S.-Canada-Mexico: Treasury and U.S. regulators have been discussing financial sector issues with our NAFTA partners for the past eleven years since the trade agreement was signed. Much has been achieved, such as the opening up of foreign branch banking in Canada or Mexico's receptivity to foreign investment in its banking sector, which has been key in restoring it to good health--although more needs to be done.

U.S.-Japan Dialogue: The United States has an active financial dialogue with Japan, the world's second largest economy. Our efforts in this dialogue and in financial services broadly have been aided by the presence of a Treasury attaché in Tokyo. In recent years, our discussions have focused on banking sector stability as Japan's Financial Services Agency tightened financial supervision, focused on resolving non-performing loans, improved the quality of bank capital, and inspected banks more thoroughly. The financial dialogue also has taken up the reform of Japan Post as part of the U.S. Administration's broad engagement with Japan on this issue. It is important that these reforms promote financial system stability and establish a level playing field so that private firms are not competitively disadvantaged.

U.S.-China Dialogue: In October, Secretary Snow led the 17th U.S.-China Joint Economic Committee meeting, which this year included Chairmen Greenspan, Cox, and Jeffery from the Federal Reserve, SEC, and CFTC, respectively, and their Chinese financial sector regulatory counterparts. In addition, Treasury convened the first Financial Sector Working Group bringing together working level officials from U.S. banking, securities, and insurance regulators with their Chinese counterparts for a day of informal discussion. This builds upon ongoing U.S. Administration outreach to China on financial services regulatory issues. We argued for better market access for foreign firms so they can contribute to improving the capital levels and risk management systems of Chinese financial sector. We also discussed numerous regulatory issues of concern to both the Chinese and our financial firms, such as cleaning up the Chinese banking sector, addressing problems in equity and bond markets, and improving insurance regulation. These efforts will be carried forward in the new year both with continued efforts from Washington and by our newly appointed attaché in Beijing.

U.S.-EU Dialogue: The U.S.-EU Financial Markets Regulatory Dialogue has focused on measures designed to further integrate EU financial markets, which, according to studies, could lift EU real economic growth by as much as one percentage point. Through its low-key and informal approach, this dialogue has been useful in managing issues that arise when legislation enacted in one jurisdiction has "spillover effects," in the other's jurisdiction, potentially creating uncertainty for enterprises. Moreover, the U.S.-EU Dialogue provides a forum for the Administration to advance the interests of U.S. financial firms that would thrive in the more competitive environment offered by a unified EU financial market. Going forward, Treasury intends to place an attaché in Brussels whose focus will include the dialogue and financial market integration more broadly.

U.S.-India: Secretary Snow returned last week from a trip to India, where he met with the Indian Finance Minister, Central Bank Governor, and other senior government and business leaders on a dialogue on financial, investment, and trade issues. This complements broader U.S. Administration outreach to India on trade and investment issues. They discussed additional liberalization of the Indian banking, insurance, pension, and fund management sectors, the need to strengthen and protect the financial sector against abuse, and the benefits to India from improving the investment climate. These and other challenges are the essential pillars to support sustainable growth, reduce poverty, and increase incomes. Going forward, we look to continuing this important and useful dialogue with India.

PRESS ROOM

November 15, 2005
JS-3017

Statement by Treasury Secretary Snow on PBGC FY 2005 Financial Results

"Today's announcement of the Pension Benefit Guarantee Corporation's (PBGC) fiscal year 2005 financial results reminds us that action to reform America's pension system cannot wait any longer. We must act to protect the 34 million American workers who depend on single employer defined benefit pension plans and to protect the American taxpayers who risk bearing the consequences of underfunded pension plans."

"America's pension plans are now underfunded by more that $450 billion dollars and the PBGC is at least $23 billion short of what it owes to workers and retirees. The Administration has proposed real pension reforms that will secure the pension promises made to America's workers, will encourage continued participation in the voluntary pension system by healthy plans and will improve the financial status of the PBGC. I appreciate the attention given by the Congress to this important issue and I look forward to continuing to work with lawmakers to enact meaningful reforms that will strengthen our pension system for the future."

PRESS ROOM

November 15, 2005
js3018

Statement by Secretary John Snow on DeMint-Santorum Social Security Legislation

"I applaud today's efforts in the Senate to bring Social Security personal account legislation up for consideration by the full Senate."

"Passage of this legislation sponsored by Senators DeMint, Santorum and others would be a positive first step to a strengthened Social Security system, establishing voluntary personal accounts and protecting Social Security money from being spent on other government programs."

"The President is committed to fixing Social Security permanently so that it remains strong for our children and grandchildren. The longer we wait for legislative action to comprehensively fix Social Security, the more difficult our choices will be."

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 16, 2005
JS-3019

Treasury International Capital Data for September

Treasury International Capital (TIC) data for September are released today and posted on the U.S. Treasury web site (www.treas.gov/ti date, which will report on data for October, is scheduled for December 15, 2005.

Net foreign purchases of long-term securities were $101.9 billion.

- Net foreign purchases of long-term domestic securities were $118.1 billion, $4.3 billion of which were net purchases by foreign c $113.8 billion of which were net purchases by private foreign investors.
- U.S. residents purchased a net $16.2 billion in foreign issued securities.

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

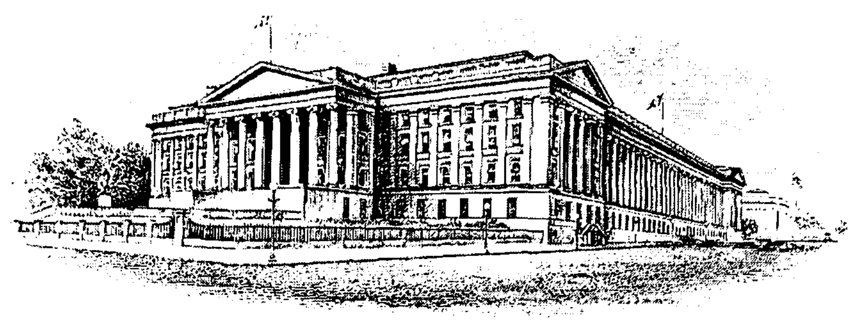
				12 Months Through			
		2003	2004	Sep-	Sep-	Jun-	Jul-
1	Gross Purchases of Domestic Securities	13526.0	15178.9	14514.5	16877.4	1530.1	1279.0
2	Gross Sales of Domestic Securities	12806.1	14262.5	13647.9	15866.3	1435.2	1177.9
3	**Domestic Securities Purchased, net** (line 1 less line	**719.9**	**916.4**	**866.6**	**1011.1**	**94.9**	**101.0**
4	**Private, net /2**	**585.0**	**680.8**	**621.8**	**872.5**	**71.9**	**90.7**
5	Treasury Bonds & Notes, net	159.7	150.9	156.0	218.1	-0.9	24.9
6	Gov't Agency Bonds, net	129.9	205.6	159.4	221.0	17.1	32.1
7	Corporate Bonds, net	260.3	298.0	282.4	346.4	51.9	23.3
8	Equities, net	35.0	26.2	23.9	87.0	3.8	10.3
9	**Official, net**	**134.9**	**235.6**	**244.8**	**138.6**	**23.0**	**10.4**
10	Treasury Bonds & Notes, net	103.8	201.1	208.7	90.7	16.7	3.6
11	Gov't Agency Bonds, net	25.9	20.8	26.3	28.8	3.2	5.7
12	Corporate Bonds, net	5.4	11.5	9.4	17.5	2.6	1.4
13	Equities, net	-0.3	2.2	0.4	1.7	0.6	-0.3
14	Gross Purchases of Foreign Securities	2761.8	3123.1	3064.4	3438.9	307.9	273.3
15	Gross Sales of Foreign Securities	2818.4	3276.0	3200.7	3592.4	321.0	287.1
16	**Foreign Securities Purchased, net** (line 14 less line	**-56.5**	**-152.8**	**-136.3**	**-153.5**	**-13.1**	**-13.8**
17	Foreign Bonds Purchased, net	32.0	-67.9	-62.2	-35.4	-1.2	-5.1
18	Foreign Equities Purchased, net	-88.6	-85.0	-74.2	-118.1	-11.8	-8.7

19 **Net Long-Term Flows** (line 3 plus line 16)	**663.3**	**763.6**	**730.3**	**857.6**	**81.8**	**87.3**

/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. EST
November 16, 2005

Contact: Brookly McLaughlin
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TREASURY INTERNATIONAL CAPITAL DATA FOR SEPTEMBER

Treasury International Capital (TIC) data for September 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 October, is scheduled for December 15, 2005.

Net foreign purchases of long-term securities were $101.9 billion.

- Net foreign purchases of long-term domestic securities were $118.1 billion, $4.3 billion of which were net purchases by foreign official institutions and $113.8 billion of which were net purchases by private foreign investors.
- U.S. residents purchased a net $16.2 billion in foreign issued securities.

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

		2003	2004	12 Months Through Sep-04	12 Months Through Sep-05	Jun-05	Jul-05	Aug-05	Sep-05
1	Gross Purchases of Domestic Securities	13526.0	15178.9	14514.5	16877.4	1530.1	1279.0	1414.6	1656.5
2	Gross Sales of Domestic Securities	12806.1	14262.5	13647.9	15866.3	1435.2	1177.9	1326.7	1538.4
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**719.9**	**916.4**	**866.6**	**1011.1**	**94.9**	**101.0**	**87.9**	**118.1**
4	**Private, net /2**	**585.0**	**680.8**	**621.8**	**872.5**	**71.9**	**90.7**	**83.5**	**113.8**
5	Treasury Bonds & Notes, net	159.7	150.9	156.0	218.1	-0.9	24.9	25.0	22.9
6	Gov't Agency Bonds, net	129.9	205.6	159.4	221.0	17.1	32.1	16.9	18.4
7	Corporate Bonds, net	260.3	298.0	282.4	346.4	51.9	23.3	38.1	48.9
8	Equities, net	35.0	26.2	23.9	87.0	3.8	10.3	3.6	23.6
9	**Official, net**	**134.9**	**235.6**	**244.8**	**138.6**	**23.0**	**10.4**	**4.4**	**4.3**
10	Treasury Bonds & Notes, net	103.8	201.1	208.7	90.7	16.7	3.6	3.2	-1.1
11	Gov't Agency Bonds, net	25.9	20.8	26.3	28.8	3.2	5.7	-1.2	2.2
12	Corporate Bonds, net	5.4	11.5	9.4	17.5	2.6	1.4	2.1	2.2
13	Equities, net	-0.3	2.2	0.4	1.7	0.6	-0.3	0.3	1.0
14	Gross Purchases of Foreign Securities	2761.8	3123.1	3064.4	3438.9	307.9	273.3	311.7	318.9
15	Gross Sales of Foreign Securities	2818.4	3276.0	3200.7	3592.4	321.0	287.1	310.6	335.1
16	**Foreign Securities Purchased, net** (line 14 less line 15) /3	**-56.5**	**-152.8**	**-136.3**	**-153.5**	**-13.1**	**-13.8**	**1.1**	**-16.2**
17	Foreign Bonds Purchased, net	32.0	-67.9	-62.2	-35.4	-1.2	-5.1	17.1	-9.1
18	Foreign Equities Purchased, net	-88.6	-85.0	-74.2	-118.1	-11.8	-8.7	-16.0	-7.0
19	**Net Long-Term Flows** (line 3 plus line 16)	**663.3**	**763.6**	**730.3**	**857.6**	**81.8**	**87.3**	**89.0**	**101.9**

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

PRESS ROOM

November 16, 2005
js-3020

Statement of Secretary John W. Snow on Terrorism Insurance Legislation

"I'm pleased to see that actions today in the Senate to extend the Terrorism Risk Insurance Act recognize the temporary nature of the program and place terrorism insurance on the right path to full private market participation.

"Treasury set out principles this summer to ensure that the risk to taxpayers was reduced in any extension of the Act. I support the legislation passed by the Senate Banking Committee today as it meets many of those important goals. I commend Chairman Shelby, Ranking Member Sarbanes and the Committee for producing a commonsense bipartisan product based on input from all interested parties.

"As Congress proceeds on legislation to extend TRIA, we will continue to work with both the House and Senate to ensure the program entails greater participation of the private market and less risk for taxpayers."

-30-

PRESS ROOM

November 17, 2005
JS-3021

The Honorable John W. Snow
Prepared Remarks to the Tax Foundation

Good afternoon. Thank you so much for having me here today. With a number of critical tax issues pending on Capitol Hill, this is a great time for us to discuss just how important it is that we keep our economy on the right path.

There has been much discussion in the halls of congress in the past few days about the extension of Federal tax rates on capital gains and dividends. I'd like to take some time this morning to talk with you about the important role lower tax rates have played in strengthening our economy and creating jobs and the vital need to keep tax rates, on capital gains and dividends in particular, low to ensure continued economic growth in the future. Millions of Americans have benefited from these important tax policies either directly – through lower taxes – or indirectly through new and better jobs and greater economic security for families.

To offer some perspective on where we are today, I'd like to begin by taking a look back to where we were three years ago. We were facing an economy that was really underperforming. Economic growth was very weak. Job growth was stagnant. Businesses were extremely reluctant to invest. We were coming off a period where the economy was struggling to recover from a recession and a rapid succession of shocks that included the bursting of the equity bubble, terrorist attacks, and a loss of business and investor confidence in light of corporate accounting scandals.

President Bush, to his great credit, recognized that fundamental tax relief was necessary to generate strong growth and restore confidence -- and that it had to be long-lasting. I remember the conversations we had both before and shortly after I took this job where we agreed that the tax code could be employed to put the economy on a path for economic growth and job creation.

What the President understood was that if we could keep marginal tax rates low and reform our tax system in ways that would encourage investment, the U.S. economy would take off. In particular, the President believed that if we could lower the cost of capital, we would encourage higher investment, which would lead to greater capital formation, and increased job growth.

This was really an historic, landmark moment: for the first time in many years, a President put on the table a discussion about the role of capital in our economy and how the tax code could be put to work to make this economy work better. First, we brought tax rates down for all Americans, making sure that individuals had more money in their pockets. Then, in 2003, we worked cooperatively with leaders in Congress to pass the tax plan we needed with provisions to reduce the tax on capital gains and on dividends paid to shareholders to 15 percent.

Since the spring of 2003, when the President signed this tax relief legislation into law, our economy has tested the President's view that if we put more money in the pockets of working Americans and reduce taxes on investment, the result would be a stronger economy and millions of new jobs. The results have been clear. The U.S. economy today is performing as strongly as anyone could have anticipated: 4.2 million new jobs have been created. Real per capita income is up and the equity markets have rebounded. A couple of weeks ago we learned that the American economy grew at an impressive 3.8 percent rate for the third quarter of this year, making it the tenth straight quarter that the American economy has grown at a healthy rate of 3.3 percent or more.

It's no coincidence that it was ten quarters ago that the President's tax reform plan took effect.

Lower taxes – especially those that lower the cost of capital and encourage investment -- combined with sound monetary policy from the Federal Reserve, set American entrepreneurs free to do what they do best: innovate, invest, grow the economy, and create jobs.

The debate in Congress today is whether to keep or jettison key ingredients to continued economic growth and job creation such as reduced tax rates on capital gains and dividends. To me, the choice is obvious: failure to extend these tax reforms would take us in the wrong direction, and would have negative consequences for our economy. Americans expect and deserve that we do everything we can to keep our economy growing, promote innovation, spur the creation of new and better jobs and keep the promise of a more prosperous future for all Americans.

President Bush's plan to lower the cost of investing through reduced rates on capital gains and dividends has resulted in broad benefits to the U.S. economy overall and for the tens of millions of Americans who own stocks either directly or through mutual funds. The number of households owning equities through employer-sponsored plans – which often offer stock mutual funds as investment options – has grown from 5.2 million in 1999 to nearly 38 million today.

The American Shareholders Association estimates that S&P 500 shareholders will receive $201 billion in regular dividend payments this year – a 36% increase over 2002, the year before the President's tax reductions on dividends took effect. If you combine the tax savings to investors with the increased dividends, S&P shareholders alone received an additional $98.7 billion from America's corporations than before the tax plan.

The dividend tax reduction reversed a 25-year decline in companies paying dividends to their shareholders. Seventy-seven percent of S&P companies now pay a dividend, nearly a 9 percent increase.

More than just lowering the tax burden, reducing the tax rate on dividends had an additional, fundamental benefit by reducing the disparity in the tax treatment between debt and equity financing. Before the reform, the bias in capital markets was tilted toward debt financing because of the tax code. While there is still a bias toward debt financing – only elimination of the double-taxation of dividends would completely eliminate the bias – it has been significantly reduced. This reform is helping to reduce distortions in capital markets and is helping more companies to make more sound financing decisions by reducing distortions caused by the bias in the tax code.

One argument that was made against the President's tax plan was that it would be too expensive, costing the government too much revenue. But the facts since 2003 have shown that the economic growth spurred by the President's tax policies have significantly swelled government coffers. In January 2004, for example, the non-partisan Congressional Budget Office projected that 2004 revenue would be $1.817 trillion. Actual revenue came in $63 billion higher – half a percent of GDP. In January 2005, CBO projected 2005 revenue would be $2.057 billion; actual revenue came in $96 billion higher – 0.7 percent of GDP.

We still have a federal budget deficit – one that is too large and that the President is firmly committed to reducing. But our deficits are not the result of lower receipts – tax revenue continues to be strong. Our deficits are overwhelmingly the result of the recession we inherited and necessary increases in spending to fight the war on terror. Deficits matter and one of our highest priorities is to achieve the President's goal of reducing our deficit to below 2.3 percent of GDP by 2009. Even in the face of increased costs to deal with this summer's hurricanes, I am confident that we will achieve this goal.

What is irrefutable is that the President's economic plan has resulted in an economy that is the envy of the rest of the world. Today we enjoy strong economic growth, job creation, and increased tax revenues.

As Congress considers tax reconciliation legislation this week, we should not walk away from these successful reforms. We should not raise the cost of investing here at home when we expect American companies to compete in the global economy. I strongly urge Congress to extend these reforms and keep this economy the most dynamic in the world.

I hope you don't assume that because we were able to successfully use the tax code to spur growth in our economy that I'm pleased with America's tax code. As many of you here today are aware, our tax code is not where it should be. After nearly three years as Treasury Secretary I have yet to find anyone who is happy with the tax code – unless you are in the tax preparation business, that is. Just to navigate it, millions of Americans have to enlist professional help. It's a startling fact that in the United States today we more tax preparers than firemen or policemen!

You've heard many of the statistics – billions of hours of paperwork for tax filers and businesses, $140 billion dollars in lost time and money just trying to comply with our increasingly unwieldy tax code. This is a drag on economic growth in America and an unnecessary burden we all share.

I have recently received proposals from the President's Tax Reform Panel intended to simplify and streamline the tax code. I commend the work they did under the leadership of the two co-chairmen, former Senators John Breaux and Connie Mack. My colleagues and I at Treasury are reviewing their recommendations now and I will make a recommendation to the President.

During this process, we welcome your good insights and opinions. America deserves a tax code that meets the President's goals for fairness and simplicity – and, as I've argued today – for economic growth.

Thank you again for inviting me here today. I would be happy to take any questions you might have.

PRESS ROOM

November 21, 2005
2005-11-21-15-57-4-656

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 $68,799 million as of the end of that week, compared to $69,088 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	November 10, 2005			**November 18, 2005**		
TOTAL	**69,088**			**68,799**		
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	10,922	10,774	21,696	10,921	10,674	21,595
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,429	5,220	15,649	10,434	5,169	15,603
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]			12,573			12,487
3. Special Drawing Rights (SDRs) [2]			8,129			8,073
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	November 10, 2005			**November 18, 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						
	November 10, 2005			**November 18, 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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November 22, 2005
js-3022

Treasury and IRS Issue Guidance on FSA Grace Period and HSA Eligibility

Today the Treasury and the IRS issued Notice 2005-86 which clarifies the interaction of the 2-1/2 month Flexible Spending Arrangement (FSA) grace period (established earlier this year by Notice 2005-42) and eligibility to contribute to Health Savings Accounts (HSAs). The guidance clarifies that coverage by the FSA grace period disqualifies an individual to contribute to an HSA during the grace period. However, the notice also provides guidance on how an FSA can be amended to enable a covered individual to contribute to an HSA during the grace period. The guidance also clarifies a number of technical questions concerning the grace period.

An individual eligible to contribute to an HSA must be covered by a high deductible health plan (HDHP) and generally no other non-HDHP coverage, including health FSA coverage. Consequently, an individual who has his or her health FSA coverage extended by the grace period is ineligible to contribute to an HSA, even where the health FSA has reached its annual benefit limit. However, the guidance provides that, if the employer amends the FSA to be HSA-compatible during the grace period for all participants, individuals would not be disqualified from contributing to an HSA during the grace period. In addition to this general rule, the notice provides a special transition rule for coverage years ending before June 5, 2006. For those years, an otherwise eligible individual may contribute to an HSA during coverage by a health FSA grace period if the individual's health FSA has no unused contributions or if the employer amends the cafeteria plan to provide that the grace period is not available to individuals electing HDHP coverage during the grace period.

Finally, the notice clarifies the following points about the grace period:

- The grace period must be made available to all participants who are covered on the last day of the plan year, including participants whose coverage is extended to the last day through COBRA continuation coverage.
- The grace period must remain in effect for the entire period even though the participant terminates employment prior to the end of the grace period.
- Employers may limit the application of the grace period to only certain benefits (e.g., a plan offering a health FSA and a dependent care FSA could limit the grace period to the health FSA).
- The maximum grace period is until the 15th day of the third calendar month after the end of the plan year, but a shorter period may be adopted as a grace period.

A copy of Notice 2005-86 is attached.

REPORTS

- Notice 2005-86

Health Savings Account Eligibility During A Cafeteria Plan Grace Period

Part III - Administrative, Procedural, and Miscellaneous

Notice 2005-86

PURPOSE

This notice provides guidance on eligibility to contribute to a Health Savings Account (HSA) during a cafeteria plan grace period as described in Notice 2005-42, 2005-23 I.R.B. 1204. As discussed below, an individual participating in a health flexible spending arrangement (health FSA) who is covered by the grace period is generally not eligible to contribute to an HSA until the first day of the first month following the end of the grace period, even if the participant's health FSA has no unused benefits at the end of the prior cafeteria plan year. This notice, however, provides guidance on how an employer may amend the cafeteria plan document to enable a health FSA participant to become HSA eligible during the grace period.

BACKGROUND

Cafeteria Plans

Section 125(a) states that, in general, no amount is included in the gross income of a participant in a cafeteria plan solely because, under the plan, the participant may choose among the benefits of the plan. Section 125(d) defines a cafeteria plan as a written plan under which all participants are employees, and the participants may choose among two or more benefits consisting of cash and qualified benefits. "Qualified benefits" mean any benefit which, with the application of § 125(a), is not includible in the gross income of the employee by reason of an express provision of Chapter 1 of the Internal Revenue Code, including employer-provided accident and health coverage under §§ 106 and 105(b). A high deductible health plan (HDHP) as defined in § 223(c)(2)(A) can be employer-provided accident and health coverage. A health FSA, which pays or reimburses certain § 213(d) medical expenses (other than health insurance or long-term care services or insurance), is also employer-provided accident and health coverage. The term "qualified medical expenses" as used in this Notice, means expenses which may be paid or reimbursed under a health FSA.

Cafeteria Plan Grace Period

Notice 2005-42, 2005-23 I.R.B. 1204, modifies the application of the rule prohibiting deferred compensation under a cafeteria plan (i.e., the "use-it-or-lose-it" rule). The notice permits a cafeteria plan to be amended, at the employer's option, to provide a grace period immediately following the end of each plan year, during which an individual who incurs expenses for a qualified benefit during the grace period, may be paid or reimbursed for those expenses from the unused benefits or contributions relating to that benefit. A plan providing a grace period is required to provide the grace period to all participants who are covered on the last day of the plan year (including participants whose coverage is extended to the last day of the plan year through COBRA continuation coverage). The grace period remains in effect for the entire period even though the participant may terminate employment on or before the last day of the grace period. But an employer may limit the availability of the grace period to only certain cafeteria plan benefits and not others. For example, a cafeteria plan offering both a health FSA and a dependent care FSA may limit the grace period to the health FSA. The grace period must not extend beyond the fifteenth day of the third calendar month after the end of the immediately preceding plan year to which it relates, but may be adopted for a shorter period.

Interaction Between HSAs and Health FSAs

Section 223(a) allows a deduction for contributions to an HSA for an "eligible individual" for any month during the taxable year. An "eligible individual" is defined in § 223(c)(1)(A) and means, in general, with respect to any month, any individual who is covered under an HDHP on the first day of such month and is not, while covered under an HDHP, “covered under any health plan which is not a high-deductible health plan, and which provides coverage for any benefit which is covered under the high-deductible health plan.”

In addition to coverage under an HDHP, § 223(c)(1)(B) provides that an eligible individual may have disregarded coverage, including "permitted insurance" and "permitted coverage." Section 223(c)(2)(C) also provides a safe harbor for the absence of a preventive care deductible. See Notice 2004-23, 2004-1 C.B. 725. Therefore, under § 223, an individual who is eligible to contribute to an HSA must be covered by a health plan that is an HDHP, and may also have permitted insurance, permitted coverage and preventive care, but no other coverage. A health FSA that reimburses all qualified § 213(d) medical expenses without other restrictions is a health plan that constitutes other coverage. Consequently, an individual who is covered by a health FSA that pays or reimburses all qualified medical expenses is not an eligible individual for purposes of making contributions to an HSA. This result is the same even if the individual is covered by a health FSA sponsored by a spouse's employer.

However, as described in Rev. Rul. 2004-45, 2004-1 C.B. 971, an individual who is otherwise eligible for an HSA may be covered under specific types of health FSAs and remain eligible to contribute to an HSA. One arrangement is a limited-purpose health FSA, which pays or reimburses expenses only for preventive care and "permitted coverage" (e.g., dental care and vision care). Another HSA-compatible arrangement is a post-deductible health FSA, which pays or reimburses preventive care and for other qualified medical expenses only if incurred after the minimum annual deductible for the HDHP under § 223(c)(2)(A) is satisfied. This means that qualified medical expenses incurred before the HDHP deductible is satisfied may not be reimbursed by a post-deductible HDHP even after the HDHP deductible had been satisfied. To summarize, an otherwise HSA eligible individual will remain eligible if covered under a limited-purpose health FSA or a post-deductible FSA, or a combination of both.

OPTIONS AVAILABLE TO AN EMPLOYER

An employer may adopt either of the following two options, which will affect participants' HSA eligibility during the cafeteria plan grace period:

(1) General Purpose Health FSA During Grace Period

Employer amends the cafeteria plan document to provide a grace period but takes no other action with respect to the general purpose health FSA. Because a health FSA that pays or reimburses all qualified medical expenses constitutes impermissible "other coverage" for HSA eligibility purposes, an individual who participated in the health FSA (or a spouse whose medical expenses are eligible for reimbursement under the health FSA) for the immediately preceding cafeteria plan year and who is covered by the grace period, is not eligible to contribute to an HSA until the first day of the first month following the end of the grace period. For example, if the health FSA grace period ends March 15, 2006, an individual who did not elect coverage by a general health FSA or other disqualifying coverage for 2006 is HSA eligible on April 1, 2006, and may contribute 9/12ths of the 2006 HSA contribution limit. The result is the same even if a participant's health FSA has no unused contributions remaining at the end of the immediately preceding cafeteria plan year.

(2) Mandatory Conversion from Health FSA to HSA-compatible Health FSA for All Participants

Employer amends the cafeteria plan document to provide for both a grace period and a mandatory conversion of the general purpose health FSA to a limited-purpose or post-deductible FSA (or combined limited-purpose and post-deductible health FSA) during the grace period. The amendments do not permit an individual participant to elect between an HSA-compatible FSA or an FSA that is not HSA-compatible. The amendments apply to the entire grace period and to all participants in the health FSA who are covered by the grace period. The amendments must satisfy all other requirements of Notice 2005-42. Coverage of these participants by the HSA-compatible FSA during the grace period does not disqualify participants who are otherwise eligible individuals from contributing to an HSA during the grace period.

TRANSITION RELIEF

For cafeteria plan years ending before June 5, 2006, an individual participating in a general purpose health FSA that provides coverage during a grace period will be eligible to contribute to an HSA during the grace period if the following requirements are met: (1) If not for the coverage under a general purpose health FSA described in clause (2), the individual would be an "eligible individual" as defined in § 223(c)(1)(A) during the grace period (in general, is covered under an HDHP and is not, while covered under an HDHP, covered under any impermissible other health coverage); and (2) Either (A) the individual's (and the individual's spouse's) general purpose health FSA has no unused contributions or benefits remaining at the end of the immediately preceding cafeteria plan year, or (B) in the case of an individual who is not covered during the grace period under a general purpose health FSA maintained by the employer of the individual's spouse, the individual's employer amends its cafeteria plan document to provide that the grace period does not provide coverage to an individual who elects HDHP coverage.

EFFECT ON OTHER DOCUMENTS

Notice 2005-42 and Rev. Rul. 2004-45 are amplified.

DRAFTING INFORMATION

The principal author of this notice is Shoshanna Tanner of the Office of Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities). For further information regarding this notice contact Ms. Tanner on (202) 622-6080 (not a toll-free call).

PRESS ROOM

November 28, 2005
JS-3023

International Affairs Under Secretary Adams to hold Press Briefing on Semiannual Foreign Exchange Report

Treasury International Affairs Under Secretary Tim Adams will host a press briefing on the release of the Semiannual Foreign Exchange Report today, Nov. 28, at 4 p.m. (EST) in the Treasury Department's Media Room (Room 4121), 1500 Pennsylvania Avenue, NW.

Media without Treasury press credentials planning to attend should contact Frances Anderson in Treasury's Office of Public Affairs at (202) 622-2960 or (202) 528-9086 with the following information: name, Social Security number and date of birth. This information may also be emailed to frances.anderson@do.treas.gov.

PRESS ROOM

November 28, 2005
JS-3024

Statement of Treasury Secretary John W. Snow on the Report to Congress on International Economic and Exchange Rate Policies
November 28, 2005

Today, I have sent to Congress the latest report outlining the currency practices of the United States' major trading partners, as required by the Omnibus Trade and Competitiveness Act of 1988.

While attention is focused on the Report's judgments on exchange rates, exchange rate developments cannot be viewed in isolation but need to be assessed in the broader context of international economic policies and developments. Let me say briefly on that front that global economic growth remains solid and the prospects are for continued good growth next year, in particular here in the U.S. At the same time, the world economy faces challenges from high energy prices, global imbalances, protectionist pressures and the risk of higher inflation.

A manifestation of the divergent growth rates and saving and investment patterns among the major economies of the world is large and widening global current account imbalances, including the U.S. current account deficit which now exceeds 6 percent of GDP.

The adjustment of global imbalances is a shared responsibility that must be undertaken in a way that maximizes sustained global growth. America's open trade and capital markets – and the corresponding flexibility and adaptability of our economy -- allow the United States to sustain sizable current account imbalances. However, it would be imprudent to test the limits of our ability to absorb these imbalances.

Employing contractionary policies to slow U.S. growth rates to match the slow growth rates of our trading partners is not the answer; it would constitute a major setback for the global economy and would also harm the efforts of many low-income countries to alleviate poverty.

The appropriate policy response involves increasing savings in the United States – including the reduction of fiscal deficits, raising the growth rates of our largest trading partners, and greater exchange rate flexibility to allow for gradual, market-based adjustments.

The United States is doing its part. U.S. economic growth continues to lead the global economy, as it has for many years, while the performance of many of our largest trading partners has lagged. In addition to sustaining good growth, the United States reduced the federal budget deficit by 1 full percentage point of GDP in FY2005 to 2.6% of GDP. That level is lower than the deficit ratio of 15 of the last 25 years. This does not mean we can be satisfied. Our goal is to ensure that U.S. fiscal deficits decline further over the medium-term through restraint in non-security spending and strong economic growth leading to higher revenue receipts.

But we cannot address global imbalances alone. These imbalances will persist if growth in our major trading partners continues to substantially lag our growth rate. Domestic demand growth in Europe and Japan, though somewhat improved, still falls far short of what is needed. Substantial growth potential continues to be foregone because of weak productivity growth or constraints on labor and capital markets.

Another critical condition for addressing global adjustment prospects is greater exchange rate flexibility, especially in China and other large emerging economies of Asia, as well as the need for these economies to bolster domestic demand, including through promoting greater financial sector reform.

The 1988 Omnibus Trade and Competitiveness Act calls for reporting on "whether countries manipulate the rate of exchange between their currency and the United States dollar for purposes of preventing effective balance of payments adjustment or gaining unfair competitive advantage in international trade." In submitting today's report, I would like to draw your attention to a special annex in today's report that highlights the complexity of reaching judgments on this issue. The annex, which is meant to be illustrative, shows that no one indicator or set of indicators can provide determinative evidence. These indicators require a more comprehensive analysis. To encourage greater dialogue on these issues and improve analysis, the Department is soliciting comments on the Annex.

Today's report to Congress finds that no major trading partner of the United States met the technical requirements for designation under the Act. The initial steps by China to increase exchange rate flexibility played an important part in this decision. But it is also contingent on further progress to incorporate flexibility reflecting underlying market forces in China's RMB exchange rate by the time of the next Foreign Exchange Report.

The last Report, issued on May 17, 2005, noted the importance of exchange rate flexibility in the adjustment of international imbalances. It also noted that China's fixed exchange rate created distortions and posed increasing risks to both China and the broader global economy, especially in constraining the flexibility of other Asian currencies. On July 21, 2005 China took an initial step towards greater exchange rate flexibility when it moved away from an eight-year peg, adopted a new exchange rate mechanism, and committed to a market-determined exchange rate with enhanced flexibility.

China's adoption of a new exchange rate mechanism was an important step towards exchange rate flexibility. And while China has taken additional steps to develop a market-based exchange rate and further open capital markets, its progress to date is limited and far to slow to be sufficient. The actual operation of the new system is highly constricted. As a result, the distortions and risks created by China's rigid exchange rate still persist. Furthermore, exchange rate rigidity in China continues to dampen flexibility in the entire region. It is imperative that China move towards greater flexibility as quickly as possible. In preparing the next Report the Treasury will focus on China's progress in implementing the exchange rate flexibility its leaders have committed repeatedly to introduce.

Despite adjusting its peg on July 21, Malaysia continues to maintain a rigid exchange rate. Macroeconomic conditions in Malaysia are very strongly influenced by world prices, and a stable exchange rate may be an important tool for price stability. However, a rigid exchange rate has also contributed to significant macroeconomic imbalances in the Malay economy, including large and protracted current account surpluses.

The global economy works best with free trade, open capital markets, and flexible exchange rates for large economies. Flexible exchange rates are also a key part of the adjustment of global imbalances. The United States, through bilateral and multilateral discussions, actively encourages exchange rate flexibility in large economies. The International Monetary Fund, an institution established to underpin exchange rate policy and international adjustment, must also play a central role.

In this light, the Report also calls on the International Monetary Fund to intensify its efforts to promote greater flexibility in exchange rates for China and other large emerging Asian economies and to recommend other policies, including financial sector reforms, to bolster domestic demand and reduce global imbalances. To this end, the United States also calls on the Managing Director to provide a comprehensive report on these issues, including associated policy assessments, to the Executive Board and the International Monetary and Financial Committee on an expedited basis. Treasury will also explore possible proposals for reforms in IMF exchange rate surveillance procedures.

Thank you.

LINKS

Report to Congress on
International Economic and Exchange Rate Policies
November 2005

Summary

This report reviews developments in international economic policy, including exchange rate policy, focusing on the first half of 2005.[1] The report is required under the Omnibus Trade and Competitiveness Act of 1988 (the "Act").[2]

Global imbalances are being manifested in large and disparate growth rates, which in turn are mirrored in divergent current account positions, particularly among larger countries. Addressing global imbalances is a shared responsibility and should occur in an orderly manner that maximizes sustained global growth. This requires: 1) further reducing budget deficits and boosting national saving in the United States; 2) appreciably strengthening domestic demand-led growth in Europe and Japan and additional structural reforms to raise economic potential; 3) greater flexibility in the exchange rates of large Asian economies that lack such flexibility, particularly China; and 4) an ambitious Doha trade round and a concerted effort to resist protectionism.

This report finds that no major trading partner of the United States met the technical requirements for designation under the Act. This is consistent with the findings of this report for the past eleven years. Reaching judgments about countries' currency practices and their relationships to the terms of the Act for the purpose of designation is inherently complex, and there is no formulaic procedure that accomplishes this objective. Moreover, the Articles of Agreement of the International Monetary Fund allow countries enormous latitude in selecting and managing exchange rate systems. In this light, a special Appendix to this Report has been added that seeks to offer greater insights into the foreign exchange practices of countries and the implications of their policies. Treasury will continue to build on this work in future reports so that we can better illuminate behavior that, while falling short of a technical designation, is distortionary and potentially problematic.

The last report, issued on May 17, 2005, noted the importance of exchange rate flexibility in the adjustment of international imbalances. It also noted that China's fixed exchange rate created distortions and posed increasing risks to both China and the broader global economy, especially in constraining the flexibility of other Asian currencies. Since that report, the Treasury has engaged in an intensive dialogue with China and other key economies in the region to bring about needed adjustments.

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[1] Treasury has consulted with the IMF in preparing this report. This report focuses on the period January 1, 2005, through June 30, 2005.

[2] The Act states, among other things, that: "The Secretary of the Treasury shall analyze on an annual basis the exchange rate policies of foreign countries, in consultation with the International Monetary Fund, and consider whether countries manipulate the rate of exchange between their currency and the United States dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade."

Accordingly, the United States applauded China's July 21st announcement that it had abandoned its eight-year peg to the dollar and committed to enhance the flexibility and strengthen the role of market forces in the exchange rate. Because of this action and China's stated – and repeatedly reaffirmed – commitment to enhanced, market-determined currency flexibility, Treasury has refrained from designating China at this time. China's commitment to put greater emphasis on sustainable domestic sources of growth, including by modernizing the financial sector, which will support and complement greater currency flexibility, also factored into this decision.

However, China's actual operation of its new system is highly constricted. Distortions and risks previously identified still persist, as do the constraints thus imposed on exchange rate flexibility in the region. This is troubling, and future reports will intensely scrutinize whether and to what degree China is practicing what officials have repeatedly committed to undertake. It is imperative that China fully utilize its new system to move towards greater flexibility as quickly as possible.

Malaysia also altered a long-held peg on July 21 by revaluing slightly. Still, its large, protracted and rising external surpluses suggest that current exchange rate policy may be contributing to macroeconomic imbalances and distortions in the economy. Treasury will begin discussions with the Malaysian government on its exchange rate policy.

Given the risks and distortions noted above and in previous reports, the United States calls on the International Monetary Fund to intensify its efforts to promote greater flexibility in exchange rates for China and other large emerging Asian economies and to recommend other policies, including financial sector reforms, to bolster domestic demand and reduce global imbalances. To this end, the United States also calls for a comprehensive report on these issues, including associated policy assessments, to the Executive Board and the International Monetary and Financial Committee on an expedited basis. Treasury will also explore possible proposals for reforms in IMF exchange rate surveillance procedures.

Domestic Macroeconomic Conditions

Growth in the U.S. economy continued at a solid pace in the first half of 2005, with real GDP rising at an annual rate of 3.6 percent on average in the first two quarters. Business investment continued to grow in the first half and a large increase in exports and a small decline in imports led to a sizable 1.1 percentage point net contribution to growth from foreign demand in the second quarter. Personal consumption expenditures maintained steady increases through the first half of the year. Even though household debt as a share of disposable personal income (DPI) is at a record high, household finances appear in good shape overall as net worth in relation to DPI is the highest in more than three years. Employment is growing, with the average monthly payroll job gain at 190,000 through the first half of 2005, and the number of jobs created since the May 2003 employment trough reaching 3.8 million through June of this year. Over the first half of the year, the unemployment rate declined from 5.4 percent to 5.0 percent – 1.3 percentage points below its June 2003 peak and the lowest since a similar reading in September 2001.

Consumer prices were generally contained over the 12 months ending in June 2005. The consumer price index rose 2.5 percent over that time span. Energy prices rose 7.3 percent over the year ending in June while the core consumer price index (CPI), excluding food and energy, rose 2.0 percent. Gasoline prices jumped sharply in the second quarter of 2005, and energy prices overall continued to rise in the third quarter, culminating in a 12.0 percent surge in September. Over the 12 months ending in September, energy prices at the consumer level were nearly 35 percent higher than a year ago, but excluding food and energy, the core rate of consumer price inflation remained low, rising a moderate 2.0 percent over the 12 months ending in September. The Federal Reserve continued to raise the target for the federal funds rate, raising it one full percentage point over the first half of the year to 3.25 percent and by an additional 25 basis points at each of its next three meetings on August 9, September 20, and November 1, to 4.0 percent. The Federal Reserve kept the balanced bias for both growth and inflation at each of those meetings. The November action marked the twelfth straight target increase of 25 basis points since the Federal Reserve began to remove accommodation in the middle of 2004.

Prior to Hurricane Katrina, estimates of the Federal budget deficit for fiscal year 2005, which in February had been projected at $427 billion, were revised substantially lower as growth in revenues was stronger than forecast. The Administration's Mid-Session Review lowered the deficit projection to $333 billion while the Congressional Budget Office projected a $331 billion deficit. In the actual budget results for the entire fiscal year, the deficit was even lower than expected, declining by $94 billion to $318 billion. In relation to the more than $12 trillion U.S. economy, the fiscal year 2005 deficit represented a 2.6 percent share of GDP. That is lower than the deficit shares in 16 of the last 25 years and only slightly above the 2.3 percent average over the past 40 years. The deficit is nevertheless too high, and the Administration is determined to do more to reduce it. While Federal outlays for hurricane relief are expected to raise the deficit in the short term, and will affect budget results in fiscal year 2006, in the medium to long term, the Administration is working to prevent the additional burden on the deficit from storm repair from undermining efforts at deficit reduction. Continued strong growth will lead to higher receipts, and the Administration is committed to restraint in non-security spending, which will lead to lower deficits in the future.

The United States International Accounts[3]

- *U.S. Balance of Payments Data*

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

	2004	2004				2005	
		Q1	Q2	Q3	Q4	Q1	Q2
Current Account:							
Balance on goods	-665.4	-151.5	-164.0	-167.8	-182.2	-186.3	-186.9
Balance on services	47.8	12.6	11.9	10.3	13.0	13.3	13.6
Balance on income 1/	30.4	15.0	5.9	6.3	3.2	.6	-.5
Net unilateral current transfers	-80.9	-22.3	-20.5	-15.8	-22.4	-26.3	-21.9
Balance on current account	-668.1	-146.1	-166.6	-167.0	-188.4	-198.7	-195.7
Current Account as % of GDP	-5.7	-5.1	-5.7	-5.7	-6.3	-6.5	-6.3
Major Capital Flow Components (financial inflow +)							
Net Bank Flows	36.8	-4.1	12.5	2.2	26.2	-34.3	31.6
Net Direct Investment Flows	-145.2	-43.9	-27.4	-5.6	-68.4	8.1	-16.0
Net Securities Sales	698.3	187.3	177.6	115.1	218.3	159.0	132.7
Net Liabilities to Unaffiliated Foreigners by Non Banking	-24.6	-10.8	-1.5	1.3	-13.6	19.0	-10.2
Memoranda:							
Statistical discrepancy	85.1	18.6	-4.0	50.7	19.9	41.2	53.6
Change in Foreign official assets in the United States	394.7	147.4	77.0	75.8	94.5	25.3	82.3
Trade in Goods							
Balance	-665.4	-151.5	-164.0	-167.8	-182.2	-186.3	-186.9
Total Exports	807.5	193.8	200.1	204.8	208.9	213.8	223.5
of which:							
Agricultural Products	62.9	15.9	16.0	15.4	15.6	15.6	17.1
Capital Goods Ex Autos	331.5	80.7	82.3	84.2	84.3	85.4	90.2
Automotive Products	89.3	21.0	21.8	23.1	23.4	23.7	23.5
Consumer Goods Ex Autos and Food	103.1	24.5	25.5	26.0	27.1	28.3	28.5
Industrial Supplies and Materials 2/	204.0	47.9	50.1	51.9	54.0	55.9	59.0
Total Imports	1472.9	345.2	364.1	372.6	391.1	400.2	410.5
of which							
Petroleum and Products	180.5	40.0	41.5	45.1	53.8	52.9	57.4
Capital Goods ex Autos	343.5	80.8	85.5	87.8	89.4	90.7	95.9
Automotive Products	228.2	55.4	57.2	57.5	58.1	58.2	58.1
Consumer Goods Ex Autos and Food	373.1	89.6	94.0	92.6	96.9	102.1	102.1

1/ Including compensation of employees
2/ Including Petroleum and Petroleum Products
Source: BEA, Bureau of Census

The U.S. current account was $789 billion (at a seasonally adjusted annual rate, or "saar") in deficit, or 6.4 percent of GDP, in the first half of 2005. Viewed over a longer period, the U.S. current account balance declined, as a percent of GDP, from a one percent surplus in the first quarter of 1991 to a four percent deficit in the fourth quarter of 2000, to a six percent plus deficit in the first half of 2005.

In the first half of 2005, the United States exported $875 billion in goods (saar) and imported $1,621 billion, with a resulting $747 billion deficit on trade in goods.[4] Exports of goods increased 5.7 percent in the first half of 2005 compared to the second half of 2004, while imports increased 6.2 percent. Non-automotive capital goods constituted 40.1 percent of merchandise

[3] The IMF annually reviews U.S. economic performance and policies through the so-called IMF Article IV surveillance process. The last Article IV surveillance review took place in July 2005. The IMF Working Paper and the results of the IMF Executive Board's discussion of the U.S. Article IV review can be found at http://www.imf.org/external/pubs/ft/scr/2005/cr05257.pdf. In addition, the IMF discusses U.S. economic policies and performance in the context of its twice yearly World Economic Outlook reports. These can be found at http://www.imf.org/external/pubs/ft/weo/2005/cr05258.pdf.
[4] Sums may not be exact due to rounding.

exports in the first half of 2005. Consumer goods imports constituted 25.2 percent, non-automotive capital goods imports 23.0 percent, and petroleum and petroleum product imports 13.6 percent of merchandise imports.

Canada, Mexico, China, Japan and Germany remain the largest trading partners of the United States. Canada accounted for 13.7 percent of U.S. exports, Mexico 13.0 percent, Japan 6.0 percent, the U.K. 4.5 percent and China 4.3 percent in the first half of 2005. Canada accounted for 17.4 percent of U.S. imports, China 13.8 percent, Mexico 10.4 percent, Japan 8.6 percent, and Germany 5.2 percent in the first half of 2005.

Country	Exports Jan-Jun 2005 1/	Country	Imports Jan-Jun 2005 1/
Total, All Countries	**444.6**	**Total, All Countries**	**793.2**
	Percent of Total		**Percent of Total**
Canada	23.7%	Canada	17.4%
Mexico	13.0%	China	13.8%
Japan	6.0%	Mexico	10.4%
United Kingdom	4.5%	Japan	8.6%
China	4.3%	Federal Republic of Germany	5.2%
Federal Republic of Germany	3.8%	United Kingdom	3.1%
South Korea	3.1%	South Korea	2.8%
Netherlands	3.0%	Taiwan	2.1%
France	2.6%	France	2.1%
Taiwan	2.5%	Venezuela	2.0%

1/ Census, NSA

Prices of imported goods (nsa) increased 8.3 percent in the twelve months through June 2005. Non-petroleum import prices rose 2.1 percent. Export prices rose 2.9 percent over the year. The most recent trough in import and export prices occurred roughly at the beginning of 2002. Since then non-petroleum import prices have risen 5.9 percent and export prices 9.4 percent.

Foreign demand for U.S. financial assets remains strong. A major item financing the current account deficit has been net private foreign purchases of U.S. securities, which reached an annualized $552 billion in the first half of 2005. (Included in these were net private foreign purchases of U.S. Treasury securities amounting to $162 billion.) In addition, foreign official institutions increased their U.S. assets by $215 billion.

Foreigners owned $2.0 trillion in Treasury securities at the end of June 2005, or 53 percent of the public debt not held in Federal Reserve and U.S. Government accounts. This compares with $1.9 trillion, at the end of December 2004. Foreign official institutions held $1.2 trillion in Treasury securities at the end of June 2005, only marginally greater than at the end of December 2004.

- *Net International Investment Position*

The net international investment position of the United States (with direct investment valued at the current stock market value of owners' equity) was a negative $2.5 trillion as of December 31, 2004, the latest date for which data are available. This was only $170 billion less than the negative $2.4 trillion position at the end of 2003, as a $272 billion valuation adjustment due to exchange rate changes and a $147 billion valuation adjustment due to other price changes offset much of the financial outflow associated with the 2004 current account deficit of $665 billion.[5] Despite the large negative net investment position, U.S. residents earned $52 billion on their investment position in 2003, $36 billion in 2004, and $6.1 billion at an annual rate in the first half of 2005 as net receipts from the U.S. direct investment position offset net income payments on the portfolio investment position.

- *Perspectives on the Current Account*

The U.S. current account deficit can be examined from different analytic perspectives. Each perspective focuses on different characteristics of normal current account balances and different adjustment patterns. The perspective can affect interpretations of which domestic and global factors give rise to a given current account deficit and the implications of deficits.

A current account deficit is conceptually equal to the gap between domestic investment and domestic saving, as a matter of *ex post* accounting. When investment in the United States is higher than domestic saving, foreigners make up the difference, and the United States has a current account deficit. In contrast, if saving exceeds investment in a country, then that country has a current account surplus as its people invest abroad. The economic analysis of this relationship is more complex, so that when *ex ante* saving, investment and net export plans are not satisfied *ex post,* economic adjustment processes come into play seeking to reconcile plans with outcomes. The simple *ex post* accounting saving and investment perspective has led some analysts to focus heavily on the components and determinants of saving and investment in the concerned country. National saving reflects the sum of net private and net public saving. Some analysts, giving little weight to the dynamics of private saving and investment, focus on net public saving, and hence on fiscal policy as the best way to affect national saving.

Although an increasing federal budget deficit, from this perspective, would tend to widen the current account deficit, the evidence for a simple correlation between the budget and the current account deficit (the so called "twin deficits" view) is very weak. More generally, in a recent Federal Reserve staff paper, it was argued that a $1 decline in the fiscal deficit would only result in a 20 cent reduction in the current account deficit because fiscal reduction, *inter alia*, could be associated with crowding-in of investment.[6, 7]

The current account deficit can also be seen as the excess of what a country purchases over what it produces, or the excess of what it buys from abroad over what it sells abroad. This perspective leads to a focus on broad macroeconomic factors and their implications for the current account balance – such as relative growth rates among the major economies, broad cost and productivity

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[5] In principle the net financial flows should equal the current account balance, but in practice there was a statistical discrepancy of $85 billion in 2004.

[6] Erceg, Christopher, Luca Guerrieri, and Christopher Gust (2005). "Expansionary Fiscal Shocks and the Trade Deficit." International Finance Discussion Paper 2005-825. Washington: Board of Governors of the Federal Reserve System (January). The paper can be found at http://www.federalreserve.gov/pubs/ifdp/2005/825/ifdp825.pdf.

[7] IMF staff report a higher estimate, using an alternative methodology, in Section V of the IMF Selected Issues Paper of the July 2005 Article IV Consultation, IMF Report No. 05/258. The paper can be found at http://www.imf.org/external/pubs/ft/scr/s005/cr05258.

differences in domestic traded and non-traded goods sectors, inflation and interest rate differentials among economies, and exchange rate movements. Some analysts have used this approach to estimate, employing complex models, the amount that an economy's real trade-weighted exchange rate needs to adjust in order to bring its current account balance to what they perceive to be a "normal" level.[8]

At the microeconomic level, this perspective places a focus on specific features of productive processes and the comparative advantage of given countries – the United States has an edge in producing, among other goods and services, certain financial services and leading high tech products; other economies may have an advantage in producing certain low-value consumer goods. The mix of specific purchases and sales of goods and services, in turn, depends on many millions of microeconomic decisions made by consumers and producers. Specific trading aggregates are also subject to both very specific long-term effects, such as industry productivity growth, and short-term effects, such as supply disruptions.

Other perspectives on the current account deficit focus on net foreign financial flows into the United States. A surplus on the capital and financial accounts is, by balance of payments accounting definition, the counterpart to a current account deficit. These flows finance the net capital formation that is equal to the excess over domestic saving. This perspective also leads to a focus on broad macroeconomic factors – such as relative growth of output and productivity and relative attractiveness of investment environments among the major economies, inflation and differentials, exchange rate movements, etc. According to this perspective, the growth of the U.S. current account deficit over more than a decade has been linked to high levels of domestic U.S. capital formation compared to domestic U.S. saving. Perceived high rates of return on U.S. assets, based on sustained strong productivity growth especially relative to the rest of the world, sound U.S. economic performance, a welcoming U.S. investment climate, and the deepest and most liquid capital markets in the world have all combined to attract foreign investment. In turn, sustained external demand for United States assets has allowed the United States to achieve levels of capital formation that would have otherwise not been possible, and robust growth in investment has been critical to non-inflationary growth of production and employment.

All of these analytic perspectives offer insights into an understanding of the U.S. external position. More broadly, the distribution of global current accounts must be seen as the product of economic and financial policies of all economies spanning the world. For example:

- Saving rates in many emerging market economies, especially those in Asia, are very high compared to investment rates, resulting in correspondingly large current account surpluses. These high saving rates, in turn, may be partly associated with the demographic consequences of aging and the need to save for retirement in the

[8] Indexes of the foreign exchange value of a currency seek to summarize the often divergent movements in bilateral exchange rates into a single measure. A nominal effective exchange rate (NEER) index is a weighted average of bilateral exchange rates. A real effective exchange rate (REER) index multiplies each bilateral exchange rate by relative costs or prices in each economy. Movements in the REER reflect movement in prices or costs of production of domestically produced goods and/or services relative to the prices or costs of goods and/or services produced by foreign competitors. The weights of these indexes are typically based on trade flows, both bilateral trade flows and, in some cases, competitors' trade with third markets.

absence of well developed public pension systems, and also with the lack of well developed financial systems allowing consumers to diversify and hedge against risks (including through insurance products) or to borrow (for example, mortgages).

- Investment rates across the globe have been dampened by a range of factors, including low growth in many economies, the emergence of large service sectors which are less capital intensive than many industries, and excess capacity after the Asia crisis and the bursting of the IT bubble, more efficient financial intermediation, and strong corporate profitability coupled with a low propensity to reinvest earnings.

- A mark of the increasing globalization of the world economy – reflecting in part the effects of greater internationalization of financial markets and diminishing "home bias" in patterns of investment – is a decline, in recent years, of the correlation between national saving and investment rates.

- With rising oil prices, large current account surpluses of oil exporting countries have reemerged with rising oil prices. Ten major oil exporters[9] had a combined $213 billion current account surplus in 2004.

The adjustment of global imbalances is a shared responsibility that must be undertaken in a way that maximizes sustained global growth. Toward this end, domestic demand-led growth from other parts of the world simply must increase. Slowing U.S. growth to match low growth elsewhere would constitute a major setback for the global economy, would be harmful to the efforts of many low-income countries throughout the world to alleviate poverty, and would hurt U.S. workers. Against this background, all major economies must play their part. In the United States, policies aimed at increasing saving by the public sector and the private sector should contribute to global adjustment and reinforce the continuing stability of the international financial system. In Europe and Japan, policies for further structural reforms are needed to boost sustainable growth. Greater flexibility of exchange rates is needed, particularly in emerging Asian economies that lack such flexibility. Finally, an ambitious outcome from the Doha Round is essential to enhancing global growth.

The U.S. Dollar

Movements in the foreign exchange value of the dollar reflect a wide range of factors in extremely large and deep international financial markets. The latest Bank of International Settlements-coordinated central bank survey of the global foreign exchange market estimated that average daily turnover in the market was nearly $2 trillion dollars per day. A large majority of these trades involve the dollar, either as one of the two currencies in the underlying transaction or as the vehicle currency in a trade between two foreign currencies.

The real trade-weighted value of the dollar has fluctuated considerably over past decades, as have the trade-weighted exchange values of other major currencies. In particular, the dollar's real effective exchange rate peaked in early 1985 and then declined. It rose again in the second

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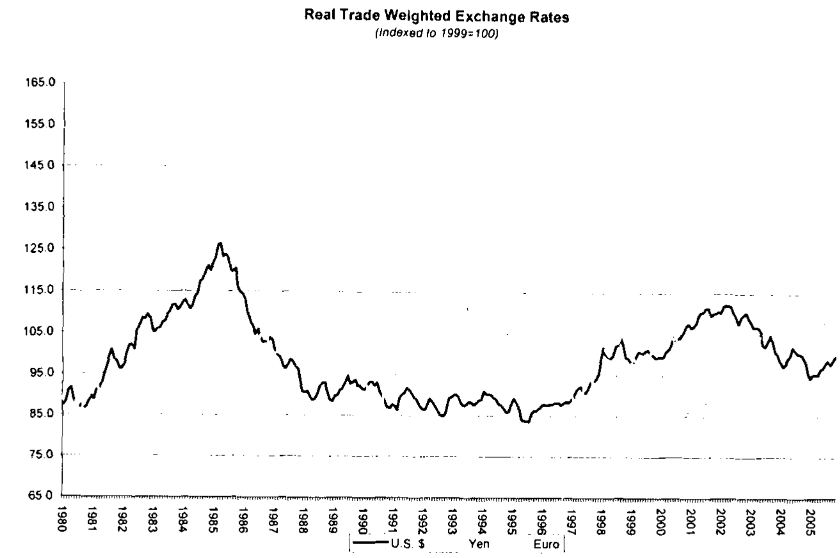
[9] Iran, Kuwait, Libya, Nigeria, Norway, Qatar, Russia, Saudi Arabia, United Arab Emirates, and Venezuela.

half of the 1990s through early 2002, after which it has fallen back. The euro, after depreciating following its introduction in 1999, has appreciated in recent years, while the yen has fallen relative to its mid-1990 peaks.



Between its peak in early 2002 and the beginning of 2004, the dollar fell 25 percent against major currencies measured by the Federal Reserve Board's nominal trade-weighted index.[10] Since then, the dollar has risen less than three percent against the major currencies.

Another Federal Reserve Board index also provides a measure of the dollar's performance against the currencies of the other important trading partners (OITP) of the United States; these economies account for 45 percent of the broad dollar's trade-weighted basket, and about two-thirds of the OITP index is accounted for by Asian emerging market economies. The OITP index did not follow the dollar's decline against major currencies. The OITP index of the dollar's value rose four percent from early 2002 to the beginning of 2004 and has since declined by a similar amount.

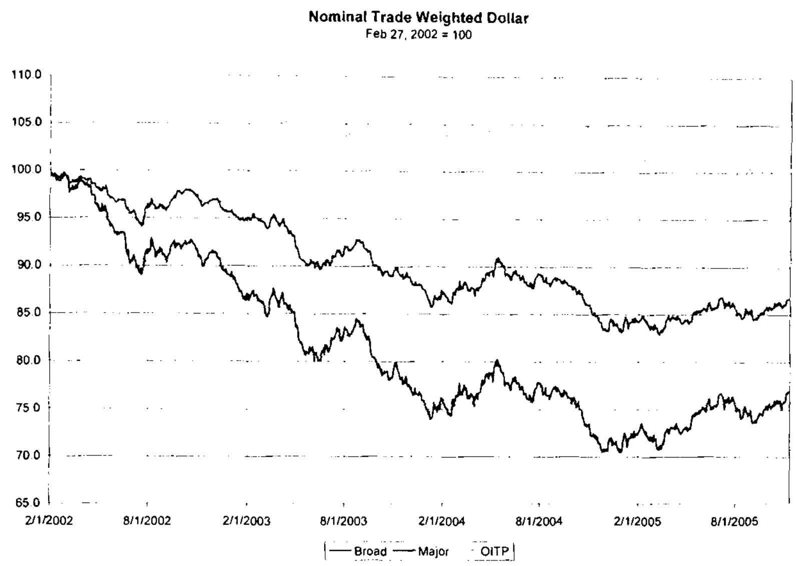
After its depreciation between early 2002 and early 2004, the dollar has moved in a broad range against the major currencies through the first half of the year, roughly speaking between $1.20 and $1.35 against the euro and between 102 and 111 yen per dollar. Fluctuations within the range have been influenced by a host of factors, including market perceptions about so-called "cyclical" factors such as relatively strong U.S. growth, which have tended to boost the dollar, and "structural" factors such as concerns about the ability of the U.S. to attract capital inflow to finance its current account deficit which have tended to weaken the dollar. On balance, the euro and yen have moved in a broadly similar manner against the dollar since early 2002.

During the first half of 2005, the euro and the yen, the most important of the other major currencies, depreciated against the dollar by 10.6 percent and 7.4 percent, respectively, in

[10] Descriptions of the Federal Reserve Board's summary indexes for the foreign exchange value of the dollar can be found at http://www.federalreserve.gov/releases/h10/Summary/.

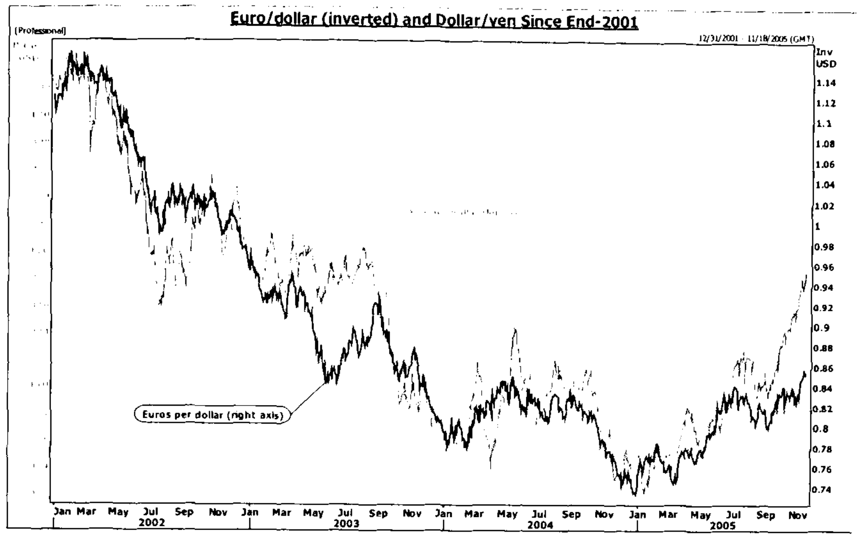
nominal terms. The trade-weighted value of the dollar appreciated by 7.5 percent vs. major currencies and depreciated by 1.0 percent vs. currencies of other important trading partners.

The dollar's appreciation in 2005 reflected a shift in the market's focus away from concerns about the financing of the U.S. current account deficit toward recognition of the brighter relative U.S. growth outlook. In addition, interest rate differentials widened in favor of dollar assets, given the rise in the Fed Funds interest rate and market expectation of further increases.



The Japanese yen has been affected by cross-cutting considerations. Market perceptions this year that Japan's economic turnaround is taking hold have strengthened foreign demand for Japanese equities, and the Nikkei has firmed substantially. Also, market expectations about the prospects for a revaluation of the Chinese renminbi stimulated demand for yen at times. In contrast, rising oil prices weighed on the yen during the period as did the substantial widening in the differential between short-term dollar and yen interest rates. Further, Japanese investors have stepped up purchases of foreign assets in view of the increased confidence in the economic turnaround and higher foreign interest rates.

The euro was held down by the outlook for continued low growth in key parts of the Euro-zone and shifts in interest differentials. In addition, the French and Dutch votes on the EU constitution also contributed to negative euro sentiment. Demand for sterling eased over the course of the year as the U.K. economy slowed and the Bank of England reduced its official policy interest rate. Firm dollar demand against the euro and yen has been reflected in Chicago Mercantile Exchange futures and options reports showing a net-increase in non-commercial long dollar positions against both currencies.



The United States has not intervened in foreign exchange markets since September 2000.

Analysis of Exchange Rates Pursuant to the Act

For the specific purpose of assessing "whether countries manipulate the rate of exchange between their currency and the United States dollar" according to the terms of the Act, the Treasury has traditionally undertaken a careful review of the trading partner's exchange rates, external balances, foreign exchange reserve accumulation, macroeconomic trends, monetary and financial developments, institutional development, and financial and exchange restrictions among other things.[11]

The Appendix of this Report provides a detailed analysis of such considerations relating to the Act, amplifying on Treasury's report to Congress of March 11, 2005. The Appendix reviews the importance of a wide range of economic indicators in rendering judgments pursuant to the Act. and assesses a large number of economies throughout the world against that background. This review shows that the use of numerical indicators of economic performance provides valuable information and insights, including insights into the operation of economies and their interactions with the world economy and financial system.

The Appendix also highlights that many economies – including several oil exporting countries, China, and Malaysia – have significant current account surpluses, increasing reserves, and relatively rigid exchange rate regimes. But other countries – Germany, Japan, and Switzerland – with floating currencies also have significant current account surpluses. Given that the United States is the world's largest economy and has a large current account deficit, it is to be expected that some other economies around the world would have large current account surpluses, which

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[11] These issues are discussed more completely in Treasury's March 11, 2005, Report To The Committees on Appropriations on Clarification Of Statutory Provisions Addressing Currency Manipulation (http://www.treas.gov/press/releases/reports/js2308.pdf).

are the counterpart to the U.S. deficit. In addition, these surpluses reflect a range of factors – including cyclical considerations and saving and investment trends.

The Appendix reaffirms the basic conclusions that rendering judgments pursuant to the Act is inherently complex, that there is no mechanistic or formulaic approach to doing so, and that any judgment must be undertaken in the context of the specific economic circumstances and characteristics of a given economy. A more complete assessment requires additional analysis of the interactions of indicators among themselves and other economic variables, specific factors affecting economies, and current policy formation and implementation.

Country Analyses

Mexico

Mexico has a flexible exchange rate regime. Its central bank targets an inflation rate of 3 percent with a plus or minus one percent band. The Bank of Mexico also follows a transparent rule for selling foreign reserves accumulated by state enterprises. During the first half of 2005 the Mexican peso appreciated by 3.6 percent, from 11.14 pesos/dollar to 10.75 pesos/dollar. The J.P. Morgan trade-weighted index for the broad real exchange rate for the peso appreciated by 5.0 percent in the first six months of the year. Mexico's current account deficit during the first half of 2005 was \$3.8 billion, versus \$4.6 billion in the second half of 2004. The U.S. bilateral trade deficit with Mexico in the first half of 2005 was \$24.5 billion, versus \$22.7 billion in second half of 2004. Foreign direct investment in Mexico increased to \$7.5 billion in the first half of the year compared with \$5.7 billion in the second half of 2004. International reserves grew by \$278 million during the first half of the year, reaching \$61.8 billion by end-June. Year-on-year (yr/yr) headline inflation was 4.3 percent in June, versus 5.2 percent in December 2004. Real GDP grew 0.7 percent in the first quarter of 2005 and fell 1.7 percent in the second quarter, on a seasonally adjusted annualized basis.

Brazil

Brazil has a flexible exchange rate regime. Its central bank targets a 2005 inflation rate of 5.1 percent with a band of 4 to 7 percent. The real appreciated 12.6 percent during the first half of 2005 from BRL2.66/dollar to BRL2.36/dollar. The Central Bank increased net international reserves to \$40.5 billion by June compared to \$27.5 billion in end-December, in part due to Central Bank purchases of foreign exchange for reserve accumulation in January-March. Brazil had a \$6.5 billion current account surplus in the first half of 2005, compared to \$6.3 billion in the second half of 2004. The United States had a trade deficit with Brazil of \$4.7 billion in the first half of 2005, compared to a \$4.9 billion deficit in the second half of 2004. Foreign direct investment in Brazil decreased to \$8.6 billion in the first half of the year compared with \$14.1 billion in the second half of 2004. Year-on-year inflation stood at 7.3 percent in June, versus 7.6 percent in December 2004. Real GDP grew 1.5 percent in the first quarter and 5.8 percent in the second quarter, on a seasonally adjusted annualized basis.

The European Monetary Union

The euro depreciated 10.6 percent against the dollar in the first half of 2005. The real effective exchange rate depreciated 6.2 percent over the period. The ECB did not intervene in foreign exchange markets during the first half of 2005. The harmonized consumer price index rose 2.1 percent year-on-year as of June 2005 while the index excluding energy, food, alcohol, and tobacco rose 1.3 percent. Broad money, M3, grew 8.2 percent annualized in the first half of 2005.

The countries in the Euro-zone taken together had a marginal current account surplus during the first half of 2005 equal to $10.0 billion (sa) or 0.2 percent of GDP, down from $38.0 billion and $15.9 billion in the first and second halves of 2004, respectively. Goods exports increased 3.6 percent while goods imports increased 4.9 percent in the first half of 2005. The trade surplus of the Euro-zone vis-à-vis the U.S. was $42.8 billion in the first half of 2005, which is about $4.1 billion higher than in the same period last year.

Euro-zone growth was an estimated 1.4 percent (annualized) in the first half of 2005. Final consumption expenditure rose 0.8 percent (annualized) in the first half of 2005 while investment increased 0.7 percent. Euro Area countries taken together ran a fiscal deficit of 2.7 percent of GDP in 2004.

Germany

Germany had a current account surplus during the first half of 2005 equal to $61.6 billion (sa) or 4.3 percent of GDP. Goods exports increased 4.1 percent while goods imports increased 3.2 percent in the first half of 2005. The trade surplus of Germany vis-à-vis the U.S. was $24.4 billion, which is $2.8 billion higher than the same period last year.

German growth was an estimated 1.5 percent (annualized) in the first half of 2005, driven entirely by exports. Consumption and investment contracted 0.6 percent and 2.0 percent (annualized), respectively in the first half. Germany's fiscal deficit was 3.7 percent of GDP in 2004, and it was recently revised up from 2.9 percent to 3.7 percent for 2005. German inflation was 1.8 percent yr/yr in June 2005 while core inflation was 0.5 percent.

Belgium

Belgium had a current account surplus of $2.3 billion, or 1.2 percent of GDP, during the first half of 2005 compared to $14 billion (sa) or 3.4 percent of GDP for 2004 as a whole. Goods exports increased 9.2 percent while goods imports increased 12.5 percent in the first half of 2005 over the same period in 2004. The surplus in trade in goods declined to $8.0 billion in the first half of 2005 compared to $11.1 billion in the comparable period of 2004. The trade deficit of Belgium vis-à-vis the U.S. was $3.2 billion, which is $1.1 billion higher than the same period last year.

Belgian growth was an estimated 0.7 percent (annualized) in the first half of 2005, driven by domestic demand. Belgium's fiscal deficit was 0.3 percent of GDP in 2004, and the European

Commission forecasts a deficit of 0.2 percent of GDP in 2005. Belgian CPI inflation was 2.7 percent yr/yr in June 2005 while core inflation was 1.3 percent.

Spain

Spain had a current account deficit of $43.0 billion, or 7.6 percent of GDP, during the first half of 2005 compared to a $55.4 billion (sa), or 5.3 percent of GDP, deficit for 2004 as a whole. Goods exports increased 3.8 percent while goods imports increased 12.4 percent in the first half of 2005 over the same period in 2004. The trade surplus of Spain vis-à-vis the U.S. in the first half of 2005 was $743 million, which is $355 million lower than the same period last year.

Spanish growth was an estimated 3.5 percent (annualized) in the first half of 2005, driven entirely by strong domestic demand. Consumption and investment increased 4.1 percent and 5.2 percent (annualized) respectively in the first half. Spain's fiscal deficit was 0.3 percent of GDP in 2004, and the European Commission projects Spain to have a balanced budget for 2005.

Switzerland

Switzerland had a current account surplus of $26.5 billion (sa), or 14.1 percent of GDP, during the first half of 2005 compared with $52.3 billion (sa) or 14.6 percent of GDP for 2004 as a whole. The trade in goods surplus was $3.9 billion in the first half of 2005 compared with $7.5 billion for 2004. The substantial current account surplus arises from surpluses in trade in services, particularly financial services, and in investment income. The trade in goods surplus of Switzerland vis-à-vis the U.S. was $1.2 billion in the first half of 2005, which is $74 million lower than in the same period last year.

After 2.1 percent growth in 2004, Swiss growth fell to 1.0 percent (annualized) in the first half of 2005 due to weak investment in the first quarter and a lower trade surplus. Switzerland's fiscal deficit was 0.4 percent of GDP in 2004. The Swiss franc appreciated 12.4 percent against the dollar in the first half of 2005, but declined 2.7 percent overall against major trading partners. Inflation remains low at 0.7 percent yr/yr as of June 2005, while core inflation was 0.4 percent.

The Swiss National Bank maintained an operational 0.25 to 1.25 percent target range for the three-month Libor rate throughout the first half of 2005 compared to a 0.00 to 0.75 percent range though most of the first half of 2004.

Russia

High oil prices continued to dominate the dynamics of Russian external accounts. The price for Russian "Urals" blend crude increased 42 percent in the first half of 2005. Russia's current account surplus in the first half of 2005 was an estimated $44.7 billion (nsa), or 13.4 percent of GDP, compared to $26.3 billion, or 10.2 percent of GDP, in the first half of 2004. The bilateral trade surplus with the U.S. reached $5.9 billion in the first half of 2005 compared to $3.5 billion in the first half of 2004. After hitting a 5-year high against the dollar in April, the ruble eased somewhat, with a net 3.2 percent nominal depreciation against the U.S. dollar for the entire first half.

However, inflation continued to accelerate with consumer prices rising 13.6 percent yr/yr at end-June 2005 compared to 10.2 percent at end-June 2004. As a result, JP Morgan's trade-weighted index of the real exchange rate rose 10.6 percent yr/yr at the end of June 2005 compared to 8.4 percent at the end of June 2004. The Russian monetary authorities intervened in the foreign exchange market during the period, and official reserve assets increased 21.7 percent from $124.5 billion at end-December 2004 to $151.6 billion at end-June 2005 compared with a 14.7 percent increase in the first half of 2004. The broad monetary aggregate M2 grew 39.7 percent over the twelve months through June 2005 compared to 35.4 percent in the comparable period through June 2004.

Gulf Cooperation Council Countries

GDP growth and current account surpluses remain high in the oil-exporting countries of the Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE) due to high oil prices (e.g., Saudi Light Crude finished above $50 a barrel at the end of June). All of the GCC countries maintain exchange rates pegged to the dollar because the price of their major export, oil, is denominated in dollars.

Saudi Arabia

With oil export revenues increasing by 35 percent in 2004, Saudi Arabian real GDP grew by 5.2 percent in 2004, and it is expected to grow by a further 6 percent in 2005. The overall current account balance posted a surplus of 20.5 percent of GDP in 2004 compared to 13.1 percent in 2003 and 0 percent in 1999, while the bilateral trade surplus with the United States reached $18.6 billion in the year to June 2005. CPI inflation remains contained at 0.6 percent growth yr/yr to June 2005 because of relatively subdued import price inflation, and price subsidies on utilities and petroleum products. Nevertheless, the government's financial position improved with the government posting a budget surplus of approximately $26 billion (or 10 percent of GDP) in 2004, and using some of that surplus to reduce outstanding debt. The riyal has been unofficially pegged to the dollar since 1986 (officially since 2003), so short-term interest rates largely followed recent increases in US interest rates. Net foreign assets of the Saudi Arabian Monetary Agency rose 36 percent to $117 billion from $86 billion during the first 6 months of 2005, due to Saudi Arabia's large current account surplus. Saudi Arabia had $13.3 billion of short-term external debt at the end of 2004.

Singapore

Singapore is a small and open economy. Its inflation and inflationary expectations are largely determined by movements in the Singapore dollar. As a result, Singapore uses a heavily-managed float against an undisclosed basket of currencies within a target band as its primary monetary policy tool. The Monetary Authority of Singapore (MAS) currently maintains "a policy of modest and gradual appreciation" of the Singapore dollar against the basket. The Singapore dollar depreciated 2.9 percent against the U.S. dollar in the first half of 2005, while J.P. Morgan's nominal trade-weighted index of the exchange rate appreciated 0.9 percent. The CPI fell 0.2 percent yr/yr in June despite rising oil prices, although domestic wholesale prices rose 8.5 percent yr/yr. According to the MAS, it intervened in the first quarter "to moderate excessive upward pressure" on the currency, which would have been deflationary. Total reserves increased about 2 percent to $115 billion in the first half of the year.

Gross national saving is high – 46 percent of gross national income – and investment has been reduced domestically and increased abroad in recent years in response to adverse external shocks to the Singapore economy including the Asian Financial Crisis, the tech slowdown, and the 2003 outbreak of Severe Acute Respiratory Syndrome (SARS). Singapore's small open economy experiences relatively volatile income growth, which results in high precautionary saving. With one of the fastest aging populations in the world, Singapore has also put an emphasis on saving for the future. The government and government-linked corporations are significant contributors to domestic saving, but the bulk of saving is done by the private sector, through mandatory saving programs and other means. The current account surplus increased to 29.6 percent of GDP in the first half of the year from 26.1 percent in 2004 on the back of an improvement in the goods balance due to a rebound in the manufacturing sector and the rising value of refined petroleum exports. As the 19th largest trading partner of the United States, Singapore is a net importer of U.S. goods, resulting in a U.S. bilateral trade surplus of about $3 billion in the first half of 2005. The current account surplus is projected to decrease in future years as the population continues to age. GDP growth moderated sharply in the first quarter to 2.7 percent yr/yr (down from 8.4 percent in 2004) on a slowdown in the pharmaceuticals sector but rebounded 5.2 percent yr/yr in the second quarter.

India

The Indian rupee fluctuated within a narrow band in the first half of 2005, ending largely unchanged against the US dollar. Although the rupee depreciated 0.4 percent against the U.S. dollar, the JP Morgan index of the real value of the rupee against the currencies of India's major trading partners appreciated about 5.5 percent. According to the central bank, India's exchange rate policy in recent years has been guided by "...broad principles of careful monitoring and management of exchange rates with flexibility, without a fixed target or a pre-announced target or a band, coupled with the ability to intervene if and when necessary." Despite strong exports of services and remittances from overseas Indians, increases in international crude oil prices and robust domestic demand resulted in a current account deficit of 2.2 percent of GDP in the first half of 2005, following a balanced current account in all of 2004. The economy maintained its strong momentum in 2005, with GDP growing at 7.0 percent in the first quarter, and consumer prices rising 3 percent yr/yr in June. The U.S. bilateral merchandise trade deficit with India was steady at $4.9 billion in the first half of 2005. Strong capital inflows supported the rupee. Foreign investors, for example, poured $4.5 billion into Indian equity markets in the first half of 2005, compared to $3.5 billion in the first half of 2004. India continues to use reserves to pre-pay external debt by about $3 billion per year. Nonetheless, the Reserve Bank of India built reserves to $132 billion by the end of June, up from $125 billion in December 2004.

Japan

After stagnating in the second half of 2004, Japan's economy picked up speed in the first half of 2005. GDP growth in the first half of 4.5 percent was well above forecasts and market expectations. Business investment and private consumption were primary contributors to growth. Core consumer prices (the Japanese CPI less fresh foods) fell by 0.2 percent year-on-year during the first half of 2005, the same as during the last half of 2004.

After more than a decade of sluggish growth subsequent to the bursting of Japan's huge stock and land price bubble and after eight years of battling to overcome deflation, Japan finally appears to be in position to achieve sustained, normal growth. The financial health of Japan's major banks has greatly improved, companies no longer feel they have large excesses of capacity or workers, and employment of regular fulltime workers has begun rising. Prices are still falling modestly, but many, including the Bank of Japan, expect deflation to come to an end in 2006. Should Japan finally exit deflation, this would be a major turnaround in the world's second largest economy, and would allow Japan to concentrate on policies to encourage greater domestic growth to deal with the fiscal challenges it faces with an aging population. This would also allow Japan to make a greater contribution to global growth and the adjustment of global imbalances.

Japan's current account surplus fell to $82.8 billion (3.4 percent of GDP) in the first half of 2005, from $85.9 billion (3.7 percent of GDP) in the second half of 2004. Japan's overall trade surplus showed a more dramatic decline of $6.4 billion to $45.3 billion as imports grew by 4.2 percent, while exports grew by only one percent, although much of the growth of imports was the result of higher prices for oil and other commodities. Japan's bilateral merchandise trade surplus with the United States totaled $41.6 billion in the first half of 2005, up from $39 billion in the second half of 2004. For the first eight months of 2005, Japan's trade surplus with the United States was $54.8 billion, up 12 percent from the same period in 2004. In 2004, Japanese residents bought large amounts of foreign bonds, drawn by higher interest rates overseas. These outflows were partially, but not fully, offset by large foreign purchases of Japanese equities in the first half of 2005 on the prospect of an improving Japanese economy. As a result, Japan's financial account recorded net outflows of $18.1 billion in the first half of 2005, down from $51.5 billion in the second half of 2004.

The yen's real effective exchange rate against a broad range of currencies depreciated by 3.3 percent during the first half of 2005. The yen depreciated against the U.S. dollar by seven percent during that period, possibly reflecting expectations of rising U.S. interest rates. Japanese authorities did not intervene in the foreign exchange market during the first half of 2005, and in fact have not intervened since March 16, 2004.[12] Japanese foreign currency reserves remained virtually flat, rising by less than $1 billion, or about 0.1 percent, to $825 billion in the first half of 2005.

China

China retained its fixed exchange rate of 8.28 yuan to the U.S. dollar throughout the first half of 2005. The report issued on May 17, 2005, concluded that China had completed preparations and was ready to move to a more flexible exchange rate and should act without delay. On July 21, 2005, China altered the fixed dollar peg that it had maintained for eight years, revaluing the

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[12] The Japanese Ministry of Finance announces its total foreign exchange intervention at the end of each month, and publishes the dates and amounts of intervention at the end of each quarter. See http://www.mof.go.jp/english/e1c021.htm.

renminbi by 2.1 percent against the dollar.[13] The People's Bank of China explained that the action was intended to "enable the market to fully play its role in resource allocation as well as to put in place and further strengthen the managed floating exchange rate regime based on market supply and demand."

The new exchange rate mechanism the Chinese authorities have adopted allows for considerable flexibility and reflection of market forces. In the Joint Statement issued after the U.S.-China Joint Economic Committee meeting in Beijing on October 17, 2005, the Chinese authorities committed "to enhance the flexibility and strengthen the role of market forces in their managed floating exchange rate regime."[14]

This has not occurred yet. Since July 21, the renminbi exchange rate has fluctuated in a very narrow trading range against the dollar. The July 21 action was an important first step, but the initial adjustment and the subsequent movement of the renminbi are not sufficient and do not represent fulfillment of the Chinese authorities' commitment. Chinese monetary authorities have not fully utilized the flexibility allowable by the regime, with intra-day movements of the RMB against the U.S. dollar much less that the allowable +/- 0.3%.

China's economy showed many signs of overheating in 2004, as a credit-fueled investment boom – in large part due to the capital inflows and low real interest rates that resulted from the fixed exchange rate China maintained – spurred growth but also threatened an outburst of inflation. In response, Chinese policymakers implemented a variety of administrative and some market-based tightening measures to curb lending activity and investment, particularly in overheated sectors of the economy, including the property sector. These policies had some success, as investment growth slowed and inflation moderated from its 2004 peak. Although investment growth slowed, the slowdown in overall GDP growth has been less pronounced. China's real GDP grew by a stronger than expected 9.5% in the first half of 2005 (down only 0.2 percentage points from same period last year) and by 9.4% in the third quarter. While the contribution of investment to growth has fallen, the contribution of net exports has increased significantly this year.[15] Even though consumer inflation has declined as food prices have eased (CPI rose by 0.9% yr/yr in September off the 5.3% peak in August, 2004), inflation remains constrained by price controls, notably on oil, which has led to sporadic shortages.[16] Producer prices are still growing at a more rapid rate (4.5% yr/yr in September, compared to a peak of 8.4% yr/yr in October, 2004).

In the first half of 2005, China's global trade surplus grew to a (seasonally unadjusted) total of $39.6 billion (5.0 percent of GDP), already exceeding the $32.1 billion surplus for all of 2004.[17] In the third quarter China's trade surplus widened further, and for the first nine months of 2005

[13] The name of the Chinese currency is the renminbi, and the unit of account is the yuan.
[14] See http://www.treas.gov/press/releases/js2987.htm.
[15] China publishes data on GDP by expenditure components, which is needed to compute the contributions of various demand sources to growth, only on an annual basis with a lag of one year. The observation that the contribution of net exports has increased significantly is based on first half current account data released by the Chinese authorities and on private sector estimates.
[16] In early November, 2005, the Chinese authorities announced they would ease price controls on utilities.
[17] These trade figures are on an FOB-CIF basis. If China's imports were measured on the same basis as its exports (fob), China's adjusted global merchandise trade balance would be $54.1 billion. [Note: this calculation assumes a 4.8% c-i-f (cost, insurance, and freight) adjustment factor.]

totaled $68.3 billion. Chinese goods exports rose 31% in the first nine months of 2005, about the same as the 35% rate of growth last year. The sharp rise in net exports is largely due to a deceleration in the growth of China's imports. China's total imports grew by only 14 percent yr/yr in the first half of 2005 over the same period last year, a much slower pace than the 36 percent increase in imports during all of 2004. Administrative measures imposed last year helped to slow investment growth, which in turn reduced demand for imports of capital equipment. In addition, in certain sectors that experienced rapid expansion of capacity (such as steel, aluminum, cement, and automobiles) domestic production to some extent substituted for imported goods. The increase in the trade surplus was reflected in China's current account surplus, which was an estimated $67.3 billion (8.3 percent of GDP) in the first half of 2005, nearly matching the $68.7 billion current account surplus for all of 2004.[18]

After deducting the $15 billion in foreign exchange transferred to recapitalize one of China's major banks, China's official foreign exchange reserves grew by $101 billion during the first half of 2005 to reach $711 billion at the end of June. In addition to the current account surplus, net financial and capital inflows were an estimated $38.3 billion, compared to a net inflow of $111 billion for all of 2004. For the first time in several years China's current account surplus accounted for the majority of its reserve accumulation instead of net capital inflows. Reserve accumulation continued in the third quarter, with reserves growing an additional $58 billion to reach $769 billion at end September. The central bank continued to "sterilize" the foreign exchange inflows by issuing central bank bills, and net issuance picked up in the first half of 2005.[19]

On July 21, 2005, China changed its exchange rate to a new value of 8.11 yuan per dollar. This was a 2.1 percent revaluation, a small initial movement in response to the market pressures China has faced over the past several years. China also abandoned the U.S. dollar peg, adopting "a managed float exchange rate regime, based on market supply and demand with reference to a basket of currencies." Thus far, however, the currency basket does not appear to have played a significant role in determining the daily closing level of the renminbi, and trading behavior since July 21 strongly suggests that the new mechanism remains, in practice, a tightly managed currency peg against the U.S. dollar.

The Chinese authorities also took steps during the year to prepare market participants for greater exchange rate flexibility and provide some financial products to hedge foreign exchange risk. China expanded the list of participants in the inter-bank spot market, allowed market makers in renminbi, expanded the number of banks that can handle foreign exchange forward transactions, expanded the types of transactions that can be hedged using forwards, and offered currency swaps. However, there is still substantial scope to expand the depth and liquidity of the foreign exchange market in China. In addition, the tight management of the exchange rate itself diminishes the need for development of the market, since participants have much less incentive to hedge. By allowing the exchange rate to fluctuate more widely according to the market, the

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[18] Preliminary current account statistics for the first half of 2005 in China were published by the State Administration of Foreign Exchange (SAFE) on October 31, 2005.

[19] The People's Bank of China (PBOC) issued $97 billion on a net basis in the first half of 2005, compared to $33 billion in the last six months of 2004.

authorities would create demand for products that could help firms manage the risks associated with currency exposure more effectively.

China has taken steps to liberalize its controls on capital movements in order to increase the depth and liquidity of foreign exchange markets. But its capital controls still maintain greater restrictions on capital outflows than on inflows. Chinese authorities recently allowed foreign investors to acquire a greater number of shares in locally listed Chinese companies. This move coincides with government efforts to introduce trading for previously non-traded shares owned by the state.

But while the new exchange rate mechanism allows for greater flexibility, China's exchange rate since July 21 has been very tightly controlled. The renminbi-dollar exchange rate has fluctuated up and down on a daily basis within very narrow ranges and has gradually strengthened from 8.11 yuan per dollar to 8.0815 per dollar as of November 25, a cumulative appreciation of 0.35 percent against the dollar. Even though China had pegged its exchange rate to the dollar prior to July 21, and has allowed for modest fluctuation since, this has not prevented China's currency from fluctuating against currencies of other trading partners. On a trade-weighted basis, the RMB appreciated during the reporting period: the nominal and real effective exchange rates, as measured by the J.P. Morgan Narrow Nominal and Broad Real Effective Exchange Rate Indices, appreciated by 2.9 percent and 3.5 percent, respectively, reflecting in large measure the dollar's appreciation.

China's exchange rate is not yet sufficiently flexible to meet the needs of the Chinese economy or those of the global economy. A significant increase in flexibility is necessary to give China a sufficiently autonomous and effective monetary policy to sustain growth and avoid inflation. The inability to set domestic interest rates limits monetary control and also hinders efforts to encourage more efficient bank lending. In addition, speculative capital continues to flow into China on the expectation that the renminbi will appreciate further. Furthermore, a rigid exchange rate hinders China's ability to move away from its current dependence on exports and continued rapid increases in investment to a more balanced and sustainable pattern of growth in which households have a greater share. Nor has the Chinese government introduced flexibility sufficient to contribute to the orderly reduction of global imbalances that is needed to assure continued strong global growth.

Treasury has continued to engage China in active bilateral and multilateral discussions on macroeconomic, financial sector and exchange rate reform issues. This year, Treasury facilitated the invitation of Chinese economic leaders to several G7 meetings where these topics featured prominently. In addition, the APEC economies, including China, acknowledged their joint responsibility in bringing about an orderly adjustment of global imbalances, including, where appropriate, greater exchange rate flexibility.[20] Secretary Snow traveled to China in mid-October 2005 for intensive talks with Chinese leaders, including through the U.S.-China Joint Economic Committee (JEC) with broad and active participation from key economic and financial ministries and financial regulators in China and the United States. A separate meeting of a U.S.-China financial regulatory working group was also held in October. Finally, Secretary Snow just

[20] See http://www.apec.org/apec/ministerial_statements/sectoral_ministerial/finance/2005_finance.html for the statement from the September 2005 Finance Ministers meeting.

appointed a full-time, permanent resident Treasury Financial Attaché who will move to Beijing in the first half of 2006.

The Chinese authorities have said clearly that the July 21 action is the first step in a process of introducing greater exchange rate flexibility. In the Joint Statement following the U.S.-China Joint Economic Committee meetings in Beijing on October 16-17, they said that they would enhance the flexibility and strengthen the role of market forces in their managed floating exchange rate regime, and President Hu told President Bush that China would unswervingly press ahead with reform of its exchange rate mechanism. The Chinese authorities should do so by the time this report is next issued. Treasury will monitor movements of the renminbi and the authorities' progress in allowing significant exchange rate flexibility before the next report.

Taiwan

Taiwan's economy slowed considerably during the first half of 2005, growing at a seasonally adjusted annual rate of only 1.7 percent, after growing at a seasonally adjusted annual rate of 4.1 percent in the second half of last year. A lull in electronics exports contributed to weak export performance. Consumer price inflation remained low, with consumer prices up 1.9 percent year-on-year in the first half of 2005. Nevertheless, the central bank has raised interest rates during each of its last four policy meetings, in an effort to head off inflationary pressures, in part related to rising oil prices.

Taiwan's trade surplus was $1.7 billion in the first half of 2005, down substantially from the $5 billion recorded in the first half of 2004, as imports climbed 11.1 percent, due in large part to higher oil prices, and exports rose by 6.6 percent. Taiwan's bilateral trade surplus with the United States dropped slightly to $5.7 billion in the first half of 2005 from $5.8 billion in the year earlier period. Reflecting the fall in the overall trade surplus, Taiwan's current account surplus dropped to $5.8 billion (3.5 percent of GDP) in the first half of 2005, down from $11.3 billion (7.4 percent of GDP) in the first half of 2004 and 4.8 percent of GDP in the second half of last year.

Net financial inflows to Taiwan were $9.6 billion in the first half of 2005, reversing an outflow of $7.8 billion in the second half of 2004. The main component was a $13.5 billion inflow of other investments, as the New Taiwan (NT) dollar appreciation during the first quarter of 2005 led enterprises to remit home their export proceeds retained overseas and banks to reduce their lending or deposits abroad as well as bring in capital from abroad.

After rapid growth in reserves between 2000 and 2004, Taiwanese intervention and reserve accumulation have slowed markedly so far in 2005. Reserves at the end of June were $254 billion, 5% higher than at the end of 2004, and remained at that level at end-September. After appreciating by 6.0% in the last half of 2004, the NT dollar was roughly stable over the reporting period, closing June at 31.64 per U.S. dollar, an appreciation of 0.3 percent since December 31, 2004. Since June 30, the NT dollar depreciated by 4.6 percent to end-September and an additional 1.1 percent in October.

South Korea

The South Korean economy grew briskly in late 2003 and early 2004 on strong growth of net exports, but slowed in the last half of 2004. Growth in the second half of 2004 slowed to 4.0 percent (year-over-year), and slowed further to 3.0 percent in the first half of 2005. There are signs of a pickup in the third quarter, and growth for 2005 as a whole is expected to be about four percent, as a cautious rebound in private consumption and business investment is offsetting slowing net exports. In fact, domestic demand is expected to overtake external demand as the main contributor to growth for the first time since 2002. However, the recovery in consumption is still limited by slow progress in reducing the high level of unemployment and remaining high levels of household debt in the aftermath of South Korea's credit card bubble of 2002. The Bank of Korea has taken advantage of South Korea's exchange rate flexibility by pursuing an accommodative monetary policy to support growth, at a time when U.S. interest rates have been rising. The Bank of Korea left interest rates unchanged during the first half of the year, as both the CPI and core inflation remained well within the 2.5 – 3.5 percent target range, despite rising oil prices.

Export growth decelerated in the first half of 2005, rising 11 percent year on year, compared with a 25 percent increase year-on-year in the second half of 2004. Exports to China remained an especially significant contributor. Import growth outpaced export growth, rising 14.8 percent over a year ago, reflecting the impact of rising oil prices on the cost of imports. As a result, South Korea's overall trade surplus shrank 6.0 percent from a year earlier. The U.S. bilateral trade deficit with Korea fell to $8.5 billion for the first half of 2005, down $0.4 billion and 4.8 percent from the same period in 2004. Korean exports to the U.S. grew by less than one percent, and Korean imports from the U.S. grew by 4.1 percent compared to the same period last year. South Korea's current account surplus moved in line with its shrinking trade surplus, dropping from $14.4 billion (3.8 percent of GDP) in the second half of 2004 to $8.7 billion (2.4 percent of GDP) in the first half of 2005 on a seasonally adjusted basis.

The net inflow in the capital and financial account of $4.7 billion in the first half of 2005 was a marked decrease from the $7.5 billion inflow in the second half of 2004. Both foreign direct investment of Koreans abroad and foreign direct investment into South Korea fell sharply in the first half of 2005, as did net inward portfolio investment. Foreign exchange reserves increased by $6 billion (3 percent) to $205 billion during the reporting period.

After appreciating over 10 percent in the second half of 2004, the South Korean won fluctuated against the dollar within a relatively narrow band during the first half of 2005, ending the first half at 1,034.5 won per dollar, virtually unchanged from the end of 2004. South Korea's real effective exchange rate appreciated by about 5 percent, reflecting appreciation of the dollar against other currencies during the first half of 2005.

Malaysia

Malaysia's economy grew at a 4.9 percent annual rate during the first half of 2005, slowing from the 8.1 percent rate for the same period last year. Although the economy grew 7.1 percent in 2004, it significantly slowed down in the second half of the year due in part to a moderation in global growth. Economic activity picked up a bit in the first half of this year with increases in private consumption and private investment. Growth in 2005 is expected to be around 5 percent. Fiscal consolidation continued, as public works spending declined and total public sector spending fell moderately as part of the government's overall goal to bring the fiscal deficit down to 3.8 percent of GDP. The government also has gradually cut oil subsidies as global oil prices continue to rise, creating a slight drag on consumption.

The current account surplus was $10.2 billion, or 16.5 percent of GDP, in the first half of 2005, up from 12.7 percent in the second half of 2004. Malaysia's bilateral trade surplus with the United States totaled $10.4 billion in the first half of 2005, compared with $7.5 billion in the first half of 2004. Large current account surpluses have been a striking feature of the Malaysian economy in the last few years, even before higher oil prices (Malaysia is a net oil exporter) expanded the surplus. After running substantial external deficits prior to the Asian Financial Crisis, Malaysia has had significant and growing trade and current account surpluses. The current account surplus in 2004 was $14.9 billion (12.6 percent of GDP). Malaysia's current account surplus is in large part the counterpart to a sharp fall in domestic investment that took place in the aftermath of the Asian Financial Crisis. After rising to over 40 percent of GDP in 1995-97, total investment dropped sharply in 1998, and has declined gradually to 20.5 percent of GDP in 2004. The decline in private investment has been even more striking, falling from over 30 percent of GDP in 1997 to just below 8 percent in 2003. Part of this decline was expected after the investment boom just prior to the 1997 Asian Financial Crisis, but Malaysia's investment rate is almost 15 percentage points below its level in the early 1990s, and there have been sharp declines in both domestic private and foreign direct investment. The reasons for the sharp fall in investment are not clear; reasons that have been suggested include declining competitiveness of Malaysia vis-à-vis other Asian economies, shortages of complementary inputs (particularly skilled labor), policy efforts to shift towards a more service-oriented economy, and the effect of government regulation.

Through the first half of 2005, Malaysia maintained a fixed peg to the dollar (3.80 ringgit to a dollar), as it had since September 1998. However, immediately following China's revaluation on July 21, Malaysia announced that it was abandoning the ringgit's peg to the dollar and moving to a managed float against a trade-weighted basket. The Central Bank plans to monitor the exchange rate to ensure that it "remains close to its fair value." In the first two weeks after the revaluation, the ringgit appreciated by only 1.4 percent, before falling to a level of about 3.77 (a cumulative appreciation of 0.8 percent from the original pegged rate), with small fluctuations in the daily rate.

Preceding this move, Malaysia relaxed most of its controls on capital flows which were imposed when the ringgit was pegged in 1998. As of April 1, 2005, Malaysia further relaxed the controls to allow: increased investment abroad; maintenance of currency export proceeds with licensed banks onshore; and hedging on any committed or anticipatory current account transaction or on any committed capital account payments. However, offshore trading of the ringgit remains prohibited, and foreign portfolio investment by residents continues to be limited.

Malaysia's financial account surplus contracted to $1 billion in the first half of 2005 from $1.7 billion in the last half of 2004, due in part to a decline in net portfolio investment inflows. At the end of June 2005, foreign exchange reserves stood at \$70.4 billion, up from \$61.7 billion at the end of 2004.

Although Malaysia has taken important step to remove the capital controls it imposed during the Asian Financial Crisis in 1997, and has made a small alteration in the ringgit exchange rate, its currency remains essentially fixed, despite the substantial rise in the current account and trade balances. Malaysia is a relatively small and highly open economy, where domestic prices rapidly reflect changes in international prices. In these circumstances, Malaysia's exchange rate policy may be appropriate. At the same time, the large and rising current account surplus suggests that there are both external and domestic imbalances in which the exchange rate plays a role. Treasury will begin bilateral discussions with the Malaysian government on its exchange rate policy and the role that it plays in the Malaysian economy.

PRESS ROOM

November 29, 2005
2005-11-29-12-24-15-16460

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 $68,790 million as of the end of that week, compared to $68,799 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	November 18, 2005			November 25, 2005		
TOTAL	68,799			68,790		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	10,921	10,674	21,595	10,932	10,638	21,570
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,434	5,169	15,603	10,423	5,150	15,573
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]			12,487			12,515
3. Special Drawing Rights (SDRs) [2]			8,073			8,091
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	November 18, 2005			November 25, 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						
	November 18, 2005			November 25, 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

November 30, 2005
JS-3025

Statement of Treasury Secretary John W. Snow
On Third Quarter GDP

"Economic growth was outstanding in the third quarter of this year. The government's estimate of the rate of growth increased to 4.3 percent, which is very good news for American workers and those seeking jobs. Additionally, it is good news for federal and state government budgets with economic growth inevitably leading to higher tax receipts.

"Continued strong GDP growth, along with news of a rebound in consumer confidence in November and a robust start to the holiday shopping season are all compelling indications that the American economy is solidly on a track of healthy growth.

"For each of the last ten quarters, and in spite of severe weather disruptions in the most recent quarter, the American economy has grown at a robust rate of 3.3 percent or more. There can be no doubt that the combination of the President's leadership and good fiscal policies with American innovation and hard work continues to make the American economy the most adaptive and resilient in the world.

"The President's economic course of lower tax rates and the Federal Reserve Board's sound monetary policy are the foundation upon which the American people build a strong economy. We need to continue these pro-growth policies, and prevent harmful tax increases."

PRESS ROOM

November 30, 2005
JS-3026

Treasury and IRS Issue Guidance Clarifying New Legislation Providing Hurricane Katrina Victims Access to Their Retirement Savings

Treasury and the IRS issued Notice 2005-92 today, which provides guidance relating to the application of two provisions of the Katrina Emergency Tax Relief Act of 2005 (KETRA) for Hurricane Katrina victims and employer-sponsored retirement plans and IRAs.

Under one provision of KETRA, individuals who live in one of the four states affected by Hurricane Katrina and who suffered an economic loss as a result of that hurricane receive favorable tax treatment with respect to distributions from eligible retirement plans that are qualified Hurricane Katrina distributions, called "Katrina distributions." A Katrina distribution is not subject to the 10% additional tax applicable to early distributions from a retirement plan (25% in the case of a Simple IRA), is generally includible in income over a 3-year period, and -- to the extent the distribution is eligible for tax-free rollover treatment and is contributed to an eligible retirement plan (recontributed) within a 3-year period -- will not be includible in income at all.

Another provision of KETRA increases the allowable plan loan amount from an employer-sponsored retirement plan and provides for a suspension of payments for plan loans outstanding on or after August 25, 2005 that are made to Katrina victims.

This notice provides guidance for plan sponsors, service providers, and participants, as well as IRA owners, who choose to use the valuable benefits provided under these two KETRA provisions.

REPORTS

- Notice 2005-92

Part III. Procedural, Administrative, and Miscellaneous

Hurricane Katrina Relief under sections 101 and 103 of the Katrina Emergency Tax Relief Act of 2005

Notice 2005-92

PURPOSE

This notice provides guidance relating to the application of sections 101 and 103 of the Katrina Emergency Tax Relief Act of 2005, P.L. 109-73 (KETRA) for qualified individuals and eligible retirement plans. KETRA was enacted on September 23, 2005. Under section 101 of KETRA, qualified individuals receive favorable tax treatment with respect to distributions from eligible retirement plans that are qualified Hurricane Katrina distributions (Katrina distributions). A Katrina distribution is not subject to the 10% additional tax under § 72(t) of the Code (including the 25% additional tax under § 72(t)(6) for certain distributions from SIMPLE IRAs), is generally includible in income over a 3-year period, and, to the extent the distribution is eligible for tax-free rollover treatment and is contributed to an eligible retirement plan (recontributed) within a 3-year period, will not be includible in income. Section 103 of KETRA increases the allowable plan loan amount under § 72(p) of the Code and permits a suspension of payments for plan loans outstanding on or after August 25, 2005 that are made to qualified individuals.

BACKGROUND

Under § 402(c)(8) of the Code, an eligible retirement plan includes an individual retirement arrangement (IRA) under § 408(a) or (b), a qualified plan under § 401(a), an annuity plan under § 403(a), a section 403(b) plan, and a governmental deferred compensation plan under § 457(b). Distributions from these plans are generally includible in the distributee's gross income in the year of the distribution. For example, for qualified plans, § 402(a) provides that any amount actually distributed to a distributee is taxable to the distributee in the taxable year of the distribution under § 72. Similar rules exist for section 403(b) plans under § 403(b)(1), for governmental section 457(b) plans under § 457(a), and for IRAs under § 408(d)(1).

Section 402(f) provides that a plan is required to provide a distributee, within a reasonable period of time before an eligible rollover distribution is made, with a written explanation of the distributee's rollover rights and the tax and other potential consequences of the distribution or rollover.

Section 402(c)(4) provides that any distribution of all or a portion of the balance to the credit of an employee under a qualified plan is an eligible rollover distribution with certain exceptions. These exceptions include substantially equal periodic payments over a specified period of at least 10 years, or for the life or the life expectancy of the employee (or the employee and the employee's designated beneficiary); minimum distributions required under § 401(a)(9); and any distribution that is made upon the hardship of an employee. This same definition of eligible rollover distributions applies to distributions from section 403(b) plans under § 403(b)(8) and governmental section 457(b) plans under § 457(e)(16). Generally, any distribution from an IRA is eligible for rollover except a required minimum distribution or certain distributions from inherited IRAs.

Under § 401(a)(31), if a distributee elects to have an eligible rollover distribution paid directly to an eligible retirement plan and specifies the eligible retirement plan to receive the distribution, a qualified plan must pay the distribution to that eligible retirement plan in a direct rollover. Similar rules apply to section 403(b) plans under § 403(b)(10) and governmental section 457(b) plans under § 457(d)(1).

Q&A-14 of §1.401(a)(31)-1 of the Income Tax Regulations provides that if a plan accepts an invalid rollover contribution, the contribution will be treated, for purposes of applying the qualification requirements to the receiving plan, as if it were a valid rollover contribution, if two conditions are satisfied. First, when accepting the amount from the employee as a rollover contribution, the plan administrator of the receiving plan reasonably concludes that the contribution is a valid rollover contribution. Second, if the plan administrator later determines that the rollover contribution was an invalid rollover contribution, any amount attributable to the invalid rollover contribution (including earnings) must be distributed to the employee within a reasonable amount of time after the determination.

Under § 402, if an eligible rollover distribution is contributed to an eligible retirement plan in a direct rollover or within 60 days from the date of distribution as a rollover contribution, the amount rolled over is not includible in the distributee's gross income.

Section 72(t)(1) imposes an additional tax on early distributions from eligible retirement plans. In general, this additional tax is equal to 10% of the portion of the distribution that is includible in income. For any amount distributed from a SIMPLE IRA during the 2-year period described in § 72(t)(6), the rate of the additional tax is increased from 10% to 25%. Section 72(t)(2) provides a number of exceptions to this additional tax, including, for example, exceptions for distributions made on or after the employee attains age 59½, distributions made to a beneficiary on or after the employee's death, distributions made because of the employee's disability, and distributions that are a part of substantially equal periodic payments made over the employee's life or life expectancy.

Section 401(k)(2)(B)(i) generally provides that amounts attributable to elective contributions under a qualified cash or deferred arrangement may not be distributable to participants or beneficiaries earlier than severance from employment, death or disability, plan termination, or attainment of age 59½. This same restriction applies to any amount attributable to qualified nonelective contributions and qualified matching contributions under qualified cash or deferred arrangements. An amount equal to the dollar amount of elective contributions can generally be distributed upon hardship of the employee. Parallel rules apply to custodial accounts under § 403(b)(7)(A)(ii), to annuity contracts under § 403(b)(11), and to governmental section 457(b) plans under § 457(d)(1)(A).

Section 72(p) imposes certain requirements relating to plan loans. Unless these requirements are satisfied, an amount received by a participant as a loan is treated as having been received as a distribution from the plan (deemed distribution). Deemed distributions are includible in income and are subject to the 10% additional tax under § 72(t), unless an exception applies.

Under § 72(p)(2)(A), a plan loan (when added to the outstanding balance of all other loans outstanding) must not exceed the lesser of (1) $50,000 reduced by the excess of the highest outstanding balance of loans from the plan during the 1-year period ending on the day before the date on which the loan is made over the outstanding balance of loans from the plan on the date that the loan is made or (2) the greater of $10,000 or one-half of the present value of the participant's nonforfeitable accrued benefit under the plan. Section 72(p)(2)(B) provides that a loan must be repaid within 5 years. However, an exception to the 5-year repayment rule applies for loans used to acquire any dwelling unit that will be used (determined at the time the loan is made) as the participant's principal residence. Section 72(p)(2)(C) requires substantially level amortization of a plan loan (with payments not less frequently than quarterly) over the term of the loan.

Q&A-10(a) of § 1.72(p)-1 of the regulations provides that the failure to make any installment payment when due, in accordance with the terms of a loan, violates § 72(p)(2)(C) and, accordingly, results in a deemed distribution at the time of such failure. However, the plan administrator may allow a cure period and § 72(p)(2)(C) will not be considered to have been violated if the installment payment is made not later than the end of the cure period, which period cannot continue beyond the last day of the calendar quarter following the calendar quarter in which the required installment payment was due. If there is a failure to pay the installment payments required under the terms of the loan (taking into account any cure period allowed under Q&A-10(a)), then the amount of the deemed distribution equals the entire outstanding balance of the loan (including accrued interest) at the time of such failure.

SECTION 1: QUALIFIED HURRICANE KATRINA DISTRIBUTIONS

A. Special tax treatment for Qualified Hurricane Katrina distributions.

Section 101 of KETRA provides for special tax treatment for a Katrina distribution. Section 101 of KETRA provides an exception to the 10% additional tax under § 72(t) of the Code (including the 25% additional tax under § 72(t)(6) for certain distributions from SIMPLE IRAs), allows the distribution to be included in income ratably over 3 years, and provides that the distribution will be treated as though it were paid in a direct rollover to an eligible retirement plan if the distribution is eligible for tax-free rollover treatment and is recontributed to an eligible retirement plan within 3 years of the date of the distribution. Section 101 of KETRA also permits special treatment for Katrina distributions under employer retirement plans, as described in section 2 of this notice.

B. Definition of qualified individual.

For purposes of this notice, a qualified individual is an individual whose principal place of abode on August 28, 2005, is located in the Hurricane Katrina disaster area as defined in section 2(1) of KETRA and who has sustained an economic loss by reason of Hurricane Katrina. For purposes of the relief provided under KETRA, the term "Hurricane Katrina disaster area" as set forth in section 2(1) means the entire states of Louisiana, Mississippi, Alabama, and Florida.[1]

C. Definition of Katrina distribution.

Section 101(d)(1) of KETRA defines a Katrina distribution as any distribution from an eligible retirement plan made on or after August 25, 2005, and before January 1, 2007, to a qualified individual. Section 101(b) of KETRA limits the amount of distributions that can be treated as Katrina distributions to no more than $100,000.

A qualified individual is permitted to designate a distribution described above as a Katrina distribution. This designation is permitted to be made with respect to any distribution that would meet the requirements of a Katrina distribution without regard to whether the distribution was on account of Hurricane Katrina. Thus, periodic payments and required minimum distributions received by a qualified individual from an eligible retirement plan on or after August 25, 2005 and before January 1, 2007, are permitted to be treated as Katrina distributions. Similarly, any distribution received by a qualified individual

[1] This definition applies solely for purposes of relief provided under KETRA and does not apply for purposes of relief under other provisions. For example, see Notice 2005-73, 2005-42 I.R.B. 723, which defines taxpayers affected by Hurricane Katrina and designates disaster areas for purposes of the relief provided under § 7508A.

as a beneficiary can be treated as a Katrina distribution. In addition, a reduction or offset of a participant's account balance in order to repay a plan loan, as described in Q&A-9(b) of § 1.402(c)-2 of the regulations, is permitted to be treated as a Katrina distribution. However, any amount described in Q&A-4 of §1.402(c)-2 of the regulations is not permitted to be treated as a Katrina distribution. Thus, the following amounts are not Katrina distributions: corrective distributions of excess contributions under § 415, excess elective deferrals under § 402(g), excess contributions under § 401(k), and excess aggregate contributions under § 401(m); loans that are treated as deemed distributions pursuant to § 72(p); dividends paid on applicable employer securities under § 404(k); and the costs of current life insurance protection. See section 1.D of this notice for rules relating to which Katrina distributions are permitted to be recontributed to an eligible retirement plan.

The definition of Katrina distribution under section 101(d)(1) of KETRA does not limit the designation of a Katrina distribution to amounts withdrawn solely to meet a need arising from Hurricane Katrina. Thus, even though a qualified individual is required to have sustained an economic loss, Katrina distributions are permitted without regard to the qualified individual's need and the amount of the distribution is not required to correspond to the amount of the economic loss suffered by the qualified individual.

As explained in section 2.C of this notice, an employer retirement plan is also permitted to treat a plan distribution described above as a Katrina distribution. It is possible that a qualified individual's designation of a Katrina distribution may be different from the employer retirement plan's treatment of the distribution. This different treatment could occur, for example, if a qualified individual has more than one plan distribution that meets the requirements of a Katrina distribution. This different treatment could also occur if a qualified individual has distributions from more than one eligible retirement plan.

D. Certain Katrina distributions are permitted to be recontributed.

Subject to certain exceptions, distributions from an eligible retirement plan that satisfy the requirements of a Katrina distribution under section 1.C of this notice are permitted to be treated as Katrina distributions. Such distributions may be included in income ratably over 3 years and are not subject to the 10% additional tax under § 72(t) of the Code. However, only a Katrina distribution that is eligible for tax-free rollover treatment under § 402(c) (and 402(e)(6)), 403(a)(4), 403(b)(8), 408(d)(3), or 457(e)(16) is permitted to be recontributed to an eligible retirement plan, and such recontribution will be treated as having been made in a direct rollover to that eligible retirement plan.

In the case of a distribution from an eligible retirement plan other than an IRA, only a Katrina distribution that is an eligible rollover distribution within the meaning of § 402(c)(4) is permitted to be recontributed to an eligible retirement plan. Thus, periodic payments (for a period of at least 10 years, or the life or the life expectancy of the employee (or the lives or joint life expectancies of the employee and the employee's designated beneficiary)) and required minimum distributions are not permitted to be recontributed to an eligible retirement plan even though those distributions are permitted to be treated as Katrina distributions if they satisfy the requirements under section 1.C of this notice. In the case of a distribution from an IRA, only a Katrina distribution that is eligible for rollover treatment under § 408(d)(3) is permitted to be recontributed to an eligible retirement plan. Thus, required minimum distributions are not permitted to be recontributed to an eligible retirement plan. Any Katrina distribution (whether from an employer retirement plan or an IRA) paid to a qualified individual as a beneficiary of an employee or IRA owner (other than the surviving spouse of the employee or IRA owner) cannot be recontributed. See section 4.C of this notice for rules relating to recontributions of Katrina distributions.

In general, a distribution from an employer retirement plan made on account of hardship is not an eligible rollover distribution. However, if such a distribution satisfies the requirements under section 1.C of this notice, then the distribution is not treated as made on account of hardship for purposes of this notice and, thus, any portion of the distribution is permitted to be recontributed to an eligible retirement plan. See section 4.C of this notice for rules relating to recontributions.

E. Definition of principal place of abode.

An individual's principal place of abode is where the individual lives unless temporarily absent due to special circumstances. A temporary absence from the household due to special circumstances, such as illness, education, business, vacation, or military service, will not change an individual's principal place of abode. See §§ 1.2-2, 1.152-1(b), and 1.152-2(a)(2)(ii) of the regulations for information relating to a temporary absence from a principal place of abode. If an individual's principal place of abode was in the Hurricane Katrina disaster area immediately before August 28, 2005, and the individual evacuated because of Hurricane Katrina, the individual's principal place of abode will be considered to be in the Hurricane Katrina disaster area on August 28, 2005.

SECTION 2. GUIDANCE FOR EMPLOYER RETIREMENT PLANS MAKING KATRINA DISTRIBUTIONS

A. Katrina distributions are generally treated as satisfying certain plan distribution restrictions.

Under section 101 of KETRA, a Katrina distribution designated by an employer retirement plan is treated as meeting the distribution restrictions for qualified cash or deferred arrangements under § 401(k)(2)(B)(i) of the Code, for custodial accounts under § 403(b)(7)(A)(ii), for annuity contracts under § 403(b)(11), and for governmental deferred compensation plans under § 457(d)(1)(A). Thus, for example, an employer is permitted to expand the distribution options under its plan to allow an amount attributable to an elective, qualified nonelective, or qualified matching contribution under a qualified cash or deferred arrangement to be distributed as a Katrina distribution even though the distribution is before an otherwise permitted distributable event, such as severance from employment, disability, or attainment of age 59½.

Except as described above, section 101 of KETRA does not change the requirements for when plan distributions are permitted to be made from employer retirement plans. Thus, for example, a qualified plan that is a pension plan (e.g. a money purchase plan) is not permitted to make in-service distributions merely because the distribution, if made, would qualify as a Katrina distribution. Further, a pension plan is not permitted to make a distribution under a distribution form that is not a qualified joint and survivor annuity without spousal consent merely because the distribution, if made, could be treated as a Katrina distribution.

B. Direct rollover and 20% withholding requirements are not applicable to Katrina distributions.

If a distribution is treated as a Katrina distribution by an employer retirement plan, the rules for eligible rollover distributions under §§ 401(a)(31), 402(f), and 3405 of the Code are not applicable with respect to the distribution. Thus, the plan is not required to offer the qualified individual a direct rollover with respect to the distribution. In addition, the plan administrator does not have to provide a § 402(f) notice. Finally, the plan administrator or payor of the Katrina distributions is not required to withhold an amount equal to 20% of the distribution, as is usually required under § 3405(c)(1). However, a Katrina distribution is subject to the voluntary withholding requirements of § 3405(b) and § 35.3405-1T of the Temporary Employment Tax Regulations.

C. Treatment of distributions as Katrina distributions.

An employer is permitted to choose whether to treat distributions under its plans as Katrina distributions. Further, the employer (or plan administrator) is permitted to develop any reasonable procedures for identifying which distributions are treated as Katrina distributions under its retirement plans. However, if an employer retirement plan treats any distribution of an amount subject to § 401(k)(2)(B)(i), 403(b)(7)(A)(ii), 403(b)(11) or 457(d)(1)(A) as a Katrina distribution, the plan must be consistent in its treatment. Thus, the amount of the distribution must be taken into account in determining the $100,000 limit on Katrina distribution payments made under the retirement plans maintained by the employer.

D. Distribution limits on Katrina distributions.

The total amount of distributions treated by an employer as Katrina distributions under its retirement plans with respect to a qualified individual is not permitted to exceed $100,000. For purposes of this rule, the term "employer" means the employer maintaining the plan and those employers required to be aggregated with the employer under § 414(b), (c), (m), or (o). However, a plan will not fail to satisfy any requirement under the Code merely because a qualified individual's total Katrina distributions exceed $100,000, taking into account distributions from IRAs or other eligible retirement plans maintained by unrelated employers.

E. Reliance on reasonable representations.

In making a determination that a distribution is a Katrina distribution, a plan sponsor or plan administrator of an employer retirement plan is permitted to rely on reasonable representations from a distributee with respect to the distributee's principal place of abode on August 28, 2005, and whether the distributee suffered an economic loss by reason of Hurricane Katrina, unless the plan sponsor or plan administrator has actual knowledge to the contrary.

F. An employer retirement plan will be treated as operating in accordance with its terms if certain requirements are satisfied.

The Internal Revenue Service will be issuing guidance in the future relating to plan amendments for KETRA. An employer retirement plan will not be treated as failing to operate in accordance with its terms merely because the plan implements the provisions of sections 101 and 103 of KETRA if the plan sponsor amends its plan by the applicable dates described below. For employer retirement plans other than a governmental plan, the date by which any plan amendment to reflect KETRA is required to be made will not be earlier than the last day of the first plan year beginning on or after January 1, 2007. For governmental plans under § 414(d) of the Code, the date by which any plan amendment to reflect KETRA is required to be made will not be earlier than the last day of the first plan year beginning on or after January 1, 2009.

SECTION 3. GUIDANCE FOR ELIGIBLE RETIREMENT PLANS MAKING, OR ACCEPTING RECONTRIBUTION OF, KATRINA DISTRIBUTIONS

This section provides guidance for eligible retirement plans (i.e., employer retirement plans and IRAs) making, or accepting recontribution of, Katrina distributions.

A. Tax Reporting on Katrina distributions.

An eligible retirement plan must report the payment of a Katrina distribution to a qualified individual on Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. This reporting is required even if the qualified individual recontributes the Katrina distribution to the same eligible retirement plan in the same year. If a payor is treating the payment as a Katrina distribution and no other appropriate code applies, the payor is permitted to use distribution code 2 (early distribution, exception applies) in box 7 of Form 1099-R. However, a payor is also permitted to use distribution code 1 (early distribution, no known exception) in box 7 of Form 1099-R.

B. Reliance on representations relating to the recontribution of a Katrina distribution.

In general, a qualified individual who receives a Katrina distribution that is eligible for tax-free rollover treatment is permitted to recontribute, at any time in a 3-year period, any portion of the distribution to an eligible retirement plan that is permitted to accept eligible rollover contributions. The relief in Q&A-14 of § 1.401(a)(31)-1 of the regulations applies to an employer retirement plan accepting recontributions of Katrina distributions. In order to obtain the relief described in Q&A-14 of § 1.401(a)(31)-1, a plan administrator accepting the recontribution of a Katrina distribution must reasonably conclude that the recontribution is eligible for direct rollover treatment under section 101(c) of KETRA and that the recontribution is made in accordance with the rules under section 4.C of this notice. In making this determination, the rule in section 2.E of this notice applies. Thus, a plan administrator may rely on the reasonable representations of a qualified individual with respect to the individual's principal place of abode on August 28, 2005 and whether the individual suffered an economic loss by reason of Hurricane Katrina, unless the plan administrator has actual knowledge to the contrary.

SECTION 4. GUIDANCE FOR INDIVIDUALS RECEIVING KATRINA DISTRIBUTIONS UNDER SECTION 101 OF KETRA

This section provides guidance for qualified individuals requesting and receiving Katrina distributions. A qualified individual receiving a Katrina distribution is entitled to favorable tax treatment with respect to the distribution. First, the 10% additional tax under § 72(t) of the Code (including the 25% additional tax under § 72(t)(6) for certain distributions from SIMPLE IRAs) does not apply to any Katrina distribution. Second, a Katrina distribution is permitted to be included in income ratably over 3 years. Third, a qualified individual is permitted to recontribute any portion of a Katrina distribution that is eligible for tax-free rollover treatment to an eligible retirement plan within 3 years from the day after the date of the distribution, and the recontribution will be treated as if it were paid in a direct rollover to an eligible retirement plan. See section 1.D of this notice for rules relating to which Katrina distributions are permitted to be recontributed. Qualified individuals will use Form 8915[2], Qualified Hurricane Katrina Retirement Plan Distributions and Repayments, to report any recontribution made during the taxable year and to determine the amount of the Katrina distribution includible in income for the taxable year.

A. Election to designate a distribution as a Katrina distribution.

A qualified individual is permitted to designate any distribution described in section 1.C of this notice as a Katrina distribution provided the total amount treated by the individual as Katrina distributions does not exceed $100,000. For example, if a qualified individual received a distribution of $50,000 in 2005 and a distribution of $75,000 in 2006 and both distributions satisfy the definition of a Katrina distribution, only $100,000 of the $125,000 received by the qualified individual can be treated as a Katrina distribution. Thus, if such individual treated the 2005 distribution of $50,000 as a Katrina distribution on his or her 2005 tax return, the individual can only treat $50,000 of the 2006 distribution as a Katrina distribution on his or her 2006 tax return. Assuming no § 72(t)(2) exception applies, the remaining $25,000 of the 2006 distribution is an early distribution. This amount will be subject to the 10% additional tax, must be included on the individual's 2006 tax return, and will not be eligible for 3 year recontribution to an eligible retirement plan.

Example. A section 401(k) plan distributes $35,000 to a qualified individual on December 1, 2005. The qualified individual also receives a distribution from his or her IRA on December 1, 2005 of $15,000. The individual is permitted to treat both the $35,000 from the plan and the $15,000 from the IRA as Katrina distributions on the individual's 2005 tax return.

B. Income inclusion for Katrina distributions

There are two methods for a qualified individual to include in income the taxable portion of a Katrina distribution. First, a qualified individual who receives a Katrina distribution is permitted to include the taxable portion of the amount of the distribution in income ratably over a 3-year period that begins in the year of the distribution. Second, a qualified individual is permitted to elect out of the 3-year ratable income inclusion and include the entire amount of the taxable portion of the Katrina distribution in income in the year of the distribution. All Katrina distributions received in a taxable year must be treated consistently (either all distributions are included in income over a 3-year period or all distributions are included in income in the current year). If a qualified individual uses the 3-year ratable income inclusion method, such method cannot be changed after the timely filing of the individual's tax return (including extensions) for the year of the distribution.

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[2] Form 8915 is expected to be available soon.

Example. Taxpayer A receives a $30,000 distribution from his or her IRA on October 1, 2005. Taxpayer A is a qualified individual and elects to treat the distribution as a Katrina distribution. Taxpayer A uses the 3-year ratable income inclusion for the $30,000 distribution. Taxpayer A should include $10,000 in income with respect to the Katrina distribution on each of his or her 2005, 2006, and 2007 tax returns.

C. Tax treatment of recontributions of Katrina distributions.

If a Katrina distribution is eligible for tax-free rollover treatment (taking into account section 1.D of this notice), a qualified individual is permitted, at any time in the 3-year period beginning the day after the date of a Katrina distribution, to recontribute any portion of the distribution, but not in excess of the amount of the distribution, to an eligible retirement plan. A recontribution of a Katrina distribution will not be treated as a rollover contribution for purposes of the one-rollover-per-year limitation under § 408(d)(3)(B).

D. Tax treatment of recontributions of a Katrina distribution using the 1-year income inclusion method.

If a qualified individual elects to include all Katrina distributions received in a year in gross income for that year and recontributes any portion of the Katrina distributions to an eligible retirement plan at any time during the 3-year recontribution period, then the amount of the recontribution will reduce the amount of the Katrina distribution included in gross income for the year of the distribution. The qualified individual will report the amount of the recontribution on Form 8915, which will be filed with the individual's income tax return.

If a qualified individual includes a Katrina distribution in gross income in the year of the distribution and recontributes the distribution to an eligible retirement plan after the timely filing of the individual's tax return for the year of the distribution (i.e., after the due date, including extensions), the individual will need to file an amended tax return. The qualified individual will need to file a revised Form 8915 with his or her amended return to report the amount of the recontribution and should reduce his or her gross income by the amount of the recontribution, but not to exceed the amount of the Katrina distribution.

Example 1. Taxpayer B receives a $45,000 distribution from a section 403(b) plan on November 1, 2005. Taxpayer B is a qualified individual and treats the distribution as a Katrina distribution. Taxpayer B receives no other Katrina distribution from any eligible retirement plan in 2005. After receiving reimbursement from his or her insurance company for a casualty loss, Taxpayer B recontributes $45,000 to an IRA on March 31, 2006. Taxpayer B reports the recontribution on Form 8915 and files the 2005 tax return on April 10, 2006. For Taxpayer B, no portion of the Katrina distribution is includible as income for the 2005 tax year.

Example 2. The facts are the same as Example 1 of this section 4.D, except that Taxpayer B timely requests an extension of time to file the 2005 tax return and makes a recontribution on August 2, 2006, before he or she files the 2005 tax return. Taxpayer B files the 2005 tax return on August 10, 2006. As in Example 1, no portion of the Katrina distribution is includible in income for the 2005 year because Taxpayer B made the recontribution before the timely filing of the 2005 return.

Example 3. Taxpayer C receives a $15,000 distribution from a section 457(b) plan on January 10, 2006. Taxpayer C is a qualified individual and treats the distribution as a Katrina distribution. Taxpayer C elects out of the 3-year ratable income inclusion on Form 8915 and includes the entire $15,000 in gross income for the 2006 taxable year. On December 31, 2008, Taxpayer C recontributes $15,000 to the section 457(b) plan. Taxpayer C will need to file an amended return for the 2006 tax year to report the amount of the recontribution and reduce Taxpayer C's gross income by $15,000 with respect to the Katrina distribution on the 2006 original tax return.

E. Tax treatment of recontributions of a Katrina distribution using the 3-year ratable income inclusion method.

As explained above, a qualified individual is permitted to include a Katrina distribution in income ratably over a 3-year period. If a qualified individual includes a Katrina distribution ratably over a 3-year period and the individual recontributes any portion of the Katrina distribution to an eligible retirement plan at any date before the timely filing of the individual's tax return (i.e., by the due date, including extensions), the amount of the recontribution will reduce the ratable portion of the Katrina distribution that is includible in gross income for the tax year of the filed return.

Example 1. Taxpayer D receives $75,000 from a section 401(k) plan on December 1, 2005. Taxpayer D is a qualified individual and treats the $75,000 distribution as a Katrina distribution. Taxpayer D uses the 3-year ratable income inclusion method for the distribution. Taxpayer D makes one recontribution of $25,000 to the section 401(k) plan on April 10, 2007. Taxpayer D files the 2006 tax return on April 15, 2007. Without the recontribution, Taxpayer D should include $25,000 in income with respect to the Katrina distribution on each of D's 2005, 2006, and 2007 tax returns. However, as a result of the recontribution to the section 401(k) plan, Taxpayer D should include $25,000 in income with respect to the Katrina distribution on the 2005 tax return, $0 in income with respect to the Katrina distribution on the 2006 tax return, and $25,000 in income with respect to the Katrina distribution on the 2007 tax return.

Example 2. The facts are the same as Example 1 of this section 4.E, except that Taxpayer D recontributes $25,000 to the section 401(k) plan on August 10, 2007. Taxpayer D files the 2006 tax return on April 15, 2007, and does not request an extension of time to file the return. As a result of the recontribution to the section 401(k) plan, Taxpayer D should include $25,000 in income with respect to the Katrina distribution on the 2005 tax return, $25,000 in income with respect to the Katrina distribution on the 2006 tax return, and $0 in income with respect to the Katrina distribution on the 2007 tax return.

F. Recontributions of a Katrina distribution may be carried back or forward when using the 3-year ratable income inclusion.

If a qualified individual using the 3-year ratable income inclusion method recontributes an amount of a Katrina distribution for a taxable year that exceeds the amount which is otherwise includible in gross income for the tax year of the filed return, as described in section 4.E of this notice, the excess amount of the recontribution is permitted to be carried forward to reduce the amount of the Katrina distribution that is includible in gross income in the next taxable year. Alternatively, the qualified individual is permitted to carry back the excess amount of the recontribution to a prior taxable year or years in which the individual included income attributable to a Katrina distribution. The individual will need to file an amended return for the prior taxable year or years to report the amount of the recontribution on Form 8915 and reduce his or her gross income by the excess amount of the recontribution.

Example. Taxpayer E receives a distribution of $90,000 from his or her IRA on November 15, 2005. Taxpayer E is a qualified individual and treats the distribution as a Katrina distribution. Taxpayer E ratably includes the $90,000 distribution over a 3-year period. Without any recontribution, Taxpayer E will include $30,000 in income with respect to the Katrina distribution on each of the 2005, 2006, and 2007 tax returns. Taxpayer E includes $30,000 in income with respect to the Katrina distribution on the 2005 tax return. Taxpayer E then recontributes $45,000 to an IRA on November 10, 2006 (and made no other recontribution in the 3-year period). Taxpayer E is permitted to do either of the following:

Option 1. Taxpayer E includes $0 in income with respect to the Katrina distribution on the 2006 tax return. Taxpayer E carries forward the excess recontribution of $15,000 to 2007 and includes $15,000 in income with respect to the Katrina distribution on E's 2007 tax return.

Option 2. Taxpayer E includes $0 in income with respect to the Katrina distribution on the 2006 tax return and $30,000 in income on the 2007 tax return. Taxpayer E then files an amended return for 2005 to reduce the amount included in income as a result of the Katrina distribution to $15,000.

G. Special rules for 3-year ratable income inclusion method for Katrina distributions.

If a qualified individual dies before the full taxable amount of the Katrina distribution has been included in gross income, then the remainder must be included in gross income for the taxable year that includes the individual's death.

H. Katrina distributions will not be treated as a change in substantially equal periodic payments.

In the case of an individual receiving substantially equal periodic payments from an eligible retirement plan, the receipt of a Katrina distribution from that plan will not be treated as a change in substantially equal payments as described in § 72(t)(4) merely because of the Katrina distribution.

SECTION 5. APPLICATION OF SECTION 103 OF KETRA TO PLAN LOANS

This section provides guidance regarding the application of section 103 of KETRA to plan loans, including a safe harbor that is treated as satisfying section 103(b) of KETRA.

A. Increase in the allowable loan amount.

Special rules apply to a loan made from a qualified employer plan (as defined in § 1.72(p)-1, Q&A-2) to a qualified individual on or after September 24, 2005 (the day after the date of enactment of KETRA) and before January 1, 2007. For these loans, section 103(a) of KETRA changes the limits under § 72(p)(2)(A) of the Code. In applying § 72(p) to a plan loan, the $50,000 aggregate limit in § 72(p)(2)(A)(i) is increased to $100,000 and the rule in § 72(p)(2)(A)(ii) limiting the aggregate amount of loans to one half of the employee's vested accrued benefit is increased to 100 percent of the employee's vested accrued benefit.[3]

B. Suspension of payments and extension of term of loan.

A special rule applies if a qualified individual has an outstanding loan from a qualified employer plan on or after August 25, 2005. Section 103(b) of KETRA provides that, for purposes of § 72(p), in the case of a qualified individual with a loan from a qualified employer plan outstanding on or after August 25, 2005, if the due date for any repayment with respect to the loan occurs during the period beginning on August 25, 2005, and ending on December 31, 2006, such due date shall be delayed for one year. In addition, any subsequent repayments for

[3] The Department of Labor has advised the Department of the Treasury and the Service that it will not treat any person as having violated the provisions of Title I of the Employee Retirement Income Security Act (ERISA), including the adequate security and reasonably equivalent basis requirements in ERISA section 408(b)(1) and 29 CFR 2550.408b-1, solely because the person made a plan loan to a qualified individual in compliance with KETRA section 103, Code § 72(p), and the provisions of this notice.

the loan shall be appropriately adjusted to reflect the delay and any interest accruing for such delay, and the period of delay shall be disregarded in determining the 5-year period and the term of the loan under § 72(p)(2)(B) and (C). Thus, an employer is permitted to choose to allow this delay in loan repayments under its plan with respect to a qualified individual, and, as a result, there will not be a deemed distribution to the individual under § 72(p).

This notice provides the following safe harbor for satisfying section 103(b) of KETRA. Under this safe harbor, a qualified employer plan will be treated as satisfying the requirements of § 72(p) pursuant to section 103(b) of KETRA if a qualified individual's obligation to repay a plan loan is suspended under the plan for any period beginning not earlier than August 25, 2005, and ending not later than December 31, 2006 (suspension period). The loan repayments must resume upon the end of the suspension period, and the term of the loan may be extended by the duration of such suspension period. If a qualified employer plan suspends loan repayments during the suspension period, the suspension will not cause the loan to be deemed distributed even if, due solely to the suspension, the term of the loan is extended beyond five years. Interest accruing during the suspension period must be added to the remaining principal of the loan. A plan satisfies these rules if the loan is repaid thereafter by amortization in substantially level installments over the remaining period of the loan (i.e., five years from the date of the loan, assuming that the loan is not a principal residence loan, plus the suspension period). If an employer, under its plan, chooses to permit a suspension period that is less than the suspension period described above, the employer is permitted to extend subsequently the suspension period, but not beyond December 31, 2006.

Example. On March 31, 2005, a participant with a nonforfeitable account balance of $40,000 borrowed $20,000 to be repaid in level monthly installments of $394 each over 5 years, with the repayments to be made by payroll withholding. The participant makes 8 monthly payments until December 1, 2005. The participant's home is in the Hurricane Katrina disaster area and the participant sustained an economic loss. The participant's employer takes action to suspend payroll withholding repayments, for the period from December 1, 2005, through the end of 2006, for loans to qualified individuals that are outstanding on or after August 25, 2005, but only for its employees who have a principal place of abode in the Hurricane Katrina disaster area and sustained an economic loss. Because the participant is an employee of the employer who has a principal place of abode in the Hurricane Katrina disaster area and notifies the employer that he or she has sustained an economic loss, no further repayments are made on the participant's loan until January 1, 2007 (when the balance is $19,045). At that time, repayments on the loan resume, with the amount of each monthly installment increased to $423 in order to repay the loan by April 30, 2011 (which is the date the loan originally would have been fully repaid, plus the 13-month loan suspension period that resulted from Hurricane Katrina).

C. <u>Qualified employer plan may rely on reasonable representations</u>.

A qualified employer plan is permitted to rely on a participant's reasonable representations that such participant is a qualified individual and therefore qualifies for the special treatment for loans under section 103 of KETRA, unless the plan administrator (or other responsible person) with respect to the qualified employer plan has actual knowledge to the contrary.

Drafting Information

The principal authors of this notice are Pamela R. Kinard and Vernon Carter of the Office of the Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities). For further information regarding this notice, 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.

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November 30, 2005
JS-3027

Abu Sayyaf Senior Leaders Designated

The U.S. Department of the Treasury today designated three individuals for their senior leadership roles in the Abu Sayyaf Group (ASG), a notoriously violent separatist group operating in the Southern Philippines. The individuals have supported and/or committed terrorist attacks on behalf of the ASG.

"The Abu Sayyaf Group instills terror throughout Southeast Asia through kidnappings, bombings and brutal killings. This action financially isolates senior members of the ASG, who have planned and carried out vicious attacks on Americans, Filipinos and innocent citizens from around the world," said Patrick O'Brien, the Treasury's Assistant Secretary for Terrorist Financing and Financial Crime.

The individuals named today, Jainal Antel Sali, Jr., Radulan Sahiron, and Isnilon Totoni Hapilon, were designated pursuant to Executive Order 13224. This action freezes any assets the designees may have located under U.S. jurisdiction and prohibits transactions between U.S. persons and the designees. The U.S. and Australia are submitting these three individuals to the United Nations 1267 Committee, which will consider adding them to its Consolidated List based on ASG's association with al Qaida and Usama bin Laden.

The U.S. Government, through the Department of States Rewards for Justice Campaign, has offered to pay up to 5,000,000 Philippine Pesos (about US $90,910) for the capture of individuals belonging to the ASG, including Sali. Additionally, the Department of Defense's U.S. Pacific Command (USPACOM) has added Sali, Sahiron and Hapilon to the USPACOM Rewards Program Wanted List as ASG members. The Rewards Program offers up to $200,000 for information leading to the capture of each person.

The Philippine Government also has an outstanding reward of 5,000,000 Philippine Pesos for the capture of individuals belonging to the ASG, including Sahiron and Hapilon.

Identifier Information

Jainal Antel Sali, Jr.

AKAs: Abu Solaiman
Abu Solayman
Apong Solaiman
Apung
DOB: 1 June 1965
POB: Barangay Lanote, Bliss, Isabele, Basilan, the Philippines

Jainal Antel Sali, Jr. has planned and perpetrated several brutal acts of terrorism involving kidnapping U.S. and foreign nationals and bombing civilian targets. In April 2004, Sali helped supervise members of the ASG's Urban Terror Group, concentrated in the Zamboanga Peninsula of the Philippines, for planned bombing activities. Additionally, as of May 2003, Sali reportedly commanded and deployed approximately 20 ASG suicide bombers to Zamboanga City, the Philippines, in preparation for unspecified operations.

Philippine authorities filed charges against Sali and two other ASG leaders for their involvement in a series of bombings in October 2002 in Zamboanga City, the Philippines. The bombings occurred at shopping centers and near a restaurant, killing 11 Filipino civilians, an American soldier and wounding more than 200 others. Sali also headed the unit responsible for the October 17, 2002, bombings of two department stores in Zamboanga City. He had instructed five ASG members to bomb targets in the city and helped assemble the bombs detonated by the ASG.

In addition, Sali planned the May 2001 Dos Palmas resort kidnapping operation in the Philippines. Sali and eight other ASG members took 20 hostages, including U.S. nationals Martin Burnham, Gracia Burnham, and Guillermo Sobero. During the movement of the hostages in June 2001 by the ASG, two hostages, who were foreign national employees of the resort, were beheaded on Basilan Island. The ASG along with 17 of the hostages then proceeded to a hospital in Lamitan, Basilan Island, the Philippines, where they seized and detained additional hostages. Later in June 2001, the ASG beheaded American national Guillermo Sobero. Sali was the primary negotiator in the ransom demands for the Dos Palmas kidnapping victims, which resulted in the ASG receiving a ransom payment.

In January 2002, Sali made statements during a radio interview denouncing the arrival of U.S. military advisors in the Philippines to participate in joint military exercises with the Armed Forces of the Philippines designed to locate and combat the ASG and rescue the hostages.

Sali has held several senior positions of influence within the ASG. In February 2005, Sali accompanied ASG leader Khadafi Janjalani and ASG second-in-command Isnilon Hapilon to a meeting with in the Philippines with senior leaders of Jemaah Islamiyah (JI), an al Qaida-linked terrorist organization operating in Southeast Asia. The JI leaders included a top bombmaker, a JI intelligence officer and a JI member suspected of playing a role in the 2002 Bali bombings.

Sali has served as a spokesperson for the ASG, taken part in decision-making meetings among leaders of the group, and was an advisor to ASG leader Khadafi Janjalani. In late 2002, for example, Sali and other ASG leaders met to discuss the possibility of conducting terrorist activities in Davao City, the Philippines. The operations were placed on hold, however, pending receipt of funding for the operations.

Radulan Sahiron

AKAs: SAHIRON, Radullan
SAHIRUN, Radulan
SAJIRUN, Radulan
Commander Putol
DOB: 1955
ALT. DOB: Circa 1952
POB: Kaunayan, Patikul, Jolo Island, the Philippines

Radulan Sahiron has perpetrated several brutal acts of terrorism involving bombings of civilians and kidnappings of U.S. and foreign nationals. He ordered the bombings conducted by the ASG on Jolo Island in 2004, as mentioned above, resulting in the death of 11 Filipino civilians and an American serviceman and wounding more than 200 others. The improvised explosive devices used in the bombings were initially assembled at Sahiron's headquarters, Camp Tubig Tuh-Tuh, on Jolo Island.

Sahiron was considered to be the key leader of the April 2000 Jolo/Sipadan kidnappings of 21 foreign tourists, including Westerners, Malaysians, and Filipinos, conducted by Sahiron and four other ASG members. Following the June 2002 ASG kidnapping of four hostages from a ship, the MT Singtec Marine 88 vessel, three of the four hostages were turned over to ASG leader Sahiron and held captive. In June 2002, Sahiron promised to end kidnappings on Jolo Island if the ransom was paid. In August 2002, Sahiron received and held four kidnapped women Filipina nationals on Jolo Island. In November 2002, Sahiron demanded 16 million Philippine Pesos (about US $312,195) for the freedom of seven hostages, including the four Filipina women. As of December 2003, Radulan Sahiron had received a total of 35 million Philippine Pesos (about US $636,000) in ransom payments from his participation in kidnappings.

Like Sali, Sahiron has held several senior positions of influence within the ASG. As early as 1999, he was one of fourteen members of the ASG's Majlis Shura (consultative council). In mid-2002, he acted as an advisor to ASG leader Khadafi Janjalani. Additionally, Sahiron has held several leadership positions over ASG fighters in the Sulu Archipelago area of the Southern Philippines.

From 2000 through 2003, Sahiron was described in various roles, including the leader of the ASG's Putol group, composed of an estimated 100 members operating on Jolo Island in the Sulu area of the Southern Philippines; as the head of the Sulu-based ASG consisting of 18 armed groups; as the ASG Chief of Staff in Sulu; and as the overall ASG commander on Jolo Island with an estimated 1,000 fully-armed followers.

Isnilon Totoni Hapilon

AKAs: HAPILUN, Isnilon
HAPILUN, Isnilun
Salahudin
Abu Musab
Tuan Isnilon
DOB: March 18, 1966
ALT DOB: March 10, 1967
POB: Bulanza, Lantawan, Basilan, the Philippines

Isnilon Totoni Hapilon has perpetrated several brutal acts of terrorism including kidnappings of U.S. and foreign nationals. In May 2001, Hapilon and other ASG members seized, detained, and transported 20 hostages, including three U.S. nationals, from the Dos Palmas Resort in Palawan Province, the Philippines, on behalf of the ASG. In June 2001, one of the U.S. nationals, Guillermo Sobero, was beheaded. Hapilon and the other ASG members moved, hid and marched the hostages through the dense jungles and mountains of Basilan Island, the Philippines. During that time, the ASG took over a church and hospital on Basilan Island and held 200 people hostage, including three Americans from the ASG kidnapping at the Dos Palmas Resort.

In August 2000, Jeffrey Schilling, a U.S. citizen, was kidnapped by members of the ASG and held hostage for more than seven months on Jolo Island, the Philippines, by the ASG. In December 2000, Hapilon and 20-armed ASG members guarded a U.S. citizen-hostage who was believed to be Jeffrey Schilling. Schilling was rescued in April 2001.

Hapilon has held senior advisory positions of influence within the ASG, including adviser to ASG leader Khadafi Janjalani. Hapilon also served as a deputy or second-in-command to Khadafi Janjalani and commanded certain other members of the ASG. At various times, Hapilon took part in decision-making meetings between and among the leaders of the ASG. Prior to the death of ASG founder Abdurajak Abubakar Janjalani in December 1998, Hapilon was a member of the ASG central committee.

Additionally, since 1997, Hapilon has held several positions of operational leadership in the ASG. As of August 2004, Hapilon commanded approximately 70-armed followers. In August 2003, Hapilon and approximately 100 ASG members were present in "Camp Usama," an ASG training camp established in 2002 by Hapilon in the Southern Philippines. In late 1999, Hapilon served as an instructor at an ASG camp where classes included military tactics. As of November 1997, Hapilon was an ASG commander.

REPORTS

- Picture of ASG designees

The U.S. Department of the Treasury designated Jainal Antel Sali, Jr., Radulan Sahiron, and Isnilon Totoni Hapilon on November 30, 2005 pursuant to Executive Order 13224. These three individuals hold senior leadership roles in the Abu Sayyaf Group (ASG), a notoriously violent separatist group operating in the Southern Philippines. The individuals have supported and/or committed terrorist attacks on behalf of the ASG.

Jainal Antel Sali, Jr.
AKA Abu Solaiman

Radulan Sahiron

Isnilon Totoni Hapilon

PRESS ROOM

November 30, 2005
JS-3028

Treasury Names Front Companies, Sham Operatives Helping To Bankroll Narco-Trafficking in Colombia

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today added two individuals and three companies tied to the North Valle drug cartel to its list of Specially Designated Narcotics Traffickers (SDNTs). The two individuals, both Colombian, act as front persons for North Valle leaders Raul Grajales Lemos and Carlos Alberto Renteria Mantilla (a.k.a. Beto Renteria). Both Raul Grajales Lemos and Beto Renteria have been indicted in the United States on charges relating to narcotics trafficking.

"The North Valle cartel has used these straw men and front companies in attempts to operate under a cloak of legitimacy," said Robert Werner, Director of OFAC. "Designating the North Valle's financial network severely restricts the cartel's efforts to launder drug proceeds."

The two individuals, Armando Jacobo Jaar Jacir and Maria Sair Pelissier Ospina, represent the interests of Raul Grajales Lemos and Beto Renteria in the operation of Casa Estrella, a department store chain located in Colombia that was previously named a SDNT. This activity is carried out in attempts to hide the North Valle's control of the chain. Armando Jacobo Jaar Jacir has been a business associate of Raul Grajales Lemos and Beto Renteria for over a decade and participates in multiple companies controlled by them, in addition to *Casa Estrella*. Maria Sair Pelissier Ospina has also been a business associate of Raul Grajales Lemos for over a decade and participates in multiple companies controlled by Raul Grajales Lemos and Beto Renteria, including *Casa Estrella*.

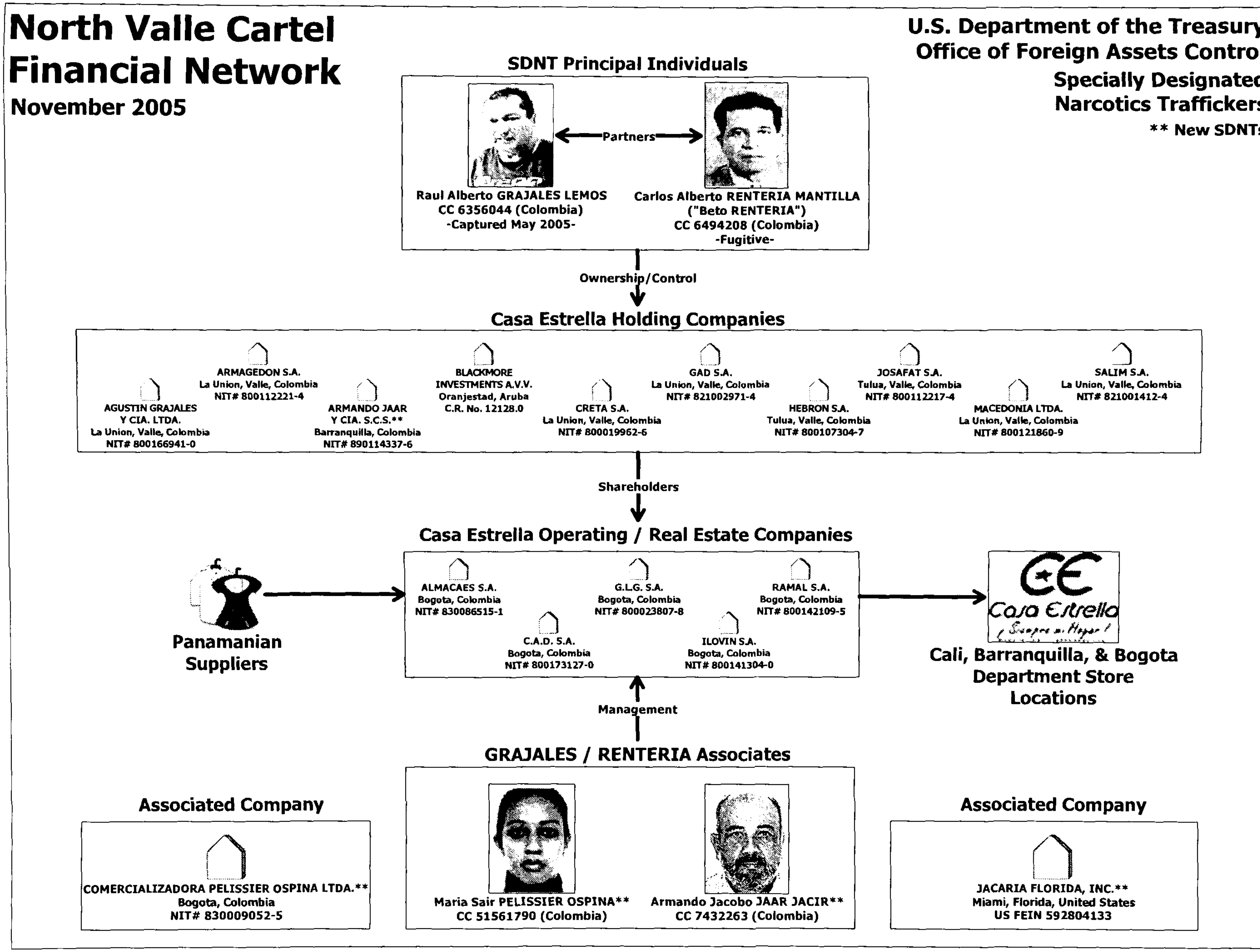
Also named as SDNTs today were two companies controlled by Armando Jacobo Jaar Jacir, *Armando Jaar y Cia. S.C.S.* in Colombia and *Jacaria Florida, Inc.* in the United States. In addition, *Comercializadora Pelissier Ospina Ltda.* in Colombia, a company controlled by Maria Sair Pelissier Ospina, was also named.

SDNTs are subject to the economic sanctions imposed against Colombian drug cartels in Executive Order 12978. Today's action freezes any assets the designees may have located under U.S. jurisdiction and prohibits all financial and commercial transactions between the designees and any U.S. person.

The assets of a total of 1,235 business and individuals in Aruba, Colombia, Costa Rica, Ecuador, Panama, Peru, Spain, Vanuatu, Venezuela, the Bahamas, the British Virgin Islands, the Cayman Islands and the United States have been designated pursuant E.O. 12978. The 467 SDNT businesses include agricultural, aviation, consulting, construction, distribution, financial, investment, manufacturing, mining, offshore, pharmaceutical, real estate and service firms. The SDNT list includes 19 kingpins from the Cali, North Valle and North Coast drug cartels in Colombia.

REPORTS

- A diagram of the individuals and businesses designated


North Valle Cartel
Financial Network
November 2005
U.S. Department of the Treasury
Office of Foreign Assets Control
Specially Designated
Narcotics Traffickers
** New SDNTs
SDNT Principal Individuals
Partners
Raul Alberto GRAJALES LEMOS
CC 6356044 (Colombia)
-Captured May 2005-
Carlos Alberto RENTERIA MANTILLA
("Beto RENTERIA")
CC 6494208 (Colombia)
-Fugitive-
Ownership/Control
Casa Estrella Holding Companies
AGUSTIN GRAJALES
Y CIA. LTDA.
La Union, Valle, Colombia
NIT# 800166941-0
ARMAGEDON S.A.
La Union, Valle, Colombia
NIT# 800112221-4
ARMANDO JAAR
Y CIA. S.C.S.**
Barranquilla, Colombia
NIT# 890114337-6
BLACKMORE
INVESTMENTS A.V.V.
Oranjestad, Aruba
C.R. No. 12128.0
CRETA S.A.
La Union, Valle, Colombia
NIT# 800019962-6
GAD S.A.
La Union, Valle, Colombia
NIT# 821002971-4
HEBRON S.A.
Tulua, Valle, Colombia
NIT# 800107304-7
JOSAFAT S.A.
Tulua, Valle, Colombia
NIT# 800112217-4
MACEDONIA LTDA.
La Union, Valle, Colombia
NIT# 800121860-9
SALIM S.A.
La Union, Valle, Colombia
NIT# 821001412-4
Shareholders
Casa Estrella Operating / Real Estate Companies
Panamanian
Suppliers
ALMACAES S.A.
Bogota, Colombia
NIT# 830086515-1
G.L.G. S.A.
Bogota, Colombia
NIT# 800023807-8
RAMAL S.A.
Bogota, Colombia
NIT# 800142109-5
C.A.D. S.A.
Bogota, Colombia
NIT# 800173127-0
ILOVIN S.A.
Bogota, Colombia
NIT# 800141304-0
CE
Casa Estrella
Cali, Barranquilla, & Bogota
Department Store
Locations
Management
GRAJALES / RENTERIA Associates
Associated Company
COMERCIALIZADORA PELISSIER OSPINA LTDA.**
Bogota, Colombia
NIT# 830009052-5
Maria Sair PELISSIER OSPINA**
CC 51561790 (Colombia)
Armando Jacobo JAAR JACIR**
CC 7432263 (Colombia)
Associated Company
JACARIA FLORIDA, INC.**
Miami, Florida, United States
US FEIN 592804133

PRESS ROOM

December 1, 2005
js-3029

Remarks by Treasury Debt Management Director Jeff Huther before the Bond Market Association New York

I would like to talk a little about our proposed securities lending facility, the issues that make it a complicated proposal and, where possible, clear up mis-conceptions about the impact of such a facility. I should start by emphasizing that this is very early in the proposal process. We are still evaluating how a facility would work and what the consequences of a facility would be. It is possible that we will conclude, in the end, that we cannot proceed with implementation because the risk is too great that the facility would adversely affect Treasury markets.

In broad terms, we have set for ourselves the goal of obtaining least cost financing for taxpayers. For almost 30 years, Treasury has tried to meet this goal by, among other things, providing market participants with certainty of supply of Treasury securities in primary market offerings. It has been our assumption that greater certainty of supply reduces the market risk of bidding for Treasury securities and thereby lowers borrowing costs.

In general, certainty of supply in the primary market has translated directly into a high degree of certainty of supply across the secondary markets: cash, financing, and futures. In recent years, however, there have been occasional, isolated periods where the availability of specific issues in the financing markets has been so acutely impaired relative to demand as to call into question the ability of Treasuries to provide the liquidity and risk management functions that also contribute to lower borrowing costs.

Our proposal to create a securities lender-of-last-resort facility stems from our recognition that availability of supply in the financing market is as important as certainty of supply in the primary market for meeting our goal of least cost financing over time. The proposal is based on the idea that the taxpayer is the ultimate loser if market participants lose confidence that Treasury market transactions will not always be settled in a timely manner due to an acute shortage of specific issues.

The foregoing idea is, however, insufficient to create securities lending facility – and poor design could damage markets that work extraordinarily well almost all of the time. Some characteristics of a facility that avoid damage are easy to identify: borrowing Treasuries securities from the Treasury should be less attractive than borrowing from the private sector (as long as the securities are actually available from the private sector) and use of the facility should be at the discretion of the borrower rather than Treasury officials. In addition the facility should not impose substantially greater costs on users relative to other contemporaneous private market borrowers. Other characteristics are likely to be determined by practical considerations: who can access the facility, whether the facility should be bonds-for-bonds or bonds-for-cash, and the time of day that the facility can be accessed.

Whether a securities lending facility will avoid damage, however, depends most importantly on the pricing characteristics of the facility. There are two factors that complicate the pricing. First is the nature of the Treasury market – we auction a fixed quantity of securities and at any given time those securities provide the basis for a larger quantity of long positions with the excess offset by corresponding quantity of short positions. The quantity of short positions that can be supported at any one time is growing but still finite. Under some conditions, such as those prevailing in the summer of 2003, the demand for short positions by private market participants can outstrip the capacity of the market. Fixing an upper limit on the quantity of additional securities available from Treasury may only give some market participants an incentive to use the facility strategically. The implication is that pricing within a securities lending facility cannot be tied to either current market conditions or a fixed quantity of securities.

The second complication is the nature of the fails penalty within a repo contract. Treasury markets have grown faster than the underlying supply of Treasuries for years and market participants have generally found ways to increase the velocity of Treasuries to ensure adequate supply for settlement purposes. The chronic fails of the past few years have been a result of the market's inability to establish a market-clearing yield on special collateral repurchase agreements in low interest rate environments. In trying to set up a workable pricing mechanism the complication is that, in the absence of a well-functioning market, we do not know where the market-clearing yield would have settled. Clearly there is a need, assuming Treasury establishes a securities lending facility, for market participants to review the fails penalty in outright sales and both legs in repo contracts with a goal of developing a market-clearing pricing mechanism that works in low interest rate environments. The implication for us is that, when proposing a pricing mechanism in the absence of good information about what a market-clearing yield would have been, we should think in terms of a structure that can evolve with changes in market conditions or contract design.

As we work through these issues, we will continue to seek your views on how to establish pricing characteristics that do not reduce the existing certainty of supply of Treasuries. The discussions that we have had with market participants so far have been very helpful in working through the characteristics of a facility.

Internally we are working on the characteristics of the facility that pose fewer complications, but still require careful consideration. We are considering a bond-for-bond transaction structure – like that used in the Federal Reserve's security lending facility - because it allows for better cash management by Treasury. Initial feedback suggests that market participants do not see a problem with a bond-for-bond structure.

Our goal of providing additional supply to the market to alleviate severe shortages points toward broad access to the facility. In the best case scenario, Treasury would like the facility to be available to as many market participants as possible. However, operational considerations come into play given the complexities of RP transactions. A logical group of counterparties would be the 22 primary dealers, given their role in the Treasury market as market-makers and liquidity providers. However, Treasury must be sure that any additional supply it provides reaches the broader market.

Treasury would be acting as a lender of last resort. This means we want market participants to access all the available private supply and to use the New York Fed's securities lending program before coming to Treasury to borrow additional securities. We do not seek to be a part of the normal market for lending and borrowing, but to have market participants access the facility only when all other sources of supply have been tapped out. Because of this, we are considering use of the facility later in the day, after the Fed's securities lending auction at noon. This would give the market a chance to know what they still needed to borrow. However, there are operational considerations and concerns with getting transactions completed before the close of Fedwire that will not allow us to move the access too late in the day. And, depending on the settlement structure, the time of day the facility is available may be of less importance.

Let me conclude by describing what a proposed facility would not do. We view this facility as truly a lender-of-last-resort facility. If we cannot make the facility uneconomic under normal market conditions, we will not proceed. If we would reduce the incentives for financial intermediaries to make markets in Treasuries, discourage the use of Treasuries for hedging, or lead market participants to express their views on interest rates in other markets, we will not proceed. And, if we do find a pricing mechanism that works, it is easy to imagine a facility that lays dormant for many years at a time under a wide range of interest rate environments – an outcome that we would view favorably.

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PRESS ROOM

December 1, 2005
js-3030

Under Secretary Adams in Stockholm to meet with Local Financial Officials and Business Leaders

Following this weekend's meetings of the G7 in London, Treasury's International Affairs Under Secretary Tim Adams will travel to Stockholm, Sweden to meet with local economic officials and business leaders.

Under Secretary Adams will meet on Dec. 5 with foreign and domestic business leaders, Swedish finance officials including, Finance Minister Par Nuder, Central Bank Governor Lars Heikensten and State Secretary Jens Henriksson, as well as participate in a roundtable discussion on the European economy at the Stockholm School of Economics.

-30-

PRESS ROOM

December 2, 2005
JS-3031

Statement of Treasury Secretary John W. Snow
On November Employment Report

"Today's strong employment report brings the total of jobs created since May of 2003 to 4.4 million -- with 1.8 million new jobs created this year alone, offering additional good news for American workers and their families as we head into the holiday season. The American economy is growing. The announcement that 215,000 new jobs were created in November marks the 30th straight month of payroll growth.

"Today's report ends a week of very good news for the American economy. Wednesday's revised estimate of third quarter GDP growth for 2005 came in at a robust 4.3 percent. Consumer confidence is rebounding, industrial production is up, early reports are that holiday sales are strong, and new home sales just hit a record high. These are the unmistakable hallmarks of a strong economy and are encouraging news for America's families. A steady stream of positive indicators has given us increased confidence that the underlying fundamentals of our economy are solid, and that our path of growth is steady.

"The President's sound economic policies, combined with good monetary policy from the Federal Reserve have given American workers and entrepreneurs the opportunity to grow an economy that is competitive and remains the envy of the world. The American model of free enterprise, open markets and low taxation continues to be the economic inspiration for other countries seeking to grow and create jobs."

PRESS ROOM

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December 2, 2005
js-3032

Report to Congress on Financial Implications of U.S. Participation in the International Monetary Fund

Q4 2004 and Q1 – Q3 2005

This report has been prepared in compliance with Section 504(b) of Appendix E, Title V of the Consolidated Appropriations Act for FY 2000. [1] The report focuses exclusively on the financial implications of U.S. participation in the International Monetary Fund (IMF) and does not attempt to quantify the broad and substantial economic benefits to the United States and the global economy resulting from U.S. participation in the IMF.

As required, the report provides financial information on the net interest income and valuation changes associated with U.S. participation in the IMF. The broader context for the financial implications of U.S. participation in the IMF and the methodology used in deriving these figures have been laid out in previous reports. The methodology is also summarized briefly in the footnotes attached to the tables. Reports under Section 504(b) are repared quarterly and made available to the public on the Treasury website: http://www.treas.gov/press/reports.html.

This report provides quarterly data for the fourth quarter of fiscal year 2004 and the first to third quarters of fiscal year 2005. It provides information on U.S. participation in the IMF's General Department as well as information related to U.S. holdings of Special Drawing Rights (SDRs) as part of its international reserves and the financial implications of U.S. participation in the SDR Department of the IMF.[2]

Data on the net interest income and valuation changes related to U.S. participation in the IMF's General Department during the fourth quarter of fiscal year 2004 and the first to third quarters of fiscal year 2005 are provided in Table 1. For comparison purposes, previously-reported data for the last three fiscal years are also provided.

Similarly, data for net interest income and valuation changes related to U.S. participation in the SDR Department of the IMF during the fourth quarter of fiscal year 2004 and the first to third quarters of fiscal year 2005 are provided in Table 2. The SDR Department methodology has been revised from previous reports to reflect actual interest paid and interest received on the net SDR position rather than estimates. For comparison purposes, the previous ten years of fiscal year data using this revised approach are also provided.

The table footnotes explain the columns shown and provide pertinent information and assumptions used in the calculations.

As shown in Table 1, for the fourth quarter of fiscal year 2004 and the first to third quarters of fiscal year 2005, the financial implications of U.S. participation in the General Department reflected a net interest income effect of $59 million. The valuation change in the U.S. Reserve Position for the fourth quarter of fiscal year 2004 and the first to third quarters of fiscal year 2005 was $64 million.[3]

As shown in Table 2, for the fourth quarter of fiscal year 2004 and the first to third quarters of fiscal year 2005, the net interest income effect of U.S. participation in the SDR Department was negative $8 million. The valuation change for the second quarter on U.S. SDR holdings was $43 million.[4]

Attachments

1 Section 504(b) of Appendix E, Title V of the Consolidated Appropriations Act for FY 2000, Public Law 106-113, 113 Stat. 1501A-317, requires that the Secretary of the Treasury prepare and transmit to the appropriate committees of the Congress a quarterly report on United States participation in the International Monetary Fund (IMF), detailing the costs or benefits to the United States as well as valuation gains or losses on the United States' reserve position in the IMF.

2 The SDR is an international reserve asset created by the IMF. The SDR is used as a unit of account by the IMF and other international organizations. Its value is determined as a weighted average of a basket of currencies -- the dollar, euro, pound sterling and yen. The SDR carries a market-based interest rate determined on the basis of a weighted average of interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket.

3 For an explanation of the methodology used in deriving these figures, see the section on "Calculating the Financial Implications of U.S. Participation in the General Department" in the report prepared for the fourth quarter of fiscal year 2000, submitted in December 2000 and available at http://www.treas.gov/press/releases/report3073.htm

4 For an explanation of the methodology used in deriving these figures, see the section on "Calculating the Financial Implications of U.S. Participation in the SDR Department" in the report prepared for the fourth quarter of fiscal year 2000, submitted in December 2000 and available at http://www.treas.gov/press/releases/report3073.htm.

REPORTS

- Report to Congress on Financial Implications of U.S. Participation in the IMF

REPORT TO CONGRESS ON FINANCIAL IMPLICATIONS OF U.S. PARTICIPATION IN THE INTERNATIONAL MONETARY FUND

Q4 2004 and Q1 – Q3 2005

This report has been prepared in compliance with Section 504(b) of Appendix E, Title V of the Consolidated Appropriations Act for FY 2000.[1] The report focuses exclusively on the financial implications of U.S. participation in the International Monetary Fund (IMF) and does not attempt to quantify the broad and substantial economic benefits to the United States and the global economy resulting from U.S. participation in the IMF.

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Attachments

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Table 1

Net Interest Income and Valuation Changes Related to U.S. Participation in the IMF

-- General Department --

U.S. Fiscal Year, Quarterly

(millions of U.S. Dollars)

	Transactions with the IMF			Interest Calculations				Valuation	Total
Fiscal Year Ended 9/30	Transactions Under U.S. Quota (Letter of Credit &Transfers of Reserve Assets) Cumulative	U.S. Loans to IMF (Under SFF, GAB, NAB) Cumulative	Total U.S. Transactions with the IMF	Interest Expense Associated with Financing U.S. Transactions with the IMF	Remuneration Received by U.S. from IMF & Refund of Burden Sharing	Interest Received from IMF Under SFF, GAB, and NAB	Net Interest Income	Valuation Changes on U.S. Reserve Position	Total
			(Col 1+2)				(Col 4+5+6)		(Col 7+8)
	Col. 1	Col. 2	Col. 3	Col. 4	Col.5	Col.6	Col. 7	Col. 8	Col. 9
2001									
Q1 Oct - Dec 00	-$11,949	$0	-$11,949	-$138	$133	$0	-$5	$56	$51
Q2 Jan - Mar 01	-11,378	0	-11,378	-128	139	0	11	-474	-463
Q3 Apr - June 01	-12,389	0	-12,389	-109	115	0	5	-172	-167
Q4 July - Sept 01	-15,632	0	-15,632	-109	105	0	-4	543	539
Total				**-$484**	**$492**	**$0**	**$7**	**-$47**	**-$40**
2002									
Q1 Oct - Dec 01	-$15,547	$0	-$15,547	-$87	$105	$0	$18	-$467	-$449
Q2 Jan - Mar 02	-14,875	0	-14,875	-82	83	0	1	-125	-124
Q3 Apr - June 02	-16,500	0	-16,500	-80	81	0	1	1,157	1,158
Q4 July - Sept 02	-17,635	0	-17,635	-88	103	0	15	-119	-104
Total				**-$337**	**$372**	**$0**	**$34**	**$446**	**$480**
2003									
Q1 Oct - Dec 02	-$18,152	$0	-$18,152	-$79	$97	$0	$18	$580	$598
Q2 Jan - Mar 03	-18,826	0	-18,826	-72	91	0	19	234	253
Q3 Apr - June 03	-18,737	0	-18,737	-67	82	0	15	439	454
Q4 July - Sept 03	-19,136	0	-19,136	-65	78	0	13	469	482
Total				**-$283**	**$348**	**$0**	**$65**	**$1,722**	**$1,787**
2004									
Q1 Oct - Dec 03	-$16,702	$0	-$16,702	-$65	$78	$0	$13	$903	$916
Q2 Jan - Mar 04	-15,886	0	-15,886	-58	79	0	21	-78	-57
Q3 Apr -June 04	-14,530	0	-14,530	-60	69	0	9	-220	-211
Q4 July -Sept 04	-13,867	0	-13,867	-67	74	0	7	43	50
Total				**-$249**	**$300**	**$0**	**$50**	**$648**	**$698**
2005									
Q1 Oct - Dec 04	-$12,882	$0	-$12,882	-$73	$82	$0	$9	$1,026	$1,035
Q2 Jan - Mar 05	-9,429	0	-9,429	-$56	$88	$0	$32	-440	-408
Q3 Apr -June 05	-9,677	0	-9,677	-$60	$71	$0	$10	-565	-555

Note: Detail may not add to total due to rounding.

Table 2

Net Interest and Valuation Changes Related to U.S. Participation in the IMF

-- SDR Department --

U.S. Fiscal Year, Quarterly
(millions of U.S. Dollars)

	Net SDR Holdings			Interest Calculations			Valuation	Total
Fiscal Year Ended 9/30	Dollar Value of SDR Holdings	Dollar Value of Cumulative SDR Allocation	Net SDR Holdings	Interest Income on Net SDR Holdings	Interest Expense Associated with Financing Cumulative U.S. SDR Transactions	Net Interest Income	Valuation Changes	Total
			(Col. 1 - 2)			(Col. 4 + 5)		(Col. 6 + 7)
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8
2002								
Q1: Oct - Dec 01	$10,783	$6,157	$4,626	$34	-$25	$9	-$115	-$106
Q2: Jan - Mar 02	10,809	6,109	4,700	26	-24	3	-36	-33
Q3: Apr - June 02	11,645	6,519	5,127	28	-26	1	315	316
Q4: July - Sept 02	11,710	6,481	5,229	30	-24	5	-30	-25
Total				**$118**	**-$100**	**$18**	**$134**	**$152**
2003								
Q1: Oct - Dec 02	$12,166	$6,661	$5,505	$30	-$21	$9	$146	$154
Q2: Jan - Mar 03	11,392	6,731	4,662	27	-16	11	58	69
Q3: Apr - June 03	11,720	6,864	4,857	21	-15	6	92	97
Q4: July - Sept 03	12,062	7,005	5,057	20	-16	4	100	104
Total				**$97**	**-$68**	**$29**	**$396**	**$425**
2004								
Q1: Oct - Dec 03	$12,638	$7,281	$5,357	$20	-$17	$3	$199	$202
Q2: Jan - Mar 04	12,645	7,228	5,417	21	-17	5	-39	-34
Q3: Apr - June 04	12,659	7,184	5,475	21	-20	1	-33	-32
Q4: July - Sept 04	12,782	7,197	5,585	24	-25	-1	10	10
Total				**$87**	**-$79**	**$8**	**$137**	**$145**
2005								
Q1: Oct - Dec 04	$13,628	$7,609	$6,019	$29	-$34	-$5	$319	$315
Q2: Jan - Mar 05	11,565	7,402	4,162	33	-29	3	-163	-160
Q3: Apr - June 05	11,317	7,184	4,134	26	-32	-6	-123	-129

Note: Detail may not add to total due to rounding. Table has been revised from previous reports to reflect actual interest paid and interest received on net SDR position rather than estimates

Table 2

Net Interest and Valuation Changes Related to U.S. Participation in the IMF

-- SDR Department --

U.S. Fiscal Year, Annual
(millions of U.S. Dollars)

	Net SDR Holdings			Interest Calculations			Valuation	Total
Fiscal Year Ended 9/30	Dollar Value of SDR Holdings	Dollar Value of Cumulative SDR Allocation	Net SDR Holdings	Interest Income on Net SDR Holdings	Interest Expense Associated with Financing Cumulative U.S. SDR Transactions	Net Interest Income	Valuation Changes	Total
			(Col. 1 - 2)			(Col. 4 + 5)		(Col. 6 + 7)
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8
1995	11,035	7,380	3,655	163	-225	-62	39	-22
1996	10,177	7,052	3,125	155	-202	-47	-170	-217
1997	9,997	6,689	3,308	123	-179	-56	-170	-226
1998	10,106	6,719	3,387	147	-184	-37	20	-17
1999	10,284	6,799	3,485	120	-160	-40	33	-8
2000	10,316	6,359	3,957	144	-227	-83	-247	-330
2001	10,919	6,316	4,604	176	-201	-25	-20	-44
2002	11,710	6,481	5,229	118	-100	18	134	152
2003	12,062	7,005	5,057	97	-68	29	396	425
2004	12,782	7,197	5,585	87	-79	8	137	145
Total Cost 1995-2004				**$1,331**	**-$1,626**	**-$295**	**$152**	**-$143**
Average Cost 1995-2004				133	-163	-29	15	-14

Note: Detail may not add to total due to rounding. Table has been revised from previous reports to reflect actual interest paid and interest received on net SDR position rather than estimates.

TABLE 1
Footnotes to Columns

Column 1: Total cumulative transactions under the U.S. Quota, including drawings by the IMF under the Letter of Credit (75% portion of the U.S. quota) and the transfers of reserve assets to the IMF (generally 25% of the U.S. quota).

Column 2: Total cumulative dollar funding through loans to the IMF made by the U.S. under the Supplementary Financing Facility (SFF, in 1980), the General Arrangements to Borrow (GAB, in FY1998) and the New Arrangements to Borrow (NAB, in FY1999). All U.S. loans under the three facilities/arrangements have been repaid.

Column 3: Total cumulative U.S. transactions with the IMF (horizontal summation of columns 1 and 2).

Column 4: Total interest associated with total cumulative transactions shown in column 3. This includes interest paid on additional public borrowing to fund day-to-day transactions under the Letter of Credit and occasional transfers under loan arrangements (SFF, GAB, NAB), as well as interest income forgone due to the transfer of reserve assets to the IMF at the time of a quota increase. In order to provide resources under the Letter of Credit or under loan arrangements, the Treasury borrows from the public via additional issuance in the Treasury market; average cost of funds is used as a proxy for calculating the associated interest cost. This portion of the total interest paid enters the U.S. budget as interest on the public debt. For purposes of calculating forgone interest on the transfer of reserve assets to the IMF, the SDR interest rate is used.

Column 5: The U.S. earns interest on the non-gold portion of its reserve position in the IMF. This interest is called remuneration and, in combination with an adjustment by the IMF related to burden-sharing, is paid by the IMF every quarter. If remuneration is paid in SDRs, it is paid to the Exchange Stabilization Fund (ESF) and the ESF transfers the dollar equivalent to the Treasury General Fund. It is recorded in the budget as an offsetting receipt from the public. If the United States took payment in dollars (which it does not now do), the payment would be in the form of a decrease in the U.S. Letter of Credit and a counterpart increase in the U.S. reserve position.

Column 6: These amounts constitute the interest payments the United States has received on its loans to the IMF under the SFF, GAB, and NAB.

Column 7: Total net interest paid, forgone or received as a result of U.S. participation in the General Department of the IMF.

Column 8: The U.S. reserve position in the IMF is denominated in SDRs. The valuation gain (if positive) or loss (if negative) refers to the exchange rate gain or loss on the reserve position due to changes in the dollar value of the SDR. For example, if the SDR appreciates/dollar depreciates, then the dollar value of the reserve position rises and a valuation gain is recorded. This column would also include valuation gains or losses experienced as a result of U.S. loans under the SFF, GAB and NAB.

Column 9: The total of net interest and valuation changes, obtained by summing column 7 and column 8.

TABLE 2
Footnotes to Columns

Column 1: Total stock of U.S. holdings of SDRs measured at the end of period, converted into dollars at the end of period exchange rate. Source: IMF.

Column 2: Total stock of U.S. SDR allocations measured at the end of period, converted into dollars at the end of period exchange rate. Since U.S. SDR allocations have been constant since 1981, changes in dollar value of SDR allocations reflect only exchange rate changes. Source: IMF.

Column 3: Total stock of U.S. SDR holdings minus allocations measured from end of period (Column 2 minus Column 3), converted into dollars at the end of period exchange rate.

Column 4: Net interest earned on SDR holdings. Derived by subtracting actual charges on SDR allocations from actual interest earned on SDR holdings.

Column 5: Net effect on U.S. borrowing costs of cumulative net SDR holdings, derived by multiplying the dollar equivalent of cumulative net SDR holdings by the average cost of funds rate. Interest is calculated on the basis of end-quarter holdings and compounded quarterly.

Column 6: Net interest income (Column 5 plus Column 6).

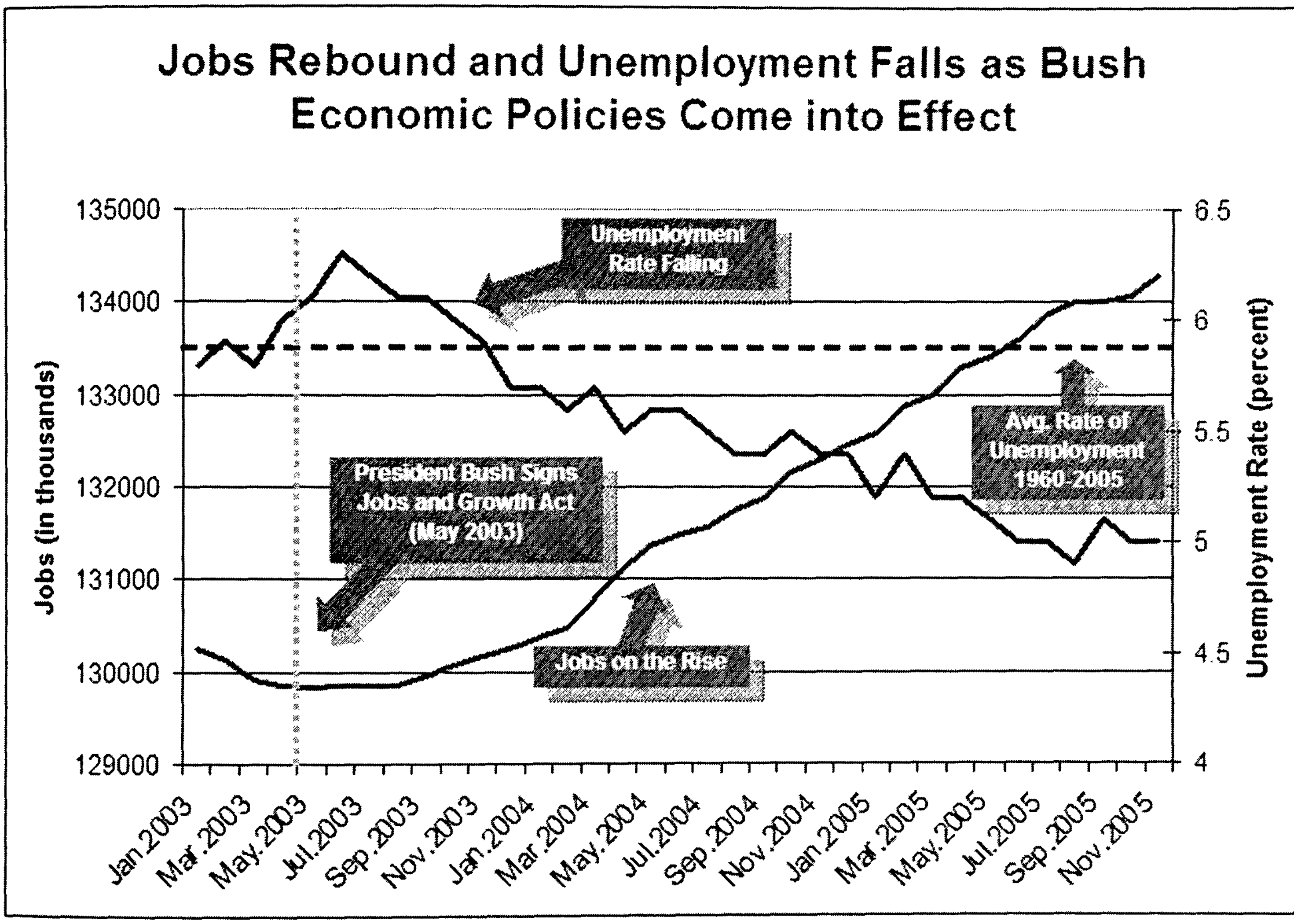
Column 7: The valuation change refers to the gain or loss over the period on the reserve position due to changes in the dollar value of the SDR. For example, if the SDR appreciates/dollar depreciates, then the impact on the dollar value of U.S. holdings of SDRs is positive, and a valuation gain is recorded. The change is calculated by subtracting the beginning of period dollar value of SDR reserves from the same SDR reserve figure converted to dollars using the end of period exchange rate. This isolates changes due to exchange rate movements from changes due to actual SDR transactions over the period.

Column 8: The total net interest and valuation changes (sum of Columns 7 and 8).

PRESS ROOM

December 2, 2005
js-3033

CHART: Jobs Rebound and Unemployment Falls as Bush Economic Policies Come into Effect



The attached chart illustrates the strong job growth and falling unemployment rate since the President's economic policies have come into effect. The American economy has created 4.4 million new jobs and the unemployment rate has fallen to 5.0% -- well below the historical average -- since the President signed the Jobs and Growth bill into law in May of 2003. It is vital that we keep taxes low on individuals and on capital gains and dividends and resist tax hikes that could undermine the path of economic growth.

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High Resolution Image

PRESS ROOM

December 3, 2005
js-3034

Statement by U.S. Treasury Secretary John W. Snow following the Meeting of the G7 Finance Ministers and Central Bank Governors

Statement by U.S. Treasury Secretary John W. Snow following the Meeting of the G7 Finance Ministers and Central Bank Governors

London, United Kingdom
3 December 2005

I was pleased to join the G-7 Finance Ministers and Central Bank Governors here in London this weekend. This meeting was notable as our last with Chairman Greenspan, who has played an integral and immensely valuable role in guiding G-7 meetings for most of the past two decades.

This meeting comes at a good time for the global economy. Growth is strong, even though tempered by high and volatile energy prices. Many countries are making significant progress in implementing economic reforms, and there are no emerging market economies in financial crisis. This is an opportune time to make further progress on trade liberalization, and this was an important topic of our discussions this weekend. In my view, the potential rise of protectionism is the most significant risk to the global economy.

On the subject of growth, I was pleased that the G-7 Finance Ministers met with our counterparts from Brazil, China, India, and Russia. These emerging countries represent an increasing share of the global economy. Their views enriched our discussions. I look forward to continued consultations going forward as they are an increasing and necessary part of any discussion of the global economy.

I was able to report that the U.S. economy continues to be a major driver of global economic growth. The U.S. economy is performing very well, which economic reports in recent weeks have confirmed. Even in the face of severe weather disruptions, the U.S. economic growth estimate for the third quarter was revised up to 4.3% -- the tenth consecutive quarter of above-trend growth. We also received news that job growth in the United States was very strong, with a 215,000 increase in November, and nearly 4.5 million new payroll jobs created since the employment trough of May 2003. This has given us an unemployment rate of 5.0 percent - lower than the average rate of the 1970s, '80s, and '90s. Clearly, good economic policies that reward flexibility and openness are paying off in the U.S. economy.

The U.S. commitment to reducing the budget deficit also remains strong. We recognize its importance for the economic health of the country and for the international financial system. Our efforts reduced the budget deficit by $94 billion this past fiscal year to $318 billion. This equals 2.6 percent of GDP - lower than almost two-thirds of the past 25 annual budget deficits. We recognize, however, that we need to do more. While Federal outlays for hurricane relief will affect the budget in FY2006, the Administration is working to prevent the additional budget costs of storm-related repair from undermining efforts at medium- to long-term deficit reduction.

While the U.S. is working to address its fiscal imbalance, the shared burden of addressing global imbalances requires a broader international effort. Moreover, the effort must maximize sustained global growth.

Unfortunately, the rates of growth of domestic demand in Japan and Europe remain below what is needed, underlining the need for them to put in place reforms to allow productivity growth and labor participation to reach their full potential. Global imbalances also very much involve China and emerging Asian economies. I welcome China's commitment - reaffirmed many times by Chinese officials - that market forces will play an increasing role in the setting of China's exchange rate and past statements of placing greater emphasis on domestic sources of growth. However, even with the change of July 21, China's new exchange rate system has operated with too much rigidity. This rigidity constrains exchange rate flexibility in the region and thus poses risks to China's economy and the global economy. The G7 noted that further flexible implementation of China's currency system would improve the functioning and stability of the global economy and the international monetary system.

High oil prices were another risk to the global economy on the meeting agenda. The rather quick retreat of oil prices since the shock of the U.S. hurricanes is notable, but repairs to various facilities are far from completed and winter is approaching. In the long-term, encouraging investment in energy is essential for assuring adequate supplies in the future.

The single most important item we discussed is achieving an ambitious outcome from the Doha Round by the end of 2006. Trade liberalization is essential to enhancing global growth and poverty reduction, and we cannot allow it to fail. The Hong Kong Ministerial next week will be a critical next step toward that goal. I urged the EU and Japan to make significant moves forward on agriculture market access proposals. Just as important is that developing countries reduce their trade barriers and provide real market access in goods and services to both developed and developing countries. In fact, a developing country can experience higher levels growth and development by opening its financial services sector to foreign direct investment.

In this context I particularly welcomed the sentiments expressed by Brazil and India this weekend in support for progress toward successful completion of the Doha Round. This type of leadership will help to ensure that the benefits of trade are more broadly shared among all countries.

As part of our efforts to encourage a successful Doha Round, we have agreed on a unified approach to help low-income countries reap the development benefits from trade liberalization. This approach is guided by the principles that trade assistance is offered as a core component of multilateral and bilateral development programs; reinforces developing country responsibility to prioritize trade-related projects; and supports the private sector's role in capacity building. Through this approach, we have agreed to increase bilateral and multilateral trade-related assistance toward a goal of up to $4 billion by 2010.

On the IMF, we encouraged Managing Director Rato to substantially elevate the attention given to exchange rate issues in the Fund's surveillance activities. This is the IMF's most fundamental responsibility, yet IMF exchange rate policy advice has often been too sparing or too muted. Exchange rate flexibility is clearly in the interests of large emerging markets increasingly integrated with international capital markets. But from a broader perspective, the international financial system would benefit from a multilateral approach to greater exchange rate flexibility.

We also stressed the need to enhance the Fund's governance and representation structures, which need to evolve rapidly to reflect the current realities of the global economy such as the growing weight of emerging markets - particularly emerging Asia - and monetary union in Europe. The G-7 have a collective interest in an IMF that is strong and relevant to all its members, and the IMF's legitimacy and effectiveness risk being undermined if current disparities on quota shares and Board seats continue. The U.S. is seeking a better balance - we are not seeking to increase our quota share; nor would we be prepared to see it decline.

We had good discussions on a range of developing country issues. We were all pleased with the progress on the G-8 debt agreement, particularly at the IMF - some work remains to move ahead with implementation at the World Bank and we encourage quick action. We also welcomed Minister Tremonti's report on Advance Market Commitments (AMCs) for vaccines as an interesting idea that may contribute to the development, manufacture, and distribution of vaccines for neglected diseases.

Ministers and governors also discussed efforts underway to prevent the further spread of Avian influenza. The spread of this virus has potentially severe human and economic impacts, and we agreed that all nations must take all necessary steps to prevent a pandemic from occurring.

Continued terrorist attacks remind us of the urgency and importance of implementing our commitments to fight terrorist financing and illicit finance. We have reaffirmed our commitment to halt the flow of financing with specific measures outlined in the Annex to our Statement. I further urge our G7 partners and other allies to work with us to take decisive multilateral action against individuals and entities engaged in illicit financing including WMD proliferation networks and supporters.

Finally, in addition to our normal meeting, I am pleased the G-7 had the opportunity to meet together with Ministers Fayyad and Olmert and the Quartet's Special Envoy, James Wolfensohn. Our support of economic development of the West Bank and Gaza will be a crucial element of lasting peace in the region.

Thank you.

PRESS ROOM

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December 5, 2005
JS-3035

Treasury Seeks Comment on Updated Guidelines to Help Protect Charitable Giving from Illicit Abuse

The U.S. Department of the Treasury today issued revised Anti-Terrorist Financing Guidelines, Voluntary Best Practices for U.S.-based Charities (Guidelines) to help the chartable sector protect itself from abuse by terrorist organizations. Treasury is releasing for public comment this revised version of the Guidelines to ensure the greatest benefit to the sector, as well as effective application.

"Charitable giving is an act ingrained in the culture of America, and the people of this country give selflessly to vast vital causes. Sadly, terrorist networks and their sympathizers have preyed upon this goodwill to raise and move money in support of their deadly agendas," said Patrick O'Brien, the Treasury's Assistant Secretary for Terrorist Financing and Financial Crime.

In November 2002, the Treasury issued the original Guidelines, and since then, the Treasury has worked hand-in-hand with the U.S. charitable and donor community, notably the Arab-American and Islamic-American community, to raise awareness of terrorist abuse and the steps charities can take to protect themselves. Strengthening and revising the Guidelines is an important part of this effort and will further benefit the sector.

While the Guidelines are voluntary and do not supersede or modify legal requirements, they promote the development of a risk-based, transparent approach to guard against the threat of diversion of charitable funds for use by terrorists and their supporters.

"Indeed, in the wake of natural disasters like the earthquake in Pakistan, the tsunami in southeast Asia, and the hurricanes in the Gulf Coast of the United States, we must ensure that charitable donations go to the legitimate causes they were intended for," said O'Brien.

The Guidelines issued today immediately replace the original Guidelines, although the Treasury will consider all comments received on or before February 1, 2006 in finalizing the revised version. Please submit comments through one of the following methods:

Mail:
Office of Terrorist Financing and Financial Crime
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Facsimile:
(202) 622-9747

Electronic Submission:
http://www.treas.gov/offices/enforcement/key-issues/protecting/charities-intro.shtml

A copy of the draft Guidelines may be accessed through this link:
http://www.treasury.gov/offices/enforcement/key-issues/protecting/docs/guidelines_charities.pdf

PRESS ROOM

December 5, 2005
2005-12-5-16-11-52-1698

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 $68,130 million as of the end of that week, compared to $68,790 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	November 25, 2005			December 2, 2005		
TOTAL	68,790			68,130		
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	10,932	10,638	21,570	10,918	10,539	21,457
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,423	5,150	15,573	10,405	5,102	15,507
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]			12,515			12,054
3. Special Drawing Rights (SDRs) [2]			8,091			8,072
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	November 25, 2005			December 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						
	November 25, 2005			December 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

December 5, 2005
JS-3036

Remarks by U.S. Treasurer Anna Escobedo Cabral before ASPIRA Conference San Juan, Puerto Rico

Good morning, first I would like to express my sincere thanks to ASPIRA and its members for their gracious invitation. Thanks especially to Ron Blackburn-Moreno and your staff for organizing this fantastic event. I bring you all greetings on behalf of my boss, Secretary John Snow, and congratulate each and every one of you for your amazing work and commitment to education.

It's a special honor to be here with people who care so much about our youth. Since its inception almost 45 years ago, ASPIRA's mission has been to "empower the Puerto Rican and Latino Community through advocacy and the education and leadership development of its youth." This is a truly noble and very important cause.

In the United States, efforts like yours to promote education, including financial education, are of great consequence as the country continues to experience outstanding economic growth, particularly in the recent months.

Most of you are aware of how important it is for our Hispanic youth to be well-prepared and trained to fill the jobs of the 21st century. Hispanics are now the largest minority in the United States, with an estimated population of 40 million. And they are estimated to grow exponentially in the coming years.

Yet, over 30 percent of all Hispanics do not complete high school. The number of Hispanics who do not graduate from four year colleges and universities increase dramatically to 90 percent. Among Hispanics who do complete high school, about 53 percent pursue a post-secondary education immediately after graduation as compared to almost 66 percent of non-Hispanic whites. This shows how essential ASPIRA's efforts really are.

Why? Well, let's first consider the big picture and also consider the difference that a group like ASPIRA can make. Compare the figures I just shared with you to those that reflect the reality of the "Aspirantes" students: ASPIRA has a 95 percent high school graduation rate – and 90 percent college going rate.

Also, since its founding, ASPIRA has provided a quarter of a million youth with the personal resources they need to remain in school and contribute to their community. And it is also my understanding that most mainland Puerto Rican leaders today were encouraged by ASPIRA during their adolescence.

Clearly, the program is making a big difference for the better. This translates not only into benefits for each individual student, but also for the economy of Puerto Rico and the United States.

In the United States, we continue to see a significant growth in our economy thanks to the President's commitment to a pro-growth agenda. Just last week, the government released new jobs figures for the U.S.:

- Payroll employment rose by 215,000 in November.
- The economy has created nearly 2 million jobs over the past 12 months.
- Over 4.4 million jobs have been created since May 2003.

These new opportunities suggest that it is important that we continue to encourage and prepare our youth so that they will be equipped with the skills to compete and be successful in today's and tomorrow's job market.

Now, I want to share with you a little bit about my background, only because I think it will help me convey to you how just one teacher, one educator, can make a difference in the life of another for the better. And also because I hope it will encourage you to continue moving forward with your good work.

Neither of my parents graduated from high school – they faced various unique challenges. They did what they had to do to put food on the table and worked with their hands to make a good life for their children. Their dream was for their children to graduate from high school.

Unfortunately, I did not know of the existence of groups like ASPIRA once it came time for me to make the crucial decision about whether to go to college or get a job right out of high school to help out my family. However, I did know a teacher who cared, and who I believe played an important role in dramatically changing the course of my life for the better.

Like many Latino parents today, my parents back then knew that school was important but didn't consider college a realistic option. I was fortunate that a high school algebra teacher took an interest in me. He helped me fill out college and financial aid applications and visited my home, convincing my father to let me attend the University of California at Santa Cruz. I became the first in my very large extended family to go to college and was later able to enroll at the Kennedy School of Government at Harvard.

One step led to another, and I soon found myself working in of Congress addressing policy issues of importance to the Latino community and all Americans. Today, I have the honor of serving as Treasurer of the United States. An important part of my responsibilities as Treasurer is to promote financial literacy and education, which I take great pride and interest in.

You know, there is a Spanish saying that says: "El que guarda siempre encuentra." This "dicho" or saying has been passed down through generations of my family. I know I am constantly telling my kids to "save your money and "stop spending money on things you don't need" because you never know when there will be a rainy day. Now, the interesting thing is, this "dicho" doesn't just apply to my children, or even your children, but to every single child.

At Treasury, we are working hard to provide our citizens with the right tools that can teach them how to make sound financial decisions and how to build a nest-egg for the future. For instance, Treasury currently leads the efforts of a federal commission comprised of 20 federal agencies – the Financial Literacy and Education Commission – to improve financial literacy of all people across the country.

President Bush understands that acquiring knowledge, and in particular personal financial savvy, is crucial to helping improve individual lives as well as driving the continued steady growth of our nation's strong economy.

And so, noting the importance of enhancing access to tools that can help people make wiser financial decisions, in December of 2003 the President signed legislation establishing this federal commission. As part of its work, the Commission in 2004 launched a national financial education web site and national toll-free hotline – www.mymoney.gov and 1-888-mymoney.

I encourage you to visit mymoney.gov. The site has resources on a whole host of personal finance topics from the federal government including: budgeting, taxes, credit, financial planning, paying for education, retirement planning and more. The web site is an effective tool and great resource you can tap. You can also order a sample of some of the publications that are available on the web – what we call the MyMoney Tool Kit. It has information to help you choose and use credit cards, get out of debt, protect your credit record, understand your Social Security benefits, insure your bank deposits, and start a savings and investing plan. We've made some available for the ASPIRA conference today – please check them out.

Again, these are free tools you can use to integrate financial education lessons in established courses of study – in any classroom at no extra cost. I also encourage their use as a complement to ASPIRA's financial literacy program, which I am glad to hear focuses on serving the Latino community, especially youths from low-income families. Thank you for championing this effort as well. I look forward to working with you in the future on this front.

In closing, I'd like to leave you with this thought in mind: Of all the decisions an individual must make in his or her lifetime, the decision to stay in school and earn a degree is without a doubt of the utmost importance. One does not just learn arithmetic and history, but it is the experience in its entirety that allows a student to mature. Learn how to learn. Accept others who are different, learn from them. These aspects are vital to a young man or woman in becoming a positive impact in society.

And I want to thank you and commend you once more for teaching these important things to the students you serve through your example and unwavering commitment.

PRESS ROOM

December 6, 2005
JS-3037

Statement of Secretary John Snow on Third Quarter Productivity Data

"The productivity of American workers increased at a 4.7 percent annual rate in the third quarter. Since productivity ultimately leads to higher wages and higher standards of living, this economic indicator is very good news for American families, both for today and for the future.

"Combined with the recent news of GDP growth – 4.3 percent in the third quarter – and a solid rate of job creation, today's productivity number is one more clear indication of the success of the President's economic policies. Talk on Capital Hill of undoing some of this policy – by raising taxes – is of great concern to me. Having lower tax rates on capital is good policy, and the results for workers and families proves it; 4.5 million new jobs can't be wrong. Furthermore, the thriving economy has created increased federal tax revenues that have helped to bring the deficit down. Congress needs to continue the policies that have worked so well. Raising taxes on capital at this time takes us in the wrong direction and would jeopardize the strong recovery we're seeing."

PRESS ROOM

December 7, 2005
ja-3038

Treasury And IRS Issue Proposed Regulations On Corporate Estimated Tax Payments

Today, the Treasury Department and IRS issued proposed regulations that provide guidance for corporations to compute their estimated tax liabilities.

Corporations are generally required to remit their annual tax liability during the taxable year in quarterly installments. The quarterly installments generally can be based on a pro rata portion of the corporation's estimated annual tax liability. Alternatively, the quarterly installments can be based on the corporation's annualized taxable income (the taxable income for a specific period of months that is extrapolated into an annual amount) or the corporation's adjusted seasonal taxable income.

The proposed regulations replace existing proposed regulations that were issued in 1984. Those regulations do not provide adequate guidance on how a corporation must determine the amount due with each required installment. In addition, those regulations do not reflect significant changes to the tax law since 1984, most notably the enactment of the economic performance rules. As a result, the IRS and Treasury Department have become aware of techniques employed by some firms, particularly those computing their estimated tax payments using an annualization method, that reduce, if not eliminate, estimated tax payments for one or more installments for a taxable year. The current reproposed regulations provide extensive guidance on how to determine the amount due with each quarterly installment, whether based on the corporation's estimated annual tax liability or the corporation's annualized or adjusted seasonal taxable income, as well as rules for computing estimated tax during a short taxable year.

The proposed regulations are proposed to apply to taxable years beginning after the date that is 30 days after the date the final regulations are published in the Federal Register. The Treasury Department and IRS request comments on the rules contained in the proposed regulations and any additional guidance that should be provided in the final regulations.

ATTACHMENT:
Proposed regulations under section 6655

REPORTS

- Proposed regulations under section 6655

PRESS ROOM

December 8, 2005
JS-3039

The Honorable John W. Snow
Prepared Remarks to PricewaterhouseCoopers' 2005
Global Tax Symposium

Good afternoon; thanks so much for having me here. Your symposium comes at a critical time, as major decisions impacting tax policy are pending on Capitol Hill. Talk of raising taxes is coinciding with clear, outstanding evidence of how effective lower taxes have been. Furthermore, the economic future looks bright – why would we change course? Raising taxes on investment would harm the economic recovery America has been enjoying.

In just the last week, we've learned that GDP growth was a robust 4.3 percent in the third quarter. That's strong growth for any time, and it happened when the country faced devastating natural disasters.

We also learned on Friday that 215,000 jobs were added to the payrolls in November. Job creation is the reward of strong economic growth, and November's employment report brings the total of jobs created since May of 2003 to four and a half million -- with 1.8 million new jobs created this year alone.

Wages, by the way, will be the next number to rise. Historically, when an economy enters a recession, business income tends to fall more rapidly than the incomes of workers. In the early stages of the economic expansion that follows, income tends to rise faster for business than for workers. Ultimately, however, there is always a tipping point, when incomes rise for workers and business combined, but workers once again increase their incomes faster than businesses. We're approaching that tipping point now. Once businesses have been doing well for a while, they ultimately compete those increases in income away by competing harder for labor. The result is higher wages and higher standards of living for workers.

The fact that payrolls have been growing for thirty straight months and we were able to achieve jobs gains even through a massive natural disaster like Hurricane Katrina suggests we are getting closer to the point when workers receive a greater share of economic gains. Workers can look forward to good days ahead.

Beyond numbers, the evidence of economic health is also clear to me, and to the President, when we travel the country. For example our trip to North Carolina on Monday to visit the John Deere-Hitachi plant in Kernersville where the President spoke about the vibrancy of our economy and the importance of maintaining the opportunities which make it so strong. The faces of the workers at John Deere-Hitachi are the faces of healthy economic expansion, and that means more to me and to the President than any number.

Lately it has seemed that good economic news comes almost every day. The Labor Department announced on Tuesday that the productivity of American workers increased at a 4.7 percent annual rate in the third quarter. Since productivity ultimately leads to higher wages and higher standards of living, this economic indicator is very good news for American families, both for today and for the future.

We also know that consumer confidence is rebounding, industrial production is up, early reports are that holiday sales are strong, and more Americans own their homes than ever before.

All of these are the unmistakable hallmarks of a strong economy, and each one is encouraging news for America's families.

From a government perspective, a steady stream of positive indicators has given us increased confidence that the underlying fundamentals of our economy are solid, and that our path of growth is steady. As the President has said, our best economic days are ahead of us.

When economic growth and job creation are mapped on graphs, the visual image makes clear what is happening in the economy, so I want to share it with all of you today.

The numbers, and these charts, tell a story of the impact of good tax policy.

They also remind us that changing the direction of successful economic policy – by allowing tax increases to occur -- would be a mistake.

Lower taxes – especially those that lower the cost of capital and encourage investment -- combined with sound monetary policy from the Federal Reserve, set American entrepreneurs free to do what they do best: innovate, invest, grow the economy, and create jobs. Millions of Americans have benefited from these policies either directly – through lower taxes – or indirectly through new and better jobs and greater economic security for families.

Congress this week and next week is debating tax legislation that could have an enormous impact on our economy – in particular the tax rates on dividends and capital gains.

In May 2003 when President Bush worked with Congress to enact the tax policy that lowered the rates on dividends and capital gains, there were many skeptics. Critics of the proposal disputed our view that this reform would create jobs and spur economic growth. One critic called the plan "tragic"; another leader said it was "reckless" and wouldn't create jobs.

But the past 30 months have demonstrated just how powerful those reforms were… and how mistaken our critics were. The evidence that that was the right policy prescription for America stream in every day:

• 4.5 million new jobs created;
• unemployment running lower than the 1970s, 1980s and 1990s;
• GDP growth averaging over 4.0% annually;
• household wealth at an all-time high;
• federal revenues increasing;
• U.S. equity markets rising steadily;
• Dividends paid to shareholders – millions of whom are senior citizens and middle class – are up.

There are a lot of things you can say about these statistics, but neither "tragic" nor "reckless" come to mind.

There is no question what we need to do: we must extend these good policies and not undermine economic growth. Raising taxes on investment would attack the roots of the economic recovery. I rejected the arguments of the pessimists before, and I reject them today. Gloom and doom rhetoric is absurd on a day when more Americans are working than ever before, more Americans own stock than ever before, and federal tax revenues are at an all-time high. We are experiencing record prosperity; we shouldn't punish the success of American entrepreneurs and workers with tax increases.

Reforming these tax rates have benefited our entire economy generally, and have quite directly benefited the nearly 57 million American households – that's half of all households – that own stocks either directly or through mutual funds. In fact, according to the Securities Industry Association, the median income of today's stock investor is just $65,000.

The American Shareholders Association estimates that S&P 500 shareholders will receive $201 billion in regular dividend payments this year – a 36% increase over 2002, the year before the President's tax reductions on dividends took effect. The dividend tax reduction reversed a 25-year decline in companies paying dividends to their shareholders. In fact, today seventy-seven percent of S&P companies now pay a dividend.

More than just lowering the tax burden, reducing the tax rate on dividends had an additional, fundamental benefit by reducing the disparity in the tax treatment between debt and equity financing. Before the reform, the bias in capital markets was tilted toward debt financing because of the tax code. While there is still a bias toward debt financing it has been significantly reduced. This reform is helping to reduce distortions in capital markets and is helping more companies to make more sound financing decisions by reducing distortions caused by the bias in the tax code.

One argument that was made against the President's tax plan was that it would cost the government too much revenue. But, again, the facts since 2003 have shown that the economic growth spurred by the President's tax policies have significantly swelled government coffers. In January 2004, for example, the non-partisan Congressional Budget Office projected that 2004 revenue would be $1.817 trillion. Actual revenue came in $63 billion higher – half a percent of GDP. In January 2005, CBO projected 2005 revenue would be $2.057 billion; actual revenue came in $96 billion higher – 0.7 percent of GDP.

We still have a federal budget deficit – one that is too large and that the President is firmly committed to reducing. But our deficits are not the result of lower receipts – tax revenue continues to be strong. Our deficits are overwhelmingly the result of the recession we inherited and necessary increases in spending to fight the war on terror. Deficits matter and one of our highest priorities is to achieve the President's goal of reducing our deficit to below 2.3 percent of GDP by 2009. Even in the face of increased costs to deal with this summer's hurricanes, I am confident that we will achieve this goal.

One more benefit of tax reform that I want to mention was actually a health benefit, the creation of Health Savings Accounts, which happened two years ago today. It's hard to put an exact number on this, but there are estimates that over a million Americans are now enjoying the tax and saving advantages of HSAs, and that number appears to be growing rapidly, with many large employers offering HSAs to their employees this coming year, including Wal-Mart, for example. HSAs are proving to be a break-through product that helps address the underlying problem of the affordability of health-care coverage. I think of them as super-charged IRAs for health care, designed to help individuals take more control over how their health care dollars are spent and save for future medical and retiree health expenses on a tax-free basis. Among its many benefits, an HSA puts doctors and patients back in charge of their health care purchasing decisions.

I hope you don't assume that because we were able to successfully use the tax code to create HSAs and spur growth in our economy that I'm pleased with America's tax code. As all of you well know, our tax code is not where it should be. In almost three years as Treasury Secretary, I've certainly never had anyone approach me to say the code is in good shape, don't change a thing!

You know the statistics – billions of hours of paperwork for tax filers and businesses, $140 billion dollars in lost time and money just trying to comply with our increasingly unwieldy tax code. It's easy to see that the code is a drag on economic growth in America, an unnecessary burden we all share.

At Treasury, we are reviewing the proposals from the President's Tax Reform Panel intended to simplify and streamline the tax code. I commend the work the Panel did under the leadership of the two co-chairmen, former Senators John Breaux and Connie Mack, and I look forward to making a thoughtful recommendation on reform to the President.

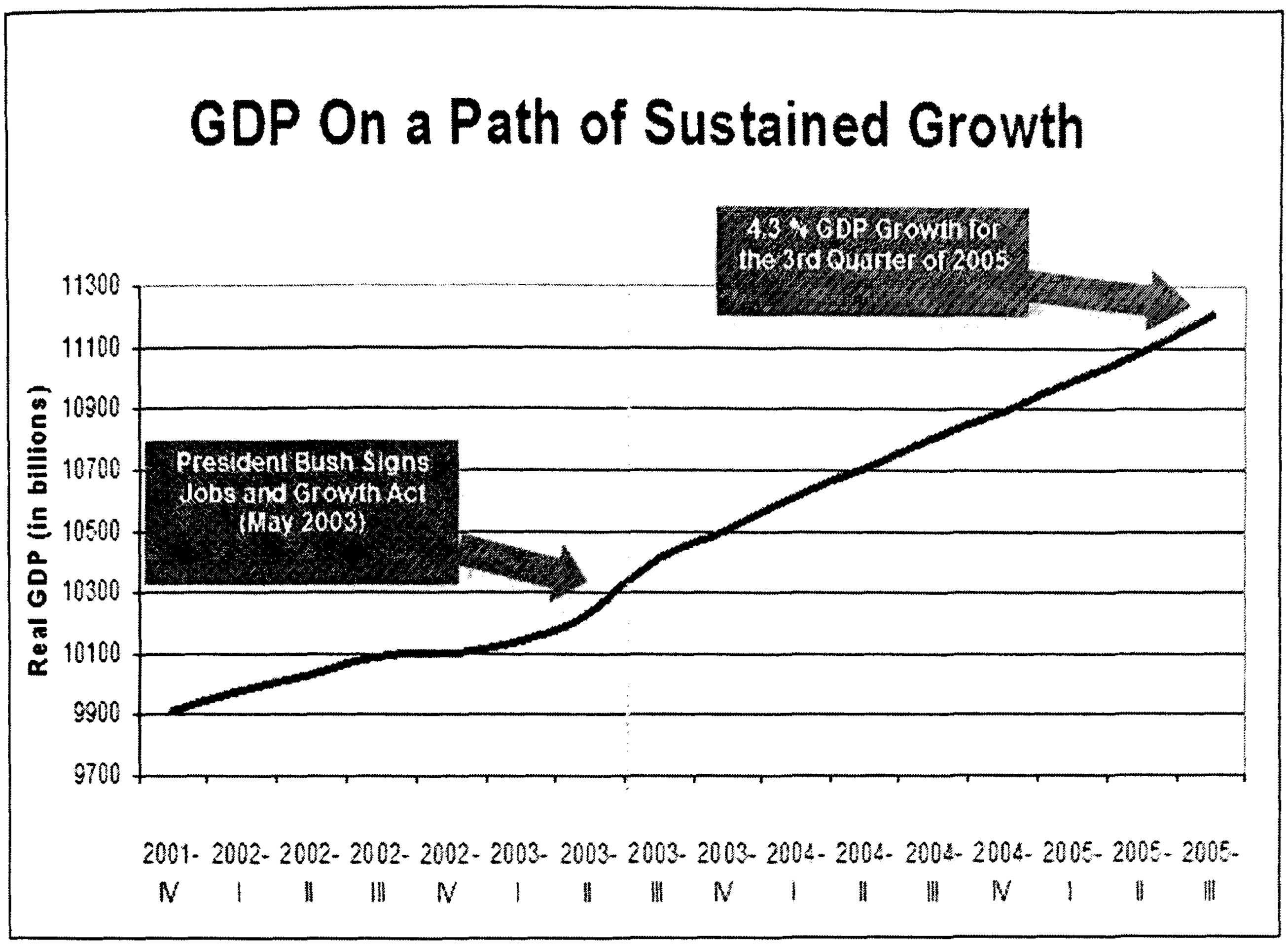
One thing remains true today, and will for all the days of this Presidency: we do not support tax increases. On the contrary, we support smart fiscal policy that provides oxygen and room to grow to the economic marvel that is the American economy. Our policies have been successful so far, and we want to stay on this path until every American who seeks a job can find one, and until every family that struggles to pay their bills can breathe easier.

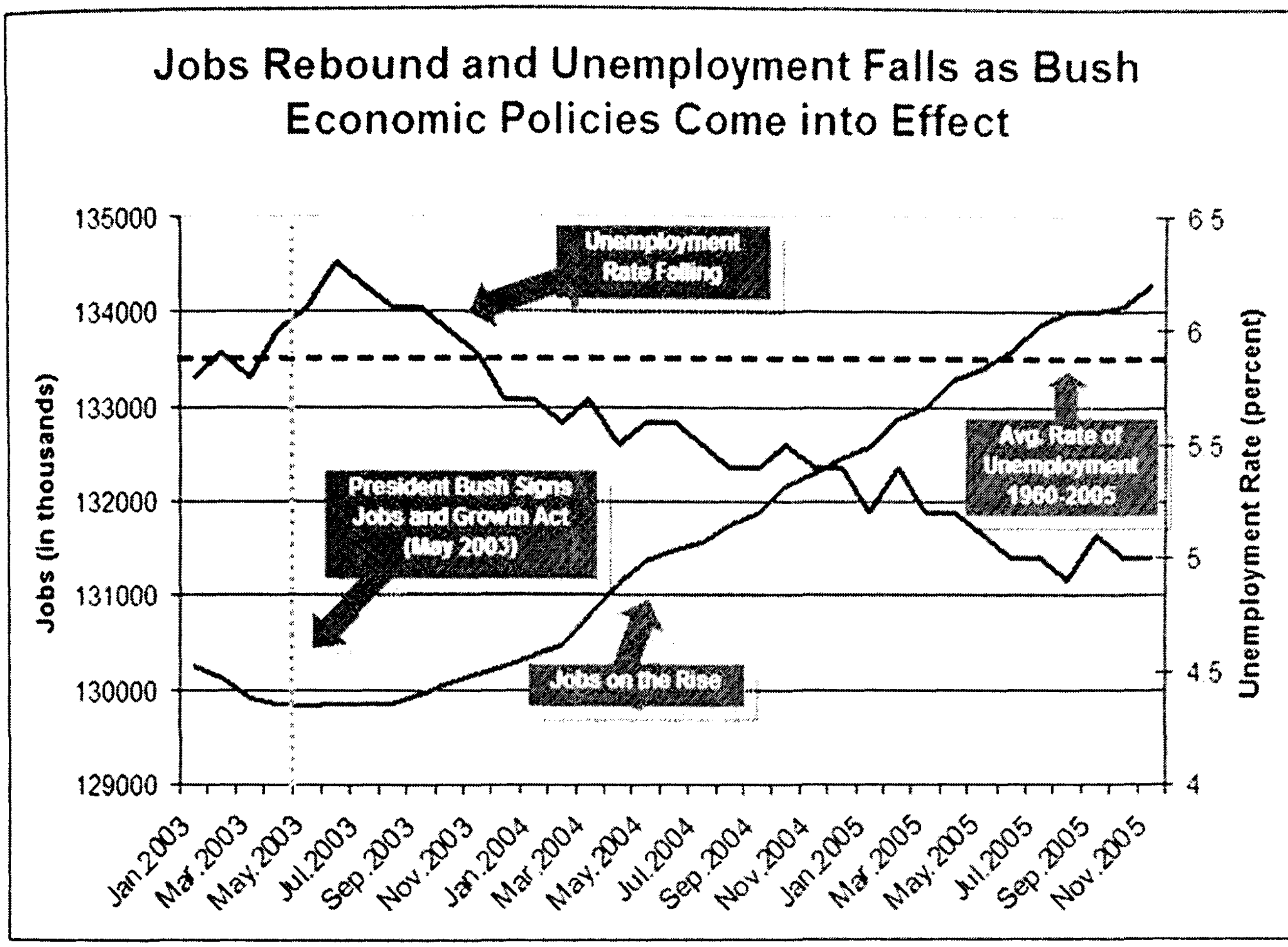
Thank you again for inviting me here today. I would be happy to take any questions you might have.

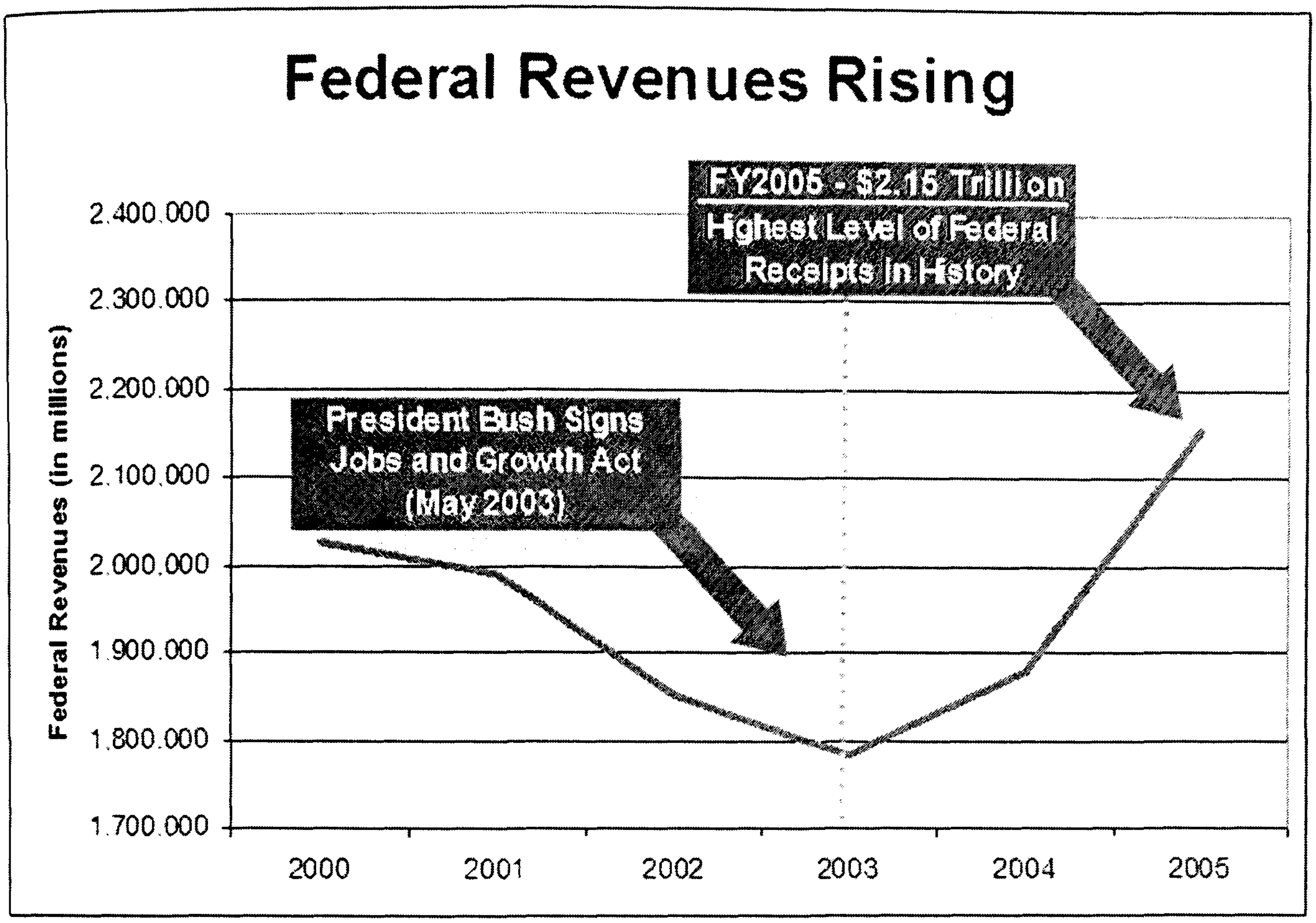
-END-

REPORTS

- CHART: GDP on a Path of Sustained Growth
- CHART: Jobs Rebound and Unemployment Falls as Bush Economic Policies Come into Effect
- CHART: Federal Revenues Rising


GDP On a Path of Sustained Growth
4.3 % GDP Growth for the 3rd Quarter of 2005
President Bush Signs Jobs and Growth Act (May 2003)
Real GDP (in billions)
11300
11100
10900
10700
10500
10300
10100
9900
9700
2001-IV
2002-I
2002-II
2002-III
2002-IV
2003-I
2003-II
2003-III
2003-IV
2004-I
2004-II
2004-III
2004-IV
2005-I
2005-II
2005-III


Jobs Rebound and Unemployment Falls as Bush Economic Policies Come into Effect
Unemployment Rate Falling
President Bush Signs Jobs and Growth Act (May 2003)
Avg. Rate of Unemployment 1960-2005
Jobs on the Rise
Jobs (in thousands)
Unemployment Rate (percent)
135000
134000
133000
132000
131000
130000
129000
6.5
6
5.5
5
4.5
4
Jan.2003
Mar.2003
May.2003
Jul.2003
Sep.2003
Nov.2003
Jan.2004
Mar.2004
May.2004
Jul.2004
Sep.2004
Nov.2004
Jan.2005
Mar.2005
May.2005
Jul.2005
Sep.2005
Nov.2005


Federal Revenues Rising
FY2005 - $2.15 Trillion
Highest Level of Federal Receipts in History
President Bush Signs Jobs and Growth Act (May 2003)
Federal Revenues (in millions)
2,400,000
2,300,000
2,200,000
2,100,000
2,000,000
1,900,000
1,800,000
1,700,000
2000
2001
2002
2003
2004
2005

PRESS ROOM

December 8, 2005
JS-3040

Statement of Secretary John W. Snow
On the Anniversary of the
Creation of Health Savings Accounts

"Two years ago today, with the stroke of President Bush's pen, an historic health-care product was born. Today, over a million Americans – a large portion of whom were previously uninsured –are enjoying access to more affordable health care because of the tax advantages and savings benefits of Health Savings Accounts (HSAs).

"Choosing an HSA puts patients in charge of their health-care purchasing decisions, and that's why their creation was so important. Similar to retirement-saving tools like IRAs, HSAs were designed to help individuals take more control over how their health care dollars are spent and save for future medical and retiree health expenses on a tax-free basis. I'm pleased that more employers are choosing to offer HSAs to their employees every day, and I encourage all employers and individuals to consider them as an attractive alternative to traditional health insurance."

PRESS ROOM

December 8, 2005
JS-3041

Statement of Secretary John W. Snow
On the Passage of H.R. 4297 – Tax Relief
Extension Reconciliation Act of 2005

"I commend the House of Representatives on passage of this bill, which is critical to sustaining our economic recovery and creating jobs. It would encourage investment and innovation--the lifeblood of the American economy. Lower tax rates on savings and investment have benefited millions of Americans of all income levels either directly – through lower taxes on investment returns – or indirectly through new and better jobs and greater economic security for families.

"With half of all U.S. households owning stock and the President's fiscal policies showing robust economic results, it is critically important that we not raise tax rates on capital gains and dividends. I encourage the Senate to follow suit and extend these good policies. To do otherwise would be to undermine strong economic growth that has created 4.5 million new jobs since tax relief was enacted in 2003.

"Additionally, I am pleased that the bill includes the expansion of Section 179 expensing for small business and an extension of many of the expiring provisions included in the President's Budget such as the R&D credit."

PRESS ROOM

December 9, 2005
JS-3042

Treasury Secretary Snow to Visit Mexico

Treasury Secretary John W. Snow will travel to Mexico City next week to meet with President Vicente Fox, Finance Minister Gil Diaz, and others. The trip is part of the ongoing dialogue with a vital economic partner on priority issues for both countries, including economic integration and cooperation and poverty reduction.

The Secretary will hold a joint press conference with Minister Diaz at 5:45 p.m. (CST) on Thursday, December 15 in the Los Pinos Conference Room at the Presidential Palace.

The Secretary will also hear the views of local business leaders, students and political commentators while in Mexico City. U.S. Treasurer Anna Escobedo Cabral will be joining the Secretary for the trip. Cabral has been active in Treasury's engagement with Mexico on a number of economic and financial education issues.

PRESS ROOM

December 9, 2005
JS-3043

Deputy Assistant Secretary Iannicola
Teaches 2nd Graders a Lesson on Saving

Treasury's Deputy Assistant Secretary for Financial Education Dan Iannicola, Jr. will teach a lesson on savings to second graders at Greenbriar East Elementary School in Farifax, Virginia next week. The students at Greenbriar East Elementary School have been participating in an economics class since September, where they have learned about money, spending and saving.

This event is open to the press:

WHEN: December 14, 2005

WHERE: Greenbriar East Elementary School
13006 Point Pleasant Drive
Fairfax, VA 22033

TIME: 10 a.m. (EST)

PRESS ROOM

December 13, 2005
2005-12-13-11-32-23-5965

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 $68,488 million as of the end of that week, compared to $68,130 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	December 2, 2005			December 9, 2005		
TOTAL	68,130			68,488		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	10,918	10,539	21,457	10,026	10,559	21,585
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,405	5,102	15,507	10,520	5,112	15,632
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]			12,054			12,116
3. Special Drawing Rights (SDRs) [2]			8,072			8,114
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	December 2, 2005			December 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						
	December 2, 2005			December 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						

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

December 13, 2005
JS-3044

**U.S. Treasury Secretary John W. Snow,
U.S. Commerce Secretary Carlos M. Gutierrez
and U.S. Labor Secretary Elaine L. Chao
will provide a year-end economic briefing**

Washington, D.C. – U.S. Treasury Secretary John W. Snow, U.S. Commerce Secretary Carlos M. Gutierrez and U.S. Labor Secretary Elaine L. Chao will provide a year-end economic briefing on Wednesday, December 14, 2005 at 2:30 p.m.

WHO:
U.S. Treasury Secretary John W. Snow
U.S. Commerce Secretary Carlos M. Gutierrez
U.S. Labor Secretary Elaine L. Chao

WHAT:
Bush economic team to provide year-end briefing on the economy.

WHEN:
Tuesday, December 14, 2005
2:30 p.m.
Note: Media must R.S.V.P. by Wednesday, December 14, 2005 10:00 a.m. to Frances Anderson at 202-622-2439 or Frances.anderson@do.treas.gov with full name, DOB, Social Security Number, organization and country of birth if not U.S.

WHERE:
Department of the Treasury
Media Room 4121
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

PRESS ROOM

December 14, 2005
JS-3045

Statement by Deputy Assistant Secretary Dan Iannicola
Before the Greenbriar East Elementary School
Fairfax, Virginia

"Parents and teachers have a tremendous opportunity to help young people by starting financial education early. Even second grade is not too early to teach children basic financial topics such as saving and deferring gratification, like we are doing here today. By making an early impression, we can help kids build helpful money management habits that will benefit them their entire lives."

PRESS ROOM

December 14, 2005
JS-3046

Statement of Tony Fratto
Nominee for Assistant Secretary for Public Affairs
U.S. Department of the Treasury

Chairman Grassley, Ranking Member Baucus, and members of the Senate Finance Committee, thank you for the opportunity to appear before you today. It is a great privilege to be considered for the position of Assistant Secretary of the Treasury for Public Affairs. I appreciate your taking the time to consider my nomination during this very busy time.

As all of you know, none of us are able to consider taking on positions in this line of work without the support and sacrifices of our families. Certainly I am no exception. My wife, Judy, and my children, Antonio and Juliette, have seen less of me than is fair in recent years. I am grateful every day that they still stand by me, and I'm very happy that they're all here today.

I am truly honored that President Bush has nominated me to serve in this position. I believe in the President's leadership and have been proud to champion his economic policies while working in this Administration.

Growing up in Pittsburgh, as a first-generation American, I learned that hard work breeds success. If I have had any success in my career it has come because of that work ethic, so much a part of the fabric of my hometown, and because of the opportunities others gave me.

Fifteen years ago I came to Washington with a degree in economics and a chance to work for a then very young first-term congressman, now Senator, Rick Santorum – a member of this Committee. Senator Santorum was the first public official to give me the job of working as a spokesman, and set me on a career path which I hadn't intended to take, but have found to be a rewarding role where I can make a contribution in the public debate of important issues. Since then, I have had the opportunity to work with other distinguished officials, Governor Tom Ridge, Secretary Paul O'Neill and now Secretary John Snow and I value the time I spent with each of them.

I am also honored to have spent the past five years working at the U.S. Treasury Department. The Treasury Department has been the locus of American economic policymaking since Alexander Hamilton first served as Treasury Secretary, and it continues in that tradition today. I have the distinct privilege of representing the work of some of the world's finest economists and policymakers. Both the appointed staff and career staff are exceptionally talented and dedicated. In serving as their spokesman, they have helped me to sound smarter than I really am every day.

Treasury's Office of Public Affairs plays a crucial role in communicating our economic policies, both here at home and to international audiences. The public debate of these policies is enhanced when we present with clarity our views, and the data that support them, to the public, the news media, financial markets, and to the Congress. I take this responsibility seriously, and promise to do my best to live up to this Committee's expectations if I am confirmed for this position.

Thank you very much, Mr. Chairman. I look forward to responding to questions from you and the Committee.

PRESS ROOM

December 14, 2005
JS-3047

Remarks by Randal K. Quarles
Under Secretary of the Treasury for Domestic Finance
to the Exchequer Club

Thank you for inviting me to speak before the Exchequer Club today. I am pleased to continue the long standing tradition of Treasury officials discussing key financial and economic policy issues before this distinguished group.

As we at the Treasury consider some of the specific economic and financial challenges the country needs to address, we are certainly heartened that we do so against the backdrop of one of the strongest economies in many years. Third quarter growth in the Gross Domestic Product was 4.3 percent, good for any quarter, but quite remarkable in a period that followed a devastating natural disaster. It marks the 10th straight quarter that GDP growth has exceeded 3 percent. Job growth continues with 215,000 new jobs added in November and a total of 1.8 million new jobs this year--almost 4.5 million since May 2003. And this strong job creation has not come at the expense of productivity growth. Productivity grew 4.7 percent in the third quarter and current unemployment is only 5 percent. We have built a strong foundation for future growth based upon low taxes, restrained government spending, legal reform, and incentives for saving and investment. All this is particularly good news for American workers.

In spite of all the encouraging economic reports, there are some issues of great importance to America's workforce that need to be addressed. I would like to talk about one of those issues today, the current state of the country's defined benefit pension system. I think that the complex issues surrounding the funding and administration of our pension and pension guarantee will be among the most challenging and consequential that our society will face over the next several years. The Administration has made pension reform one of its key legislative priorities. The federal government has an interest in defined benefit pension plans for four key reasons.

First, the government has an interest in ensuring simple fairness. The administration wants to make sure that pension plan sponsors deal fairly with their employees by meeting their pension obligations. It's an elementary principle, really: a promise made ought to be a promise kept.

Second, pension benefits are guaranteed by a federal government corporation, known as the Pension Benefit Guaranty Corporation or the PBGC. When a company with an underfunded pension plan reorganizes, liquidates, or demonstrates according to strictly defined statutory standards that it cannot continue operations with its pension plans, the PBGC takes over those pension plans' assets and liabilities and becomes the plan trustee. Once it takes over a plan, PBGC assumes the responsibility of making benefit payments to all employees and retirees who have earned pensions under the plan. Because the PBGC guarantee is limited to a fixed dollar amount, workers and retirees can often lose retirement benefits when such pension terminations occur; benefits that they have earned through long years of service to the sponsoring company.

Third, when the PBGC takes over a pension plan it is often one of the largest unsecured creditors. As a sponsoring company works its way through the bankruptcy reorganization, PBGC can end up with a significant equity interest in the new company. The federal government being a large equity holder in any private company – however that stake may have arisen – is inconsistent with the fundamental principles of a market economy. The continued operation of private sector companies in our economy should not depend on whether the U.S. government holds or maintains an equity stake in the company, but rather it should be based on financial market participants' willingness to invest in the on-going business operations of such companies.

Finally, the rules for funding pension plans are defined in federal law and are jointly enforced by the Department of Labor and the Internal Revenue Service. Pension plan contributions and investment returns are tax-advantaged, which means that government has an interest in ensuring that such advantages are not abused.

Status of the Defined Benefit Pension System

I am sure that many you have read in the newspapers that pension plans and the pension insurance system are in difficult financial straits. Although most companies do make benefit payments when due and fund their plans responsibly, an increasing number in recent years have not. Underfunding in pension plans increased from $164 billion to $450 billion between 2001 and 2005. During that same five-year period, PBGC has seen its net financial position decline from a $7.7 billion surplus to a $22.8 billion deficit. The increase in PBGC's deficit has come about primarily because of the failure of a number of very large pension plans including those of United Airlines, US Airways, LTV Steel, and Bethlehem Steel. Claims against the single employer guarantee fund from these and other pension plans that failed over the past five years totaled $34.1 billion.

Some recent high profile pension plan terminations illustrate the magnitude of problems in the defined benefit pension system.

- United Airlines: At the time PBGC moved to terminate United's four pension plans it estimated that there were sufficient assets to cover only 42 percent of total obligations. Assets were $7.0 billion while liabilities were $16.8 billion. PBGC guarantees will cover $6.6 billion of the $9.8 billion shortfall. The remaining $3.2 billion represents lost benefits to plan participants. At this time PBGC is still litigating the size of its claim for unfunded liabilities in the bankruptcy court.
- U.S. Airways: U.S. Airways' plans that terminated in 2003 and 2005 had sufficient assets to cover only 37 percent of liabilities. At the time of termination assets were $2.9 billion while liabilities were $7.9 billion PBGC's guarantee covered $2.9 billion of the $5.0 billion shortfall. The remaining $2.1 billion represents benefit losses.
- Bethlehem Steel: Plans terminated in 2002 had assets sufficient to cover only 45 percent of liabilities. Assets at the time of termination were $3.5 billion and liabilities $7.8 billon. PBGC's guarantee will cover $3.7 billion of the $4.3 billion funding shortfall. The difference of $600 million will be lost to participants.

How is it that the pension system finds itself in this situation? While there are a number of factors, one of the key reasons is that the current funding rules have not adequately ensured that companies fund their pension plans and keep the promises they have made to employees.

One of the key deficiencies in the current funding rules is that it is difficult to get an accurate measure of the degree of pension plan underfunding. A significant reason is that current pension funding rules are designed to make contributions even and as predictable as possible while the plan sponsor funds to a target that represents its long run benefit payment obligations. Today's funding rules allow pension plan assets and liabilities to be measured on a smoothed rather than a current basis. Liabilities are averaged over a four-year period while assets may be averaged for up to five years. Smoothed measures that delay recognition of asset and liability value changes make plans appear to be much better funded than they are on a current basis when asset values are declining and liability values rise. This has occurred most recently when stock prices and interest rates both fell at the beginning of the 2001 bear market.

While the idea of making contributions even and predictable may sound appealing, one consequence of smoothing rules is that pension plans are permitted to remain seriously underfunded for years at a time. A convenient way to think of pension underfunding is to consider it a loan from employees to employers. Accrued pension benefits are part of an employee's compensation for work already performed. To the extent that employers are permitted to make less than the contribution required to fully fund their pension promises the plan is essentially extending credit to the employer – and employers that take such loans from their pension plans are shifting some of the risk of meeting pension obligations from themselves to their employees. In the United States, with its pension guaranty system, a significant portion of that risk is then transferred to the guarantor, the PBGC. If a pension sponsor encounters financial trouble while underfunded it is likely to default on its pension loans resulting in lost benefits to participants and losses to PBGC's guaranty fund.

Another serious measurement problem is that pension liabilities are measured using a single, long-term interest rate to discount future benefit payments. Under normal conditions – that is when the yield curve slopes upward – the use of a single long-term discount rate systematically understates the liabilities of plans with a large ratio of retirees to active workers. This is especially problematic in the many plans of older industrial companies that have more retirees than active workers.

In addition to measurement problems, the current funding rules also provide a mechanism – called credit balances – that while allowing for the greater predictability of contributions also can lead to chronic underfunding. Credit balances, an accounting construct that may be unfamiliar to those outside of the pension community, may be used by pension plans in lieu of required cash contributions. Credit balances are created when pension sponsors make contributions that are higher than the minimum required in a given year. Under the current rules the value of such a balance, once created, increases each year with an interest credit that is chosen by the plan and represents the expected long-run return on pension plan assets. The interest credit is applied each year even if the value of plan assets declines. These balances may be used instead of cash contributions even in plans that are very seriously underfunded. It should be noted that credit balances allowed Bethlehem to avoid making any cash contributions to its plans for three years before its termination. At the time that PBGC took over the plan, assets equaled only 45 percent of termination liabilities. Likewise US Airways was not required to make any cash contributions to its pilots' plans for the four years preceding its termination even though the plan's assets covered only 33 percent of accrued benefits at the time of termination.

Some other problems in the current pension funding rules are that the funding targets are set at 90 percent of current liability, which is a smoothed measure that is well below the level of outstanding obligations. Also payments for new benefits can be amortized for up to 30 years, which provides incentives to increase benefits today since most of the funding expense only comes due years in the future.

The current funding rules are not the only problem with today's defined benefit pension system. Some other problems with the current system include:

- Pension plan financial disclosures to participants are inadequate. The data supplied to participants is out of date and consists only of smoothed asset and liability measures. Participants are unable to monitor how well their plans are funded with this information. For example, the participants of Bethlehem steel were told the year before the plan terminated that it was 84 percent funded based on smoothed asset and liability measures and the current law funding target. When the plan terminated the next year, however, participants were surprised to learn that plan funding would only cover about 45 percent of earned benefits.
- The pension insurance system creates moral hazard. The existence of insurance provides the incentive for employees to accept future promises of pension benefit as a substitute for current wage increases even if it appears unlikely the sponsoring firm will be able to fund such promises.
- Premium rates are set below the level needed for PBGC to regain solvency. PBGC's premium structure includes two parts. The first is a flat rate premium of $19 per plan participant that has not been increased since 1991 even though maximum insurance coverage automatically increases every year. Between 1991 and 2005, PBGC's maximum guarantee for an individual who retires at age 65 increased from $27,000 to $45,613. PBGC also charges a variable premium of $9 per $1,000 of underfunding. This premium rate has not been updated since 1996.
- All plan sponsors pay the same flat premium rate and the same variable premiums for underfunding regardless of the risk that they will terminate underfunded plans. This creates a set of cross subsidies from stronger to weaker plan sponsors that results in adverse selection in the pension system. Strong sponsors have an incentive to leave the system to avoid paying subsidies; weak sponsors have an incentive to remain to receive

those subsidies.

It has become apparent to nearly all interested parties that the defined benefit pension system is not sustainable in its present form and that action is needed to protect both pension plan participants and the pension guaranty system.

The Administration's Pension Reform Proposal

In order to encourage the continuation of financially sound pension plans, the Administration unveiled a comprehensive reform proposal in January of this year. This proposal, if adopted would change the focus of pension funding rules from smoothing contributions to ensuring that plans have adequate assets to meet their accrued obligations. By promoting sound funding the Administration's proposal will protect employee's benefits and place the pension guaranty system on a firm financial footing.

The Administration has proposed the following changes to pension rules.

- Assets and liabilities would be measured at current, market values. Accurate and current measurement is necessary both as a basis for implementing sound funding rules and for making the disclosure of pension plan's financial status transparent to employees, retirees, and financial market participants.
- Liabilities would be valued using a yield curve of high quality (AA) corporate bonds rather than with a single interest rate in order to capture the time structure of the underlying benefit payments.
- Pension funding targets for most plans will be set at 100 percent of accrued benefits. Sponsors that are financially weak and pose the highest risk of terminating underfunded plans would fund to a higher target.
- Plans would be required to eliminate increases in underfunding within seven years. This amortization period will apply to new benefits, as well as to other causes of underfunding such as investment losses. A short amortization period will help ensure that plans do not remain underfunded for extended periods of time.
- The use of credit balances would be eliminated. Plans would be required to make cash contributions to satisfy their funding obligations in the future.
- Plans that are underfunded would be restricted in their ability to increase benefits. This will prevent plans that are already underfunded from making their situations worse.
- Plans will be required to provide new and meaningful financial disclosures to plan participants.
- PBGC's per capita premiums will be increased and rise in the future at the same rate as PBGC's maximum coverage levels. Risk based premiums that will reduce the cross subsidies in the current premium system will be introduced.

Congress has responded to the Administration's call for reform by undertaking important pension legislative initiatives. The Senate, under the leadership of Chairman Grassley of the Finance Committee and Chairman Enzi of the Health, Education, Labor and Pensions Committee passed the Pension Security and Transparency Act of 2005 on November 16. The House may bring legislation to the floor as early as this week. Similar versions of The Pension Protection Act of 2005 have been reported out of the Education and Workforce Committee under Chairman Boehner and the Ways and Means Committee under Chairman Thomas.

And yet, although the House and Senate bills are both modeled after the Administration proposal, both in their current form might actually result in a weakening of pension plan funding and the pension guaranty system. The fundamental goal of any pension reform proposal should be to reduce claims on the pension insurance system, reduce benefit losses to plan participants, and increase plan funding, all with the goal of ensuring that pension promises are kept. The Administration does not consider any bill that fails to improve upon current law as an acceptable legislative outcome. Likewise, the Administration opposes temporary fixes –such as extending the corporate bond rate as the discount factor – that do not comprehensively address the problems in the current system. However, we believe that we can work with the Congress to strengthen current legislation in conference. Together the Congress and the Administration can produce a bill that will improve protection for the pension benefits of employees and retirees.

PRESS ROOM

December 14, 2005
js-3048

The Honorable John W. Snow
Remarks at Year-End Economic Briefing

Good afternoon; thank you all for coming. I welcome my Cabinet colleagues here at the Treasury Department today. Secretary Chao, Secretary Gutierrez, thank you for being here and for your dedication to the economic strength of this great nation.

As we look back at our economy's strong performance over the last year, Americans have a great deal to be proud of and every reason to be optimistic about the future. More Americans are working than ever before – with nearly 4.5 million jobs created since May of 2003 – the economy has been expanding steadily by more than 3% for 10 consecutive quarters; and household wealth--the value of people's savings and homes--is at an all-time high.

While economic growth in other industrialized countries has stagnated – with unemployment rates reaching into double-digits in some cases – the American economy has continued to set the standard for economic performance among industrialized nations.

We have every reason to believe that our path of growth and job creation will continue. We are looking forward to continued robust growth in payrolls and, as headline inflation recedes, real wage growth. I'd also expect to see continued GDP growth in the range of what we've seen over the past couple of years.

It is a responsibility of government to create the conditions for prosperity. President Bush's economic policies, centered on lower tax rates on both labor and capital, encourage entrepreneurship and reward workers' efforts. And America has the most productive workers and businesses in the world. Along with sound monetary policy from the Federal Reserve, these policies are delivering results and proving the pessimists and naysayers wrong.

In May 2003, President Bush worked with Congress to enact the tax policy that breathed life into the economy, and has since encouraged a strong recovery. Critics of the proposal disputed our view that this reform would create jobs and spur economic growth. One critic called the plan "tragic"; another leader said it was "reckless" and wouldn't create jobs.

Hindsight has a way of settling these debates. The facts are now in. Since May of 2003, GDP has grown at above 4% on average and turned in an impressive 4.3% growth rate for the third quarter of this year. Growth that strong, even in the face of the challenges presented by the Gulf Coast hurricanes, is a testament to the resiliency and fundamental strength of the American economy.

Job creation is the reward of strong economic growth, and November's employment report brings the total of jobs created since May of 2003 to four and a half million -- with 1.8 million new jobs created this year. The 215,000 jobs added in November continue 30 months of uninterrupted economic growth.

There were some who said government revenues would plummet if we reduced taxes. That hasn't happened either. Since May 2003, strong economic growth has driven federal revenues to record levels proving that lower taxes are consistent with higher federal receipts.

American families are enjoying the benefits of a strong economy. Last week, we learned that household wealth reached an all-time high of $51.1 trillion in the third quarter. This means that the value of average Americans' bank accounts, 401Ks, and homes has never been higher.

The picture is of an American economy that is doing well. But there is more work to be done. The President will not be satisfied until every American is doing well, in an economy that does well. That is why this President is so committed to tackling the things that get in the way of prosperity such as higher taxes. My colleagues, Secretaries Gutierrez and Chao, will now offer some more detailed insight into how businesses and workers are doing and then we'll take your questions at the end.

END

LINKS

- Department of Commerce
- Department of Labor

REPORTS

- Remarks by Commerce Secretary Carlos Gutierrez
- Remarks by Labor Secretary Elaine L. Chao
- Charts and Graphs

COMMERCE NEWS
UNITED STATES DEPARTMENT OF COMMERCE
Office of the Secretary • Washington, DC 20230 • www.doc.gov

FOR IMMEDIATE RELEASE
WEDNESDAY, DECEMBER 14, 2005

Contact: Christine Gunderson/Dan Nelson
202-482-4883

Carlos M. Gutierrez
U.S. Secretary of Commerce
Prepared Text for Year-End Economic Briefing

In this holiday season, the good news is that thanks to hard-working Americans and the President's pro-growth, pro-jobs policies, our economy is robust, business is booming and U.S. productivity is growing at the fastest rate in nearly 40 years.

As Secretary Snow said, our workers, our companies and our nation have a lot to be proud of.

Yesterday's retail sales report was another indication that our economy is on the right track.

Retailers are optimistic that last-minute shoppers like me will propel the holiday sales season to a strong finish.

The tax relief that President put in place is generating growth, investment and new American jobs.

Importantly, it is letting Americans keep and spend more of their own money.

Yet, there are Grinches who would take this tax relief away from the American people.

The President's economic agenda is working for American business and American workers.

We need to keep the momentum going.

Over the past four years, the United States has experienced faster growth in real GDP than any other major industrialized nation.

Our 2005 GDP per capita is higher than that of Japan, the UK, Germany, France, Italy and Canada.

The U.S. economy is growing well over twice as fast as that of the European Union.

Our unemployment rate is 5 percent. This is lower than Canada's 6 percent, Italy's 7 percent, Germany's 8 percent and France's 9 percent unemployment rate.

The last time we experienced unemployment as high as France and Germany are dealing with now was 22 years ago.

Where's this growth coming from?

Since the President took office, real after-tax per capita personal income has increased by roughly $1,600.

This is important because consumer spending accounts for approximately 70 percent of GDP.

Since the tax cuts:

- This measure has been growing by 3.8 percent per year.
- And total retail sales are up 19 percent.

More good news for families is that assets are appreciating and they are getting wealthier.

Household net worth exceeded $50 trillion during the third quarter – that's an all-time high.

Increased business investment is also triggering economic growth.

Since the 2003 tax cuts, real investment has increased by 22 percent. Investment in equipment and software is up 28 percent. And investment in industrial equipment is up 10 percent.

The result is higher profits, higher productivity and Americans receiving more dividend payouts

We've also seen an increase in foreign investment here.

Foreign firms operating in the United States now employ 6 million American workers, enough to populate the entire State of Maryland.

From day one, free and fair trade has been a critical element of the President's growth and job creation agenda.

About 95 percent of the world's potential customers live beyond our borders.

We're aggressively working to open these markets and opportunities to U.S. companies and workers.

This Bush administration has signed free trade agreements with 11 countries into law, more than all other administrations combined.

We're taking the lead in promoting a successful conclusion to the Doha global market opening negotiations.

Since 2003, our export growth has been averaging over 8 percent per year.

Real goods exports have grown 8.5 percent annually since the tax cut, and real services exports have grown 7.2 percent, supporting millions of U.S. jobs.

For more on the subject of jobs, I would like to turn the podium over to my colleague, Secretary Chao.

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Remarks Prepared for Delivery by
U.S. Secretary of Labor Elaine L. Chao
Economic Team Press Conference
Washington, D.C.
Wednesday, December 14, 2005

Thank you.

I am pleased to join my colleagues on the economic development team to talk about the strength of our nation's economy and the good jobs that are being created.

[Slide #1: Household survey—record number of Americans working]

As you can see from this slide, there are more Americans working than ever before in our nation's history. More than 142 million Americans are on the job.

A little over a week ago, the Department released the most recent employment numbers and they were very strong. November job growth exceeded expectations at 215,000 net new jobs.

Our economy has seen 30 consecutive months of job growth. That's a total of 4.5 million net new jobs created since May 2003. With the exception of the two months following the recent hurricanes, job growth has been averaging about 200,000 per month in 2005.

Meanwhile, our national unemployment rate is steady and low at 5 percent. This is lower than the average of the 1990s, which was 5.7 percent. It is also four-tenths of a percent lower than it was at the same time in the economic expansion of the 1990s.

[Slide #2: Growth sectors of the economy]

Equally important is the widespread nature of the job growth, as this slide shows. Sectors gaining jobs included construction and the skilled trades, healthcare, professional and business services, and transportation.

Since May 2003, the fastest growing sector has been professional and business services, which added more than 1.1 million jobs. Health services have also been a leader with 777,000 new jobs. Employment in construction has grown by 660,000 jobs and is at an all-time high with 7.4 million workers.

[Slide#3: Quality jobs with above average wages]

It is also important to note that most of the new jobs being created are in occupations that pay above average wages.

As the next slide shows, from 2003 through 2005, more than 2.5 million jobs—or 63 percent—were created in occupations with above average compensation. During the same period, employment in occupations with less than average compensation grew by only 1.4 million jobs.

This is an important trend we are seeing. The better paying jobs require higher skills and more education. To take advantage of these opportunities, it's critical for workers to get a good education and to continually upgrade their skills.

The President's policies have had a positive impact on workers paychecks. Lower taxes have increased the take home pay for workers. In addition, the revised numbers for October showed a 10-cent-an hour up-tick in average hourly earnings, which is the largest monthly increase on record. In November, average hourly earning increased an additional 3 cents. And 3rd quarter productivity growth exceeded expectations at 4.7 percent, which also means higher wages for America's workers. In fact, individual, after-tax personal income is up 6.4 percent in real terms since January 2001.

[Slide #4: Small Business engine for job growth]

And finally, I want to call your attention to new data that was just released by the U.S. Department of Labor last week. For the first time, data in the Business Employment Dynamics Survey is broken down by firm size. This allows us to take a closer look at job growth in small and large businesses.

These data show that the entrepreneurial spirit is alive and well in America and that smaller firms have led the recovery. It confirms the commonly held notion that small businesses are the engine of job growth in America. Since the recovery began in 2003, more than 70 percent of net new job growth has come from businesses with fewer than 500 employees.

[Slide #5: State of the Economy 2005; Treasury Secretary John Snow, Commerce Secretary Carlos Gutierrez, Labor Secretary Elaine L. Chao]

To continue the kind of job growth I've outlined today, we need to stay the course. It is critical to implement the President's proposals to strengthen our nation's economy and oui workforce. This includes enacting Association Health Plans, which enable small business and their employees to access quality affordable health care. It includes making the tax cu permanent, so workers can keep more of their hard-earned wages. And it includes investii in worker training and reforming publicly funded training programs. According to the mo recent JOLTS *[Job Openings and Labor Turnover Survey]* survey, there were four million unfilled job vacancies at the end of October. So we must close the skills gap to ensure tha our nation's workforce remains competitive in the 21st century.

# # #

Year-End Economic Briefing 2005

Treasury Secretary John W. Snow

Commerce Secretary Carlos M. Gutierrez

Labor Secretary Elaine L. Chao

December 14, 2005

Year-End Economic Briefing 2005

Overview

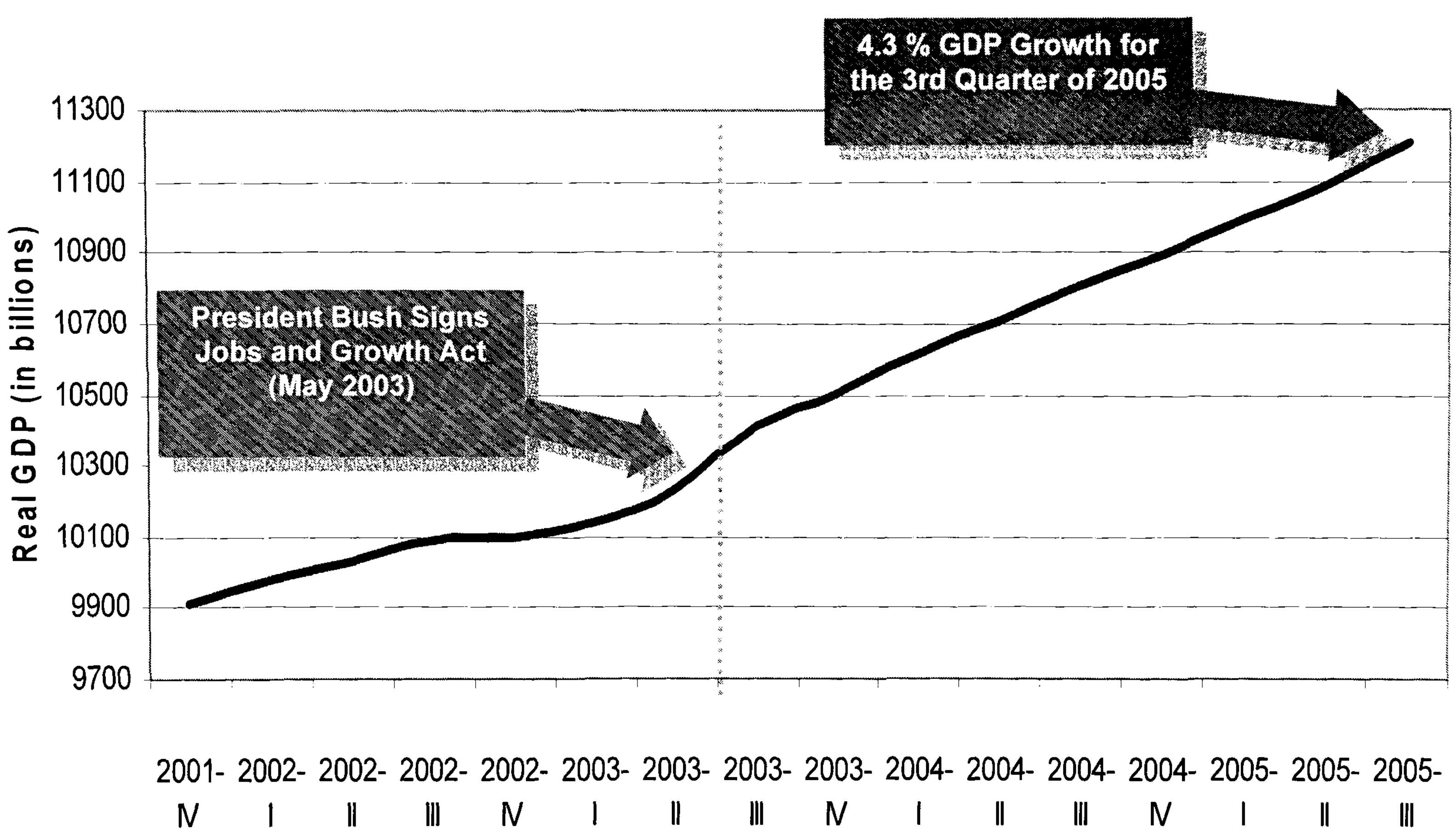
Treasury Secretary John W. Snow

December 14, 2005

Jobs & Economic Growth

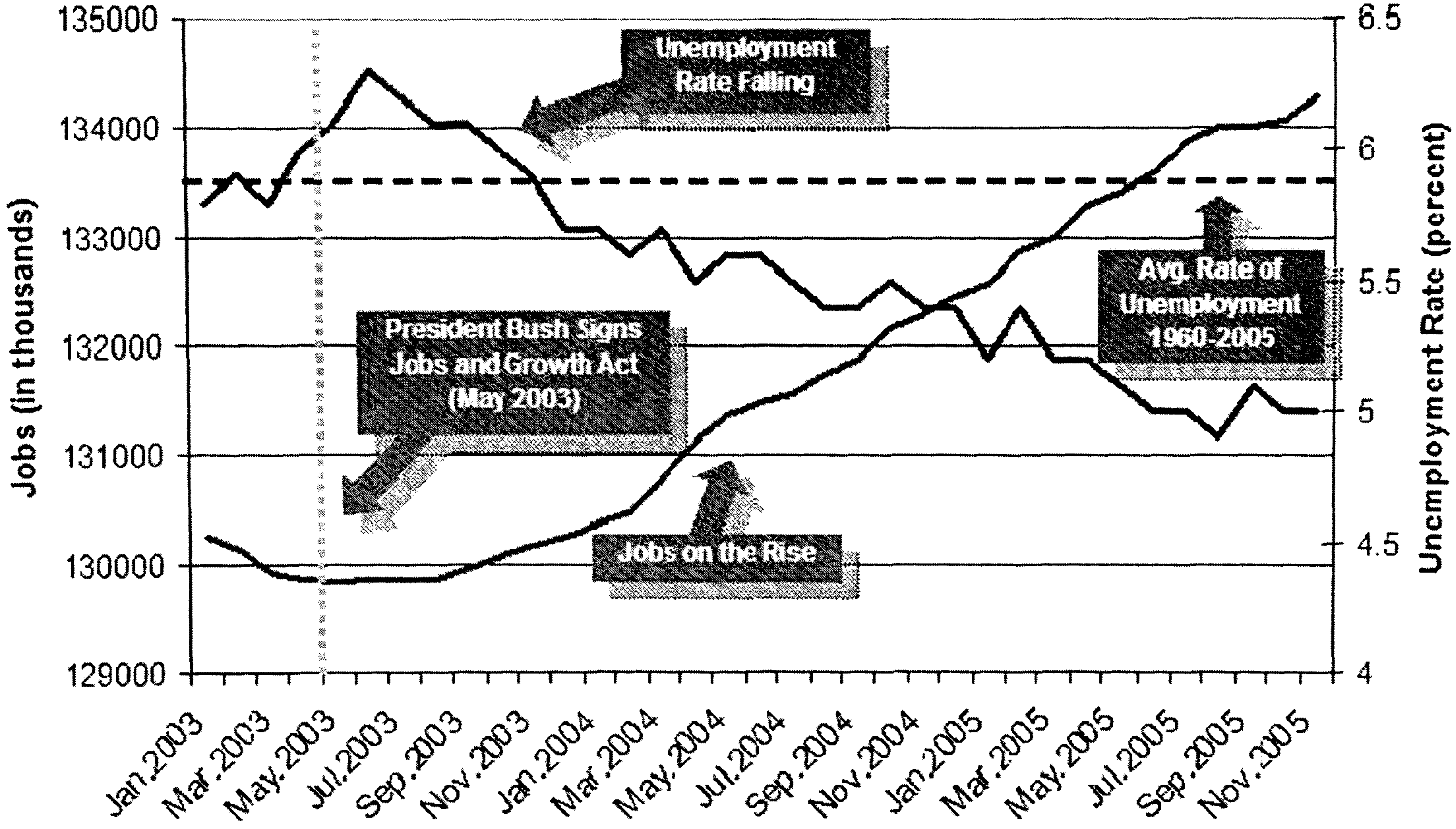
December 14, 2005

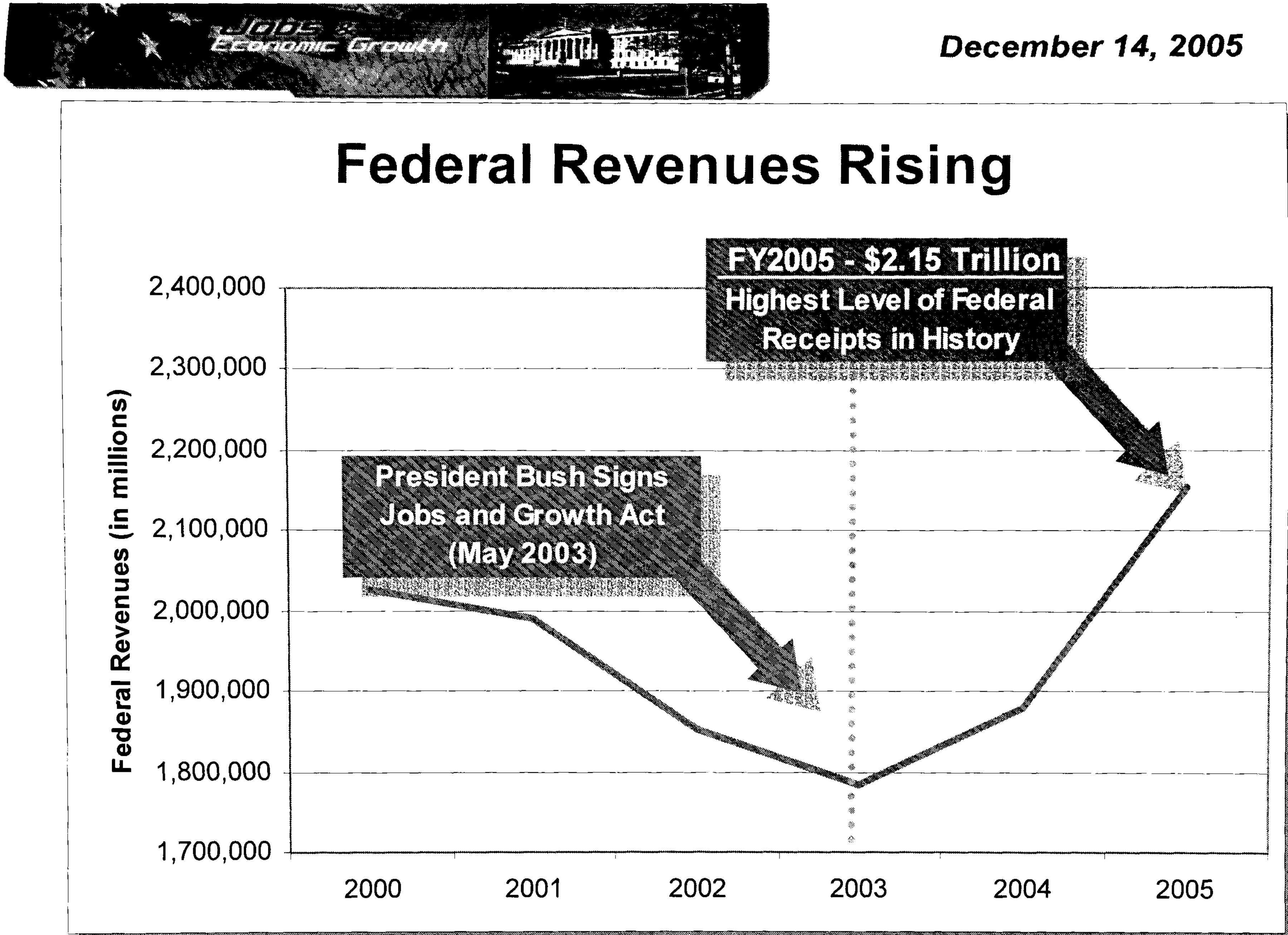
GDP On a Path of Sustained Growth



December 14, 2005

Jobs Rebound and Unemployment Falls as Bush Economic Policies Come into Effect




Jobs &
Economic Growth
December 14, 2005
Federal Revenues Rising
FY2005 - $2.15 Trillion
Highest Level of Federal
Receipts in History
President Bush Signs
Jobs and Growth Act
(May 2003)
Federal Revenues (in millions)
2,400,000
2,300,000
2,200,000
2,100,000
2,000,000
1,900,000
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2000
2001
2002
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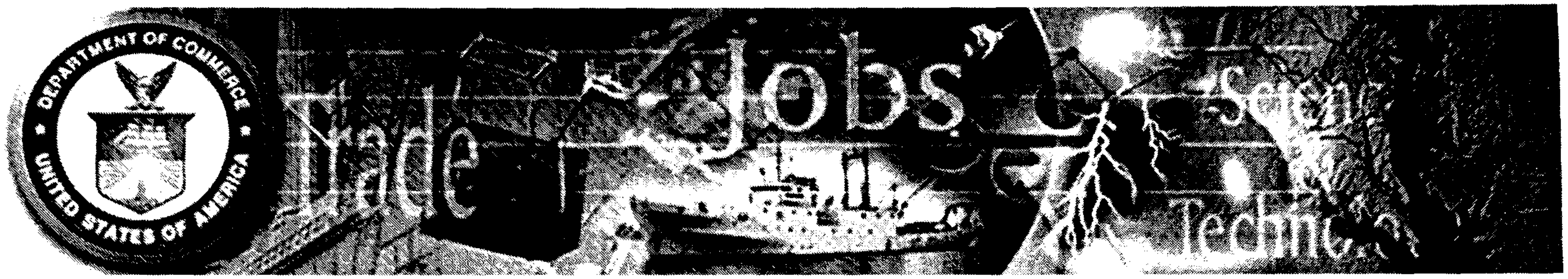
2005



Year-End Economic Briefing 2005

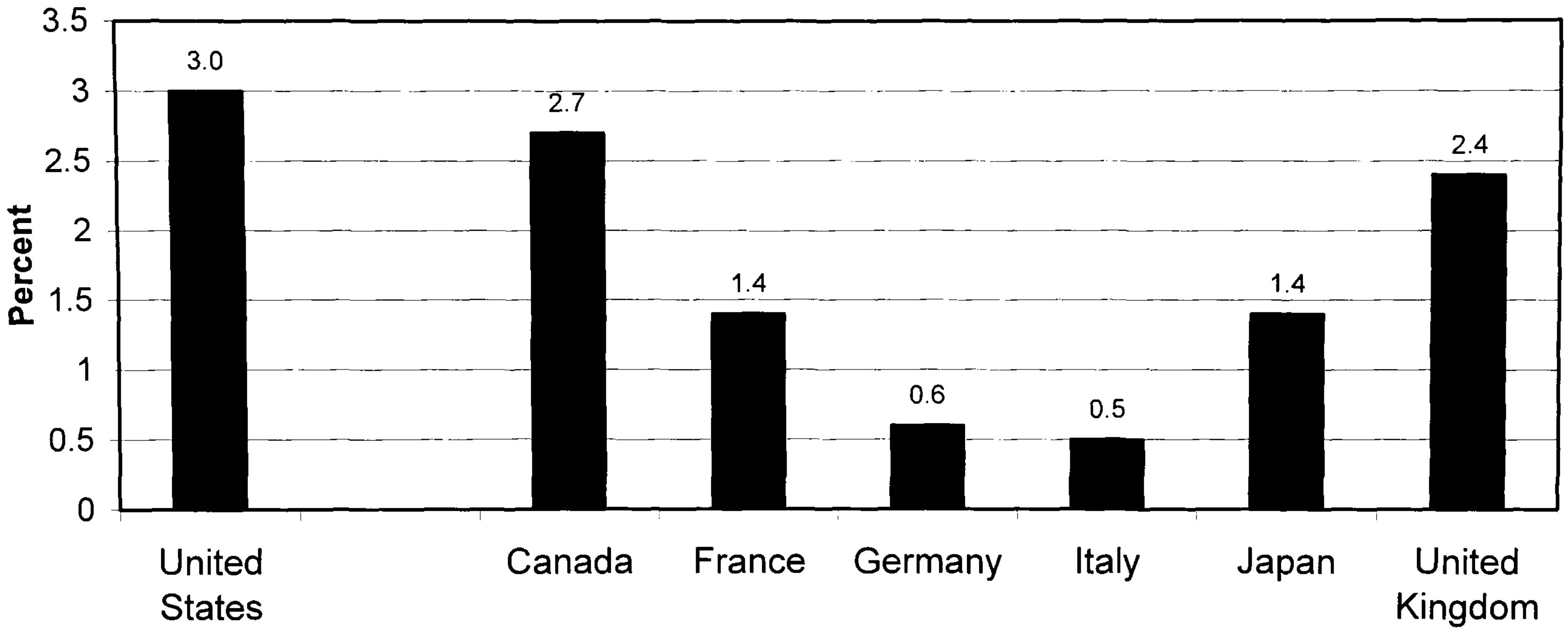
Business Report

Commerce Secretary Carlos M. Gutierrez

December 14, 2005

December 14, 2005

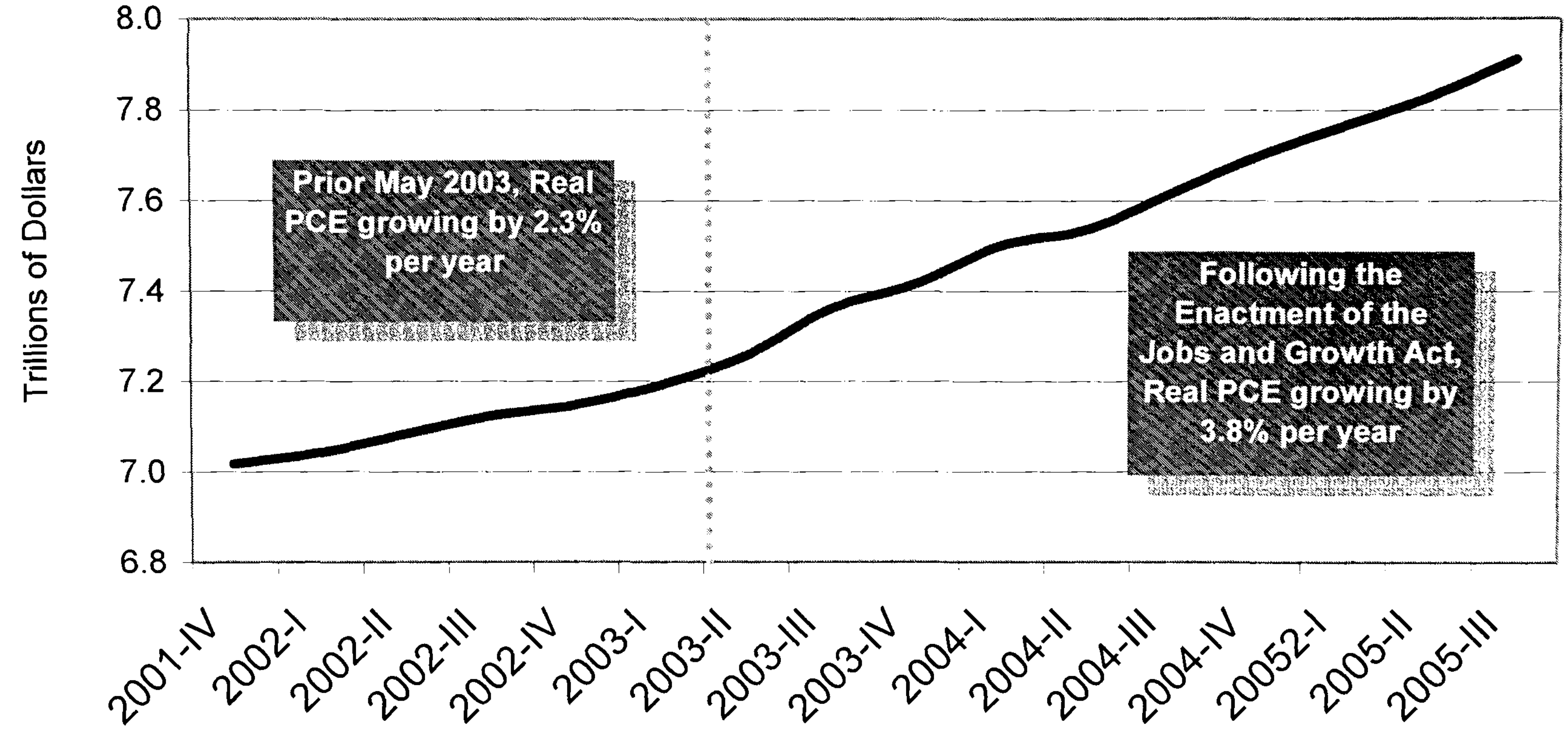
Real Average Annual GDP Growth 2001-2005



Source: World Economic Outlook. International Monetarv Fund

December 14, 2005

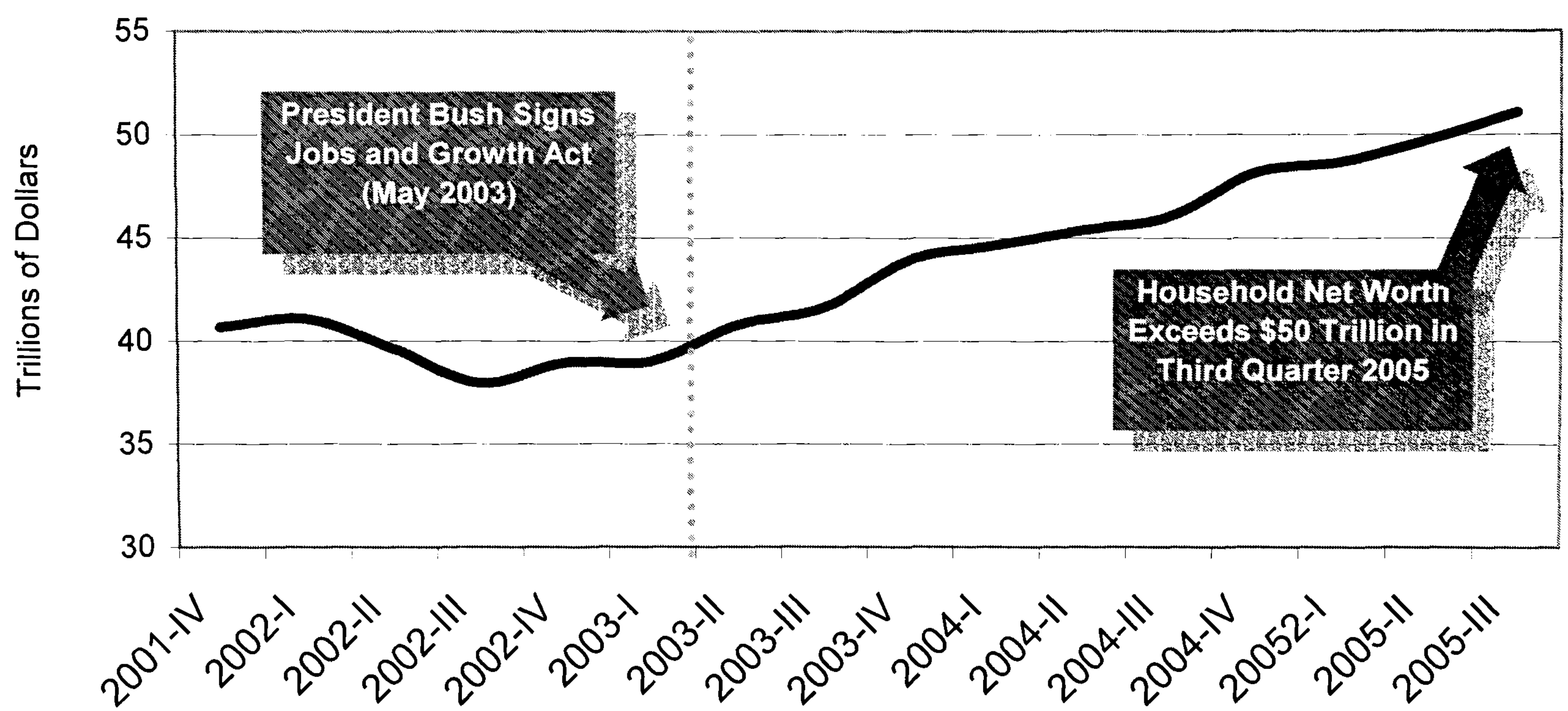
Real Personal Consumption Expenditures



Source: Bureau of Economic Analysis, US Department of Commerce

December 14, 2005

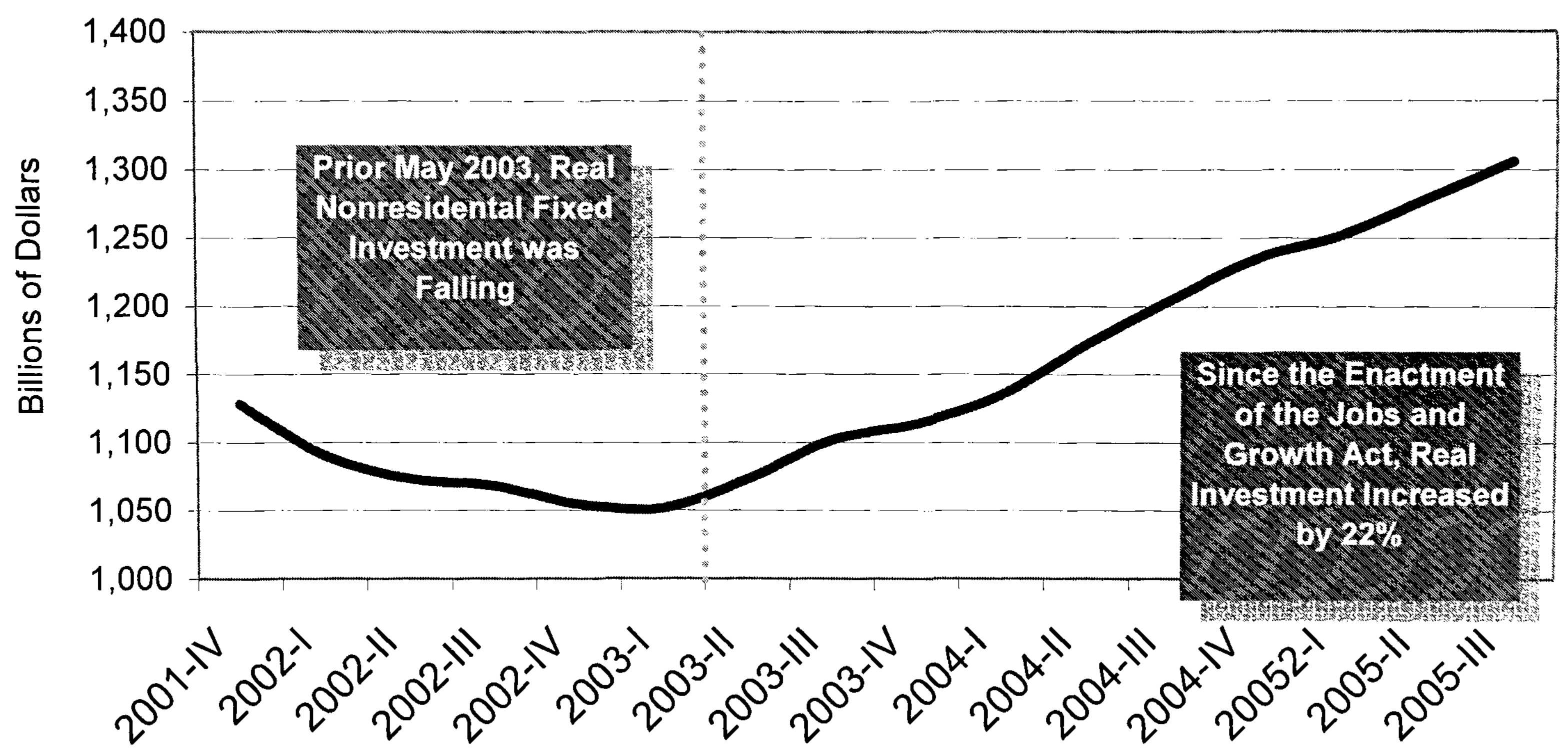
Household Net Worth



Source: Federal Reserve Board

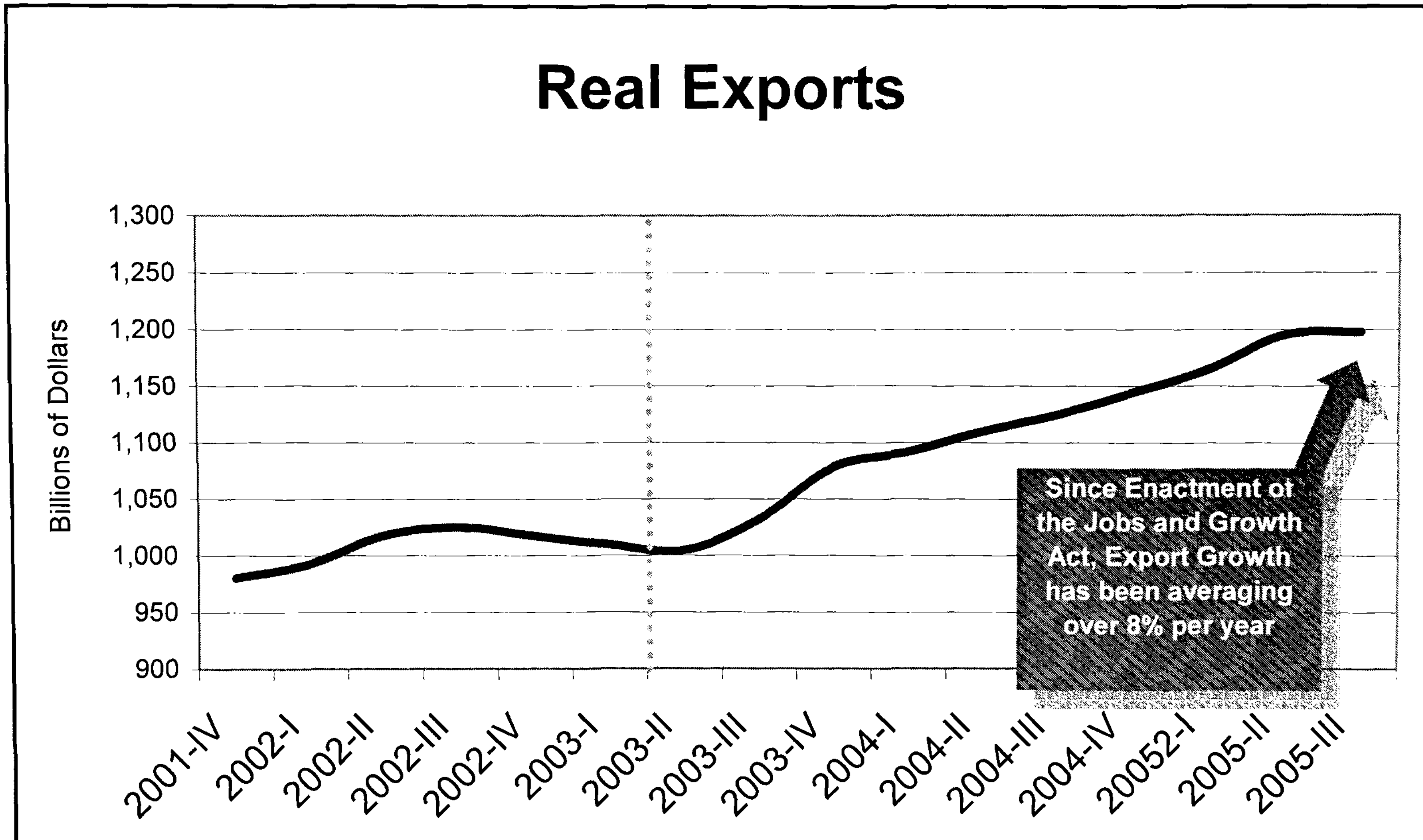
December 14, 2005

Real Business Investment



Source: Bureau of Economic Analysis, US Department of Coummerce

December 14, 2005



Source: Bureau of the Census, US Department of Coummerce

U.S. Department of Labor

in the 21st Century

Year-End Economic Briefing 2005

Employment Report

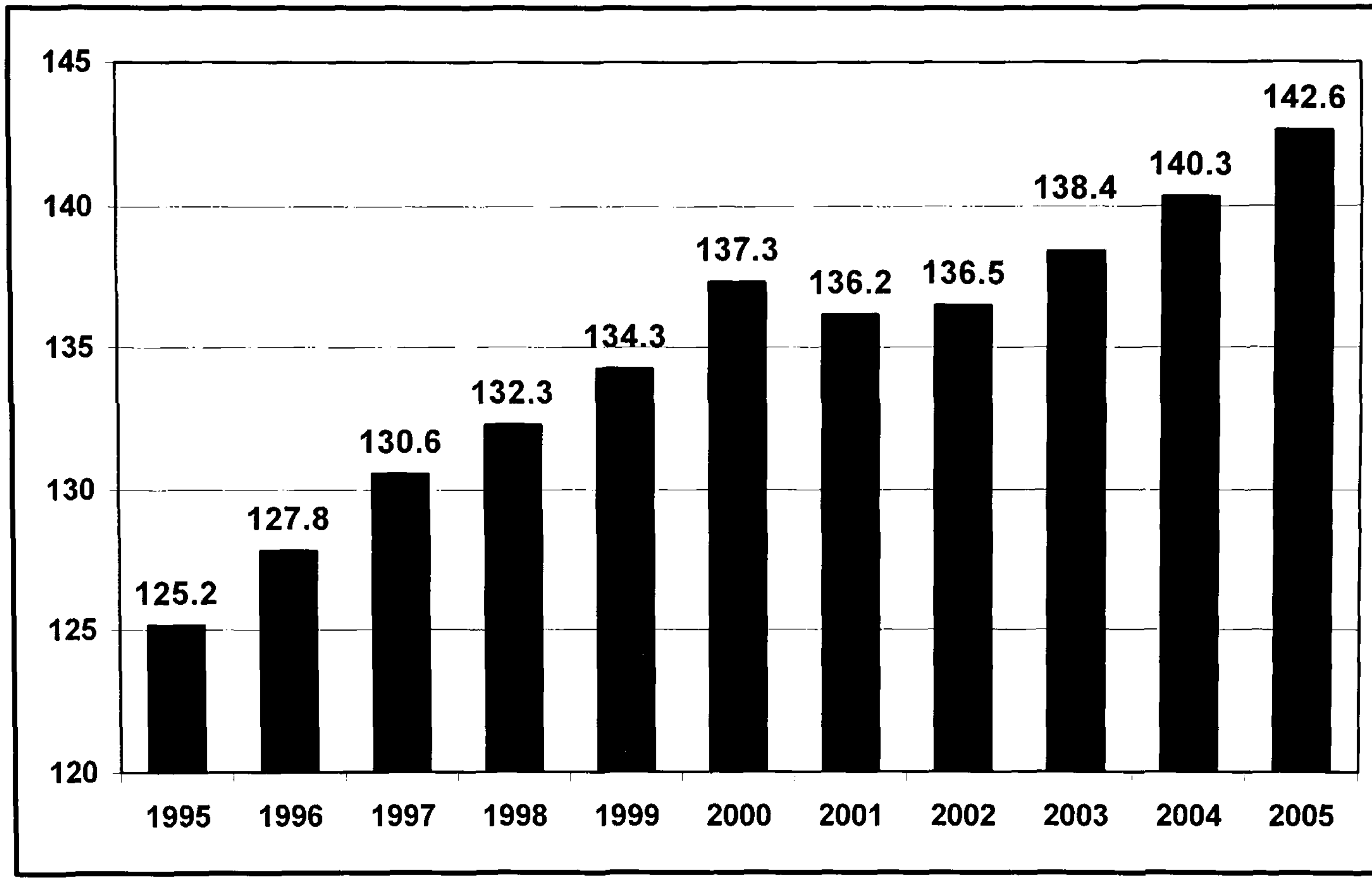
Labor Secretary Elaine L. Chao

December 14, 2005

U.S. Department of Labor
in the 21st Century

December 14, 2005

More Americans are Working than Ever Before

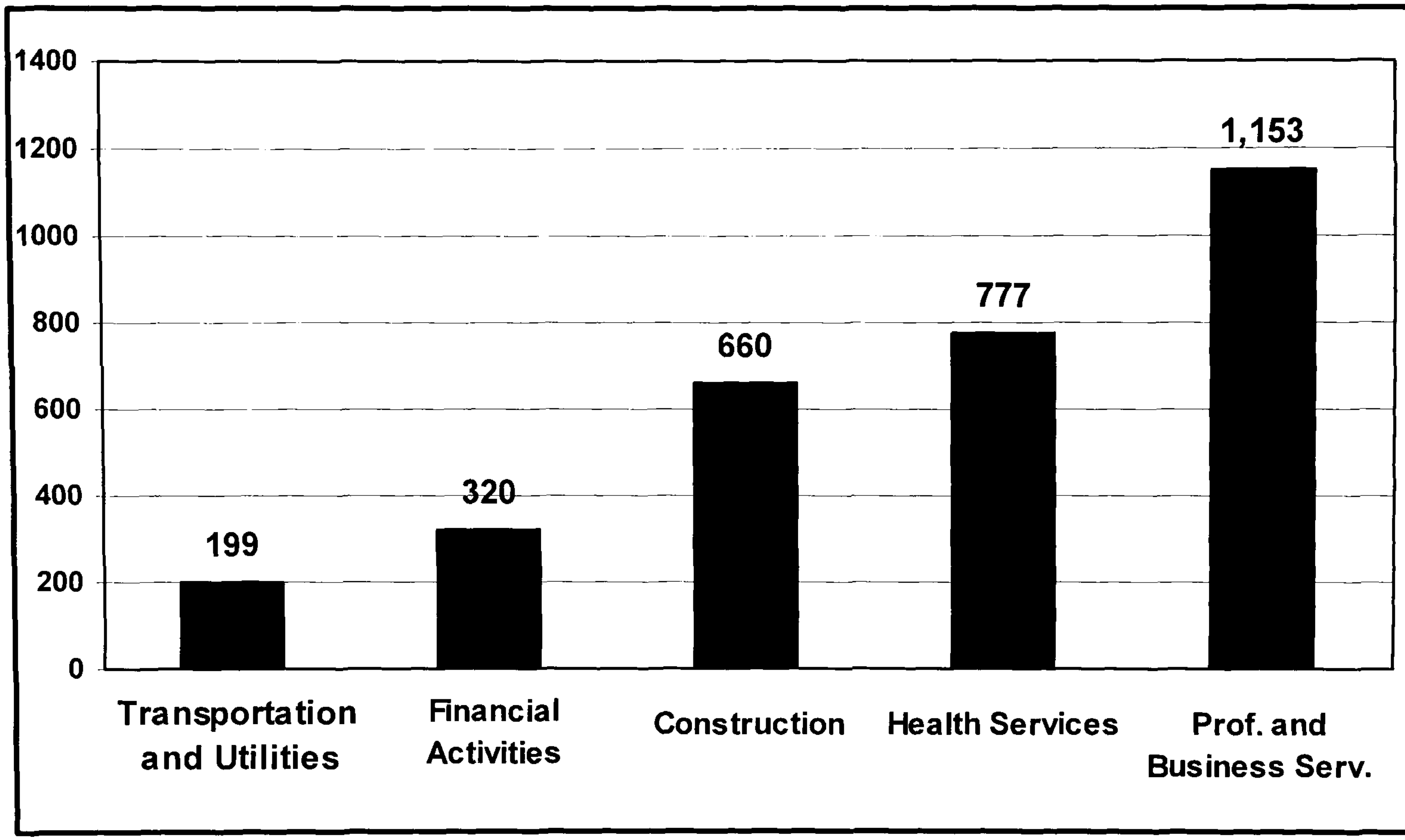


Number of Americans Working as Measured by the Household Survey, Nov. 1995-Nov. 2005 (in millions, seasonally adjusted)

U.S. Department of Labor
in the 21st Century

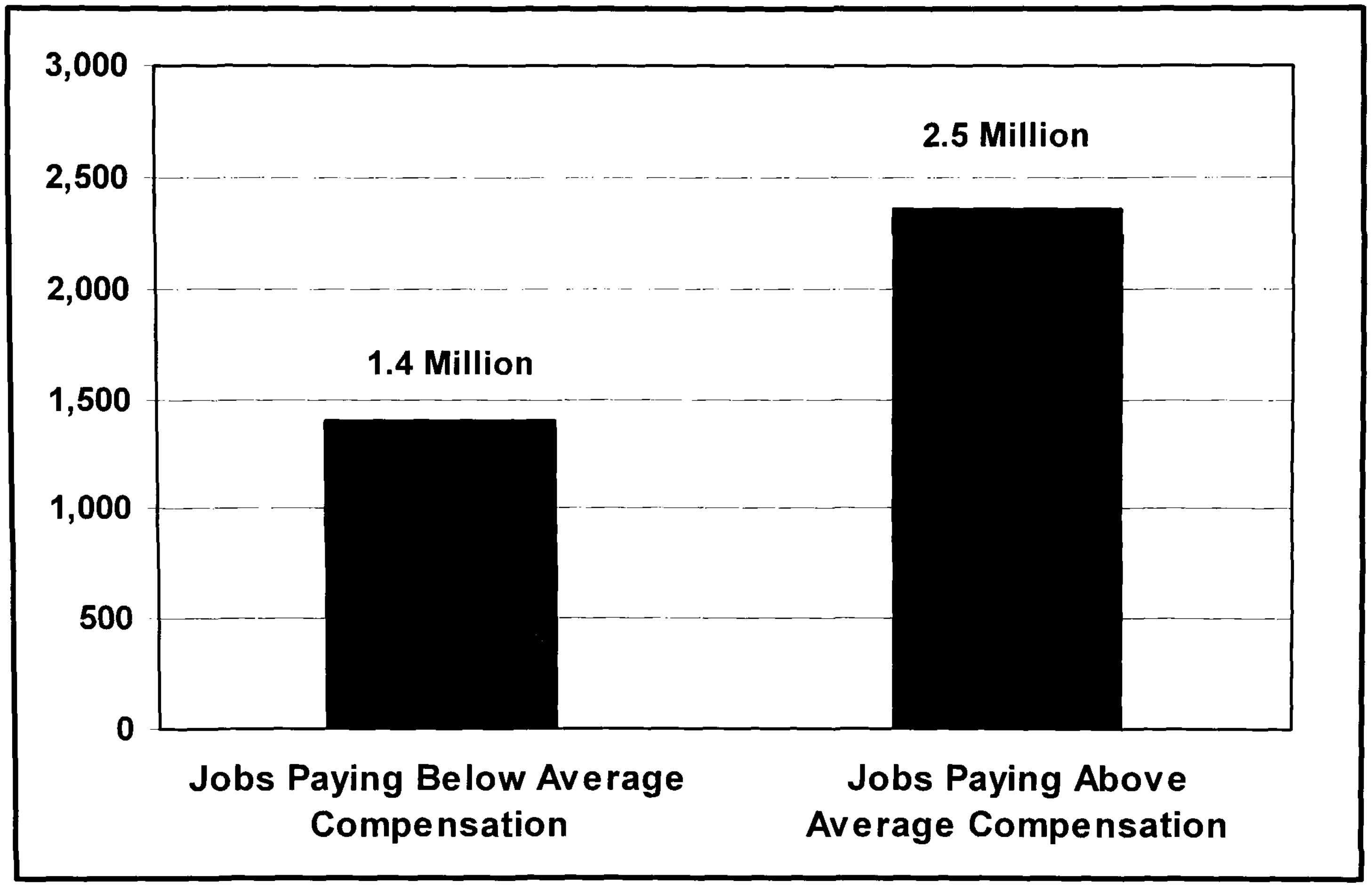
December 14, 2005

Widespread Jobs Recovery in Key Growth Sectors



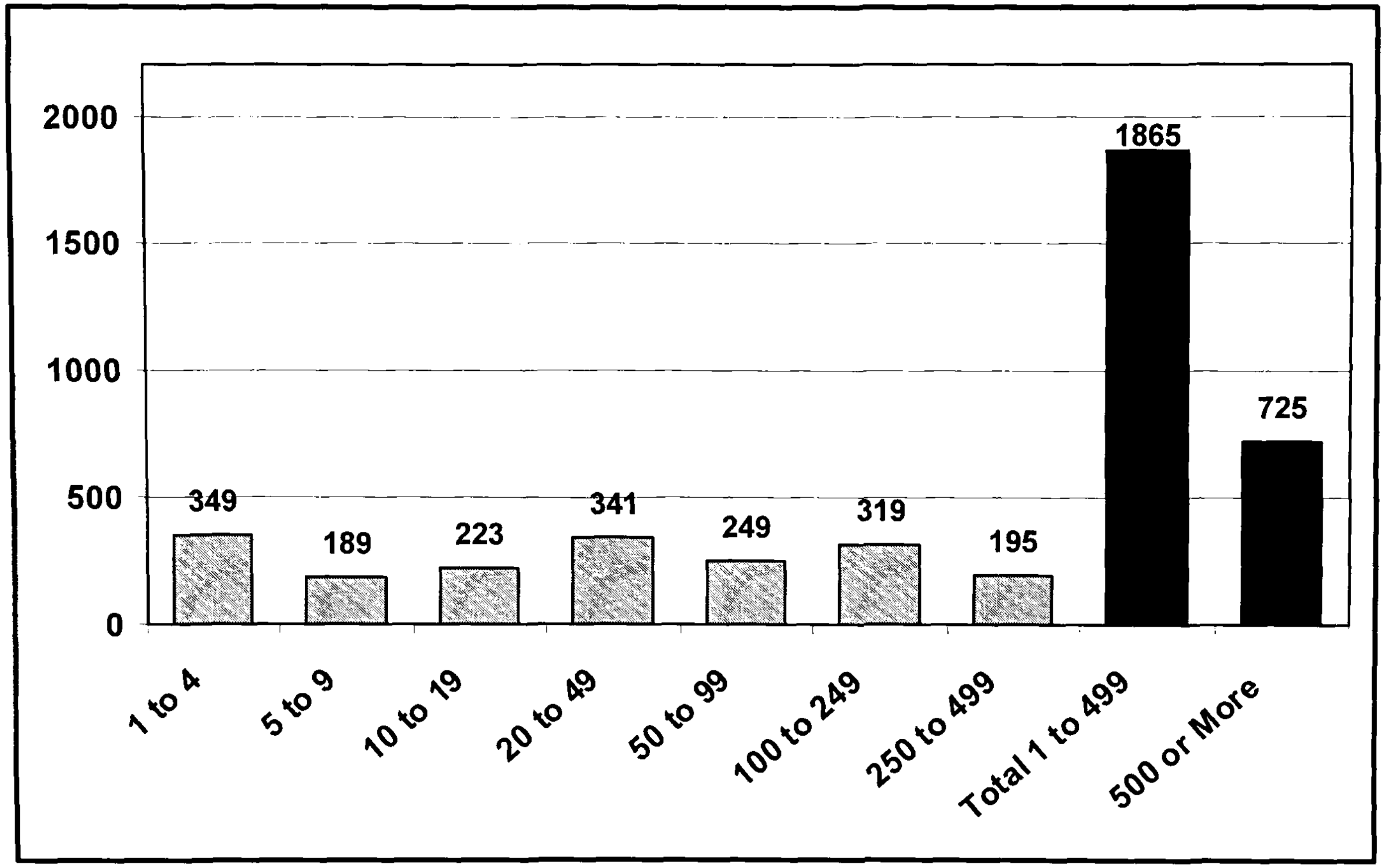
Industry Sector Employment Change Since Jobs Recovery Began as Measured by the Establishment Survey, May 2003 to Nov. 2005 (in thousands, seasonally adjusted)

Strong Recovery in High Paying Jobs

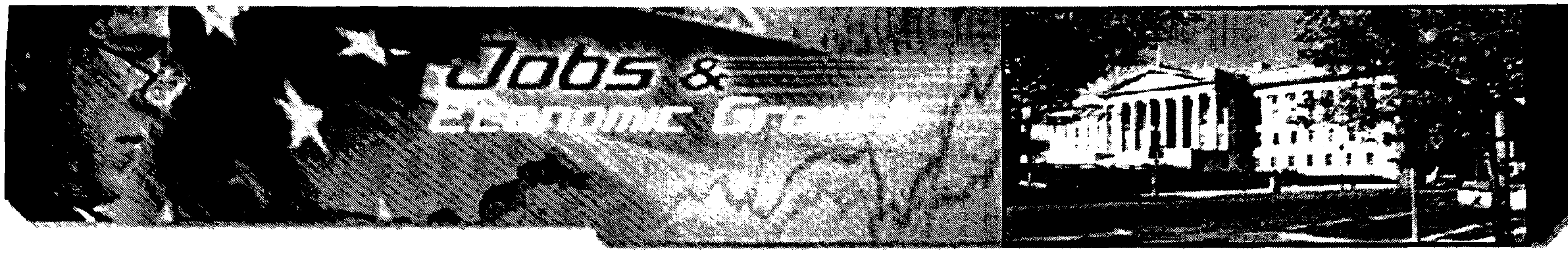


Change in Average Employment by Occupation Based on Household Survey, Average for 12 Months Ending November 2005 to Average for 12 Months Ending November 2003 (in Thousands). Occupations Ranked by September 2005 Compensation.

Smaller Firms Have Led the Recovery



Cumulative Quarterly Net Employment Change, 2nd Quarter 2003 to 1st Quarter 2005 by Firm Size Based on BLS BEDS Data (in thousands, seasonally adjusted)



Year-End Economic Briefing 2005

Treasury Secretary John W. Snow

Commerce Secretary Carlos M. Gutierrez

Labor Secretary Elaine L. Chao

December 14, 2005

PRESS ROOM

December 14, 2005
JS-3049

Statement by Deputy Secretary Kimmitt on the Vote to Reauthorize the USA PATRIOT Act

Deputy U.S. Treasury Secretary Robert M. Kimmitt released the following statement today on the pending vote in Congress to reauthorize the USA PATRIOT Act:

"The USA PATRIOT Act is crucial to protecting our homeland and keeping Americans safe from the terrorists and criminals whose mission is to destroy the freedoms we hold dear.

"Not only has the Act better equipped our law-enforcement officials to investigate and take legal action against terrorists, but the Act has also strengthened our defenses against those who seek to abuse the U.S. financial system to bankroll terrorists' deadly agendas.

"The PATRIOT Act is one of the most valuable weapons in our arsenal against groups that have pledged their alliance to terror, such as al Qaida and Hizbollah. The successes achieved under the PATRIOT Act – from breaking up terrorist cells operating in the United States to safeguarding the financial system from illicit money flows – have been essential to protecting America.

"We must always stay one step ahead of the terrorists; our vigilance in this fight, therefore, cannot waver. I strongly urge a bipartisan vote in Congress to reauthorize the USA PATRIOT Act," said Kimmitt.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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December 15, 2005
JS-3050

Treasury International Capital Data for October

Treasury International Capital (TIC) data for October are released today and posted on the U.S. Treasury web site (www.treas.gov/tic). which will report on data for November, is scheduled for January 18, 2006.

Net foreign purchases of long-term securities were $106.8 billion.

- Net foreign purchases of long-term domestic securities were $110.3 billion, $13.0 billion of which were net purchases by foreign $97.3 billion of which were net purchases by private foreign investors.
- U.S. residents purchased a net $3.5 billion in foreign issued securities.

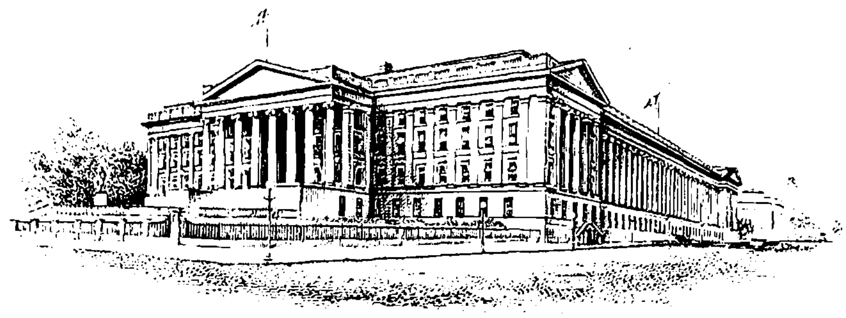
Foreigners' Transactions in Long-Term Securities with U.S. Residents
(Billions of dollars, not seasonally adjusted)

				12 Months Through			
		2003	2004	Oct-	Oct-	Jul-	Aug-05
1	Gross Purchases of Domestic Securities	13526.0	15178.9	14469.9	17157.3	1279.0	1414.6
2	Gross Sales of Domestic Securities	12806.1	14262.5	13580.7	16099.7	1177.9	1326.7
3	**Domestic Securities Purchased, net** (line 1 less line	**719.9**	**916.4**	**889.2**	**1057.6**	**101.0**	**87.9**
4	**Private, net /2**	**585.0**	**680.8**	**656.5**	**920.9**	**90.7**	**83.5**
5	Treasury Bonds & Notes, net	159.7	150.9	172.7	240.1	24.9	25.0
6	Gov't Agency Bonds, net	129.9	205.6	173.8	227.1	32.1	16.9
7	Corporate Bonds, net	260.3	298.0	281.3	359.9	23.3	38.1
8	Equities, net	35.0	26.2	28.7	93.8	10.3	3.6
9	**Official, net**	**134.9**	**235.6**	**232.7**	**136.7**	**10.4**	**4.4**
10	Treasury Bonds & Notes, net	103.8	201.1	200.7	79.9	3.6	3.2
11	Gov't Agency Bonds, net	25.9	20.8	22.6	35.8	5.7	-1.2
12	Corporate Bonds, net	5.4	11.5	9.6	18.3	1.4	2.1
13	Equities, net	-0.3	2.2	-0.2	2.7	-0.3	0.3
14	Gross Purchases of Foreign Securities	2761.8	3123.1	3041.8	3564.3	273.3	311.7
15	Gross Sales of Foreign Securities	2818.4	3276.0	3171.8	3705.7	287.1	310.6
16	**Foreign Securities Purchased, net** (line 14 less line	**-56.5**	**-152.8**	**-130.0**	**-141.4**	**-13.7**	**1.1**
17	Foreign Bonds Purchased, net	32.0	-67.9	-57.2	-27.7	-5.1	17.1
18	Foreign Equities Purchased, net	-88.6	-85.0	-72.7	-113.7	-8.7	-16.0
19	**Net Long-Term Flows** (line 3 plus line 16)	**663.3**	**763.6**	**759.3**	**916.2**	**87.3**	**89.0**

/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

December 15, 2005 **Contact: Tony Fratto**
EMBARGOED UNTIL 9:00 AM **202-622-2910**

TREASURY INTERNATIONAL CAPITAL DATA FOR OCTOBER

Treasury International Capital (TIC) data for October 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 November, is scheduled for January 18, 2006.

Net foreign purchases of long-term securities were $106.8 billion.

- Net foreign purchases of long-term domestic securities were $110.3 billion, $13.0 billion of which were net purchases by foreign official institutions and $97.3 billion of which were net purchases by private foreign investors.

- U.S. residents purchased 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	Oct-04	Oct-05	Jul-05	Aug-05	Sep-05	Oct-05
1	Gross Purchases of Domestic Securities	13526.0	15178.9	14469.9	17157.3	1279.0	1414.6	1656.5	1473.7
2	Gross Sales of Domestic Securities	12806.1	14262.5	13580.7	16099.7	1177.9	1326.7	1538.4	1363.4
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**719.9**	**916.4**	**889.2**	**1057.6**	**101.0**	**87.9**	**118.1**	**110.3**
4	**Private, net /2**	**585.0**	**680.8**	**656.5**	**920.9**	**90.7**	**83.5**	**113.8**	**97.3**
5	Treasury Bonds & Notes, net	159.7	150.9	172.7	240.1	24.9	25.0	22.9	25.5
6	Gov't Agency Bonds, net	129.9	205.6	173.8	227.1	32.1	16.9	18.4	29.0
7	Corporate Bonds, net	260.3	298.0	281.3	359.9	23.3	38.1	48.9	32.4
8	Equities, net	35.0	26.2	28.7	93.8	10.3	3.6	23.6	10.4
9	**Official, net**	**134.9**	**235.6**	**232.7**	**136.7**	**10.4**	**4.4**	**4.3**	**13.0**
10	Treasury Bonds & Notes, net	103.8	201.1	200.7	79.9	3.6	3.2	-1.1	4.9
11	Gov't Agency Bonds, net	25.9	20.8	22.6	35.8	5.7	-1.2	2.2	6.2
12	Corporate Bonds, net	5.4	11.5	9.6	18.3	1.4	2.1	2.2	1.7
13	Equities, net	-0.3	2.2	-0.2	2.7	-0.3	0.3	1.0	0.2
14	Gross Purchases of Foreign Securities	2761.8	3123.1	3041.8	3564.3	273.3	311.7	319.2	379.9
15	Gross Sales of Foreign Securities	2818.4	3276.0	3171.8	3705.7	287.1	310.6	335.6	383.4
16	**Foreign Securities Purchased, net** (line 14 less line 15) /3	**-56.5**	**-152.8**	**-130.0**	**-141.4**	**-13.7**	**1.1**	**-16.4**	**-3.5**
17	Foreign Bonds Purchased, net	32.0	-67.9	-57.2	-27.7	-5.1	17.1	-9.4	2.4
18	Foreign Equities Purchased, net	-88.6	-85.0	-72.7	-113.7	-8.7	-16.0	-7.0	-5.9
19	**Net Long-Term Flows** (line 3 plus line 16)	**663.3**	**763.6**	**759.3**	**916.2**	**87.3**	**89.0**	**101.7**	**106.8**

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

PRESS ROOM

December 15, 2005
JS-3051

Snow Statement on Growth in Hourly Wages

"Following on last week's record household wealth levels and a 0.5 percent increase in real hourly earnings in October, today's announcement that inflation adjusted hourly wages grew 1 percent in November is welcome news for America's workers and another sign of the strength of the U.S. economy.

"One way to look at the health of the economy is to view where we are compared to previous business cycles. Real hourly wages are up 1.1 percent versus the previous business cycle peak in early 2001. That means workers are today earning more per hour in real terms than they did at the height of the 1990s expansion. By comparison, at the same point in the business cycle of the 1990s, real hourly wages were down 2.1 percent.

"When the ingenuity of American workers and entrepreneurs is free to create and innovate, the result is economic growth and higher standards of living. That is why it is so important that we keep in place President Bush's economic policies of lower taxes on individuals and investment. These policies, combined with sound monetary policy from the Federal Reserve, have set our economy on the right course of sustained economic growth.

"Higher real wages, combined with 4.5 million new jobs created since May of 2003 and GDP growth that has averaged 4.1 percent, with 4.3 percent growth in the most recent quarter, gives us much reason for good cheer in this holiday season."

PRESS ROOM

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December 16, 2005
js-3052

Report on IMF Legislative Provisions

See Related Documents Below.

REPORTS

- Report on IMF Legislative Provisions

IMPLEMENTATION OF
LEGISLATIVE PROVISIONS
RELATING TO THE
INTERNATIONAL MONETARY FUND

A Report to Congress

in accordance with

Sections 1503(a) and 1705(a) of the
International Financial Institutions Act

and

Section 801(c)(1)(B) of the
Foreign Operations, Export Financing, and Related Programs
Appropriations Act, 2001

United States Department of the Treasury
November 2005

Table of Contents

Introduction

This is the seventh report prepared in accordance with Sections 1503 and 1705(a) of the International Financial Institutions Act (the IFI Act – codified at 22 United States Code sections 262o-2 and 262r-4).[1] This report also covers policies set forth in Section 801(c)(1)(B) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001, [2] as required by amended Section 1705 of the IFI Act. The report reviews actions taken by the United States to promote these legislative provisions in International Monetary Fund ("IMF" or the "Fund") country programs. Earlier reports under these provisions are available on the Department of the Treasury's website (www.treas.gov/press/reports.html).

The Treasury Department and the Office of the United States Executive Director ("USED") at the IMF consistently endeavor to build support in the IMF's Executive Board for the objectives set out in this legislation. These efforts include meetings with IMF staff and other Board members on country programs and IMF policies, formal statements by the USED in the IMF Board, and USED votes in the Executive Board. The Treasury Department's objective is to support strengthened commitments in IMF programs, policy actions by program countries, and policy decisions at the IMF itself.

Assessments of the overall effectiveness of the Treasury and USED's office in promoting the legislative provisions are published annually by the GAO and are available online.[3] The most recent report states that the "Treasury continues to promote the task force as a tool for monitoring and promoting legislative mandates and other policy priorities." The Treasury Department task force is charged with increasing awareness among Treasury staff about legislative mandates and identifying opportunities to influence IMF decisions.

Report on Specific Provisions

I. Section 1503(a)

(1) Exchange Rate Stability

Article I of the IMF's Articles of Agreement states that one of the purposes of the IMF is "to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation." The IMF advises countries that exchange rate stability can only be achieved through the adoption of sound macroeconomic policies. While the Fund recognizes the right of each member country to choose its own exchange rate regime, it advises countries on macroeconomic and financial policies necessary to support the sustainability of that regime and raises a note of caution where it views arrangements to be

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[1] These provisions were enacted in Sections 610 and 613 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999 (Public Law 105-277, division A, § 101(d), title VI, §§ 610 & 613). Section 1705(a) was amended by Section 803 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001 (Public Law 106-429, title VIII, § 803).
[2] Public Law 106-429, title VIII, § 801(c)(1)(B).
[3] *Treasury Continues to Maintain Its Formal Process to Promote U.S. Policies at the International Monetary Fund*, General Accounting Office (GAO), September 2005.

inconsistent with broader macroeconomic policy choices. The U.S. Treasury has urged the Fund to exercise firm surveillance over exchange rates.

- In China's most recent Article IV discussions, the USED strongly supported the move toward greater exchange rate flexibility. The Chinese authorities allowed a 2% revaluation in July 2005, and in September widened the daily trading band for major currencies (excluding the US dollar) to 3 percent from 1.5 percent.[4]

- In its January 2005 statement on Korea's Article IV, the USED urged the Koreans to allow more flexibility in their exchange rate and noted that this would "provide scope for an independent monetary policy and the delinking of domestic and foreign interest rates."

(2) Policies to increase the effectiveness of the IMF in promoting market-oriented reform, trade liberalization, economic growth, democratic governance, and social stability through:

(A) Establishment of an independent monetary authority

With the support of the United States, the IMF has been a consistent advocate of greater independence of monetary authorities across a range of countries. IMF conditionality frequently includes measures to strengthen central bank autonomy and accountability. The IMF also provides technical assistance to help countries achieve these goals. In addition, the Fund promotes these objectives through assessments of compliance with internationally-agreed upon standards and codes, as well as rules for safeguarding the use of IMF resources. Examples of United States activities in the last year with regard to these issues include the following:

- In its August 2005 statement on Paraguay's SBA review, the USED urged continued efforts on increasing the independence of the central bank.[5]

- In a statement on the Kyrgyz Republic's PRGF review in October 2005, the USED supported IMF staff's recommendation to strengthen the legal basis for an independent central bank.[6]

- In its statement on Mongolia's Article IV review in September 2005, the USED emphasized the need to improve governance at the independent oversight body at the central bank and strengthen governance in general.

(B) Fair and open internal competition among domestic enterprises

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[4] Article IV reviews are surveillance reports that provide a comprehensive economic analysis of member country economic policies, including: (i) exchange rate, monetary, and fiscal policies; (ii) financial sector issues; (iii) risks and vulnerabilities; (iv) institutional issues; and (v) structural policies.
[5] The Stand-By Arrangement (SBA) is the Fund's standard lending instrument for middle-income countries with short-term balance of payments needs. The basic (SDR) rate of charge is applied, and repayment is typically expected within 2 ¼ - 4 years.
[6] The Poverty Reduction and Growth Facility (PRGF) is the IMF's lending instrument for low-income countries. The PRGF carries a below-market interest rate of 0.5% and a 5 ½-10 year repayment schedule.

With United States support, the IMF encourages member countries to pursue policies that improve internal economic efficiency. These measures may include ending directed lending (or other relationships between government and businesses based on favoritism), improving anti-trust enforcement, and establishing a sound and transparent legal system. While the World Bank has the lead mandate on these issues, the IMF has at times provided related policy advice through surveillance or programs when it considered them critical to macroeconomic stability. For example,

- The USED noted the importance of the establishment of a commercial court in the November 2004 Board IMF statement on Peru. The creation of the court was a performance criterion under the IMF program and is expected to help promote investment and competitiveness.

- In its March 2005 Board statement on Lithuania's Article IV, the USED commended the authorities for strengthening the business environment and making good progress on privatization. The statement also calls for progress on increasing the competitiveness of small and medium enterprises.

(C) Privatization

The IMF has made privatization a component of country programs where significant distortions and government ownership of business enterprises have created substantial inefficiencies in the allocation of resources and the production of goods. Collaborating with the World Bank, the Fund has supported the use of competitive and transparent means of privatization so that borrowing countries might achieve gains in economic efficiency and improve their fiscal positions. Examples of IMF programs in which the USED has advocated privatization include the following:

- The USED supported Pakistan's PRGF, which called for far-reaching structural reforms, including those in the financial sector. Nearly 80 percent of the country's banking sector assets are now in private banks, compared with 34 percent five years ago.

- In a September 2005 Board statement on Post-Program Monitoring for the Philippines, the USED welcomed the government's commitment to sell 70% of the national power company's generating assets.

- In board statements for the November 2002 and May 2004 Article IV reviews of Egypt, the USED stressed the importance of privatizing the four state-owned banks that dominate the Egyptian banking sector. In late 2004, Egypt agreed and began the process of privatizing the first of the four state-owned banks.

(D) Economic deregulation and strong legal frameworks

Markets are distorted and entrepreneurship is stifled without strong property rights, enforcement of contracts, and fair and open competition. While these issues are often addressed as part of the World Bank's mandate, the IMF periodically includes policy advice in its programs or surveillance on measures considered critical to the member country's macroeconomic performance. Examples of United States' efforts to encourage these reforms include the following:

- In its February 2005 Board statement on the Article IV for Italy, the USED noted the importance of simplifying legal procedures to improve the environment for private sector-led growth. Soon after, the Italian authorities unveiled plans to increase competitiveness and reform of the bankruptcy law; faster procedures in the judicial system were key features. The reform package was passed into law in May.

(E) Social safety nets

While growth is an essential ingredient for poverty reduction, investment in human development and basic social services is also critical. Cost effective social safety nets can play an important role in promoting building domestic support for economic reform, and in alleviating the direct impact of poverty. Against this background, the United States has been a strong advocate of strengthened IFI support for productivity-building investments in public education, health and other social services. Importantly, the US has secured grants windows in the International Development Association of the World Bank Group, the African Development Fund, and the Asian Development Fund that will strengthen MDB assistance in these important sectors.

The IMF does not lend directly for budget support to build social safety nets. However, the Fund's policy advice, and its focus on macroeconomic stability, encourage domestic policy makers to develop fiscal strategies that address the needs of the poor. IMF advice is developed within a country-specific poverty reduction strategy (PRS) that encourages accountability between donors and recipients. In a September 2005 review of the PRS approach, the USED welcomed the increased focus on accountability, results, the critical link between improved budgeting systems and the success of PRS initiatives, and the importance of participation.

- Approximately 2/3 of PRGF-supported programs include countervailing measures aimed at offsetting the impact of macroeconomic and structural policies on the poor.

- As a result of its financial crisis, the poverty rate in Uruguay increased from 18% to over 30% between 2000 and 2003. The USED supported the government's introduction of a Social Emergency Program to provide monetary support and social services to families meeting income and other eligibility requirements. At the same time, the USED supported IMF staff's call for careful targeting of the program and a timely phase-out to avoid weakening fiscal and debt sustainability.

(F) Opening of markets for agricultural goods through reductions in trade barriers

The IMF encourages a multilateral, rules-based approach to trade liberalization across all sectors of the global economy, including, but not limited to, the agricultural sector. The IMF has played a supportive role in promoting trade liberalization, particularly in the context of the WTO trade negotiations under the Doha Development Agenda (DDA). In April 2004, the Fund approved the Trade Integration Mechanism (TIM) to provide financial support to countries facing balance of payments problems resulting from trade adjustment. The proposal represents a concrete response to developing country concerns over the potential negative impacts from multilateral trade liberalization. The IMF is prepared, along with the World Bank, to provide transitional assistance to member countries experiencing payment imbalances arising from the passage of trade reform.

- In its 2004 Board statement on the Article IV for France, the USED urged France to support an ambitious conclusion to the Doha round, including the liberalization of trade on specific agricultural products and noting that early and aggressive implementation of CAP (Common Agricultural Policy) reform would greatly enhance this effort.

- In its Board statement for the German Article IV, the USED welcomed Germany's efforts within the EU to advance the Doha round, including the liberalization of trade on specific agricultural products and efforts to decouple CAP support from production.

(3) ***Strengthened financial systems and adoption of sound banking principles and practices***

The joint IMF-World Bank *Financial Sector Assessment Program* ("FSAP") has emerged as a critical instrument for financial sector surveillance and advice. As of February 2005, eighty-two FSAP assessments had been completed with seventeen additional reviews planned.

Results from the FSAPs are used to generate assessments of compliance with key financial sector standards such as the Basel Committee's *Core Principles for Effective Banking Supervision,* the International Organization of Securities Commission's *Objectives and Principles of Securities Regulation,* and the IMF's own *Code of Good Practices on Transparency in Monetary and Financial Policies.* The FSAPs are also used to develop *Financial System Stability Assessments* ("FSSA") which are often provided to the public through the *Reports on the Observance of Standards and Codes* ("ROSCs"). In the March 2005 review of the FSAP program, the USED underlined the importance of improving coordination and follow-up of the FSAP process to ensure that lessons learned on how to strengthen financial systems are embedded in surveillance and program work of the World Bank and IMF. In the July 2005 discussion of the Standards and Codes Initiative, the U.S. pushed for increased integration of the ROSC into other IFI activities and improved accessibility and publication of the reports. Some key examples of where the USED has supported the strengthening of financial systems are:

- Under the U.S.-supported IMF program for Argentina, the Argentine Central Bank established a clear regulatory framework and a plan for banks to rebuild capital in order to minimize remaining vulnerabilities.

- In the August 2005 Article IV discussion on China, the USED encouraged the Chinese to address the stock of non-performing loans (NPLs) in the predominantly state-owned banking system, and underscored the importance of improved bank supervision, more effective corporate governance, and state bank privatization to prevent the creation of new NPLs.

- The USED board statement in May 2005 supported key structural economic reforms in Turkey's IMF program, including strengthening of the banking regulatory and supervisory framework through swift passage and implementation of key amendments to the banking act. The Turkish Parliament passed the necessary legislation in this area in October.

- Under its U.S.-supported IMF Stand-By Arrangement, the Brazilian Central Bank has created a centralized credit information bureau. This enables loan applicants and banks to have access to the central bank's centralized credit rating system, with a view to make available to competing banks information on a borrower's credit.

(4) ***Internationally acceptable domestic bankruptcy laws and regulations***

The IFIs have continued to build upon work started after the Asian financial crisis to promote more effective insolvency and debtor-creditor regimes. While the World Bank normally leads reviews of domestic insolvency laws, the IMF actively supports this agenda. The IMF and the World Bank have supported adoption of the Model Law on Cross-Border Insolvency developed by the UN (the UNCITRAL Model Law) to facilitate the resolution of increasingly complex cases of insolvency where companies have assets in several jurisdictions. The IFIs also provide technical assistance to help emerging market economies develop efficient insolvency regimes. With the support of the United States, the IMF has worked with the World Bank to promote improved insolvency regimes in a number of countries.

- During the July 2005 ROSC review, the United States urged the IMF, World Bank and UNCITRAL to swiftly reach agreement on a unified standard for insolvency.

- The USED has pressed for a reform of Brazil's bankruptcy law in the context of its IMF program. The Brazilian Congress has passed a bankruptcy law that provides a chapter 11-type system and encourages extra-judicial workouts in cases of default.

- Regarding the Czech Republic's continual delays in adopting bankruptcy legislation, the USED notes in its 2005 Article IV Board statement that bankruptcy reform remains an urgent priority for the Czech Republic.

(5) ***Private Sector Involvement***

The United States continues to work to ensure that the private sector plays an appropriate role in the resolution of financial crises. Over the past several years, the IMF, with the support of the United States, has taken important steps towards strengthening crisis prevention and resolution. The Fund has strengthened its surveillance of member countries and instilled more discipline in the use of official sector financing, especially through the establishment of rules and procedures governing exceptional access to Fund resources. Additionally, the use of collective action clauses (see Section C, below), supported by the IMF, as an accepted contractual, market-based approach to sovereign debt restructurings should help a sovereign restructure its debt when under financial distress. The IMF recognizes the need to preserve the fundamental principles that

(a) creditors should bear the consequences of the risks they assume and (b) debtors should honor their obligations.

In particular, the United States has advocated policies that include:

(A) Increased Crisis Prevention through Improved Surveillance and Debt and Reserve Management

The United States has urged the IMF to strengthen further its surveillance function and crisis prevention capabilities. In particular, the USED has supported the balance sheet approach to measure vulnerabilities in emerging markets and has called for greater focus on debt sustainability in both low-income and emerging market countries.

- In two recent reviews of program design (December 2004 and August 2005), the U.S. Board Statements in both cases emphasized that the Fund needs to increase its focus on debt sustainability in addition to appropriate fiscal adjustment.

- In its September 2005 statement on the Philippines, the USED called for greater fiscal consolidation in order to improve public debt dynamics.

The IMF continues to encourage, with strong United States support, member countries to make their economic and financial conditions more transparent. Countries are urged to provide additional information to private market participants by publishing Article IV assessments and program documentation as well as by regularly releasing data consistent with the IMF's Special Data Dissemination Standard (SDDS).

- Fund members subscribing to either the General or Special Data Dissemination Standards increased from 60% of all members in 2005 to 75% in 2005. In an October 2005 USED statement on data standards, the USED called for mandatory reporting on the currency composition of reserves in order to improve crisis prevention.

(B) Strengthening of Emerging Markets' Financial Systems

The IMF continues to work with other IFIs to promote stronger financial systems in emerging market economies (see Section 3). It is also actively involved, with the World Bank, in monitoring the implementation of the Core Principles for Effective Banking Supervision. The IMF, with United States support, has increased its cooperation with the World Bank in this area, through the joint FSAP and cooperative assessments of other standards and codes.

(C) Strengthened Crisis Resolution Mechanisms

The United States, in cooperation with the IMF and the broader international financial community, has promoted a strengthened framework for crisis resolution through use of collective action clauses (CACs), application of the lending into arrears policy, and clear limits on the use of official finance.

(i) Collective Action Clauses

Sovereign bonds governed by New York law conventionallaw convention which would permit modification of key payment terms by less ent terms by le restriction made these bonds harder to restructure when a scture when a distress. The United States has worked actively with the IMF an with the IMF the market's adoption of CACs in order to improve debt restruorove debt rest now become the market standard under NY law.

CACs are now included in 53 percent of the stock of extehe stock of e emerging markets, and all new issuances since March 2005 – w March 2005 – included CACs. The IMF, encouraged by the United States, I United States element of its crisis resolution agenda. The IMF has indicatedMF has indicat future issuers to follow this trend in strengthening market practicesg market practi

(ii) Lending into Arrears

The IMF lending into arrears policy permits the Fund to provithe Fund to pr adjustments, despite the presence of actual or impending arrearsmpending arre private creditors, where: (i) prompt IMF support is considereoort is conside implementation of the member's adjustment program; and (program; and appropriate policies and is making a good faith effort to reach a effort to reach creditors. IMF efforts in recent years have focused on applyingused on apply specific cases, including Argentina, the Dominican Republic, Iraq, in Republic, Ira

(iii) Clear Limits on Official Finance

The United States continues to press the IMF to improve itsIF to improve explicit criteria were developed for extending loans to countrieloans to count normal limits ("exceptional access"). These include: (i) the nclude: (i) the "exceptional balance of payments pressures on the capital accounhe capital acco with normal resources, (ii) an analysis of sustainable debt levels, (able debt levels that the member will regain access to private capital markets duripital markets du the member's policy program can reasonably be expected to succ expected to su were introduced to require: (i) a "higher burden of proof in progrof proof in pro consultation with the Board on sovereign creditor negotiations, (iir negotiations, specifically outlining all of the relevant considerations, and (iv) antions, and (iv) program within twelve months of its completion. In an April 2005 In an April 20 USED argued for retaining the existing limits on exceptional acon exceptional a presumption of a one-program exit strategy.

(6) *Good governance*

The IMF's commitment to promoting good governance is outlinvernance is out *Partnership for Sustainable Global Growth* and its 1997 *Guidelin*ds 1997 *Guideli* IMF also supports good governance through its emphasis on transmphasis on tra market-based reforms.[7] Recently, the IMF has been particularly active in promoting good governance through its efforts to protect against abuse of the financial system and to fight corruption.

The Fund's involvement has focused on those governance aspects that are generally considered part of the IMF's core expertise, such as improving public administration, increasing government transparency, enhancing data dissemination, and implementing effective financial sector supervision. The IMF promotes best practice principles through its code and standards, such as the *Report on the Observance on Standards, Codes on Fiscal Transparency,* and is collaborating with the World Bank on strengthening the capacity of HIPC countries to track public sector spending. Examples of U.S. efforts to encourage good governance include the following:

- The USED strongly supported the recently issued *Guide on Resource Revenue Transparency* and encouraged the Fund to promote these principles in countries with large extractive industries sectors.

- The USED emphasized the critical importance of aggressively implementing anti-corruption measures in its December 2004 statement on Kenya's Article IV and PRGF review. IMF staff postponed the subsequent program review (and associated loan disbursements) until specific conditions on anti-corruption measures were met.

- The USED encouraged Nigeria to undertake a public investment review, develop an expenditure tracking system, and strengthen transparency in public procurement in its July 2005 statement on Nigeria's Article IV.

(7) *Channeling public funds away from unproductive purposes, including large "show case" projects and excessive military spending, and toward investment in human and physical capital to protect the neediest and promote social equity*

The Fund published a *Code of Good Practices on Fiscal Transparency* in 1998 that aims to enhance fiscal policy transparency, promote quality audit and accounting standards, and reduce or eliminate off-budget transactions, which are often the source of unproductive government spending. The IMF also encourages countries to conduct "public expenditure reviews" with the World Bank.

- In Rwanda, a reduction in military spending enabled a reallocation of government resources to priority areas such as education (spending as a percentage of GDP from 1998-2004 increased from 2.2% to 4.0%), health (increased over the same period from 0.4% to 1.0%), and infrastructure (increased over the same period from 0% to 1.1%).

(8) *Economic prescriptions appropriate to the economic circumstances of each country*

[7] IMF financing is provided to central banks to address balance of payments difficulties. The IMF does not lend to fund specific projects in member countries aimed at procurement and financial management controls.

The United States has supported flexibility in Fund programs while emphasizing the need to focus conditionality on issues critical to growth and macroeconomic stability using measurable results. Partly as a result of U.S. efforts, program conditions have focused increasingly on debt and financial vulnerability in middle-income countries and macroeconomic management in low-income countries. In low-income countries, the U.S. has supported the use of Poverty Reduction Strategy Papers ("PRSP"), which are developed by local authorities and civil society and help ensure that IMF programs meet specific needs of the country.

(9) ***Core Labor Standards (CLS)***

Core labor standards provide a useful benchmark for assessing countries' treatment of workers against internationally agreed-upon standards. The Treasury Department monitors labor standards in all IFI borrower countries and is mandated to submit a separate report to Congress assessing progress made with respect to internationally recognized worker rights.

(10) ***Discouraging practices that may promote ethnic or social strife***

By helping to create the conditions for a sound economy, IMF assistance facilitates the reduction of ethnic and social strife, to the extent such strife is driven in part by economic deprivation. For example, with United States support, the IMF has increasingly encouraged the strengthening of social safety nets. The IMF also encourages consultation with various segments of society in the development of programs so that these segments have an opportunity to participate in the implementation of national priorities. IMF assistance has helped to free up resources for more productive public investment by contributing to a reduction in country military expenditures. The United States has also advocated that an analysis of the impact on the poor, carried out by the World Bank, be conducted and that remedial measures, as appropriate, be incorporated into Fund programs.

- In its November 2004 statement on Estonia, the USED advocated the targeting of labor market policies to the depressed Northeast region (which has a high concentration of ethnic Russians) in order to reduce the high unemployment rate in this area.

- For Zimbabwe's Article IV review in September 2005, the USED condemned the "devastating economic and social consequences" of Mugabe's demolition and eviction operations conducted under "Operation Restore Order."

(11) ***Link between environmental and macroeconomic conditions and policies***

With respect to its individual lending operations, the IMF does not itself evaluate positive or negative linkages between conditions and environmental sustainability. Rather, the IMF coordinates with the World Bank which, unlike the IMF, possesses the internal expertise to address such linkages. In the past, the United States has urged the inclusion of measures in IMF programs to tax polluting activities, fund environmental protection efforts, and remove subsidies on environmentally-harmful products or activities.

- Gabon's 2005 Article IV discussed progress made in reforms to the forestry sector, including simplifying forestry taxation, improving transparency in the allocation of forestry permits, and announcing the elimination of the monopoly on the export of logs. The USED welcomed progress, and noted staff's recommendations to accelerate land titling, strengthen transparency and governance, and ensure productive use of public resources.

(12) ***Greater transparency***

Over the last several years, the IMF has increased significantly the amount of information on its programs that it has made available to the public. The United States has stressed the need to build on this progress and expand the number of publications and IMF practices open to public scrutiny. As of July 2004, publication of all Article IV and Use of Fund Resources staff reports is presumed unless a country objects. In addition, all exceptional access reports will generally be published as a pre-condition for the Board's approval of such an arrangement.[8] The USED consistently encourages countries to publish the full Article IV staff report on the IMF's public website. As of end-2004, 78% of IMF staff reports were published, up from 71% as of mid-2003.

- Following prompting by the USED in this year's board statement, Egypt agreed to publish its 2005 Article IV for the first time.

(13) ***Greater IMF accountability and enhanced self-evaluation***

In April 2000, with the strong urging of the USED, the Executive Board agreed to establish an Independent Evaluation Office ("IEO") to supplement existing internal and external evaluation activities. The IEO provides objective and independent evaluation on issues related to the IMF and operates independently of Fund management and at arm's length from the IMF Board. Since its inception, the IEO has published seven comprehensive reviews, including assessments of the IMF's engagement in Argentina, recent capital account crises, and fiscal adjustment in IMF-supported programs. Reports on structural conditionality, the IMF's assistance to Jordan, and others are forthcoming. All reports are publicly available from the IEO's website at (http://imf.org/external/np/ieo/index.htm).

(14) ***Structural reforms which facilitate the provision of credit to small businesses, including microenterprise lending***

The lack of financial services available to the poor is a significant obstacle to growth for many developing countries. The Treasury Department engages with the IFIs to promote structural reforms that encourage the provision of credit to small and micro enterprises. The microfinance sector is frequently reviewed in the context of the Financial Sector Assessment Program (FSAP) in developing countries.

- In the March 2005 discussion on Senegal's 2nd PRGF program review, the USED welcomed progress on structural reforms such as enhanced access to information and judicial reform,

[8] "Exceptional access" refers to financing arrangements in amounts that exceed the Fund's normal limits.

which would improve the overall business climate and boost access to credit for small and medium business.

- In Cameroon's May 2005 Article IV, the USED welcomed the authorities' progress on various structural reforms, including the licensing of microfinance institutions, but also emphasized that much remains to be done on governance and the judiciary to improve the investment climate.

(15) ***Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)***

Comprehensive integration of the IMF and the other IFI efforts as part of the global war on terrorism has been a consistent policy priority for the United States and its partners. We have encouraged collaboration between the IFIs and the Financial Action Task Force (FATF) to assess global compliance with the anti-money laundering (AML) and counter-terrorist financing (CFT) standards based on the FATF 40 Recommendations on Money Laundering and the 9 Special Recommendations on Terrorist Financing.

Collaboration with the FATF and the FATF-style regional bodies, with the assessors using the same common assessment methodology, institutionalizes the global fight against terrorist financing and money laundering, broadens the effort world-wide, and helps countries identify shortfalls in their AML and CFT regimes.

As a result of U.S. leadership, in March 2004, the IMF and World Bank Boards endorsed a common, uniform assessment methodology drafted by the FATF that provides a consistent framework for assessing compliance with the FATF Recommendations. At the same time, in recognition of the importance of effective AML/CFT regimes to sound financial systems and growth, the Boards agreed that assessments of countries' compliance with the FATF recommendations would form a regular part of their financial sector assessments, surveillance, and diagnostic activities and offshore financial center assessments. By the end of 2005, the IMF and World Bank will have conducted over 50 assessments of country compliance with AML/CFT.

The IMF is also a substantial source of funding for countries' efforts to strengthen their own counter-terrorist financing regimes – an activity that the U.S. Treasury has supported and has joined to leverage our own bilateral efforts.

Most recently, Treasury, along with our G7 colleagues, persuaded the IMF and World Bank to increase technical assistance. During the period January 2002 to December 2003, the Fund and the Bank undertook 117 TA projects, providing assistance to 130 countries. Of these, 85 projects provided direct assistance to 63 countries while 32 projects were undertaken on a regional basis. The pace of TA delivery has quickened, and between January 1, 2004 and June 30, 2005, the Bank and the Fund delivered 210 TA projects.

This major effort is reflected in the latest Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund (IMFC) - the Treasury Secretary is the Governor for the U.S. - where the IMFC reiterated its support for the IMF's efforts to implement its intensified AML/CFT work program, and noted the critical importance of supporting countries' efforts with well-targeted and coordinated technical assistance.

The USED/IMF office played a crucial role in mobilizing the IMF Board support for this initiative, as well as making sure note is taken of AML/CFT issues in Article IV reports, IMF programs, and other regular reviews of country progress. Examples include:

- China became an observer to the Financial Action Task Force (FATF) in early 2005. In discussions on China's 2005 Article IV statement, the USED welcomed China's efforts to draft AML/CTF legislation consistent with FATF recommendations.
- The Philippines has established a Financial Intelligence Unit (FIU) that will analyze financial data, coordinate national efforts and facilitate international cooperation – and in doing so have been removed from the Financial Action Task Force (FATF) non-cooperative list.
- In a June 2005 IMF Board statement, the USED commended the leadership role taken by Peru's new Financial Intelligence Unit in anti-money laundering efforts in South America.

II. Section 801(c)(1)(B)

(I) Suspension of IMF financing if funds are being diverted for purposes other than the purpose for which the financing was intended

With strong United States support, the IMF has taken steps in the past several years to ensure that IMF resources are used solely for the purposes for which they are intended. These steps constitute a serious and far-reaching initiative to strengthen the system for safeguarding the use of Fund resources and for deterring the misreporting of data to the IMF.

The IMF's safeguards framework requires countries receiving funds to submit to external financial audits of their central bank's data. This process is designed to ensure that central banks have adequate control, accounting, reporting and auditing systems in place to protect central bank resources, including IMF disbursements. Any critical gaps identified during the assessment process must be remedied before additional IMF resources can be disbursed.

As of March 2005, the IMF had completed 111 safeguard assessments covering 69 central banks. Member countries had implemented 97% of the Fund's recommendations, proposed under program conditionality or letter of intent commitments.

- The USED statement stressed that the IMF should not allow standards to be weakened out of a desire to remain engaged, and that as a rule, key weaknesses should be addressed *prior* to the second program review.
- Mauritania was found to have serious and prolonged data misreporting to the IMF in 2004. The IMF subsequently cancelled Mauritania's lending program and was repaid in full. Most recently in a July 2005 Board statement, the USED has insisted that the authorities resolve all outstanding data issues prior to re-establishing relations with the IMF.

*(II) **IMF financing as a catalyst for private sector financing***

The IMF recognizes that if structured effectively, official financing can complement and attract private sector flows. The Fund promotes policy reforms that catalyze private financing and, in cases of financial crisis, allow countries to regain access to international private capital markets as quickly as possible. (See Section 5 above for a more in-depth discussion of private sector involvement.)

*(III) **Financing must be disbursed (i) on the basis of specific prior reforms; or (ii) incrementally upon implementation of specific reforms after initial disbursement***

The United States has been an advocate of conditionality on IMF loans and has supported the Fund's increased focus on results-oriented lending. IMF disbursements are tranched based on a country's performance against specified policy actions, both prior to and during the program ("prior actions").

*(IV) **Open markets and liberalization of trade in goods and services***

The IMF has been a consistent advocate of open markets and trade liberalization. The Fund also recognizes that trade adjustments can cause temporary balance of payments problems and has developed the Trade Integration Mechanism to provide transitional financial assistance to countries.

- In Nigeria, the U.S. has consistently encouraged dismantling of the various import bans, most recently in an October 2005 statement on Nigeria's request for a Policy-Support Instrument (PSI). The import bans provide rent-seeking opportunities and 'tax' Nigerian consumers and foreign-input dependent exporters.

- In 2004, Bangladesh became the first country to access the TIM.

*(V) **IMF financing to concentrate chiefly on short-term balance of payments financing***

In September 2000, with strong United States support, the IMF agreed to reorient IMF lending to discourage casual or excessive use, and provide incentives to repay as quickly as possible. In particular, the IMF shortened the expected repayment periods for both Stand-By and Extended Arrangements and established surcharges for higher levels of access.

- In a June 2005 review of charges, the USED called for increased level- and time-based charges and application of both types of charges to address concerns related to exceptional access and prolonged use.

- In addition, the US has supported the creation of a "shocks" window within the PRGF that would focus specifically on short-term balance of payments needs among low-income countries.

(VI) Graduation from receiving financing on concessionary terms

The United States supports comprehensive growth strategies to move countries from concessional to market-based lending. The United States works closely with the IMF and World Bank to promote a growth-oriented agenda in developing countries based on strong monetary and fiscal policies, trade liberalization, and reduction of impediments to private sector job creation. The IMF extends concessional credit through the PRGF. Eligibility is based principally on a country's per capita income and eligibility under the International Development Association ("IDA"), the World Bank's concessional window (the current operational cutoff point for IDA eligibility is a 2004 per capita GNI level of $965). Factors that would contribute to reduced reliance on concessional resources include a country's growth performance and prospects, capacity to borrow on non-concessional terms, vulnerability to adverse external developments such as swings in commodity prices, and balance of payments dynamics.

- In 2005, the US gained support at the Board for the creation of a non-borrowing arrangement ("Policy Support Instrument," or PSI) that would be used primarily by countries graduating from Fund assistance but which desire the benefits of close Fund engagement. Nigeria became the first user in October 2005.

- In addition, the US has championed the cause of 100% debt relief for HIPCs (Highly Indebted Poor Countries) in an effort to improve these countries' balance of payments needs and, over time, reduce their dependency on Fund finance. As of the writing of this report, formal IMF and World Bank Board approval of the G-8 debt relief initiative was pending.

PRESS ROOM

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December 19, 2005
JS-3053

Treasury and IRS Announce U.S. Federal Tax Classification of Certain Japanese Business Entities

The Department of the Treasury today announced that the Treasury Department and the Internal Revenue Service have issued a revenue ruling that addresses the U.S. federal tax classification of certain Japanese business entities.

The revenue ruling responds to numerous regarding the effect that newly enacted Japanese laws have on the existing Yugen Kaisha (YK) business entity. Under the new Japanese laws, all existing YKs will be converted into Tokurei Yugen Kaisha (TYK) business entities, and will be considered a type of Kabushiki Kaisha (KK) business entity. Generally under the entity classification regulations, which apply for U.S. federal tax purposes, a business entity is eligible to elect its tax classification (partnership, corporation, or entity disregarded as separate from its owner). However, certain business entities, such as the Japanese KK, are always considered corporations. Under the regulations, a Japanese YK business entity is an entity that is eligible to elect its U.S. federal tax classification.

The revenue ruling concludes that even though a YK that becomes a TYK under the new Japanese law will be considered a type of KK business entity under such law, it will, for U.S. federal tax purposes, remain an eligible entity that is eligible to elect its U.S. tax classification.

REPORTS

- 26 CFR 301.7701-2: Business entities; definitions

Part 301

Section 7701 Definitions

26 CFR 301.7701-2: Business entities; definitions

Rev. Rul. 2006-3

ISSUE

Will a Japanese Yugen Kaisha business entity ("YK") that becomes a Japanese Tokurei Yugen Kaisha business entity ("TYK") pursuant to the Kaisha Ho, Law No. 86 of 2005 (Company Law) and the Seibi Ho, Law No. 87 of 2005 (the Law Concerning the Coordination, Etc., of Associated Laws in Connection with the Enforcement of the Companies Law) (Coordination Law), as promulgated on July 26, 2005, remain an eligible entity for purposes of § 301.7701-1 through 3 of the Procedure and Administration Regulations?

FACTS

On July 26, 2005, the Japanese Diet reorganized Japanese corporate law through the promulgation of the Company Law and the Coordination Law, which were passed on June 29, 2005. Pursuant to the Coordination Law, the YK will be abolished as a Japanese corporate entity. All YKs in existence as of the effective date of the

Coordination Law will continue as TYKs, a special type of Kabushiki Kaisha business entity ("KK") under the Company Law. The effective date of these laws will be determined by a Cabinet enforcement order; however, the provisions will be effective no later than January 26, 2007. After the effective date of the new laws, no new YKs or TYKs may be formed.

LAW AND ANALYSIS

Section 301.7701-2(a) defines the term "business entity" as any entity recognized for federal tax purposes (including an entity with a single owner that may be disregarded as an entity separate from its owner under § 301.7701-3) that is not properly classified as a trust under § 301.7701-4 or otherwise subject to special treatment under the Code. A business entity with two or more members is classified for federal tax purposes as either a corporation or a partnership. A business entity with only one owner is classified as a corporation or is disregarded. However, § 301.7701-2(b)(8) provides that certain foreign business entities are always classified as corporations for federal tax purposes (per se corporations). Under § 301.7701-2(b)(8), a KK is a per se corporation. Further, a YK is an eligible entity, for which an entity classification election can be made under § 301.7701-3.

Based on the Company Law and Coordination Law promulgated on July 26, 2005, TYKs are not per se corporations described in § 301.7701-2(b)(8) and will be classified in the same manner as YKs were prior to the effective date of the new Japanese corporate law. Therefore, a YK that becomes a TYK will remain an eligible entity for purposes of § 301.7701-1 through 3.

HOLDING

A Japanese YK that becomes a Japanese TYK, pursuant to the Company Law and the Coordination Law, as promulgated on July 26, 2005, will remain an eligible entity for purposes of § 301.7701-1 through 3.

DRAFTING INFORMATION

The principal author of this revenue ruling is Ronald M. Gootzeit of the Office of Associate Chief Counsel (International). For further information regarding this revenue ruling, contact Ronald M. Gootzeit on (202) 622-3860 (not a toll-free call).

PRESS ROOM

December 20, 2005
JS-3055

Statement of Secretary John W. Snow
On November Housing Starts

"News that the construction of new homes in the month of November was up 5.3 percent over October and 17.5 percent over last year is the latest indication that the American economy is growing at a steady pace, and that the benefits of that growth are touching more Americans every day.

"We can see now that 2005 will be a record year for housing starts, and with permits to build continuing to exceed starts, it appears as if residential construction will remain robust – and that's great news for American families.

"There was additional good economic news this morning that wholesale inflation fell in November by the largest amount in two and a half years, thanks largely to welcome relief in the area of energy prices. From record levels of home ownership to the creation of four and a half million new jobs, the economic news continues to paint a clear picture: that the opportunities created by lower taxes and sound monetary policy have helped the American economy grow and maintain its position as the envy of the world.

"Today more Americans than ever before can say `I'll be home for the holidays.'"

PRESS ROOM

December 16, 2005
JS-3054

Statement of Treasury Under Secretary Randal Quarles on Terrorism Risk Insurance Legislation

Congress has agreed on legislative language that meets the critical goals set out by Secretary Snow when he delivered the Treasury's TRIA report in June: a significantly reduced TRIA program, more room for private sector innovation, greater protections for the taxpayer, and recognition of the temporary nature of the program. Many thought these goals were not achievable when this debate began, but the House and Senate worked very constructively to achieve this outcome, and we think the American taxpayer can be satisfied with the result.

PRESS ROOM

December 20, 2005
2005-12-20-11-22-52-25530

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 $69,715 million as of the end of that week, compared to $68,488 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	December 9, 2005			December 16, 2005		
TOTAL	68,488			69,715		
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	11,026	10,559	21,585	11,210	10,994	22,204
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,520	5,112	15,632	10,692	5,322	16,014
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]			12,116			12,252
3. Special Drawing Rights (SDRs) [2]			8,114			8,204
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	December 9, 2005			December 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						
	December 9, 2005			December 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

December 20, 2005
JS-3055

Statement of Secretary John W. Snow
On November Housing Starts

"News that the construction of new homes in the month of November was up 5.3 percent over October and 17.5 percent over last year is the latest indication that the American economy is growing at a steady pace, and that the benefits of that growth are touching more Americans every day.

"We can see now that 2005 will be a record year for housing starts, and with permits to build continuing to exceed starts, it appears as if residential construction will remain robust – and that's great news for American families.

"There was additional good economic news this morning that wholesale inflation fell in November by the largest amount in two and a half years, thanks largely to welcome relief in the area of energy prices. From record levels of home ownership to the creation of four and a half million new jobs, the economic news continues to paint a clear picture: that the opportunities created by lower taxes and sound monetary policy have helped the American economy grow and maintain its position as the envy of the world.

"Today more Americans than ever before can say `I'll be home for the holidays.'"

PRESS ROOM

December 20, 2005
JS-3057

Treasury Kicks Off Working Group to Strengthen Defenses Against Terrorist Financing, Money Laundering in Middle East & North Africa

The U.S. Department of the Treasury hosted the inaugural meeting of a new international private sector outreach working group that unites public and private sector entities – both foreign and domestic – in an effort to strengthen defenses against terrorist financing and money laundering in the Middle East and North Africa (MENA).

"By engaging directly with the international private sector, we can help facilitate the enhanced development and implementation of effective anti-money laundering and counter-terrorist financing measures, particularly in regions of strategic importance and jurisdictions that may lack fully functional AML/CFT regimes," said Patrick O'Brien, the Treasury's Assistant Secretary for Terrorist Financing and Financial Crimes.

The Middle East/North Africa Financial Sector Working Group (MENA FSWG), which held its initial meeting last Friday, will focus on raising awareness and strengthening implementation of anti-money laundering and counter-terrorist financing (AML/CFT) practices and programs within the regions' financial industries, particularly within the banking sectors.

"We want to help our private sector counterparts at home and abroad implement coordinated and targeted anti-money laundering and counter-terrorist financing programs that are consistent with international standards," O'Brien continued.

Notably, the MENA FSWG plans to draft an action plan to bolster ongoing efforts to develop controls to detect and disrupt terrorist financing and money laundering and foster private sector information exchange between the regions. The MENA FSWG will put this plan into action by coordinating a series of regional AML/CFT conferences and workshops. Through such activities and follow-up, the Working Group hopes to build a core understanding and develop expertise in the financial sector across the MENA region.

The MENA FSWG will focus on several core issues, including:

- The context for private sector AML/CFT development and implementation;
- Private sector development and implementation of core AML controls;
- Developing institutional AML controls for higher risk products, services and relationships; and
- Developing institutional CFT controls.

The creation of the MENA FSWG is a part of the Treasury's overall international private sector outreach strategy to enhance AML/CFT awareness building and implementation worldwide.

"The U.S. Treasury Department is committed to working with financial institutions – both at home and abroad – that not only recognize their responsibilities, but also have a genuine interest in promoting systems to help combat the threats posed by terrorist financing and money laundering," said O'Brien.

The MENA FSWG is currently comprised of representatives from the MENA Financial Action Task Force (FATF), which is dedicated to implementing the FATF 40+9 Recommendations on Money Laundering and Terrorist Financing across the

Middle East/North Africa region; the Union of Arab Banks (UAB), which has a membership of over 300 Arab financial institutions; the Arab Bankers Association of North America (ABANA), a private sector association comprised of members from the financial services industry in the Middle East and the United States; and interested parties from the U.S. banking community. The Treasury Department and Federal Reserve participate in the MENA FSWG on a consultative and facilitative basis. The Group welcomes the participation of additional interested parties.

"The members of the MENA FSWG should be commended for their attention and dedication to this crucial effort," O'Brien concluded.

PRESS ROOM

December 15, 2005
JS-3058

Joint Statement by
Secretary John W. Snow of the United States
and
Secretary Francisco Gil Diaz of Mexico
Mexico City

We are very pleased to have this opportunity to meet to discuss our strong bilateral partnership, as well as regional and global issues of mutual interest.

Our meeting comes at a time of strong economic performance within a context of price stability in both of our countries. U.S. real GDP rose at an annual rate of 4.3 percent in the third quarter of 2005 – the tenth straight quarter with growth of at least 3.3 percent. In Mexico, real GDP was up 3.3 percent in the 12 months ending in the third quarter of 2005. For the 12 months ending in November, core inflation was 2.1 percent in the United States and consumer price inflation was 2.9 percent in Mexico. Total trade between the United States and Mexico was up 7 percent in the first three quarters of 2005 versus the same period last year.

Sustaining strong economic growth is essential to raising incomes and fighting poverty. In this context, we discussed the fundamental importance of significant progress from this week's World Trade Organization Ministerial meeting in Hong Kong. Further global trade liberalization in the Doha round, including in financial services, is critically needed as an engine for higher economic growth, job creation, and poverty reduction around the world.

Experience from around the world demonstrates that sound economic policies and open markets are the most potent tools available for achieving large and lasting reductions in poverty. Mexico's experience is instructive. Mexico's commitment to strong macroeconomic policies has enabled it to seize the opportunities offered by the North American Free Trade Agreement (NAFTA). During the last 11 years, two-way U.S.-Mexico trade increased threefold to reach around $270 billion in 2004. The poverty rate in Mexico has dropped 17 percent since NAFTA.

We are seeking – in cooperation with our Canadian partners – to build on the successes of NAFTA through a new partnership launched by our leaders last spring: the Security & Prosperity Partnership of North America (SPP). Our ongoing work on financial market linkages and on the exchange of financial information is a key part of the SPP's comprehensive agenda for deepening North American integration aimed at strengthening competitiveness and increasing security.

We are also committed to building on the successes of our bilateral collaboration in the U.S.-Mexico Partnership for Prosperity (P4P). Reducing costs and facilitating remittance transfers has been a major focus of our work under the Partnership. Spurring greater competition in the private remittances market has reduced the average cost of remittance transfers by two thirds since 1999. We look forward to receiving the recommendations of the private-sector P4P Finance Issues Advisory Group next year on how to further enhance the conditions for the provision of low-cost remittance services.

Finally, we discussed our joint efforts to increase economic growth and fight poverty throughout Latin America. We agreed that improving the investment environment, giving people opportunities to start and finance a business, investing in their health and education, and building infrastructure are key.

We discussed ways in which the Inter-American Development Bank (IDB) can more effectively meet the needs of the poorest in our Hemisphere. We look forward to working together with the IDB Management and other shareholders to achieve reforms that better employ the bank's assets, expand financing to the private sector, encourage accountability and performance, and address the debt sustainability of the poorest countries in the region.

We exchanged ideas on strategies for increasing investment in productive infrastructure to help Latin American countries harvest the benefits of greater integration into the global economy. We pledged to work with others in the region to create a multilateral Infrastructure Facility of the Americas to rate the quality of project proposals. This rating system can help unlock larges flows of private finance for infrastructure by improving investor information.

We look forward to deepening our economic integration and advancing our cooperation to maximize benefits for our citizens.

PRESS ROOM

December 21, 2005
JS-3059

Statement by Secretary Snow on Third Quarter Final GDP

Today's announcement of final GDP growth of 4.1 percent for the third quarter of this year demonstrates the power of a strong economy to overcome the two devastating hurricanes and high energy prices that challenged growth in the third quarter.

"We owe the resilience of the US economy to the American entrepreneurs and workers whose creativity and adaptability have kept our economy growing. Sound monetary policy from the Federal Reserve and the pro-growth economic strategy pursued by President Bush have laid the groundwork for the sustained economic growth that has created 4.5 million new jobs over the past two and a half years and has helped the economy continue its solid performance despite the difficulties presented in the third quarter.

"With an unemployment rate at 5 percent -- well below the modern historical average of 5.9 percent -- household wealth at an all-time high and real hourly wages improving, all Americans can take pride in the robust performance of the US economy."

PRESS ROOM

December 21, 2005
JS-3060

Statement by Treasury Secretary John Snow on Senate Passage of Deficit Reduction Act

"I was pleased by the passage today of the Deficit Reduction Act in the Senate. Deficit reduction is an essential part of President Bush's long-term economic strategy. The Senate's action today demonstrates the courage required to make difficult choices that help keep us on the path of reaching the President's goal of cutting the deficit in half by 2009."

PRESS ROOM

December 3, 2005
js-3061

Statement on Actions to Combat Money Laundering and Terrorist Finance

We are committed to fight against those who seek to abuse the international financial system for criminal or terrorist purposes. Tragic events such as those in London, Amman and in other parts of the world remind us of the critical need for continued action by the international community against such threats. This year we have taken forward a program of practical measures that has significantly improved our ability to freeze terrorist assets; enhanced the international exchange of information relating to money laundering and terrorist financing; and developed better tools to disrupt financial crime.

We are committed to ensuring effective and timely action to deny funds to terrorists and encourage other countries to take similar actions. We have taken the following specific steps that enhance processes to freeze terrorist assets and improve our ability to disrupt terrorism: (i) ensuring up to date contact and co-ordination arrangements; (ii) undertaking early and constructive consultation prior to designation of terrorists; and (iii) sharing details of criteria required for designation. Building on this, we have contributed to wider international efforts to implement UN obligations on identifying terrorists, freezing their assets, and prohibiting unauthorized dealings with them. We are committed in the Financial Action Task Force to examining and strengthening implementation of such targeted financial sanctions against terrorists.

Systems to disrupt money laundering and terrorist financing work most effectively when information necessary for relevant authorities and private sector institutions to operate is shared and acted upon. We urge supervisory authorities and financial intelligence units to continue to develop and use international information sharing arrangements. We are committed to ensure that critical information can be readily accessed by the private sector and we are also committed to obtaining greater private sector input to the assessment of current risks from money laundering and terrorist finance vulnerabilities.

Organized criminals and terrorists cannot operate without ready access to financial resources and they often exploit existing weaknesses in international financial controls. We are committed to tackling such vulnerabilities and are working closely with the Financial Action Task Force to develop a mechanism that provides the capacity to better target specific threats and deploy appropriate measures to deal with such threats.

We reiterate our full support to the permanent involvement of the international financial institutions in the fight against money laundering and terrorist financing, and note the critical importance of their efforts to assess compliance and to provide countries with well-targeted and coordinated technical assistance.

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PRESS ROOM

December 3, 2005
js-3062

Statement by G7 Finance Ministers and Central Bank Governors

Overall global growth remains and should continue to be solid although slowed by high and volatile oil prices. Risks include rising protectionist sentiment, the possibility of increasing inflationary pressures and growing global imbalances, which have been exacerbated by high oil prices. We are each taking steps to address these imbalances as we set out at our last meeting. But more vigorous, mutually reinforcing action is now needed from the G7 and other countries to accelerate this process in a way that maximizes sustained growth. Recognizing the need for greater and wider partnerships, we continued our productive dialogue with key global economies.

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 expect that further flexible implementation of China's currency system would improve the functioning and stability of the global economy and the international monetary system.

An ambitious outcome from the Doha Development Round by the end of 2006 is essential to enhancing global growth and reducing poverty. The Hong Kong Ministerial in ten days will be a critical step and the opportunity must be seized to make progress including through agreeing to a comprehensive development package that addresses the concerns of developing countries, in particular least developed countries. We call for a multilateral rules-based global trading system and reforms to trade policies and renewed momentum in the negotiations. We urge all participants to maintain a high level of ambition and to make significant progress on market access in agriculture, industrial products and services; reducing trade distorting domestic support; eliminating all forms of export subsidies in agriculture; making significant progress on services, including financial services as liberalization in financial services is linked to increased growth; and on intellectual property rights consistent with our development objectives. In this context, we welcomed the statements made by our Brazilian, Indian and Chinese colleagues at our meeting with them today. We recognize that least developed countries need the flexibility to decide, plan and sequence reforms to their trade policies in line with their country-led development programs and international obligations. We agree on a series of additional measures working with the IFIs, for developing countries to ease adjustment costs and increase their capacity to trade. We expect spending on aid for trade to increase to $4bn, including through enhancing the Integrated Framework. In the context of our shared commitments to double aid for Africa by 2010, we agree to give priority to the infrastructure necessary to allow countries to take advantage of the improved opportunities to trade.

We reviewed the steps taken since our last meeting to improve stability of the oil market and the global energy outlook, and our enhanced dialogue with oil producers. Significant investment is needed in exploration, production, energy infrastructure, and refinery capacity. We welcome the launch of the Joint Oil Data Initiative (JODI) database and stress the need to improve further the transparency of demand and supply data in the oil market, including through development of a global common standard for reporting oil reserves. With a view to enhancing predictability of demand, we will ask the IEA to report on progress on energy efficiency and developing alternative sources of energy, which are key challenges for all economies. We will include these issues in our continued dialogue with producers. We welcome the creation of the IMF's Exogenous Shocks Facility and support its financing including through oil producing countries' contributions. We look forward to the launch at the Spring Meetings of the World Bank led framework with the full participation of Regional Development Banks to enhance investment in low carbon energy and energy efficiency in developing countries. We will review progress on these issues at our next meeting in Washington.

We discussed the role of the IMF in the global financial system in the context of the Managing Director's strategic review and agreed that the IMF has an important role through its credibility and independence to support multilateral solutions to global economic challenges. We urge the IMF in all its surveillance work to deepen its analysis of global economic issues, exchange rate policy issues and the spillover effects of domestic policies in systemically important economies. We also stress the need to review the Fund's governance and quotas to reflect developments in the world economy.

This year we have made important progress on development including commitments on multilateral debt relief, aid effectiveness, and increasing resources for development. Now they must be implemented. We welcome the adoption of the necessary decisions by the IMF Board to implement 100 percent multilateral debt relief and encouraged all PRGF contributors to agree the necessary consents as soon as possible. We also encourage IDA and the African Development Fund urgently to take all the necessary steps for implementation as soon as possible. We welcome Minister Tremonti's report, published today, on Advance Market Commitments (AMCs) for vaccines. Alongside direct funding of research, AMCs could be a powerful, market-based mechanism to support research and development of vaccines for diseases which affect the poorest countries. We agree to work with others on developing a pilot AMC next year, including continued discussions with expert bodies on the diseases to be addressed. We confirm our support for the national and international processes already established to minimize the risk and deal with the potential threat posed by a pandemic influenza. Recognizing the vulnerability of all countries especially the poorest, to natural disasters, we call on international institutions to improve their preparedness, coordination and the speed and scale of their response.

Finance Ministers met with Ministers Fayyad and Olmert and the Quartet's Special Envoy, James Wolfensohn. Economic development of the West Bank and Gaza is an indispensable element of lasting peace in the region and all parties have a role to play. We welcome recent progress on access issues and encouraged the authorities to build the foundations for sustained economic growth in the Palestinian economy. We affirm our commitment to supporting the Palestinian Authority in the context of its medium-term development plan. The regional and international private sectors have a crucial role to play. This will be the focus of the Investors Conference to be held in London on December 13th. We will return to these issues at our next meeting.

Demonstrating the importance we attach to the continued fight against terrorist financing and financial crime, we are today publishing a progress report on actions taken this year in this area. Ministers welcome both the Financial Stability Forum's work on the codes and standards that underpin global financial markets and the process in relation to offshore centers established at its March meeting, and encourage swift progress on both. We encourage the international standard setting bodies to cooperate fully with these initiatives.

PRESS ROOM

December 22, 2005
js-3063

Tony Fratto Sworn in as Treasury Assistant Secretary for Public Affairs

Treasury Deputy Secretary Robert M. Kimmitt today swore in Tony Fratto as Assistant Secretary for Public Affairs. Nominated for the position by President George W. Bush on October 7, 2005, Fratto was confirmed by the United States Senate on December 17, 2005.

As Assistant Secretary for Public Affairs, Fratto is the lead representative of the Treasury Department and Secretary John W. Snow for media, business, professional trade organizations, consumer groups, and the public. In addition to serving as the chief spokesman, Fratto will also design and implement policies and communications strategies for the Department that will increase the public's knowledge and understanding of Treasury's activities and services. In his new role, Fratto also will oversee the Office of Public Liaison.

Fratto has served at the Treasury Department since March 2001, first as a public affairs specialist, then as the Director of the Office of Public Affairs, and most recently as the Deputy Assistant Secretary for Public Affairs. In these positions, he held primary responsibility for the Department's communications regarding international finance and development issues, as well as daily oversight of the office's personnel and budget.

Before joining the Treasury Department, Fratto worked as a communications specialist for the Bush-Cheney 2000 campaign in Pennsylvania. Prior to joining the Bush-Cheney campaign, Fratto served as Vice President of Government Affairs for the Pittsburgh Regional Alliance. Earlier in his career Fratto was the Director of Community and Economic Affairs (Pittsburgh) for Pennsylvania Governor Tom Ridge and Communications Director for U.S. Senator Rick Santorum (R-PA).

Originally from Pittsburgh, Pennsylvania, Fratto is a graduate of the University of Pittsburgh, earning a BA in Economics. He also attended the University's Graduate School of Public and International Affairs with a concentration on international political economy.

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PRESS ROOM

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December 23, 2005
JS-3064

Statement by Treasury Secretary John Snow on Iraq's Successful Conclusion of its Debt Exchange Offer

"It is a historic, unprecedented accomplishment that Iraq was able to attain 100% participation in this exchange. We have been working with Iraq to accomplish this and I couldn't be more pleased that it will be completed. The leadership of Minister Allawi and Governor Shabibi, along with the work of private sector participants, has helped Iraq to achieve another major milestone. This deal, when fully implemented, will reduce the burden on the Iraqi people of Saddam-era debt by more than $11 billion. We also look forward today to IMF Board consideration of a stand-by arrangement with Iraq. Resolution of Iraq's commercial debt gives further evidence of Iraqi determination to meet its commitments to secure an IMF program. This action is another important milestone in Iraq's reintegration into the international community, and paves the way for the next phase of Iraq's much needed debt reduction. If achieved, a successful IMF program would underpin economic stability and help lay the foundation for an open and prosperous economy."

- END -

REPORTS

- Iraqi Press Release (PDF)

بسم الله الرحمن الرحيم

جمهورية العراق
وزارة المالية

REPUBLIC OF IRAQ
MINISTRY OF FINANCE

Press Release **For Immediate Release**

December 23, 2005

Iraq Announces the Successful Conclusion of
Debt-for-Debt Exchange Offer

Baghdad, Iraq: The Republic of Iraq today announced the successful conclusion of its commercial debt-for-debt exchange offer.

Invitations were sent on November 16, 2005 to holders of large Saddam-era commercial claims against Iraq and Iraqi public sector obligors. These claims totaled in aggregate approximately U.S.$14 billion, or about 60% of all the commercial claims registered with Iraq's debt reconciliation agent. The tender period for the offer expired on Wednesday, December 21, 2005.

100% of the claimants with offers on the tender due date tendered their claims pursuant to the terms of the exchange offer. These terms are summarized in Iraq's press release of November 16, 2005. Tendering claimants will receive either privately-placed U.S. dollar-denominated notes or an interest in a multicurrency loan, at each claimant's election.

The final results are being verified by the exchange agent for the offer and will be announced by press release within the next two weeks. Final figures regarding the allocation of amounts between the new notes to be issued and the new loan, based upon claimant elections, will be announced at that time.

The closing for the exchange offer is expected to take place on January 19, 2006.

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This communication is not an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration under the Securities Act of 1933, as amended. Any public offering of securities to be made in the United States will be made by means of a prospectus that may be obtained from the issuer or selling security holder and that will contain detailed information about the Republic of Iraq. No public offering of securities in the United States is contemplated by the Republic of Iraq at this time.

Neither this release nor any of the documents referred to herein constitute an offer by the Republic of Iraq or by any other party to settle or exchange any outstanding claims, nor do they constitute an admission or acknowledgement of any such claim, or an acknowledgement that any such claim exists or has been revived or reinstated, or an express or implied promise to pay any such claim or any part thereof. This release and the documents referred to herein are expressly published without prejudice. All defenses available to the Republic of Iraq and any other party based upon any applicable statute of limitations or otherwise are expressly preserved. Neither this release nor the documents referred to herein may be relied upon as evidence of the existence of any claim or the willingness or ability of the Republic of Iraq or any party to pay any such claim.

PRESS ROOM

December 23, 2005
JS-3065

Statement by Treasury Secretary John Snow on IMF Approval of a Stand-By Arrangement with Iraq

"I applaud the IMF Board's approval of a stand-by arrangement with Iraq today. The IMF staff has done a remarkable job in working with Iraqi officials to accomplish this. This arrangement will underpin economic stability and help lay the foundation for an open and prosperous economy in Iraq."

- END –

PRESS ROOM

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December 30, 2005
js-3066

Treasury Department Announces Interim Guidance on Terrorism Risk Insurance Extension Act of 2005

The Treasury Department issued interim guidance to assist the insurance industry in meeting new requirements for the Terrorism Risk Insurance Program. On December 22, 2005, President Bush signed into law the Terrorism Risk Insurance Extension Act of 2005, which reauthorizes the Terrorism Risk Insurance Program for two years, while expanding the private sector role and reducing the federal share of compensation for insured losses under the program.

The interim guidance is designed to assist insurers in complying with changes to the Terrorism Risk Insurance Program made by the Extension Act, many of which come into effect on January 1, 2006. The guidance responds to a number of operational issues that arise under the new law, including: continuing compliance with TRIA's mandatory availability and policyholder disclosure requirements; determination of the types of property and casualty insurance now included and newly excluded from TRIA; and how the newly enacted program trigger for the federal share of compensation will work.

This interim guidance, along with regulations issued by the Treasury Department from July 11, 2003 through June 14, 2005, can be used by insurers in complying with the new statutory requirements and will remain in effect until superseded by subsequent regulations or guidance. Regulations, interim guidance notices and other information related to the Terrorism Risk Insurance Program can be found at www.treasury.gov/trip.

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REPORTS

- Interim Guidance on Terrorism Risk Insurance Extension Act of 2005

This Notice has been submitted to the Federal Register for publication. There may be minor differences between this unofficial copy and the official publication.

DEPARTMENT OF THE TREASURY

Departmental Offices

Interim Guidance Concerning the Terrorism Risk Insurance Extension Act of 2005.

AGENCY: Department of the Treasury, Departmental Offices

ACTION: Notice.

SUMMARY: This notice provides interim guidance to insurers, policyholders, state insurance regulators and the public concerning recent statutory amendments to the Terrorism Risk Insurance Act of 2002 (Pub.L.107-297, 116 Stat. 2322). In particular, this notice provides interim guidance on the types of commercial property and casualty insurance covered by the Act, the requirements to satisfy the Act's mandatory availability ("make available") provision and on the operation of the new "Program Trigger" provision in section 103(e)(1)(B) of the Act.

DATES: This notice is effective immediately and will remain in effect until superceded by regulations or by subsequent notice.

FOR FURTHER INFORMATION CONTACT: Howard Leikin, Deputy Director, Terrorism Risk Insurance Program or David J. Brummond, Legal Counsel, Terrorism Risk Insurance Program (202-622-6770).

SUPPLEMENTARY INFORMATION:
This notice provides interim guidance to assist insurers and policyholders in understanding certain requirements of the Terrorism Risk Insurance Act of 2002 as amended by the Terrorism Risk Insurance Extension Act of 2005 (Public Law 109-144, 119 Stat. 2660) pending the issuance of regulations by the Department of the Treasury. The interim guidance contained in this notice may be relied upon by insurers in complying with these statutory requirements prior to the issuance of regulations, but is not the exclusive means of compliance. This interim guidance remains in effect until superceded by regulations or subsequent notice.

I. Background

On November 26, 2002, the President signed into law the Terrorism Risk Insurance Act of 2002 (Pub.L.107-297) (TRIA or the Act). The Act became effective immediately. It established a temporary Terrorism Risk Insurance Program (TRIP or the Program) of shared public and private compensation for insured commercial property and casualty losses resulting from an act of terrorism, as defined in the Act. The Act was scheduled to expire on December 31, 2005.

On December 22, 2005, the President signed into law the Terrorism Risk Insurance Extension Act of 2005 (Extension Act), which extends TRIA through December 31, 2007. In doing so, the Extension Act adds Program Year 4 (January 1 – December 31, 2006) and Program Year 5 (January 1 – December 31, 2007) to the Program. In addition, the Extension Act made other significant changes to TRIA that include:

- A revised definition of "Insurer Deductible" that adds new Program Years 4 and 5 to the definition. The insurer deductible is set as the value of an insurer's direct earned premium for commercial property and casualty insurance (as now defined in the Act) over the immediately preceding calendar year multiplied by 17.5 percent for Program Year 4 and 20 percent for Program Year 5.

- A revised definition of "Property and Casualty Insurance" that now excludes commercial automobile insurance; burglary and theft insurance; surety insurance; professional liability insurance; and farm owners multi peril insurance. Though the definition excludes professional liability insurance, it explicitly retains directors and officers liability insurance.

- Creation of a new "Program Trigger" for any certified act of terrorism occurring after March 31, 2006, that prohibits payment of Federal compensation by Treasury unless the aggregate industry insured losses resulting from that act of terrorism exceed $50 million for Program Year 4 and $100 million for Program Year 5.

- A change to the Federal share of compensation for insured losses. Subject to the Program Trigger, the Federal Share is 90 percent of that portion of the amount of insured losses that exceeds the applicable insurer deductible in Program Year 4 and decreases to 85 percent of such amount in Program Year 5.

- Revisions to the recoupment provisions. For purposes of recouping the Federal share of compensation under the Act, the "insurance marketplace aggregate retention amount" for the two additional years of the Program is increased from the level in Program Year 3. For Program Year 4 the "insurance marketplace aggregate retention amount" is established as the lesser of $25 billion and the aggregate amount, for all insurers, of insured losses during Program Year 4. The "insurance marketplace aggregate retention amount" for Program Year 5 is the lesser of $27.5 billion and the aggregate amount, for all insurers, of insured losses during Program Year 5.

- A statutory codification of Treasury's litigation management regulatory requirements in section 50.82 of title 31 of the Code of Federal Regulations (as in effect on July 28, 2004), which requires advanced approval by Treasury of proposed settlements of certain causes of action involving insured losses under the Program.

II. Interim Guidance

Treasury will be issuing regulations to administer and implement TRIA, as amended by the Extension Act. This notice is issued to assist insurers in complying with certain statutory requirements prior to the issuance of such regulations. This notice contains interim guidance concerning compliance with the mandatory availability or "make available" requirements in section 103(c) of the Act, revisions to commercial lines of property and casualty insurance as defined by section 102(12) of the Act, and the operation of the new Program Trigger in section 103(e) of the Act.

A. Mandatory Availability

Has the "make available" requirement changed?

For Program Year 4 (Calendar 2006) and Program Year 5 (Calendar 2007) insurers are required to continue to "make available" coverage for insured losses as required by TRIA and Treasury regulations. Amendments to the "make available" requirement in section 103(c) of the Act are simply conforming amendments that continue the requirements through Program Years 4 and 5. Thus, insurers issuing or renewing commercial property and casualty insurance policies in Program Years 4 and 5 must continue to offer coverage for insured losses resulting from an act of terrorism as required by section 103(c) of the Act and 31 CFR sections 50.20 to 50.24 for their insured loss claims to be eligible for the Federal share of compensation in the extended Program Years.

Does an insurer have to provide a separate, new offer of terrorism risk insurance coverage on January 1, 2006 or shortly thereafter for property & casualty insurance policies that are now in mid-term if the insurer previously complied with the Act's "make available" requirement when the policy was issued or renewed in 2005?

No additional "make available" offer is required if terrorism coverage for the duration of the policy term was offered for policies issued or renewed in 2005. No additional action is required because the "make available" provision of section 103(c) of the Act and 31

CFR sections 50.20 to 50.24 has been satisfied for coverage periods extending into Program Year 4. For example, policies with "conditional" terrorism coverage exclusions that do not arise or become effective on or after January 1 are policies in which the terrorism coverage portion continues to cover insured losses within meaning of the Act. In such situations, no additional action is required for insurers to remain in compliance with the Act's "make available" provision.

What are the "make available" requirements for insurers who issued terrorism coverage that expired on December 31, 2005 but the remainder of the policy continues in force in 2006?

If terrorism coverage was made available and accepted by the policyholder but the terrorism portion of coverage expired on December 31, the insurer must provide the policyholder with a new offer of terrorism coverage pursuant to section 103(c) of the Act and 31 CFR sections 50.20 to 50.24 for the remaining period of coverage for the policy. Ideally, policyholders should be given the offer of terrorism coverage before January 1, 2006. However, Treasury recognizes the late date of passage of the Extension Act and the administrative difficulties this poses for some insurers who otherwise have complied with the "make available" provision in 2005. Treasury expects that all insurers will make a good faith effort to provide policyholders whose terrorism coverage expires as of January 1 with a new offer of terrorism coverage along with the appropriate disclosures by January 1, 2006 or as quickly as possible following that date. In this regard, Treasury considers January 31, 2006 to be the latest reasonable date for offers of coverage to midterm policyholders, barring unforeseen or unusual circumstances. If the January 31 date is not met by an insurer, Treasury will expect the insurer to explain any delay as well as its good faith efforts when submitting a claim for the Federal share of compensation under the Program. In its discretion, Treasury will determine whether good faith efforts to comply have been made.

What if terrorism coverage with an expiration of December 31, 2005 was offered and rejected by a policyholder in 2005; must an insurer that offered such coverage renew its offer of terrorism coverage for the remaining term of a policy that extends into 2006?

The Extension Act makes no changes to the "make available" requirement for insurers. However, if an insurer met its "make available" obligation by offering terrorism coverage that expired on December 31, 2005 for a policy otherwise extending into 2006, no further "make available" requirement will be expected of insurers during the remaining 2006 term of that policy if the offer of terrorism coverage was rejected by the policyholder at policy issuance or renewal in 2005. The insurer must nevertheless make an offer of terrorism coverage and appropriate disclosures at time of policy renewal in 2006.

What if a policy renewal or application was processed in 2005 for coverage becoming effective in 2006 and the insurer did not "make available" terrorism coverage for Program Year 4 as contemplated by the Extension Act?

The Extension Act makes no changes to the "make available" requirement for insurers under TRIA. If an insurer wishes to receive Federal compensation under the Program for insured losses, the insurer must "make available" terrorism coverage for insured losses for all polices becoming effective in 2006, even if the policy was processed in late 2005 or early 2006. However, as noted above, Treasury is mindful of the late date of the passage of the Extension Act. Treasury expects that all insurers will make a good faith effort to provide policyholders an offer of terrorism coverage and appropriate disclosures as quickly as possible following January 1, 2006 in circumstances where commercial property and casualty insurance coverage was processed in 2005 to become effective on or after January 1, 2006. As noted above, Treasury considers January 31, 2006 to be the latest reasonable date for offers of coverage, barring unforeseen or unusual circumstances. If the January 31 date is not met by an insurer, Treasury will expect the insurer to explain any delay as well as its good faith efforts when submitting a claim for the Federal share of compensation under the Program. In its discretion, Treasury will determine whether good faith efforts to comply have been made.

May an insurer still use NAIC Model Disclosure Forms to meet the disclosure requirement for property and casualty insurance policies with coverage extending into 2006 or for policies issued, purchased or renewed early in 2006?

Pursuant to 31 CFR section 50.17, insurers are permitted to use NAIC Model Disclosure Forms that were in existence on April 18, 2003 to satisfying the disclosure requirements of section 103(b)(2) of the Act. Although the Extension Act made no change to the requirements for clear and conspicuous disclosure to policyholders of the premium charges for insured losses covered by the Program and of the Federal share of compensation for insured losses under the Program, revisions were made to the Act that may require rewording of the NAIC Model Disclosure Forms. It is Treasury's intention that an insurer may continue to use the NAIC Model Forms until such time that Treasury-endorsed revised forms are issued by NAIC. Future rulemaking by Treasury will be initiated to provide insurers with a safe harbor in satisfying the disclosure requirement of the Act if the insurers use the latest available NAIC Model Disclosure Forms.

B. Property and Casualty Insurance

How will Treasury determine the types of property and casualty insurance that were recently excluded from the Program?

Section 102(12) of the Act was amended by adding types of insurance that are now excluded from the definition of property and casualty insurance under the Program. To the extent the new exclusions represent specific lines of business as used on the NAIC Annual Statement, Treasury will continue to utilize NAIC line of business definitions to determine coverage and premium issues in implementing the Act. The newly excluded lines of business from the NAIC Annual Statement include: Line 3 – Farmowners Multiple Peril; Line 19.3 – Commercial Auto No-Fault (personal injury protection); Line 19.4 – Other Commercial Auto Liability; Line 21.2 – Commercial Auto Physical Damage; Line 26 – Burglary and Theft; Line 24 – Surety; and Professional Liability Insurance as reported on Line 17 – Other Liability (see below).

What about types of insurance that are excluded from the definition of property and casualty insurance but are not specific lines of business on the NAIC Annual Statement?

The only type of insurance that is newly excluded from the Act, but is not a specific line of business on the NAIC Annual Statement, is new subsection 102(12)(xi) – professional liability insurance. Until Treasury issues regulations or provides further guidance on the meaning of the definition of "professional liability insurance", insurers should use the following definition for what constitutes professional liability insurance:

> Coverage available to pay for liability arising out of the performance of professional or business duties related to an occupation, with coverage being tailored to the needs of the specific occupation. Examples include abstracters, accountants, insurance adjusters, architects, engineers, insurance agents and brokers, lawyers, real estate agents and stockbrokers.

This interim definition is derived from the definition of "Professional Errors and Omissions Liability" found in the Uniform Property & Casualty Coding Matrix currently utilized by the System for Electronic Rate and Form Filing (SERFF) sponsored by the National Association of Insurance Commissioners (NAIC).[1] Insurers should use this definition in identifying policies excluded from the Program, as well as for determining policies whose premiums should be subtracted from Line 17 – Other Liability on the NAIC Annual Statement when computing direct earned premium for Program purposes. Directors and officers liability insurance, which is sometimes considered a type of professional liability insurance, is not included in the definition as discussed in the next section.

What is the effect of adding the definition of "directors and officers liability insurance" to the definition of "property and casualty insurance" in section 102(12) of the Act?

The explicit addition of this type of insurance to section 102(12) does not substantively modify the previous definition of property and casualty insurance under the Act, but is a statutory clarification that directors and officers liability insurance is distinct from

[1] The Matrix can be found on the NAIC website at http://www.naic.org/industry_home.htm.

professional liability insurance. Premium for directors and officers liability insurance is already included in Line 17 – Other Liability on the NAIC Annual Statement, one of the commercial lines of business under Treasury's previous regulations defining property and casualty insurance (31 CFR section 50.5(l)). Treasury recommends that insurers consult the definition of "Directors & Officers Liability" found in the Uniform Property & Casualty Coding Matrix now being utilized by SERFF if further guidance is needed on what constitutes "Directors & Officers Liability".

C. Program Trigger for Federal Share/Certification of Act of Terrorism

How does the Program Trigger for the Federal share of compensation work and how does it coordinate with the Secretary's certification of an act of terrorism?

The Extension Act adds a new section 103(e)(1)(B) to TRIA entitled "Program Trigger." This new provision directs the Secretary not to compensate insurers under the Program unless the aggregate industry insured losses from a certified act of terrorism exceed certain insured loss or "trigger" amounts.[2]

The Extension Act has essentially introduced the concept of a "Program Trigger event" to TRIA. A "Program Trigger event" is a certified act of terrorism occurring after March 31, 2006 in which the aggregate industry insured losses resulting from the event exceed the applicable trigger amount ($50 million in 2006 and $100 million in 2007).

The new Program Trigger provision does not apply to acts of terrorism occurring on or before March 31, 2006. The Trigger will apply to such acts that occur after March 31, 2006. Note that the application of the Trigger is based on the date of occurrence and not the date of certification of an act of terrorism. For example, the Program Trigger shall *not* apply to an act that occurs prior to March 31, 2006, but which is later certified after March 31.

After March 31, unless an act of terrorism is a Program Trigger event, insured losses from that act of terrorism will not be considered in any determination of or calculation leading to any Federal share of compensation under the Act.

Treasury is considering whether further rulemaking or guidance is necessary to address issues associated with the new Program Trigger, including whether any adjustments are necessary to reflect the potential difference between acts that are certified under the Program and not eligible for compensation and acts that are certified and eligible for

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[2] Section 103(e)(1)(B) states: "In the case of a certified act of terrorism occurring after March 31, 2006, no compensation shall be paid by the Secretary under subsection (a), unless the aggregate industry insured losses resulting from such certified act of terrorism exceed – (i) $50,000,000, with respect to such insured losses occurring in Program Year 4; or (ii) $100,000,000, with respect to such insured losses occurring in Program Year 5."

compensation under the Program. In terms of TRIA's "make available" requirement contained in Section 103(c) and Subpart C of the regulations, insurers should continue to make coverage available for insured losses, although further consideration of issues posed by the new Program Trigger could affect this requirement on a going forward basis.

What losses of an insurer count towards satisfaction of the insurer deductible and how will the Federal share of compensation be determined?

In Program Year 4, only an insurer's insured losses resulting from certified acts of terrorism occurring between January 1 and March 31, 2006, and the insurer's insured losses resulting from Program Trigger events after March 31, will count towards satisfaction of the insurer deductible. Pursuant to section 103(e)(1)(A) of the Act, the Federal share of compensation will be based on 90 percent of the amount of such insured losses in excess of the insurer deductible.

In Program Year 5, only an insurer's insured losses resulting from Program Trigger events occurring in that year will count towards satisfaction of the insurer deductible. Again, pursuant to section 103(e)(1)(A), the Federal share of compensation will be based on 85 percent of the amount of such insured losses in excess of the insurer deductible.

Treasury will be issuing forms changes and issuing further guidance and rulemaking as necessary to accomplish this compensation payment scheme.

How will Treasury determine and notify insurers that the Program Trigger has been met?

The manner in which Treasury determines whether the Program Trigger has been met will be similar to the process for determining aggregate insured loss amounts in connection with the certification of an act of terrorism. Treasury would contact industry statistical reporting agencies and others to ascertain aggregate industry insured losses. Once the Program Trigger amount has been exceeded, Treasury would notify insurers through press release, notice in the Federal Register and postings on the TRIP website. This determination may be concurrent with the certification of the act of terrorism.

Dated: December 29, 2005

Howard Leikin
Deputy Director
Terrorism Risk Insurance Program

PRESS ROOM

December 30, 2005
JS-3067

Report On U.S. Holdings of Foreign Securities At End-Year 2004

The findings 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).

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. The previous survey was for year-end 2003. Future surveys are scheduled to be carried out annually. The next report will present results from the survey for year-end 2005.

A complementary survey measuring foreign holdings of U.S. securities is also carried out 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 30, 2006.

Overall Results

The survey measured U.S. holdings of foreign securities at year-end 2004 of approximately $3,787 billion, with $2,560 billion held in foreign equities, $993 billion in foreign long-term debt securities (original term-to-maturity in excess of one year), and $233 billion in foreign short-term debt securities. The previous survey, conducted as of year-end 2003, measured U.S. holdings of approximately $3,152 billion, with $2,079 billion held in foreign equities, $874 billion in foreign long-term debt securities, and $199 billion in foreign short-term debt securities (see Table 1).

The surveys are part of an internationally-coordinated effort under the auspices of the International Monetary Fund (IMF) to improve the measurement of portfolio asset holdings.

Table 1. U.S. holdings of foreign securities, by type of security, at end-2003 and end-2004 (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)

		Total	Equities	Debt securities: 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	South Korea	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, S.A.R	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

* Greater than zero and less than $500 million. Note: items may not add to total due to rounding.

The stock of foreign securities for December 31, 2004, reported in this survey does 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. An analysis of the relation between the stock and flow data is available in Table 5 and the associated text of the final report on U.S. holdings of foreign securities at end-year 2004.

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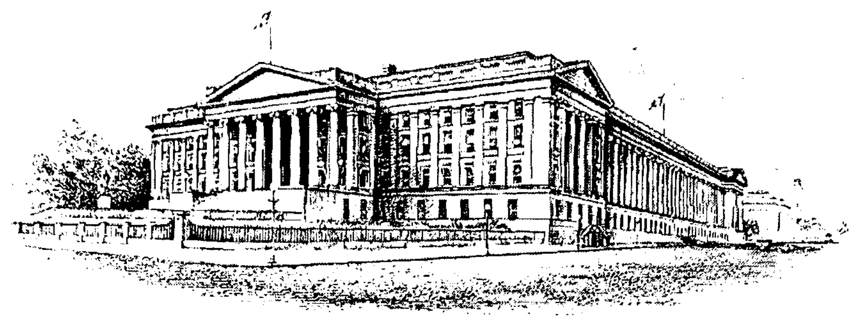
REPORTS

- (PDF) Report On U.S. Holdings of Foreign Securities At End-Year 2004



DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL 2:30 p.m. EST
December 30, 2005

Contact: Brookly McLaughlin
(202) 622-1996

REPORT ON U.S. HOLDINGS OF FOREIGN SECURITIES AT END-YEAR 2004

The findings 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).

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The survey measured U.S. holdings of foreign securities at year-end 2004 of approximately $3,787 billion, with $2,560 billion held in foreign equities, $993 billion in foreign long-term debt securities (original term-to-maturity in excess of one year), and $233 billion in foreign short-term debt securities. The previous survey, conducted as of year-end 2003, measured U.S. holdings of approximately $3,152 billion, with $2,079 billion held in foreign equities, $874 billion in foreign long-term debt securities, and $199 billion in foreign short-term debt securities (see Table 1).

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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	South Korea	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, S.A.R	37	35	2	*
21	Taiwan	35	35	*	*
22	Israel	34	19	15	*
23	Norway	30	18	10	2
24	Netherlands Antilles	30	29	2	*
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PRESS ROOM

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December 30, 2005
js-3068

Treasury and IRS Finalize Rules Regarding Roth 401(k) Contributions

Today, the Treasury Department and the IRS issued final regulations regarding sections 401(k) and 401(m) related to designated Roth contributions. Roth contributions were added to the Code by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and are effective for taxable years beginning after December 31, 2005. Designated Roth contributions allow for employees to designate all or a portion of their section 401(k) employee deferrals as Roth contributions, which would receive treatment much like a Roth IRA contribution (i.e., they would be contributed on an after tax basis, but qualified distributions of those contributions, plus earnings, would be tax-free).

These regulations finalize rules that were proposed on March 2, 2005. Plan sponsors desiring to offer employees the opportunity to make designated Roth contributions will find these regulations useful in designing their plans to accept such contributions. Further rules, largely focusing on the tax treatment of distributions of designated Roth contributions, will be issued in proposed form in the near future.

The text of the final regulations is attached.

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REPORTS

- Roth 401(k) Regulations

[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Parts 1 and 602

[TD 9237]

RIN 1545-BE05

Designated Roth contributions to cash or deferred arrangements under section 401(k)

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains amendments to the regulations under section 401(k) and (m) of the Internal Revenue Code. These regulations provide guidance concerning the requirements for designated Roth contributions under qualified cash or deferred arrangements described in section 401(k). These regulations affect section 401(k) plans that provide for designated Roth contributions and participants eligible to make elective contributions under these plans.

Dates: Effective Date: These regulations are effective January 3, 2006.

Applicability Date: These regulations apply to plan years beginning on or after January 1, 2006.

FOR FURTHER INFORMATION CONTACT: Cathy A. Vohs, 202-622-6090 or R. Lisa Mojiri-Azad, 202-622-6060 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collection of information contained in these final regulations has been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3507(d)) under control number 1545-1930.

The collection of information in these regulations is in 26 CFR §1.401(k)-1(f)(1)&(2). This information is required to comply with the separate accounting and recordkeeping requirements of section 402A.

The estimated annual burden per respondent under control number 1545-1930 is 1 hour.

Comments concerning the accuracy of this burden estimate and suggestions for reducing this burden should be sent to the Internal Revenue Service, Attn: IRS Reports Clearance Officer, SE:CAR:MP:T:T:SP Washington, DC 20224, and 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.

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 might 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 amendments to the Income Tax Regulations (26 CFR Part 1) under section 401(k) and (m) of the Internal Revenue Code of 1986 (Code). The amendments provide guidance on designated Roth contributions under section 402A of the Code, added by section 617(a) of the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16, 115 Stat. 38) (EGTRRA).

Section 401(k) provides that a profit-sharing, stock bonus, pre-ERISA money purchase or rural cooperative plan will not fail to qualify under section 401(a) merely because it contains a qualified cash or deferred arrangement. Contributions made at the election of an employee under a qualified cash or deferred arrangement are known as elective contributions. Generally, such elective contributions are not includible in gross income at the time contributed and are sometimes referred to as pre-tax elective contributions.

Under section 402A, effective for tax years beginning on or after January 1, 2006, a plan may permit an employee who makes elective contributions under a qualified cash or deferred arrangement to designate some or all of those contributions as designated Roth contributions. Designated Roth contributions are elective contributions under a qualified cash or deferred arrangement that, unlike pre-tax elective contributions, are currently includible in gross income. However, a qualified distribution of designated Roth contributions is excludable from gross income.

Although designated Roth contributions under a qualified cash or deferred arrangement bear some similarity to contributions to a Roth IRA described in section 408A (e.g., contributions to either type of account are after-tax contributions and qualified distributions from either type of account are excludable from gross income), there are many differences between these types of arrangements. For example, under section 408A(c)(3), an individual is ineligible to make Roth IRA contributions if his or her modified adjusted gross income exceeds certain limits, but section 402A does not impose any comparable income limits on an individual's eligibility to make designated Roth contributions under a qualified cash or deferred arrangement. In addition, under section 408A(d)(3), a traditional IRA may be converted to a Roth IRA, but section 402A does not provide for a conversion of a pre-tax elective contribution account under a qualified cash or deferred arrangement to a designated Roth account. Also, under section 408A(d)(4), specific ordering rules apply to distributions from Roth IRAs. Section 402A, however, does not provide a specific ordering rule for distributions from designated Roth accounts, so section 72 applies to determine the character of distributions from such accounts.

On December 29, 2004, final regulations under section 401(k) were issued (69 FR 78144). Those regulations generally apply to plan years beginning on or after January 1, 2006, although they also may be applied to plan years ending after December 29, 2004. Under those final regulations, §1.401(k)-1(f) was reserved for special rules for designated Roth contributions. On March 2, 2005, proposed regulations to fill in that reserved paragraph and provide additional rules applicable to designated Roth contributions were issued (70 FR 10062). Written public comments were received on the proposed regulations and public reaction to the proposed regulations generally was favorable. After consideration of the comments, these final regulations adopt the provisions of the proposed regulations with certain modifications, the most significant of which are highlighted below.

Explanation of Provisions

Rules Relating to Designated Roth Contributions

These final regulations retain the special rules which were included in the proposed regulations relating to designated Roth contributions under a section 401(k) plan. Thus, these final regulations amend §1.401(k)-1(f) to provide a definition of designated Roth contributions and special rules with respect to such contributions. Under these final regulations, designated Roth contributions are defined as elective contributions under a qualified cash or deferred arrangement that are: (1) designated irrevocably by the employee at the time of the cash or deferred election as designated Roth contributions that are being made in lieu of all or a portion of the pre-tax elective contributions the employee is otherwise eligible to make under the plan; (2) treated by the employer as includible in the employee's gross income at the time the employee would have received the contribution amounts in cash if the employee had not made the cash or deferred election (e.g., by treating the contributions as wages subject to applicable withholding requirements); and (3) maintained by the plan in a separate account. The regulations also provide that elective contributions may only be treated as designated Roth contributions to the extent permitted under the plan.

Some commentators requested that an employer sponsoring a qualified cash or deferred arrangement be permitted to offer only designated Roth contributions. However, under section 402A(b)(1), designated Roth contributions are made in lieu of all or a portion of elective contributions that the employee is otherwise eligible to make under the cash or deferred arrangement. If a cash or deferred arrangement offered only designated Roth contributions, an employee participating in the arrangement would not be electing to make such contributions in lieu of elective contributions he or she was otherwise eligible to make under the plan. Thus, these final regulations clarify that, in order to provide for designated Roth contributions, a qualified cash or deferred arrangement must also offer pre-tax elective contributions.

Separate Accounting Requirement

These final regulations also retain the rule that, under the separate accounting requirement, contributions and withdrawals of designated Roth contributions must be credited and debited to a designated Roth account maintained for the employee and the plan must maintain a record of the employee's investment in the contract (i.e., designated Roth contributions that have not been distributed) with respect to the employee's designated Roth account. In addition, gains, losses, and other credits or charges must be separately allocated on a reasonable and consistent basis to the designated Roth account and other accounts under the plan. The proposed regulations provided that forfeitures may not be allocated to the designated Roth account. The final regulations retain this rule and, in response to comments, clarify that no contributions other than designated Roth contributions and rollover contributions described in section 402A(c)(3)(B) are permitted to be allocated to a designated Roth account. For example, matching contributions are not permitted to be allocated to a designated Roth account. The final regulations also retain the rule that the separate accounting requirement applies at the time the designated Roth contribution is contributed to the plan and must continue to apply until the designated Roth account is completely distributed.

Other Rules

These final regulations retain the requirement that a designated Roth contribution must satisfy the requirements applicable to any other elective contributions made under a qualified cash or deferred arrangement. Thus, designated Roth contributions are subject to the nonforfeitability and distribution restrictions applicable to elective contributions and are taken into account under the actual deferral percentage test (ADP test) of section 401(k)(3) in the same manner as pre-tax elective contributions. Similarly, designated Roth contributions may be treated as catch-up contributions and serve as the basis for a participant loan.

A number of commentators discussed the application of section 401(a)(9) to plans to which designated Roth contributions are made. These commentators pointed out that under section 408A, Roth IRAs are not subject to the rules of section 401(a)(9)(A) (i.e., Roth IRAs are not subject to the rules of section 401(a)(9) while the Roth IRA owner is alive). Although Roth IRAs are not subject to section 401(a)(9) while the IRA owner is alive, section 402A does not provide comparable rules regarding the application of section 401(a)(9) to designated Roth accounts under a cash or deferred arrangement. Thus, such designated Roth accounts are subject to the rules of section 401(a)(9) (A) and (B) in the same manner as pre-tax elective contributions.

In response to comments asking for clarification, the final regulations provide rules regarding elections to make designated Roth contributions. These rules specifically provide that the rules in §1.401(k)-1(e)(2)(ii) regarding frequency of elections to make pre-tax elective contributions also apply to elections to make designated Roth contributions. The rules also specifically address automatic enrollment and permit a plan to utilize automatic enrollment in conjunction with designated Roth contributions. Under the final regulations, a plan that provides for a cash or deferred election under which contributions are made in the absence of an affirmative election and that has both pre-tax elective contributions and designated Roth contributions must set forth the extent to which those default contributions are pre-tax elective contributions or designated Roth contributions. If the default contributions are designated Roth contributions, then an employee who has not made an affirmative election is deemed to have irrevocably designated the contributions (in accordance with section 402A(c)(1)(B)) as designated Roth contributions.

A number of commentators addressed direct rollovers of amounts from a designated Roth account. In response to these comments, the regulations clarify that a direct rollover from a designated Roth account under a qualified cash or deferred arrangement may only be made to another designated Roth account under an applicable retirement plan described in section 402A(e)(1) or to a Roth IRA described in section 408A, and only to the extent the direct rollover is permitted under the rules of section 402(c). In addition, a plan is permitted to treat the balance of the participant's designated Roth account and the participant's other accounts under the plan as accounts held under two separate plans (within the meaning of section 414(l)) for purposes of applying the special rule in A-11 of §1.401(a)(31)-1 (under which a plan will satisfy section 401(a)(31) even though the plan administrator does not permit any distributee to elect a direct rollover with respect to eligible rollover distributions during a year that are reasonably expected to total less than $200). Thus, if a participant's balance in the designated Roth account is less than $200, then the plan is not required to offer a direct rollover election with respect to that account or to apply the automatic rollover provisions of section 401(a)(31)(B) with respect to that account.

Section 1.401(k)-2 contains correction methods that may be used when a plan fails to satisfy the ADP test for a year. These final regulations retain the rule in the proposed regulations relating to these correction methods that permits a highly compensated employee (HCE), as defined in section 414(q), with elective contributions for a year that include both pre-tax elective contributions and designated Roth contributions to elect whether excess contributions are to be attributed to pre-tax elective contributions or designated Roth contributions. There is no requirement that the plan provide this option, and a plan may provide for one of the correction methods described in the final regulations without permitting an HCE to make such an election.

These final regulations also retain the rule that a distribution of excess contributions is not includible in gross income to the extent it represents a distribution of designated Roth contributions. However, the income allocable to a corrective distribution of excess contributions that are designated Roth contributions is includible in gross income in the same manner as income allocable to a corrective distribution of excess contributions that are pre-tax elective contributions. The regulations also provide a similar rule under the correction methods that may be used when a plan fails to satisfy the actual contribution percentage (ACP) test in §1.401(m)-2.

Additional Plan Terms

In addition to the rules relating to section 401(k) and (m) discussed above, there are other aspects of designated Roth contributions that would be reflected in plan terms and are not addressed in these regulations. For example, while a plan is permitted to allow an employee to elect the character of a distribution (i.e., whether the distribution will be made from the designated Roth account or other accounts), the extent to which a plan so permits must be set forth in the terms of the plan.

Certain Issues Addressed in Proposed Regulations

These final regulations do not provide guidance with respect to the taxation of distributions of designated Roth contributions. For example, the regulations do not provide guidance with respect to the recovery of an employee's investment in the contract associated with his or her designated Roth contributions. Proposed regulations under section 402A, to be issued in the near future, address these taxation issues.

Effective Date

Section 402A is effective for an employee's taxable years beginning after December 31, 2005. These regulations have the same effective date as the regulations under section 401(k) that they are amending. Thus, these final regulations are generally applicable to plan years beginning on or after January 1, 2006. If a plan is applying the section 401(k) regulations as of an earlier effective date (as provided under those regulations), to the extent that section 402A is effective, that same early effective date applies to these regulations. For a plan that has an effective date for the section

401(k) regulations that is after the effective date of section 402A (either an employer that does not have a calendar year plan or a plan established pursuant to a collective bargaining agreement that has a delayed effective date for the section 401(k) regulations), the employer may rely on these regulations prior to the effective date of the final section 401(k) regulations for the plan, even if the plan does not otherwise implement the section 401(k) regulations earlier than required.

These regulations do not provide rules for the application of the EGTRRA sunset provision (section 901 of EGTRRA), under which the provisions of EGTRRA do not apply to taxable, plan, or limitation years beginning after December 31, 2010. Unless the EGTRRA sunset provision is repealed before it becomes effective, additional guidance will be needed to clarify its application.

Special Analyses

It has been determined that these regulations are not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It has also been determined that 5 U.S.C. 553(b) does not apply to these regulations. It is hereby certified that the collection of information in these regulations will not have a significant economic impact on a substantial number of small entities. This certification is based on the fact that most small entities that maintain a section 401(k) plan use a third party provider to administer the plan. Therefore, an analysis under the Regulatory Flexibility Act (5 U.S.C. chapter 6) is not required. Pursuant to section 7805(f) of the Code, the proposed regulations preceding these regulations were submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Drafting Information

The principal authors of these regulations are R. Lisa Mojiri-Azad and Cathy A. Vohs of the Office of the Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities). However, other personnel from the IRS and Treasury participated in the development of these regulations.

List of Subjects

26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

26 CFR Part 602

Reporting and recordkeeping requirements.

Adoption of Amendments to the Regulations

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

PART 1 -- INCOME TAXES

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

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

Par. 2. Section 1.401(k)-0 is amended as follows:

1. The entry for §1.401(k)-1(f) is revised and entries for §1.401(k)-1(f)(1), (2), (3), (4) and (5) are added.

2. An entry for §1.401(k)-2(b)(2)(vi)(C) is added.

The additions read as follows:

§1.401(k)-0 Table of contents.

* * * * *

§1.401(k)-1 Certain cash or deferred arrangements.

* * * * *

* * * * *

§1.401(k)-2 ADP test.

* * * * *

* * * * *

Par. 3. Section 1.401(k)-1(f) is revised as follows:

§1.401(k)-1 Certain cash or deferred arrangements.

* * * * *

(f) Special rules for designated Roth contributions--(1) In general. The term designated Roth contribution means an elective contribution under a qualified cash or deferred arrangement that, to the extent permitted under the plan, is--

(i) Designated irrevocably by the employee at the time of the cash or deferred election as a designated Roth contribution that is being made in lieu of all or a portion of the pre-tax elective contributions the employee is otherwise eligible to make under the plan;

(ii) Treated by the employer as includible in the employee's gross income at the time the employee would have received the amount in cash if the employee had not made the cash or deferred election (e.g., by treating the contributions as wages subject to applicable withholding requirements); and

(iii) Maintained by the plan in a separate account (in accordance with paragraph (f)(2) of this section).

(2) Separate accounting required. Under the separate accounting requirement of this paragraph (f)(2), contributions and withdrawals of designated Roth contributions must be credited and debited to a designated Roth account maintained for the employee and the plan must maintain a record of the employee's investment in the contract (i.e., designated Roth contributions that have not been distributed) with respect to the employee's designated Roth account. In addition, gains, losses, and other credits or charges must be separately allocated on a reasonable and consistent basis to the designated Roth account and other accounts under the plan. However, forfeitures may not be allocated to the designated Roth account and no contributions other than designated Roth contributions and rollover contributions described in section

402A(c)(3)(B) may be allocated to such account. The separate accounting requirement applies at the time the designated Roth contribution is contributed to the plan and must continue to apply until the designated Roth account is completely distributed.

(3) Designated Roth contributions must satisfy rules applicable to elective contributions--(i) In general. A designated Roth contribution must satisfy the requirements applicable to elective contributions made under a qualified cash or deferred arrangement. Thus, for example, a designated Roth contribution must satisfy the requirements of paragraphs (c) and (d) of this section and is treated as an employer contribution for purposes of sections 401(a), 401(k), 402, 404, 409, 411, 412, 415, 416 and 417. In addition, the designated Roth contributions are treated as elective contributions for purposes of the ADP test. Similarly, the designated Roth account under the plan is subject to the rules of section 401(a)(9)(A) and (B) in the same manner as an account that contains pre-tax elective contributions.

(ii) Special rules for direct rollovers. A direct rollover from a designated Roth account under a qualified cash or deferred arrangement may only be made to another designated Roth account under an applicable retirement plan described in section 402A(e)(1) or to a Roth IRA described in section 408A, and only to the extent the rollover is permitted under the rules of section 402(c). Moreover, a plan is permitted to treat the balance of the participant's designated Roth account and the participant's other accounts under the plan as accounts held under two separate plans (within the meaning of section 414(l)) for purposes of applying the special rule in A-11 of §1.401(a)(31)-1 (under which a plan will satisfy section 401(a)(31) even though the plan administrator does not permit any distributee to elect a direct rollover with respect to eligible rollover distributions during a year that are reasonably expected to total less than $200).

(4) Rules regarding designated Roth contribution elections--(i) Frequency of elections. The rules under paragraph (e)(2)(ii) of this section regarding frequency of elections apply in the same manner to both pre-tax elective contributions and designated Roth contributions. Thus, an employee must have an effective opportunity to make (or change) an election to make designated Roth contributions at least once during each plan year.

(ii) Default elections--(A) In the case of a plan that provides for both pre-tax elective contributions and designated Roth contributions and in which, under paragraph (a)(3)(ii) of this section, the default in the absence of an affirmative election is to make a contribution under the cash or deferred arrangement, the plan terms must provide the extent to which the default contributions are pre-tax elective contributions and the extent to which the default contributions are designated Roth contributions.

(B) If the default contributions under the plan are designated Roth contributions, then an employee who has not made an affirmative election is deemed to have irrevocably designated the contributions (in accordance with section 402A(c)(1)(B)) as designated Roth contributions.

(5) Effective date--(i) In general. Section 402A is effective for taxable years beginning after December 31, 2005.

(ii) Sunset provisions. The rules set forth in this paragraph (f) do not address the application of section 901 of the Economic Growth and Tax Relief Reconciliation Act of

2001 (Public Law 107–16; 115 Stat. 38) (under which the amendments made by that Act do not apply to taxable, plan, or limitation years beginning after December 31, 2010).

* * * * *

Par. 4. Section 1.401(k)-2 is amended as follows:

1. A new sentence is added after the second sentence in paragraph (b)(1)(ii).

2. The last sentence in paragraph (b)(2)(vi)(B) is amended by adding the phrase ", except to the extent provided in paragraph (b)(2)(vi)(C) of this section."

3. Paragraph (b)(2)(vi)(C) is added.

The additions read as follows:

<u>§1.401(k)-2 ADP test.</u>

* * * * *

(b) * * *

(1) * * *

(ii) * * * Similarly, a plan may permit an HCE with elective contributions for a year that includes both pre-tax elective contributions and designated Roth contributions to elect whether the excess contributions are to be attributed to pre-tax elective contributions or designated Roth contributions. * * *

* * * * *

(2) * * *

(vi) * * *

(C) <u>Corrective distributions attributable to designated Roth contributions</u>.

Notwithstanding paragraphs (b)(2)(vi)(A) and (B) of this section, a distribution of excess contributions is not includible in gross income to the extent it represents a distribution of designated Roth contributions. However, the income allocable to a corrective distribution of excess contributions that are designated Roth contributions is included in gross income in accordance with paragraph (b)(2)(vi)(A) or (B) of this section (i.e., in the same manner as income allocable to a corrective distribution of excess contributions that are pre-tax elective contributions).

* * * * *

Par. 5. Section 1.401(k)-6 is amended as follows:

1. The definitions of "Designated Roth account" and "Designated Roth contributions" are added after the definition of Current year testing method.

2. A new definition of "Pre-tax elective contributions" is added after the definition of Pre-ERISA money purchase pension plan.

The additions read as follows:

§1.401(k)-6 Definitions.

* * * * *

Designated Roth account. Designated Roth account means a separate account maintained by a plan to which only designated Roth contributions (including income, expenses, gains and losses attributable thereto) are made.

Designated Roth contributions. Designated Roth contributions means designated Roth contributions as defined in §1.401(k)-1(f)(1).

* * * * *

Pre-tax elective contributions. Pre-tax elective contributions means elective contributions under a qualified cash or deferred arrangement that are not designated Roth contributions.

* * * * *

Par. 6. Section 1.401(m)-0 is amended by adding an entry for §1.401(m)-2(b)(2)(vi)(C) to read as follows:

§1.401(m)-0 Table of contents.

* * * * *

§1.401(m)-2 ACP test.

* * * * *

(b) * * *

(2) * * *

(vi) * * *

(C) Corrective distributions attributable to designated Roth contributions.

* * * * *

Par. 7. Section 1.401(m)-2 is amended as follows:

1. The last sentence in paragraph (b)(2)(vi)(B) is amended by adding the phrase ", or as provided in paragraph (b)(2)(vi)(C) of this section."

2. Paragraph (b)(2)(vi)(C) is added.

The additions read as follows:

§1.401(m)-2 ACP test.

* * * * *

(b) * * *

(2) * * *

(vi) * * *

(C) Corrective distributions attributable to designated Roth contributions. Notwithstanding paragraphs (b)(2)(vi)(A) and (B) of this section, a distribution of excess aggregate contributions is not includible in gross income to the extent it represents a distribution of designated Roth contributions. However, the income allocable to a corrective distribution of excess aggregate contributions that are designated Roth contributions is taxed in accordance with paragraph (b)(2)(vi)(A) or (B) of this section (i.e., in the same manner as income allocable to a corrective distribution of excess aggregate contributions that are not designated Roth contributions).

* * * * *

Par. 8. Section 1.401(m)-5 is amended by adding a new definition of "Designated Roth contributions" after the definition of Current year testing method to read as follows:

§1.401(m)-5 Definitions.

* * * * *

Designated Roth contributions. Designated Roth contributions means designated Roth contributions as defined in §1.401(k)-1(f)(1).

* * * * *

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

Par. 9. The authority citation for part 602 continues to read as follows:

Authority: 26 U.S.C. 7805.

Par. 10. In §602.101, paragraph (b) is amended by adding an entry for "1.401(k)-1" in numerical order to the table to read, in part, as follows:

§602.101 OMB Control numbers.

* * * * *

(b) * * *

CFR part or section where identified and described	Current OMB control No.
* * * * *	
1.401(k)-1	1545-1930
* * * * *	

Mark E. Matthews,
Deputy Commissioner for Services and Enforcement.

Approved: December 13, 2005.

Eric Solomon,
Acting Deputy Assistant Secretary for Tax Policy.

PRESS ROOM

January 3, 2006
2006-1-3-17-4-27-25114

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 $64,727 million as of the end of that week, compared to $69,715 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	December 16, 2005			December 23, 2005		
TOTAL	69,715			64,727		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	11,210	10,994	22,204	11,065	10,926	21,991
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,692	5,322	16,014	10,559	5,303	15,862
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]			12,252			7,685
3. Special Drawing Rights (SDRs) [2]			8,204			8,147
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	December 16, 2005			December 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						
	December 16, 2005			December 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

January 3, 2006
2006-1-3-17-11-26-25778

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 $64,473 million as of the end of that week, compared to $64,727 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	December 23, 2005			December 30, 2005		
TOTAL	64,727			64,473		
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	11,065	10,926	21,991	11,060	10,789	21,849
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,559	5,303	15,862	10,549	5,235	15,784
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]			7,685			7,669
3. Special Drawing Rights (SDRs) [2]			8,147			8,130
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	December 23, 2005			December 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

III. Contingent Short-Term Net Drains on Foreign Currency Assets						
	December 23, 2005			December 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

January 4, 2006
js-3069

Treasury Employs Financial Sanctions Against WMD Proliferation Supporters in Iran

The U.S. Department of the Treasury today designated two Iranian entities, Novin Energy Company and Mesbah Energy Company, for their support of the proliferation of weapons of mass destruction (WMD). The designation and accompanying asset freeze is administered by the Treasury's Office of Foreign Assets Control.

"Identifying and designating supporters of WMD proliferation disrupts the networks that are vital to illicit weapons programs," said Stuart Levey, Treasury's Under Secretary for Terrorism and Financial Intelligence (TFI). "We will continue to expose and isolate the individuals and entities that facilitate these networks."

Today's action was taken pursuant to Executive Order 13382, an authority aimed at freezing the assets of proliferators of weapons of mass destruction (WMD) and their supporters and prohibiting transactions and trade with those designated entities. Designation under this Order prohibits all transactions between the designated entities and any U.S. person and freezes any assets the entities may have located under U.S. jurisdiction.

Novin Energy Company and Mesbah Energy Company met the criteria for designation because they are owned or controlled by, or act or purport to act for or on behalf of the Atomic Energy Organization of Iran (AEOI), which was designated in the Annex of E.O. 13382 on June 29, 2005.

Novin has transferred millions of dollars on behalf the AEOI to entities associated with Iran's nuclear program. Novin operates within the AEOI, and shares the same address as the AEOI.

Mesbah is a state-owned company subordinate to the AEOI. Through its role as a front for the AEOI, Mesbah has been used to procure products for Iran's heavy water project. Heavy water is essential for Iran's heavy-water-moderated reactor project, which will provide Iran a potential source of plutonium well-suited for nuclear weapons. Heavy water is believed to have no credible use in Iran's civilian nuclear power program, which is based on light-water reactor technology.

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.

Today's action builds on President Bush's issuance of E.O. 13382 on June 29, 2005. Recognizing the need for additional tools to combat the proliferation of WMD, the President signed the E.O. authorizing the imposition of strong financial sanctions against not only WMD proliferators, but also entities and individuals providing support or services to them. The E.O. carried with it an annex that designated eight entities operating in North Korea, Iran, and Syria for their support of WMD proliferation.

The Treasury designated eight additional North Korean entities on October 21, 2005, pursuant to E.O. 13382. These entities were owned or controlled by, or act or purport to act for or on behalf of KOMID and Korea Ryonbong General Corporation, which were also included in the June 2005 Annex.

PRESS ROOM

January 5, 2006
js-3070

Treasury Officials to Travel to New York, South Carolina, Georgia, and Arizona to Discuss Economic Growth

Treasury Officials will travel to New York, South Carolina, Georgia, and Arizona this week to discuss President Bush's agenda for a strong and vibrant economy.

"There is a lot of very good news to talk about when it comes to the American economy. We're growing at a steady pace, and the benefits of that economic growth are touching more Americans every day. From record levels of home ownership to the creation of four and a half million new jobs, the economic news continues to paint a clear picture: that the opportunities created by lower taxes and sound monetary policy have helped the American economy grow and maintain its position as the envy of the world," said Secretary John Snow.

The following events scheduled for Friday, January 6, are open to the press:

Assistant Secretary for Financial Institutions Emil Henry Jr.
Remarks at breakfast hosted by the Greater Columbia Chamber of Commerce
Wilbur Smith Tower, Summit Club, 20th floor
Grevais at Sumter Streets
Columbia, South Carolina
7:45 a.m. EST

*Media please contact Renee Joy at (803) 733-1152 or Rjoe@columbiachamber.com to register for the event.

Deputy Secretary Robert M. Kimmitt
Roundtable discussion hosted by Georgia State University Business School
Commerce Club
34 Broad Street, NW, 18th floor, Bennett Brown Room
Atlanta, Georgia
12:30 p.m. EST

U.S. Treasurer Anna Escobedo Cabral
Remarks on Economic Growth and Financial Education
Arizona State University
Memorial Union, Alumni Lounge
Tempe, Arizona
1:00 p.m. MST

-30-

PRESS ROOM

January 5, 2006
JS-3071

The Honorable John W. Snow Prepared Remarks to The National Chamber Foundation's Outlook 2006: The State of American Business

Thank you, Tom, and thank you to the Chamber Foundation for having me here today. This is an important meeting and I welcome the chance to cap your day of economic discussions with my perspective on the American economy, in particular a look at its foundation – the fundamentals that it's built on, and, therefore, foretell our economic future.

But I want to start out by quoting something that columnist Robert Samuelson wrote in the Washington Post yesterday. It was something that struck me as being quite true. He said that all the good economic news – both nationally and internationally – is "bad news for the news business."

I think that's right; it's an interesting, if ironic, point. A good economy doesn't make for very exciting news stories. The press may find this economy of ours to be downright boring. Well, I want to emphasize today that I don't find it boring – I'm betting business owners don't find it boring either – and I'm quite sure that the hundreds of thousands of people who are finding new jobs every month don't find it boring at all. Rather, it is a reason for optimism.

Over the past two to three years, economic indicators have been a steady drumbeat of good news. It's really amazing to look back on the past five years. When President Bush took office just five years ago he was inheriting an economy in decline. The bursting of the stock market bubble pushed the economy into recession and then the terrible shock of September 11th made economic matters even worse.

Thanks to responsible economic leadership from the President and Federal Reserve Board, our economy is now unmistakably in a trend of expansion. GDP growth is averaging over four percent annually. Four and a half million new jobs have been created since May of 2003, 2 million of them in the last year alone. Unemployment is running lower than the 1970s, 1980s and 1990s, U.S. equity markets are rising, and household wealth is at an all-time high.

The U.S. is the picture of economic health and we remain, as the President often notes, the economic envy of the world.

When we dig deeper into this picture – when we look at the underlying fundamentals of the economy, its strength makes even more sense, and we can see that businesses and workers have every reason to be optimistic about the future.

For example, we see that productivity growth remains strong. Output per hour in the non-financial corporate sector is up 4.7 percent versus last year.

Consumer net worth – that's assets minus debts – is a record high, and not just because of housing. Deposits – the money in checking accounts, savings accounts, and money market funds – are at a record high and are larger as a share of disposable income than at any time since 1993.

In the past two years, the economy has generated about 170,000 jobs per month, and that includes the two-month slowdown in job growth in the aftermath of Hurricanes Katrina and Rita.

Core inflation remains low, and that's good news for everyone.

It is also noteworthy that new orders for non-defense capital goods are up 20 percent versus last year. This tells us that the capacity of American businesses to produce in the future is rising. Meanwhile, the capacity utilization rate is 80.2 percent, which is below the level that in the past has been associated with rising inflation. In other words, American businesses are increasing capacity and at the same time have room to more intensively use the capacity they have, suggesting low inflation in the future plus pent-up demand for labor.

Independent private-sector forecasts point to continuing good news. For 2006, they predict a nice increase in real wages. Inflation-adjusted hourly wages are in fact already beginning their rise, growing 1 percent in November and 0.5 percent in October.

We are, right now, likely witnessing the tipping point on wages – when incomes rise for workers and business combined, but workers once again increase their incomes faster than businesses. As employers, you are familiar with the scenario: once businesses have been doing well for a while, they ultimately compete those increases in income away by competing harder for labor. The result is higher wages and higher standards of living for workers.

Both on leading indicators and a deeper background analysis, the American economy proves to be on solid footing. The question that business and government should look at is this: *why* is our economy performing so well and what can we do to continue these positive trends?

Put in the simplest of terms, you – the business community – create the jobs, develop the new products and services and so on. And we – the government – are responsible for creating an environment in which you can succeed.

The Federal Reserve has added to a favorable environment by implementing sound monetary policy. And there can be no doubt that the President's economic policies of lower taxes on income and capital have given both businesses and individuals the room they needed to grow and prosper.

The approach of this administration has been to implement the type of policies that have always, historically, enabled this nation to thrive. Ours is a country that is unique in its freedoms and we owe our prosperity to those freedoms. The simple fact that we operate as a free market is central to our success. The U.S. has tended to encourage small-business ownership, innovation and entrepreneurship, and that's essential for a thriving economy. Policies that let entrepreneurs and workers simply do what they do best have always enabled our economy to be more open, flexible, adaptive and resilient than any other in the world.

The President's tax cuts tapped into this proven, and I think uniquely American, economic theory on promoting growth, and effectively lightened the burden on individuals and businesses, leaving you to spend and invest, grow and create jobs.

The reduced burden especially lowered the cost of capital and encouraged investment – the lifeblood of a free market economy. And as you are well aware, there is a risk right now that taxes on investment and job creation could be raised. That would be a terrible mistake, given the economic success that lower rates precipitated.

With more Americans working than ever before, more Americans owning stock than ever before and with federal tax revenues at an all-time high to boot, there is simply no reason for the Congress to accept a tax increase from the Congress. And I'm confident the President won't accept one, period.

But this fight to keep taxes low on business, families and individuals will take an extra effort from you and our friends on the Hill. They've got to make all of the President's tax cuts permanent; letting them expire would be a tax increase – there is simply no other way to put it. And tax increases would be bad for the economy, bad for every American who still needs a job or seeks a better job.

It quite frankly baffles me that a tax increase would be advocated by some when the success of lower taxes is so evident. Opponents of the original tax cuts used to argue that federal revenues would be at risk, that the President's plan was "reckless" and wouldn't create jobs.

Well, their arguments about job creation were certainly wrong. And the facts since 2003 have shown that the economic growth spurred by the President's tax policies have significantly swelled government coffers as well, rendering the federal revenue argument moot.

According to our own Treasury estimates, the lower tax rate on dividends and capital gains will ultimately increase national output by $35 billion. This is significant because it illustrates the real point of these policies: they increase savings and investment, increase labor productivity through this higher capital formation, and, ultimately, increase jobs, the size of our economy and raise livings standards.

We still have a federal budget deficit – one that is too large and that the President is firmly committed to reducing. But our deficits are not the result of lower receipts – tax revenues are coming in strong. Deficits matter and one of our highest priorities is to achieve the President's goal of reducing our deficit in half to below 2.3 percent of GDP by 2009. Even in the face of increased costs to deal with last summer's hurricanes, I am confident that we will achieve this goal through spending restraint and continued economic growth.

Good news on spending restraint came before the holidays, with final approval in Congress of the FY2006 budget bills. The President worked with Congress to reduce non-security discretionary spending below last year's level, terminate or reduce funding for 89 lower-priority or poor-performing programs, and rein in mandatory spending for the first time in nearly a decade.

The prescription for the near future, for our economy, is straightforward: if we keep on doing what we're doing, policy-wise, we should keep getting what we're getting – in this case, excellent economic growth, millions of new jobs and a deficit that is in decline.

Can we do even better? You bet. Policies that reduce the number of baseless lawsuits would be a great way to further free-up business and entrepreneurs to produce and create jobs. And I know how much the cost of energy impacts your business. The President understands that, and it's why he fought so hard for last year's historic energy bill. There's work ahead on energy issues, and a reduced dependency on foreign sources is at the top of the President's energy agenda.

The President also appreciates the drag that excessive regulation can put on business, and therefore on job creation and innovation. That's why he tasks his cabinet with taking a close look at their agencies, at their regulations, and making sure that the benefits and protections of regulation are achieved without putting an undue hardship on you. We want you to be able to do what you do best, and that's create jobs. So there's a balance to achieve on regulation, and this entire administration is dedicated to achieving that balance.

Similar in some ways to excessive regulation is excessive complexity in our tax code. The code is not where it should be. After nearly three years as Treasury Secretary I have yet to find anyone who is happy with the tax code – unless you are in the tax preparation business, that is. Just to navigate it, millions of Americans have to enlist professional help. I know you've heard – and lived – the statistics – billions of hours of paperwork for tax filers and businesses, $140 billion dollars in lost time and money just trying to comply with our increasingly unwieldy tax code. This is a drag on economic growth in America and an unnecessary burden we all share.

The President's Tax Reform Panel did excellent work under the leadership of the two co-chairmen, former Senators John Breaux and Connie Mack, and we're reviewing their proposals now. We only get the chance to reform the code every twenty years or so, so we've got to make sure it's done right. We're not going to rush the reform process because America deserves a tax code that meets the President's goals for fairness, simplicity, and economic growth.

The rising cost of health care is another critical issue that I know you all deal with every day, and we still need common-sense medical liability reform to help address those costs.

The creation of Health Savings Accounts two years ago was an important step toward reducing costs and increasing the availability of health insurance. Today, over a million Americans – a large portion of whom were previously uninsured –are enjoying access to more affordable health care because of the tax advantages and savings benefits of HSAs, and I encourage all employers and individuals to consider them as an attractive alternative to traditional health insurance.

For the longer term, we have economic issues that loom and the sooner we address them, the better. The President did the right thing by leading on Social Security reform. We appreciate your support for it. It remains the right thing to do.

I also appreciate, and share, the concern of this group when it comes to the skills and preparation of the American workforce. The need for American workers to remain competitive with the workforce of the world is essential, and it's one of the motivating forces behind the President's Community-Based Job Training Initiative, which has provided $125 million in grants to community colleges. This administration believes that institutions that have a track record of success, offer a flexible curriculum and provide training for jobs that actually exist should receive federal monies. Congress needs to continue funding job training programs so that American workers can learn better skills and, ultimately, earn bigger paychecks.

Our workers are already competing with workers all around the globe, and when the playing field is level both our workforce and our businesses will always prove themselves. That's why a level playing field is central to the President's free and fair trade agenda. This underscores the importance of the Doha trade round which has the potential to boost American jobs by reducing and eliminating tariffs and other barriers on farm and industrial goods, ending unfair subsidies and opening the global market to American services. The U.S. will push for a bold, wide-ranging agreement, and the President will continue to use the American influence to bring American workers even greater opportunities. With 95 percent of America's potential customers living abroad, opening up new markets is extremely important.

I would never advise anyone to bet against the American worker, American business or the American economy overall. When businesses, families and individuals are allowed to pursue their goals – with opportunities to invest and enjoy the rewards of innovation, risk-taking and entrepreneurship – our economy is incredibly resilient and powerful.

Again, I appreciate the chance to talk with you today about the prospects for our economy. I look forward to taking your questions.

END

REPORTS

- (PDF) The Honorable John W. Snow Prepared Remarks to The National Chamber Foundation's Outlook 2006: The State of American Business

DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

For Immediate Release
January 5, 2006

CONTACT: Tony Fratto
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The Honorable John W. Snow
Prepared Remarks to
The National Chamber Foundation's Outlook 2006: The State of American Business

Thank you, Tom, and thank you to the Chamber Foundation for having me here today. This is an important meeting and I welcome the chance to cap your day of economic discussions with my perspective on the American economy, in particular a look at its foundation – the fundamentals that it's built on, and, therefore, foretell our economic future.

But I want to start out by quoting something that columnist Robert Samuelson wrote in the Washington Post yesterday. It was something that struck me as being quite true. He said that all the good economic news – both nationally and internationally – is "bad news for the news business."

I think that's right; it's an interesting, if ironic, point. A good economy doesn't make for very exciting news stories. The press may find this economy of ours to be downright boring. Well, I want to emphasize today that I don't find it boring – I'm betting business owners don't find it boring either – and I'm quite sure that the hundreds of thousands of people who are finding new jobs every month don't find it boring at all. Rather, it is a reason for optimism.

Over the past two to three years, economic indicators have been a steady drumbeat of good news. It's really amazing to look back on the past five years. When President Bush took office just five years ago he was inheriting an economy in decline. The bursting of the stock market bubble pushed the economy into recession and then the terrible shock of September 11th made economic matters even worse.

Thanks to responsible economic leadership from the President and Federal Reserve Board, our economy is now unmistakably in a trend of expansion. GDP growth is averaging over four percent annually. Four and a half million new jobs have been created since May of 2003, 2 million of them in the last year alone. Unemployment is running lower than the 1970s, 1980s and 1990s, U.S. equity markets are rising, and household wealth is at an all-time high.

The U.S. is the picture of economic health and we remain, as the President often notes, the economic envy of the world.

When we dig deeper into this picture – when we look at the underlying fundamentals of the economy, its strength makes even more sense, and we can see that businesses and workers have every reason to be optimistic about the future.

For example, we see that productivity growth remains strong. Output per hour in the non-financial corporate sector is up 4.7 percent versus last year.

Consumer net worth – that's assets minus debts – is a record high, and not just because of housing. Deposits – the money in checking accounts, savings accounts, and money market funds – are at a record high and are larger as a share of disposable income than at any time since 1993.

In the past two years, the economy has generated about 170,000 jobs per month, and that includes the two-month slowdown in job growth in the aftermath of Hurricanes Katrina and Rita.

Core inflation remains low, and that's good news for everyone.

It is also noteworthy that new orders for non-defense capital goods are up 20 percent versus last year. This tells us that the capacity of American businesses to produce in the future is rising. Meanwhile, the capacity utilization rate is 80.2 percent, which is below the level that in the past has been associated with rising inflation. In other words, American businesses are increasing capacity and at the same time have room to more intensively use the capacity they have, suggesting low inflation in the future plus pent-up demand for labor.

Independent private-sector forecasts point to continuing good news. For 2006, they predict a nice increase in real wages. Inflation-adjusted hourly wages are in fact already beginning their rise, growing 1 percent in November and 0.5 percent in October.

We are, right now, likely witnessing the tipping point on wages – when incomes rise for workers and business combined, but workers once again increase their incomes faster than businesses. As employers, you are familiar with the scenario: once businesses have been doing well for a while, they ultimately compete those increases in income away by competing harder for labor. The result is higher wages and higher standards of living for workers.

Both on leading indicators and a deeper background analysis, the American economy proves to be on solid footing. The question that business and government should look at is this: *why* is our economy performing so well and what can we do to continue these positive trends?

Put in the simplest of terms, you – the business community – create the jobs, develop the new products and services and so on. And we – the government – are responsible for creating an environment in which you can succeed.

The Federal Reserve has added to a favorable environment by implementing sound monetary policy. And there can be no doubt that the President's economic policies of lower taxes on income and capital have given both businesses and individuals the room they needed to grow and prosper.

The approach of this administration has been to implement the type of policies that have always, historically, enabled this nation to thrive. Ours is a country that is unique in its freedoms and we owe our prosperity to those freedoms. The simple fact that we operate as a free market is central to our success. The U.S. has tended to encourage small-business ownership, innovation and entrepreneurship, and that's essential for a thriving economy. Policies that let entrepreneurs and workers simply do what they do best have always enabled our economy to be more open, flexible, adaptive and resilient than any other in the world.

The President's tax cuts tapped into this proven, and I think uniquely American, economic theory on promoting growth, and effectively lightened the burden on individuals and businesses, leaving you to spend and invest, grow and create jobs.

The reduced burden especially lowered the cost of capital and encouraged investment – the lifeblood of a free market economy. And as you are well aware, there is a risk right now that taxes on investment and job creation could be raised. That would be a terrible mistake, given the economic success that lower rates precipitated.

With more Americans working than ever before, more Americans owning stock than ever before and with federal tax revenues at an all-time high to boot, there is simply no reason for the Congress to accept a tax increase from the Congress. And I'm confident the President won't accept one, period.

But this fight to keep taxes low on business, families and individuals will take an extra effort from you and our friends on the Hill. They've got to make all of the President's tax cuts permanent; letting them expire would be a tax increase – there is simply no other way to put it. And tax increases would be bad for the economy, bad for every American who still needs a job or seeks a better job.

It quite frankly baffles me that a tax increase would be advocated by some when the success of lower taxes is so evident. Opponents of the original tax cuts used to argue that federal revenues would be at risk, that the President's plan was "reckless" and wouldn't create jobs.

Well, their arguments about job creation were certainly wrong. And the facts since 2003 have shown that the economic growth spurred by the President's tax policies have significantly swelled government coffers as well, rendering the federal revenue argument moot.

According to our own Treasury estimates, the lower tax rate on dividends and capital gains will ultimately increase national output by $35 billion. This is significant because it illustrates the real point of these policies: they increase savings and investment, increase labor productivity through this higher capital formation, and, ultimately, increase jobs, the size of our economy and raise livings standards.

We still have a federal budget deficit – one that is too large and that the President is firmly committed to reducing. But our deficits are not the result of lower receipts – tax revenues are coming in strong. Deficits matter and one of our highest priorities is to achieve the President's goal of reducing our deficit in half to below 2.3 percent of GDP by 2009. Even in the face of increased costs to deal with last summer's hurricanes, I am confident that we will achieve this goal through spending restraint and continued economic growth.

Good news on spending restraint came before the holidays, with final approval in Congress of the FY2006 budget bills. The President worked with Congress to reduce non-security discretionary spending below last year's level, terminate or reduce funding for 89 lower-priority or poor-performing programs, and rein in mandatory spending for the first time in nearly a decade.

The prescription for the near future, for our economy, is straightforward: if we keep on doing what we're doing, policy-wise, we should keep getting what we're getting – in this case, excellent economic growth, millions of new jobs and a deficit that is in decline.

Can we do even better? You bet. Policies that reduce the number of baseless lawsuits would be a great way to further free-up business and entrepreneurs to produce and create jobs. And I know how much the cost of energy impacts your business. The President understands that, and it's why he fought so hard for last year's historic energy bill. There's work ahead on energy issues, and a reduced dependency on foreign sources is at the top of the President's energy agenda.

The President also appreciates the drag that excessive regulation can put on business, and therefore on job creation and innovation. That's why he tasks his cabinet with taking a close look at their agencies, at their regulations, and making sure that the benefits and protections of regulation are achieved without putting an undue hardship on you. We want you to be able to do what you do best, and that's create jobs. So there's a balance to achieve on regulation, and this entire administration is dedicated to achieving that balance.

Similar in some ways to excessive regulation is excessive complexity in our tax code. The code is not where it should be. After nearly three years as Treasury Secretary I have yet to find anyone who is happy with the tax code – unless you are in the tax preparation business, that is. Just to navigate it, millions of Americans have to enlist professional help. I know you've heard – and lived – the statistics – billions of hours of paperwork for tax filers and businesses, $140 billion dollars in lost time and money just trying to comply with our increasingly unwieldy tax code. This is a drag on economic growth in America and an unnecessary burden we all share.

The President's Tax Reform Panel did excellent work under the leadership of the two co-chairmen, former Senators John Breaux and Connie Mack, and we're reviewing their proposals now. We only get the chance to reform the code every twenty years or so, so we've got to make sure it's done right. We're not going to rush the reform process because America deserves a tax code that meets the President's goals for fairness, simplicity, and economic growth.

The rising cost of health care is another critical issue that I know you all deal with every day, and we still need common-sense medical liability reform to help address those costs.

The creation of Health Savings Accounts two years ago was an important step toward reducing costs and increasing the availability of health insurance. Today, over a million Americans – a large portion of whom were previously uninsured –are enjoying access to more affordable health care because of the tax advantages and savings benefits of HSAs, and I encourage all employers and individuals to consider them as an attractive alternative to traditional health insurance.

For the longer term, we have economic issues that loom and the sooner we address them, the better. The President did the right thing by leading on Social Security reform. We appreciate your support for it. It remains the right thing to do.

I also appreciate, and share, the concern of this group when it comes to the skills and preparation of the American workforce. The need for American workers to remain competitive with the workforce of the world is essential, and it's one of the motivating forces behind the President's Community-Based Job Training Initiative, which has provided $125 million in grants to community colleges. This administration believes that institutions that have a track record of success, offer a flexible curriculum and provide training for jobs that actually exist should receive federal monies. Congress needs to continue funding job training programs so that American workers can learn better skills and, ultimately, earn bigger paychecks.

Our workers are already competing with workers all around the globe, and when the playing field is level both our workforce and our businesses will always prove themselves. That's why a level playing field is central to the President's free and fair trade agenda. This underscores the importance of the Doha trade round which has the potential to boost American jobs by reducing and eliminating tariffs and other barriers on farm and industrial goods, ending unfair subsidies and opening the global market to American services. The U.S. will push for a bold, wide-ranging agreement, and the President will continue to use the American influence to bring American workers even greater opportunities. With 95 percent of America's potential customers living abroad, opening up new markets is extremely important.

I would never advise anyone to bet against the American worker, American business or the American economy overall. When businesses, families and individuals are allowed to pursue their goals – with opportunities to invest and enjoy the rewards of innovation, risk-taking and entrepreneurship – our economy is incredibly resilient and powerful.

Again, I appreciate the chance to talk with you today about the prospects for our economy. I look forward to taking your questions.

END

PRESS ROOM

January 5, 2006
js-3072

Under Secretary Adams to meet with Local Financial Officials and Business Leaders in Frankfurt, Paris and Tunis

Treasury's International Affairs Under Secretary Tim Adams will travel next week to Frankfurt, Germany; Paris, France and Tunis, Tunisia to meet with local economic officials and business leaders.

Under Secretary Adams will be in Frankfurt on Jan. 9 to meet with representatives from the financial sector as well as European Central Bank officials. On Jan. 10 he will participate in the WP3 meetings at the OECD in Paris to discuss the global economic outlook. The following day, Adams will travel to Tunis for a two-day visit to discuss African development and trade issues with economic officials including African Development Bank President Donald Kaberuka, Tunisian Minister of Development and International Cooperation Mohamed Nouri Jouini, and ambassadors from other African countries.

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PRESS ROOM

January 6, 2006
JS-3073

The Honorable John W. Snow Statement on December Employment Report

"The year 2005 was a very good one indeed for the 2 million Americans who found new jobs. Today's employment report is the latest indication that the American economy is firing on all cylinders. Before the hurricanes that hit us so hard this fall, the U.S. economy was generating about 200,000 jobs per month. After two months affected by the weather – September and October – it appears we have regained that pace, creating over 400,000 jobs in the past two months. I also note that we have enjoyed 31 straight months of job growth and, during that time, have added more than 4.6 million jobs.

"As we begin 2006, we have every reason to be optimistic that this economy – the most flexible, resilient and robust in the world – will continue to grow and create good jobs. The private sector, particularly America's entrepreneurs and small businesses, will continue to be the engine of the economy as long as government continues to give them the freedom they need to do so. Making the President's tax cuts permanent is the most important thing we can do in the coming months to make sure the economic environment in 2006 is as healthy, and as good for job-seekers, as it was in 2005."

END

PRESS ROOM

January 10, 2006
JS-3074

MEDIA ADVISORY:
Press Roundtable on the Release of the
Money Laundering Threat Assessment

Please join senior U.S. Government officials for a press roundtable on the release of the Money Laundering Threat Assessment (MLTA), the first government-wide analysis of money laundering trends and vulnerabilities in the United States.

WHO: Senior law enforcement, regulatory, and policymaking officials from offices and bureaus within the Departments of Treasury, Justice, Homeland Security, the Board of Governors of the Federal Reserve System and the U.S. Postal Service

WHAT: Press Roundtable
WHEN: Wednesday, January 11 at 10:45 a.m.
10:45 AM EST
WHERE: Department of the Treasury, Cash Room (use north entrance)
****No cameras, please.**

Media without Treasury press credentials (including media with White House credentials) planning to attend should contact Frances Anderson in Treasury's Office of Public Affairs at (202) 528-9086 or e-mail to frances.anderson@do.treas.gov. Please be prepared to provide her with the following information: full name, social security number and date of birth by 5:00 pm EST on Tuesday, January 10.

PRESS ROOM

January 11, 2006
2006-1-11-9-28-18-27487

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 $65,995 million as of the end of that week, compared to $64,473 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	December 30, 2005			January 6, 2005		
TOTAL	64,473			65,995		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	11,060	10,789	21,849	11,365	11,113	22,478
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	10,549	5,235	15,784	11,114	5,392	16,506
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]			7,669			7,752
3. Special Drawing Rights (SDRs) [2]			8,130			8,218
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	December 30, 2005			January 6, 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						
	December 30, 2005			January 6, 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

January 11, 2006
JS-3075

Secretary Snow Names Bureau of Engraving and Printing Director

Treasury Secretary John W. Snow named Larry R. Felix as the director of Treasury's Bureau of Engraving and Printing (BEP). The Bureau produces U.S. currency and other government securities and documents at its two facilities in Washington, D.C., and Fort Worth, Texas.

As BEP director, Felix will work to meet the challenges of the advancements in technology that pose evolving threats to our nation's currency and other security documents – to stay ahead of counterfeiters, and to protect the integrity of U.S. currency. In addition, Felix will work to ensure that the bureau's resources are appropriate to meet requirements of customer agencies.

A 23-year career Treasury employee, Felix has spent the last 13 years at BEP most recently as Deputy Director. He previously served as BEP's associate director (technology) and chief of external relations. He also chaired the Inter-agency Currency Design (ICD) taskforce, a group responsible for recommending technical enhancements to U.S. currency design.

Felix has degrees from the New York City College of Technology and the City College of New York and did PhD work at Columbia University. Born in Port of Spain, he grew up in New York City and currently resides with his wife and two daughters in Virginia.

PRESS ROOM

January 12, 2006
js-3076

OFAC Releases Sanctions Enforcement Procedures for Banking Institutions

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today published guidelines in the Federal Register titled "Economic Sanctions Enforcement Procedures for Banking Institutions Regulated by FFIEC-member Supervisory Agencies."

"As the administrator of U.S. economic sanctions, OFAC emphasizes in these internal procedures that the primary goal of enforcement actions is to promote more effective compliance within the particular institution, as well as throughout the industry," said OFAC Director Robert Werner.

The guidelines complement and expand upon OFAC's contribution to the Bank Secrecy Act Anti-Money Laundering Examination Manual published by the Federal Financial Institutions Examination Council on June 30, 2005.

The procedures spell out an institutional - rather than a transactional - approach to enforcement, taking into account risk-based efforts by financial institutions to ensure OFAC compliance, as well evaluating violations that appear to have occurred.

"OFAC recognizes the uniqueness of every institution's compliance program and how each program must be geared toward the size of a bank's accounts, its business volume, its customer base, and its product lines," Werner continued.

The procedures highlight OFAC's partnering with the functional bank regulators who will receive information related to apparent violations and compliance concerns as OFAC becomes aware of them. The regulators, in turn, will share with OFAC their evaluations of the adequacy of banks' compliance programs.

OFAC will be reviewing apparent violations on a periodic basis in the context of each institution's overall OFAC compliance program and specific OFAC compliance record. The reviews will include such factors as:

- The opinion of a bank's primary federal regulator;
- The institution's history of OFAC compliance;
- The circumstances surrounding any apparent violation, including any patterns or weaknesses in an institution's compliance program and whether those weaknesses indicate negligence or fundamental flaws;
- Whether violations were voluntarily disclosed;
- Enforcement information provided by the institution to OFAC;
- The number of transactions or accounts that the institution handled improperly during the period under review and its responses to OFAC administrative subpoenas;
- The number of transactions successfully blocked or rejected by the bank during the period; and
- The actions taken by the bank to correct any violations and to ensure that similar violations do not recur.

After evaluating the information, OFAC will contact the bank to convey a preliminary assessment. OFAC's staff will discuss the results of its review, including any patterns or compliance weaknesses and will indicate what administrative action OFAC intends to take for each transaction or set of related transactions that appear to constitute violations.

Once OFAC has reached a final decision, it will notify the institution in writing and provide a copy of its evaluation letter to the institution's primary federal banking regulator. In the event that OFAC notifies a bank of its intent to pursue a civil penalty, existing civil penalty procedures under OFAC regulations will be followed, including the opportunity for informal settlement.

OFAC is soliciting comments for 60 days from the public about the new procedures, including suggestions on how OFAC Enforcement Procedures might be made to apply to state-regulated institutions, the insurance and securities industries, and the import/export community.

A copy of the guidelines may be accessed here:
http://www.treas.gov/offices/enforcement/ofac/legal/regs/fr71_1971.pdf

Those wishing to submit comments should visit one of the following:

- The Federal eRulemaking Portal at http://www.regulations.gov
- OFAC's website at http://www.treas.gov/offices/enforcement/ofac/comment.shtml

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party and that are incorporated by reference as product terms.

(3) * * *

(ii) * * *

(F) *Securities Indexes.* Routine changes to the composition, computation or method of security selection of an index that is referenced and defined in the product's rules, and which are made by an independent third party.

■ 35. Section 40.7 is amended by adding paragraphs (a)(3) and (b)(3) to read as follows:

§ 40.7 Delegations.

(a) *Procedural matters* * * *

(3) The Commission hereby delegates to the Director of the Division of Market Oversight or to the Director's delegate, with the concurrence of the General Counsel or the General Counsel's delegate, the authority to determine whether a rule change submitted by a DCM for a materiality determination under § 40.4(b)(9) is not material (in which case it may be reported pursuant to the provisions of § 40.6(c)), or is material, in which case he or she shall notify the DCM that the rule change must be submitted for the Commission's prior approval.

(b) *Approval authority.* * * *

(3) Establish or amend speculative limits or position accountability provisions that are in compliance with the requirements of the Act and Commission regulations;

* * * * *

■ 36. Section 40.8 is amended by revising paragraph (b) to read as follows:

§ 40.8 Availability of public information.

* * * * *

(b) Any information required to be made publicly available by a registered entity under Sections 5(d)(7), 5a(d)(4) and 5b(c)(2)(L) of the Act, respectively, will be treated as public information by the Commission at the time an order of designation or registration is issued by the Commission, a registered entity is deemed to be designated or registered, or a rule or rule amendment of the registered entity is approved or deemed to be approved by the Commission or can first be made effective the day following its certification by the registered entity.

■ 37. Appendix D to Part 40 is amended by revising the first paragraph to read as follows:

Appendix D to Part 40—Submission Cover Sheet and Instructions

A properly completed submission cover sheet must accompany all rule submissions submitted electronically by a designated contract market, registered derivatives transaction execution facility, or registered derivatives clearing organization to the Secretary of the Commodity Futures Trading Commission, at *submissions@cftc.gov* in a format specified by the Secretary of the Commission. Each submission should include the following:

* * * * *

Issued in Washington, DC, this 5th day of January, 2006, by the Commission.

Jean A. Webb,

Secretary of the Commission.

[FR Doc. 06–242 Filed 1–11–06; 8:45 am]

BILLING CODE 6351–01–P

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[TD 9234]

RIN 1545–AU98

Obligations of States and Political Subdivisions; Correction

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Correction to final regulations.

SUMMARY: This document corrects final regulations (TD 9234) that was published in the **Federal Register** on Monday, December 19, 2005 (70 FR 75028). The final regulations relates to the definition of private activity bond applicable to tax-exempt bonds issued by State and local governments.

DATES: This correction is effective February 17, 2006.

FOR FURTHER INFORMATION CONTACT: Johanna Som de Cerff, (202) 622–3980 (not a toll-free call).

SUPPLEMENTARY INFORMATION:

Background

The final regulations (TD 9234) that is the subject of this correction is under section 141 of the Internal Revenue Code.

Need for Correction

As published, TD 9234 contains error that may prove to be misleading and is in need of clarification.

Correction of Publication

■ Accordingly, the publication of the final regulations (TD 9234), that was the subject of FR Doc. 05–23944, is corrected as follows:

§ 1.141–15 [Corrected]

■ On page 75035, column 2, § 1.141–15(j), lines 7 and 8, the language, "on or after February 17, 2006 and that are subject to the 1997 regulations." is corrected to read "on or after February 17, 2006, and that are subject to the 1997 regulations (defined in paragraph (b)(1) of this section).".

Cynthia Grigsby,

Acting Chief, Publications and Regulations Branch, Legal Processing Division, Associate Chief Counsel, (Procedure and Administration).

[FR Doc. 06–250 Filed 1–11–06; 8:45 am]

BILLING CODE 4830–01–P

DEPARTMENT OF THE TREASURY

Office of Foreign Assets Control

31 CFR Part 501

Economic Sanctions Enforcement Procedures for Banking Institutions

AGENCY: Office of Foreign Assets Control, Treasury.

ACTION: Interim final rule with request for comments.

SUMMARY: The Office of Foreign Assets Control ("OFAC") of the U.S. Department of the Treasury is issuing this interim final rule, "Economic Sanctions Enforcement Procedures for Banking Institutions," along with a request for comments. This interim final rule supercedes OFAC's proposed rule of January 29, 2003,[1] to the extent that the proposed rule applies to "banking institutions," as defined below. These administrative procedures are published as an appendix to the Reporting, Procedures and Penalties Regulations, 31 CFR Part 501.

DATES: The interim final rule is effective for enforcement cases involving banking institutions commencing on or after February 13, 2006. Written comments may be submitted on or before March 13, 2006.

ADDRESSES: You may submit comments by any of the following methods:

- Federal eRulemaking Portal: *http://www.regulations.gov.* Follow the instructions for submitting comments.
- Agency Web site: *http://www.treas.gov/offices/enforcement/ofac/comment.html.*
- Fax: Assistant Director of Records, (202) 622–1657.
- Mail: Assistant Director of Records, ATTN: Request for Comments (Enforcement Procedures), Office of Foreign Assets Control, Department of the Treasury, 1500 Pennsylvania Avenue, NW., Washington, DC 20220.

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[1] 68 FR 4422–4429 (2003).

Instructions: All submissions received must include the agency name and the FR Doc. number that appears at the end of this document. Comments received will be posted without change to *http://www.treas.gov/ofac*, including any personal information provided.

FOR FURTHER INFORMATION CONTACT: Assistant Director of Records, (202) 622–2500 (not a toll-free call).

SUPPLEMENTARY INFORMATION:

Electronic Availability

This document and additional information concerning OFAC are available from OFAC's Web site (*http://www.treas.gov/ofac*) or via facsimile through a 24-hour fax-on-demand service, tel.: 202/622–0077.

Procedural Requirements

Because this interim final rule imposes no obligations on any person, but instead simply explains OFAC's enforcement practices based on existing substantive and procedural rules, prior notice and public procedure are not required pursuant to 5 U.S.C. 553(b)(A). Because no notice of proposed rulemaking is required, the provisions of the Regulatory Flexibility Act (5 U.S.C. chapter 6) do not apply. Finally, this interim final rule is not a significant regulatory action for purposes of Executive Order 12866.

Although a prior notice of proposed rulemaking is not required, OFAC is soliciting comments on this interim final rule in order to consider how it might make improvements in its enforcement procedures in the future. Comments must be submitted in writing. The addresses and deadline for submitting comments appear near the beginning of this notice. OFAC will not accept comments accompanied by a request that all or part of the submission be treated confidentially because of its business proprietary nature or for any other reason. All comments received by the deadline will be a matter of public record and will be made available on OFAC's Web site: *http://www.treas.gov/offices/enforcement/ofac/index.html*.

Background

On January 29, 2003, OFAC published, as a proposed rule, Economic Sanctions Enforcement Guidelines. Though this proposed rule has not been finalized, OFAC has used the Guidelines as a general framework for its enforcement actions. OFAC has decided that the enforcement procedures with respect to banking institutions should be modified and is publishing enforcement procedures for these entities as an interim final rule. OFAC is also requesting comments on this interim final rule.

In conjunction with issuing this interim final rule, OFAC is withdrawing the January 29, 2003 proposed rule to the extent it applies to banking institutions, as defined herein. For purposes of this interim rule, "banking institutions" means depository institutions regulated or supervised by one of the regulators that belongs to the Federal Financial Institutions Examination Council ("FFIEC"), *i.e.*, 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. Please note that a depository institution may be a "banking institution," as that term is defined in OFAC regulations, *see, e.g.*, 31 CFR 500.314, 515.314, but not a "banking institution" for purposes of these enforcement procedures. Because this interim final rule only applies to enforcement procedures for banking institutions, as defined herein, OFAC plans to issue guidance on its enforcement procedures for other types of institutions and other sectors in the future.

OFAC is publishing enforcement procedures for banking institutions because of their unique role in the implementation of OFAC sanctions programs and the nature of the transactions in which such institutions engage. The new enforcement procedures take into account that each banking institution's situation is different and that its compliance program should be tailored to its unique circumstances. This includes an analysis of its size, business volume, customer base, and product lines.

In order to implement this new approach, OFAC has been working and will continue to work in partnership with the federal banking regulators. OFAC worked with FFIEC members to develop standards to evaluate compliance programs at banking institutions. In June 2005, the FFIEC released its *Bank Secrecy Act Anti-Money Laundering Examination Manual.* Portions of this manual relate to compliance with various OFAC sanctions programs. In addition, working with FFIEC members, OFAC has developed risk matrices, which may be used by depository institutions as "best practices."[2] The matrices provide a guide for evaluating a banking institution's risk of encountering accounts or transactions subject to OFAC regulations and for determining the quality of an institution's compliance program. As indicated in the FFIEC examination manual, the banking regulators evaluate a banking institution's overall OFAC compliance program using a similar methodology.

Also, in administering its enforcement authority with respect to various sanctions statutes, Executive orders, and regulations, OFAC will provide the federal banking regulators with information related to apparent violations or compliance concerns as it becomes aware of them. In turn, OFAC will receive information from the banking regulators, including, for those institutions with apparent violations, evaluations of the sufficiency of each such institution's implementation of policies, procedures, and systems for ensuring OFAC compliance.

Prior to taking enforcement actions, OFAC generally will review apparent violations by a particular institution over a period of time, rather than evaluating each apparent violation independently. However, in regard to what appears to be a particularly egregious violation, OFAC may evaluate the situation as it presents itself and take prompt enforcement action.

Under the revised procedures, OFAC will periodically evaluate a banking institution's apparent OFAC-related violations in the context of the institution's overall OFAC compliance program and specific OFAC compliance record. OFAC will not conduct such a review if there are no apparent violations. The information reviewed will include but not necessarily be limited to: the evaluation of the banking institution's OFAC compliance program by its primary federal banking regulator; the institution's history of OFAC compliance; the circumstances surrounding any apparent violation, including what appear to be patterns or weaknesses in an institution's compliance program and whether they indicate negligence or a fundamental flaw in the compliance effort or system and whether they were voluntarily disclosed; enforcement information provided by the institution to OFAC; the number of transactions or accounts that the institution handled improperly during the period under review and its responses to any administrative subpoenas that OFAC sent with regard to those transactions or accounts; the number of transactions successfully blocked or rejected by the banking institution during the period; the actions taken by the banking institution to correct any violations and to ensure

[2] These matrices can be found in Annex A to the interim final rule and can be accessed online at *http://www.treas.gov/offices/enforcement/ofac/faq/matrix.pdf*.

that similar violations do not happen again; and other relevant information available to OFAC at the time of the evaluation.

After a review of apparent violations, OFAC will contact the banking institution, either by phone, in-person, or in writing, regarding OFAC's preliminary assessment of the appropriate action with respect to the institution. OFAC's staff will discuss the results of its review with the institution, including any patterns or weaknesses in an institution's compliance program. With respect to particular transactions, the discussion will cover the actions taken by the banking institution to ensure that similar transactions do not take place in the future and the adequacy of responses to any administrative subpoenas OFAC has sent with regard to the transactions. OFAC will indicate the intended administrative action to be taken for each transaction or set of related transactions that appear to constitute violations of OFAC-administered sanctions programs.

Once OFAC has reached a decision, it will notify the institution in writing as to its proposed action with regard to each apparent violation during the period under review. OFAC will provide a copy of this letter to the institution's primary federal banking regulator. In the event that OFAC has notified the institution of its intent to pursue a civil penalty with regard to any or all of the apparent violations, existing civil penalty procedures under OFAC regulations will be followed. These include the opportunity for informal settlement prior to formal initiation of penalty action through the issuance of a prepenalty notice.

In subsequent periodic reviews relating to the institution's apparent violations, all prior actions and decisions taken by OFAC, including cases in which the decision is to take no action, will be considered in deciding what action to take.

In addition to detailing these new procedures, the interim final rule clarifies that, for a banking institution, a voluntary disclosure, a factor that OFAC considers in its enforcement decisions, does not include a disclosure when another party is required to file a report concerning the same transaction. This is the case whether or not the other party actually files a report. However, OFAC considers reporting of violations important for its compliance and enforcement programs and will consider such reports by a banking institution a mitigating factor in its enforcement decisions even if they do not meet the definition of "voluntary disclosure" contained in these enforcement procedures. While reports that are not voluntary disclosures will generally not be accorded the same importance as voluntary disclosures, OFAC will give such cooperation due consideration.

Though this interim final rule becomes effective in 30 days, OFAC is soliciting comments for a 60-day period with a view to improving its enforcement procedures.

In particular, commenters are invited to address how much significance, separately or collectively, OFAC should attribute in its enforcement decisions to such factors as a banking regulator's assessments of a banking institution's compliance program, a banking institution's historical OFAC compliance record, and a comparison of that record to similarly situated banking institutions.

Also, this interim final rule does not apply to entities regulated by the Securities and Exchange Commission ("SEC") and the Commodity Futures Trading Commission ("CFTC"), such as broker-dealers, mutual funds, investment advisers, hedge fund advisers, futures commission merchants, commodity trading advisers, and commodity pool operators, even if such legal entities are affiliated with a banking institution. OFAC plans to issue separate enforcement procedures for SEC- and CFTC-regulated entities in recognition that the regulatory regimes administered by the SEC and the CFTC are significantly different from the regime administered by federal banking regulators. Commenters are asked to address whether there is current information about the compliance programs of SEC- and CFTC-regulated entities that OFAC could use in a similar manner to the way compliance information will be used for making enforcement decisions for banks. Commenters are also requested to provide any suggestions concerning how the enforcement procedures described in this interim final rule should be modified for entities regulated by the SEC or CFTC.

OFAC also plans to issue enforcement procedures for certain financial sector entities regulated by state government agencies but not by federal financial regulators. This sector includes entities that are similar to federally-regulated banking institutions, such as certain credit unions and banks not insured by an agency of the U.S. Government, and it includes some money service businesses. Commenters are asked for suggestions concerning how the enforcement procedures in the interim final rule should be modified for the purpose of providing separate enforcement procedures for these entities.

The interim final rule does not apply to other financial sector entities, such as insurance companies (including property and casualty, life, and reinsurance lines of business), pension funds, finance companies, mortgage bankers, and government-sponsored enterprises. Commenters are asked for their suggestions on how enforcement procedures should be modified to apply to these other financial sector entities and whether and how enforcement procedures for financial sector firms should vary depending on the regulatory regime, if any, to which various financial sector firms are subject.

Commenters are also requested to provide suggestions concerning appropriate enforcement procedures for non-financial sectors, such as import-export businesses, the computer and software industries, and e-commerce.

These procedures apply to banking institutions that may be part of a larger corporate structure, with a parent holding company. Commenters are asked how OFAC should consider for enforcement purposes complex corporate structures, which may include entities regulated by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the SEC, and the CFTC. Other affiliates, such as insurance companies, may be regulated by state regulators; some affiliates may be subject to the jurisdiction of foreign regulators; and some entities may not have a functional regulator. Such complicated structures pose challenges for assessing compliance programs and making determinations about enforcement actions when there are violations. Commenters are invited to address the proper enforcement approach for complicated holding company structures.

List of Subjects in 31 CFR Part 501

Administrative practice and procedure, Banks, banking, Reporting and recordkeeping requirements.

■ For the reasons set forth in the preamble, 31 CFR part 501 is amended as follows:

PART 501—REPORTING, PROCEDURES AND PENALTIES REGULATIONS

■ 1. The authority citation for Part 501 continues to read as follows:

Authority: 18 U.S.C. 2332d; 21 U.S.C. 1901–1908; 22 U.S.C. 287c; 22 U.S.C. 2370(a); 31 U.S.C. 321(b); 50 U.S.C. 1701–

1706; 50 U.S.C. App. 1–44; Pub. L. 101–410, 104 Stat. 890 (28 U.S.C. 2461 note); E.O. 9193, 7 FR 5205, 3 CFR, 1938–1943 Comp., p. 1174; E.O. 9989, 13 FR 4891, 3 CFR, 1943–1948 Comp., p. 748; E.O. 12854, 58 FR 36587, 3 CFR, 1993 Comp., p. 614.

■ 2. Part 501 is amended by adding the following appendix A, with annexes, to read as follows:

Appendix A to Part 501—Economic Sanctions Enforcement Procedures for Banking Institutions

Note: This appendix provides a general procedural framework for the enforcement of all economic sanctions programs administered by the Office of Foreign Assets Control ("OFAC") only as they relate to banking institutions, as defined herein.

I. Definitions

A. *Banking regulator* means 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, or the Office of Thrift Supervision.

B. *Banking institution*, for purposes of this appendix to Part 501, means a depository institution supervised or regulated by a banking regulator.

C. *OFAC* means the Department of the Treasury's Office of Foreign Assets Control.

D. *Voluntary disclosure* means notification to OFAC of an apparent sanctions violation by the banking institution that has committed it. However, such notification to OFAC is not deemed a voluntary disclosure if OFAC has previously received information concerning the conduct from another source, including, but not limited to, a regulatory or law enforcement agency or another person's blocking or funds transfer rejection report.

Notification by a banking institution is also not a voluntary disclosure if another person's blocking or funds transfer rejection report is required to be filed, whether or not this required filing is made. Responding to an administrative subpoena or other inquiry from OFAC is not a voluntary disclosure. The submission of a license request is not a voluntary disclosure unless it is accompanied by a separate disclosure.

II. Enforcement of Economic Sanctions in General

A. *OFAC Civil Investigation and Enforcement Action.* OFAC is responsible for civil investigation and enforcement with respect to economic sanctions violations committed by banking institutions. In these efforts, OFAC may coordinate with banking regulators. OFAC investigations may lead to one or more of the following: an administrative subpoena, an order to cease and desist, a blocking order, an evaluative letter summarizing concerns, or a civil penalty proceeding. In addition to or instead of such actions, if the banking institution involved is currently acting pursuant to an OFAC license, that license may be suspended or revoked.

B. *OFAC's Evaluation of Violative Conduct.* The level of enforcement action undertaken by OFAC involving a banking institution depends on the nature of the apparent violation, the enforcement objectives, and the foreign policy goals of the particular sanctions program involved. In evaluating whether to initiate a civil penalty action, OFAC determines whether there is reason to believe that a violation of the relevant regulations, statutes, or Executive orders has occurred. In making determinations about the disposition of apparent violations by banking institutions, including evaluative letters and civil penalties, OFAC will consider information provided by the banking institution and its banking regulator concerning the institution's compliance program and the adequacy of that program based on its OFAC risk profile. Further information about the evaluation of compliance programs commensurate with the risk profile of a banking institution and a description of a sound OFAC compliance program are provided in Annexes A and B.

C. *Criminal Investigations and Prosecutions.* If the evidence suggests that a banking institution has committed a willful violation of a substantive prohibition or requirement, OFAC may refer those cases to other federal law enforcement agencies for criminal investigation. Cases that an investigative agency has referred to the Department of Justice for criminal prosecution also may be subject to OFAC civil penalty action.

III. Periodic Institutional Review

A. Except for those significant violations for which prompt action, such as a civil penalty proceeding or referral to other federal law enforcement agencies, is appropriate, OFAC will review institutions with violations or suspected violations on a periodic basis. OFAC will review each such institution's apparent violations over a period of time deemed appropriate in light of the number and severity of apparent violations and the institution's OFAC compliance history.

B. Upon completing this review, OFAC will preliminarily determine the type of enforcement action it will pursue for each apparent violation or related apparent violations. OFAC will then seek comment from the banking institution and ask it to provide additional information with regard to the apparent violation or violations. OFAC also will ask the institution to explain what actions led to the apparent violation or violations and what actions, if any, it has taken to overcome the deficiencies in its systems that led to the apparent improper handling of the transactions or accounts. Depending on the number and complexity of the apparent violations, OFAC may grant up to 30 days for a banking institution to respond and may grant further extensions at its sole discretion where it determines this is appropriate. Upon receipt of the institution's response, OFAC will decide whether to pursue the intended administrative action or whether some other action would serve the same purpose.

C. OFAC will subsequently send the banking institution a letter detailing its findings and further actions, if any, concerning the apparent violations. OFAC will provide the banking institution's primary banking regulator with a copy of this letter.

IV. Factors Affecting Administrative Action

In making its decision as to administrative action, if any, OFAC will consider a number of factors, including, but not limited to, the following:

A. The institution's history of sanctions violations.

B. The size of the institution and the number of OFAC-related transactions handled correctly compared to the number and nature of transactions handled incorrectly.

C. The quality and effectiveness of the banking institution's overall OFAC compliance program, as determined by the institution's primary banking regulator and by its history of compliance with OFAC regulations.

D. Whether the apparent violation or violations in question are the result of systemic failures at the banking institution or are atypical in nature.

E. The voluntary disclosure to OFAC of the apparent violation or violations by the banking institution.

F. Providing OFAC a report of, or useful enforcement information concerning, the apparent violation or violations. Providing a report, but not a voluntary disclosure, of the apparent violation or violations will generally be accorded less weight as a mitigating factor than would provision of a voluntary disclosure.

G. The deliberate effort to hide or conceal from OFAC or to mislead OFAC concerning an apparent violation or violations or its OFAC compliance program.

H. An analysis of current or potential sanctions harm as a result of a violation or series of related violations. This analysis will focus both on the specifics of the apparent violation or violations and the institution's compliance effort.

I. Technical, computer, or human error.

J. Applicability of a statute of limitations and any waivers thereof.

K. Actions taken by the banking institution to correct the problems that led to the apparent violation or violations.

L. The level of OFAC action that will best lead to enhanced compliance by the banking institution.

M. The level of OFAC action that will best serve to encourage enhanced compliance by others.

N. Evidence that a transaction or transactions could have been licensed by OFAC under an existing licensing policy.

O. Whether other U.S. government agencies have taken enforcement action.

P. Qualification of the banking institution as a small business or organization for the purposes of the Small Business Regulatory Enforcement Fairness Act, as determined by reference to the applicable regulations of the Small Business Administration.

V. License Suspension and Revocation

In addition to or in lieu of other administrative actions, OFAC authorization to engage in a transaction or transactions pursuant to a general or specific license may be suspended or revoked with respect to a banking institution for reasons including, but not limited to, the following:

A. The banking institution has made or caused to be made in any license application, or in any report required pursuant to a license, any statement that was, at the time and in light of the circumstances under which it was made, false or misleading with respect to any material fact, or it has omitted to state in any application or report any material fact that was required;

B. The banking institution has failed to file timely reports or comply with the recordkeeping requirements of a general or specific license;

C. The banking institution has violated any provision of the statutes enforced by OFAC or the rules or regulations issued under any such provision or relevant Executive orders and such violation or violations are significant and merited civil penalty or other enforcement action;

D. The banking institution is reasonably believed to have counseled, commanded, induced, procured, or knowingly aided or abetted the violation of any provision of any legal authority referred to in paragraph C;

E. Based on the information available to it, OFAC considers the banking institution's compliance program inadequate; or

F. The banking institution has committed any other act or omission that demonstrates unfitness to conduct the transactions authorized by the general or specific license.

VI. Civil Penalties

The procedures for addressing the actions of banking institutions that OFAC decides merit civil penalty treatment are provided in the regulations governing the particular sanctions program involved, or, in the case of sanctions regulations issued pursuant to the Trading with the Enemy Act, in this Part. The factors listed in Section IV will be considerations in the civil penalty process.

ANNEX A.—OFAC RISK MATRICES

[The following matrices can be used by banking institutions to evaluate their compliance programs. Matrix A is from the FFIEC *Bank Secrecy Act Anti-Money Laundering Examination Manual* published in 2005, Appendix M ("Quantity of Risk Matrix—OFAC Procedures")]

Low	Moderate	High
	Matrix A	
Stable, well-known customer base in a localized environment.	Customer base changing due to branching, merger or acquisition in the domestic market.	A large, fluctuating client base in an international environment.
Few high-risk customers; these may include nonresident aliens, foreign customers (including accounts with U.S. powers of attorney) and foreign commercial customers.	A moderate number of high-risk customers	A large number of high-risk customers.
No overseas branches and no correspondent accounts with foreign banks.	Overseas branches or correspondent accounts with foreign banks.	Overseas branches or multiple correspondent accounts with foreign banks.
No electronic banking (e-banking) services offered, or products available are purely informational or non-transactional.	The bank offers limited e-banking products and services.	The bank offers a wide array of e-banking products and services (i.e., account transfers, e-bill payment, or accounts opened via the Internet).
Limited number of funds transfers for customers and non-customers, limited third-party transactions, and no international funds transfers.	A moderate number of funds transfers, mostly for customers. Possibly, a few international funds transfers from personal or business accounts.	A high number of customer and non-customer funds transfers, including international funds transfers.
No other types of international transactions, such as trade finance, cross-border ACH, and management of sovereign debt.	Limited other types of international transactions.	A high number of other types of international transactions.
No history of OFAC actions. No evidence of apparent violation or circumstances that might lead to a violation.	A small number of recent actions (i.e., actions within the last five years) by OFAC, including notice letters, or civil money penalties, with evidence that the bank addressed the issues and is not at risk of similar violations in the future.	Multiple recent actions by OFAC, where the bank has not addressed the issues, thus leading to an increased risk of the bank undertaking similar violations in the future.

Matrix B. This matrix consists of additional factors that may be considered by banking institutions in assessing compliance programs in addition to Appendix M of the FFIEC Bank Secrecy Act Anti-Money Laundering Examination Manual.

Management has fully assessed the bank's level of risk based on its customer base and product lines. This understanding of risk and strong commitment to OFAC compliance is satisfactorily communicated throughout the organization.	Management exhibits a reasonable understanding of the key aspects of OFAC compliance and its commitment is generally clear and satisfactorily communicated throughout the organization, but it may lack a program appropriately tailored to risk.	Management does not understand, or has chosen to ignore, key aspects of OFAC compliance risk. The importance of compliance is not emphasized or communicated throughout the organization.
The board of directors, or board committee, has approved an OFAC compliance program that includes policies, procedures, controls, and information systems that are adequate, and consistent with the bank's OFAC risk profile.	The board has approved an OFAC compliance program that includes most of the appropriate policies, procedures, controls, and information systems necessary to ensure compliance, but some weaknesses are noted.	The board has not approved an OFAC compliance program, or policies, procedures, controls, and information systems are significantly deficient.
Staffing levels appear adequate to properly execute the OFAC to properly execute the OFAC compliance program.	Staffing levels appear generally adequate, but some deficiencies are noted.	Management has failed to provide appropriate staffing levels to handle workload.
Authority and accountability for OFAC compliance are clearly defined and enforced, including the designations of a qualified OFAC officer.	Authority and accountability are defined, but some refinements are needed. A qualified OFAC officer has been designated.	Authority and accountability for compliance have not been clearly established. No OFAC compliance officer, or an unqualified one, has been appointed. The role of the OFAC officer is unclear.

ANNEX A.—OFAC RISK MATRICES—Continued

[The following matrices can be used by banking institutions to evaluate their compliance programs. Matrix A is from the FFIEC *Bank Secrecy Act Anti-Money Laundering Examination Manual* published in 2005, Appendix M ("Quantity of Risk Matrix—OFAC Procedures")]

Low	Moderate	High
Training is appropriate and effective based on the bank's risk profile, covers applicable personnel, and provides necessary up-to-date information and resources to ensure compliance.	Training is conducted and management provides adequate resources given the risk profile of the organization; however, some ares are not covered within the training program.	Training is sporadic and does not cover important regulatory and risk areas.
The institution employs strong quality control methods.	The institution employs limited quality control methods.	The institution does not employ quality control quality control methods.

Annex B—Sound Banking Institution OFAC Compliance Programs

A. *Identification of High Risk Business Areas.* A fundamental element of a sound OFAC compliance program rests on a banking institution's assessment of its specific product lines and identification of the high-risk areas for OFAC transactions. As OFAC sanctions reach into virtually all types of commercial and banking transactions, no single area will likely pass review without consideration of some type of OFAC compliance measure. Relevant areas to consider in a risk assessment include, but are not limited to, the following: retail operations, loans and other extensions of credit (open and closed-ended; on and off-balance sheet, including letters of credit), funds transfers, trust, private and correspondent banking, international, foreign offices, over-the-counter derivatives, internet banking, safe deposit, payable through accounts, money service businesses, and merchant credit card processing.

B. *Internal Controls.* An effective OFAC compliance program should include internal controls for identifying suspect accounts and transactions and reporting to OFAC. Internal controls should include the following elements:

1. *Flagging and Review of Suspect Transactions and Accounts.* A banking institution's policies and procedures should address how it will flag and review transactions and accounts for possible OFAC violations, whether conducted manually, through interdiction software, or a combination of both methods. For screening purposes, a banking institution should clearly define procedures for comparing names provided on the OFAC list with the names in its files or on the transaction and for flagging transactions or accounts involving sanctioned countries. In high-risk and high-volume areas in particular, a banking institution's interdiction filter should be able to flag close name derivations for review. New accounts should be compared with the OFAC lists prior to allowing transactions. Established accounts, once scanned, should be compared regularly against OFAC updates.

2. *Updating the Compliance Program.* A banking institution's compliance program should also include procedures for maintaining current lists of blocked countries, entities, and individuals and for disseminating such information throughout the institution's domestic operations and its offshore offices, branches and, for purposes of the sanctions programs under the Trading with the Enemy Act, foreign subsidiaries.

3. *Reporting.* A compliance program should also include procedures for handling transactions that are validly blocked or rejected under the various sanctions programs. These procedures should cover the reporting of blocked and rejected items to OFAC as provided in § 501.603 of this Part and the annual report of blocked property required by § 501.604 of this Part.

4. *Management of blocked accounts.* An audit trail should be maintained in order to reconcile all blocked funds. A banking institution is responsible for tracking the amount of blocked funds, the ownership of those funds, interest paid on those funds, and the release of blocked funds pursuant to license.

5. *Maintaining License Information.* Sound compliance procedures dictate that a banking institution maintain copies of customers' OFAC specific licenses on file. This will allow a banking institution to verify whether a customer is initiating a legal transaction. If it is unclear whether a particular transaction is authorized by a license, a banking institution should confirm this with OFAC. Maintaining copies of licenses will also be useful if another banking institution in the payment chain requests verification of a license's validity. In the case of a transaction performed under general license (or, in some cases, a specific license), it is sound compliance for a banking institution to obtain a statement from the licensee that the transaction is in accordance with the terms of the license, assuming the banking institution does not know or have reason to know that the statement is false.

C. *Testing.* Except for a banking institution with a very low OFAC risk profile, a banking institution should have a periodic test of its OFAC program performed by its internal audit department or by outside auditors, consultants, or other qualified independent parties. The frequency of the independent test should be consistent with the institution's OFAC risk profile; however, an in-depth audit of each department in the banking institution might reasonably be conducted at least once a year. The person(s) responsible for testing should conduct an objective, comprehensive evaluation of OFAC policies and procedures. The audit scope should be comprehensive and sufficient to assess OFAC compliance risks across the spectrum of all the institution's activities. If violations are discovered, they should be promptly reported to both OFAC and the banking institution's banking regulator.

D. *Responsible Individuals.* It is sound compliance procedure for an institution to designate a qualified individual or individuals to be responsible for the day-to-day compliance of its OFAC program, including at least one individual responsible for the oversight of blocked funds. This individual or these individuals should be fully knowledgeable about OFAC statutes, regulations, and relevant Executive orders.

E. *Training.* A banking institution should provide adequate training for all appropriate employees. The scope and frequency of the training should be consistent with the OFAC risk profile and the particular employee's responsibilities.

Dated: December 22, 2005.

Robert W. Werner,

Director, Office of Foreign Assets Control.

Approved: December 23, 2005.

Stuart A. Levey,

Under Secretary of the Treasury, Office of Terrorism and Financial Intelligence.

[FR Doc. 06–278 Filed 1–11–06; 8:45 am]

BILLING CODE 4810–35–P

POSTAL SERVICE

39 CFR Part 111

Sack Preparation Changes for Periodicals Mail

AGENCY: Postal Service.

ACTION: Final rule.

SUMMARY: This final rule adopts new mailing standards for Periodicals mail prepared in sacks. The standards include two new types of sacks—a 3-digit carrier routes sack and a merged 3-digit sack—and a new minimum of 24 pieces for most other sacks.

DATES: *Effective Date:* May 11, 2006.

FOR FURTHER INFORMATION CONTACT: Joel Walker, 202–268–7266.

SUPPLEMENTARY INFORMATION:

Background

The Postal Service published a proposal in the **Federal Register** on August 15, 2005 (70 FR 47754), to

PRESS ROOM

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January 12, 2006
JS-3077

U.S. Money Laundering Threat Assessment Released

The United States Government today released the inter-agency U.S. Money Laundering Threat Assessment (MLTA), the first government-wide analysis of its kind, which investigates money laundering vulnerabilities across a spectrum of techniques used by criminals.

"Before you can effectively treat a problem, you must first have an accurate diagnosis. The Money Laundering Threat Assessment integrates information contributed by sixteen government agencies, as well as vital Bank Secrecy Act data provided to Treasury's Financial Crimes Enforcement Network (FinCEN) to evaluate the range of current and emerging U.S. money laundering threats," said Stuart Levey, Treasury's Under Secretary for Terrorism and Financial Intelligence (TFI). "This is an example of government cooperation at its best."

Sixteen U.S. bureaus, offices and agencies collaborated on the MLTA from the Departments of Treasury, Justice, Homeland Security, the Board of Governors of the Federal Reserve System, and the United States Postal Service.

"One of our critical missions is to protect the integrity of our financial system. This comprehensive assessment is a significant step towards stemming the flow of illicit proceeds into the United States and insuring that our financial institutions are not utilized to facilitate terrorism or criminal activities," said Chris Swecker, Assistant Director, Criminal Investigative Division of the FBI.

Each chapter of the MLTA profiles the characteristics of a specific method of money laundering, outlining the current legal and regulatory landscape and presenting known patterns of abuse, geographical concentrations, and real-world case studies.

"Our teams of civil and criminal investigators are committed to the government's National Anti-Money Laundering efforts," said Richard Speier, acting IRS Chief, Criminal Investigation. "The scope of our commitment is demonstrated by the fact that the IRS has on-going civil and criminal investigations in each of the 13 identified categories found in this threat assessment."

The laundering methodologies investigated range from banks and money transmitters to alternative methods, such as casinos and trade-based money laundering. The MLTA also looks at new and emerging industries, such as online payment systems and stored value cards, which are vulnerable to illicit financial activities.

"From Hawalas to the Black Market Peso Exchange to the bulk smuggling of cash across our nation's borders, DEA is targeting drug traffickers' tainted profits like never before. Last year, DEA seized a record $1.9 billion from the pockets of greed-driven drug traffickers worldwide. The money trail that leads to drug traffickers' wallets is the same trail that will lead to their ultimate demise," said Donald C. Semesky Jr., DEA's Chief of Financial Operations.

"ICE is proud of its substantial contributions to the government's first national Money Laundering Threat Assessment. We look forward to working with our partners in formulating a comprehensive strategy to address these threats," said Julie Myers, Department of Homeland Security Assistant Secretary for U.S. Immigration and Customs Enforcement (ICE). "Over the past few years, ICE has dramatically expanded its anti-money laundering efforts to address those financial systems most vulnerable to criminal and terrorist exploitation."

The following bureaus, offices, and agencies collaborated on the MLTA:

Department of the Treasury

- **Office of Terrorism and Financial Intelligence (TFI)**
  - Office of Terrorist Financing & Financial Crime (TFFC)
  - Financial Crimes Enforcement Network (FinCEN)
  - Office of Intelligence and Analysis (OIA)
  - Office of Foreign Assets Control (OFAC)
  - Executive Office for Asset Forfeiture (TEOAF)
- **Internal Revenue Service**
  - Criminal Investigation (CI)
  - Small Business/Self Employed Division (SB/SE)

Department of Justice

- Federal Bureau of Investigation (FBI)
- Drug Enforcement Administration (DEA)
- Criminal Division
- National Drug Intelligence Center (NDIC)
- Organized Crime Drug Enforcement Task Force (OCDETF)

Department of Homeland Security

- Immigration and Customs Enforcement (ICE)
- Customs and Border Protection (CBP)

Board of Governors of the Federal Reserve System

- **United States Postal Service (USPS)**
  - United States Postal Inspection Service (USPIS)

"By bringing together government-wide participants with the relevant expertise and experience, we were able to produce a report that should help policymakers, regulators, and the law enforcement community to make better-informed decisions in allocating resources and combating money laundering," said Levey.

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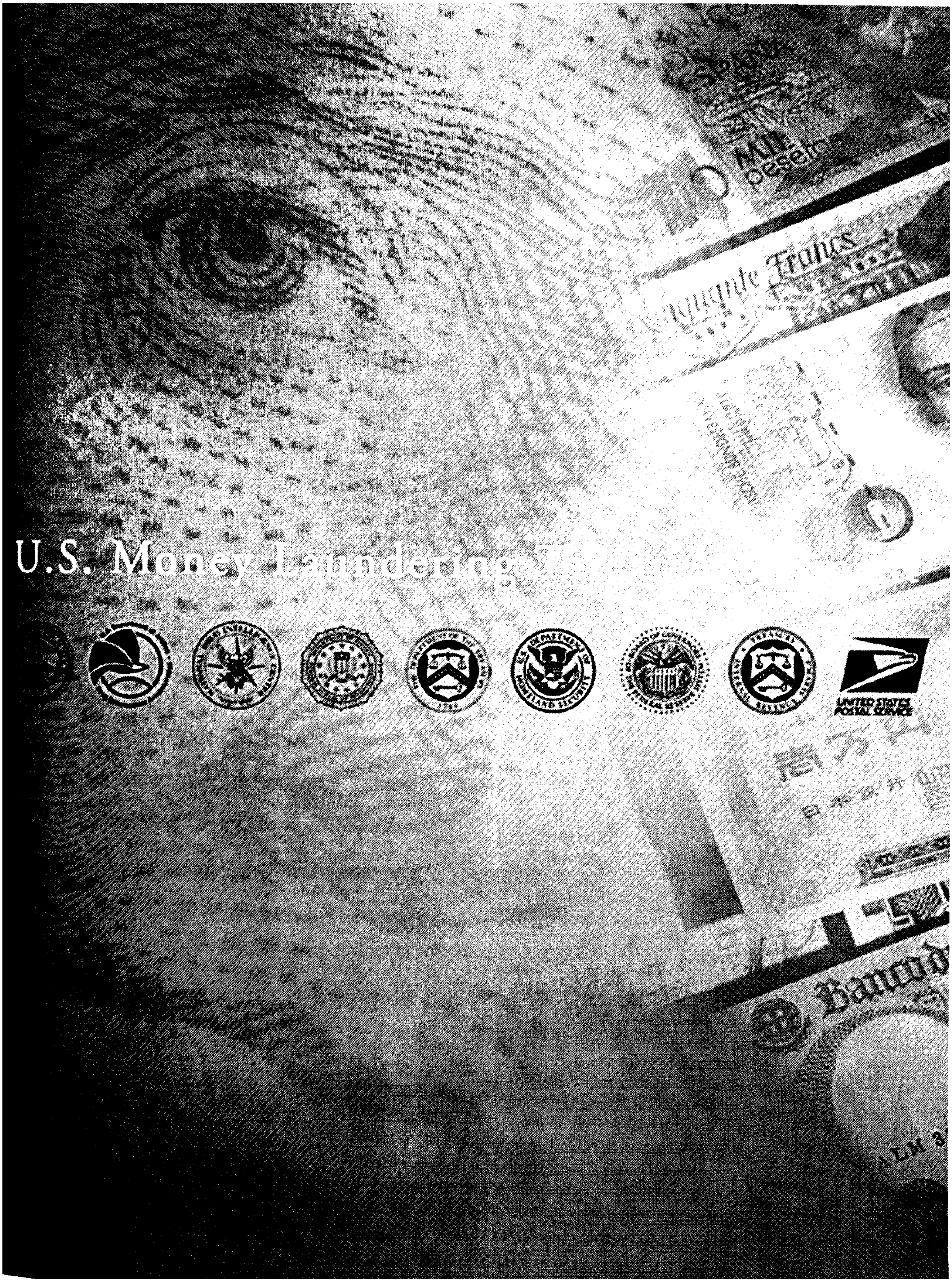
LINKS

- (PDF) Money Laundering Threat Assessment


U.S. Money Laundering
UNITED STATES POSTAL SERVICE

MONEY LAUNDERING THREAT ASSESSMENT

WORKING GROUP

Department of the Treasury

Office of Terrorism and Financial Intelligence (TFI)

- Office of Terrorist Financing & Financial Crime (TFFC)
- Financial Crimes Enforcement Network (FinCEN)
- Office of Intelligence and Analysis (OIA)
- Office of Foreign Assets Control (OFAC)
- Executive Office for Asset Forfeiture (TEOAF)

Internal Revenue Service (IRS)

- Criminal Investigation (CI)
- Small Business/Self Employed Division (SB/SE)

Department of Justice

Federal Bureau of Investigation (FBI)

Drug Enforcement Administration (DEA)

Criminal Division

- Asset Forfeiture Money Laundering Section (AFMLS)

National Drug Intelligence Center (NDIC)

Organized Crime Drug Enforcement Task Force (OCDETF)

Department of Homeland Security

Immigration and Customs Enforcement (ICE)

Customs and Border Protection (CBP)

Board of Governors of the Federal Reserve System

United States Postal Service (USPS)

United States Postal Inspection Service (USPIS)

U. S. Money Laundering Threat Assessment

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MONEY LAUNDERING THREAT ASSESSMENT

INTRODUCTION

The 2005 Money Laundering Threat Assessment (MLTA) is the first government-wide analysis of money laundering in the United States. The report is the product of an interagency working group composed of experts from the spectrum of U.S. Government agencies, bureaus, and offices that study and combat money laundering. The purpose of the MLTA is to help policy makers, regulators, and the law enforcement community better understand the landscape of money laundering in the United States and to support strategic planning efforts to combat money laundering.

The working group synthesized law enforcement statistics and observations, regulatory data (such as Bank Secrecy Act filings), private sector studies, and public information to assess the vulnerabilities that allow criminals to launder money through particular money laundering methods or conduits.

The MLTA offers a detailed analysis of thirteen money laundering methods, ranging from well-established techniques for integrating dirty money into the financial system to modern innovations that exploit global payment networks as well as the Internet. Each chapter focuses on a specific money laundering method and provides a brief overview of the methodology, an assessment of vulnerabilities – including geographic or other noted concentrations – and the regulatory/public policy backdrop.

While not exhaustive, the assessment consolidates a tremendous amount of information and insight contributed by the various participating agencies as to the major methods of money laundering that they confront. The overall picture is both sobering and promising. The volume of dirty money circulating through the United States is undeniably vast and criminals are enjoying new advantages with globalization and the advent of new financial services such as stored value cards and online payment systems. At the same time, there has been considerable progress. The approach of U.S. law enforcement and regulatory agencies has undergone a sea change over the past decade, such that money laundering is now treated as an independent and primary focus across all relevant agencies. With this change in approach and focus have come marked improvements in both systemic and applied anti-money laundering (AML) efforts. Most encouraging are interagency initiatives and task forces that, when properly coordinated, bring the talents, expertise, and resources of multiple agencies to bear on a problem to great effect. With so many agencies looking at distinct but related aspects of this issue, it is critical that information be shared freely and studied jointly. Highlighted below are some notable examples of recent U.S. agency advances in organization, analysis, and execution in the fight against money laundering:

U.S. Immigration and Customs Enforcement (ICE), has introduced many new initiatives aimed at analyzing and combating the movement of illicit funds by bulk cash smuggling, trade-based money laundering, courier hubs, money services businesses (MSBs), charities, and alternative remittance systems. These initiatives include:

- Operation Cornerstone, founded in 2003 – a private industry partnership and aggressive outreach program;
- A Trade Transparency Unit (TTU) aimed at identifying anomalies related to cross-border trade indicative of money laundering;
- A multi-agency approach (in partnership with Internal Revenue Service – Criminal Investigation (IRS-CI), FinCEN, and the Federal Bureau of Investigation (FBI)) to target unlicensed MSBs; and
- A Foreign Political Corruption Task Force in Miami to address foreign public corruption and related money laundering.

With respect to bulk cash smuggling in particular, ICE is:

- Working with Customs and Border Protection (CBP) to share training and expertise with the Mexican government as to how to execute successful bulk cash smuggling interdiction operations;
- Providing training in bulk cash smuggling interdiction to 28 developing countries in the Middle East, South America, Africa, and Asia, in concert with CBP and the State Department; and

- Conducting training in bulk cash smuggling interdiction, funded by the Executive Office for Organized Crime Drug Enforcement Task Forces (OCDETF), in seven major cities throughout the United States, attended by federal, state and local law enforcement.

The FBI is working to develop advanced technologies to exploit Suspicious Activity Reports (SARs) and other Bank Secrecy Act (BSA) data from FinCEN by using computer software to visualize financial patterns, link distinct criminal activities, and display the activity in link analysis charts. The FBI is also implementing a next-generation electronic file management system that will help manage investigative, administrative, and intelligence needs while also improving ways to encourage information sharing with other agencies.

The Administrator of the Drug Enforcement Administration (DEA) issued a directive in 2003 restoring DEA's primary focus to the financial aspects of drug investigations. Currently, every DEA investigation includes a financial component. DEA also undertook the following steps to promote this focus:

- Established an Office of Financial Operations;

- Established specialized money laundering groups in every DEA Field Division, and increased Special Agent resources devoted to money laundering invstigations in key foreign offices;

- Created and presented specialized money laundering training to DEA agents and analysts;

- Established a "Bulk Currency Initiative" to coordinate all U.S. highway money seizures for the purpose of developing the evidence necessary to identify, disrupt, and dismantle large-scale narcotics trafficking organizations; and

- Initiated a global money flow study, through its position as chair of the International Drug Enforcement Conference, to identify and target drug proceeds flowing from countries of drug abuse to countries of drug supply.

The IRS, as part of its core tax administration mission, addresses both the criminal and civil aspects of money laundering. IRS-CI special agents "follow the money" within various inter-agency task forces and centers. IRS-CI also has 41 active Suspicious Activity Report Review Teams (SAR-RT) reviewing and analyzing SAR data for case development and support throughout the country. Recently-acquired "data mining" software is improving the ability of IRS-CI's investigators and analysts to make connections and identify patterns in the SAR data.

On the civil side, the IRS established a new organization within its Small Business/Self-employed (SB/SE) Division, the Office of Fraud/BSA, which has end-to-end accountability for BSA oversight of certain non-bank financial institutions. There are over 300 examiners and managers who are fully trained and dedicated full-time to the BSA program. The IRS has also completed a model Federal/State Memorandum of Understanding which provides both IRS and the participating state the opportunity to leverage resources for BSA examinations, outreach, and training.

Treasury's Office of Terrorist Financing and Financial Crime (TFFC), a part of the Office of Terrorism and Financial Intelligence, is working to develop and drive anti-money laundering policy and initiatives at home and abroad. A primary initiative of this office is to lead the interagency development of the *National Money Laundering Strategy*. In crafting this and other strategies, TFFC works with the law enforcement, regulatory, and intelligence communities, in addition to the private sector and overseas counterparts, to identify and address systemic vulnerabilities. In addition, TFFC, along with inter-agency counterparts, has been a driving force behind the worldwide propagation of strong anti-money laundering standards via the Financial Action Task Force (FATF), the preeminent international body on money laundering issues. Over the past two years, scores of new countries – from North Africa to the Persian Gulf region to Eurasia – have joined FATF-style regional bodies, such that over 150 nations have now committed themselves to adopting FATF's standards and to being evaluated against them.

The BSA, administered by the Treasury Department's Financial Crimes Enforcement Network (FinCEN), is the cornerstone of the U.S. Government's AML framework and was recently expanded in scope and depth. Today, businesses under the BSA umbrella include casinos, jewelers, MSBs (such as check cashers and money transmitters), securities dealers, and others.

FinCEN is itself undergoing a broad transformation. The bureau is changing the way it analyzes information, moving away from functioning simply as a clearinghouse, and moving towards higher-level research and analysis, which will utilize all sources of information to analyze the cutting-edge systems of money laundering and illicit finance. FinCEN has also signed memoranda of understanding with the federal regulatory agencies that have received delegated authority from FinCEN to examine financial institutions for compliance with the BSA. The goal is better coordination and communication leading to effective implementation and enforcement of the BSA, which ultimately should help to achieve a sustained and successful attack on money laundering in the United States.

The U.S. Postal Inspection Service (USPIS) enjoys the advantage of having more than 100,000 postal clerks and managers on the alert for possible suspicious activity. These employees file over 500 SARs per week to the U.S. Postal Service (USPS) BSA Compliance Office. USPIS recently established an Intelligence Analysis Unit (IAU) at its headquarters office to ensure that these reports as well as back room analysis are being utilized effectively. The IAU methodically analyzes the USPS BSA database, searching for clues that might indicate major money laundering operations and possible terrorist financing schemes. The IAU both responds to investigative inquiries from field inspectors and proactively initiates investigative leads for the field.

The Department of Justice's Asset Forfeiture and Money Laundering Section (AFMLS) reports that the USA PATRIOT Act provided a number of new tools to identify and track criminal proceeds. Section 319(a) has been of particular importance, allowing the government to capture criminal assets held abroad if the criminal proceeds are deposited in a foreign bank that maintains a correspondent account in the United States. The Civil Asset Reform Act of 2000 is another important tool assisting federal law enforcement in making asset forfeitures. The law makes possible both the criminal and civil forfeiture of the proceeds of all specified unlawful activities. Many U.S. Attorney's Offices will not approve an indictment for presentation to the grand jury until a forfeiture specialist has reviewed it for possible criminal forfeiture and/or the filing of a parallel civil forfeiture complaint.

In 2005, the Departments of Justice, Homeland Security,[1] and Treasury established a multi-agency drug and financial intelligence fusion center through the OCDETF program. Leads resulting from the efforts of the Fusion Center will support the initiation and development of coordinated international, national, and regional investigations. AFMLS, in partnership with OCDETF, has conducted Financial Investigation Training Seminars in every OCDETF region in the country during the past two years.

The National Drug Intelligence Center (NDIC), whose mission is to develop strategic domestic drug intelligence, created a Money Laundering Unit in January 2005 to provide a multi-source fusion capability for money laundering-related information. The mission of this unit is to identify strategic money laundering trends and patterns for national policy makers.

The Treasury Executive Office for Asset Forfeiture (TEOAF) administers the Treasury Forfeiture Fund, and has implemented a strategic focus on promoting "high impact cases," or cases that generate $100,000 or more in forfeited value. In FY 2004, the Fund received more than $335 million in revenue, 84% of which was derived from "high impact cases." TEOAF then uses this money to fund law enforcement training, special programs, and criminal investigations.

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Legal, structural, and strategic advances improve the ability of U.S. agencies to track and combat money launderers. That said, money laundering remains a massive and evolving challenge that will require clear, strategic thinking. Measuring the problem is an essential first step. Studies have traditionally looked to that portion of illicit activity that is apprehended by authorities as an indicator of the types of money laundering going on and trends within the field. Such indicators include seized or forfeited assets, indictments, and BSA filings

[1]The United States Coast Guard.

by financial institutions, such as SARs. Each of these is admittedly imperfect, but could offer much useful information.

Unfortunately, however, the data are not as developed as they should be and not collected in a systematic way across the U.S. government. It is currently not possible, for example, to quantify with accuracy the total amount of money laundering activity being apprehended by federal law enforcement agencies, let alone state and local law enforcement. Individual tracking systems developed and tailored to meet particular agency priorities and needs have yielded often incompatible systems. Problems include data fields that are collected by some but not all agencies, disparities in definitions, and redundancies wherein two or more agencies log the same seizure or arrest because the case was handled through a joint task force. Agencies may not even share common definitions of what constitutes "money laundering proceeds," or what nexus to the United States warrants defining illicit activity as "United States" money laundering.

Appendices to this assessment make the most of the existing data to offer a rough quantitative analysis of money laundering concentrations. Going forward, though, more data needs to be collected in a more consistent way across agencies. Of particular importance is information that would track, with respect to every money laundering seizure, the following: (1) the predicate crime, (2) the money laundering method/s utilized, and (3) the source and suspected destination of the proceeds. Accurate, comprehensive data is vitally important if we are to assess whether we are collectively gaining ground, keeping pace, or falling behind criminal money launderers in each of the various methodologies that they employ.

Chapter 1
BANKING

Banks and other depository financial institutions in the United States are unique in that they alone are allowed to engage in the business of receiving deposits and providing direct access to those deposits through the payments system. The payments system encompasses paper checks and various electronic payment networks facilitating credit and debit cards and bank-to-bank transfers. The unique role banks play makes them the first line of defense against money laundering.

Depository financial institutions (DFIs), which include commercial banks, savings and loan associations (also called thrifts), and credit unions form the financial backbone of the United States.[2] Although Money Service Businesses (MSBs) may offer an alternative to banks, MSBs must themselves engage the services of a DFI to hold deposits, clear checks, and settle transactions. Thus in almost every money laundering typology, a bank is employed domestically or abroad to hold or move funds. The stage at which funds are introduced into the banking system is a critical one. A report from the New York Clearing House, which operates bank payment systems, acknowledges: "Once a person is able to inject funds into the payment system that are a product of a criminal act or are intended to finance a criminal act, it is highly difficult, and in many cases impossible, to identify those funds as they move from bank to bank."[3]

The BSA requires banks to establish and maintain effective anti-money laundering (AML) programs, implement customer identification programs, and maintain transaction records. Banks also are obligated to report cash transactions exceeding $10,000 as well as transactions that appear suspicious.

Banks are ubiquitous in the United States but industry consolidation, due to deregulation and competitive pressures, is reducing the number of distinct DFIs. At year end in 2004 there were, for the first time since the FDIC was created in 1934, fewer than 9,000 federally-insured commercial banks and savings institutions in the United States, not including credit unions.[4]

Another significant development in the banking sector is the ongoing decline in the use of paper checks. By 2003, for the first time, most payments not made by cash were made electronically, though it takes all forms of electronic payments combined to rival the number of checks paid. Previously, paper checks ranked right behind cash as the most favored form of payment. By the end of the decade, the Federal Reserve predicts credit and debit card payments will each surpass check volume.[5]

The shift from paper to electronic payments is changing the economics of the payments business putting emphasis on lowering costs. In response, banks are increasingly using the Internet as a means for customers to open or access accounts.[6] Moving away from face-to-face customer interaction, particularly for account openings, challenges the traditional process of customer due diligence. Similarly, the steady influx of immigrants without U.S. Government-issued identification is requiring banks to explore new ways to verify the identity of their customers.

Despite the rapid growth in electronic payments and the accelerating pace of change in financial services, domestic payment networks in countries around the world do not connect with one another. A bank in the United States cannot transmit a payment directly to a foreign bank unless the U.S. bank has a presence in the foreign country. That presence can be either an overseas branch of the U.S. bank or a correspondent account. A bank chartered in a foreign country faces the same option if it wants to provide services in the United States for its customers. Instead of bearing the costs of licensing, staffing, and operating its own offices in the United States,

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[2] The term "bank" will be used generically in this chapter to refer to all forms of DFI.
[3] Guidelines for Counter Money Laundering Policies and Procedures in Correspondent Banking, sponsored by the New York Clearing House Association, LLC, March 2002.
[4] FDIC Quarterly Banking Profile, Fourth Quarter 2004. Accessed at: http://www2.fdic.gov/qbp/2004dec/qbp.pdf.
[5] The 2004 Federal Reserve Payments Study, December 15, 2004.
[6] Saranow, Jennifer, Banks Speed Process for Opening Online Accounts, Wall Street Journal, Feb. 3, 2005.

the bank can open a correspondent account with a U.S. bank.[7] According to a Congressional report on money laundering and correspondent banking: "Today, banks establish multiple correspondent relationships throughout the world in order to engage in international financial transactions for themselves and their clients in places where they do not have a physical presence. Many of the largest international banks serve as correspondents for thousands of other banks."[8]

Vulnerabilities

Banks, although obligated to implement a customer identification program, must contend with businesses and consumers who may attempt to disguise their true identity and source of income. Cash-intensive businesses, for example, may inflate how much legitimate cash comes in each day to disguise the deposit of cash from illegal drug sales or other criminal activity. Banks attempt to spot these deceptions at the point accounts are opened or to recognize suspicious deposit and withdrawal activity as it occurs.

As banks venture into opening accounts online and providing online account access, it becomes increasingly difficult to verify customer identification. The move away from face-to-face account opening and account access creates opportunities for fraud and identity theft. Unauthorized access to checking accounts is the fastest growing form of identity theft. In October 2005, the Federal Financial Institutions Examination Council (FFIEC), a body composed of the DFI federal regulatory agencies, issued industry guidance titled: Authentication in an Internet Banking Environment. The document advises financial institutions offering Internet-based products and services to use customer authentication techniques "appropriate to those products and services."[9] According to HSBC, banks may be forced to restrict online access only to customers with appropriate hardware and/or software.[10]

In addition to the difficulty financial institutions face identifying their customers online, the growing adoption of electronic payment systems is producing new opportunities for electronic fraud.[11] New forms of electronic funds transfers, including Internet- and telephone-initiated payments, and the conversion at the point-of-sale of paper checks to electronic debits, all use the automated clearinghouse (ACH), an electronic payment network designed for bank-to-bank transactions rather than for direct access by consumers and businesses.[12] More than 12 billion ACH payments were made in 2004, a 20 percent increase over 2003.[13] Consumers initiated almost one billion ACH payments via the Internet, worth more than $300 billion last year, which was a 40.4 percent increase over 2003.[14]

A major vulnerability the BSA attempts to address is foreigners sending and receiving payments through U.S. banks using "correspondent," "payable through," or "nested" accounts, which, without adequate due diligence, can shield the payer's true identity. The farther removed an individual or entity is from the bank, the more difficult it is to verify the identity of the customer. Correspondent accounts and "payable through" accounts streamline cross-border transactions but create opportunities to use a U.S. or foreign bank without the bank knowing the true payment originator. A "payable through" account at a U.S. bank would, for example, involve a foreign bank holding a checking account at the U.S. institution. The foreign bank could then issue checks to its customers allowing them to write checks on the U.S. account. A foreign bank may have several hundred customers writing checks on one "payable through" account, and all are considered signatories on the account at the U.S. bank.

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[7] Minority Staff of the Permanent Subcommittee on Investigations Report on Correspondent Banking: A Gateway for Money Laundering. February 5, 2001.
[8] *Ibid.*
[9] FFIEC, Authentication in an Internet Banking Environment. Accessed at: http://www.ffiec.gov/pdf/authentication_guidance.pdf.
[10] Goodwin, Bill, *HSBC Warns Of Online Banking Bans*, Computerweekly.com, April 12, 2005. Accessed at: http://www.computerweekly.com/articles/article.asp?liArticleID=137822&liArticleTypeID=1&liCategoryID=6&liChannelID=22&liFlavourID=1&sSearch=&nPage=1#.
[11] Putting an End to Account-Hijacking Identity Theft. FDIC, Division of Supervision and Consumer Protection Technology Supervision Branch, December 14, 2004.
[12] The ACH was designed for low value recurring transactions, specifically direct deposit of payroll and monthly consumer bill payments that remain the same each month.
[13] The National Automated Clearing House Association. Accessed at: http://www.nacha.org/.
[14] *Ibid.*

A variation on the "payable through" account is "nesting," in which foreign banks open correspondent accounts at U.S. banks but then solicit other foreign banks to use the account. Nested accounts provide indirect access to the U.S. financial system by allowing a foreign bank that does not have a direct correspondent relationship with a U.S. financial institution to use another bank's U.S. correspondent account. These second-tier foreign banks then solicit individuals as customers. This results in an exponential increase in the number of individuals having signatory authority over a single account at a U.S. banking entity.

Of particular concern are foreign "shell banks" – foreign banks that do not maintain a physical presence in any country – that seek to access the U.S. financial system via correspondent accounts.

Cash Letter/Pouch Activity[15]

As cross border wire transfers come under increased scrutiny and regulation, criminals have found paper checks, money orders, and cashier's checks to be an effective method to move money internationally. These more traditional payment instruments take a longer time to clear when traveling outside the United States but are perceived by money launderers as being subject to less scrutiny.

Money launderers can transfer large dollar amounts by writing a number of checks or buying a number of money orders at various U.S. locations, with each payment below the reporting threshold. The dollar-denominated payments are mailed or transported to accomplices overseas who deposit the checks and other payments in foreign bank accounts. Because these are dollar-denominated payments, the foreign banks that receive them send them back to the United States for deposit in their U.S. correspondent accounts. The checks and money orders are bundled up at the foreign banks and sent with a deposit slip (referred to in the industry as a "cash letter") with the details of each check and money order. The U.S. correspondent bank credits the foreign bank's U.S. account and routes the individual payment instruments to the appropriate paying banks and other institutions.

Some banks handle as many as five to seven million checks a day delivered by shipping companies in pouches and overnight bags. Processing is done as efficiently as possible, making it very difficult to aggregate related payments or scrutinize individual payments for evidence of money laundering.

Private Banking

Private banking is defined as "the personal or discreet offering of a wide variety of financial services and products to the affluent market. These operations typically offer all-inclusive personalized services. Individuals, commercial businesses, law firms, investment advisors, trusts, and personal investment companies may open private banking accounts."[16] Private banking relationships have proved problematic. In contrast to "nesting" or "payable through" accounts, money laundering through private banking relationships more often involves a gross failure of due diligence, if not bank complicity.

Riggs National Bank was fined over forty million dollars as a consequence of serious deficiencies in its AML program, including in its private banking practice.[17] Riggs opened multiple private banking accounts for former Chilean dictator Augusto Pinochet, among other politically exposed persons, accepting millions of dollars in deposits under various corporate and individual account names and paying little or no attention to suspicious activity in these accounts.[18] Other major banks have also

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[15] This section is drawn from the testimony of John F. Moynihan and Larry C. Johnson, partners, BERG Associates, LLC, before the House Committee on Financial Services, Subcommittee on Oversight and Investigations, March 11, 2003.

[16] Money Laundering: A Banker's Guide to Avoiding Problems, Office of the Comptroller of the Currency, Dec. 2002. Accessed at: http://www.occ.treas.gov/moneylaundering2002.pdf.

[17] *See, e.g.,* In the Matter of Riggs Bank, N.A., No. 2004-01, Assessment of Civil Monetary Penalty (May 13, 2004); "Money Laundering and Foreign Corruption: Enforcement and Effectiveness of the Patriot Act," Supplemental Staff Report on U.S. Accounts Used by Augusto Pinochet, U.S. Senate Permanent Subcommittee on Investigations, March 16, 2005.

[18] Guidance on applying scrutiny to situations of this type has been available for some time. See Guidance on Enhanced Scrutiny for Transactions that May Involve the Proceeds of Foreign Corruption (January 2001). Accessed at: http://www.federalreserve.gov/boarddocs/SRLETTERS/2001/sr0103a1.pdf.

come under criticism for the laxity of their private banking AML policies and procedures.[19]

In 2003, ICE established a Politically Exposed Person (PEP) Task Force in Miami to address the vulnerability of relationships between private banks and corrupt foreign officials. The PEP Task Force works with ICE field offices and foreign governments in the identification of public corruption-related proceeds laundered through U.S. financial institutions. Increasingly, Central American, South American, and Caribbean governments are seeking the assistance of the United States in developing evidence against, and locating the assets of, corrupt government officials and prominent citizens involved in the theft or embezzlement of public and private funds. ICE agents are currently investigating several cases that involve illicit funds channeled into the United States from Caribbean, Central American, South American, and Pacific Rim countries that were used to purchase assets domestically and abroad.

Regulation and Public Policy

Under the BSA, all financial institutions must develop, administer, and maintain a program that ensures compliance with the law's reporting and recordkeeping requirements. The compliance program is tailored to a bank's business operations and risks. By law, the program must include the following four components:

- A system of internal controls to assure ongoing BSA compliance;
- Independent testing of the DFI's compliance;
- The designation of an individual responsible for coordinating and monitoring day-to-day compliance; and
- Training for appropriate personnel.[20]

Banks and certain other DFIs must implement a written customer identification program appropriate for their size, location, and type of business.[21] The program must include account-opening procedures that specify the identifying information that will be obtained from each customer, and it must include reasonable and practical risk-based procedures for verifying the customer's identity. The procedures are supposed to enable a bank to form a reasonable belief that it knows the true identity of each customer.

DFIs are required to file SARs, reporting any instances of known or suspected illegal or suspicious activity.[22] To ensure that it will be able to identify suspicious activity, a DFI should have in place a customer due diligence (CDD) program under which the organization (1) assesses the risks associated with a customer account or transaction, and (2) gathers sufficient information to evaluate whether a particular transaction warrants the filing of a SAR. In addition, appropriate systems and controls are to be in place to monitor and identify suspicious or unusual activity. CDD protocols vary depending on the activities associated with different types and volumes of banking transactions and their risk. (See Tables 1 and 2 for SAR data analysis).

The number of SARs filed by depository institutions from 1996 through 2003 increased on average by more than 25% annually.[23] The total number of suspicious activity reports filed in 2005 is projected to surpass 700,000. FinCEN indicates that some of this increase is warranted, while some may be attributed to "defensive filing" by financial institutions, in which SARs are filed on non-suspicious transactions out of concern about regulatory and criminal scrutiny. Such defensive filing dilutes the value of the information in the BSA database.[24]

Examination authority over banks and other depository institutions for BSA compliance has been delegated by

[19] Testimony of Herbert A. Biern, Senior Associate Director, Division of Banking Supervision and Regulation, Federal Reserve Board, before the Committee on International Relations, U.S. House of Representatives November 17, 2004.
[20] *See* 31 U.S.C. § 5318(h)(1).
[21] *See* 31 U.S.C. § 5318(l) and 31 C.F.R. § 103.121 (for banks, savings associations, credit unions, and certain non-federally regulated banks).
[22] *See* 31 U.S.C. § 5318(g).
[23] FinCEN, By The Numbers, Issue 3, Dec. 2004.
[24] Statement of William Fox, Director Financial Crime Enforcement Network, United States Department of the Treasury, before the United States House of Representatives Committee on Financial Services Subcommittee on Oversight and Investigations, May 26, 2005.

FinCEN to the industry's five functional regulators.[25] The federal bank regulators include a review of BSA compliance in their periodic examinations. In the second half of 2004, the federal banking regulators completed 44 public enforcement actions involving BSA violations. Among the problems most often cited was the lack of independent testing to validate BSA compliance. In about 60% of the BSA cases that were closed in the second half, a bank was ordered to arrange for testing or was cited for failure to do so.[26] Several banks in recent years have faced severe criminal and civil penalties as a consequence of BSA lapses.

In June 2005, the FFIEC released a joint BSA/AML examination manual. This manual will assist examiners in evaluating banks' BSA/AML compliance programs, regardless of the size or business lines of the bank. This manual should provide for enhanced consistency in the interpretation of BSA and AML requirements across the various agencies.

With respect to shell banks, Section 313 of the USA PATRIOT Act and its implementing regulations prohibit covered U.S. banks and broker-dealers from establishing, maintaining, administering, or managing a correspondent account for a foreign shell bank.[27] In addition, U.S. banks and broker-dealers must take reasonable measures to ensure that any correspondent account that they establish, maintain, administer, or manage for a foreign bank is not being used by the foreign bank to provide banking services indirectly to a foreign shell bank.[28]

Section 312 of the USA PATRIOT Act provides, among other things, for enhanced due diligence with respect to certain correspondent accounts held on behalf of banks operating under an offshore license and also mandates enhanced scrutiny for private banking accounts maintained for senior foreign political figures.

Finally, Section 319 requires covered financial institutions that provide correspondent accounts to foreign banks to maintain records of the foreign bank's owners and to maintain the name and address of an agent in the United States designated to accept service of legal process for the foreign bank for records regarding the correspondent account.

[25] The five functional regulators for the banking industry include the Board of Governors of the Federal Reserve System (Federal Reserve), the Federal Deposit Insurance Corporation, the National Credit Union Association, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision. State-chartered private banks, trust companies, and credit unions without federal insurance have no federal functional regulator, and come under the purview of the IRS SB/SE Division for purposes of BSA examination.
[26] Vartanian, Thomas P., Focus on BSA, Laundering Continued; Bank Secrecy Act, American Banker, April 1, 2005.
[27] 31 U.S.C. §5318(j)(1); 31 CFR 103.177(a)(1).
[28] 31 U.S.C. §5318(j)(2); 31 CFR 103.177(a)(1).

Rank	State/Territory	Filings (Overall)	Percentage (Overall)
1	California	351,784	24.26%
2	New York	167,635	11.56%
3	Texas	92,168	6.36%
4	Florida	89,413	6.17%
5	Illinois	51,004	3.52%
6	Arizona	48,691	3.36%
7	New Jersey	41,403	2.86%
8	Pennsylvania	37,765	2.60%
9	Ohio	34,634	2.39%
10	Michigan	34,506	2.38%

Table 1
The top ten states for Suspicious Activity Report filings from depository institutions from April 1, 1996 through June 30, 2004 account for two-thirds of all SARs for the period. Source: FinCEN, By The Numbers, Issue 3.

Violation Type	Filings (Overall)	Percentage (Overall)
BSA/Structuring/Money Laundering	769,502	48.22%
Check Fraud	185,839	11.65%
Other	136,021	8.52%
Credit Card Fraud	77,970	4.89%
Counterfeit Check	74,891	4.69%
Check Kiting	55,940	3.51%
Unknown/Blank	46,783	2.93%
Defalcation/Embezzlement	46,323	2.90%
Mortgage Loan Fraud	40,016	2.51%
Consumer Loan Fraud	27,240	1.71%
False Statement	26,724	1.67%
Misuse of Position or Self Dealing	18,460	1.16%
Wire Transfer Fraud	17,634	1.11%
Mysterious Disappearance	17,375	1.09%
Debit Card Fraud	11,315	Less than 1%
Commercial Loan Fraud	10,699	Less than 1%
Identity Theft*	10,188	Less than 1%
Computer Intrusion*	8,319	Less than 1%
Counterfeit Credit/Debit Card	6,573	Less than 1%
Counterfeit Instrument (Other)	5,142	Less than 1%
Bribery/Gratuity	1,799	Less than 1%
Terrorist Financing*	971	Less than 1%

Table 2

Suspicious Activity Reports filed by depository institutions ranked by suspicious activity, based on filings from April 1, 1996 to June 30, 2004.

** The category "computer intrusion" was added June 2000 and "identity theft" and "terrorist financing" were added July 2003. Source: FinCEN, By The Numbers, Issue 3.*

Chapter 2
MONEY SERVICES BUSINESSES

Money Services Businesses (MSBs) provide a full range of financial products and services outside of the banking system. For individuals who may not have ready access to the formal banking sector, MSBs provide a valuable service. They also pose a considerable threat. MSBs in the United States are expanding at a rapid rate, often operate without supervision, and transact business with overseas counterparts that are largely unregulated. Moreover, their services are available without the necessity of opening an account. As other financial institutions come under greater scrutiny in their implementation of and compliance with BSA requirements, MSBs have become increasingly attractive to financial criminals.

Under existing BSA regulations, MSBs are defined to include five distinct types of financial services providers (including the U.S. Postal Service (USPS)): (1) currency dealers or exchangers; (2) check cashers; (3) issuers of traveler's checks, money orders, or stored value cards; (4) sellers or redeemers of traveler's checks, money orders, or stored value; and (5) money transmitters. Because of the great variance in characteristics and vulnerabilities across the various types of MSB, the main categories of MSBs will be treated in separate subchapters below. Some introductory remarks follow that pertain to all MSBs.

With limited exceptions, MSBs are subject to the full range of BSA regulatory controls, including the AML rule, suspicious activity and currency transaction reporting rules, and various other identification and recordkeeping rules.[29] Additionally, existing BSA regulations require certain MSB principals to register with the Treasury Department.[30] Federal regulations contain a definitional threshold for all MSBs except for money transmitters: A business that engages in MSB-type transactions will be considered an MSB only if it conducts more than $1,000 of transactions in a particular category of money services transactions for any person on any day (in one or more transactions).[31] Finally, many states have established AML supervisory requirements that are often incorporated into the requirement that an MSB be licensed with the state in which it is incorporated or does business.

Many MSBs, including the vast majority of money transmitters in the United States, operate through a system of agents. While agents are not presently required to register, they are themselves MSBs that are required to establish AML programs and comply with the other recordkeeping and reporting requirements described above. A 1997 Coopers & Lybrand study (Coopers Study) estimated that approximately eight business enterprises, through a system of agents, accounted for the bulk of MSB financial products offered within the United States and the bulk of locations at which these financial products were offered. This group comprises large firms with significant capitalization that are publicly traded on major securities exchanges. A larger group of, on average, far smaller enterprises competes with the largest firms in a highly bifurcated market for

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[29] *See* 31 CFR 103.125 (requirement for money services businesses to establish and maintain an anti-money laundering program); 31 CFR 103.22 (requirement for money services businesses to file currency transaction reports); 31 CFR 103.20 (requirement for money services businesses to file suspicious activity reports, other than for check cashing and stored value transactions); 31 CFR 103.29 (requirement for money services businesses that sell money orders, traveler's checks, or other instruments for cash to verify the identity of the customer and create and maintain a record of each cash purchase between $3,000 and $10,000, inclusive); 31 CFR 103.33(f) and (g) (rules applicable to certain transmittals of funds); and 31 CFR 103.37 (additional recordkeeping requirement for currency exchangers including the requirement to create and maintain a record of each exchange of currency in excess of $1,000).

[30] *See* 31 CFR 103.41. The registration requirement applies to all money services businesses (whether or not licensed as a money services business by any state) except the U.S. Postal Service; agencies of the United States, of any state, or of any political subdivision of a state; issuers, sellers, or redeemers of stored value, or any person that is a money services business solely because that person serves as an agent of another money services business (however, a money services business that engages in activities described in § 103.11(uu) both on its own behalf and as an agent for others is required to register).

[31] *See* 31 CFR 103.11(uu).

money services.[32] These small enterprises may own only one location with two to four employees, and may provide both financial services and unrelated services or products.[33] Less is known about this second tier of firms than about the major providers of money service products.

Based on the Coopers Study, FinCEN estimated the number of MSBs nationwide in 1997 to be in excess of 200,000. A majority of the MSB population is made up of agents of the major businesses (*e.g.*, Western Union and MoneyGram). Additionally, in 1997, approximately 40,000 MSBs were outlets of the USPS, which sells money orders.

Outside of the major firms, rates of registration with Treasury have remained low. Despite repeated outreach efforts to the sector, only a small fraction of the total MSBs – around 23,000 – have registered with the federal government.[34] FinCEN notes that small MSBs are largely aware of the pertinent regulations but fail to register because of language, culture, cost, and training issues.

Vulnerabilities

The fleeting nature of the customer's relationship with an MSB is a significant vulnerability. In contrast to banks, one does not need to be an existing "customer" of an MSB and a customer can repeatedly use different MSBs to transact business. This makes customer due diligence very difficult.

MSBs are used at all stages of the money laundering process. A review of SARs filed[35] by MSBs from October 1, 2002 through December 31, 2004 shows that money laundering and structuring represented the most frequently reported suspicious activity, cited in over 73% of MSB SARs filed. These reports point most commonly to customers attempting to evade the $3,000 funds transfer recordkeeping requirement (or the $3,000 recordkeeping requirement for cash purchases of money orders or traveler's checks) by either breaking up a large transaction into smaller transactions or by spreading transactions out over two or more customers.

OCDETF identifies MSBs as an increasingly-prevalent conduit for laundering illicit proceeds. From 2002 to 2004, OCDETF saw a 5 percent increase in MSB-related cases, with the proportion of total money laundering cases growing from 11% to 16%.

FBI field offices consistently identified MSBs as the third-most utilized money laundering method that they encounter, after formal banking systems and cash businesses, and particularly pointed to money remitters as a threat. MSBs co-located with convenience stores

CASE EXAMPLE 1

Layering through MSBs

SDNY-2002- An individual defendant laundered more than $700,000 worth of drug proceeds for a money laundering group associated with Colombian narcotics traffickers. The defendant wired funds to bank accounts in Panama, Barbados, and Honduras. As part of the defendant's money laundering scheme, between November 1998 and June 2000, he made structured cash purchases of money orders totaling more than $600,000 without ever causing a Currency Transaction Report (CTR) report to be filed. On more than 50 occasions, the defendant made multiple small purchases of postal money orders at various post office locations, as many as 11 on a single day, keeping them below the $3,000 recordkeeping threshold. The defendant completed the money orders in his name, the name of his company, and the names of relatives and friends, and then deposited the money orders into his company's business bank account. The defendant also exchanged more than $500,000 worth of what he understood was drug money for checks from various business accomplices, including numerous carpet dealers. This activity was determined to have been an intentional circumvention of federal reporting requirements.

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[32] For example, according to the Coopers study, at the time of that study, two money transmitters and two traveler's check issuers made up approximately 97 percent of their respective known markets for non-bank money services. Three enterprises made up approximately 88 per cent of the $100 billion in money orders sold annually (through approximately 146,000 locations). The retail foreign currency exchange sector was found by Coopers & Lybrand to be somewhat less concentrated, with the top two non-bank market participants accounting for 40 per cent of a known market that accounts for $10 billion. Check cashing is the least concentrated of the business sectors; the two largest non-bank check cashing businesses make up approximately 20 per cent of the market, with a large number of competitors.

[33] Members of the second group may include, for example, a travel agency, courier service, convenience store, grocery or liquor store.

[34] It is not known how many unregistered MSBs exist that require registration. The 1997 Coopers Study estimate of 200,000 included all MSBs, and is not indicative of the number of MSBs requiring registration.

[35] More than one violation may be identified on a single SAR.

and gas stations were cited as the most common sites for money laundering, with travel agencies that offer MSB services also noted as an increasingly prominent conduit for the illicit transmission of money. Anecdotal reporting by law enforcement points to the use of MSBs in counterfeit check schemes and non-government charitable organizations (NGOs) utilizing MSBs to transfer proceeds internationally to support terrorist organizations and terrorist-related activities.

Several FBI field offices reported the laundering of millions of dollars derived from Internet extortion and fraud schemes through MSBs such as Western Union, PayPal, e-gold Limited, and other online payment systems.

Vulnerabilities particular to specific types of MSBs will be explored in the respective sub-chapters below.

Geographic Concentration

Analysis of FinCEN data from October 1, 2002 through December 31, 2004 indicates that MSBs located in New York and California filed more MSB SAR forms than MSBs in any other state, followed by Arizona, Texas, Florida, Colorado, New Jersey, Massachusetts, Georgia, and Illinois. These numbers indicate a concentration of illicit financial activity in major, densely populated cities and along the Southwest border.

Law enforcement also identified geographic concentrations of MSB money laundering activity in highly-populated cities but did not identify California or the Southwest border as focal points for illicit MSB activity, despite the high volume of suspicious activity reported by MSBs in these regions to FinCEN.

With respect to destinations, most federal law enforcement agencies identified Mexico as the primary destination for suspicious funds sent through MSBs. Other prevalent destinations were Russia, Colombia, the Dominican Republic, and various locations in Central and South America. The majority of these investigations dealt with narcotics trafficking organizations. Investigations have also noted increased money laundering concerns among Middle Easterners in the United States operating MSBs and sending funds to Egypt, Sudan, and other locations in the Middle East.

Regulation and Public Policy

As of December 31, 2001, all MSB principals (not individual agents) were required to register with FinCEN, listing the owner or controlling person. Each business that meets the definition of an MSB must register, except for the following:

- A business that is an MSB solely because it serves as an agent of another MSB;
- A business that is an MSB solely as an issuer, seller, or redeemer of stored value;
- The USPS and agencies of the United States, of any state, or of any political subdivision of any state; and
- A branch office of an MSB is not required to file its own registration form.

MSB registrations must be renewed every two years. Failure to register is punishable by a civil fine or criminal prosecution under 18 U.S.C. § 1960, which prohibits the operation of an unlicensed money transmitting business. For purposes of 18 U.S.C. § 1960, an unlicensed money transmitting business is a person who knowingly conducts, controls, manages, supervises, directs, or owns all or part of a money transmitting business, and who fails to register as required with FinCEN, or in

Table 3

MSB Suspicious Activity Reporting Ranking by States 10/1/02-12/31/04

Ranking	State	% of MSB SARs Filed	% of US MSB SARs
#1	New York	17%	49%
#1	California	17%	
#2	Arizona	9%	
#3	Texas	8%	
#4	Florida	6%	25%
#5	Colorado	4%	
#6	New Jersey	4%	
#7	Massachusetts	3%	
#8	Georgia	3%	
#9	Illinois	3%	

*Percentages rounded to nearest whole number.

certain circumstances, operates without a required state license. MSBs which fail to register also may be liable for civil money penalties of up to $5,000 for each day the violation continues and a criminal penalty of up to five years imprisonment.

All MSBs must establish AML programs, and obtain and verify customer identity and record information about the transaction, including beneficiary information if received, for funds transfers of more than $3,000 regardless of whether the activity appears suspicious or not. They must also keep records regarding the cash purchase of money orders and traveler's checks between $3,000 and $10,000, and certain records regarding their currency exchange transactions. In addition, all MSBs are required to file reports of transaction in currency of more than $10,000.

As of January 1, 2002 most MSBs are required to report suspicious activity. The SAR requirement does not apply to check cashers or to sellers and redeemers of stored-value. An MSB is required to file a SAR on a transaction or series of transactions conducted or attempted by, at, or through the MSB if both of the following occur:

- The transaction or series of transactions involves or aggregates funds or other assets of $2,000 or more, and
- The MSB knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions of which the transaction is a part) falls into one or more of the following categories:

    1. Involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity as part of a plan to violate or evade any federal law or regulation or to avoid any transaction reporting requirement under federal law or regulation;
    2. Is designed to evade any BSA regulation;
    3. Has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the MSB knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction; or
    4. Involves use of the MSB to facilitate criminal activity.

Despite the regulatory requirements, the majority of MSBs in the United States continue to operate without registering with FinCEN. Information obtained from SAR analysis indicates some lack of understanding by MSBs about registration requirements, especially among operators of small businesses that also provide MSB services. While some individuals made no attempt to register with FinCEN, others provided partial registration documentation. Other brokers, when given a thorough explanation of the registration process, were willing to comply with registration requirements. The relative novelty of the regulatory regime and the lack of familiarity by MSB operators about government and vice versa will continue to present challenges for both regulators and law enforcement.

IRS SB/SE has been delegated authority to examine MSBs for BSA compliance. A staff of several hundred IRS SB/SE full-time BSA examiners evaluates compliance with the reporting and record-keeping requirements of the BSA and Section 6050I of the Internal Revenue Code.

Monetary thresholds and the Sentencing Guidelines often impede the prosecution of 18 USC § 1960 violations. U.S. Attorney's Offices may be restricted by guidelines that force prosecutors to either decline or defer prosecutions of 18 USC § 1960 violations because the amount of money at issue is too small. Additionally, the relative newness of 18 USC § 1960 may limit its use by law enforcement and U.S. Attorney's Offices. Despite these factors, the Department of Justice has successfully prosecuted numerous 18 USC § 1960 violations, particularly in major metropolitan areas such as New York and Chicago.

The following sub-chapters will address the particular characteristics and vulnerabilities of Money Transmitters, Check Chasers, Currency Exchangers, Money Orders, and Stored Value Cards.

MONEY TRANSMITTERS

The financial services industry, law enforcement, and regulators interchangeably refer to non-bank money transmitters as money remitters, wire remitters, and wire transmitters, hereinafter money transmitters.[36] The sheer volume and accessibility of money transmitters makes them attractive vehicles to money launderers operating in nearly every part of the world. Western Union runs the largest non-bank money transmitter network, with more than 225,000 agent locations in 195 countries and territories worldwide.[37]

As the overwhelming majority of wire transfers at MSBs are paid for with cash, money transmitters provide excellent camouflage for the initial introduction of the illicit proceeds into the financial system. Money transmitters offer inexpensive services, and often impose less rigorous AML programs and compliance than traditional financial institutions.

A funds transfer can generally be described as a series of steps, beginning with the originator's (customer's) instructions and including a payment message, which is used for the purpose of making payment to the beneficiary (receiving customer). There are a wide range of potential sources of funds for initiating a funds transfer, which include: cash, certified checks, cashier's checks, money orders, traveler's checks, account withdrawal, and credit and debit cards.

Vulnerabilities

The vulnerabilities endemic to MSBs in general – discussed above – also apply to money transmitters. As with all industries subject to reporting thresholds, money launderers attempt to abuse money transmitters by structuring transactions below federal reporting thresholds. Owners or employees of registered money transmitters may help money launderers avoid reporting requirements by falsifying records to make it appear as though a large amount of laundered money was derived from a series of small transactions. Money transmitters may also knowingly permit individuals to make frequent structured transactions using false names and telephone numbers for each transaction.

The rapid movement of funds between accounts in different jurisdictions increases the complexity of investigations. In addition, investigations become even more difficult to pursue if the identity of the originator is not clearly shown in an electronic payment message message.

Money transmitters remain a particularly attractive vehicle for money laundering due to several inherent characteristics of the industry:

- Large money transmitters maintain agent offices in thousands of cities and scores of countries, allowing customers to move funds from nearly any location directly to any other location;
- Money transmitters provide for rapid service, transmitting funds instantly or in days;
- The sheer volume of legitimate cash transactions provides an excellent camouflage for money laundering activity in the placement stage;[38]
- Money transmitter services are relatively inexpensive as compared with other means utilized by money launderers, often charging 10-20 percent per transmission; and
- Money transmitters increasingly provide online payment services and accept credit and debit cards. Although there are often identification safeguards in place – MSBs must verify identity with valid forms of identification and often utilize security features like password protection and online validation by third parties for signature verification – the lack of face-to-face interaction between the customer and the MSB limits the ability of MSBs to detect suspicious activity, as with other financial services provided through the Internet.

[36] Informal value transfer systems (IVTS), such as hawalas, are treated seperately in Chapter 4.
[37] *See* "About Western Union." Accessed at: http://www.westernunion.com/info/aboutUsIndex.asp?country=global.
[38] The three stages of money laundering are: (1) Placement, in which illicit proceeds are introduced into the financial system; (2) Layering, in which the criminal attempts to separate the proceeds from the crime through a series of transactions; and (3) Integration, in which the illicit proceeds are made to look legitimate through investment in legal assets.

Unregistered money transmitters offer money launderers many of the same advantages as registered money transmitters, with the added benefit of additional anonymity:

- The failure to follow federal reporting requirements reduces transparency yet further;
- Unregistered money transmitters frequently maintain coded records which may be inscrutable to investigators; and
- Unregistered transmitters may not advertise and may operate from locations with other primary purposes, such as gas stations, grocery stores, and residences, making them more difficult to detect. These businesses will often use such cash-intensive retail businesses to justify large-scale bank deposits and transfers.

Demographic and Regional Concentrations

Ethnic immigrant communities are heavy users of money transmitter services, particularly to send money home to their native countries. Typically, members of these communities will use multiple services of an MSB, such as money transmission in conjunction with check cashing and/or currency exchange. DEA, ICE, FBI, FinCEN, and OCDETF have noted Middle Eastern, Asian, and Latin American – specifically Mexican – immigrant communities in major metropolitan areas as primary users of money transmitter services.

Frequently identified points of origin for money transmissions were New York, Los Angeles, Chicago, Dallas, Houston, Phoenix, Tucson, Seattle, and San Juan. Law enforcement reporting indicates that a large amount of illicit funds laundered through money transmission services are sent to the southwest border of the United States. Roma, McAllen, Benita, Brownsville, Harlingen, Hidalgo, and Rio Grande City are the primary Texas border towns receiving wires, while Houston, and increasingly Dallas, are the primary cities receiving wires. The unusually large number of wires being received at the southwest border is particularly apparent in southern Arizona, where $12 are received for every $1 sent. As discussed below, this disparity may be accounted for in bulk cash movements south of the border. Some observed trends in predicate crimes by origin/destination are described in Table 4.

In the New York/New Jersey area, money transmittal businesses are extremely prevalent and witness a great deal of money laundering. Vulnerabilities particular to specific types of MSBs will be explored in the respective sub-chapters below. OCDETF identified the most prevalent area of suspicious activity as Jackson Heights, Queens, which purportedly contains the largest Colombian community outside of Colombia itself.

OCDETF also reports Colombian and Dominican drug trafficking organizations actively utilizing New England-based money transmitters to wire illicit drug proceeds to criminal recipients in Colombia and the Dominican Republic, despite some successful prosecutions in this arena.

Internationally, ICE notes that wires sent from the Los Angeles area were primarily destined for South/Central America, Asia, Europe, and the Middle East, while wires sent from the New York area were primarily destined for Colombia and the Dominican Republic.

Money Transmitter Trends in Southern Arizona

Money transmissions received in southern Arizona and Texas are typically sent in amounts of less than $3,000.

Table 4

Destination	[illegible]	Predominant [illegible]
Southern Arizona	California	Narcotics trafficking
Southwest Border	New York, New Jersey, North Carolina and Florida	Alien trafficking
Texas	New York, Florida, North Carolina, and New Jersey	Alien trafficking, narcotics trafficking to a lesser extent

When alien trafficking is the predicate crime, it is believed that this amount does not indicate structuring but rather the relatively small amounts involved in individual instances of alien trafficking. When the transactions are received at the border, however, they become structured as the same receiver must collect the transactions individually in order to keep them under the $3,000 threshold.

From the southwest border, the funds are generally bulk shipped south. From Arizona, most of the money is smuggled across the border in passenger cars in amounts under $100,000, with a small amount retained

Table 5

	Received in Arizona*	Originated in Arizona*
GA	19.9	0.7
IL	25.7	0.7
NC	12.1	0.2
NJ	16.7	0.3
NY	31.6	1.1
PA	6.6	0.3
Total	**112.6**	**3.4**

*Millions of U.S. Dollars

at the border to cover the operational costs of the alien smuggling operation. In Texas, 60-70 percent of the funds are bulk shipped across the border.[39]

After being bulk shipped across the border, the previously wired funds are generally returned to the United States. ICE reports that this is accomplished by wiring the money back to the United States, although various methods – some as simple as returning the funds via bulk cash shipment – can be used. When reentering the country, the illicit funds are documented, appear to be legitimate, and may then be used to meet the financial needs of the money launderers within the United States.

Regulation and Public Policy

In addition to the rules applicable to all MSBs, money transmitters are required to collect information regarding wire transfers involving $3,000 or more and retain these records for five years. As of January 1, 2002, all money transmitters must maintain a list of agents and have it available for review. The list must include such information as the agent's name, depository institution, and the number of branches and subagents. A business acting solely as an agent of a money transmitter is not required to register with FinCEN. However, the agent must notify the money transmitter when it establishes subagents so that the transmitter may revise its agent list as required by FinCEN each January 1.

[39] Houston Money Laundering Initiative (HMLI).

CHECK CASHERS

Check cashers provide essential services for persons without bank accounts. Criminals can and do abuse these services, however, to launder illicit funds, often in conjunction with money transmitters and informal value transfer systems (IVTS). Not all check cashers perform the same services and thus not all check cashers pose the same vulnerabilities or levels of risk.

Vulnerabilities

Money launderers use check-cashing businesses to launder funds via third-party checking. To do this, a money launderer may make daily visits to small businesses in order to purchase checks made out to that business by uninvolved third parties. By selling these checks to the launderer, the business benefits by receiving immediate cash, avoiding banking or check cashing fees, avoiding income taxes, and passing on the risk of bad checks to the launderer. The launderer pays for the checks using illicit cash, and can then redeem the checks without causing the filing of a Currency Transaction Report (CTR) by not taking payment in cash. Money launderers sometimes purchase check cashing businesses outright, in which case checks can be deposited directly into the launderer's bank account, also without a CTR being filed.

Check-cashing businesses engaged in money laundering via third party checks typically will only withdraw a portion of the sum of checks being deposited, making up the remainder with dirty cash. This activity may generate a SAR. However, banks and law enforcement agencies may not immediately recognize this activity as suspicious, as the check-cashing business may reasonably hold accounts at other institutions from which the cash is being withdrawn. Illicit check-cashers may also arouse suspicion by withdrawing bills in large denominations.

To avoid scrutiny, money launderers will frequently send endorsed third-party checks out of the country to be cashed or deposited. When these checks are cashed or deposited at foreign banks, the U.S. bank may take note during the clearing process and file a SAR. Third-party checks are also used to send value overseas, akin to money orders. Because these checks are physically lighter and occupy less space than their cash equivalents, it is easier for money launderers to bulk ship or mail packages of these monetary instruments out of the country. For narcotics traffickers, shipping checks is also preferable to shipping currency because narcotics residues are less likely to adhere to paper checks than to currency, reducing the likelihood that police dogs will detect them.

Law enforcement has reported several examples of abuse in the check cashing industry. In one case, IRS-CI reported that numerous corporate checks stolen from the mail were eventually negotiated at a check casher. The FBI has witnessed an increase in money laundering through check cashing services and FBI field offices throughout the United States are observing large amounts of money flowing through structured deposits involving check cashing services. Drug trafficking organizations are noted as frequent users of this laundering method.

Others have observed these services used by undocumented immigrants sending money to Mexico and the Middle East. The lack of record-keeping requirements for check cashers hinders law enforcement efforts to identify the source of the suspect funds.

Regulation and Public Policy

Check cashers, like most MSBs, must register with FinCEN. Although check cashers are required to file CTRs for cash transactions greater than $10,000, they are not currently required to file SARS (although they may do so voluntarily).

Only 24 states currently have specific check cashing legislation or regulations. Check cashers are often required to be licensed but are subject to less state regulatory oversight than other money service businesses, like sellers of money orders or traveler's checks. This is due, in part, to a perception that check cashing poses a comparatively smaller risk to consumers. Likewise, net worth requirements are typically less stringent for check cashers. State banking authorities or other supervisory bodies also examine these businesses less frequently.

The exemption of check cashers from SAR reporting requirements may hinder law enforcement efforts to identify laundering through this channel.

CURRENCY EXCHANGERS

Currency exchangers, also referred to as currency dealers, money exchangers, *casas de cambio*, and bureaux de changes, provide conversion of bank notes of one country for that of another and may be abused by criminals in order to launder illicit funds, particularly during the placement stage of money laundering.

Although currency exchange, in and of itself, poses a less serious money laundering risk than the services provided by other MSBs, certain elements of the currency exchange sector, such as *casas de cambio*, play a major role in money laundering operations, particularly for narcotics organizations. Currency exchange is the MSB subject to the least state regulation, with fewer than ten states currently regulating this activity.

Vulnerabilities

Currency exchange businesses are predominately located along shared borders, at international airports, and in large tourist areas. The services provided by currency exchange houses allow money launderers to exchange large quantities of small-denomination bills for large-denomination bills of the same or different currency. Thus exchanged, the bills can be more easily bulk shipped or deposited in bank accounts. Currency exchange houses are also used to provide additional cloaking in a funds transfer chain. An exchange house may, for example, accept cash from a customer which it then deposits in its own account at a commercial banking institution. The origin or source of the funds would be disguised because the bank will attribute ownership to the currency exchange business.

Currency exchange businesses also regularly offer money transmission services, compounding the threat by introducing the money transmitter risks discussed above.

Casas de Cambio

Casas de cambio are currency exchange houses specializing in Latin American currencies and transactions. In the United States, these businesses are concentrated along the southwest border, with over 1,000 *casas de cambio* located along the border from California to Texas. These currency exchangers generally offer other MSB services, and often exist in combination with retail businesses such as gas stations and travel agencies. These businesses are generally unregistered and non-compliant with MSB SAR reporting requirements, and are suspected of being the primary non-bank money laundering mechanism in the southwest border area. Typical *casas de cambio* can launder as much as $5 million per month, primarily on behalf of drug traffickers. *Casas de cambio* are often run from mobile or temporary locations such as pickup trucks, trailers, sheds, and even telephone booths so that operations may be quickly relocated to avoid law enforcement. U.S.-based *casas de cambio* typically maintain close relationships with their Mexican counterparts in order to facilitate transactions such as funds transfers.

Some *casas de cambio* exist for the primary purpose of facilitating money laundering activities. Although *casas de cambio* are required to file Reports of International Transportation of Currency or Monetary Instruments (CMIRs) and Currency Transaction Reports (CTRs), they will commonly move money on behalf of many clients in a bulk transaction conducted under the name of the exchange house, thus cloaking the identity of the true originators. Any SARs filed in these cases by banks or other intermediaries will report the *casa de cambio* as the violator, often leading to an investigative dead end. Seized documents in raids conducted by the Venezuelan *Guardia Nacional* on *casas de cambio* and businesses in the Venezuelan state of Tachiria revealed that a number of *casas de cambio* were laundering drug proceeds originating from the United States through Venezuela to Colombia. Venezuela was being used to avoid Colombia's relatively high tariff on U.S. currency. It was later discovered that numerous *casas de cambio* involved in the money laundering process had U.S. dollar checking accounts through correspondent accounts held by major banks in Venezuela.

Regulation and Public Policy

Currency exchangers are subject to general MSB regulations and are required to file SARs. In a sampling of 44 SARs filed by Currency Exchangers, FinCEN found that structuring was the most reported violation (29%), followed by altering the transaction to avoid reporting (20%), and two or more individuals conducting coordinated transactions (20%). The suspects reported in these SARs resided or transacted in Illinois and southwest border states, as well as Mexico, Canada, Colombia, and Spain.

The amounts of violations reported in these SARs ranged from \$0-\$25 million. The violation ranges were as follows:

Table 6

Amount	Number of SARs	Percentage of Total Filings
\$0-\$999	5	11%
\$1,000-\$9,999	31	70%
\$10,000-\$99,999	7	9%
\$100,000-\$25 million	1	--

With regard to the 13 SARs reporting violations involving money exchangers exclusively, the violation amounts ranged from \$425 through \$41,983, and structuring was the most reported violation, appearing in 7 of the 13 SARs (54%).

A review of money exchange SAR narratives reveals the following recurring patterns:

- The exchange of foreign currency for U.S. dollars (USD);
- Submitting U.S. currency in specific denominations such as \$1's, \$5's, and \$10's;
- Odor on the currency;
- Two or more individuals working together to exchange pesos in an amount under the reporting requirement;
- Regular exchanges of similar amounts of currency. A California MSB reported a customer for regularly exchanging USD into pesos. Amounts ranging from \$300-\$800 USD were exchanged daily. The bills were all in small denominations under \$1,000. At one point, the customer transacted over \$1,000, prompting the exchange house to ask for ID and the purpose of the transactions. The suspect stated that she had a grocery store in California and bought supplies in Mexico. After she was questioned by the filer, the suspect ceased doing business with this MSB; and
- Unusually large exchanges of currency. One SAR reported a suspect in connection with the exchange of 100,000 pesos for USD. The suspect balked when asked for ID, but did supply it. He later returned with a woman he identified as his client, who also exchanged 100,000 pesos for USD. A Texas MSB reported that, in one month, a Mexican suspect exchanged nearly \$42,000. Another SAR reported a Spanish suspect who visited two Miami International Airport currency exchanger locations in three days and exchanged Euros for USD in the total amount of \$21,290.

MONEY ORDERS

Money orders are a highly versatile vehicle for money laundering, useful for a number of financial crimes ranging from smuggling narcotics trafficking proceeds to depositing illicit proceeds from alien smuggling and corporate fraud into bank accounts.

Money orders are used by approximately 30 million people annually to conduct business such as paying bills and sending money back to families in foreign countries. It is estimated that over 830 million money orders in excess of $100 billion are issued annually. The money order industry is small compared to that of other MSBs and easier to assess. Eighty percent of all money orders are issued by the USPS, Western Union, and Traveler's Express/MoneyGram. The remaining 20 percent are issued by smaller, regional companies scattered throughout the United States.

Vulnerabilities

As a money laundering vehicle, money orders have several attractions. First, money orders can be issued in high-dollar denominations and are much less bulky than cash. Money orders are also replaceable if lost.

Anonymity is another major attraction. Money orders are issued anonymously for amounts under $3,000. Most money order sellers/issuers do not have any relationship with their customers and very little, if any, information is required to purchase a money order. Without originating information, it can be impossible for law enforcement to detect patterns of unlawful activity by an individual or group, or to track suspicious transactions to their source or ultimate recipient.

USPIS, FBI, DEA, and ICE investigations have all repeatedly noted dirty cash being converted to money orders to hide its true source and/or to shrink the physical size of the contraband in order to facilitate smuggling it out of the country. Commonly cited international destinations include Lebanon, the Palestinian territories, United Arab Emirates, Saudi Arabia, and Central and South America.

Financial hubs that see the greatest volume of money order activity are New York/New Jersey, Los Angeles, El Paso, Dallas, Miami, Boston, and San Francisco. DEA, USPIS, ICE, and the New York/New Jersey High Risk Money Laundering and Related Financial Crimes Areas (HIFCA)[40] all report significant money laundering activity with money orders in these regions. OCDETF has consistently reported that approximately 20 percent of its newly-initiated money laundering investigations contains a money order component. Law enforcement, primarily ICE and DEA, and the regulatory community have seen a steady stream of money order use by launderers moving bulk cash from narcotics transactions to Mexico and other regions of Latin America. DEA and ICE report an area of increasing concern is the use of Mexican *casas de cambio* used to transport proceeds through money orders into Mexico. The vulnerabilities presented by money orders and the relative lack of regulatory oversight of *casas de cambio* in many foreign countries create an attractive environment for individuals seeking to launder illicit proceeds.

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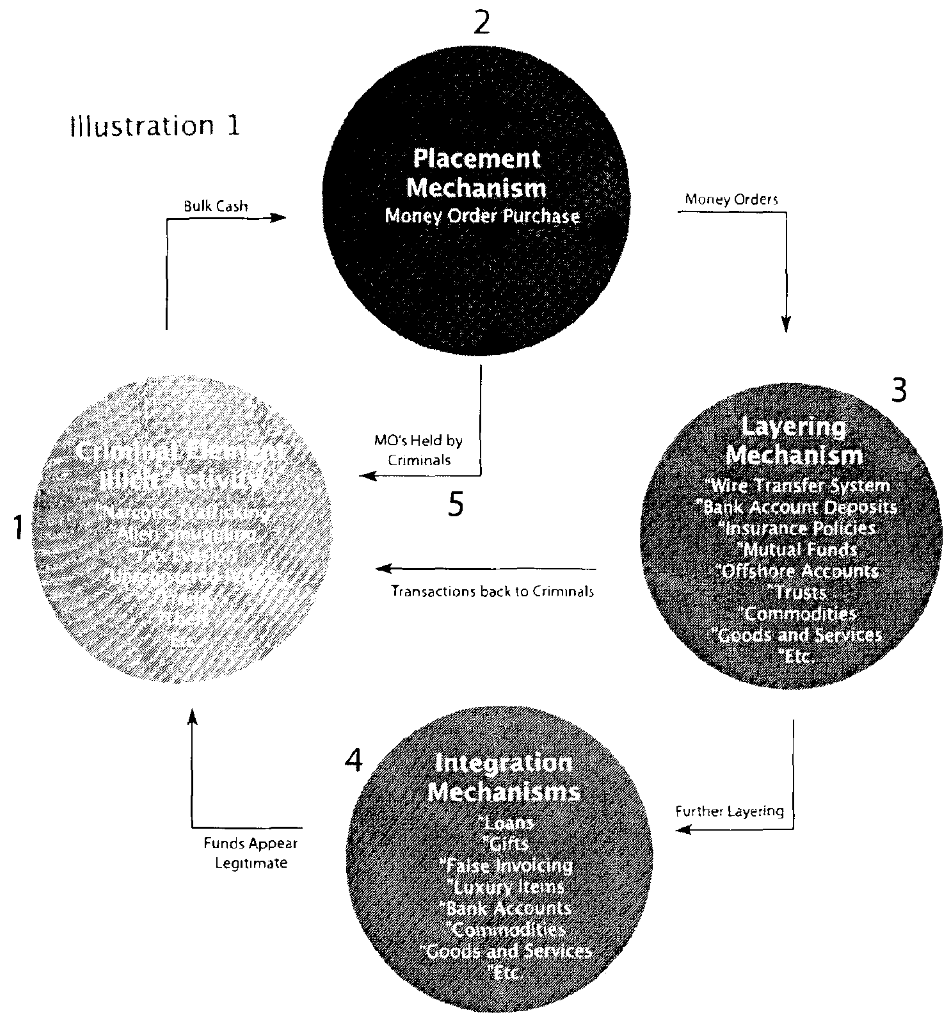
[40] HIFCAs were conceived in the Money Laundering and Financial Crimes Strategy Act of 1998 as a means of concentrating law enforcement efforts at the federal, state, and local levels in high intensity money laundering zones. HIFCAs may be defined geographically or they can also be created to address money laundering in an industry sector, a financial institution, or group of financial institutions.

The illustration below presents a typical cycle of money laundering through the use of money orders.[41]

Illustration 1



Regulation and Public Policy

Regulatory requirements for MSBs that issue money orders are the same as those for MSBs in general, as set out above. In addition, many money order businesses impose their own lower dollar thresholds, such as not selling more than $2,000 in money orders to a customer in a given day, which obviate the need for CTR reporting.

Of the total SARs filed for MSBs from October 1, 2002 through December 31, 2004, 32 percent involved money orders. The great majority of these money order-related SARs (93%) were filed by USPS. USPS reported approximately $296.9 million in suspicious money order activity equaling approximately .01% of the total face value issued in 2003. In 2004, USPS reported $408.5 million in suspicious money order activity, equaling approximately .014% of the total face value issued. The increase from 2003 to 2004 by .005% is believed to reflect USPS's lowering of its "back-end" threshold for detecting suspicious activity from $10,000 to $5,000.

Trends identified in the SARs filed include the following:

- The purchase of multiple, structured money orders on the same day or within a short period of time; on many SARs it was noted that when the customers were informed of the reporting threshold, they changed their purchase to lower amounts;
- Money order deposits to the same bank account composed of multiple, sequentially numbered money orders;
- Customers lacking proper identification, or providing false identification, leading some filers to conclude that these customers could be illegal aliens;
- Structured purchases frequently followed by the deposit of the money orders into the same bank account;

[41] FinCEN.

- Individuals coming into the Post Office together, but separating inside to make the purchases from different tellers because the combined total of the money orders purchased exceeded the reporting threshold; and

- Money order purchases being paid for with currency in specific denominations, sometimes bundled into stacks, indicating organized-crime involvement.

Anti-money laundering training is required of money order businesses, but this training can be quite cursory. Common vendors of money orders, such as small convenience stores, may neither understand nor value BSA compliance. When AML training is offered, it is typically thin, such as requiring employees to read a brief pamphlet. The fact that the workforce at these businesses is frequently comprised of part-time, younger, and less-educated employees with an extraordinarily high turnover rate, further complicates the training effort.

There is also an accountability gap. All money order issuers, aside from the USPS, rely to a large extent on licensed agents, rather than employees, to sell their instruments. The parent firms have a responsibility to review activity across their agent network but are not required to review individual SARs. Indeed, some firms specifically discourage their agents from submitting SARs to the parent firm.[42]

Western Union and MoneyGram combined – which represent over 50% of the money orders issued in the United States – represented only 1 percent of all SARs filed from October 1, 2002 through December 31, 2004, where money laundering was listed as the Category of Violation and where money orders was identified as the Financial Service(s) Involved. By comparison, USPS – which represents one-quarter of all money orders issued in the United States – represented 93 percent of such SAR activity.

[42] *See, e.g.*, Travelers Express "Anti-Money Laundering Compliance Guide." July 2002. Accessed at: http://www.moneygram.com/forms/agentguide.pdf.

STORED VALUE CARDS

Stored value cards (sometimes referred to as prepaid cards) are an emerging cash alternative for both legitimate consumers and money launderers alike. The term "stored value cards" can cover a variety of uses and technologies. Some cards have embedded data processing chips, some have a magnetic stripe, and some cards (e.g. prepaid phone service cards) just have an access number or password printed on them (the card itself cannot access or transfer cash).

Stored value cards can be characterized as operating within either an "open" or "closed" system (See Table 7). Open system cards can be used to connect to global debit and automated teller machine (ATM) networks. The cards can be used for purchases at any merchant or to access cash at any ATM that connects to the global payment networks.[43] Such open system card programs generally do not require a bank account or face-to-face verification of cardholder identity. Funds can be prepaid by one person, with someone else in another country accessing the cash via ATM. Open system stored value cards typically may be reloaded, allowing the cardholder to add value.

Closed system[44] cards are limited in that they can only be used to buy goods or services from the merchant issuing the card or a select group of merchants or service providers that participate in a network that is limited geographically or otherwise. Examples of closed system cards include retail gift cards, mall cards, and mass transit system cards, as well as the multipurpose cards used on overseas U.S. military bases and on college campuses. These cards may be limited to the initial value posted to the card or may allow the card holder to add value.[45]

Stored value cards offer individuals without bank accounts an alternative to cash and money orders. Target markets include teenagers, the unbanked, adults unable to qualify for a credit card, and immigrants sending cash to family outside the country. The unbanked in the United States comprise an estimated 10 million households and 75 million individuals.[46] A growing segment of the stored value card market consists of businesses and government agencies using plastic cards to replace paper vouchers, checks, and cash for per diems, insurance and health benefit payments, and even payroll. Issuers see the greatest fee potential, however, among the unbanked, who, by using the cards in place of cash and money orders, generate transaction fees with every purchase and every cash withdrawal.[47]

Vulnerabilities

Stored value cards provide a compact, easily transportable, and potentially anonymous way to store and access cash value. Open system cards lower the barrier to the U.S. payment system, allowing individuals without a bank account to access illicit cash via ATMs globally. Closed system cards, primarily store gift cards, present more limited opportunities and a correspondingly lower risk as a means to move monetary value out of the country. Yet federal law enforcement agencies

[43] International networks on which open system cards can be used include Visa's Plus (ATM) and Interlink (point-of-sale) networks and MasterCard's Cirrus (ATM) and Maestro (point-of-sale) networks.

[44] Smart cards are another version of a closed system card, but are not widely used in the U.S. In some countries, smart cards have an embedded data processing chip that carries bank-issued electronic money. The cards can transfer money directly to participating merchants without the transaction going through an intermediary. The merchant or service provider's bank redeems the stored electronic payments as conventional cash from the bank that issued the e-money. In some countries, smart cards have achieved modest acceptance for domestic small-value purchases. Smart cards are also used in countries with inefficient telecommunications, so that merchants do not need to query a central database for transaction authorizations.

[45] Some retailers do offer redemption of gift cards for cash, but they do not openly advertise that this is an option. In this scenario, the gift cards can be used to launder funds and hide the paper trail of not only the source of the funds used to purchase the cards, but also where the funds go if the cards are redeemed for cash.

[46] Hillebrand, Gail, Payment Mechanism: New Products, New Problems, Consumers Union, presentation delivered at the Federal Reserve Bank of Chicago, May 29, 2003. Accessed at: http://www.chicagofed.org/news_and_conferences/conferences_and_events/files/2003_payments_conference_gail_hillebrand_presentation.pdf.

[47] Issuers have triggered a backlash by going beyond transaction fees, adding charges for checking a balance, adding cash, or even doing nothing ("inactivity" fees), drawing criticism from consumer rights advocates and attorneys general. For example, California, Washington, and New Hampshire have passed laws curtailing prepaid card fees and practices. Connecticut, Massachusetts, New Hampshire, and New York have filed lawsuits against the Visa-branded Simon Malls card specifically because of fees.

have reported both categories of stored value cards are used as alternatives to smuggling physical cash.

Stored value card programs often accept applications online, via fax, or through local check cashing outlets, convenience stores, and other retailers. Programs that lack customer identification procedures and systems to monitor transactions for suspicious activity present significant money laundering vulnerabilities, particularly if there are liberal limits or no limits on the amount of cash that can be prepaid into the card account or accessed through ATMs. Offshore banks also offer stored value cards with cash access through ATMs internationally. Further, programs designed to facilitate cross-border remittance payments often allow multiple cards to be issued per account so that friends and family in the receiving country can use the cards to access cash and make purchases. These programs can also be used to launder money if effective AML policies, procedures, and controls are not in place.

Law enforcement agents on the El Dorado Task Force[48] in New York found they could use false identification to obtain prepaid cards and even have the cards sent to a U.S. Post Office box. Secret Service investigations have found that not only do some prepaid card applicants use false identification; they fund their initial deposits with stolen credit cards and money from other illicit sources.

DEA, ICE, and IRS-CI have all found prepaid cards used in conjunction with bulk cash smuggling. Drug dealers load cash onto prepaid cards and send the cards to their drug suppliers outside the country. The suppliers then use the cards to withdraw money from a local ATM.[49]

Phone cards and other "closed" system prepaid cards also present opportunities for money laundering. The cards can be purchased for cash and transferred from one person to another domestically or internationally and eventually resold. Closed system cards are not currently subject to CMIR reporting when moved across U.S. borders.[50] ICE sees the potential for a variation on the Black Market Peso Exchange (BMPE)[51] with phone cards exchanged for drug money. Also, prepaid cards for wireless and long-distance service are a cash-intensive business, offering an opportunity to integrate dirty money. Distributors of prepaid phone cards can generate more than $100 million in cash annually.

Regulation and Public Policy

A stored value card used in an ATM to access cash from a prepaid account operates the same way as a debit card accessing a bank account via ATM, but there can be a substantial difference in how the two cards are issued and the accounts managed. Banks and other depository financial institutions are obligated to have a customer identification program (CIP) and to report large or suspicious transactions (SARs). "Issuers, sellers, and redeemers of stored value" are classed as an MSB under the relevant regulations[52] and are required to have an AML program but are not required to file SARs[53] or to register with FinCEN.[54]

Although open system stored value cards use the same payment networks as some bank-issued debit cards (e.g. Visa's Plus and Interlink, and MasterCard's Cirrus and Maestro), stored value cardholders generally are not

[48] Created in 1992 to target money laundering in New York, the El Dorado Task Force became one of the nation's most successful money laundering task forces. It is led by ICE and includes representatives from 29 federal, state, and local agencies.
[49] Even prepaid cards for long distance and wireless services are proving to be money laundering tools as the wholesale distribution system for these cards is cash-intensive, offering cover for money laundering.
[50] A Report of International Transportation of Currency or Monetary Instruments (CMIR) must be filed by each person who physically transports, mails, or ships, or causes to be physically transported, mailed, or shipped currency or other monetary instruments in an aggregate amount exceeding $10,000 at one time from the United States to any place outside the United States or into the United States from any place outside the United States (FinCEN Form 105).
[51] The BMPE involves drug suppliers in Colombia working with a currency broker. Rather than bringing their illicit dollars from the U.S. back to Colombia, the drug suppliers turn the cash over to a currency broker who can provide pesos in Colombia. The broker keeps the dollars in the U.S., selling them to Colombian importers who need the foreign currency to purchase goods from U.S. suppliers. The importers pay for the foreign currency with the pesos in Colombia that ultimately go to the drug suppliers.
[52] *See* 31 CFR. §103.11(uu)(3) and (4).
[53] *See* 31 CFR. §§103.120 and 103.20(a)(5).
[54] *See* 31 CFR §103.41(a)(1).

obligated to have a bank account. A common model for stored value card programs is for a firm independent of the bank to process all cardholder transactions through a "pooled" bank account held in the name of the firm managing the card program. In this arrangement, the bank may have no direct contact with the individual cardholders. Under current regulations, when a stored value card firm uses a "pooled" account maintained in its name for cardholder transactions, banks are required only to conduct customer due diligence and customer identification procedures on the card management firm and not the individual cardholders.[55]

MasterCard International and Visa USA have suggested AML guidelines for card issuers including account limits and requirements to verify identification. But web sites for stored value card programs that promote cardholder anonymity and flaunt a lack of AML policies suggest that this guidance may not be consistently enforced. Finally, a byproduct of the global market for and use of stored value products is that domestic action alone will not adequately address the vulnerability presented by these products. Issuers outside of the United States generally are not subject to the BSA,[56] yet the cards they issue may be used in the United States.

[55] *See* Deposit Insurance Coverage; Stored Value Cards and Other Nontraditional Access Mechanisms, Notice Of Proposed Rulemaking Federal Register 70:151 (8 August 2005): 455710-45581.
[56] Bank Secrecy Act, Titles I and II of Pub. L. 91-508, as amended, codified at 12 U.S.C. § 1829b, 12 U.S.C. §§ 1951-1959, and 31 U.S.C. §§ 5311-5332.

Table 7

Card Programs	Characteristics	Target Market	Possible Issuer Benefit	Potential Threat	Examples
Gift cards and prepaid phone services (Single service provider)	Store- or brand-specific (No payment network branding) Cards often sold in pre-set denominations/Merchant collects full value up-front	High frequency customers	Float[57], increased sales	BMPE-style ML[58]: exchanging cash for cards/Use as alternative currency/Distribution method is cash intensive creating ML threat	Retailer-specific and Phone service cards
Gift cards: Multiple Merchants	Multi-merchant gift card: can be used for purchases only (no ATM)/Can be payment network branded	Gift givers	Float, sales, and transaction fees[59]	Money laundering through bulk card acquisition and resale	Mall card
Payroll cards	Creates account to facilitate direct deposit/ Cards can be used at ATM & POS[60]	Unbanked workers who are being paid by cash or check	Fee income (lower cost to employer)	Fraudulent businesses could use to pay terrorists or launder money	Various
Remittance cards	Cards are issued for friends & family to use at cross-border ATM & POS	Individuals who send cross-border remittances	Fee income	Provides anonymous cross-border access to funds for purchases or cash	Various
General use cash cards	Debit card good at ATM & POS to access pre-funded account	Unbanked, teens, & those unable to qualify for credit card	Fee income	Provides anonymous cross-border access to funds for purchases or cash	Various
Function-specific cards	Replaces paper money, tickets, and forms for a variety of functions	Businesses & government agencies processing high volume of cash, checks or vouchers	Lower cost processing	None apparent	Transit systems/ Health savings accounts/ Govt. benefit programs

[57] Merchant earns interest on idle card funds.
[58] Black Market Peso Exchange-type money laundering.
[59] Purchases with bank cards generate transaction fees for the issuing bank.
[60] Point-of-sale.

Chapter 3
ONLINE PAYMENT SYSTEMS

New and innovative online payment services are emerging globally in response to market demand from individuals and online merchants. Individuals, some of whom may not have a bank account or are unable to qualify for a credit card, are looking to online payment services to enable online shopping, electronic bill payment, and person-to-person funds transfers. And some online merchants are demonstrating a willingness to accept new electronic methods of payment that are less expensive than credit cards. These payment services function as online payment systems, accepting funds in a variety of ways for the purpose of transferring payment either to a merchant or an individual.

Individuals wanting to shop online or participate in an online auction can use an existing bank account, credit card, wire transfer, money order, and even cash to fund an account with an online intermediary that will facilitate the payment. Some online payment services exist to facilitate transactions for online gambling and adult content sites that U.S.-based money transmitters typically will not service.[61] U.S. citizens can access payment services online that are based outside of the United States and transfer funds either electronically or by mail.

Online merchants, particularly those in sectors with high "chargeback" rates, are generating demand for new payment methods.[62] These markets embrace online payment systems that set their own clearing and settlement terms absent any consumer protection or financial regulation. Typically, transactions through these service providers are considered final with no recourse for individuals who believe they have been defrauded. The consequence, according to federal law enforcement agencies, is that these systems have become favorite payment mechanisms for online perpetrators of fraudulent investment schemes and other illegal activity.

Some online payment services defy conventional business models. "Digital currency" dealers, for example, use precious metals (gold, palladium, platinum, and silver) as the store of value for online transactions and split the transaction process between two business entities: the digital currency exchange service and the digital currency dealer. Despite the appropriation of the term "digital currency" to describe the use of precious metals for online payments, digital currency remains one of many common phrases with "digital," or "cyber" or "e–," used to refer to any electronic payment initiated online.[63]

The systems work as follows: A person wanting to use gold for an online purchase would first open a gold account with a digital currency dealer and then fund the account through an exchange service. Each exchange service sets its own terms, so that while some may only accept transfers from bank or credit card accounts, others will accept cash and money orders.[64] Similarly, each exchange service offers different options for receiving funds. The result is that some service providers pose a greater risk for money laundering.

The oldest and best known of the digital currency services is e-gold Ltd., licensed in Nevis, with almost 2

[61] In 2002, PayPal, perhaps the largest and best-known online payment system (339.9 million payments worth $18.9 billion in 2004), stopped providing payment services for online gambling and adult content sites. PayPal, was launched in 1998, and today has 63 million member accounts in 45 countries. In addition to facilitating transactions for sites PayPal no longer services, emerging online payment systems also are targeting countries in which PayPal does not operate. PayPal is a division of e-Bay, a publicly-held, U.S.-based corporation, and is licensed in the jurisdictions where it permits customers to send and/or receive money. (*Source*: http://www.paypal.com) PayPal has also registered with FinCEN as an MSB.

[62] When a customer using a credit card disputes a charge, the customer is said to "charge back" the transaction. Managing charge backs is costly to merchants who can be fined by their bank for frequent disputes or required to pay higher transaction fees. Online gambling and adult content web sites are among industries prone to chargebacks and are charged higher credit card fees than brick and mortar businesses.

[63] The use of the term "currency" in this context is not strictly correct. Currency is something monetized by a monetizing authority, generally central banks. Rather than being used as currency, these precious metals are used as a part of a barter exchange (one party agrees to exchange a quantity of gold for various goods or services).

[64] In addition to other funding options, a California-based digital currency exchanger accepts cash delivered by courier. Another service provider based in Panama also accepts cash, but advises: "We have a limit of $2.500.99 per day, per bank for cash deposits. For bigger amounts please send wires or postal money orders."

million accounts.[65] E-gold indicates on its web site that its metal holdings provide a form of guarantee that should convey trustworthiness[66] – a feature often lacking among unregulated online payment services. Digital currency dealers also promote the global acceptance of precious metals, observing that a buyer paying with gold need not worry about access to or acceptance of underlying currencies. Merchants, online service providers, and individuals who are willing to receive payment in precious metals are allocated a quantity based on the day's market price. While taking delivery of the actual metal is an option, recipients can also sell the metal through a digital currency "exchanger" and receive payment in a more conventional form.

The Global Digital Currency Association (GDCA) is a trade association of digital currency dealers and exchangers pressing for self-regulation. The GDCA provides a public ranking of its membership and offers arbitration procedures.[67] However, the GDCA constitution makes no mention of AML policies and procedures or of adhering to international AML recommendations such as those promulgated by the Financial Action Task Force (FATF).[68] The GDCA manages member conduct through its "reputation ranking system," which allocates or subtracts points based on length of membership and dispute and dispute record. (See Figure 1)

Figure 1

GDCA Membership Ranking Key
(excerpted from the GDCA Constitution)*

Membership Awards:

- Silver - Awarded to members known to be reputable and trustworthy
- Gold - Awarded to members known to be trustworthy, without any reported or reputed valid customer complaints over a one year period
- Platinum - Rarely awarded, and when, then only to outstanding members who are well known, have shown to be beyond reproach and who head outstandingly upright operations, pillars of the industry
- Palladium - Awarded to long-serving Committee members and officers of the GDCA who qualify for Platinum awards.

Points may be earned or lost [at the discretion of the GDCA].

* Accessed at: http //www.gdcaonline.org.

Vulnerabilities

Online payment services function as international person-to-person payment systems. By crossing jurisdictional lines these services potentially create difficulties for authorities pursuing enforcement or legal actions. Although individuals may use credit cards, wire transfers, or other bank payment tools to move funds to online payment systems, the investigative trail for law enforcement ends there when service providers do not have effective customer identification or recordkeeping practices. In addition, the trail is further shortened when service providers accept cash and money orders to fund accounts.

U.S. federal law enforcement agencies have found that some online payment services are ill-equipped to verify customer identification[69] and some openly promote anonymous payments. The type of personal information required for opening an account with a digital currency dealer or exchanger or online payment system varies by service provider.

The FBI reports six individuals indicted in a Ponzi scheme in March 2004 used a digital currency exchange service to transfer some $50 million from 26,000 investors. The FBI Crime Complaint Center has received a number of complaints regarding Internet auction fraud, investment schemes, and computer intrusions all involving digital currency services.

U.S. federal law enforcement agencies currently are investigating a credit and debit card fraud ring that uses stolen account information to make unauthor-

[65] E-Dinar is a spin-off of e-gold, and is affiliated with the Islamic Mint, a private organization dedicated to reviving the gold and silver currencies described in the Koran, the gold dinar and silver dirham. The target market for the e-Dinar is the more than one billion Muslims directed by the Koran to pay "zakat" or 2.5% of one's net worth annually to be distributed to the needy and the poor. Accessed at: http //www e-dinar com.
[66] Accessed at: http://www.e-gold.com.
[67] Accessed at: http://www.gdcaonline.org/.
[68] FATF Standards. Accessed at: http://www.fatf-gafi.org/pages/0,2966,en_32250379_32236920_1_1_1_1_1,00.html.
[69] Money services businesses are not required under the BSA to have customer identification programs. They are required to have programs in place to perform necessary customer due diligence appropriate to the risks presented, and to comply with all recordkeeping and reporting requirements under the BSA.

ized withdrawals. The illicit funds are then laundered through digital currency accounts and through open system prepaid cards. Funds transferred to digital currency accounts can be sent via money transmitters globally. Similarly, funds transferred to prepaid card accounts can be accessed via ATMs globally.

Regulation and Public Policy

In the United States, money transmitters are among MSBs required to register with FinCEN,[70] are subject to AML reporting and recordkeeping requirements,[71] and are often required to be licensed on the state level. Whether an online payment system or digital currency service meets the definition of a money transmitter pursuant to BSA regulations, though, depends upon its location and the ways in which it participates in or conducts transactions.[72] Many online payment systems are based outside the United States and are not subject to U.S. jurisdiction. Some online payment systems may be licensed in one country and maintain operations (including staff, computer systems, and customers) in various other countries without a physical retail presence anywhere. Determining which legal entity has jurisdiction for regulatory and enforcement purposes can be challenging.[73] Potential users around the world now are finding they can go online to access payment options that may be unavailable from a domestically-regulated service provider.

Unregulated online payment systems do not have consistent or reliable AML policies and procedures. Opportunities for domestic regulation and enforcement are limited by jurisdictional issues. Without international coordination to encourage unregulated online payment systems to adopt and adhere to FATF AML policies and procedures, any single jurisdiction acting alone may have only limited success in this regard.

[70] 31 CFR § 103.41.
[71] 31 CFR §§ 103.125 and 103.20.
[72] 31 CFR § 103.11(uu) states: "*Money services business*. Each agent, agency, branch, or office within the United States of any person doing business, whether or not on a regular basis or as an organized business concern, in one or more of the capacities listed in paragraphs (uu)(1) through (uu)(6) of this section." 31 CFR § 103.11(uu) (5) states: "Money transmitter--(i) In general. *Money transmitter*: (A) Any person, whether or not licensed or required to be licensed, who engages as a business in accepting currency, or funds denominated in currency, and transmits the currency or funds, or the value of the currency or funds, by any means through a financial agency or institution, a Federal Reserve Bank or other facility of one or more Federal Reserve Banks, the Board of Governors of the Federal Reserve System, or both, or an electronic funds transfer network; or (B) Any other person engaged as a business in the transfer of funds."
[73] Most jurisdictions, including the U.S., have not established a licensing or regulatory framework for online payment systems with no physical presence in the jurisdiction. An exception is the U.K. where online payment systems come under the umbrella term "electronic money issuers" and are subject to the Financial Services and Markets Act 2000. *See* Financial Services Authority, *The Regulation of Electronic Money Issuers*. Accessed at: http://www.fsa.gov.uk/pubs/cp/cp117.pdf.

Chapter 4
INFORMAL VALUE TRANSFER SYSTEMS

Informal Value Transfer Systems (IVTS)[74] are efficient remittance systems based on trust that operate primarily within ethnic communities. IVTS include various centuries-old remittance systems centered in ethnic/national communities, the most utilized of which are Hawala/Hundi (South Asia),[75] Fei ch'ien (China), Phoe Kuan (Thailand), and Door to Door (Philippines). Although these systems primarily service legitimate customers and purposes, criminal elements exploit IVTS to launder/transfer proceeds because of their lack of transparency and low costs. Indeed, these systems have historically proven themselves to be among the safest methods to transfer mone without visibility. IVTS provide transfers to and from areas where modern financial services are unavailable, inaccessible, unaffordable, or localities where corruption within the financial system is prevalent. The system provides rapid funds transfers (usually within hours of the transaction's initiation), under a safeguard of trust and reliability.

IVTS can be operated from virtually any location with access to a communication network such as e-mail, fax, or telephone. IVTS has been observed in convenience stores and gas stations, souvenir shops, ethnic barber shops, and restaurants, as well as private residences.

The following fact pattern lays out a typical IVTS transaction:

> In country A, a client hands over a sum of money to an IVTS broker and requests that the equivalent amount (usually in the currency of the receiving country) be sent to a designated recipient in country B. The sending broker relays all the necessary information concerning the transaction to a counterpart broker in country B either through telephone, facsimile, or email. At this stage of the process, a "collection code" is agreed upon between the two brokers. The broker in country A will then communicate this code to the client, who, in turn, will relay it to the designated recipient in country B. The broker in country B will give the money to the recipient upon presentation of the collection code. If the sending client is also the recipient, he would have to present the code to the counterpart broker, upon arriving in country B before the money could be released to him. In many cases, the payment will be made by the counterpart broker to the designated recipient within hours after the request to remit money was placed by the client in country A. The income of the broker from the transaction may come from charging a commission ranging from 0.25% to 1.25% of the amount involved or from disparities in currency exchange rates.

Illustration 2

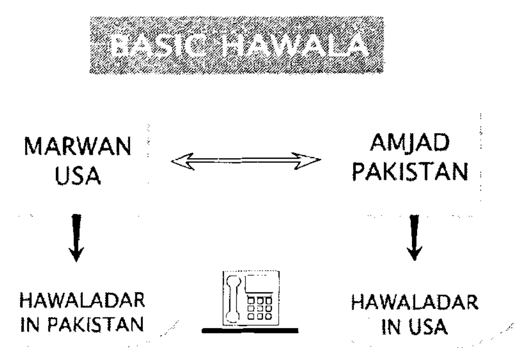


Illustration of a basic IVTS process

It is virtually impossible to ascertain the full extent of IVTS activity in the United States due to the opacity of the sector and the absence of registration by most IVTS

[74] IVTS are often referred to as Alternative Remittance Systems (ARS) in the international sector. ARS are operated by entities (alternative remittance operators) for moving money or other forms of stored value between countries on behalf of customers who do not wish to directly use the "formal" banking system. *See* Asia Pacific Group-Alternative Remittance Regulation Implementation Package (July 2003).

[75] Although listed separately, in many countries users of hawala and hundi often use the terms interchangeably to describe the hawala transfer process. Hawala, meaning transfer in Arabic, is a remittance vehicle. Hundi, meaning collect, began centuries ago as a form of IOU, bill of exchange, and remittance vehicle. Currently, various countries misuse the term hundi to describe the hawala transfer process.

operators. SAR information and law enforcement observations offer some clues, however, to the functioning of this sector.

Bank Secrecy Act Data

SAR data currently provide the best means of identifying IVTS trends. A review of SAR activity for the period March 2003-October 2004 identified 174 SARs indicating IVTS activity. The primary geographic locations in which IVTS appeared are Texas (14.4%), Illinois (12.1%), Minnesota (6.32%), Arizona (5.75%), Georgia (5.75%), and Michigan (5.75%). The subjects of these violations were identified as operating cash-intensive businesses for the purpose of commingling proceeds from the IVTS with their legitimate business earnings. Typical businesses associated with suspicious IVTS activity included gas/convenience markets, restaurants/lounges/liquor stores, video stores, and clothing or jewelry stores.

Suspicious transactions indicating IVTS activity included the following techniques:

- Multiple deposits of combinations of cash, money orders, or third-party checks;
- Multiple deposits of combinations of cash, money orders, or third-party checks made to the same account from different states;
- Daily deposits;
- Multiple structured deposits; and,
- Multiple incoming wire transfers followed by any of the activities listed below:
  1. Outgoing wire transfers, either domestic or international;
  2. Outgoing transfers via Automated Clearing House debits to known MSBs;
  3. Checks written to cash by the accountholder;
  4. Checks written to or endorsed by known MSBs; or
  5. ATM cash withdrawals in remote locations, including other countries.

Additional indicators useful for law enforcement in identifying an IVTS operation include:

- Structured deposits followed by wire transfers to unrelated businesses in Southeast/Southwest Asia;
- Multiple financial ledgers (one for legitimate transfers, one for criminal activity, possibly an additional ledger for settling accounts between brokers);
- A high volume of mail and packages from out of state that contain various monetary instruments such as checks or money orders;
- Short telephone calls coming into the broker (instructions from the customer sending funds);
- Numerous lengthy telephone calls made to overseas recipients (indicates the broker is coordinating with counterparts and placing orders); and
- Fax transmittal logs. Faxes sent may be a roll-up of the day's transactions or may be single transactions. Faxes may contain the name of a sender (not necessarily a real name), beneficiary, or code used by the receiving broker to identify the beneficiary.

Law Enforcement Data

Law enforcement agencies encountered common patterns in their IVTS investigations, reporting concentrations of IVTS activity among Middle Eastern communities, as well as Somali, Yemeni, Pakistani, Afghani, Filipino, Indonesian, Chinese, African, Indian, and Latino communities. Transfers by these communities are primarily directed at areas with non-existent, unaffordable, or untrustworthy financial institutions. Consistent with the BSA data, law enforcement agencies observed IVTS operations utilizing cash-intensive businesses (e.g., convenience stores/gas stations) to commingle funds.

In addition to the inherent difficulties in penetrating IVTS networks and proving the elements of an 18 U.S.C. § 1960 case, law enforcement has faced difficulties due to the relative novelty of the statute and monetary threshold issues imposed by the United States Attorney Offices. Despite these factors, law enforcement has had some increasing success in prosecuting unlicensed and criminal IVTS operators. Since the enactment of § 1960, ICE has initiated more than 260 IVTS investigations and executed more than 100 search warrants in connection with these cases. During this period, ICE investigations into unlicensed MSBs have resulted in roughly 120 arrests, 130 indictments, and the seizure of some $23 million.

A former Customs Service case illustrates the difficulties in building IVTS cases. (See Case Example 2)

CASE EXAMPLE 2

Law Enforcement Challenges

Bank records seized pursuant to search warrants revealed that the subject, using a personal account and his business (a convenience store) account, sent checks totaling approximately $300,000 to various individuals in Yemen during the years 1998 - 2002. Cash deposits were made simultaneous to the writing of the checks, and slightly exceeded the amounts of the checks (indicative of a fee being charged). The checks sent were subsequently negotiated at various banks in Yemen. The tracking of the flow of funds stopped there.

The subject, during his interview, stated he knew what a hawala was and the types of fees associated with its operation. However, he insisted that he was not operating one, and that he was simply sending money to support family members in his native Yemen. No lists or records of clients were ever uncovered; investigators were unable to corroborate any testimony because the primary witnesses were in Yemen; and no one in the local Yemeni community was able to state that the subject and/or others were operating hawalas. Because of the lack of corroboration, the 18 USC § 1960 part of the case was discontinued and the subject was indicted on other charges.

This investigation was initiated as a result of the former Customs Service's Operation Green Quest.

Vulnerabilities

IVTS offer several business advantages over formal remitters[76] such as Western Union and MoneyGram, including the following:

- A formal remitter will charge the sender approximately 10-20% of the total amount transferred whereas an IVTS will typically charge 0.25%-1.5%, if any commission at all;
- Formal remitters provide service to larger population centers while IVTS provide service to the same, as well as remote areas of the world;
- Transfers initiated by formal remittance agencies typically take days or weeks, whereas IVTS transactions are conducted within hours with at-home pick-up and delivery services; and
- Recipients must present identification when receiving transfers at a formal agency, whereas IVTS only require an anonymous code for receipt of funds.

All of these factors make IVTS attractive to lawful individuals as well as money launderers.[77] In addition, money launderers are drawn to IVTS for the unparalleled confidentiality that they offer, allowing them to conduct transactions in near anonymity. IVTS records are typically spotty and omit all but the most perfunctory customer identification information. Ledgers may be kept in foreign languages or in initials and codes and are difficult to decipher without cooperation of the remitter. Records may also be destroyed within a short period of time after their creation.

Even where records exist and are comprehensible, IVTS transactions may be routed through third party accounts of individuals or companies. Law enforcement investigations of IVTS have encountered nominee accounts, sometimes referred to as "benami,"[78] which effectively

[76] IVTS are informal remittance systems, as they exist and operate outside of (or parallel to) conventional regulated banking and financial channels; often referred to as the formal financial sector.
[77] *See also* FinCEN Advisory Issue 33. Acccessed at: http://www.fincen.gov/advis33.pdf.
[78] *"Benami"* or nominee accounts are culturally accepted in ethnic groups that also engage in hawala. Because the true beneficiary of a transaction is not the person under whose name the transaction takes place, it is very hard to identify the owners of criminal proceeds and people who engage in illegal activities.

stop the money trail. Law enforcement agents are also faced with language and cultural barriers when trying to communicate with suspects and conduct undercover operations.

The informal nature of IVTS allows them to disguise illicit transactions among the proceeds from cash intensive businesses. Businesses operating with substantial amounts of cash or involving high turnover make it very easy to hide illegal IVTS transactions by creating "black holes": pooling cash among IVTS providers, depositing it at different financial institutions at different times, and/or using the funds to purchase commodities that then can be traded in the United States or internationally. This process makes matching cash withdrawals or deposits with individual transactions virtually impossible.

Finally, the unconventional settlement between IVTS operators often presents challenges for regulators and law enforcement. The settlement of payments is often unrelated in time to the actual transactions. This makes "following the money trail" much more difficult than traditional financial transactions. This is especially true for IVTS operators who operate in the United States and send funds on behalf of their customers to family and friends located in countries abroad. This continued flow of activity creates a surplus of funds collected by IVTS operators in the United States, while depleting the funds available from "cash pools" available to IVTS operators located in countries abroad who pay out funds to the beneficiaries. Settlement payments must eventually be made between the IVTS operators in order to reconcile existing cash pools that are essential for sustaining IVTS operations in addition to returning a profit for IVTS operators.

The settlement process is executed by IVTS operators utilizing numerous methods that are only limited to what is available within a respective economy. Methods of settling debt may include the physical transport of money, transferring funds or sending checks via traditional banks, over- and under- invoicing schemes, and countless other methods. A number of recent law enforcement cases suggest that the use of financial institutions is a prevalent method used by IVTS operators located in the United States to remit settlement payments to other IVTS operators located abroad.

Regulation and Public Policy

FinCEN has issued regulations requiring IVTS to register with FinCEN, effective as of December 2001. Failure to register is a violation of 18 U.S.C. § 1960[79] and 31 U.S.C § 5322.[80] IVTS do not have to identify themselves as an IVTS; however, if they function as a money transmitter they must provide FinCEN with contact and identification information and file reports on transactions over $3,000, cash and coin received amounting to $10,000 or more, and prescribed suspicious transactions. As with all MSBs, registering these businesses has been a slow and challenging process, particularly in the case of small businesses that offer IVTS services as a sideline to their primary function.

In the aftermath of the September 11 attacks, IVTS have become the subject of heightened regulatory focus around the world.[81]

[79] *See* 18 U.S.C. § 1960 ("Whoever knowingly conducts, controls, manages, supervises, directs, or owns all or part of an unlicensed money transmitting business, shall be fined in accordance with this title or imprisoned not more than five years, or both.").

[80] *See generally* "FinCEN Report to Congress in accordance with Section 359 of the USA PATRIOT Act." Accessed at: http://www.fincen.gov/hawalarptfinal11222002.pdf.

[81] The FATF SR VI Interpretative Note underscores the need to bring all money or value transfer services, whether formal or informal, within the ambit of certain minimum legal and regulatory requirements in accordance with the relevant FATF recommendations. FATF, *Interpretative Note to Special Recommendation VI: Alternative Remittance*. Accessed at: http://www.fatf-gafi.org/dataoecd/53/34/34262291.pdf.

Chapter 5
BULK CASH SMUGGLING

Federal law enforcement agencies believe bulk cash smuggling may be on the rise due in part to increasingly effective AML policies and procedures at U.S. financial institutions. The increased transparency associated with transferring funds through U.S. banks and MSBs is apparently a factor in money launderers moving illicit funds out of the country to jurisdictions with lax or complicit financial institutions or to fund criminal enterprises. Smugglers conceal cash in vehicles, commercial shipments, express packages, luggage, and on private aircraft or boats. Law enforcement is aware of the problem, but has concentrated resources on screening inbound, rather than outbound, passengers and cargo in this era of heightened caution about terrorism.

Cash associated with illicit narcotics typically flows out of the United States across the southwest border into Mexico, retracing the route that illegal drugs follow when entering the United States.[82] Upon leaving the country, cash may stay in Mexico, continue on to a number of other countries, or make a U-turn and head back into the United States as a deposit by a bank or *casa de cambio*. Illicit funds leaving the United States also flow into Canada, which, like Mexico, is a source of illegal narcotics. The extent to which cash smuggled out of the United States is derived from criminal activity other than the sale of illegal drugs is not known. Other cash-intensive sources of illicit income include alien smuggling, bribery, contraband smuggling, extortion, fraud, illegal gambling, kidnapping, prostitution, and tax evasion.

One source of data on currency seizures is the El Paso Intelligence Center (EPIC), which was established in 1974 to assist federal, state, and local law enforcement regarding the movement of illegal drugs and immigration violations on the southwest border. EPIC has three databases, categorized by mode of transport, that track currency seizure information submitted by participating law enforcement agencies:

- **Operation Pipeline** records seizures made from private cars and trucks;
- **Operation Convoy** records highway seizures involving commercial vehicles; and
- **Operation Jetway** records seizures from airports, train and bus stations, package shipment facilities (i.e. FedEx and UPS), United States Post Offices, and airport hotels and motels.

EPIC seizure data from 2001 through 2003 indicates seized currency was most often coming from California, Illinois, New York, and Texas (see Table 8) and was heading to Arizona, California, Florida, and Texas (see Table 9). There is no way to know what proportion of the seized funds was generated through drug trafficking; however, law enforcement believes much, if not most, of the seized cash does represent drug proceeds.[83]

U.S. Immigration and Customs Enforcement (ICE) plays a key role in investigating bulk cash seizures made by Customs and Border Protection (CBP) and state and local law enforcement. CBP and ICE seizure and arrest data is captured in the Treasury Enforcement Communications System II (TECS II). TECS II is one of world's

CASE EXAMPLE 3

Bulk Cash Smuggling to Canada

The cycle of illegal drugs coming into the U.S. and illicit proceeds flowing out is not limited to the southwest border. Operation Candy Box, concluded in March 2004, illustrates the global scope of drug supply into the U.S. and corresponding destinations for illicit proceeds. Operation Candy Box was a three-year Drug Enforcement Administration and ICE investigation that targeted a Vietnamese MDMA[1] and marijuana distribution organization operating in the U.S. and Canada. MDMA powder was imported from the Netherlands and formed into tablets in clandestine labs in Canada. Approximately $5 million a month in drug proceeds was laundered in Canada coming in from the U.S. as bulk cash or laundered through a network of Vietnamese-owned money remitters and travel agencies.[2] It is interesting to note that the defendant charged with money laundering received a stiffer sentence than the defendants charged with narcotics violations.

[1] *MDMA (3-4 methylenedioxymethamphetamine) is a synthetic, psychoactive drug chemically similar to the stimulant methamphetamine and the hallucinogen mescaline. Street names include Ecstasy, Adam, XTC, hug, beans, and love drug.*
[2] *International Narcotics Control Strategy Report, March 2005; http://www.state.gov/p/inl/rls/nrcrpt/2005/vol1/html/42361.htm.*

[82] Mexican criminal groups exert more influence over drug trafficking in the U.S. than any other group, accounting for most of the cocaine, and much of the heroin, marijuana, and methamphetamine available in U.S. drug markets (*Source*: National Drug Intelligence Center, National Drug Threat Assessment, 2005).
[83] National Drug Threat Assessment 2005, National Drug Intelligence Center. Accessed at: http://www.usdoj.gov/ndic/pubs11/12620/money.htm#Top.

largest databases containing over a decade of data relating to domestic and international financial crimes.[84]

From 2001 through February 2005 ICE agents arrested more than 260 individuals for bulk cash smuggling violations. Approximately 20% of the arrests resulted from seizures not at a border or port of entry but in the interior of the United States. In addition, ICE and CBP have seized a combined total of more than $107 million in cases where bulk cash smuggling was charged.

Bulk cash once it crosses the southwest border can take a number of routes, including:

- Individuals depositing the cash into Mexican banks or *casas de cambio* and then wiring it back into the United States;
- Complicit Mexican financial institutions repatriating the cash to the United States via cash couriers or armored cars, depositing the funds into correspondent accounts;
- Smugglers moving the money on to Venezuela, Panama, Costa Rica, or other Latin American countries where it can be used to pay for goods – both legitimate and illicit – for the black market in Colombia; and,
- Individuals moving the funds to offshore jurisdictions with heightened bank secrecy protections.

CASE EXAMPLE 4

Smugglers' Route: U.S. Interstate 59

Illicit proceeds destined for Mexico often are transported through Texas on U.S. Interstate 59, which extends from the US/Mexican border at Laredo to Houston and then north to other markets throughout the Midwest. Currently, a portion of U.S. Interstate 59 is slated to become part of U.S. Interstate 69. The proposed new highway will create a direct corridor between the U.S.-Mexico border and the U.S.-Canada border. On February 8, 2005, Texas Department of Public Safety (DPS) troopers seized $2.3 million following a vehicle stop along U.S. Interstate 59 north of Nacogdoches. A Texas DPS trooper stopped the driver of a southbound tractor-trailer for a speeding violation. The driver, who was hauling boxes of frozen chicken, appeared to be nervous; his driver's log indicated that this was his first trip for the company. A search of the vehicle revealed a hidden compartment in the refrigerated trailer, and an inspection of the compartment uncovered the currency. DPS officers confiscated the currency, and the driver was arrested on state money laundering charges. This was the fourth largest traffic stop seizure of currency in Texas DPS history[1].

[1] *Narcotics Digest Weekly, National Drug Intelligence Center, Volume 4, Number 10, March 8, 2005, Product No. 2005-R0485-010.*

SARs filed by U.S. financial institutions tend to support the view that some of the cash smuggled out of the United States to Mexico is immediately repatriated. SARs have reported patterns of large wire transactions ($1.5 million or more per transaction) to U.S. payees from Mexican money exchange houses and other financial institutions. This was reported in the first SAR Activity Review in October 2000, providing an early indication that Mexican criminal groups had raised their profile in drug trafficking in the United States, which correspondingly indicated an increased threat of money laundering activity linked to Mexico.

The ICE attaché in Mexico City, in coordination with Mexican authorities, is conducting investigations into the smuggling of bulk cash from the United States into Mexico and onward to Central and South America. Three separate outbound operations conducted at Benito Juarez International Airport in Mexico City resulted in the seizure of over $21 million and the arrest of over 50 individuals.

Vulnerabilities

Cash can be smuggled out of the United States through the 317 official land, sea, and air ports of entry (POE), and any number of unofficial routes out of the country along the Canadian and Mexican borders. The United States shares a 3,987 mile border with Canada and a 1,933 mile border with Mexico.

The northern border recorded 77 million individual crossings and 37 million vehicle crossings in 2004. In addition to individuals carrying cash out of the country or hiding it in vehicles, any of the Canada-bound

[84] These include violations of 31 USC § 5316 (failure to file a report of international transportation of currency or monetary instruments), 31 USC § 5332 (bulk cash smuggling), 18 USC § 1956 (laundering of monetary instruments) and 18 USC § 1957 (money laundering in property derived from specified unlawful activity).

shipping containers involved in commercial trade could contain illicit cash. Canada is the largest U.S. trading partner with $446 billion in merchandise trade last year. Canada is also a major source of marijuana – "B.C. Bud" or British Colombian and other hydroponic high-potency marijuana which commands a selling price of nearly ten times that of Mexican marijuana.

The southern border has five times more traffic than the northern border. There are 35 official ports of entry on the U.S. border with Mexico and some 1 million individuals cross over daily.[85] Mexico ranks right behind Canada as a U.S. trading partner with $267 billion in merchandise trade last year, creating ample opportunity to smuggle cash out of the country in shipping containers.

A significant amount of cash can be moved relatively easily, despite the bulk. Each note of U.S. currency weighs approximately one gram and 454 grams make a pound. Each bill is .0043 inches thick. One million dollars in $20 bills would be six stacks of bills each three feet high with a total weight of a little over 100 pounds.[86] Most airlines have a carry-on weight limit of 40 pounds and a checked baggage limit of 70 pounds. Because of both its bulk and its weight, the challenge in moving bulk cash is either to use large containers (e.g., commercial shipping containers or specialized compartments in vehicles) or split it up among many couriers. Using many couriers has the added advantage of mitigating the risk of loss should one or more couriers be stopped.

Transporting cash out of the U.S. is so commonplace that many criminals do not take any elaborate measures to conceal the currency. (See Table 10) In FY2002 and FY2003, CBP seized almost a quarter of a billion dollars that they characterized as being "unconcealed." When cash is concealed, the methods can be ingenious including false compartments in vehicles and luggage, special garments designed to hold currency that are worn under clothing, and cash packaged and wrapped to look like gifts.

Bulk cash smugglers are well aware of law enforcement's resource constraints at the border and usually cross at busy sites, carefully timing and coordinating crossings. Despite the relative ease of smuggling cash across official border crossing points, there is ample evidence drug, currency, and alien smugglers use other routes as well. Evidence from the apprehension of illegal aliens emphasizes how porous the U.S./Mexican border can be: "U.S. officials made 1.1 million apprehensions along the southern border last year, a 24% increase over the year before. It is unclear whether the rising apprehensions signify that more people are trying to cross or that a greater percentage are being caught. But experts in both countries estimate that perhaps 500,000 or more still make it through each year."[87]

In addition to overland routes between the United States and Mexico, smugglers also use tunnels. From 1990 through March 1, 2005, law enforcement officials discovered 33 tunnels along the U.S.-Mexican border, 21 of which were discovered in Arizona. Nineteen extended from various locations in Nogales, Mexico, to the adjacent city of Nogales, Arizona. Many of the tunnels were located near ports of entry at the border and consisted of passageways linked to storm/sewer drains with entrances concealed in residences or businesses. Two tunnels discovered in Nogales, Arizona had entrances hidden inside churches.[88]

Bulk cash smugglers have an unlimited number of options available to move cash by land, sea, and air out of the United States, but law enforcement resources are limited. As of Oct. 2004, CBP had only 17 currency detector dogs assigned to 14 ports of entry to assist in interdiction efforts.[89] CBP's Canine Enforcement Program was responsible for seizures of U.S. currency worth $27.9 million in FY2003. However, CBP's mission extends far beyond interdicting currency smuggling. On the average day, CBP examines 1.3 million arriving pas-

[85] Fisk, Daniel W., Deputy Assistant Secretary State for Western Hemisphere Affairs. Statement Before the Senate Committee on Foreign Relations, April 6, 2005.
[86] Bureau of Engraving and Printing. Accessed at: http://www.moneyfactory.com/section.cfm/19.
[87] Sullivan. Kevin. "An Often Crossed Line in the Sand," The Washington Post, March 7, 2005, p.1.
[88] Narcotics Digest Weekly, National Drug Intelligence Center; Volume 4, Number 14, April 5, 2005, Product No. 2005- R0485-014.
[89] Weiss, Martin A., Terrorist Financing: Current Efforts and Policy Issues for Congress, Congressional Research Service. Order Code RL32539, August 20, 2004.

sengers, 410,000 vehicles, seizes $500,000 in currency and 4 tons of narcotics, arrests 2600 fugitives or violators, while facilitating commercial trade and collecting $52 million in duty.[90]

Regulation and Public Policy

Prior to the passage of the USA PATRIOT Act, an individual smuggling bulk quantities of cash was subject to criminal penalties and/or jail time[91] or civil penalties[92] for the failure to file a Report of International Transportation of Currency or Monetary Instruments (CMIR) as required by 31 U.S.C. § 5316 and 31 C.F.R. § 103.23. The unreported currency was also subject to criminal or civil forfeiture.[93] Forfeiture authority was curtailed by the 1998 case United States v. Bajakajian, in which the U.S. Supreme Court held that forfeiture in a case involving a CMIR violation is subject to the Excessive Fines Clause of the Eighth Amendment.[94] The Court concluded that, given the relatively insignificant nature of the defendant's reporting violation in that case, the forfeiture of over $300,000 in unreported funds would be unconstitutionally excessive. The outcome of the case impaired law enforcement's use of forfeiture for a reporting violation as a method to deter the smuggling of criminal proceeds into or out of the United States.

Aware of this impediment, Congress made the act of bulk cash smuggling itself a criminal offense with Section 371 of the USA PATRIOT Act of 2001 (31 U.S.C. § 5332).[95] Bulk cash smuggling is defined as concealing and smuggling or attempting to smuggle more than $10,000 in currency or monetary instruments into or out of the United States with the intent to evade the CMIR reporting requirement.[96] Bulk cash smuggling is punishable by imprisonment of not more than five years and forfeiture of all property, real or personal, involved in the offense or traceable to the offense.[97]

To improve bulk cash smuggling interdiction, CBP has developed an Outbound Currency Interdiction Training (OCIT) program. The training includes instruction and practical exercises to provide specialized knowledge in currency interdiction, and has an anti-terrorism component. In FY2003, OCIT trained 56 inspectors.[98]

CBP sets performance targets based on the value of outbound currency seizures, and the effectiveness of targeting individuals and vehicles for examination. Outbound enforcement targeting effectiveness is the total number of positive examinations divided by the total number of targeted examinations conducted.[99] In FY2003 CBP's seizure target was $49 million, and the actual seizure amount was $51.7 million. CBP's outbound targeting effectiveness was 5.74% (the target was 9%). Targeting refers to identifying high-risk passengers or vehicles for examination.

In an effort to enlist and expand support on the Mexican side of the border for currency interdiction, the United States-Mexico Border Partnership was signed in March 2002.[100] The initial bilateral efforts have focused on five major programs:

- Vehicle and Cargo Inspection System (VACIS) refers to devices able to scan (x-ray or gamma ray) sealed containers. The United States has ten permanent devices capable of scanning up to a railroad car size vehicle, three mobile VACIS (for moveable truck or car inspection) and three portable x-ray scanners (for inspecting luggage) at seven border crossing sites, international airports, and rail stations. The United States plans to install the VACIS machines along the southern border this year.

[90] National Drug Threat Assessment 2005.
[91] 31 U.S.C. § 5322(a) or (b).
[92] 31 U.S.C. § 5321(a).
[93] Now codified at 31 U.S.C. § 5317(c).
[94] *See* United States v. Bajakajian, 524 U.S. 321 (1998).
[95] *See* Section 371 of the USA PATRIOT Act of 2001 (Congressional findings in paragraph (a)).
[96] 31 U.S.C. § 5332.
[97] 31 U.S.C. § 5317(c).
[98] Weiss, Martin A., Terrorist Financing: Current Efforts and Policy Issues for Congress, Congressional Research Service, Order Code RL32539, August 20, 2004.
[99] For more information *see* DHS, Performance and Accountability Report FY2003, p. 157.
[100] Fisk, Daniel W., Deputy Assistant Secretary State for Western Hemisphere Affairs, Statement Before the Senate Committee on Foreign Relations, April 6, 2005.

- Advanced Passenger Information System (APIS) enables the Mexican authorities to screen passenger manifests of incoming commercial air flights against law enforcement, terrorism, and immigration data banks in both Mexico and the United States. APIS was placed into operation in 2004.

- Secure Electronic Network for Travelers Rapid Inspection (SENTRI) are special land border crossing lanes for expedited inspection of pre-registered, low risk, frequent travelers to reduce inspection loads. CBP now has fully-funded projects underway coordinated on both sides of the border at six principal crossing sites.

- Border Wizard is software the United States uses that creates a simulated model of a border crossing and inspection site as a management tool to analyze traffic flow and resource use. The software is being adapted for Mexico.

- Safety and Training courses for Mexican border law enforcement personnel.

Table 8

Top Ten Origins and Number of Recorded Seizures of Cash and Monetary Instruments (2001-2003)

Texas	140	Texas	130	Texas	128
California	122	California	126	California	115
New York	122	New York	81	New York	78
Illinois	113	Illinois	71	Illinois	77
Georgia	76	Georgia	56	Georgia	59
Ohio	60	Ohio	48	Florida	45
Michigan	57	Florida	44	Ohio	45
Florida	48	Michigan	43	Tennessee	39
Missouri	48	Tennessee	32	Michigan	37
North Carolina	47	Missouri	31	Arizona	36

Table 9

Top Ten Destinations and Number of Recorded Seizures of Cash and Monetary Instruments (2001-2003)

2001		2002		2003	
California	328	Texas	244	Texas	235
Texas	304	California	238	California	231
Florida	115	Arizona	89	Arizona	99
Arizona	111	Florida	63	Florida	58
Illinois	57	Unknown	41	Georgia	38
Nevada	31	Georgia	25	New York	33
Tennessee	31	New York	25	Illinois	28
Georgia	28	Illinois	24	Tennessee	22
Maryland	28	Tennessee	21	Nevada	21
New York	25	Nevada	18	Colorado	19
No State ID	502	No State ID	333	No State ID	339

Source: El Paso Intelligence Center

Table 10

The data below represents all CBP seizures above $30,000 from FY 2002-FY 2003.

CBP Data for Currency Concealment Method (2002-2003)

Sorted by Number of Seizures			Sorted by $ Amount		
Concealment Method	**Number of Seizures**	**Amount in Millions**	**Concealment Method**	**Number of Seizures**	**Amount in Millions**
Unconcealed	561	$243.0	Unconcealed	561	$243.0
Other bag*	317	$50.4	Other bag*	317	$50.4
Suitcase	199	$33.4	Car/Truck	194	$37.4
Car/Truck	194	$37.4	Suitcase	199	$33.4
Express package	170	$31.8	Express package	170	$31.8
On body	139	$7.7	Bus/Train/Cycle	108	$30.4
Other	124	$23.2	Other	124	$23.2
Bus/Train/Cycle	108	$30.4	Unidentified	43	$13.8
Clothing	86	$4.0	Cargo	15	$9.9
Box	45	$9.1	Box	45	$9.1
Unidentified	43	$13.8	On body	139	$7.7
Camper	30	$6.3	Trunk	14	$7.1
Cargo	15	$9.9	Camper	30	$6.3
Mail parcel	14	$4.3	Mail parcel	14	$4.3
Trunk	14	$7.1	Clothing	86	$4.0
Body Cavity	4	$0.4	Cargo Container	2	$0.7
Vessel	4	$0.6	Vessel	4	$0.6
Aircraft	2	$0.2	Body Cavity	4	$0.4
Cargo Container	2	$0.7	Aircraft	2	$0.2

Source: "Detection of Outbound Currency" by Keith A. Daum, et. al., published by the Idaho National Engineering and Environmental Laboratory Special Programs Department, November 2004.

* "Other bag" is any type of bag other than suitcase.

Chapter 6
TRADE-BASED MONEY LAUNDERING

Trade-based money laundering encompasses a variety of schemes that enable the cash to be separated from the crime early in the money laundering process. The most common method of trade-based money laundering in the Western Hemisphere is the Black Market Peso Exchange (BMPE), in which Colombian drug traffickers swap illicit dollars in the United States for clean pesos in Colombia. Other methods include manipulating trade documents to over- or underpay for imports and exports, and using criminal proceeds to buy gems or precious metals.

Trade-based money laundering schemes often allow criminals to distance themselves from the money laundering process, complicating law enforcement investigations. Immigration and Customs Enforcement (ICE) analyzes outbound trade data, and financial and payment data, including forms mandated by the BSA – the Currency Transaction Report (CTR), Report of International Transportation of Currency or Monetary Instruments (CMIR), Report of Cash Payments over $10,000 Received in a Trade or Business (Form 8300), and the Suspicious Activity Report (SAR) -- in an effort to spot the anomalies that would indicate trade-based money laundering. The Drug Enforcement Administration (DEA) has recently refocused its investigative efforts to address the BMPE as it relates to narcotics money laundering.

Black Market Peso Exchange

The BMPE emerged in the 1980s as a sophisticated alternative to laundering funds through the United States banking system, and while used primarily in South America and the Caribbean it is most often associated with laundering Colombian drug profits.[101] The BMPE is the largest known money laundering system in the Western Hemisphere, responsible for moving an estimated $5 billion worth of drug proceeds per year from the United States back to Colombia.[102]

The scheme allows drug traffickers to launder their illicit proceeds by exchanging their dollars in the United States for pesos in Colombia without physically moving funds from one country to the other. Money brokers act as intermediaries between the drug traffickers and Colombian businessmen. The money brokers sell the illicit dollars they buy from drug dealers in the United States to Colombian businesses that use the money to pay for U.S. products such as home appliances, consumer electronics, alcohol, tobacco, and used auto parts, which are exported to Colombia and elsewhere. The BMPE has many of the same attributes as the *hawala* system.

The BMPE originally was driven by Colombia's restrictive policies on currency exchange. Access to U.S. dollars is regulated by Colombian law and administered by the central bank. Before the central bank will exchange pesos for dollars, the importer has to demonstrate that government import permits have been obtained, thereby insuring that the applicable Colombian duties and taxes will be collected. Colombian businesses bypass the government levies by dealing with BMPE brokers.[103]

When money brokers take possession of illicit U.S. currency, they keep the funds in the United States, often enlisting individuals to buy money orders with the drug dollars or deposit the money in U.S. bank accounts. As additional drug dollars come in, the money brokers use runners to deposit the cash or smuggle it out of the country and then wire it into the U.S. accounts from foreign banks. The money brokers use those U.S. accounts and money orders to pay for U.S. exports on behalf of their Colombian business clients. The Colombian businesses complete the money laundering cycle, paying for the U.S. dollars they need with pesos in Colombia, and the pesos, in turn, go directly to local drug traffickers who use the money to fund the next narcotics shipment to the United States.

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[101] Zarate, Juan Carlos, Assistant Secretary Terrorist Financing and Financial Crimes, U.S. Department of the Treasury testimony before the House Financial Services Committee Subcommittee on Oversight and Investigations, February 16, 2005.
[102] Tandy, Karen P., Administrator, Drug Enforcement Administration, testimony before the United States Senate Caucus on International Narcotics Control, March 4, 2004.
[103] Tishler, Bonni, Asst. Commissioner, U.S. Customs Service, testimony before the Senate Caucus on International Narcotics Control, June 21, 1999.

PRESS ROOM

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January 13, 2006
JS-3078

Treasury and IRS Issues Guidance Regarding Hybrid and Lean Burn Vehicles

During a visit to the Detroit today, Treasury Secretary John Snow announced the issuance of IRS guidance regarding the tax credit for hybrid vehicles. The credit, which was enacted by the Energy Policy Act of 2005, may be as much as $3,400 for those who purchase the most fuel-efficient vehicles.

"The President understands how much the cost of energy impacts the budgets of American families and of the employers who create essential jobs. That's why he fought so hard for last year's historic energy bill – legislation which provided support for new energy-efficient technologies, like hybrid vehicles, so that so that every American can enjoy better energy security at lower costs.

"I'm pleased to announce the issuance of IRS guidance for the hybrid vehicle tax credit because the development and use of hybrid vehicles is a key step toward reducing gasoline consumption, emissions of air pollutants and greenhouse gas emissions. I commend the manufacturers who are making these energy-efficient and environment-friendly vehicles and hope that the President's energy bill proves to be an important step in their rising prominence on American roads.

"This IRS guidance establishes a process that manufacturers can use to certify the amount of credit the purchaser of the vehicle can claim. This is going to provide much-needed certainty to Americans who are purchasing these vehicles. It means they will be able to rely on the manufacturer's certification when they claim the credit on their tax return. This is good news for those consumers because they are also taxpayers who seek simpler, fairer tax filing, and it is good news for manufacturers who can now offer reassurance to customers on the ease of the tax rules," Snow said.

Hybrid vehicles have drive trains powered by both an internal combustion engine and a rechargeable battery. Many currently available hybrid vehicles will qualify for the tax credit. The guidance also provides a similar certification process for advanced lean burn technology vehicles.

The Energy Policy Act also provides tax credits for motor vehicles that are not covered by today's guidance. The other vehicles eligible for credits are fuel cell vehicles, alternative fuel vehicles, and hybrid heavy trucks. The IRS will issue guidance providing certification procedures for these vehicles in the near future.

REPORTS

- Credit for New Qualified Alternative Motor Vehicles (Advanced Lean Burn Technology Motor Vehicles and Qualified Hybrid Motor Vehicles)

Part III – Administrative, Procedural, and Miscellaneous

Credit for New Qualified Alternative Motor Vehicles
(Advanced Lean Burn Technology Motor Vehicles and Qualified Hybrid Motor Vehicles)

Notice 2006-9

SECTION 1. PURPOSE

This notice sets forth interim guidance, pending the issuance of regulations, relating to the new advanced lean burn technology motor vehicle credit under § 30B(a)(2) and (c) of the Internal Revenue Code and the new qualified hybrid motor vehicle credit under § 30B(a)(3) and (d). Specifically, this notice provides procedures for a vehicle manufacturer (or, in the case of a foreign vehicle manufacturer, its domestic distributor) to certify to the Internal Revenue Service (Service) both:

(1) that a passenger automobile or light truck of a particular make, model, and model year meets certain requirements that must be satisfied to claim the new advanced lean burn technology motor vehicle credit under § 30B(a)(2) and (c) or the new qualified hybrid motor vehicle credit under § 30B(a)(3) and (d); and

(2) the amount of the credit allowable with respect to that vehicle.

This notice also provides guidance to taxpayers who purchase passenger automobiles and light trucks regarding the conditions under which they may rely on the vehicle manufacturer's (or, in the case of a foreign vehicle manufacturer, its domestic distributor's) certification in determining whether a credit is allowable with respect to the vehicle and the amount of the credit. The Service and the Treasury Department expect that the regulations will incorporate the rules set forth in this notice.

SECTION 2. BACKGROUND

Section 30B(a)(2) provides for a credit determined under § 30B(c) for certain new advanced lean burn technology motor vehicles. Section 30B(a)(3) provides for a credit determined under § 30B(d) for certain new qualified hybrid motor vehicles. The new advanced lean burn technology motor vehicle credit is the sum of: (1) a fuel economy amount that varies with the rated fuel economy of a qualifying vehicle compared to the 2002 model year city fuel economy for a vehicle in its weight class; and (2) a conservation credit based on the estimated lifetime fuel savings of the vehicle compared to fuel used by a vehicle in its weight class and with fuel economy equal to the 2002 model year city fuel economy. The new qualified hybrid motor vehicle credit for passenger automobiles and light trucks is computed under the same formula as the new advanced lean burn technology motor vehicle credit. Both the new advanced lean burn technology motor vehicle credit and the new qualified hybrid motor vehicle credit begin to phase out for a manufacturer's passenger automobiles and light trucks in the second calendar quarter after the calendar quarter in which at least 60,000 of the manufacturer's passenger automobiles and light trucks that qualify for either credit have been sold for use in the United States (determined on a cumulative basis for sales after December 31, 2005).

SECTION 3. SCOPE OF NOTICE.

.01 *Vehicles Covered.* Both the new advanced lean burn technology motor vehicle credit and the new qualified hybrid motor vehicle credit apply to passenger automobiles and light trucks. The new qualified hybrid motor vehicle credit also applies to other vehicles, but the credit for vehicles that are not passenger automobiles and light trucks is computed under a different formula than that applicable to passenger automobiles and light trucks. This notice applies only to passenger automobiles and light trucks. Guidance regarding the credit for new qualified hybrid motor vehicles that are not passenger automobiles or light trucks will be provided in a separate notice. Guidance regarding the credits for other vehicles that are eligible for credits under § 30B (new qualified fuel cell motor vehicles and new qualified alternative fuel motor vehicles) will be provided in separate notices.

.02 *Rules Common to All Qualifying Vehicles.* This notice does not address a number of rules that are common to all motor vehicles that qualify for credits under § 30B. These rules include: (1) rules under which lessors may claim the credits allowable under § 30B; (2) the rule preventing the credits from being used to reduce alternative minimum tax liability; and (3) rules relating to recapture of the credit. The Service and Treasury Department expect to issue separate guidance relating to these rules.

SECTION 4. MEANING OF TERMS.

The following definitions apply for purposes of this notice:

(1) *In General.* Terms used in this notice and not defined in this section

have the same meaning as when used in § 30B.

(2) *Passenger Automobile and Light Truck.* Section 30B provides that the terms "passenger automobile" and "light truck" have the meaning given in regulations prescribed by the Administrator of the Environmental Protection Agency for purposes of the administration of Title II of the Clean Air Act (42 U.S.C. 7521 et seq.). Those regulations currently do not include a definition of these terms, but § 30B(b)(2)(B) provides the 2002 model year city fuel economy tables that must be used to determine the amount of the credit for passenger automobiles and light trucks. Those tables do not prescribe the fuel economy for vehicles having a gross vehicle weight of more than 8,500 pounds. Accordingly, until either the Environmental Protection Agency issues regulations or future guidance issued by the Service provides otherwise (whichever occurs first), any vehicle having a gross vehicle weight of more than 8,500 pounds will not be treated as a passenger automobile or light truck for purposes of this notice.

(3) *City Fuel Economy.* The term "city fuel economy" has the meaning prescribed in 40 CFR § 600.002-85(11).

(4) *Gasoline-Gallon-Equivalent.* In the case of a motor vehicle that does not use gasoline, the 2002 model year city fuel economy is determined on a gasoline-gallon-equivalent basis. The gasoline-gallon-equivalents for the 2002 model year city fuel economy may be obtained from the Environmental Protection Agency, Office of Transportation and Air Quality at the following address:

Mailing Address	Courier Address
USEPA Headquarters	USEPA Headquarters

Ariel Rios Building
1200 Pennsylvania Avenue, N.W.
Mail Code: 6401A
Washington, DC 20460

Ariel Rios Building
1200 Pennsylvania Avenue, N.W.
Room 6502A
Washington, DC 20004

(5) *Vehicle Inertia Weight Class*. The term "vehicle inertia weight class" means, with respect to a motor vehicle, its inertia weight class determined under 40 CFR § 86.129-94. Under 40 CFR § 86.082-2, the inertia weight class is the class (a group of test weights) into which a vehicle is grouped based on its loaded vehicle weight in accordance with the provisions of 40 CFR part 86.

SECTION 5. MANUFACTURER'S CERTIFICATION AND QUARTERLY REPORTS

.01 *When Certification Permitted*. A vehicle manufacturer (or, in the case of a foreign vehicle manufacturer, its domestic distributor) may certify to purchasers that a passenger automobile or light truck of a particular make, model, and model year meets all requirements (other than those listed in section 5.02 of this notice) that must be satisfied to claim the new advanced lean burn technology motor vehicle credit or the new qualified hybrid motor vehicle credit, and the amount of the credit allowable under § 30B(a)(2) and (c) or § 30B(a)(3) and (d) with respect to the vehicle, if the following requirements are met:

(1) The manufacturer (or, in the case of a foreign vehicle manufacturer, its domestic distributor) has submitted to the Service, in accordance with section 6 of this notice, a certification with respect to the vehicle and the certification satisfies the requirements of section 5.03 of this notice;

(2) The manufacturer (or, in the case of a foreign vehicle manufacturer, its domestic distributor) has received an acknowledgment of the

certification from the Service.

.02 *Purchaser's Reliance*. Except as provided in section 5.07 of this notice, a purchaser of a passenger automobile or light truck may rely on the manufacturer's (or, in the case of a foreign vehicle manufacturer, its domestic distributor's) certification concerning the vehicle and the amount of the credit allowable with respect to the vehicle (including cases in which the certification is received after the purchase of the vehicle). The purchaser may claim a credit in the certified amount with respect to the vehicle if the following requirements are satisfied:

(1) The vehicle is placed in service by the taxpayer after December 31, 2005, and is purchased on or before December 31, 2010.

(2) The original use of the vehicle commences with the taxpayer.

(3) The vehicle is acquired for use or lease by the taxpayer, and not for resale.

(4) The vehicle is used predominantly in the United States.

.03 *Content of Certification*. The certification must contain the information required in section 5.03(1) of this notice and the additional information required in section 5.03(2) or section 5.03(3), whichever applies.

(1) *All Vehicles*. For all vehicles, the certification must contain—

(a) The name, address, and taxpayer identification number of the certifying entity;

(b) The make, model, model year, and any other appropriate identifiers of the motor vehicle;

(c) A statement that the vehicle is made by a manufacturer;

(d) The type of credit for which the vehicle qualifies (that is, either the new advanced lean burn technology motor vehicle credit, or the new qualified hybrid motor vehicle credit for passenger automobiles and light trucks);

(e) The amount of the credit for the vehicle (showing computations);

(f) The gross vehicle weight rating of the vehicle;

(g) The vehicle inertia weight class of the vehicle;

(h) The city fuel economy of the vehicle;

(i) A statement that the vehicle complies with the applicable provisions of the Clean Air Act;

(j) A copy of the certificate that the vehicle meets or exceeds the applicable Bin 5 Tier II emission standard (if the vehicle has a gross vehicle weight rating of 6,000 pounds or less), or the applicable Bin 8 Tier II emission standard (if the vehicle has a gross vehicle weight rating of more than 6,000 pounds, but not more than 8,500 pounds) established in regulations prescribed by the Administrator of the Environmental Protection Agency under § 202(i) of the Clean Air Act for that make and model year vehicle;

(k) A statement that the vehicle complies with the applicable air quality provisions of state law of each state that has adopted the provisions under a waiver under § 209(b) of the Clean Air Act or a list identifying each state that has adopted applicable air quality provisions with which the vehicle does not comply;

(l) A statement that the vehicle complies with the motor vehicle safety provisions of 49 U.S.C. §§ 30101 through 30169;

(m) A declaration, applicable to the certification and any accompanying documents, signed by a person currently authorized to bind the manufacturer (or, in the case of a foreign vehicle manufacturer, it domestic distributor) in these matters, in the following form:

"Under penalties of perjury, I declare that I have examined this certification, including accompanying documents, and to the best of my knowledge and belief, the facts presented in support of this certification are true, correct, and complete."

(2) *New Advanced Lean Burn Technology Motor Vehicles.* A certification relating to a new advanced lean burn technology motor vehicle must also contain a statement that the vehicle has an internal combustion engine that--

(a) Is designed to operate primarily using more air than is necessary for complete combustion of the fuel;

(b) Incorporates direct injection; and

(c) Achieves at least 125 percent of the 2002 model year city fuel economy.

(3) *New Qualified Hybrid Motor Vehicles.* A certification relating to a new qualified hybrid motor vehicle must also contain--

(a) A statement that the motor vehicle draws propulsion energy from onboard sources of stored energy that are both an internal combustion or heat engine using consumable fuel, and a rechargeable energy storage system;

(b) A copy of the certificate that the motor vehicle meets or exceeds the equivalent qualifying California low emission vehicle standard under § 243(e)(2) of the Clean Air Act for that make and model year; and

(c) Evidence that the maximum power available from the rechargeable energy storage system during a standard 10 second pulse power or equivalent test is at least 4 percent of the sum of the power and the SAE net power of the internal combustion or heat engine;

.04 *Acknowledgment of Certification.* The Service will review the original signed certification and issue an acknowledgment letter to the vehicle manufacturer (or, in the case of a foreign vehicle manufacturer, its domestic distributor) within 30 days of receipt of the request for certification. This acknowledgment letter will state whether purchasers may rely on the certification.

.05 *Quarterly Reporting of Sales of Qualified Vehicles.* A manufacturer (or, in the case of a foreign vehicle manufacturer, its domestic distributor) that has received an acknowledgement of its certification from the Service must submit to the Service, in accordance with section 6 of this notice, a report of the number of qualified vehicles sold by the manufacturer (or, in the case of a foreign vehicle manufacturer, its domestic distributor) to a retail dealer during the calendar quarter. For this purpose, a qualified vehicle is any passenger automobile or light truck that is a new advanced lean burn technology motor vehicle or a new qualified hybrid motor vehicle. The quarterly report must contain the following information:

(1) The name, address, and taxpayer identification number of the reporting entity;

(2) The number of qualified vehicles sold by the reporting entity to a retail dealer during the calendar quarter;

(3) The make, model, model year, and any other appropriate identifiers of the qualified vehicles sold during the calendar quarter; and

(4) A declaration, applicable to the quarterly report and any accompanying documents, signed by a person currently authorized to bind the manufacturer (or, in the case of a foreign vehicle manufacturer, its domestic distributor) in these matters, in the following form:

"Under penalties of perjury, I declare that I have examined this report, including accompanying documents, and to the best of my knowledge and belief, the facts presented in support of this report are true, correct, and complete."

.06 *Acknowledgment of Quarterly Report.* The Service will review the original signed quarterly report and issue an acknowledgment letter to the vehicle manufacturer (or, in the case of a foreign vehicle manufacturer, its domestic distributor) within 30 days of receipt of the request for certification. This acknowledgment letter will state whether purchasers may continue to rely on the certification.

.07 *Effect of Erroneous Certification, Erroneous Quarterly Reports, or Failure to Make Timely Quarterly Reports.*

(1) *Erroneous Certification or Quarterly Report.* The acknowledgment that the Service provides for a certification is not a

determination that a vehicle qualifies for the credit, or that the amount of the credit is correct. The Service may, upon examination (and after any appropriate consultation with the Department of Transportation or the Environmental Protection Agency), determine that the vehicle is not a new advanced lean burn technology motor vehicle or new qualified hybrid motor vehicle or that the amount of the credit determined by the manufacturer (or, in the case of a foreign vehicle manufacturer, its domestic distributor) to be allowable with respect to the vehicle is incorrect. In either event, or in the event that the manufacturer (or, in the case of a foreign vehicle manufacturer, its domestic distributor) makes an erroneous quarterly report, the manufacturer's (or, in the case of a foreign vehicle manufacturer, its domestic distributor's) right to provide a certification to future purchasers of the advanced lean burn technology or hybrid motor vehicles will be withdrawn, and purchasers who acquire a vehicle after the date on which the Service publishes an announcement of the withdrawal may not rely on the certification. Purchasers may continue to rely on the certification for vehicles they acquired on or before the date on which the announcement of the withdrawal is published (including in cases in which the vehicle is not placed in service and the credit is not claimed until after that date), and the Service will not attempt to collect any understatement of tax liability attributable to such reliance. Manufacturers (or, in the case of foreign vehicle manufacturers, their domestic distributors) are reminded that an erroneous certification or an erroneous quarterly report may result in the imposition of penalties:

(a) under § 7206 for fraud and making false statements; and

(b) under § 6701 for aiding and abetting an understatement of tax liability in the amount of $1,000 ($10,000 in the case of understatements by corporations) per return on which a credit is claimed in reliance on the certification).

(2) *Failure to Make Timely Quarterly Report.* If a manufacturer (or, in the case of a foreign vehicle manufacturer, its domestic distributor) fails to make a quarterly report in accordance with section 5.05 of this notice and at the time specified in section 6.02 of this notice, the acknowledgement letter issued under section 5.04 of this notice may be withdrawn, and purchasers will not be entitled to rely on the related certification for quarters beginning after the date on which the Service publishes an announcement of the withdrawal (generally, quarters beginning after the due date of the report). If the quarterly report is filed subsequently, the Service may reissue the acknowledgement letter and retract the withdrawal announcement.

SECTION 6. TIME AND ADDRESS FOR FILING CERTIFICATION AND QUARTERLY REPORTS

.01 *Time for Filing Certification.* In order for a certification under section 5 of this notice to be effective for new advanced lean burn technology motor vehicles and new qualified hybrid motor vehicles placed in service during a calendar year, the certification must be received by the Service not later than December 31st of that calendar year.

.02 *Time for Filing Quarterly Reports.* A report of sales of qualified vehicles during a quarter must be filed with the Service at the address specified in section 6.03 of this notice not later than the last day of the first calendar month following the quarter to which the report relates.

.03 *Address for Filing.* Certifications and quarterly reports under section 5 of this notice must be sent to:

Internal Revenue Service,
Industry Director, Large and Mid-Size Business, Heavy
Manufacturing and Transportation,
Metro Park Office Complex - LMSB,
111 Wood Avenue, South,
Iselin, New Jersey 08830.

SECTION 7. PAPERWORK REDUCTION ACT

The collection of information contained in this notice has been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1545-1988.

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

The collections of information in this notice are in section 5. This information is required to be collected and retained in order to ensure that vehicles meet the requirements for the new advanced lean burn technology motor vehicle credit under § 30B(a)(2) and (c) or the new qualified hybrid motor vehicle credit under § 30B(a)(3) and (d). This information will be used to determine whether the vehicle for which the credit is claimed by a taxpayer is property that qualifies for the credit. The collection of information is required to obtain a benefit. The likely respondents are corporations and partnerships.

The estimated total annual reporting burden is 280 hours.

The estimated annual burden per respondent varies from 35 hours to 45 hours, depending on individual circumstances, with an estimated average burden of 40 hours to complete the certification required under this notice. The estimated number of respondents is 7.

The estimated annual frequency of responses is on occasion.

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

SECTION 8. DRAFTING INFORMATION

The principal author of this notice is Nicole R. Cimino of the Office of Associate Chief Counsel (Passthroughs and Special Industries). For further information regarding this notice, contact Ms. Cimino at (202) 622-3120 (not a toll-free call).

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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January 18, 2006
JS-3079

Treasury International Capital Data for November

Treasury International Capital (TIC) data for November are released today and posted on the U.S. Treasury web site (www.treas.gov/tic date, which will report on data for December, is scheduled for February 15, 2006.

Net foreign purchases of long-term securities were $89.1 billion.

- Net foreign purchases of long-term domestic securities were $103.2 billion, $5.9 billion of which were net purchases by foreign c $97.3 billion of which were net purchases by private foreign investors.
- U.S. residents purchased a net $14.1 billion in foreign issued securities.

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

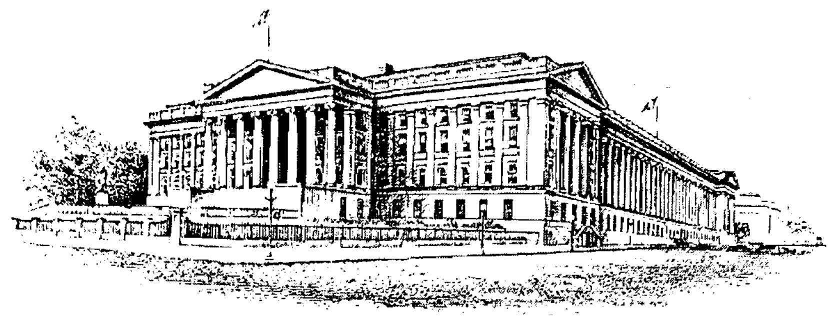
				12 Months Through			
		2003	2004	Nov-	Nov-	Aug-05	Sep-
1	Gross Purchases of Domestic Securities	13526.0	15178.9	14889.2	17143.4	1412.6	1653.9
2	Gross Sales of Domestic Securities	12806.1	14262.4	13980.7	16087.5	1326.8	1536.8
3	**Domestic Securities Purchased, net** (line 1 less line	**719.9**	**916.5**	**908.6**	**1055.9**	**85.8**	**117.2**
4	**Private, net /2**	**585.0**	**680.9**	**669.5**	**941.2**	**81.4**	**112.8**
5	Treasury Bonds & Notes, net	159.7	150.9	168.8	278.4	25.0	22.9
6	Gov't Agency Bonds, net	129.9	205.7	190.7	210.7	16.9	18.6
7	Corporate Bonds, net	260.3	298.0	278.0	375.0	38.1	49.3
8	Equities, net	35.0	26.2	32.0	77.1	1.5	22.0
9	**Official, net**	**134.9**	**235.6**	**239.0**	**114.6**	**4.4**	**4.3**
10	Treasury Bonds & Notes, net	103.8	201.1	202.8	62.6	3.2	-1.1
11	Gov't Agency Bonds, net	25.9	20.8	24.2	32.8	-1.2	2.2
12	Corporate Bonds, net	5.4	11.5	10.5	18.1	2.1	2.2
13	Equities, net	-0.3	2.2	1.5	1.2	0.3	1.0
14	Gross Purchases of Foreign Securities	2761.8	3123.1	3088.9	3627.2	312.7	319.5
15	Gross Sales of Foreign Securities	2818.4	3276.0	3220.2	3770.4	312.0	336.2
16	**Foreign Securities Purchased, net** (line 14 less line	**-56.5**	**-152.8**	**-131.3**	**-143.1**	**0.7**	**-16.7**
17	Foreign Bonds Purchased, net	32.0	-67.9	-53.7	-20.8	16.9	-9.7
18	Foreign Equities Purchased, net	-88.6	-85.0	-77.6	-122.3	-16.2	-7.0

19 **Net Long-Term Flows** (line 3 plus line 16)	**663.3**	**763.6**	**777.3**	**912.8**	**86.5**	**100.4**

/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. EST
January 18, 2006

Contact: Brookly McLaughlin
(202) 622-1996

TREASURY INTERNATIONAL CAPITAL DATA FOR NOVEMBER

Treasury International Capital (TIC) data for November 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 December, is scheduled for February 15, 2006.

Net foreign purchases of long-term securities were $89.1 billion.

- Net foreign purchases of long-term domestic securities were $103.2 billion, $5.9 billion of which were net purchases by foreign official institutions and $97.3 billion of which were net purchases by private foreign investors.
- U.S. residents purchased a net $14.1 billion in foreign issued securities.

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

		2003	2004	12 Months Through Nov-04	12 Months Through Nov-05	Aug-05	Sep-05	Oct-05	Nov-05
1	Gross Purchases of Domestic Securities	13526.0	15178.9	14889.2	17143.4	1412.6	1653.9	1442.7	1423.1
2	Gross Sales of Domestic Securities	12806.1	14262.4	13980.7	16087.5	1326.8	1536.8	1335.4	1319.8
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**719.9**	**916.5**	**908.6**	**1055.9**	**85.8**	**117.2**	**107.3**	**103.2**
4	**Private, net /2**	**585.0**	**680.9**	**669.5**	**941.2**	**81.4**	**112.8**	**94.4**	**97.3**
5	Treasury Bonds & Notes, net	159.7	150.9	168.8	278.4	25.0	22.9	25.1	50.8
6	Gov't Agency Bonds, net	129.9	205.7	190.7	210.7	16.9	18.6	28.7	8.6
7	Corporate Bonds, net	260.3	298.0	278.0	375.0	38.1	49.3	32.8	33.3
8	Equities, net	35.0	26.2	32.0	77.1	1.5	22.0	7.8	4.6
9	**Official, net**	**134.9**	**235.6**	**239.0**	**114.6**	**4.4**	**4.3**	**13.0**	**5.9**
10	Treasury Bonds & Notes, net	103.8	201.1	202.8	62.6	3.2	-1.1	4.9	3.7
11	Gov't Agency Bonds, net	25.9	20.8	24.2	32.8	-1.2	2.2	6.2	0.4
12	Corporate Bonds, net	5.4	11.5	10.5	18.1	2.1	2.2	1.7	1.7
13	Equities, net	-0.3	2.2	1.5	1.2	0.3	1.0	0.2	0.1
14	Gross Purchases of Foreign Securities	2761.8	3123.1	3088.9	3627.2	312.7	319.5	374.9	338.3
15	Gross Sales of Foreign Securities	2818.4	3276.0	3220.2	3770.4	312.0	336.2	378.1	352.4
16	**Foreign Securities Purchased, net** (line 14 less line 15) /3	**-56.5**	**-152.8**	**-131.3**	**-143.1**	**0.7**	**-16.7**	**-3.1**	**-14.1**
17	Foreign Bonds Purchased, net	32.0	-67.9	-53.7	-20.8	16.9	-9.7	2.8	2.2
18	Foreign Equities Purchased, net	-88.6	-85.0	-77.6	-122.3	-16.2	-7.0	-5.9	-16.4
19	**Net Long-Term Flows** (line 3 plus line 16)	**663.3**	**763.6**	**777.3**	**912.8**	**86.5**	**100.4**	**104.2**	**89.1**

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

PRESS ROOM

January 17, 2006
2006-1-17-17-41-9-10468

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 $65,938 million as of the end of that week, compared to $65,995 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	January 6, 2006			January 13, 2006		
TOTAL	65,995			65,938		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	11,365	11,113	22,478	11,319	11,118	22,437
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	11,114	5,392	16,506	11,077	5,393	16,470
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]			7,752			7,761
3. Special Drawing Rights (SDRs) [2]			8,218			8,227
4. Gold Stock [3]			11,041			11,043
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	January 6, 2006			January 13, 2006		
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Foreign currency loans and securities			0			0
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the U.S. dollar:						
2.a. Short positions			0			0
2.b. Long positions			0			0
3. Other			0			0

III. Contingent Short-Term Net Drains on Foreign Currency Assets						
	January 6, 2006			January 13, 2006		
	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

January 18, 2006
JS-3080

Treasury Designates Director of Syrian Military Intelligence

The U.S. Department of the Treasury today named Assef Shawkat a Specially Designated National (SDN) of Syria pursuant to Executive Order 13338, for directly furthering the Government of Syria's support for terrorism and interference in the sovereignty of Lebanon.

"As the Director of Syrian Military Intelligence, Shawkat has been a key architect of Syria's domination of Lebanon, as well as a fundamental contributor to Syria's long-standing policy to foment terrorism against Israel," said Stuart Levey, Treasury's Under Secretary for Terrorism and Financial Intelligence (TFI).

Today's designation freezes any assets Shawkat may have located under U.S. jurisdiction and prohibits U.S. persons from engaging in transactions with him.

Identifier Information

Assef Shawkat
Title: Director of Syrian Military Intelligence
DOB: 1950
POB: Tartus, Syria
Nationality: Syria
Address: Al-Akkad Street, Damascus, Syria

Major General Assef Shawkat is the Director of Syrian Military Intelligence (SMI), the strongest and most influential security service in Syria. Its broad internal and external responsibilities include working with terrorist organizations resident in Syria and overseeing the Syrian security presence in Lebanon.

In addition to the power he derives from his position, Shawkat also has access to the highest levels of the Syrian power structure by virtue of his marriage to Bushra al-Asad, the sister to Syrian President Bashar al-Assad. Shawkat is a close confidant of President Assad and an important member of his inner circle of advisors.

Through his position as Director of SMI, Shawkat has directed and significantly contributed to the Government of Syria's support for terrorism, including coordination with Specially Designated Global Terrorists Hizballah, Popular Front for the Liberation of Palestine-General Command ("PFLP-GC"), Hamas, and Palestinian Islamic Jihad ("PIJ").

Information indicates that in 2005, Shawkat met with Hizballah Secretary General Hasan Nasrallah, PFLP-GC chief Ahmad Jibril, PIJ Secretary General Ramadan Shallah, in addition to Hamas and PIJ officials. Shallah, Jibril and Nasrallah are designated Specially Designated Terrorists pursuant to Executive Order 12947. Shawkat and the officials discussed coordination and cooperation between the terrorist groups. Shawkat and Jibril hoped to ease the freedom of movement for Palestinian terrorist groups, including PFLP-GC in Lebanon, so that the groups could move between Lebanon and Syria, as well as receive weapons and ammunition more easily.

During his tenure as Deputy Director of SMI, Shawkat managed a branch of SMI charged with overseeing liaison relations with major terrorist groups resident in Damascus, including PFLP-GC, Popular Front for the Liberation of Palestine (PFLP), HAMAS, and PIJ. As SMI Deputy, Shawkat helped direct operations against Israel, some of which were coordinated with Palestinian terrorist group leaders, including PFLP-GC leader Ahmad Jibril and PIJ leader Ramadan Shallah.

Information shows that in June 2003, Shawkat, through his position as deputy director of SMI, ordered members of PIJ, Hamas, and PFLP-GC to lower their profiles. The SMI dictated a number of changes that needed to be implemented by the three terrorist groups. The SMI demanded that each of the groups seek approval from Shawkat's liaison to hold meetings and gatherings inside their respective office spaces. The SMI also demanded that the groups lower their presence and public profile as much as possible. In return, the SMI declared that they would not expel any of the groups' members from Syrian soil or close offices, provided their demands were met.

Information available to the United States Government indicates that in 1997, Shawkat instructed PIJ Secretary General Ramadan Shallah to surveil strategic targets in a neighboring country to prepare for possible future attacks.

By virtue of his position as SMI Director, Shawkat directs and significantly contributes to the Government of Syria's military and security presence in Lebanon. SMI is the primary entity responsible for coordinating and implementing Syrian Arab Republic Government's (SARG) policies in Lebanon. Shawkat has contributed significantly to the SARG's security presence in Lebanon through his oversight of SMI activities within Lebanon and his direct control over Brigadier General Rustum Ghazali, who commanded SMI activities in Lebanon.

The United States Government designated Rustum Ghazali as a Specially Designated
National pursuant to Executive Order 13338 for his role in the SARG's continued support for terrorism and his contribution to the SARG's security and military presence in Lebanon.

Background on Executive Order 13338
President George W. Bush signed E.O. 13338 on May 11, 2004 in response to the Syrian government's continued support of international terrorism, sustained occupation of Lebanon, pursuit of weapons of mass destruction and missile programs and undermining of U.S. and international efforts in Iraq. Syria's acts threaten the national security, foreign policy and economy of the United States.

The Order declared a national emergency with respect to Syria, and authorized the Secretary of the Treasury to block the property of certain persons and directing other U.S. Government agencies to impose a ban on exports to Syria.

The Treasury may designate individuals and entities found to be or to have been:

- Directing or otherwise significantly contributing to the Government of Syria's provision of safe haven to or other support for any person whose property or interests in property are blocked under United States law for terrorism-related reasons, including, but not limited to, Hamas, Hizballah, Palestinian Islamic Jihad, the Popular Front for the Liberation of Palestine, the Popular Front for the Liberation of Palestine-General Command, and any persons designated pursuant to Executive Order 13224 of September 23, 2001;
- Directing or otherwise significantly contributing to the Government of Syria's military or security presence in Lebanon;
- Directing or otherwise significantly contributing to the Government of Syria's pursuit of the development and production of chemical, biological, or nuclear weapons and medium- and long-range surface-to-surface missiles;
- Directing or otherwise significantly contributing to any steps taken by the Government of Syria to undermine United States and international efforts with respect to the stabilization and reconstruction of Iraq; or
- Owned or controlled by, or acting or purporting to act for or on behalf of, directly or indirectly, any person whose property or interests in property are blocked pursuant to this order.

Click the following link for further information on the June 30, 2005 designation of two individuals, pursuant to E.O. 13338:
http://www.treas.gov/press/releases/js2617.htm.

Click the following link for the full text of E.O. 13338:
http://www.whitehouse.gov/news/releases/2004/05/20040511-6.html.

PRESS ROOM

June 30, 2005
JS-2617

Treasury Designation Targets Individuals
Leading Syria's Military Presence in Lebanon

The U.S. Department of the Treasury today named Ghazi Kanaan and Rustum Ghazali Specially Designated Nationals (SDNs) of Syria pursuant to Executive Order 13338, which is aimed at financially isolating individuals and entities contributing to the Government of Syria's problematic behavior.

"Actions like today's are intended to financially isolate bad actors supporting Syria's efforts to destabilize its neighbors," said Treasury Secretary John W. Snow.

"We are seeing democracy take hold in Lebanon and other places in the Middle East, yet Syria continues to support violent groups and political strife. Syria needs to join its neighbors in embracing the progress towards liberty," Snow continued.

Information available to the U.S. Government indicates that Kanaan and Ghazali have directed the Syrian Arab Republic Government's (SARG) military and security presence in Lebanon and/or contributed to the SARG's support for terrorism. Both Ghazali and Kanaan allegedly engaged in a variety of corrupt activities and were reportedly the beneficiaries of corrupt business deals during their respective tenures in Lebanon.

Today's designation freezes any assets the designees may have located in the United States, and prohibits U.S. persons from engaging in transactions with these individuals.

Identifying Information

Ghazi Kanaan
DOB: circa 1943
POB: Near Qerdaha, Syria
Nationality: Syria
Address: Damascus, Syria
Position: Minister of Interior

According to information available to the U.S. Government, prior to his brief appointment as Chief of the Syrian Political Security Directorate and his current position as SARG Interior Minister, Ghazi Kanaan served as Syrian Military Intelligence (SMI) Chief for Lebanon for approximately 20 years. He was replaced by Ghazali in late 2002. During his command of SMI in Lebanon, Kanaan ensured that Syrian military intelligence officers remained deeply involved in Lebanese political and economic affairs.

Information available to the U.S. Government indicates that as an SMI commander in Lebanon, Kanaan contributed to the SARG's provision of support to Specially Designated Global Terrorist groups (SDGT), such as Hizballah. In 2002, three rockets in a convoy allegedly escorted by Kanaan were personally delivered across the Syrian-Lebanese border to Hizballah in Lebanon. In May 2001, in a meeting between Kanaan and Hizballah security leaders, Hizballah agreed to Syria's request that Hizballah refrain from executing any military operations without first notifying Syria, according to information available to the U.S. Government. However, in the same meeting, Hizballah also agreed to continue its casing and reconnaissance operations.

Information available to the U.S. Government indicates that Kanaan also enjoyed extensive influence over Lebanon's military and security services. In late

December 2001, a Lebanese Armed Forces (LAF) commander reportedly declared that effective January 2002, weapons permits and security passes issued by Syrian institutions would no longer be valid except for those passes and permits issued by Kanaan. Only those passes and permits issued by Kanaan would continue to allow the holder to carry weapons and to pass through LAF and Syrian military checkpoints in Lebanon without being questioned or searched.

Allegedly, in August 2001, the SARG believed that the Lebanese prime minister, the speaker of the Lebanese parliament, and a sectarian leader had created a new alliance that was, in Syria's assessment, a violation of Syria's long-standing policy to prevent any one political party or bloc from dominating Lebanese politics. Furthermore, Syria believed that the new alliance could weaken Lebanese political parties' dependence on Damascus and diminish SARG influence within Lebanese politics. In response to this alliance, Kanaan met with the speaker of parliament to remind him that his best interests lay with the Syrians and that he should impress that fact upon others within parliament with whom the speaker had influence.

Additionally, press accounts observed that during the 2000 Lebanese parliamentary elections, Kanaan appeared to oversee the entire electoral process.

Rustum Ghazali
DOB: circa 1949
Nationality: Syria
Address: Syria
Position: Chief of Syrian Military Intelligence for Lebanon

Ghazali assumed command of Syrian Military Intelligence in Lebanon after replacing Ghazi Kanaan, his mentor, in late 2002. U.S. Government information reports that Ghazali was the implementing agent of Syrian policies in Lebanon until Syria's withdrawal from Lebanon in April 2005. During his command, Ghazali directed and significantly contributed to the SARG's military and security presence in Lebanon. Information available to the U.S. Government indicates that Ghazali, in his responsibilities for Lebanese affairs, reported directly to President Asad and then-SMI Director Hasan Khalil.

Information available to the U.S. Government indicates that Ghazali manipulated Lebanese politics to ensure that Lebanese officials and public policy remained committed to the SARG's goals and interests. In late 2004, Ghazali reportedly warned that Syria was determined to physically harm anyone who interfered with Lebanon's economic situation and caused a crisis of confidence. Also, as of late 2004, Lebanese President Lahoud allegedly consulted with Ghazali before selecting positions within his cabinet.

Reportedly, Ghazali could influence a number of the Lebanese members of parliament, and did so notably on the renewal of Lebanese President Lahoud's term in office. After the Lebanese constitution was amended to allow President Lahoud to renew his term, some commentators noted that this appeared to be the second time that Damascus had imposed a president on Beirut. Press reports indicate that in 1995, the presidential term of Elias Hrawi was also extended for three years at the urging of Syria.

Information available to the U.S. Government indicates that Ghazali also has exerted considerable control over the Lebanese military. As of mid-2003, SMI did not need to maintain as large a presence among the mid-levels of each of the Lebanese security services, because Ghazali allegedly required the heads of the LAF Directorate of Intelligence, the Internal Security Forces and the Directorate of General Security to report to him on a daily, and at times hourly, basis. In a further indication of his influence over security and political issues in Lebanon, as of late 2003, Ghazali had significant input into all internal matters in the LAF, including promotions and assignments to key positions.

Allegedly, in November 2003, senior LAF Intelligence Directorate officers continued to stress to their subordinates the importance of strengthening ties between LAF and SMI. Furthermore, they encouraged subordinates to coordinate even more closely than previously with SMI on all issues.

Background on Executive Order 13338

President George W. Bush signed E.O. 13338 on May 11, 2004 in response to the Syrian government's continued support of international terrorism, sustained occupation of Lebanon, pursuit of weapons of mass destruction and missile programs and undermining of U.S. and international efforts in Iraq. Syria's acts threaten the national security, foreign policy and economy of the United States.

The Order declared a national emergency with respect to Syria, and authorized the Secretary of the Treasury to block the property of certain persons and directing other U.S. Government agencies to impose a ban on exports to Syria.

The Treasury may designate individuals and entities found to be or to have been:

- Directing or otherwise significantly contributing to the Government of Syria's provision of safe haven to or other support for any person whose property or interests in property are blocked under United States law for terrorism-related reasons, including, but not limited to, Hamas, Hizballah, Palestinian Islamic Jihad, the Popular Front for the Liberation of Palestine, the Popular Front for the Liberation of Palestine-General Command, and any persons designated pursuant to Executive Order 13224 of September 23, 2001;
- Directing or otherwise significantly contributing to the Government of Syria's military or security presence in Lebanon;
- Directing or otherwise significantly contributing to the Government of Syria's pursuit of the development and production of chemical, biological, or nuclear weapons and medium- and long-range surface-to-surface missiles;
- Directing or otherwise significantly contributing to any steps taken by the Government of Syria to undermine United States and international efforts with respect to the stabilization and reconstruction of Iraq; or
- Owned or controlled by, or acting or purporting to act for or on behalf of, directly or indirectly, any person whose property or interests in property are blocked pursuant to this order.

Click the following link for the full text of E.O. 13338:
http://www.whitehouse.gov/news/releases/2004/05/20040511-6.html

The White House
President George W. Bush

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this document

For Immediate Release
Office of the Press Secretary
May 11, 2004

Executive Order: Blocking Property of Certain Persons and Prohibiting the Export of Certain Goods to Syria

By the authority vested in me as President by the Constitution and the laws of the United States of America, including the International Emergency Economic Powers Act (50 U.S.C. 1701 et seq.) (IEEPA), the National Emergencies Act (50 U.S.C. 1601 et seq.) (NEA), the Syria Accountability and Lebanese Sovereignty Restoration Act of 2003, Public Law 108-175 (SAA), and section 301 of title 3, United States Code,

I, GEORGE W. BUSH, President of the United States of America, hereby determine that the actions of the Government of Syria in supporting terrorism, continuing its occupation of Lebanon, pursuing weapons of mass destruction and missile programs, and undermining United States and international efforts with respect to the stabilization and reconstruction of Iraq constitute an unusual and extraordinary threat to the national security, foreign policy, and economy of the United States and hereby declare a national emergency to deal with that threat. To address that threat, and to implement the SAA, I hereby order the following:

Section 1. (a) The Secretary of State shall not permit the exportation or reexportation to Syria of any item on the United States Munitions List (22 C.F.R. part 121).

(b) Except to the extent provided in regulations, orders, directives, or licenses that may be issued pursuant to the provisions of this order in a manner consistent with the SAA, and notwithstanding any license, permit, or authorization granted prior to the effective date of this order, (i) the Secretary of Commerce shall not permit the exportation or reexportation to Syria of any item on the Commerce Control List (15 C.F.R. part 774); and (ii) with the exception of food and medicine, the Secretary of Commerce shall not permit the exportation or reexportation to Syria of any product of the United States not included in section 1(b)(i) of this order.

(c) No other agency of the United States Government shall permit the exportation or reexportation to Syria of any product of the United States, except to the extent provided in regulations, orders, directives, or licenses that may be issued pursuant to this order in a manner consistent with the SAA, and notwithstanding any license, permit, or authorization granted prior to the effective date of this order.

Sec. 2. The Secretary of Transportation shall not permit any air carrier owned or controlled by Syria to provide foreign air transportation as defined in 49 U.S.C. 40102(a)(23), except that he may, to the extent consistent with Department of Transportation regulations, permit such carriers to charter aircraft to the Government of Syria for the transport of Syrian government officials to and from the United States on official Syrian government business. In addition, the Secretary of Transportation shall prohibit all takeoffs and landings in the United States, other than those associated with an emergency, by any such air carrier when engaged in scheduled international air services.

Sec. 3. (a) Except to the extent provided in section 203(b)(1), (3), and (4) of the IEEPA (50 U.S.C. 1702(b)(1), (3), and (4)), and the Trade Sanctions Reform and Export Enhancement Act of 2000 (title IX, Public Law 106387) (TSRA), or regulations, orders, directives, or licenses that may be issued pursuant to this order, and notwithstanding any contract entered into or any license or permit granted prior to the effective date of this order, all property and interests in property of the following persons, that are in the United States, that hereafter come within the United States, or that are or hereafter come within the possession or control of United States persons, including their overseas branches, are blocked and may not be transferred, paid, exported, withdrawn, or otherwise dealt in: persons who are determined by the Secretary of the Treasury, in consultation with the Secretary of State,

(i) to be or to have been directing or otherwise significantly

contributing to the Government of Syria's provision of safe haven to

or other support for any person whose property or interests in property are blocked under United States law for terrorism-related reasons, including, but not limited to, Hamas, Hizballah, Palestinian Islamic Jihad, the Popular Front for the Liberation of Palestine, the Popular Front for the Liberation of Palestine-General Command, and any persons designated pursuant to Executive Order 13224 of September 23, 2001;

(ii) to be or to have been directing or otherwise significantly contributing to the Government of Syria's military or security presence in Lebanon;

(iii) to be or to have been directing or otherwise significantly contributing to the Government of Syria's pursuit of the development and production of chemical, biological, or nuclear weapons and medium- and long-range surface-to-surface missiles;

(iv) to be or to have been directing or otherwise significantly contributing to any steps taken by the Government of Syria to undermine United States and international efforts with respect to the stabilization and reconstruction of Iraq; or

(v) to be owned or controlled by, or acting or purporting to act for or on behalf of, directly or indirectly, any person whose property or interests in property are blocked pursuant to this order.

(b) The prohibitions in paragraph (a) of this section include, but are not limited to, (i) the making of any contribution of funds, goods, or services by, to, or for the benefit of any person whose property or interests in property are blocked pursuant to this order; and (ii) the receipt of any contribution or provision of funds, goods, or services from any such person.

Sec. 4. (a) Any transaction by a United States person or within the United States that evades or avoids, has the purpose of evading or avoiding, or attempts to violate any of the prohibitions set forth in this order is prohibited.

(b) Any conspiracy formed to violate the prohibitions set forth in this order is prohibited.

Sec. 5. I hereby determine that the making of donations of the type of articles specified in section 203(b)(2) of the IEEPA (50

U.S.C. 1702(b)(2)) would seriously impair the ability to deal with the national emergency declared in this order, and hereby prohibit, (i) the exportation or reexportation of such donated articles to Syria as provided in section 1(b) of this order; and (ii) the making of such donations by, to, or for the benefit of any person whose property and interests in property are blocked pursuant to section 3 of this order.

Sec. 6. For purposes of this order:

'a) the term "person" means an individual or entity;

b) the term "entity" means a partnership, association, trust, joint venture, corporation, group, subgroup, or other organization;

c) the term "United States person" means any United States citizen, permanent resident alien, entity organized under the laws of he United States or any jurisdiction within the United States (including foreign branches), or any person in the United States;

d) the term "Government of Syria" means the Government of the Syrian Arab Republic, its agencies, instrumentalities, and :ontrolled entities; and

e) the term "product of the United States" means: for the purposes of subsection 1(b), any item subject to the Export \dministration Regulations (15 C.F.R. parts 730-774); and for the purposes of subsection 1(c), any item subject to the export censing jurisdiction of any other United States Government agency.

;ec. 7. With respect to the prohibitions contained in section 1 of this order, consistent with subsection 5(b) of the SAA, I hereby letermine that it is in the national security interest of the United States to waive, and hereby waive application of subsection 5(a) 1) and subsection 5(a)(2)(A) of the SAA so as to permit the exportation or reexportation of certain items as specified in the)epartment of Commerce's General Order No. 2 to Supplement No. 1, 15 C.F.R. part 736, as issued consistent with this order nd as may be amended pursuant to the provisions of this order and in a manner consistent with the SAA. This waiver is made ursuant to the SAA only to the extent that regulation of such exports or reexports would not otherwise fall within my constitutional uthority to conduct the Nation's foreign affairs and protect national security.

ec. 8. With respect to the prohibitions contained in section 2 of this order, consistent with subsection 5(b) of the SAA, I hereby etermine that it is in the national security interest of the United States to waive, and hereby waive, application of subsection 5(a) !)(D) of the SAA insofar as it pertains to: aircraft of any air carrier owned or controlled by Syria chartered by the Syrian overnment for the transport of Syrian government officials to and from the United States on official Syrian government business, the extent consistent with Department of Transportation regulations; takeoffs or landings for non-traffic stops of aircraft of any ich air carrier that is not engaged in scheduled international air services; takeoffs and landings associated with an emergency; nd overflights of United States territory.

ec. 9. I hereby direct the Secretary of State to take such actions, including the promulgation of rules and regulations, as may be ecessary to carry out subsection 1(a) of this order. I hereby direct the Secretary of Commerce, in consultation with the Secretary State, to take such actions, including the promulgation of rules and regulations, as may be necessary to carry out subsection 1) of this order. I direct the Secretary of Transportation, in consultation with the Secretary of State, to take such actions, including e promulgation of rules and regulations, as may be necessary to carry out section 2 of this order. The Secretary of the Treasury, consultation with the Secretary of State, is hereby authorized to take such actions, including the promulgation of rules and gulations, and to employ all powers granted to the President by the IEEPA as may be necessary to carry out sections 3, 4, and of this order. The Secretaries of State, Commerce, Transportation, and the Treasury may redelegate any of these functions to her officers and agencies of the United States Government consistent with applicable law. The Secretary of State, in nsultation with the Secretaries of Commerce, Transportation, and the Treasury, as appropriate, is authorized to exercise the nctions and authorities conferred upon the President in subsection 5(b) of the SAA and to redelegate these functions and thorities consistent with applicable law. All agencies of the United States Government are hereby directed to take all propriate measures within their authority to carry out the provisions of this order and, where appropriate, to advise the cretaries of State, Commerce, Transportation, and the Treasury in a timely manner of the measures taken.

c. 10. This order is not intended to create, and does not create, any right or benefit, substantive or procedural, enforceable at v or in equity by any party against the United States, its departments, agencies, instrumentalities, or entities, its officers or nployees, or any other person.

c. 11. For those persons whose property or interests in property are blocked pursuant to section 3 of this order who might have constitutional presence in the United States, I find that because of the ability to transfer funds or assets instantaneously, prior notice to such persons of measures to be taken pursuant to this order would render these measures ineffectual. I therefore determine that for these measures to be effective in addressing the national emergency declared in this order, there need be no prior notice of a listing or determination made pursuant to this order.

Sec. 12. The Secretary of the Treasury, in consultation with the Secretary of State, is authorized to submit the recurring and final reports to the Congress on the national emergency declared in this order, consistent with section 401(c) of the NEA, 50 U.S.C. 1641(c), and section 204(c) of the IEEPA, 50 U.S.C. 1703(c).

Sec. 13. (a) This order is effective at 12:01 eastern daylight time on May 12, 2004.

(b) This order shall be transmitted to the Congress and published in the Federal Register.

GEORGE W. BUSH

THE WHITE HOUSE,

May 11, 2004.

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PRESS ROOM

January 13, 2006
JS-3081

Treasury Deputy Secretary Robert M. Kimmitt
Luncheon Keynote at American Council on Germany Conference
Washington, DC
Reinvigorating the US-German Economic Partnership

Good afternoon.

Thank you, Dr. Oetker, for your very kind introduction, and also for your years of support for stronger German-American relations.

I would also like to thank the co-sponsors of this event, the German Council on Foreign Relations and the American Council on Germany, especially my friends and former colleagues Garrick Utley, Bill Drozdiak, and – of course – Karen Furey.

My first interaction with these two Councils came over two decades ago at a very different time in German-American and transatlantic relations. A conference arranged jointly by these two groups during the Cold War might not have taken the time to discuss globalization in detail or to hear from the U.S. Treasury Department, because the emphasis during that period was understandably on the political and security dimensions of the relationship. Today, however, the economic and financial component is widely recognized as an essential element of the foundation of the relationship – indeed, some would say the component of the relationship that helped weather recent stormy relations on the political/military front. So it is important to look not just at where we are, but at what we can do to reinvigorate the German-American economic partnership.

When President George H.W. Bush called in Mainz in the spring of 1989 for Germany and the United States to be "Partners in Leadership," considerable attention was focused on the word leadership, a word that then and even now causes historical ripples in Germany, and not enough on partnership, which was and is the essence of our relationship and where we should focus our attention today.

Chancellor Merkel has already made history, as the first woman chancellor and the first from the East. But I believe that when we look back at her first visit to Washington as head of government, it will be seen as pivotal not because of personalities but because it launches a renewal of the German-American partnership. This is not to say our fundamental relationship was ever in doubt. But it has not fulfilled its full potential for creating benefits for our own countries and for the world.

The challenges and opportunities that face us include addressing global financial imbalances and fighting global poverty; safeguarding the environment; opening world trade; fighting the war on terror; rebuilding Iraq and Afghanistan; and addressing pressing issues in Iran, the Palestinian territories, and Lebanon. Such issues are in many ways as daunting as those confronting the world in 1989. Then the Cold War was ending at breathtaking speed, with little certainty as to what lay on the other side. Now democracy is again opening once-closed doors in some places while remaining blocked in others.

In Mainz in 1989, the first President Bush talked about "the vision, the concept of free peoples in North America and Europe working to protect their values." That vision had created NATO, helped defeat communism, and began to lay the foundation for the post-Cold War world. It is now time to renew that vision, based on the same values of democracy, collective security, and free markets to address the 21st Century's most pressing problems. The new Merkel government's coalition agreement identifies the German-U.S. partnership as a key instrument to "support peace, democracy and freedom in the world". Our task now is to convert these good intentions on both sides to effective policies and actions.

Economic partnership

However, global engagement and leadership must be grounded on a strong economic base at home. That is true for both the United States and Germany. We in the United States strongly support the new government's focus on putting its economic house in order and do not consider a focus on domestic economic reform as being in conflict with cooperation on global issues. Quite the opposite. Reforms that lead to stronger, internally-generated growth in Germany will make it a stronger global player, including a stronger voice in the EU to push common interests and a more effective partner for the United States on issues of common concern. Likewise, maintaining strong rates of U.S. growth is what will allow us to continue to play our part in meeting global challenges while keeping our economic house in order, including significantly reducing our budget deficit over time.

Growth in Germany is important for other reasons as well. The German economy is the engine of Europe -- almost 30% of total output and the top export market for most of the rest of the EU. If Germany is not firing on all cylinders, then neither is the rest of Europe.

Together with increasing U.S. national savings and Asian currency flexibility, faster growth in Europe in turn is an essential prerequisite for redressing the problem of global financial imbalances. There has been considerable attention lately on the question of Asia, and especially China, moving toward market-determined exchange rates. This is the first vital step in the process. But Europe's role is equally important in the medium term. If the United States were to increase significantly its rate of national savings – in other words, reduce demand – in the absence of more domestic demand in Europe and Asia to take up the slack, the results for the world economy could be disruptive. We share a compelling common interest in growth and orderly adjustment in imbalances that requires us all to tackle our respective policy challenges.

For too long the German economy has been flying on only one engine – exports while the domestic economy – investment and consumption – has been stalled. Exports have always been a catalyst for growth in Germany, and in the past have ignited a cycle whereby export revenues generate funds for investment, which in turn creates jobs and sparks consumption. But in the last few years we have all been waiting – and waiting – for the cycle to start. Analysts on both sides of the Atlantic began to speculate on whether past economic linkages were breaking down.

In the last few months, however, we have seen some hopeful signs that the virtuous cycle may finally be underway. Investment was up 7% in the most recent quarter, and business confidence is at its highest level since August 2000. Even consumption is showing signs of life with positive reports of holiday sales by retailers.

The investment numbers are particularly encouraging as they reflect a vote of confidence by German and foreign investors in Germany's investment climate. The entire international economic system is best served by policies that promote not only free trade and flexible exchange rates but also the free flow of capital across borders. Both Germany and the United States maintain and benefit from open investment regimes – just look at the current BASF bid for Engelhard or the Unicredito deal with Hypobank. But some of the rhetoric that came from Germany last year – talk of "swarms of locusts" – sent a negative signal. When Germany is trying to boost growth, it cannot afford to cut off the kind of investment that will make it stronger. Restrictions on private equity or implementing the EU Takeover Bids Directive by incorporating potentially discriminatory "reciprocity" provisions would do just that.

I find the attitude of the head of a German company recently sold to an overseas private equity group to be refreshing. He said: "We are flattered that so many private equity firms have shown interest in us. Locusts are drawn to green grass. We are clearly a juicy bite. We need their money for expansion." Germany's economy can do worse than being called "juicy."

I appreciate the tensions underlying an open investment policy. Although the United States has long advocated such a policy, recent controversy over CNOOC's proposed acquisition of Unocal has caused some to question our investment policy and how the U.S. government monitors acquisitions to protect national security interests. Given the increasing number of cross-border transactions, it is important for U.S. and international businesses that the U.S. government operate in a manner that facilitates an open investment policy that both promotes foreign direct investment in the United States and addresses national security concerns. Of course, some of the most difficult cases we face involve state-owned or -controlled companies that seek to invest or expand in the United States while restricting investment and expansion opportunities in their home markets. That is something many European countries, including Germany, need to realize, especially with regard to former state monopolies.

Another important signal to investors would be to modernize the current U.S.-German tax treaty relationship. A new agreement further reducing barriers to cross-border trade and investment, particularly with respect to cross-border dividends, would complement other investment-friendly policies. It will also ensure that investment is not diverted to other countries that have reached such a modernized agreement with the United States. We hope that we will be able to conclude such a new agreement in the reasonably near future.

And, as the new government moves forward on its economic agenda, we hope there will not be a repeat of the 2002 efforts to apply new taxes or revoke tax preferences on a retroactive basis. The predictability and reliability of taxation rules is an essential element in encouraging investors to continue to evaluate opportunities, especially in companies or sectors under stress.

The signs of renewed investment indicate a nascent upturn that is probably in part a delayed cyclical upturn. It is also likely to be the lagged effects of reforms made over the last few years. It shows that reforms matter and are essential to reverse the long slide in Germany's potential GDP, the determiner of growth over the medium term. German potential growth – another word for cyclically adjusted growth – fell from nearly 4% in the 80's to 1.25% according to the latest IMF calculation, and, without structural reform, it is forecast to fall further.

Obviously, this is not news to German policymakers who have been struggling with the politics of reform for several years. Most of the major parties now recognize that Germany needs more flexible labor and product markets, better higher education, and lower barriers to entrepreneurship and innovation if it is to regain its competitiveness in the modern, globalized economy. The "freedom agenda" laid out by Chancellor Merkel applies with equal force to economic reform.

Meanwhile, change is happening on the ground. Germany's superb export record is partially the result of firms and unions working together to maintain competitiveness through more flexible labor agreements that boost productivity. Unit labor costs have fallen faster than in other major European countries.

Germany needs to change its laws and regulatory structures to allow the reforms at the firm level to spread throughout the economy. The Government's agreed program makes concrete, if modest, steps in this direction, by reducing the tax burden on labor and labor market restrictions. More important, it is an important signal of the government's resolve to move forward. It makes clear that more reform is the solution not the problem.

An accelerated reform process in Germany would have repercussions throughout

Europe. The Lisbon Agenda was designed to use peer pressure to motivate difficult but necessary reforms. What it has lacked, despite its well-grounded validation as a structural reform agenda, is real leadership by example. If Germany becomes that leader, the rest of the continent will follow.

In urging reform, I want to be clear that the United States is in no way trying to impose the U.S. economic model on Germany or any other country. Europe has plenty of successful economic growth stories, ranging from Ireland to the Nordic countries, that provide useful lessons for reform. The Nordic countries, in particular, have in recent years achieved relatively strong performance while maintaining their generous social safety net. Key factors seem to be sustainable fiscal policies, better incentives for labor participation and hiring, a better environment for technology development and entrepreneurship, and higher educational achievement.

Of course, much of the new government's economic program is focused on reducing the deficit, a priority for both of our administrations, made more urgent by the demographic imperative of aging populations. Germany invented the Stability and Growth Pact and must be the leader in reestablishing EU fiscal discipline. But fiscal tightening is coming just as a fragile recovery seems to be taking hold. Deficit reduction must be achieved in a way that does not undermine growth. In particular, potential negative effects of the VAT increase set to go into effect in 2007 must be mitigated.

Encouraging signs include the apparent strong base of public support for the new government's economic program and German investor confidence, which is at a two-year high. Other countries have been able to consolidate budgets and sustain robust economic growth because they had the confidence of the population that economic policy was on the right track and being implemented effectively. If this is to be the scenario for Germany, it must be clear that tax increases are being minimized and balanced with real expenditure cuts.

The U.S. experience highlights the importance of growth and public confidence to deficit reduction. Last year the federal deficit fell by about one-fourth, despite the costs of Hurricane Katrina, Iraq, and the war on terror. In fiscal year 2005, the deficit was 2.6 percent as a share of GDP – lower than the shares in 16 of the last 25 years and only slightly above the 2.3 percent average over the past 40 years.

This deficit reduction was spurred by an average growth rate of better than 4% in the third quarter and a strong increase in federal revenues. Federal revenues for fiscal year 2005 totaled $2.15 trillion – the highest level ever – and a 14.6% increase over fiscal year 2004. This is the largest year-over-year increase in more than 20 years. Further, this deficit reduction has occurred without any tax increases. In fact, President Bush's tax cuts in 2003 have played an important role in reviving the U.S. economy by lowering the cost of capital. Secretary Snow recently said that making these tax cuts permanent is "essential" to continuing a strong, positive trend in business investment and the U.S. economy overall.

Although revenues are up, the United States still has a federal budget deficit that is too large. President Bush has stated a goal of reducing our deficit by one-half, to below 2.3 percent of GDP by 2009, and Secretary Snow said earlier this week that further reducing the deficit is our top priority at the Treasury. To reach this goal, the U.S. government must implement tight spending restrictions. I was heavily involved in preparing the Treasury Department's budget for fiscal year 2007, and I can tell you that the President is committed to this goal of deficit reduction, even with the continued costs associated with Hurricane Katrina, fighting terrorism, and supporting democratic transition in Iraq. It is difficult work to cut spending, but cuts are necessary, and we will work with Congress to make it happen.

Partnership on global challenges

So both Germany and the United States will continue to place a significant priority on reducing deficits, stimulating growth, and increasing employment at home. In parallel, and not on a zero-sum, either-or basis, there are several areas of global interest where we can work together based on our shared values:

Democracy in Europe: The lure of the EU has been a powerful beacon for democracy and reform on Europe's periphery but there is much work yet to be done. Determining final status for Kosovo, sustaining the democratic gains from color revolutions in Ukraine and Georgia, and achieving change in Europe's last true dictatorship, Belarus, are all areas where the United States and Europe – with German leadership – must continue to coordinate closely. And economic progress and financial stability are key elements in the democracy equation.

Energy Security: The recent Russia-Ukraine gas dispute highlights the need to cooperate on diversifying global energy production and transport, and developing innovative technologies to reduce our long-term dependence on fossil fuels. I look forward to learning the results of the panel on this critical subject that follows this luncheon.

WTO: As one of the world's largest exporters, Germany benefits enormously from free trade and globalization. As Chancellor Merkel said last evening, protectionism serves no one's interests. Germany has a particularly strong interest in leading EU trade policy, where protection of the farm sector seems to have eclipsed the broader interests of many EU members. The doorway to a successful round is agriculture and the key to that door is a more ambitious agriculture market access proposal from the EU. With a stronger German role, we can unlock the growth potential of trade liberalization.

We have also identified four particular priorities for strategic investments we need to consider in the Muslim and Arab worlds:

Afghanistan: As the President made clear to the Chancellor today, the United States is exceptionally grateful for the strong leadership role Germany has played both on security and in the reconstruction of Afghanistan, including hosting the landmark Bonn Conference in 2002. We are now at a critical stage in the history of Afghanistan. With the completion of the Bonn Process, even strong contributors like Germany need to redouble efforts to help ensure that Afghanistan's nascent democracy flourishes into a thriving nation and economy. The upcoming donors' conference in London at the end of this month provides an opportune moment for Germany to renew its leadership role on Afghan reconstruction. A strong German role, including through NATO, is key to enhancing domestic security and promoting economic development in Afghanistan. In that regard, I thought Chancellor Merkel's references last evening to NATO's centrality, even primacy, on both in- and out-of-area challenges were quite noteworthy.

Iraq: We look forward to cooperating with Germany as we engage with the new Iraqi authorities to help them realize their vision of a vibrant, market-based economy and to further develop democratic institutions. Iraq's leaders who emerge from December's historic elections warrant our strong support in their efforts to develop sound, credible institutions and construct the infrastructure necessary to ensure the realization of their enormous economic potential. While most of our discussion of Iraq in past years was defined by differences over "boots on the ground," discussion now must focus on the strategic significance to us and the region of success in Iraq. And that success, as in any democratic transition, must include economic progress. In that regard, not only the elections on December 15 but also the December 23 unanimous approval by the Board of the International Monetary Fund of a stand-by agreement for Iraq is a significant milestone.

Palestinian Authority: The EU continues to be a strong voice for reform in the Palestinian territories and a key player in support of the peace process. The United States looks forward to working closely with Germany in its capacity as a leader in the EU and as a bilateral actor in support of Palestinian economic revitalization. The United States and Germany share a vision of revitalized economic activity in the West Bank and Gaza, supported by strong and credible institutions.

Lebanon: Germany and other friends of Lebanon have a unique opportunity to support the efforts of the newly-elected government to implement economic and political reforms that will put Lebanon on the path toward stability and growth. International donor assistance to support these efforts should be provided in the context of a strong and credible reform program, ideally one supported by the IMF and the World Bank.

Stopping terrorist financing: Chancellor Merkel remarked last evening that fighting terrorism may be even more difficult than fighting the Cold War and that we need to consider how best to organize for that challenge. We at Treasury are engaged in that fight in many ways, notably trying to spur development in countries and regions that are fertile breeding grounds for extremists, but also by using all possible means to deny terrorists the resources to fund their evil enterprises. Germany and the United States are global leaders in the international financial system, both governmental and commercial. Both countries recognize the vital importance of a robust international financial system that can stimulate and sustain economic growth and technological development. Our countries must also be global leaders in protecting the international financial system from abuse by terrorist organizations and other criminal interests. We must continue to promote transparency across all financial sectors, and we must develop and apply financial authorities to identify, isolate, and impede terrorist and criminal threats to the international financial system. This requires national authorities with operational capabilities to attack the illicit financial support networks that enable terrorist organizations, WMD proliferation interests, transnational organized crime groups, and other threats to international peace and security. Perhaps most importantly, this requires national leadership and political will to develop and apply these authorities. Germany and the United States must work together as closely and diligently in protecting the international financial system as we do in promoting its ongoing development. And that includes our common efforts regarding Iran.

Conclusion

Today's meetings – both at the White House and here across Lafayette Park – will provide new impetus to the U.S.-German relationship, and it is incumbent on us to seize the opportunity of a new sense of partnership to achieve concrete results that benefit our people and the world. As Chancellor Merkel said last evening, those results will depend on more than several hours of discussion every few months, so we in the U.S. government have committed to a deeper, more direct, and sustained dialogue with Germany on our rich and varied agenda. In addition to our work together in the G-7, G-8, and, increasingly, G-20, a steady stream of American visitors will be in Berlin over the next few months, to begin to move forward on our common objectives, including economic and financial measures to enhance this most important transatlantic relationship. I look forward to being one of those visitors in the very near future. For now, thank you for your attention, and I would be pleased to field your questions.

PRESS ROOM

January 20, 2006
JS-3082

Treasury Department Hosts Radio Day on the Economy
Secretary Snow Welcomes Hosts, Administration Officials to Historic Cash Room

WASHINGTON, DC – The U.S. Department of the Treasury today is hosting a Radio Day focusing on the state of the American economy. From 7 a.m. until 7 p.m., radio hosts will broadcast from the Treasury's historic Cash Room, and call-in to radio shows across the nation. More than 20 senior Administration officials will visit throughout the day to talk about economic growth and job creation, including in-depth analyses of leading economic indicators and a look at the work government can do to keep the economy on a strong growth path.

"The American economy is truly the envy of the world, and its strength comes from our small-business owners and entrepreneurs, our outstanding workforce and the simple fact that we operate as a free market," Secretary John Snow said. "Our role is to create an environment in which workers and businesses can either thrive or struggle. Right now, jobs are being created and the economy is thriving, and we want to make sure that path of growth continues. That means making sure that the right policies are in place – especially low marginal tax rates," he went on. "I'm very pleased that we are able to have this important discussion about the economy here at the Treasury, in the historic Cash Room. Ongoing conversations about the health of the economy are central to maintaining that health."

Stations and hosts participating in Economic Radio Day include CBS Market Watch, Radio Bilingue/Latino USA, Bloomberg Radio, Kirby Wilbur from KVI in Seattle, Washington, and Sean Hannity from ABC.

Administration officials participating in Treasury's Radio Day:

- Secretary John Snow – Department of the Treasury
- Deputy Secretary Robert Kimmitt – Department of the Treasury
- U.S. Treasurer Anna Cabral – Department of the Treasury
- Assistant Secretary Emil Henry, Jr. – Department of Treasury
- Assistant Secretary Mark Warshawsky – Department of the Treasury
- Under Secretary Randy Quarles – Department of the Treasury
- Secretary Carlos Gutierrez – Department of Commerce
- Deputy Secretary David Sampson – Department of Commerce
- Secretary Elaine Chao – Department of Labor
- Deputy Secretary Steven Law – Department of Labor
- Secretary Alphonso Jackson – Department of Housing and Urban Development
- Ambassador Rob Portman – U.S. Trade Representative
- Karl Rove – Assistant to the President, Deputy Chief of Staff and Senior Advisor
- Dan Bartlett – Counselor to the President
- Nicolle Wallace – White House Communications Director
- Josh Bolten – Director of the Office of Management and Budget
- Al Hubbard – Assistant to the President for Economic Policy and Director of the National Economic Council
- Keith Hennessey – Deputy Director of the National Economic Council
- Ruben Barrales - Director, White House Office of Intergovernmental Affairs

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PRESS ROOM

January 23, 2006
JS-3083

Treasury Secretary Snow to Release DVD on Identity Theft to Help Better Protect Consumers from Financial Fraud

Treasury Secretary John W. Snow will launch a DVD on Thursday January 26, 2006 that provides consumers with information on how to recognize identity theft, how they can protect themselves, and what they should do if they become a victim.

The DVD, entitled Identity Theft: Outsmarting the Crooks, features experts from the government and the private sector talking about the scope of the identity theft problem and how a few simple steps can significantly increase protection.

The launch event will take place in Treasury's Media Room (4121) at 10 a.m. on January 26. Secretary Snow will be joined by representatives that participated in the creation of the DVD from the Federal Trade Commission, Departments of Justice and Defense, the U.S. Secret Service, the U.S. Postal Inspection Service, the American Bankers Association, National Association of Federal Credit Unions, the Consumer Data Industry Association, and the Florida Bankers Association.

Media without Treasury press credentials planning to attend should contact Frances Anderson in Treasury's Office of Public Affairs at (202) 622-2960 or (202) 528-9086 with the following information: name, Social Security number and date of birth. This information may also be emailed to frances.anderson@do.treas.gov.

To view the Video News Release (VNR) please click the link below:

LINKS

- Video News Release (VNR)

PRESS ROOM

January 23, 2006
JS-3084

Treasury Names Financial Attachés in Brussels and Tokyo

Treasury announced today that it is appointing Barbara C. Matthews as the Department's Financial Attaché in Brussels and Maureen Grewe to the attaché post in Tokyo. Matthews will work closely with the U.S. Mission to the European Union on financial services and macroeconomic issues, and serve as the U.S. Treasury's representative in Europe. Grewe will take over as financial attaché in Tokyo in August of this year.

Matthews has recently served as senior counsel to the House Financial Services Committee where she was responsible for international issues. Prior to joining the Financial Services Committee in August of 2003, she was the Banking Advisor and Regulatory Counsel at the Institute of International Finance where she identified and analyzed key global financial and regulatory trends.

Matthews joined the Institute in 1992 as its Associate Banking Advisor until August 1994, when she left to practice law with Morrison & Foerster. She returned to the IIF in January 1996 in the expanded role of Banking Advisor & Regulatory Counsel.

Matthews earned simultaneously a J.D. and an LL.M. in Foreign and International Law from Duke Law School, graduating in 1991. She holds a B.Sc.F.S. from Georgetown University's School of Foreign Service, where she was inducted into Pi Sigma Alpha (the National Political Science Honor Society) and Alpha Sigma Nu (the National Jesuit Honor Society). Matthews is a member of the International Association of Financial Engineers, the American Bar Association, and the Bar of the State of New York and has been elected to the Council on Foreign Relations.

Grewe is currently serving as senior policy advisor in the East Asia Office at the Treasury Department. In this capacity she deals with a full range of Japan issues and works closely with the Embassy staff. Grewe takes over the attaché post in Tokyo after ten years at Treasury that include holding positions as: assistant financial attaché in Tokyo, Treasury representative in Seoul and regional Treasury representative for Southeast Europe. Grewe has also been the Director of the Office of Middle East and South Asian Nations, special assistant for the Assistant Secretary and the Korea desk officer while at Treasury.

Prior to joining Treasury, Grewe was an assistant vice president in the commercial real estate division at Shawmut Bank, and the division financial manager for Trammell Crow's residential property division in Boston, Massachusetts.

Grewe earned an MPA degree from the Woodrow Wilson School at Princeton University in 1995. She has a BS in Finance and Economics from Boston College, graduating in 1987. Grewe is a member of the CFA Institute and has been a Chartered Financial Analyst since 1992.

PRESS ROOM

January 23, 2006
2006-1-23-17-22-47-25960

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 $65,783 million as of the end of that week, compared to $65,938 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	January 13, 2006			January 20, 2006		
TOTAL	65,938			65,783		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	11,319	11,118	22,437	11,309	11,025	22,334
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	11,077	5,393	16,470	11,080	5,347	16,427
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]			7,761			7,756
3. Special Drawing Rights (SDRs) [2]			8,227			8,222
4. Gold Stock [3]			11,043			11,043
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	January 13, 2006			January 20, 2006		
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Foreign currency loans and securities			0			0
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the U.S. dollar:						
2.a. Short positions			0			0
2.b. Long positions			0			0
3. Other			0			0

III. Contingent Short-Term Net Drains on Foreign Currency Assets						
	January 13, 2006			January 20, 2006		
	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

January 25, 2006
js-3085

Treasury Secretary John Snow Signs Statement of Support for Guard and Reserve Employees

In a ceremony at the Department of the Treasury this morning, Secretary John Snow signed a statement of support that joined the Treasury Department with other employers by pledging the following:

1. Employment will not be denied because of service in the Guard or Reserve;
2. Employee job and career opportunities will not be limited or reduced because of service in the Guard or Reserve;
3. Employees will be granted leaves of absence for military service in the Guard or Reserve, consistent with existing laws, without sacrifice of vacation; and
4. [The] agreement and its resultant policies will be made known throughout the organization.

"It is with great respect for the National Guard and Reserves that I sign this Statement of Support," Secretary Snow said. "As civil servants, I believe we should all be humbled to work alongside the men and women who are giving twice to their country – first by serving in the Federal Government and second by volunteering for the ultimate in service, the defense of our great nation and all its precious freedoms. I am proud to affix my signature to a document that makes official my heartfelt support, and deep support from the Treasury, of these valiant federal employees."

PRESS ROOM

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January 25, 2006
js-3086

Treasury and IRS Propose Rules Regarding Designated Roth Contributions

Today, the Treasury Department and the IRS issued proposed regulations under sections 402(g), 402A, 403(b), and 408A, regarding designated Roth contributions. Roth contributions were added to the Code by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and are effective for taxable years beginning after December 31, 2005. Designated Roth contributions allow for employees to designate all or a portion of their elective contributions under a section 401(k) plan of a section 403(b) annuity plan as Roth contributions. These contributions would receive tax treatment much like a Roth IRA contribution, meaning that they would be contributed from after-tax income but, later, "qualified distributions" of the contributions plus earnings would be completely tax-free.

These proposed regulations address issues with respect to designated Roth contributions not addressed in the final regulations under section 401(k) regarding section 402A that were published in the *Federal Register* on January 3, 2006 (71 FR 6), including the definition of a qualified distribution, the taxation of distributions of designated Roth contributions that are not qualified, coordination of designated Roth contributions and Roth IRAs and rules for Roth contributions under section 403(b) plans.

The text of the proposal regulations is attached.

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REPORTS

- Text of Proposed Rules Regarding Designated Roth Contributions industry to find more ways to address identity theft. Treasury, in conjunction with the IRS and the FDIC, held a series of outreach meetings in cities across the country to educate consumers on how they can protect themselves from becoming victims of identity theft.

In the creation of this DVD, Treasury worked with: the Federal Trade Commission, Departments of Justice and Defense, the U.S. Secret Service, the U.S. Postal Office, the American Bankers Association, National Association of Federal Credit Unions, the Consumer Data Industry Association and the Florida Bankers Association.

The disk includes English subtitles for the hearing impaired and Spanish language dubbing. It can be viewed individually via a computer or DVD player or in a group learning environment. A PowerPoint presentation available from the resource library tracks the content of the video and can be used as a teaching aid or handout. The DVD runs approximately 80 minutes but can be viewed selectively in shorter segments on specific topics.

Consumers can obtain the DVD from the Federal Citizen Information Center address in Pueblo, Colo. for a handling charge of $2 (order information below).

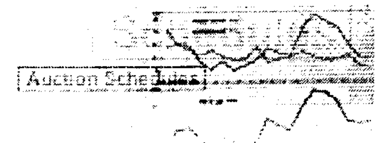
Mail – FCIC -05B, PO Box 100, Pueblo, CO 81002
Phone – 1-888-8 PUEBLO
Fax – 719-948-9724
Internet – www.pueblo.gsa.gov
Order Code Number – 635NN
Item – DVD: Identity Theft: Outsmarting the Crooks

For more information check out Treasury's Identity Theft Resource page at:

http://www.treas.gov/offices/domestic-finance/financial-institution/cip/identity-theft.shtml

-30-

UNITED STATES
DEPARTMENT OF THE TREASURY



OFFICE OF DOMESTIC FINANCE

Office of Critical Infrastructure Protection and Compliance Policy

IDENTITY THEFT RESOURCE PAGE

< BACK

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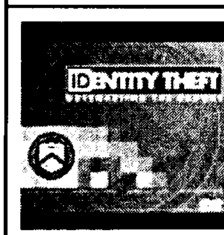
"One of the most harmful abuses of personal information is identity theft."
- President George W. Bush, February 2002

There are many different definitions of what constitutes "Identity Theft." Under the Fair and Accurate Credit Transactions Act of 2003 (FACT Act), the definition is broad: "a fraud committed or attempted using the identifying information of another person without authority." Whatever definition is used, identity theft is a growing crime that can threaten the confidence we share in our open and robust financial system if we don't take action. We all have a role to play in combating identity theft.

This page contains information on what identity theft is, simple steps individuals can take to prevent it, and what they can do if they become victims. There is also information on what industry and law enforcement are doing to fight the crime and a report on various technologies used to combat identity theft. The Treasury Department also developed "Identity Theft: Outsmarting the Crooks," a DVD that includes a Resource Library of supporting materials which are provided below.

Identity Theft: Outsmarting the Crooks



Copies of the Treasury Department DVD, "Identity Theft: Outsmarting the Crooks" are available through the Federal Citizen Information Center. Contact the FCIC at www.pueblo.gsa.gov , toll-free at 1-888-878-3256, or by writing to: FCIC -05B, PO Box 100, Pueblo, CO 81002. The DVD is free, but there will be a modest handling and shipping charge. Supplies are limited. Order Number 635NN.

Streams of DVD Excerpt

- Windows Media Player
- Real Player

Resource Library Materials: The Resource Library materials contained in the DVD can be downloaded from a personal computer and are accessible below. They are drawn from the video discussion, developed as background by the Treasury Department, or taken from the Federal Trade Commission's useful identity theft web site (www.consumers.gov/idtheft). The PowerPoint Companion Learning Guide accessible below generally tracks the content of the DVD, while the English and Spanish transcripts capture the video verbatim. Web links relate to the agencies and organizations that were represented or mentioned in the video.

DVD Companion Learning Guide

- Identity Theft Companion Learning Guide

Obtaining Credit Reports

- FTC Facts: Your Access to Free Credit Reports
- Obtaining Your Credit Reports: Nationwide Credit Bureaus
- Annual Credit Report Request Form

Identity Theft Tips, Forms, and Facts

- Affidavit

- Do's and Don'ts
- FACT Act Provisions
- FTC Brochure: Take Charge: Fighting Back Against Identity Theft
- En Español: Tome Control: Defiendase Contra el Robo de Identidad
- FTC: Brief Summary of Rights
- En Español: Un breve resumen de los derechos
- IRS: Identity Theft Message

Phishing

- FTC Consumer Alert. "Phishing"
- En Español: Alerta de la FTC: "Phishing"
- Anti-Phishing Working Group: Phishing Activity Trends Report Lessons
- Lessons Learned by Consumers, Financial Sector Firms, and Government Agencies

Transcripts of the DVD

- English
- En Español

Identity Theft Links

- Selected Identity Theft Web Links

» **Remarks of Deputy Assistant Secretary for Critical Infrastructure Protection D. Scott Parsons Beating Identity Crime: How the Public and Private Sectors are Working Together to Help Consumers and Put Fraudsters Behind Bars FDIC Identity Theft Symposium**

» **The Use of Technology to Combat Identity Theft: Report on the Study Conducted Pursuant to Section 157 of the Fair and Accurate Credit Transactions Act of 2003**

» Fair and Accurate Credit Transactions Act of 2003
  - » "Identity Theft Threatens Credit System", by Treasury Secretary John W. Snow, Albuquerque Journal, August 7, 2003
  - » Treasury Secretary John W. Snow Testimony on Strengthening Consumer Interests of the Fair Credit Reporting Act Before the Committee on Banking, Housing, and Urban Affairs, July 31, 2003
  - » Treasury Secretary John W. Snow Testimony Advocating the Renewal of the Fair Credit Reporting Act Before the Committee on Financial Services July 9, 2003
  - » United States Treasury Secretary John W. Snow Remarks Advocating the Renewal of the Fair Credit Reporting Act June 30 2003 The Treasury Department, Cash Room Washington, DC
  - » United States Treasury Secretary John W. Snow Remarks Advocating the Renewal of the Fair Credit Reporting Act June 30 2003 The Treasury Department, Cash Room Washington, DC

» Identity Theft Penalty Enhancement Act of 2004

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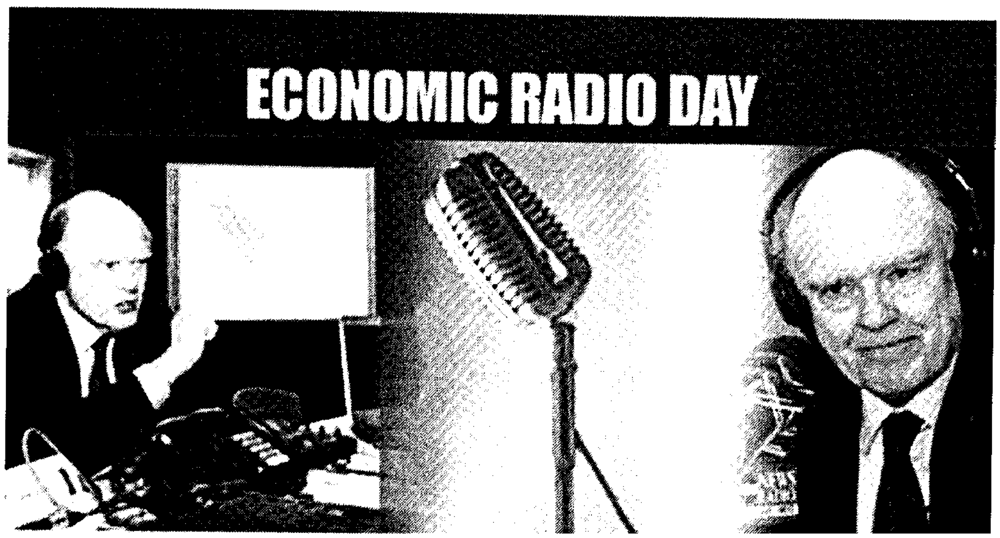
Last Updated: January 26, 2006

PRESS ROOM

January 26, 2006
2006-1-26-14-0-46-27061

Photo Gallery: Economic Radio Day



The U.S. Department of the Treasury hosted a Radio Day on January 20th which focused on the state of the American economy.
View the photos from Radio Day

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS:
A Photo Essay - Economic Radio Day

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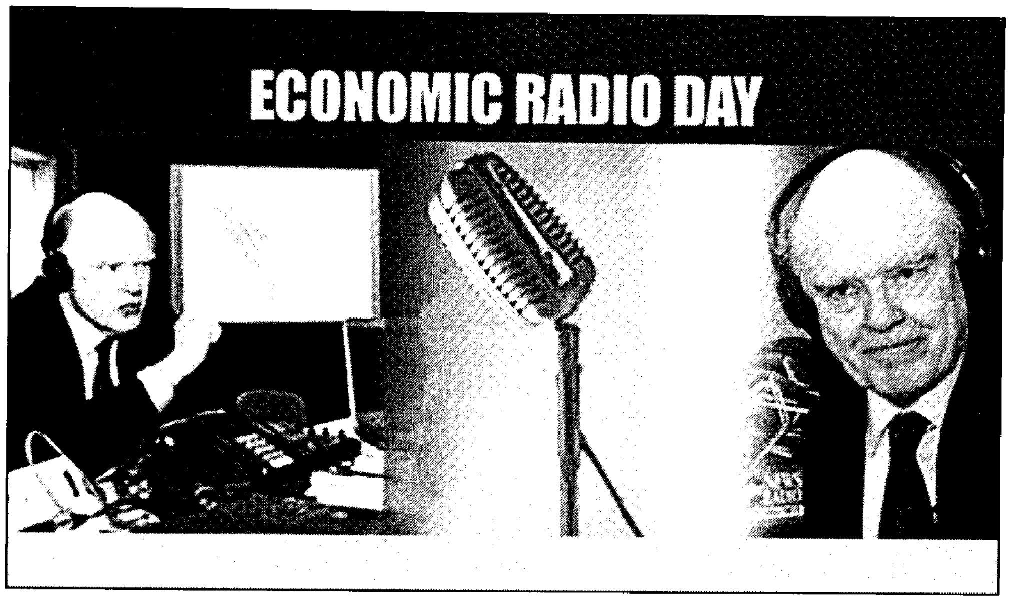

The U.S. Department of the Treasury hosted a Radio Day on January 20th which focused on the state of the American economy. Radio hosts broadcast their shows from the Treasury's historic Cash Room throughout the day, and call-in radio shows across the nation heard from more than 20 Administration officials who participated in the event. Topics of discussion included economic growth and job creation, including in-depth analyses of leading economic indicators and a look at the work government can do to keep the economy on a strong growth path.

"The American economy is truly the envy of the world, and its strength comes from our small-business owners and entrepreneurs, our outstanding workforce and the simple fact that we operate as a free market," Secretary John Snow said. "Our role is to create an environment in which workers and businesses can either thrive or struggle. Right now, jobs are being created and the economy is thriving, and we want to make sure that path of growth continues. That means making sure that the right policies are in place – especially low marginal tax rates," he went on. "I'm very pleased that we were able to have this important discussion about the economy here at the Treasury, in the historic Cash Room. Ongoing conversations about the health of the economy are central to maintaining that health."

- HTML Version (Modem)
- Flash Version (Hi-Speed)

Introduction | Photo Gallery | Press Room

PRESS ROOM

January 27, 2006
JS-3088

Statement by Treasury Secretary John Snow on the Release of Preliminary Estimates of Fourth Quarter 2005 GDP

The advanced estimate of fourth quarter 2005 GDP released this morning is inconsistent with the underlying strength of the U.S. economy.

I would not read too much into today's numbers. They are somewhat anomalous, reflecting some special factors. They are not consistent with other data on the U.S. economy which paint a picture of good growth:

- Durable goods numbers are strong;
- The manufacturing sector is doing well;
- Labor markets strengthening;
- Unemployment is at historically low levels; and
- Initial claims for unemployment insurance are the lowest in five years;

The American economy is on a good course and I am very confident. I am optimistic about the first quarter and the year ahead and am confident that we will see strong growth for the year.

On a year-over-year basis the economy has grown at 3.5%, which is certainly good strong growth. We will look forward to revisions of the preliminary estimates in the coming months. Economic fundamentals point to continued strong economic performance in the United States in 2006. The U.S. economy is performing well.

PRESS ROOM

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January 30, 2006
JS-3089

Treasury and IRS Issue Final Regulations Relating to U.S Possessions

WASHINGTON, DC – The Treasury Department and IRS today issued final regulations to provide guidance regarding taxation in U.S. possessions. The regulations reflect amendments to the Internal Revenue Code made by the American Jobs Creation Act of 2004 (AJCA). The final regulations provide guidance for determining whether an individual is a bona fide resident of the following U.S. possessions: American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands.

The income tax laws of the United States have long contained special provisions for the taxation of individuals residing in U.S. possessions. AJCA revised certain aspects of these provisions to prevent individuals who live and work in the United States from inappropriately reducing their combined U.S. and possessions tax. The Treasury Department and IRS issued a comprehensive package of proposed and temporary regulations in April of 2005 relating to U.S. possessions, including the determination of bona fide residency in a possession. In response to extensive comments on the regulations dealing with the determination of residency, Treasury and the IRS have amended and finalized the regulations dealing with residency. These final regulations incorporate many of the comments received on the proposed and temporary regulations, including a number of revisions intended to better reflect the realities of possessions life.

The text of the proposal regulations is attached.

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REPORTS

- TD 9248

[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Parts 1 and 602

[TD 9248]

RIN 1545-BC86

Residence Rules Involving U.S. Possessions

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations, temporary regulations, and removal of temporary regulations.

SUMMARY: This document contains final regulations that provide rules for determining bona fide residency in the following U.S. possessions: American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, and the United States Virgin Islands under sections 937(a) and 881(b) of the Internal Revenue Code (Code).

DATES: Effective Date: These regulations are effective January 31, 2006.

Applicability Dates: For dates of applicability, see §§1.881-5(f)(8) and 1.937-1(i).

FOR FURTHER INFORMATION CONTACT: J. David Varley, (202) 435-5262 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collections of information contained in these final regulations have been reviewed and approved by the **Office of Management and Budget** in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3507(d)) under control number 1545-1930.

The collections of information in these final regulations are in §1.937-1. The collection of information required by §1.937-1(h) is to ensure that individuals claiming to become, or cease to be, residents of a U.S. possession file notice of such a claim with the Internal Revenue Service in accordance with section 937(c) of the Code. Individuals subject to this reporting requirement must retain information to establish their residency as required by section 937(c) of the Code and §1.937-1. An additional collection of information in these final regulations is in §1.937-1(c)(4)(iii). This information is required to satisfy the documentation and production requirements for individuals who come within an exception to the presence test of §1.937-1(c) as a consequence of receiving (or accompanying certain family members who receive) qualifying medical treatment.

The collections of information are mandatory and will be used for audit and examination purposes. The likely respondents are individuals who become (or cease to be) bona fide residents of a U.S. possession and individuals who, in satisfying the presence test requirement for bona fide residence in a possession, exclude days in the U.S. or include days in a relevant possession because they receive (or accompany certain family members who receive) qualifying medical treatment.

Estimated total annual reporting and/or recordkeeping burden: 300,000 hours.

Estimated average annual burden hours per respondent: 4 hours.

Estimated number of respondents: 75,000.

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.

Comments concerning the accuracy of this burden estimate and suggestions for reducing this burden should be directed to the **Office of Management and Budget**, Attn: Desk Officer for the Department of 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.

Books or records relating to a collection of information must be retained as long as their contents might 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

The American Jobs Creation Act of 2004 (Public Law 108-357) was enacted on October 22, 2004. Section 809 of the Act added section 937 to the Code, relating to residence, source, and effectively connected income with respect to the U.S. possessions. On April 11, 2005, the IRS and Treasury published in the **Federal Register** temporary regulations (TD 9194, 70 FR 18920, as corrected at 70 FR 32589-01), which provided rules to implement section 937 and to conform existing regulations to other legislative changes with respect to U.S. possessions. A notice of proposed rulemaking (REG-159243-03, 70 FR 18949) cross-referencing the temporary regulations was published in the **Federal Register** on the same day. Written comments were received in response to the notice of proposed rulemaking and a public hearing on the proposed regulations was held on July 21, 2005. The proposed regulations relating to the residence rules (specifically, §§1.937-1 and 1.881-5T(f)(4)) are adopted as amended by this Treasury decision, and the corresponding temporary regulations are removed. The revisions are discussed below. The remainder of the proposed and temporary regulations, relating to source and effectively connected income with respect to U.S. possessions, will be finalized together with the other conforming changes in a forthcoming Treasury decision.

Explanation of Provisions and Summary of Comments

The proposed and temporary regulations under Code section 937(a) provide rules for determining whether an individual is a "bona fide resident" of a U.S. possession. Generally, §1.937-1T provides that an individual is a bona fide resident of a possession if the individual meets a presence test, a tax home test and a closer connection test. The IRS received comments relating to each of the three tests.

I. Presence Test

A. General rule

Under section 937(a)(1), in order to satisfy the presence test, a person must be present in the possession for at least 183 days during the taxable year (the 183-day rule). The proposed and temporary regulations provide several alternatives to the 183-day rule for purposes of satisfying the presence test. Thus, an individual who does not satisfy the 183-day rule nevertheless meets the presence test under the proposed and temporary regulations if the individual spends no more than 90 days in the United States during the taxable year; the individual spends more days in the possession than in the United States and has no earned income in the United States; or the individual has no permanent connection to the United States.

The proposed and temporary regulations also provide a special rule for nonresident aliens in lieu of the 183-day rule and its alternatives. This special rule reflects the intention of the IRS and Treasury to adopt, to the extent possible, the generally applicable rules of residence with respect to nonresident aliens. Thus, the special rule requires nonresident aliens to satisfy a mirrored version of the substantial presence test of section 7701(b) in order to meet the presence test of section 937(a)(1).

A number of commentators suggested that the IRS and Treasury should also allow U.S. citizens and residents to satisfy the 183-day rule of section 937(a)(1) by satisfying a mirrored version of the substantial presence test of section 7701(b). These comments generally argued that the 183-day rule fails to provide the flexibility necessary to reflect the realities of island life. The comments also stated that the proposed and temporary regulations subject U.S. citizens and residents to a higher presence requirement than nonresident aliens.

The final regulations do not incorporate the rules of section 7701(b) as an alternative to the 183-day rule of section 937(a)(1) for U.S. citizens and residents. Congress considered but specifically rejected adopting section 7701(b) as the general rule for determining residency in a possession. See H.R. Conf. Rep. No. 108-755, at 791-795 (2004). Instead, Congress adopted the 183-day rule and gave the Service authority to adopt appropriate exceptions to the rule to provide sufficient flexibility. The proposed and temporary regulations follow that approach and provide alternatives to the 183-day rule intended to address the necessity of off-island travel. The IRS and Treasury do not believe it is appropriate to adopt a section 7701(b) rule by regulations when Congress expressly rejected this view. Accordingly, the IRS and Treasury generally retain the approach of the proposed and temporary regulations in the final regulations but also provide additional flexibility in the application of the 183-day rule and its alternatives to meet the needs of island residents and offset differences between the rules applicable to U.S. citizens and residents and the rules applicable to nonresident aliens.

Commentators also suggested that the 183-day rule should serve as a safe harbor whereby individuals who were present in the possession for at least 183 days would not need also to satisfy the tax home and closer connection tests. The IRS and Treasury believe that this type of safe-harbor rule is inconsistent with the three-part test provided by Congress under section 937(a), which requires individuals to pass an objective presence test as well as the more subjective tax home and closer connection tests. In addition, the IRS and Treasury believe that applying the presence test in combination with the tax and closer connection tests is the most reliable method of determining whether an individual is a bona fide resident of a possession.

B. Counting days of presence

A number of commentators suggested that certain days an individual is not physically present in the possession nevertheless should be considered days during which the individual is present in the possession. Specifically, commentators suggested that days spent outside of the possession for medical treatment of the individual or a family member or because of a natural disaster in the possession, a family emergency, charitable pursuits, or business travel should be counted as days of presence in the possession for purposes of applying the 183-day rule. Similarly, commentators suggested that days spent in the United States for such purposes should not count as days spent in the United States under the alternatives to the 183-day rule.

In response to these comments, the final regulations liberalize the rules on counting days of presence. Consistent with the legislative history of section 937(a), the IRS and Treasury believe that it is desirable to allow for situations in which an individual's presence outside the possession is unlikely to be attributable to a tax avoidance purpose. See H.R. Conf. Rep. No. 108-755, at 791-795 (2004). Accordingly, the final regulations provide additional flexibility for certain situations involving medical conditions and natural disasters.

The proposed and temporary regulations provide that any day that an individual is prevented from leaving the United States because of a medical condition that arose while the individual was present in the United States is not treated as a day of presence in the United States for purposes of the alternatives to the 183-day rule. In response to the comments received, the final regulations provide additional flexibility for medical treatment. Under the final regulations, a temporary stay in the United States for certain documented medical treatment of the individual, or a parent, spouse or child whom the individual accompanies to the treatment, will not count as days spent in the United States for purposes of the alternatives to the 183-day rule, irrespective of where the medical condition arose. Further, such a temporary stay outside of the possession, whether in the United States, another possession or a foreign country, also will count as days of presence in the possession. Qualifying medical treatment generally involves any period of inpatient care in a hospital or hospice in the United States, and any temporary period of time spent in the United States for medically necessary inpatient care in a residential medical care facility. The final regulations focus on the place of treatment and the formal credentials of the health care provider as an objective proxy for a determination that a medical condition is serious enough to entail periods of treatment that may not be readily covered by other alternatives to the 183-day rule.

With respect to disasters, the final regulations provide that if an individual leaves, or is unable to return to, a relevant possession during (1) a two-week period within which an officially declared major disaster in the relevant possession occurs, or (2) the period in which a mandatory evacuation order applies, then the individual will not count any day during either period as a day of presence in the United States, even though the individual has evacuated to or is otherwise present in the United States. The Federal Emergency Management Agency lists officially declared major disasters on its website at www.fema.gov/news/disasters.fema. Furthermore, the individual may count that day (whether the individual's temporary presence was in the United States or in some other location outside the relevant possession) as a day of presence in the relevant possession even though the major disaster or mandatory evacuation order prevented the individual from being physically present in the relevant possession.

The final regulations do not adopt commentators' suggestion that days spent outside of a possession for nonmedical family emergencies, charitable pursuits or business travel should count as days spent in the possession and outside the United States. These additional exceptions would have been administratively difficult to implement and monitor. The IRS and Treasury believe that in these situations, and in medical situations not otherwise provided for in the final regulations, the 183-day rule in combination with the alternatives to that rule, as liberalized in these final regulations, provide sufficient flexibility to accommodate absences from the possession to pursue a range of activities.

C. Permanent connection

Under the proposed and temporary regulations, an individual may satisfy the presence test if the individual has "no permanent connection" to the United States during the taxable year. The proposed and temporary regulations provide a nonexclusive list of three items each of which constitutes a permanent connection. The enumerated items are a "permanent home" in the United

States, a spouse or dependent having a principal place of abode in the United States, and current registration to vote in any political subdivision of the United States.

The IRS and Treasury believe that the term significant connection is more precise and accurate than the term permanent connection. As a result, the final regulations use the term significant connection rather than permanent connection. In addition, the IRS and Treasury have concluded that the rules of the proposed and temporary regulations should be amended in several respects.

The IRS and Treasury believe that it is not appropriate for the listing of items constituting a significant connection to be a nonexclusive list that leaves open the possibility that undefined or unspecified factors could result in a determination that an individual has a significant connection to the United States in a particular case. The significant connection test is an alternative under the presence test, which itself is fundamentally an objective standard. Section 937(a) and the regulations already provide a more subjective, facts-and-circumstances standard in the form of the closer connection test. With respect to the significant connection test, the IRS and Treasury believe that the regulations should provide certainty and that the three items enumerated in the proposed and temporary regulations are the critical significant connections. Accordingly, the final regulations adopt these items as the exclusive list of significant connections to the United States.

The proposed and temporary regulations define permanent home by general reference to §301.7701(b)-2(d)(2). Commentators asserted that this definition does not provide adequate guidance as to the application of the significant connection test in the common situation of individuals who own several homes, including vacation homes. In response to these comments, the final regulations provide an exception for rental property.

With respect to a spouse or dependent whose principal place of abode is in the United States, commentators requested that an estranged spouse and a child of a noncustodial parent not be treated as a significant connection. These commentators observed that the noncustodial parent may not have any control over the place where the child resides and that a finding of significant connection in such circumstances would be inappropriate. The IRS and Treasury agree, and the final regulations exclude such children from the definition of significant connection. In addition, the final regulations provide that only minor children are the type of dependent that constitutes a significant connection. Further, the final regulations do not treat as a significant connection a minor child who resides in the United States as a student, or a spouse from whom the individual is legally separated.

D. Earned income

The proposed and temporary regulations provide that an individual may satisfy the presence test if the individual spends more days in the possession than in the United States and has no earned income in the United States. Commentators suggested that the regulations should permit an individual to qualify under this alternative even with some de minimis amount of earned income in the United States. In addition, commentators suggested that income earned on any day excluded for purposes of counting days of presence in the United States under the presence test (for example, for certain medical treatment) should be excluded from earned income.

The IRS and Treasury agree that from the standpoint of practicality, fairness and administrability, de minimis amounts of U.S.-earned income should not render unavailable this alternative to the 183-day rule. In establishing a permitted amount of earned income for this purpose, the IRS and Treasury believe it appropriate to look to existing de minimis provisions of the Code involving compensation for services. In this regard, the final regulations cross-reference the maximum amount ($3,000 under current law) of compensation for labor or personal services performed in the United States that is not deemed to be income from sources within the United States under section 861(a)(3). The final regulations do not incorporate the suggestion that income earned on days excluded for purposes of counting days of presence should be excluded from earned income. The IRS and Treasury believe that this type of exclusion from earned income would be difficult to administer and could lead to abuse of this alternative, particularly given the additional flexibility provided in the final regulations with respect to days that can be excluded for purposes of counting days of presence.

Commentators also suggested that the no-U.S.-earned-income alternative to the 183-day rule should be applied by treating each state or other defined geographic area as a separate location so that the United States is not treated as a single location for purposes of determining if an individual was present for more days in the possession than in the United States under this alternative. The IRS and Treasury believe that this type of rule could be easily manipulated and difficult to administer. Further, with respect to residency determinations, the Code typically treats the United States as a single location. Therefore, the final regulations do not adopt this suggestion.

II. Tax Home Test

Sections 931, 932, 933 and 935 generally apply to an individual who is considered a bona fide resident of the respective possession under Code section 937(a) for the entire taxable year. The proposed and temporary regulations treat an individual as a bona fide resident of a possession for the entire taxable year only if the individual satisfies the presence, tax home, and closer connection tests for the taxable year.

Commentators suggested that it may be difficult for an individual moving to a possession during a taxable year to satisfy the tax home test if the individual had a regular or principal place of business in the United States or a closer connection to the United States for the portion of the year prior to the date of the move to the possession. These commentators suggested that individuals should be able to prorate their income for the taxable year of the move in accordance with the portion of the year for which they satisfy the tax home test.

The IRS and Treasury agree that special rules are appropriate for the year of a move to a possession and believe that similar rules are appropriate for the year of a move out of a possession. However, the IRS and Treasury do not believe that general statutory authority exists for the proration of a taxpayer's income for the taxable year in this context. Only in the case of Puerto Rico does the Code expressly allow for prorating income according to periods of residency, and then only when an individual moves out of Puerto Rico. See section 933(2). Sections 931, 932 and 935 contain no analogous proration provisions. As a result, except for a special rule applicable to certain individuals who move from Puerto Rico, the final regulations do not provide proration rules.

Instead, the final regulations adopt a standard whereby an individual moving to a possession during the taxable year generally will satisfy the tax home test if the individual does not have a tax home outside that possession during any part of the last 183 days of that taxable year. To prevent abuse of this special rule, the regulations further require in order to use the rule that the individual not have been a bona fide resident of the relevant possession during the three taxable years before the move and that the individual continue to qualify as a bona fide resident of the possession for the three taxable years following the year of the move. Corresponding rules will apply to the taxable year in which an individual moves from a possession. However, reflecting that section 933(2) provides for proration of a U.S. citizen's income with respect to bona fide residents who move from Puerto Rico, the final regulations provide a special rule that allows qualifying individuals to be treated as bona fide residents for the part of the year before they move from Puerto Rico.

Under the tax home test, the proposed and temporary regulations provide a special rule applicable to seafarers. The special rule prevents an individual from being considered to have a tax home outside a particular possession solely by reason of employment on a ship or other seafaring vessel that is used predominantly in local and international waters. As set forth in the proposed and temporary regulations, the special rule does not specify how to treat time that the ship spends in waters of another possession. The final regulations clarify that time spent in the waters of another possession is treated the same as time spent in the waters of the United States or a foreign country. Thus, under the final regulations, a ship is considered to be used predominantly in local or international waters if the total time it is used in local and international waters during a taxable year exceeds the total time it is used in the territorial waters of the United States, another possession, and any foreign country.

See section V of this preamble for an explanation of the transition rule concerning the effective date of the tax home test.

III. <u>Closer Connection Test</u>

Under section 937(a)(2), in order to be a bona fide resident of a possession, a person must not have a closer connection (determined under the principles of section 7701(b)(3)(B)(ii)) to the United States or a foreign country than to the relevant possession. The regulations under section 7701(b)(3)(B)(ii) provide a facts-and-circumstances test to determine whether an individual has a closer connection with the United States or with a foreign country. This facts-and-circumstances test provides a nonexclusive list of factors to be taken into consideration. See §301.7701(b)-2(d). The proposed and temporary regulations under section 937 apply the principles of and factors provided in §301.7701(b)-

2(d) in determining whether an individual meets the closer connection test of section 937.

Commentators suggested that the final regulations designate certain factors as primary and others as secondary, thereby indicating the relative weight of the factors listed in §301.7701(b)-2(d). Alternatively, commentators requested that the final regulations indicate that an individual who meets a majority of factors establishes a closer connection. Some commentators criticized Example 6 under §1.937-1T(f) (the closer connection example) for failing to take into account all factors listed in §301.7701(b)-2(d) and for not providing an analysis of how the example concludes that the individual fails to satisfy the closer connection test. These commentators appeared to believe that the closer connection example suggests that the location of an individual's spouse and children is more important than other factors or even is determinative of whether the individual has a closer connection to the United States or the possession. Some commentators also seemed to confuse these factors with the permanent connection alternative to the presence test and believed that the closer connection test requires an individual's spouse and dependent children also to reside in the possession. Commentators noted that if it applied, this requirement would apparently conflict with the joint filing rule of section 932(d).

The closer connection test is a facts-and-circumstances test. The very nature of the test does not allow for weighting of factors because a factor with respect to one set of facts and circumstances may be less important than with respect to another set of facts and circumstances. Because the test must be applied to a wide variety of individual situations, the final regulations do not designate specific factors as primary, adopt a weighting of factors, or adopt a rule that counts a majority of the factors to determine closer connection. Further, because the list in §301.7701(b)-2(d) is not exclusive, other factors, including, for example, whether the individual was born and raised in the relevant possession, may be considered in the determination. The final regulations amend Example 6 to demonstrate that all factors (including any factors important in a particular case but not on the nonexclusive list) must be considered in determining an individual's closer connection.

Although the location of the individual's family is often a very important factor, it is one of many factors to be evaluated qualitatively under the facts-and-circumstances test, and in a particular case it may not be an important or overriding factor. Thus, unlike the no-significant-connection alternative (previously the no-permanent-connection alternative) to the presence test, the closer connection test can be satisfied, depending on an individual's particular facts and circumstances, even if, for example, the individual's spouse resides in the United States. In addition, Congress provided in section 937(a) that individuals must satisfy the closer connection test to establish bona fide residency in a possession notwithstanding the statutory joint filing rule provided in section 932(d). For these reasons, the regulations under section 937 do not conflict with section 932(d).

The proposed and temporary regulations require that an individual satisfy the closer connection test for the entire taxable year in order to be considered a bona fide resident of a relevant possession. Commentators noted that, as with the tax home test, it may be difficult for an individual moving into a possession during a taxable year to satisfy the closer connection test for the entire taxable year. Accordingly, the final regulations provide special year-of-move rules under the closer connection test similar to those described in section II of this preamble (relating to the tax home test).

The final regulations make clarifying amendments to the closer connection test. Section 1.937-1T(e)(2) of the proposed and temporary regulations specifies that another possession is not considered a foreign country for purposes of the closer connection test. The final regulations do not specify this because a special rule distinguishing possessions from foreign countries is unnecessary and potentially confusing. In the absence of an explicit provision, possessions are not treated as foreign countries under the Code or Treasury Regulations. The final regulations also clarify that an individual's connections to the United States and foreign countries are considered in the aggregate, rather than on a country-by-country basis, when comparing those connections with the individual's connections to the relevant possession.

See section V of this preamble for an explanation of the transition rule concerning the effective date of the closer connection test.

IV. <u>Withholding Tax Exceptions for Certain Possessions Corporations</u>

Section 881(b) provides exemptions from, or reductions of, withholding tax and branch profits tax on certain U.S.-source income received by corporations organized in U.S. possessions. As one of the conditions for such treatment in certain cases, section 881(b)(1)(C) sets forth a "base-erosion" test requiring that no substantial part of the possessions corporation's income be used to satisfy obligations to "persons" who are not bona fide residents of such a possession or of the United States. Section 937(a) provides in relevant part that for purposes of section 881(b), except as provided in regulations, a "person" is a bona fide resident if the person satisfies the requirements of section 937(a). For purposes of the base-erosion test, §1.881-5T(f)(4)(i) defines a bona fide resident of a possession by reference to §1.937-1T, which provides that only a natural person, rather than a juridical person, may qualify as a bona fide resident of a possession. Similarly, §1.881-5T(f)(4)(ii) defines bona fide residents of the United States for purposes of the base-erosion test as including only certain individuals who are citizens or residents of the United States.

Commentators observed that the interaction of these rules in the proposed and temporary regulations could result in disqualifying income from the withholding tax exceptions in any situation where the possessions corporation makes payments to satisfy obligations to persons other than individuals. These commentators further noted that many common business arrangements would run afoul of the base-erosion test if corporations cannot constitute bona fide residents.

The IRS and Treasury agree that such results would be undesirable and unintended. In the context of section 881(b), the IRS and Treasury believe that the statutory terms <u>persons</u> and <u>bona fide residents</u> should not be interpreted as limited to individuals. Accordingly, the final regulations additionally provide that a corporation, or a business association that is treated as a corporation for tax purposes, may qualify as a bona fide resident of a relevant possession or the United States for purposes of the base-erosion test if it is created or organized in that jurisdiction. The final regulations reflect that section 937(a) and the regulations under that section are intended to apply only to individuals in determining whether a person is a bona fide resident of a possession within the meaning of section 881(b)(1)(C).

Note that the IRS and Treasury believe that the words "direct or indirect" in section 881(b)(1)(C) (and §1.881-5(c)(3)) would authorize an anti-abuse rule that prohibits payments to possessions corporations that are a part of back-to-back loan arrangements or other base erosion schemes. Accordingly, the IRS and Treasury are strongly considering including such an anti-abuse rule when finalizing the remaining proposed and temporary regulations under section 881(b). It is expected that any such anti-abuse rule would be retroactive to January 31, 2006.

Commentators also proposed that the final regulations adopt a special rule whereby publicly traded corporations may qualify for favorable tax treatment without regard to the conditions under section 881(b)(1), including the base-erosion test. A similar rule is provided under section 884(e)(4)(B) and §1.884-5(d) under the branch profits tax. However, the final regulations do not adopt such a special rule in this context. The IRS and Treasury note that section 881(b) does not grant authority to depart from the statutory conditions of section 881(b)(1), including the base-erosion test.

V. Effective Date

The proposed and temporary regulations are generally effective for tax years ending after October 22, 2004. Consistent with the effective date of section 937(a), the proposed and temporary regulations provide a transition rule that delays the effective date of the presence test until tax years beginning after October 22, 2004 (tax year 2005 for calendar year taxpayers). A number of commentators suggested that the final regulations should provide a similar transition rule with respect to the effective date of the tax home and closer connection tests so that the prior-law, facts-and-circumstances test continues to apply through tax years beginning on or before October 22, 2004.

The IRS and Treasury believe that it is appropriate to provide a transition rule with respect to the tax home and closer connection tests consistent with the effective date of the presence test. The effective date of the final regulations reflects the fact that most taxpayers already will have filed their income tax returns for taxable year 2004. As a result, this transition rule is elective so that taxpayers may apply at their option the prior-law test for determining residency.

Under section 937(a), an individual's tax home outside the relevant possession conclusively forecloses bona fide residency in the possession, rather than being one of a number of facts and circumstances that are considered under the prior-law test. However, in most instances the outcome of the residency determination under prior law should be the same as with the application of the section 937(a) tax home and closer connection tests because individuals are required to demonstrate similar factors to support claims that they are bona fide residents of a particular possession. See, e.g., Sochurek v. Commissioner, 300 F.2d 34, 38 (7th Cir. 1962) (enumerating representative factors), and Bergersen v. Commissioner, 109 F.3d 56, 61-62 (1st Cir. 1997), aff'g T.C. Memo 1995-424 (applying prior-law facts-and-circumstances test in same way closer connection test is applied by "taking account of all of the [taxpayers'] ties to both places" to determine residency under principles of §§1.871-2 through 1.871-5). The optional effective date for the tax home and closer connection tests is intended to create symmetry with the effective date of the presence test. No inference is intended or may be drawn from this transition rule as to the result under prior law.

VI. Miscellaneous Changes

Consistent with section 937(a), the final regulations specify that the residency rules apply for purposes of the income tax and certain other enumerated provisions of the Code. With respect to the estate and gift taxes, see §§20.2209-1 and 25.2501-1(d).

The final regulations also reflect various nonsubstantive stylistic edits to the proposed and temporary regulations to enhance clarity and readability.

VII. Mutual Agreement Procedures

In the application of the operative provisions of the Code relating to possessions, for example sections 931 through 935, section 937(a) and the final regulations govern whether an individual is a bona fide resident of a particular possession. A commentator observed that there is a possibility that the IRS and the taxing authority of a particular possession might reach different conclusions with respect to certain determinations, including residency, when administering their respective income tax laws. In such cases, taxpayers are advised that mutual agreement procedures are available. For procedures to request the assistance of the IRS when a taxpayer is or may be subject to inconsistent tax treatment by the IRS and a possession tax agency, see Revenue Procedure 89-8 (1989-1 C.B. 778).

Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations. Because the regulations do not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Code, the notice of proposed rulemaking preceding these regulations was submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Drafting Information

The principal author of these regulations is J. David Varley, Office of the Associate Chief Counsel (International), IRS. However, other personnel from the IRS and Treasury Department participated in their development.

List of Subjects

26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

26 CFR Part 602

Reporting and recordkeeping requirements.

Adoption of Amendments to the Regulations

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

PART 1 -- INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by adding entries in numerical order to read, in part, as follows:

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

Section 1.931-1T also issued under 26 U.S.C. 7654(e).
Section 1.932-1T also issued under 26 U.S.C. 7654(e).
Section 1.935-1T also issued under 26 U.S.C. 7654(e). * * *
Section 1.937-1 also issued under 26 U.S.C. 937(a). * * *

Par. 2. Section 1.881-5 is added to read as follows:

§1.881-5 Exception for certain possessions corporations.

(a) through (f)(3) [Reserved]. For more information, see §1.881-5T(a) through (f)(3).

(f)(4) Bona fide resident--

(i) With respect to a particular possession, means--

(A) An individual who is a bona resident of the possession as defined in §1.937-1; or

(B) A business entity organized under the laws of the possession and taxable as a corporation in the possession; and

(ii) With respect to the United States, means--

(A) An individual who is a citizen or resident of the United States (as defined under section 7701(b)(1)(A)); or

(B) A business entity organized under the laws of the United States or any State that is classified as a corporation for federal tax purposes under §301.7701-2(b) of this chapter.

(5) through (7) [Reserved]. For more information, see §1.881-5T(f)(5) through (7).

(8) Effective date. This section applies to payments made after January 31, 2006. However, taxpayers may choose to apply this section to all payments made after October 22, 2004 for which the statute of limitations under section 6511 is open.

(g) through (i) [Reserved]. For more information, see §1.881-5T(g) through (i).

Par. 3. In §1.881-5T, paragraph (f)(4) is revised to read as follows:

§1.881-5T Exception for certain possessions corporations (temporary).

* * * * *

(f)(4) [Reserved]. For more information, see §1.881-5(f)(4).

* * * * *

§1.931-1T [Amended]

Par. 4. In §1.931-1T, paragraph (a)(2) is amended by removing and reserving the Example.

§1.932-1T [Amended]

Par. 5. In §1.932-1T, paragraph (i) is amended by removing and reserving Example 2.

§1.933-1T [Amended]

Par. 6. In §1.933-1T, paragraph (a)(2) is amended by removing and reserving the Example.

§1.935-1T [Amended]

Par. 7. In §1.935-1T, paragraph (f) is amended by removing and reserving Examples 1 and 2.

Par. 8. Section 1.937-1 is added to read as follows:

§1.937-1 Bona fide residency in a possession.

(a) Scope-- (1) In general. Section 937(a) and this section set forth the rules for determining whether an individual qualifies as a bona fide resident of a particular possession (the relevant possession) for purposes of Subpart D, Part III, Subchapter N, Chapter 1 of the Internal Revenue Code as well as section 865(g)(3), section 876, section 881(b), paragraphs (2) and (3) of section 901(b), section 957(c), section 3401(a)(8)(C), and section 7654(a).

(2) Definitions. For purposes of this section and §§1.937-2 and 1.937-3--

(i) Possession means one of the following United States possessions: American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, or the Virgin Islands. When used in a geographical sense, the term comprises only the territory of each such possession (without application of sections 932(c)(3) and 935(c)(2) (as in effect before the effective date of its repeal)).

(ii) United States, when used in a geographical sense, is defined in section 7701(a)(9), and without application of sections 932(a)(3) and 935(c)(1) (as in effect before the effective date of its repeal).

(b) Bona fide resident-- (1) General rule. An individual qualifies as a bona fide resident of the relevant possession if such individual satisfies the requirements of paragraphs (c) through (e) of this section with respect to such possession.

(2) Special rule for members of the Armed Forces. A member of the Armed Forces of the United States who qualified as a bona fide resident of the relevant possession in a prior taxable year is deemed to have satisfied the requirements of paragraphs (c) through (e) of this section for a subsequent taxable year if such individual otherwise is unable to satisfy such requirements by reason of being absent from such possession or present in the United States during such year solely in compliance with military orders. Conversely, a member of the Armed Forces of the United States who did not qualify as a bona fide resident of the relevant possession in a prior taxable year is not considered to have satisfied the requirements of paragraphs (c) through (e) of this section for a subsequent taxable year by reason of being present in such possession solely in compliance with military orders. Armed Forces of the United States is defined (and members of the Armed Forces are described) in section 7701(a)(15).

(3) Juridical persons. Except as provided in §1.881-5(f):

(i) Only natural persons may qualify as bona fide residents of a possession; and

(ii) The rules governing the tax treatment of bona fide residents of a possession do not apply to juridical persons (including corporations, partnerships, trusts, and estates).

(4) Transition rule. For taxable years beginning before October 23, 2004, and ending after October 22, 2004, an individual is considered to qualify as a bona fide resident of the relevant possession if that individual would be a bona fide resident of the relevant possession by applying the principles of §§1.871-2 through 1.871-5.

(5) Special rule for cessation of bona fide residence in Puerto Rico. See paragraph (f)(2)(ii) of this section for a special rule applicable to a citizen of the United States who ceases to be a bona fide resident of Puerto Rico during a taxable year.

(c) Presence test-- (1) In general. A United States citizen or resident alien individual (as defined in section 7701(b)(1)(A)) satisfies the requirements of this paragraph (c) for a taxable year if during that taxable year that individual--

(i) Was present in the relevant possession for at least 183 days;

(ii) Was present in the United States for no more than 90 days;

(iii) Had earned income (as defined in §1.911-3(b)) in the United States, if any, not exceeding in the aggregate the amount specified in section 861(a)(3)(B) and was present for more days in the relevant possession than in the United States; or

(iv) Had no significant connection to the United States. See paragraph (c)(5) of this section.

(2) Special rule for alien individuals. A nonresident alien individual (as defined in section 7701(b)(1)(B)) satisfies the requirements of this paragraph (c) for a taxable year if during that taxable year that individual satisfies the substantial presence test of §301.7701(b)-1(c) of this chapter (except for the substitution of the name of the relevant possession for the term United States where appropriate).

(3) Days of presence. For purposes of paragraph (c)(1) of this section--

(i) An individual is considered to be present in the relevant possession on:

(A) Any day that the individual is physically present in that possession at any time during the day;

(B) Any day that an individual is outside of the relevant possession to receive, or to accompany on a full-time basis a parent, spouse, or child (as defined in section 152(f)(1)) who is receiving, qualifying medical treatment as defined in paragraph (c)(4) of this section; and

(C) Any day that an individual is outside the relevant possession because the individual leaves or is unable to return to the relevant possession during any--

(1) 14-day period within which a major disaster occurs in the relevant possession for which a Federal Emergency Management Agency Notice of a Presidential declaration of a major disaster is issued in the Federal Register; or

(2) Period for which a mandatory evacuation order is in effect for the geographic area in the relevant possession in which the individual's place of abode is located.

(ii) An individual is considered to be present in the United States on any day that the individual is physically present in the United States at any time during the day. Notwithstanding the preceding sentence, the following days will not count as days of presence in the United States:

(A) Any day that an individual is temporarily present in the United States under circumstances described in paragraph (c)(3)(i)(B) or (C) of this section;

(B) Any day that an individual is in transit between two points outside the United States (as described in §301.7701(b)-3(d) of this chapter), and is physically present in the United States for fewer than 24 hours;

(C) Any day that an individual is temporarily present in the United States as a professional athlete to compete in a charitable sports event (as described in §301.7701(b)-3(b)(5) of this chapter);

(D) Any day that an individual is temporarily present in the United States as a student (as defined in section 152(f)(2)); and

(E) In the case of an individual who is an elected representative of the relevant possession, or who serves full time as an elected or appointed official or employee of the government of the relevant possession (or any political subdivision thereof), any day spent serving the relevant possession in that role.

(iii) If, during a single day, an individual is physically present--

(A) In the United States and in the relevant possession, that day is considered a day of presence in the relevant possession;

(B) In two possessions, that day is considered a day of presence in the possession where the individual's tax home is located (applying the rules of paragraph (d) of this section).

(4) Qualifying medical treatment--(i) In general. The term qualifying medical treatment means medical treatment provided by (or under the supervision of) a physician (as defined in section 213(d)(4)) for an illness, injury, impairment, or physical or mental condition that satisfies the documentation and production requirements of paragraph (c)(4)(iii) of this section and that involves--

(A) Any period of inpatient care in a hospital or hospice and any period immediately before or after that inpatient care to the extent it is medically necessary; or

(B) Any temporary period of inpatient care in a residential medical care facility for medically necessary rehabilitation services;

(ii) Inpatient care. The term inpatient care means care requiring an overnight stay in a hospital, hospice, or residential medical care facility, as the case may be.

(iii) Documentation and production requirements. In order to satisfy the documentation and production requirements of this paragraph, an individual must, with respect to each qualifying medical treatment, prepare (or obtain), maintain, and, upon a request by the Commissioner (or the person responsible for tax administration in the relevant possession), make available within 30 days of such request:

(A) Records that provide--

(1) The patient's name and relationship to the individual (if the medical treatment is provided to a person other than the individual);

(2) The name and address of the hospital, hospice, or residential medical care facility where the medical treatment was provided;

(3) The name, address, and telephone number of the physician who provided the medical treatment;

(4) The date(s) on which the medical treatment was provided; and

(5) Receipt(s) of payment for the medical treatment;

(B) Signed certification by the providing or supervising physician that the medical treatment was qualified medical treatment within the meaning of paragraph (c)(4)(i) of this section, and setting forth--

(1) The patient's name;

(2) A reasonably detailed description of the medical treatment provided by (or under the supervision of) the physician;

(3) The dates on which the medical treatment was provided; and

(4) The medical facts that support the physician's certification and determination that the treatment was medically necessary; and

(C) Such other information as the Commissioner may prescribe by notice, form, instructions, or other publication (see §601.601(d)(2) of this chapter).

(5) Significant connection. For purposes of paragraph (c)(1)(iv) of this section--

(i) The term significant connection to the United States means--

(A) A permanent home in the United States;

(B) Current registration to vote in any political subdivision of the United States; or

(C) A spouse or child (as defined in section 152(f)(1)) who has not attained the age of 18 whose principal place of abode is in the United States other than--

(1) A child who is in the United States because the child is living with a custodial parent under a custodial decree or multiple support agreement; or

(2) A child who is in the United States as a student (as defined in section 152(f)(2)).

(ii) Permanent home-- (A) General rule. For purposes of paragraph (c)(5)(i)(A) of this section, except as provided in paragraph (c)(5)(ii)(B) of this section, the term permanent home has the same meaning as in §301.7701(b)-2(d)(2) of this chapter.

(B) Exception for rental property. If an individual or the individual's spouse owns property and rents it to another person at any time during the taxable year, then notwithstanding that the rental property may constitute a permanent home under §301.7701(b)-2(d)(2) of this chapter, it is not a permanent home under this paragraph (c)(5)(ii) unless the taxpayer uses any portion of it as a residence during the taxable year under the principles of section 280A(d). In applying the principles of section 280A(d) for this purpose, an individual is treated as using the rental property for personal purposes on any day determined under the principles of section 280A(d)(2) or on any day that the rental property (or any portion of it) is not rented to another person at fair rental for the entire day. The rental property is not used for personal purposes on any day on which the principal purpose of the use of the rental property is to perform repair or maintenance work on the property. Whether the principal purpose of the use of the rental property is to perform repair or maintenance work is determined in light of all the facts and circumstances including, but not limited to, the following: the amount of time devoted to repair and maintenance work, the frequency of the use for repair and maintenance purposes during a taxable year, and the presence and activities of companions.

(iii) For purposes of this paragraph (c)(5), the term spouse does not include a spouse from whom the individual is legally separated under a decree of divorce or separate maintenance.

(d) Tax home test-- (1) General rule. Except as provided in paragraph (d)(2) of this section, an individual satisfies the requirements of this paragraph (d) for a taxable year if that individual did not have a tax home outside the relevant possession during any part of the taxable year. For purposes of section 937 and this section, an individual's tax home is determined under the principles of section 911(d)(3) without regard to the second sentence thereof. Thus, under section 937, an individual's tax home is considered to be located at the individual's regular or principal (if more than one regular) place of business. If the individual has no regular or principal place of business because of the nature of the business, or because the individual is not engaged in carrying on any trade or business within the meaning of section 162(a), then the individual's tax home is the individual's regular place of abode in a real and substantial sense.

(2) Exceptions-- (i) Year of move. See paragraph (f) of this section for a special rule applicable to an individual who becomes or ceases to be a bona fide resident of the relevant possession during a taxable year.

(ii) Special rule for seafarers. For purposes of section 937 and this section, an individual is not considered to have a tax home outside the relevant possession solely by reason of employment on a ship or other seafaring vessel that is predominantly used in local and international waters. For this purpose, a vessel is considered to be predominantly used in local and international waters if, during the taxable year, the aggregate amount of time it is used in international waters and in the waters within three miles of the relevant possession exceeds the aggregate amount of time it is used in the territorial waters of the United States, another possession, and a foreign country.

(iii) Special rule for students and government officials. Any days described in paragraphs (c)(3)(ii)(D) and (E) of this section are disregarded for purposes of determining whether an individual has a tax home outside the relevant possession under paragraph (d)(1) of this section during any part of the taxable year.

(e) Closer connection test-- (1) General rule. Except as provided in paragraph (e)(2) of this section, an individual satisfies the requirements of this paragraph (e) for a taxable year if that individual did not have a closer connection to the United States or a foreign country than to the relevant possession during any part of the taxable year. For purposes of this paragraph (e)--

(i) The principles of section 7701(b)(3)(B)(ii) and §301.7701(b)-2(d) of this chapter apply (without regard to the final sentence of §301.7701(b)-2(b) of this chapter); and

(ii) An individual's connections to the relevant possession are compared to the aggregate of the individual's connections with the United States and foreign countries.

(2) Exception for year of move. See paragraph (f) of this section for a special rule applicable to an individual who becomes or ceases to be a bona fide resident of the relevant possession during a taxable year.

(f) Year of move-- (1) Move to a possession. For the taxable year in which an individual's residence changes to the relevant possession, the individual satisfies the requirements of paragraphs (d)(1) and (e)(1) of this section if--

(i) For each of the 3 taxable years immediately preceding the taxable year of the change of residence, the individual is not a bona fide resident of the relevant possession;

(ii) For each of the last 183 days of the taxable year of the change of residence, the individual does not have a tax home outside the relevant possession or a closer connection to the United States or a foreign country than to the relevant possession; and

(iii) For each of the 3 taxable years immediately following the taxable year of the change of residence, the individual is a bona fide resident of the relevant possession.

(2) Move from a possession-- (i) General rule. Except for a bona fide resident of Puerto Rico to whom §1.933-1(b) and paragraph (f)(2)(ii) of this section apply, for the taxable year in which an individual ceases to be a bona fide resident of the relevant possession, the individual satisfies the requirements of paragraphs (d)(1) and (e)(1) of this section if--

(A) For each of the 3 taxable years immediately preceding the taxable year of the change of residence, the individual is a bona fide resident of the relevant possession;

(B) For each of the first 183 days of the taxable year of the change of residence, the individual does not have a tax home outside the relevant possession or a closer connection to the United States or a foreign country than to the relevant possession; and

(C) For each of the 3 taxable years immediately following the taxable year of the change of residence, the individual is not a bona fide resident of the relevant possession.

(ii) Year of move from Puerto Rico. Notwithstanding an individual's failure to satisfy the presence, tax home, or closer connection test prescribed under paragraph (b)(1) of this section for the taxable year, the individual is a bona fide resident of Puerto Rico for that part of the taxable year described in paragraph (f)(2)(ii)(E) of this section if the individual--

(A) Is a citizen of the United States;

(B) Is a bona fide resident of Puerto Rico for a period of at least 2 taxable years immediately preceding the taxable year;

(C) Ceases to be a bona fide resident of Puerto Rico during the taxable year;

(D) Ceases to have a tax home in Puerto Rico during the taxable year; and

(E) Has a closer connection to Puerto Rico than to the United States or a foreign country throughout the part of the taxable year preceding the date on which the individual ceases to have a tax home in Puerto Rico.

(g) Examples. The principles of this section are illustrated by the following examples:

Example 1. Presence test. W, a U.S. citizen, lives for part of the taxable year in a condominium, which she owns, located in Possession P. W also owns a house in State N where she lives for 120 days every year to be near her grown children and grandchildren. W is retired and her income consists solely of pension payments, dividends, interest, and Social Security benefits. For 2006, W is only present in Possession P for a total of 175 days because of a 70 day vacation to Europe and Asia. Thus, for taxable year 2006, W is not present in Possession P for at least 183 days, is present in the United States for more than 90 days, and has a significant connection to the United States by reason of her permanent home. However, under paragraph (c)(1)(iii) of this section, W still satisfies the presence test of paragraph (c) of this section with respect to Possession P because she has no earned income in the United States and is present for more days in Possession P than in the United States.

Example 2. Presence test. T, a U.S. citizen, was born and raised in State A, where his mother still lives in the house in which T grew up. T is a sales representative for a company based in Possession V. T lives with his wife and minor children in their house in Possession V. T is registered to vote in Possession V and not in the United States. In 2006, T spends 120 days in State A and another 120 days in foreign countries. When traveling on business to State A, T often stays at his mother's house in the bedroom he used when he was a child. T's stays are always of short duration, and T asks for his mother's permission before visiting to make sure that no other guests are using the room and that she agrees to have him as a guest in her house at that time. Therefore, under paragraph (c)(5)(ii) of this section, T's mother's house is not a permanent home of T. Assuming that no other accommodations in the United States constitute a permanent home with respect to T, then under paragraphs (c)(1)(iv) and (c)(5) of this section, T has no significant connection to the United States.

Accordingly, T satisfies the presence test of paragraph (c) of this section for taxable year 2006.

Example 3. Alien resident of possession-- presence test. F is a citizen of Country G. F's tax home is in Possession C and F has no closer connection to the United States or a foreign country than to Possession C. F is present in Possession C for 123 days and in the United States for 110 days every year. Accordingly, F is a nonresident alien with respect to the United States under section 7701(b), and a bona fide resident of Possession C under paragraphs (b), (c)(2), (d), and (e) of this section.

Example 4. Seafarers-- tax home. S, a U.S. citizen, is employed by a fishery and spends 250 days at sea on a fishing vessel in 2006. When not at sea, S resides with his wife at a house they own in Possession G. The fishing vessel upon which S works departs and arrives at various ports in Possession G, other possessions, and foreign countries, but is in international and local waters (within the meaning of paragraph (d)(2) of this section) for 225 days in 2006. Under paragraph (d)(2) of this section, for taxable year 2006, S will not be considered to have a tax home outside Possession G for purposes of section 937 and this section solely by reason of S's employment on board the fishing vessel.

Example 5. Seasonal workers-- tax home and closer connection. P, a U.S. citizen, is a permanent employee of a hotel in Possession I, but works only during the tourist season. For the remainder of each year, P lives with her husband and children in Possession Q, where she has no outside employment. Most of P's personal belongings, including her automobile, are located in Possession Q. P is registered to vote in, and has a driver's license issued by, Possession Q. P does her personal banking in Possession Q and P routinely lists her address in Possession Q as her permanent address on forms and documents. P satisfies the presence test of paragraph (c) of this section with respect to both Possession Q and Possession I, because, among other reasons, under paragraph (c)(1)(ii) of this section she does not spend more than 90 days in the United States during the taxable year. P satisfies the tax home test of paragraph (d) of this section only with respect to Possession I, because her regular place of business is in Possession I. P satisfies the closer connection test of paragraph (e) of this section with respect to both Possession Q and Possession I, because she does not have a closer connection to the United States or to any foreign country (and possessions generally are not treated as foreign countries). Therefore, P is a bona fide resident of Possession I for purposes of the Internal Revenue Code.

Example 6. Closer connection to United States than to possession. Z, a U.S. citizen, relocates to Possession V in a prior taxable year to start an investment consulting and venture capital business. Z's wife and two teenage children remain in State C to allow the children to complete high school. Z travels back to the United States regularly to see his wife and children, to engage in business activities, and to take vacations. He has an apartment available for his full-time use in Possession V, but he remains a joint owner of the residence in State C where his wife and children reside. Z and his family have automobiles and personal belongings such as furniture, clothing, and jewelry located at both residences. Although Z is a member of the Possession V Chamber of Commerce, Z also belongs to and has current relationships with social, political, cultural, and religious organizations in State C. Z receives mail in State C, including brokerage statements, credit card bills, and bank advices. Z conducts his personal banking activities in State C. Z holds a State C driver's license and is registered to vote in State C. Based on the totality of the particular facts and circumstances pertaining to Z, Z is not a bona fide resident of Possession V because he has a closer connection to the United States than to Possession V and therefore fails to satisfy the requirements of paragraphs (b)(1) and (e) of this section.

Example 7. Year of move to possession. D, a U.S. citizen, files returns on a calendar year basis. From January 2003 through May 2006, D resides in State R. In June 2006, D moves to Possession N, purchases a house, and accepts a permanent position with a local employer. D's principal place of business from July 1 through December 31, 2006 is in Possession N, and during that period (which totals at least 183 days) D does not have a closer connection to the United States or a foreign country than to Possession N. For the remainder of 2006, and throughout years 2007 through 2009, D continues to live and work in Possession N and maintains a closer connection to Possession N than to the United States or any foreign country. D satisfies the tax home and closer connection tests for 2006 under paragraphs (d)(2), (e)(2), and (f)(1) of this section. Accordingly, assuming that D also satisfies the presence test in paragraph (c) of this section, D is a bona fide resident of Possession N for all of taxable year 2006.

Example 8. Year of move from possession (other than Puerto Rico). J, a U.S. citizen, files returns on a calendar year basis. From January 2007 through December 2009, J is a bona fide resident of Possession C because she satisfies the requirements of paragraph (b)(1) of this section for each year. J continues to reside in Possession C until September 6, 2010, when she accepts new employment and moves to State H. J's principal place of business from January 1 through September 5, 2010 is in Possession C, and during that period (which totals at least 183 days) J does not have a closer connection to the United States or a foreign country than to Possession C. For the remainder of 2010 and throughout years 2011 through 2013, D continues to live and work in State H and is not a bona fide resident of Possession C. J satisfies the tax home and closer connection tests for 2010 with respect to Possession C under paragraphs (d)(2)(i), (e)(2), and (f)(2)(i) of this section. Accordingly, assuming that J also satisfies the presence test of paragraph (c) of this section, J is a bona fide resident of Possession C for all of taxable year 2010.

Example 9. Year of move from Puerto Rico. R, a U.S. citizen who files returns on a calendar year basis satisfies the requirements of paragraphs (b) through (e) of this section for years 2006 and 2007. From January through April 2008, R continues to reside and maintain his principal place of business in and closer connection to Puerto Rico. On May 5, 2008, R moves and changes his principal place of business (tax home) to State N and later that year establishes a closer connection to the United States than to Puerto Rico. R does not satisfy the presence test of paragraph (c) for 2008 with respect to Puerto Rico. Moreover, because R had a tax home outside of Puerto Rico and establishes a closer connection to the United States in 2008, R does not satisfy the requirements of paragraph (d)(1) or (e)(1) of this section for 2008. However, because R was a bona fide resident of Puerto Rico for at least two taxable years before his change of residence to State N in 2008, he is a bona fide resident of Puerto Rico from January 1 through May 4, 2008 under paragraphs (b)(5) and (f)(2)(ii) of this section. See section 933(2) and §1.933-1(b) for rules on attribution of income.

(h) Information reporting requirement. The following individuals are required to file notice of their new tax status in such time and manner as the Commissioner may prescribe by notice, form, instructions, or other publication (see §601.601(d)(2) of this chapter):

(1) Individuals who take the position for U.S. tax reporting purposes that they qualify as bona fide residents of a possession for a tax year subsequent to a tax year for which they were required to file Federal income tax returns as citizens or residents of the United States who did not so qualify.

(2) Citizens and residents of the United States who take the position for U.S. tax reporting purposes that they do not qualify as bona fide residents of a possession for a tax year subsequent to a tax year for which they were required to file income tax returns (with the Internal Revenue Service, the tax authorities of a possession, or both) as individuals who did so qualify.

(3) Bona fide residents of Puerto Rico or a section 931 possession (as defined in §1.931-1T(c)(1)) who take a position for U.S. tax reporting purposes

that they qualify as bona fide residents of that possession for a tax year subsequent to a tax year for which they were required to file income tax returns as bona fide residents of the United States Virgin Islands or a section 935 possession (as defined in §1.935-1T(a)(3)(i)).

(i) Effective date. Except as provided in this paragraph (i), this section applies to taxable years ending after January 31, 2006. Paragraph (h) of this section also applies to a taxpayer's 3 taxable years immediately preceding the taxpayer's first taxable year ending after October 22, 2004. Taxpayers also may choose to apply this section in its entirety to all taxable years ending after October 22, 2004 for which the statute of limitations under section 6511 is open.

§1.937-1T [Removed]

Par. 9. Section 1.937-1T is removed.

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

Par. 10. The authority citation for part 602 continues to read as follows:

Authority: 26 U.S.C. 7805.

Par. 11. In §602.101, paragraph (b) is amended by removing the entry for "1.937-1T" and adding a new entry for "1.937-1" in numerical order to the table to read as follows:

§602.101 OMB Control numbers.

* * * * *

(b) * * *

CFR part or section where identified and described	Current OMB control No.
* * * * *	
1.937-1	1545-1930
* * * * *	

Mark E. Matthews,
Deputy Commissioner for Services and Enforcement.

Approved: January 20, 2006.

Eric Solomon,
Acting Deputy Assistant Secretary of the Treasury (Tax Policy).

PRESS ROOM

January 30, 2006
js-3090

**Statement by Deputy Assistant Secretary Dan Iannicola
Before the National Association of School Boards of Education (NASBE)
Commission on
Financial Literacy and Investor Education
Alexandria, Virginia**

Deputy Assistant Secretary Iannicola helped the National Association of School Boards of Education (NASBE) launch its Commission on Financial Literacy and Investor Education today. The Commission will produce a report which will help state school boards consider policy options for raising financial literacy among students. "If financial literacy is to take firm root in America's schools it will be due in large part to policy makers at the state and local level. That's why I commend the National Association of State Boards of Education for exploring the issue of financial literacy. The state school board members I spoke with today came from all over the country, but each recognizes his or her state's children share a common need for financial education. The board members were very engaged and asked the right questions about how to support local schools, administrators and teachers as they try to prepare all of our kids for their financial futures. The Department of the Treasury is happy to lend a hand with this important project," DAS Iannicola said.

PRESS ROOM

January 30, 2006
JS-3091

Treasury Announces Market Financing Estimates

The Treasury Department announced today that it expects net borrowing of marketable debt to total $188 billion in the January – March 2006 quarter. The estimated cash balance on March 31 is $15 billion. On October 31, Treasury announced estimated net market borrowing of $171 billion this quarter and a March 31 cash balance of $15 billion. Adjusting for a beginning-of-quarter cash balance that was $12 billion higher than estimated in October, the current borrowing estimate is $29 billion higher than previously announced. The increase in anticipated borrowing is primarily the result of higher outlays, including a timing shift from the October – December 2005 quarter, and lower net issues of State and Local Government Series securities. Based on current projections, Treasury continues to believe that the statutory debt limit will be reached in mid-February 2006.

Treasury also announced that it expects a net pay down in marketable debt of $30 billion in the April – June 2006 quarter. The estimated cash balance on June 30 is $25 billion.

Treasury borrowed $93 billion in net marketable debt in the October – December 2005 quarter. The cash balance on December 31 was $37 billion. On October 31, Treasury announced estimated net market borrowing of $96 billion and an end-of-quarter cash balance of $25 billion. Adjusting for the higher-than-estimated cash balance at quarter-end, the net market borrowing need was $15 billion lower than announced in October. The improvement was primarily the result of lower outlays and unanticipated repayments of outstanding debt to the IMF.

Additional financing details relating to Treasury's Quarterly Refunding will be released at 9:00 A.M. on Wednesday, February 1. The following link provides access to Treasury documents related to this Quarterly Refunding. (http://www.treas.gov/offices/domestic-finance/debt-management/quarterly-refunding/)

Today, the Treasury Department announced net borrowing of marketable debt for the January–March 2006 and April-June 2006 quarters.

Quarter	**Estimated Borrowing ($ billion)**	**Estimated End-of-Quarter Cash Balance ($ billion)**
Jan-Mar 2006	$188	$15
Apr-Jun 2006	($30)	$25

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 $31 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 October-December 2005 quarter.

Quarter	Estimated Borrowing ($ billions)	Actual Borrowing ($ billions)	Estimated End-of-Quarter Cash Balance ($ billions)	ActualEnd-of-Quarter Cash Balance ($ billions)
Oct-Dec 2005	$96	$93	$25	$37

Categories	Chg from Nov Estimate
Receipts	$1
Outlays	$7
Other	$8
Larger End-of-Quarter Cash Balance	($12)

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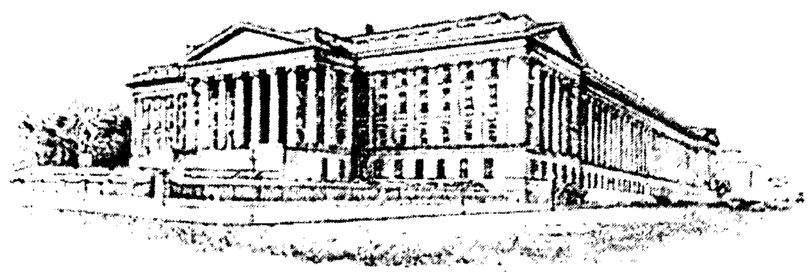
REPORTS

- Financing Estimates



DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

For Immediate Release
January 30, 2006

CONTACT: Sean Kevelighan
(202) 622-6865

TREASURY ANNOUNCES MARKET FINANCING ESTIMATES

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PRESS ROOM

January 30, 2006
JS-3092

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 Committee's last meeting, economic activity continued at a solid pace, core inflation remained steady, and the labor market improved. The year 2005 marked the fourth straight year of expansion and, in our view, economic performance was right on target. Real GDP grew 3.5 percent on an annual average basis, in line with the Administration's projection of 3.6 percent growth made at the beginning of the year. Personal consumption expenditures grew by 3.6 percent while business investment in equipment and software rose at a double-digit pace for the second straight year. Residential building was a source of strength again in 2005: housing starts hit a 33-year high, and single family homes sales posted a fresh record. The unemployment rate declined from 5.4 percent to 4.9 percent by the end of 2005. Nonfarm payrolls increased by over 2.0 million.

Inflation rates in 2005 were remarkably similar to those in 2004: headline inflation was 3.4 percent last year, about the same as in 2004. The CPI's energy component rose by 17 percent during both years. Core price inflation (excluding food and energy), too, was unchanged from the previous year, at 2.2 percent. All of these indicators suggest that, though the economy was buffeted by the Gulf Coast hurricanes and the related spike in energy prices, it recovered quickly and is on firm footing.

The just-released advance figures for the fourth quarter of 2005 suggest that real GDP advanced at a relatively low 1.1-percent annual rate. Fourth-quarter real GDP growth was restrained by a slowing of real personal consumption expenditures and business investment, a drag from international trade, and a drop in Federal defense spending. These forces were only partially offset by a rebound in inventory investment.

A deeper look at the accounts suggests that the factors that held down fourth quarter growth are temporary. The one-percent annual rate increase in consumer spending in the fourth quarter was mainly a reaction to the third quarter's auto sales surge, fueled by employee pricing incentives. In the final months of the year, it appeared that consumer spending was again on the rise, providing a strong starting point as we entered the new year. Oil imports, which temporarily surged to take the place of shut-in production following the hurricanes, subtracted about 0.5 percentage point from GDP. With Gulf of Mexico production largely back on line, that oil import surge is not likely to continue this year. Finally, the sharp decline in defense purchases in 2005Q4 is not likely to be repeated in early 2006 and may even be reversed.

In recent years, the economy's resilience in the face of a range of unprecedented shocks has been perhaps its most outstanding characteristic, and that resilience was evident once again in the face of the energy price shock of the past two years. The expansion has continued with solid growth of real GDP, steady job creation, and low core inflation. The economy remains well-positioned to maintain healthy economic and employment growth with benign inflation. The Administration's forecast for 2006 projects a real GDP increase of 3.4 percent over the four quarters of the year, essentially in line with the pace in 2005. The rate of headline inflation as measured by the consumer price index is projected to fall by a full percentage point to 2.4 percent. The unemployment rate is expected to remain near 5.0 percent, and job growth should be on the order of 176,000 per month. In short, real GDP and payrolls will continue to grow steadily, while inflation remains tame.

Some analysts suggest that the negative personal saving rate that emerged in 2005 casts a shadow over the outlook for the economy, as efforts to rebuild personal saving could threaten personal consumption. In 2005, the personal saving rate declined to -0.5 percent, the lowest in more than seventy years. The decline in personal saving was the result of a two-decade downtrend in which it appears that a combination of measurement and fundamental issues played a role. The trend seems unlikely to be reversed in an abrupt or severe fashion.

Personal saving in the national income and product accounts is calculated as the residual when personal outlays are subtracted from disposable personal income. The national accounts measure income from current production and therefore do not fully reflect the resources that households have available to fund consumption, such as capital gains on corporate equities, mortgage equity withdrawal, or distributions of pensions to retirees. Adjusting disposable income for some of these developments would help to explain part of the decline in personal saving. Another part of the decline may paradoxically be reflecting the success in the economy. In 1982, when the personal saving rate was at its peak, the economy had suffered runaway inflation and severe recession. Over the past two decades, the economy has become much more stable, likely reducing the perceived need for precautionary saving. In addition household net worth has grown on its own and, relative to disposable income now stands at a level well above that of anytime from the 1950s through mid-1990s. Because for most households, the purpose of saving is to build wealth, the surge in wealth that has occurred has likely reduced the incentive to save.

In sum, the decline in the saving rate is a long-term phenomenon driven by a variety of factors and some of the factors – such as rising equity and housing values and low interest rates – are acknowledged to be positives for the economy. A less-rapid rise in wealth, an increase in interest rates, or a reduction in home equity extraction may reverse the path of personal saving. But consumption growth can still be well-maintained as employment continues to expand and wages rise. As a result, we are optimistic about the prospects for personal consumption and the economy overall as we enter 2006.

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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

January 31, 2006
JS-3093

Statement by Assistant Secretary for Financial Institutions Emil Henry before the Financial Literacy and Education Commission

Today's meeting of the Financial Literacy and Education Commission marks the group's second anniversary. The Commission was given the important task of improving financial literacy in the United States. Since its inception, the Commission has been working hard towards that goal, but we recognize that there is still a lot more to do. This Commission meeting is another step in the right direction by bringing together once again financial education leaders from the federal government and from the for-profit and non-profit sectors. Strong coordination across the federal government on financial education efforts and the growing enthusiasm of the private sector on this issue have helped the Commission in its work.