Department of the Treasury

PRESS RELEASES

PRESS ROOM

December 4, 2006
HP-185

Remarks of Anna Escobedo Cabral
U.S. Treasurer
U.S. Department of the Treasury
Before the Southwest Regional Conference on Reaching Unbanked People at the Border and Immigrant Communities

Edinburg, TX - Thank you, Dan, for that kind introduction. It's a pleasure to be here in Edinburg, Texas. I want to thank the University of Texas – Pan American for providing a wonderful venue for this conference.

And of course, thanks so much to all of you for taking the time out of your schedules to join us to talk about a topic that is critical to enhancing quality of life in our communities. And that is, how do we reach out to and improve financial service options for communities that have been traditionally underserved? In essence, how do we improve financial education at a variety of levels, and in particular for those who do not have an established relationship with a traditional financial institution, like a bank or a credit union? As you know, this is what we all commonly refer to as "banking the unbanked.

Well, a key way to do this is by convening like this and forging – or in some instances solidifying – local partnerships. These partnerships are the only way we can be successful in reaching out to people and helping them obtain the knowledge and skills they need to save money, buy a home, plan for retirement and to take a number of actions that will help create a better life.

This conference presents an ideal opportunity to tackle the reality that an estimated 10 million individuals in the United States do not maintain traditional bank transaction, credit, savings or investment accounts. In fact, some experts in the area of financial education research suggest that perhaps that number may be even higher. I assume most of us in this room agree that there is a real urgency here to address this problem. And that is why I'm particularly pleased that we've brought this conference to Texas today. Of course, I'm a native of California.

But the reason I think it's important that we're here in Texas is because border communities face particular challenges when it comes to helping their citizens take advantage of the wonderful opportunities our strong economy has to offer.

For example, we know border communities generally have lower incomes and higher unemployment levels than our nation as a whole. In fact, an estimated 23 percent of families living in rural U.S.-Mexico border communities are unbanked.

That number is more than twice the national average. And it represents a large number of people who don't have the tools they need to stay ahead when it comes to managing their personal finances.

All of you here know the pitfalls to not having a relationship with a financial institution. And while some may belong to a bank, we still face the challenge of helping them understand the multitude of services and resources available.

The fact is it costs more to be poor. I can tell you I know that from personal experience – from growing up in a family of very humble means. When you're in that type of situation, you really don't always know all of your options and sometimes don't have a true sense of how to take that first step to exercise those options. That is why I am also so personally concerned that left and right individuals who operate outside the financial mainstream face less secure, less convenient, and more expensive methods of carrying out their everyday transactions.

For example, low-income immigrants in this area may rely on wire transfer companies and currency exchanges to send money to their families. In addition, steps like securing a loan and navigating the system overall can be very difficult and very costly to low-income individuals.

All of these factors combined make it extremely difficult for those who are unbanked to save and accumulate wealth. As a result, they end up stuck in a standstill, unable to move out of their situation and into a world of more opportunities. This is really at the heart of what we're trying to do by working together – create more opportunities for people to save, invest and grow their wealth. Because if we can promote economic development for families and individuals, we can essentially raise the standard of living for the entire community.

Without question, reaching these communities to overcome these challenges is no simple task. In fact, much work lies ahead for us. But I think this issue is a critical one, and one that we can and we must confront. Because what we're really talking about when we talk about reaching the unbanked is creating opportunities. We're talking about improving quality of life and enabling people to participate in our mainstream economy. That, after all, is what the American Dream is all about. At the end of the day, we all strive to create a better life for ourselves and our children so that generations that follow will have even more opportunities.

So we really need to ask ourselves how can we do more to help these communities, these families, and these individuals open the door to opportunities and better choices? How can we work together better to reach the people who need this information the most?

That, quite frankly, is what this conference is about, and it's why I'm so grateful that all of you are here. Fortunately, we know at least part of the answer rests in pursuing those important partnership opportunities and expanding on existing ones. Again, it's about bringing together organizations with the resources and organizations with the distributions channels. It's also about drawing on personal experiences and success stories to inspire people into action.

The good news is that we are indeed well on our way. See when Congress established the Financial Literacy and Education Commission under the FACT Act of 2003, 20 different federal agencies came together to collaborate on this very issue and to determine what more needs to be done to improve financial education.

But we understand that the federal government can only do so much alone. We rely on the close partnerships we build with the private sector, with our state and local partners, and with community-based organizations to help us accomplish our goals. We value your advice, we welcome your insights, and we appreciate the expertise that each of you brings to the table. It's only by working together and listening to each other that we can achieve positive results.

We've already seen some good progress in this area that has been the result of working together. For example, Credit Unions have done a great job in partnering with Federal agencies to tailor resources to serve underserved areas. In addition, programs like the Department of Health and Human Services' Assets for Independence Program, which provides grants to support more than 300 Individual Development Accounts. These are savings accounts that offer matching funds to enable low income individuals and families to save enough to acquire buy a home, invest in a college education, or start a business. This is a wonderful program that helps low-income individuals take that first step.

But the success of this program is largely a result of community-based organizations or state and local governments partnering with private banks or credit unions. These are the types of partnerships that we aim to foster through this conference.

Throughout the day you will hear from a variety of experts, and you'll have the opportunity to share ideas and best practices. It is our hope that together we can identify new and creative approaches based on these discussions that will have positive implications on policy. I want to challenge you to think creatively on how you can develop innovative partnerships that can help open doors for individuals and enhance quality of life in our communities.

In addition, all of you here serve on the frontlines in your communities when it comes to delivering this message. You know how best to meet the needs of your communities. That's why we also hope this conference will provide a springboard to specific partnerships between some of you so that you can take what we discuss here and apply these ideas to your communities. That's how real change is affected. First and foremost, it begins here with all of you.

Again, I thank you for coming here today. This is an issue that I know is truly important to me and to Dan and his office at the Treasury Department as well as the Treasury as a whole. It's a true pleasure to be here with my colleague, JoAnn Johnson who will also share some insights with you.

I know you'll find the rest of today productive and valuable, and I look forward to our continued work together.

Now, I'll turn this back to Dan. Thank you

PRESS ROOM

December 4, 2006
HP-186

Fifth Round of New Markets Tax Credit Competition Opens For $3.9 Billion in Investment

Washington, DC- The U.S. Department of the Treasury announced today the opening of the fifth round of competition for tax credits on $3.9 billion in investments under the New Markets Tax Credit (NMTC) Program. The NMTC Program attracts private-sector capital investment into the nation's urban and rural low-income areas to help finance community development projects, stimulate economic growth and create jobs.

Under this round of the NMTC Program $3.5 billion in allocations authority is available under the general round and an additional $400 million specifically for recovery and redevelopment in the Hurricane Katrina Gulf Opportunity Zone.

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

"I continue to be very impressed with the performance of the organizations awarded to date using the NMTC Program", said CDFI Fund Director Arthur A. Garcia. "Not just by the pace with which they are raising capital, but also because they are going beyond the requirements of the program by making investments in the most distressed of low-income communities and doing so with better market rates and terms." To date, 149 of the allocatees from the first three rounds have already raised $5.1 billion in equity from investors – credits on $8 billion of expected investments was awarded over these three rounds. Through the first four rounds of the NMTC Program, the CDFI Fund has made 233 awards totaling $12.1 billion in tax credit allocation authority.

Guidance and application materials on the fifth round of the NMTC Program are available on the CDFI Fund's website at www.cdfifund.gov. The allocation application deadline is February 28, 2007.

The CDFI Fund will be conducting several Application Workshops on the NMTC Program around the country in December. The purpose of these workshops is to describe how the NMTC Program works, including how to apply for certification as a CDE and how to apply for an allocation of NMTCs in the upcoming round. To learn more about this training or to register, please visit the CDFI Fund's website at www.cdfifund.gov.

PRESS ROOM

December 4, 2006
2006-12-4-14-25-21-4517

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 $67,154 million as of the end of that week, compared to $66,512 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	November 24, 2006			December 1, 2006		
TOTAL	66,512			67,154		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	12,394	10,960	23,354	12,635	11,020	23,655
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,311	5,340	17,651	12,540	5,368	17,908
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]			5,661			5,693
3. Special Drawing Rights (SDRs) [2]			8,806			8,857
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	November 24, 2006			December 1, 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						
	November 24, 2006			December 1, 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

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December 4, 2006
HP-187

OFAC and New York State Banking Department to Exchange Information on Bank Compliance

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) and the New York State Banking Department today announced the signing of a Memorandum of Understanding (MOU) that outlines procedures for the exchange of sanctions compliance and enforcement information between the two agencies.

The MOU is the first such agreement patterned on a template developed by OFAC and the Conference of State Bank Supervisors (CSBS). The procedures specified in the MOU will facilitate the sharing of information on sanctions violations and other deficiencies, whether those deficiencies are found by OFAC or during examinations conducted by state banking regulators.

"The signing of this MOU will enhance cooperation between our agencies as we work together to safeguard the financial system from illicit conduct and assure that it is not used to finance terrorism, narcotics trafficking, or to otherwise circumvent U.S. sanctions," said OFAC Director Adam Szubin. "I look forward to building on the important step we have taken with New York by executing similar agreements with other states and territories."

"The information-sharing procedures agreed upon in this MOU will enable more efficient detection and prevention of crimes conducted through our financial system," said Superintendent Diana Taylor. "It will enhance our work with OFAC to ensure the safety and soundness of financial institutions in New York State and throughout the world."

In mid-October, CSBS President and CEO Neil Milner strongly urged all state banking departments to adopt the model MOU. "Our goal is to obtain signatures from all 50 states to cement this relationship with OFAC," he said.

OFAC is the U.S. Government's primary administrator and enforcer of economic and trade sanctions based on U.S. foreign policy and national security goals against terrorists, weapons proliferators, narco-traffickers, and rogue regimes.

The New York State Banking Department is the regulator for all state-chartered banking institutions, virtually all of the United States offices of international banking institutions, all of the State's mortgage brokers, mortgage bankers, check cashers, money transmitters and budget planners. The aggregate assets of the depository institutions supervised by the Banking Department are more than $1.5 trillion. NYSBD press releases and other information are available at **www.banking.state.ny.us.**

The MOU document is available on OFAC's Web site at **http://www.treas.gov/offices/enforcement/ofac/civpen/OFACNYMOU.pdf,** and on the New York State Banking Department's Web site at: **http://www.banking.state.ny.us/pr061204.pdf.**

PRESS ROOM

December 5, 2006
HP-188

Opening Statement of Anthony Ryan,
Nominee, Assistant Secretary for Financial Markets
Before the Senate Finance Committee

Chairman Grassley, Ranking Member Baucus, and members of the Finance Committee, thank you for inviting me to appear before you today. I am honored that President Bush has nominated me to serve as the Assistant Secretary of the Treasury for Financial Markets, and I am especially grateful for Secretary Paulson's trust and confidence. I am also indebted to my family – from my parents who instilled in me strong values, to my wife Ann, and to our four children who have all supported my decision to serve.

If confirmed, I look forward to working with Secretary Paulson, Under Secretary Steel and the rest of the Treasury team, along with others in the Administration and Congress, on the myriad of issues impacting our financial markets.

Our financial markets play a seminal role in helping our economy achieve sustainable growth. We possess the largest, most liquid and most efficient financial markets in the world. We must build on this foundation and continue to ensure our financial markets not only remain strong, but gain in strength. If confirmed, I would very much look forward to contributing to that effort.

U.S. Treasury obligations are respected around the world as they reflect the safety and soundness of our markets, as well as the quality of our economy. As stewards, I believe we have an obligation to our citizens to manage the government's fiscal matters most effectively. The collective results impact every American – directly and indirectly. If confirmed, I would work to fulfill that obligation by implementing sound policy, addressing the strategic issues and responsibly managing the specific functions within the office.

Over the past 20 years, I have had the opportunity to directly participate in the financial markets, either investing or advising many institutional pension clients, endowments, and mutual fund boards. Having managed multi-asset class portfolios, traded in capital markets around the world, and worked with many global investors, I have developed a broad perspective and appreciation for the U.S. financial markets, the institutions which regulate them and the aggregate role they play in facilitating our economic growth and savings.

Successfully managing our financial matters requires a collaborative effort. For that to occur, we must recognize the critical importance of communication. If confirmed, I would seek to ensure a constructive dialogue with members of this Committee and your staffs, as well as others – including those in the global marketplace. The Treasury Department, under the leadership of Secretary Paulson, is very committed to fulfilling its mission, and if confirmed, I would welcome the opportunity to contribute to the Treasury Department's longstanding tradition of excellence.

I appreciate the time that members of this Committee have taken to consider my nomination, and I would be happy to answer any questions.

PRESS ROOM

December 5, 2006
HP-189

**Opening Statement of Phillip L. Swagel,
Nominee, Assistant Secretary for Economic Policy
Before the Senate Finance Committee**

Chairman Grassley, Ranking Member Baucus, and Members of the Committee. thank you for the opportunity to appear before you today. I am honored to be President Bush's nominee to be Assistant Secretary of the Treasury for Economic Policy, and I thank the President and Secretary Paulson for their confidence in me.

I am especially grateful to my family for both their encouragement and their forbearance in permitting me to seek to return to government service. I would also like to thank my mother, Deanna Epstein, for a lifetime of support, and my stepfather, David Epstein, for his continued encouragement--and for his courage 25 years ago in marrying into a family with three teenage boys. I can only hope and believe that my late father, Michael Swagel, would have been pleased and proud at this day.

In my professional career, I have had the good fortune to work with talented colleagues and to learn from supportive mentors at the Federal Reserve, the International Monetary Fund, and the Council of Economic Advisers. If confirmed, I will be fortunate to work with the dedicated Treasury professionals led by Secretary Paulson and will contribute my professional experience to the Administration's efforts to tackle the economic challenges facing this country.

Much of my economic research has focused on the impact of international influences and technological and demographic change on the U.S. economy. I am mindful of the effects that these changes can bring about and the economic challenges facing Americans. If confirmed as Assistant Secretary for Economic Policy, I will be especially aware of the importance of ensuring that the prosperity of our nation benefits all Americans.

Thank you again Mr. Chairman for the privilege of appearing before this Committee. If confirmed, I can assure you I will work closely and enthusiastically with the Members of this distinguished committee. I would be pleased to respond to your questions.

PRESS ROOM

December 6, 2006
HP-190

Treasury Targets Hizballah Fundraising Network in the Triple Frontier of Argentina, Brazil, and Paraguay

The U.S. Department of the Treasury today designated nine individuals and two entities that have provided financial and logistical support to the Hizballah terrorist organization. The designees are located in the Tri-Border Area (TBA) of Argentina, Brazil, and Paraguay and have provided financial and other services for Specially Designated Global Terrorist (SDGT) Assad Ahmad Barakat, who was previously designated in June 2004 for his support to Hizballah leadership.

"Assad Ahmad Barakat's network in the Tri-Border Area is a major financial artery to Hizballah in Lebanon," said Adam Szubin, Director of the Office of Foreign Assets Control (OFAC). "Today's action aims to disrupt this channel and to further unravel Barakat's financial network."

This designation was taken pursuant to Executive Order 13224, which is aimed at shutting down the financial flows supporting terrorism. Designations prohibit transactions or dealings between U.S. persons and the named individuals and entities and also freeze any assets they may have under U.S jurisdiction.

Identifying Information

Muhammad Yusif Abdallah

Muhammad Yusif Abdallah is a senior Hizballah leader in the TBA and an important contributor of funds to Hizballah, notably hosting a fundraiser for the terrorist group in the TBA in 2004. Abdallah has personally carried money for Hizballah, serving as a courier of Hizballah funds from the TBA to Lebanon. He has traveled to Lebanon to maintain connections to the Hizballah hierarchy and has met with members of Hizballah's security division. Likewise, Abdallah has also received money from Hizballah to support the Hizballah network in the TBA.

Abdallah is an owner and manager of the Galeria Page building in Ciudad del Este, Paraguay, a shopping center with several businesses owned by Hizballah members. He reportedly pays a percentage of his income to Hizballah based on profits he receives from Galeria Page. In addition to his Hizballah-related activities, Abdallah has also been involved in the import of contraband electronics, passport falsification, credit card fraud, and trafficking counterfeit U.S. dollars.

Hamzi Ahmad Barakat

Hamzi Ahmad Barakat is a member of Hizballah in the TBA suspected of trafficking in narcotics, counterfeit U.S. dollars, arms, and explosives. He has owned and held the position of general manager of Casa Hamze, a store in the Galeria Page shopping center that has employed Hizballah members and has served as a source of funding for Hizballah. Hamzi Ahmad Barakat and SDGT Assad Ahmad Barakat are brothers and have been partners at Casa Hamze.

Hatim Ahmad Barakat

Information passed from the Barakat network to Hizballah in Lebanon goes mainly through two individuals: SDGT Assad Ahmad Barakat and his brother Hatim Ahmad Barakat. Hatim Ahmad Barakat has traveled to Chile to collect funds intended for Hizballah, and as of early 2003, he was reported to be a significant shareholder in at least two businesses in Iquique, Chile believed to generate funds in support of Hizballah. Hatim Ahmad Barakat traveled frequently to Iquique, Chile and is possibly managing or assisting a group of suspected Hizballah members. Hatim Ahmad Barakat reportedly oversees the sending of funds from Iquique to Hizballah in Lebanon.

Hatim Ahmad Barakat has maintained business relationships with senior Hizballah leaders in the TBA and is deeply involved in Assad Ahmad Barakat's business affairs, having co-owned several companies with him. Hatim Ahmad Barakat co-owned SDGT Casa Apollo with brothers Assad and Hamzi Ahmad Barakat.

Muhammad Fayez Barakat

Muhammad Fayez Barakat is responsible for the Barakat network's finances in the TBA, and in this capacity he arranges the transfer of money from the TBA to the Middle East. As recently as July 2006, Muhammad Fayez Barakat collected money on behalf of Hizballah in the TBA, hosting fundraisers for Hizballah in the region and sending money to the terrorist group in Lebanon. Muhammad Fayez Barakat has also provided financial assistance to his cousin, SDGT Assad Ahmad Barakat.

Muhammad Tarabain Chamas

Muhammad Tarabain Chamas is a member of Hizballah in the TBA, specifically Hizballah's counterintelligence element in the TBA and provides Hizballah with security information on residents there. Muhammad Tarabain Chamas is the private secretary for senior TBA Hizballah leader Muhammad Yusif Abdallah and the principal administrator of the Galeria Page building in Ciudad del Este, Paraguay. In addition to maintaining close contacts with TBA Hizballah members, Muhammad Tarabain Chamas maintains daily contact with Hizballah members in Lebanon and Iran and has transported funds from Hizballah members in the TBA to Hizballah in Lebanon.

Kazan helped raise more that $500,000 for Hizballah from Lebanese businessmen in the TBA. Since 2001, he traveled frequently to Lebanon to receive guidance and instructions from Hizballah leaders, including a message from Hizballah Secretary General Hassan Nasrallah. Ali Muhammad Kazan also maintained close commercial ties to SDGT Assad Ahmad Barakat.

Farouk Omairi

Farouk Omairi is a principal member of the Hizballah community in the TBA and served as a coordinator for Hizballah members in the region. Farouk Omairi has been a key figure in the procurement of false Brazilian and Paraguayan documentation and has assisted individuals in the TBA with obtaining Brazilian citizenship illegally through the submission of false documentation. Farouk Omairi was also involved in narco-trafficking operations between South America, Europe, and the Middle East.

Casa Hamze

Casa Hamze is an electronics company located at the Galeria Page shopping center in Ciudad del Este, Paraguay. The store is owned by Hizballah member Hamzi Ahmad Barakat and has employed Hizballah members in the TBA. Money was reportedly sent from Casa Hamze to Hizballah.

Galeria Page

Galeria Page, a shopping center in Ciudad del Este, Paraguay, serves as a source of fundraising for Hizballah in the TBA and is locally considered the central headquarters for Hizballah members in the TBA. Galeria Page is managed and owned by TBA Hizballah members, including members of the Barakat network. Local Hizballah members operate businesses within Galeria Page and funds generated from these businesses support Hizballah. Muhammad Yusif Abdallah, a manager of Galeria Page, paid a regular quota to Hizballah based on profits he received from Galeria Page. Shops in the building have also been involved in illicit activity, including the sale of counterfeit U.S. dollars.

For more information on the designation of Assad Ahmad Barakat, please visit: http://www.treasury.gov/press/releases/js1720.htm.

PRESS ROOM

December 7, 2006
HP-191

Treasury Designations Target Terrorist Facilitators

The U.S. Department of the Treasury today designated five individuals for providing financial support to al Qaida and other terrorist organizations, as well as facilitating terrorist activity. The individuals were designated pursuant to Executive Order 13224 and added to the Treasury's list of Specially Designated Global Terrorists.

"These individuals support every stage of the terrorist life-cycle, from financing terrorist groups and activity, to facilitating deadly attacks, and inciting others to join campaigns of violence and hate. The civilized world must stand united in isolating these terrorists," said Stuart Levey, Treasury's Under Secretary for Terrorism and Financial Intelligence.

This designation freezes any assets the designees may have under U.S. jurisdiction and prohibits all financial and commercial transactions by any U.S. person with the designees. In addition, in accordance with U.N. Security Council Resolution 1624, the U.S. Government condemns those who incite others to acts of terrorism and violence.

Identifying Information

Najmuddin Faraj Ahmad
Name: Najmuddin Faraj Ahmad

AKAs: Mullah Krekar
Fateh Najm Eddine Farraj
Faraj Ahmad Najmuddin

DOB: 7 JULY 1956
Alt. DOB: 17 JUNE 1963
POB: Olaqloo Sharbajer Village, Al-Sulaymaniyah Governorate, Iraq
Citizenship: Iraq
Address: Heimdalsgate 36-V, 0578 Oslo, Norway

Krekar Provides Support to Ansar al-Sunnah
Najmuddin Faraj Ahmad, a.k.a. Mullah Krekar (Krekar), founded in December 2001 the Kurdish terrorist group Ansar al-Islam (AI), now known as Ansar al-Sunnah (AS), and served as AI's first leader.

As of spring 2005, a non-governmental organization founded by Krekar sent money to terrorist organizations and actively recruited European citizens into terrorist organizations. Branches of the NGO were, as of spring 2005, overtly and covertly gathering money and recruiting personnel for AS. Krekar has visited Germany several times and during these trips conducted fundraising for AS and performed logistical activities. Information shows that in January 2006, Krekar may have routed funds through associates in Bulgaria and Iraq to support AS in Iraq.

As of fall 2005, AS reportedly had established at least two sniper teams in Iraq; the founder of these teams claimed to be Krekar's representative in Iraq. Krekar also traveled regularly from Norway to the Iraqi Kurdish area. During one of his longer stays in northern Iraq, Krekar appears to have recruited and trained combatants.

Other Information
Apart from the instances of direct facilitation of terrorist groups which form the basis for his designation, Krekar has exhorted others to violence and supplied religious justifications for murder. In a 2004 interview, Krekar supported holy war in Iraq and identified legitimate targets, stating "Not just the officers, but also the civilians who help the Americans. If anyone so much as fetches them a glass of water, he can be killed. ... Everyone is a target. If an aid organization gives the Americans as much as a glass of water, they will become a target."

Hamid Al-Ali
Name: Hamid Al-Ali
AKAs: Dr. Hamed Abdullah Al-Ali
Hamed Al-`Ali
Hamed bin `Abdallah Al-`Ali
Hamid bin Abdallah Ahmed Al-Ali
Hamid `Abdallah Ahmad Al-`Ali
Abu Salim
Hamid `Abdallah Al-`Ali

DOB: 20 JANUARY 1960
Citizenship: Kuwait

Hamid Al-Ali is a Kuwait-based terrorist facilitator who has provided financial support for al Qaida-affiliated groups seeking to commit acts of terrorism in Kuwait, Iraq, and elsewhere.

Al-Ali Provides Support for al Qaida in Iraq
Evidence shows that Al-Ali's efforts include providing support for terrorist organizations, including those in Iraq. Along with Jaber Al-Jalamah and Mubarak Mushakhas Sanad Al-Bathali, also designated today, Al-Ali recruits jihadists in Kuwait for terrorist activity including for al Qaida in Iraq. Al-Ali has provided financial support for recruits, including paying for their travel expenses to Iraq.

Al-Ali Provides Funds for al Qaida-Associated Terrorist Cells in Kuwait
Al-Ali was a religious leader and financier for a Kuwait-based terrorist cell that plotted to attack U.S. and Kuwaiti targets in early 2005. The al Qaida-associated terrorist cell appears to have been under his supervision. Al-Ali reportedly visited the group's terrorist camps in Kuwait, providing funds supporting acts of terrorism.

In addition to financial support and recruiting services, Al-Ali also provided opportunities for potential recruits to obtain explosives training in 2004. He also used his website to provide technical advice for making explosives, chemical, and biological weapons.

Other Information
Separate from the financial and other services in support of terrorist groups for which Al-Ali is being designated, he has issued fatwas legitimizing suicide operations. One such fatwa sanctions "the permissiveness, and sometimes necessity, of suicide operations, on the condition of crushing the enemy ... or causing moral defeat to the enemy, to obtain victory." According to this fatwa, "in modern time(s) this can be accomplished through the modern means of bombing, or by bringing down an airplane on an important site that causes the enemy great casualties."

Jaber Al-Jalamah
Name: Jaber Al-Jalamah
AKAs: Jabir `Abdallah Jabir Ahmad Al-Jalamah
Jabir Abdallah Jabir Ahmad Jalahmah
Jaber Al-Jalahma
Abu Muhammad Al-Jalahmah
Abu Muhammad
Jabir Al-Jalhami
Abdul-Ghani

DOB: 24 SEPTEMBER 1959
Nationality: Kuwaiti
Passport #: 101423404

Jaber Al-Jalamah is a Kuwait-based terrorist facilitator who has provided financial and logistical support to the al Qaida network in Afghanistan, Iraq and Kuwait. Al-Jalamah has also provided recruits for these efforts.

Al-Jalamah Recruits and Provides Financial Support for al Qaida in Iraq
As of 2006, Al-Jalamah supports activities and operations against coalition forces in Iraq. As early as 2004, Al-Jalamah was coordinating a recruitment effort to send fighters and funds to al Qaida in Iraq. He facilitated travel for men he recruited and for men recruited by Kuwaiti imams. Al-Jalamah sent three kinds of people into Iraq: suicide bombers, anti-coalition fighters, and couriers who go to Iraq to provide funds for anti-coalition fighters.

Al-Jalamah has sent a significant number of men to join al Qaida in Iraq. These operatives carried funds collected by Al-Jalamah for provision to the terrorist group. Trusted associates were sometimes given thousands of dollars to transport from Kuwait into Iraq.

Al-Jalamah Provides Support for al Qaida Associates in Kuwait, Afghanistan and Pakistan
As of 2004, Al-Jalamah was considered the leader of a group of terrorists in Kuwait, some of whom he recruited for activity in Afghanistan. Al-Jalamah collected and funneled money to al Qaida-associated individuals in Kuwait, providing thousands of Kuwaiti dinars to al Qaida-associated operatives on a regular basis, including to Muhsin al-Fadhli. Al-Fadhli is listed at the UN 1267 Sanctions Committee.

Soon after September 11, 2001, Al-Jalamah sent supplies to Afghanistan for use by trainees. In mid-2001, Al-Jalamah sent a Kuwaiti individual to Afghanistan where he attended the al Qaida-associated al-Faruq training camp. Al-Jalamah gave the Kuwaiti money to transfer to al Qaida. Al-Jalamah also sent recruits and supplies to al Qaida camps in Afghanistan. In the late 1990s/early 2000s, Al-Jalamah also visited the al-Faruq training camp, supplying global-positioning systems, laptop computers, and a video camera.

Al-Jalamah's role with al Qaida includes dealing personally with Usama bin Laden. Al-Jalamah went to Afghanistan three times in the late 1990s/early 2000s to provide bin Laden large sums of money. During a 2001 meeting, bin Laden agreed to set up a training camp especially for Kuwaitis in Afghanistan. This plan was reportedly never put into action.

Al-Jalamah Provided Support for an Attack against Americans
Al-Jalamah was involved in the planning of the January 21, 2003, al Qaida-linked terrorist attack on two U.S. civilian contractors in Kuwait. He provided support and assistance to one of the perpetrators.

Mubarak Mushakhas Sanad Al-Bathali
Name: Mubarak Mushakhas Sanad Al-Bathali
AKAs: Mubarak Al-Bathali
Mubarak Mishkhis Sanad Al-Bathali
Mubarak Mishkhas Sanad Al-Bathali
Mubarak Mishkhis Sanad Al-Badhali
Mubarak Mishkhas Sanad Al-Bazali
Mobarak Meshkhas Sanad Al-Bthaly

DOB: 1 OCTOBER 1961
Passport: 101856740 Kuwait
Citizenship: Kuwait

Mubarak Mushakhas Sanad Al-Bathali is a Kuwait-based terrorist facilitator. He also serves as a fundraiser and recruiter for the al Qaida network. Al-Bathali has spoken at several mosques in Kuwait to raise funds for provision to al Qaida operatives. As of 2006, Al-Bathali continues to facilitate travel for extremists planning to fight in Iraq and Afghanistan.

Al Bathali Provides Support to the al Qaida Network
Al-Bathali has raised funds in Kuwait for terrorist organizations for years. In 2004, Al-Bathali gathered several hundred Kuwaiti dinars each week for terrorist organizations, including al Qaida, Ansar al-Islam and Lashkar E-Tayyiba. In 2003 and 2004, Al-Bathali provided funds to al Qaida in Iraq through intermediaries. In 2002-2003, Al-Bathali contributed $20,000 to Ansar al-Islam through contacts in Syria. In 2001, Al-Bathali sent a courier to carry approximately $20,000 to an al Qaida finance manager in Pakistan. Prior to this, in 1999, Al-Bathali met with several top al Qaida members and gave them roughly $100,000.

Other Information
In 2002, Al-Bathali traveled to Saudi Arabia to meet with several radical leaders who were involved with al Qaida to discuss jihad and arrange for the transfer of funds to him.

In 2003, Al-Bathali reiterated his objectives of recruiting Muslim youth in the Arabian Gulf, especially in Saudi Arabia and Kuwait, to support the fighters in Iraqi Kurdistan. This support was to include collecting donations for Muslim fighters and distributing CDs about Ansar al-Islam.

In January 2003, Al-Bathali and Al-Jalamah met with an individual who was involved in the shooting of two U.S. contractors outside of Camp Doha, Kuwait, and discussed financing his militant training operations.

Mohamed Moumou
Name: Mohamed Moumou
AKAs: Mohamed Mumu
Abu Shrayda
Abu Amina
Abu `Abdallah
Abou Abderrahman

DOB: 30 JULY 1965
Alt. DOB: 30 SEPTEMBER 1965
POB: Fez, Morocco
Citizenship: Morocco
Citizenship: Sweden
Passport: 9817619, Expires 14 DECEMBER 2009 (Sweden)
Address: Storvretsvagen 92, 7 TR. C/O Drioua, 142 31 Skogas, Sweden
Address: Jungfruns Gata 413, Postal Address Box: 3027, 13603 Haninge, Sweden
Address: London, England
Address: Dobelnsgatan 97, 7 TR C/O Lamrabet, 113 52 Stockholm, Sweden
Address: Trodheimsgatan 6, 164 32 Kista, Sweden

Mohamed Moumou's extremist activities date back to the mid-1990's, when he traveled to Afghanistan to participate in the al Qaida-run Khalden terrorist training camp. A Moroccan national with Swedish citizenship, Moumou was the uncontested leader of an extremist group centered around the Brandbergen Mosque in Stockholm, Sweden. Moumou's leadership derives from connections to senior al Qaida leaders, some of whom he had met in Afghanistan and Pakistan in the late-1990s. Moumou reportedly served, at some time in the past, as Abu Mus'ab al-Zarqawi's representative in Europe for issues related to chemical and biological weapons. Moreover, Moumou reportedly maintains ties to al-Zarqawi's inner circle in Iraq.

PRESS ROOM

December 11, 2006
HP-192

Prepared Remarks of Stuart Levey
Under Secretary for Terrorism and Financial Intelligence
Before the US-MENA Private Sector Dialogue on Combating
Money Laundering and Terrorist Financing

New York, NEW YORK– Thank you for inviting me to speak today. It is a true honor to be here with the financial leaders of the Middle East, North Africa, and United States, both public and private sector alike, and I want to thank everyone for making the trip to attend this important conference. I also want to thank the Union of Arab Banks and the other sponsors of the US-Middle East & North Africa (MENA) Private Sector Dialogue for their vision in creating this critical and unique opportunity, as well as the Federal Reserve Bank of New York for its leadership in hosting and helping to organize this important event.

As I stand here today, the world remains a dangerous place, and while terrorism continues to present an ongoing and very real and deadly threat, we are also faced with other threats to our collective international security – including those from state sponsors of terrorism such as Iran and Syria, as well as the threats posed by proliferators of weapons of mass destruction, kleptocrats, narcotics traffickers, and other illicit actors. While we have made important progress since September 2001, we still have a long way to go to ensure that we utilize all the elements of our national and institutional power against them.

That is why this conference and others like it are so important. The threats we face share two characteristics that make them vulnerable to the collective efforts of the people in this room: (1) each of them depends on an underlying financial network that we can exploit, (2) each of them operates without regard to international political boundaries in part by using a financial system that itself is truly global and knows no boundaries. While these criminal and terrorist networks are susceptible to our collective efforts, we will not defeat them unless we truly do act collectively: both by deepening the partnerships among our governments and by strengthening partnerships between governments and private sector leaders like those assembled here. As we kick off this critical conference, I would like to touch on some of the advances we have made and also explain how I believe we can improve our collective efforts.

Within governments around the world, one of the most important advances we have made is the new role being played by officials with responsibility for the global financial system. Counterterrorism and security policy has traditionally been the responsibility of foreign ministries, defense officials, law enforcement bureaus and intelligence agencies, rather than finance ministers and central bankers. Yet today, we are seeing finance officials working side-by-side with officials in security ministries to meet the government's first responsibility: ensuring the safety of its citizens. More and more, officials in finance ministries and central banks around the world recognize that it is not enough to stimulate investment, promote open markets, and so forth. For our economic efforts to succeed, for us all to reap the benefits of the global financial system, we must keep it secure from those who threaten its integrity.

This trend is certainly apparent here in the United States. As our government took stock of its tools to combat terrorism after 9/11, it became clear that the Treasury Department had distinctive authorities and capabilities to apply against these international security threats. The Treasury quickly assumed a new role in U.S. national security policy as we began to apply these unique authorities in creative ways. One result was the creation of the office I oversee, the Office of Terrorism and Financial Intelligence.

The intelligence component of our efforts is particularly important. For the first time in U.S. history – and likely the first time worldwide – we set up an Office of Intelligence and Analysis within the Treasury Department to bring the knowledge of the intelligence community to bear on the evolving threat of illicit finance. Having such a capability within the Treasury is a tremendous innovation because we are able to focus our attention on the financial networks that underlie terrorist and other threatening organizations. These money trails don't lie, making financial intelligence uniquely reliable as it allows us to map out these networks, uncover previously unknown connections, and, ultimately, apply pressure to these networks.

Our use of financial enforcement authorities together with other governments around the world has had a demonstrable impact – with respect to both systemic vulnerabilities and against specific targets of key concern. As we have seen in the terrorism context, they give us a concrete way in which to target directly those individuals and entities we know are bad actors. We have established international standards and controls through the Financial Action Task Force, developed FATF-Style Regional Bodies, and partnered with the International Financial Institutions. On several occasions, the United Nations has called upon us in Security Council Resolutions to apply financial measures against threats such as al Qaida, the former regime of Saddam Hussein in Iraq, other rogue regimes like that of Charles Taylor, and proliferators of weapons of mass destruction such as North Korea.

But we can do better. For example, finance ministries and central banks must develop and implement effective programs to combat these threats, including targeted financial sanctions regimes. We must monitor the financial activities of known terrorists and proliferators and prohibit their access – and that of their support networks – to the financial system. We must also go beyond simply designating individuals and entities that have been named by UN and proactively identify terrorist supporters that threaten our societies, hold them publicly accountable, isolate them financially and commercially, and ensure that all of their activities, whether seemingly legitimate or illicit, are shut down.

Over the past two years, we have learned a number of lessons about how best to use financial tools to apply financial pressure and isolate terrorists, proliferators, and others whose goal it is to undermine our security. As a result, we are relying more and more on what we call "targeted" measures, aimed at specific actors engaged in illicit conduct. And, as I will describe, we are working in greater partnership with the private sector. Rather than fighting against their interests and tendencies, we have found a way to form somewhat of a natural alliance.

These kinds of measures have several advantages over broad-based sanctions programs. First, because they single out those responsible for supporting terrorism, proliferation, and other criminal activities, rather than an entire country, they are more apt to be accepted by a wider number of international actors and governments. We do not face political hurdles when we try to persuade others to act against particular individuals and entities based on their conduct as we do when we seek action against a whole nation or regime.

Second, the deterrent and indirect effects of these types of measures are sometimes just as significant as their direct result. Take terrorist financing as an example. The terrorist operative who is willing to strap on a suicide belt is not susceptible to deterrence, but the individual donor who wants to support violent jihad may well be. Terrorist financiers typically live in polite society with all that entails: property, occupation, family, and social position. Being publicly identified as a financier of terror and being cut off from the world's financial system threatens an end to that "normal" life. I firmly believe that one of the positive, if immeasurable, effects of our terrorist financing efforts is that many would-be donors have been dissuaded from funding terrorism.

The most important lesson we have learned is that we have a natural alliance with those of you in the private sector – an alliance that we need to strengthen through conferences like this one. Indeed, when it comes to targeted measures aimed at specific actors and entities that seek to exploit the financial system, we share common interests and objectives with the private financial community: You want to identify and avoid dangerous or risky customers who could harm your reputations and business, and we want to inform of you of those risks with a view to ensuring that they are effectively addressed. As governments, we have a responsibility to promote these partnerships with the private sector and provide you with the information you need to help protect the financial system from abuse. Such a partnership allows banks to make informed decisions about the business they choose to do and the business they choose to avoid.

We are working hard to develop and enhance ways to share this type of information with the private sector so that financial institutions and others are able to apply their resources and controls effectively. We are also working to better assist the sector in reporting the critical information required to advance our international security interests. As I have traveled and met with banking officials around the world, I have seen more and more financial institutions wanting to play a central role in fighting illicit finance, from partnering with their respective governments to share information, or complying with OFAC's various sanctions programs though under no legal obligation to do so, or making conscious decisions to cut off business with known terrorists and rogue regimes.

Why do they do that? There are two reasons: The primary reason is that, regardless of the underlying law in any particular country, most bankers truly want to avoid facilitating proliferation, terrorism, or crime. These are responsible corporate citizens and they frankly just don't want to be part of any bad conduct. Second, avoiding these risks is simply good business. Banks need to manage risk in order to preserve their corporate reputations. Keeping a few customers that have been identified as terrorists or proliferators is not worth the risk of facing public scrutiny or a regulatory action that may impact on their ability to do business with the United States or the responsible international financial community. More and more, I believe that private financial institutions are realizing that these efforts – while they do impose some costs – are ultimately good for business. Banks that meet and exceed international standards for anti-money laundering practices, are known to reject illicit business, and firmly root these issues of integrity in their corporate cultures are increasingly attractive partners for international investors and for clients exposed to multiple legal jurisdictions.

All of these considerations are especially strong for those operating in the Middle East and North Africa. You are at a cross-roads, and the business and policy decisions made by government regulators and financial institutions in the region will play a critical role in protecting the world's financial system from abuse. There has already been significant progress in the region, as several countries have made strides in developing and implementing anti-money laundering and terrorist financing regimes. The creation of the MENA-FATF and the commitment of its members to work towards compliance with the comprehensive set of international standards is another important achievement. The work of that organization will translate into stronger controls, greater transparency in the financial system, and, in turn, a more attractive venue for business.

We need to build on these successes by ensuring that all MENA countries adopt comprehensive money laundering and terrorist financing legislation and regulation, as well as the infrastructure and expertise to maintain and grow such systems. And we need your leadership to increase the vigilance of the private sector on all of these issues.

Sadly, we still face grave threats from all corners of the globe, and each day I worry about those who are intent on committing violent terrorist acts or otherwise threatening our way of life. Both governments and the private sector alike must do everything in our power to combat these threats to our national and economic security. Bankers and governments are natural allies in this effort. We all live and work in an environment that knows no borders. It is truly a global financial system and we all have a responsibility to protect it. I look forward to working with you in that partnership, both at this conference and in the future.

PRESS ROOM

Remarks of Treasury Secretary Henry M. Paulson
Before the Office of Thrift Supervision National Housing Forum

Washington, DC -Good morning. Thanks, John, for your introduction, and thanks to you and your team for hosting today's forum. One of the things which I quickly learned after coming to Washington is that we really have a first-rate team in the Department – throughout all our bureaus. And it is gratifying for me to see some of the outstanding work being accomplished by the Treasury Department.

I have with me today two members of our Domestic Finance team. Some of you may know them already. Bob Steel is the Undersecretary for Domestic Finance and Emil Henry is Assistant Secretary for Financial Institutions. Bob and Emil have a wealth of experience in the world of finance and they will be involved in some of the key discussions relating to the housing industry.

At Treasury, we are charged with keeping America on the path of long-term sustainable growth. And increasingly that task requires a global outlook. Tomorrow I will head to China to participate in the first meeting of our Strategic Economic Dialogue. Several Cabinet Secretaries and agency heads will be in the delegation. And we'll be joined by Ben Bernanke of the Fed.

The Strategic Economic Dialogue is a forum for discussing China's successful integration into the global economy and making sure that China stays on the path of market-based reform. We'll be discussing the importance of a sustainable growth in China which improves the balance of trade. We will discuss ways to continue opening China's market to trade, competition, and investment. And we'll discuss our common interest in increasing energy efficiency and strengthening environmental stewardship.

The benefit of the Strategic Economic Dialogue is that we can meet with senior Chinese leaders who have responsibility for a range of subjects and consider these questions comprehensively. Rather than going issue by issue, we can look at all the items on the agenda and have conversations that really try to move the ball forward in many different areas: Currency, rule of law, intellectual property – all the issues that have become a familiar part of our relationship with China.

I'm looking forward to the trip. I think it will be a good discussion that lays the groundwork for important progress down the line. Our outlook with China has to be long-term. There is a tendency in Washington to want immediate answers, but a relationship this important will have consequences for our economy and for our nation over generations. The work we do this week and in future meetings should all be with an eye toward building a cooperative relationship for many years.

More and more, the people of China are realizing the benefits of a market-based economy. And as long-time practitioners of market economics, Americans have a lot of expertise to offer. From the founding of our country, Americans have worked to achieve big dreams, to improve their lives and the lives of their children. They've looked to the market to find a good job, to finance their entrepreneurial ideas, and of course to realize the epitome of the American Dream: homeownership.

Homeownership is a goal that unites Americans across racial, ethnic, and income lines. President Bush is particularly pleased that minority homeownership rates have increased in recent years, as overall homeownership levels have reached new heights. And throughout the Administration, we continue to look for ways to increase access to capital and financing, so that people who work hard and save can one day walk across the threshold of their very own home.

The value of mortgage products in the United States has grown significantly. As of September, outstanding mortgage debt totaled roughly $ 12.8 trillion – an increase of more than $5 trillion since the beginning of the decade. And today's mortgage-backed securities marketplace features substantial liquidity. The daily trading average of Agency Mortgage Backed Securities is nearly $244 billion, up from $38 billion a decade ago.

Fostering a robust mortgage lending industry and mortgage securities marketplace is an essential mission of the Treasury Department.

The housing sector makes significant contributions to our economy. Residential construction accounts for about five-and-a-half percent of GDP, or three-quarters of a $1 trillion in spending. And it directly accounts for about 3 percent of total employment in the U.S.

Activity in the housing sector helped to drive our recovery out of the recession of 2001. From 2003 to 2005, housing activity added about half a percentage point to overall GDP growth each quarter.

This year, activity in the sector has slowed down. But the overall health of our economy continues to be strong.

Our rate of growth for the last several years, particularly in the housing industry, had not been sustainable. As you all know, we have had a correction in the housing industry and we are in the process of transitioning to a more sustainable growth rate. Fortunately we have a diverse economy and consumer spending, the service sector, and corporate profits remain strong. And I believe that our economy remains strong. Unemployment is low, jobs are being created – more than seven million new jobs since August 2003 – and wages are rising, which means more Americans are realizing the benefits of our strong economy.

Your discussions throughout the day will help us to formulate a forward-looking strategy for a vital part of the American economy. From the Treasury perspective, we want to make sure that we have the right guidance in place to help people access home financing without taking unnecessary risks. Expanding opportunities for more people to buy a home is a good thing. But we do not want Americans to become over-extended and see their dream end in foreclosure.

These are important conversations that will have a real impact on people's lives. I appreciate your work to help more Americans achieve the dream of homeownership, and I look forward to learning about your views. Thanks again to OTS for bringing this forum together. And thank you all very much.

PRESS ROOM

December 11, 2006
2006-12-11-12-38-24-6343

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 $66,522 million as of the end of that week, compared to $67,154 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	December 1, 2006			December 8, 2006		
TOTAL	67,154			66,522		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	12,635	11,020	23,655	12,529	10,928	23,457
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,540	5,368	17,908	12, 453	5,327	17,780
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]			5,693			5,326
3. Special Drawing Rights (SDRs) [2]			8,857			8,918
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	December 1, 2006			December 8, 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						
	December 1, 2006			December 8, 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, anc 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 12, 2006
hp-194

Report on IMF Legislative Provisions

See Related Documents Below.

- Report on IMF Legislative Provisions

IMPLEMENTATION OF LEGISLATIVE PROVISIONS RELATING TO THE INTERNATIONAL MONETARY FUND

A Report to Congress

in accordance with

Sections 1503 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 2006

Table of Contents

Introduction

This is the eighth 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(a)).[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 Section 1705(a) 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. Annex 1 covers new IMF lending arrangements per section 605(d) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999. Earlier reports under these provisions are available on the Department of the Treasury's website (www.treas.gov/press/reports.html).

Treasury 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. Treasury'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 [IMF] task force as a tool for monitoring and promoting legislative mandates and other policy priorities." Treasury's IMF task force is charged with increasing awareness among Treasury staff about legislative mandates and identifying opportunities to influence IMF decisions in line with broader U.S. international economic policy objectives.

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

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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 Has Sustained Its Formal Process to Promote U.S. Policies at the International Monetary Fund*, Government Accountability Office (GAO), June 2006.

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 inconsistent with broader macroeconomic policy choices. The U.S. Treasury has urged the Fund to exercise firm surveillance over exchange rates.

- In its statement on China's Article IV review in July 2006, the USED emphasized that the strength of China's domestic economy makes it an opportune time to allow greater exchange rate flexibility.

- In its statement on the March 2006 Article IV review for Malaysia, the USED emphasized the benefits of introducing a significantly greater degree of exchange rate flexibility and encouraged IMF staff to consider more precisely the systemic effects of Malaysia's exchange rate policies.

- In a January 2006 statement on Nepal's Article IV review, the USED noted that the peg to the Indian rupee provides an effective nominal anchor and enhances policy credibility due to stable monetary conditions in India.

(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 Vietnam's October 2005 Article IV discussion, the USED in its statement called for strengthening the central bank's independence; Vietnam's central bank is currently part of the ministry of finance.

- In its statement on Argentina's July 2006 Article IV review, the USED noted that over the long term, Central Bank independence, along with sound fiscal policy, is the best guarantor of maintaining a prudent monetary policy.

(B) Fair and open internal competition among domestic enterprises

With United States support, the IMF encourages member countries to pursue policies that improve internal economic efficiency. These measures may include ending directed lending (or other relationships between government and businesses based on favoritism), improving antitrust 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,

- In a statement on Ecuador's January 2006 Article IV discussion, the USED called for further improvement in Ecuador's domestic business climate, such as the reduction of legal uncertainties and the pursuit of fair resolutions to outstanding arbitrations. The USED also noted the need for the GOE to pursue further reforms in the oil sector and ensure that private firms enjoy the same legal protections and treatment as public firms.

(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 and surveillance discussions in which the USED has advocated privatization include the following:

- In a February 2006 Board statement on an Article IV review for the Philippines, the USED urged the government to press forward in privatization of the energy sector to avoid future budget shortfalls and to assure future energy supplies.

- In the Board statement for the June 2006 Article IV discussion for Egypt, the USED welcomed Egypt's success in carrying out major structural reforms, and encouraged continued strong progress on privatization.

(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 India's most recent Article IV discussions, the USED in its Board statement highlighted the role that India's lack of binding international arbitration and a backlogged domestic court system play in deterring foreign investment and dampening economic growth.

(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 numerous low-income countries, the IMF helps authorities more effectively track public spending aimed at poverty reduction and increase the share of the budget devoted to such spending. For example, in Malawi the IMF is providing technical assistance to improve budgetary tracking of pro-poor spending. In Burundi, the PRGF aims to support a shift away from military spending and toward social spending. In Cameroon, the PRGF supports channeling debt relief savings into an expansion of poverty-reducing spending.

- During the sixth review of Guyana's Poverty Reduction and Growth Facility (PRGF) in September 2006, the USED expressed disappointment that higher social sector spending had not yet produced a significant impact on reducing poverty, and emphasized increased monitoring and transparency to ensure effective allocation of resources.

- In Panama's 2005 Article IV review, the USED in its Board statement highlighted that the key challenge for the authorities is to reduce the level of public debt while increasing expenditures on poverty reduction programs.

(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 statement on Japan's Article IV review, the USED commented on the importance of reducing Japanese barriers to agricultural trade, noting that such reforms would benefit Japanese consumers in addition to enhancing total productivity.

(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 June 2006, one hundred four FSAP assessments had been completed with twenty-four additional reviews underway or planned.

Results from the FSAP 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 FSAP assessment results are summarized in *Financial System Stability Assessments* ("FSSA") which are often provided to the public. In the IMF Executive Board discussion on the January 2006 Independent Evaluation Office's review of the FSAP, 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. Some key examples of where the USED has supported the strengthening of financial systems are:

- Pursuant to its Stand-by Arrangement which the United States supported, Turkey has made strides in strengthening its financial sector, particularly the banking sector, by restructuring the sector and improving supervision. These efforts proved effective in helping Turkey weather recent market volatility.

- In its statement in the 2006 Article IV discussion on China, the USED urged the Chinese to undertake reforms to improve financial intermediation, strengthen regulation, modernize capital markets, and reform and restructure domestic banks and securities firms.

- In its statement on Japan's Article IV review in July 2006, the USED called for continued efforts to reduce the legal uncertainty that regulated firms face in interpreting Japanese financial laws. The USED emphasized that such efforts would help foster innovation and increase the efficiency of financial intermediation.

(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. Both the UN Commission on International Trade Law (UNCITRAL) and the World Bank have worked to compile recommendations in this area covering, respectively, insolvency law and sound insolvency/creditor rights regimes. At the urging of the United States, staff from the World Bank, IMF and UNCITRAL worked together to develop a standardized, unified assessment methodology to assess implementation of those recommendations. The Financial Stability Forum, also with strong U.S. support, has called on World Bank and UNCITRAL staff to continue this cooperation and complete a concise, unified international standard for insolvency and creditor rights.

The IFIs also provide technical assistance to help emerging market economies develop efficient insolvency regimes. 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. 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. Specific examples of U.S. efforts to encourage improvements in insolvency regimes include:

- In Romania's Article IV review, the USED's statement took note of recent reform in that country's bankruptcy procedures, welcoming the authorities' commitment to further improve the investment climate.

- During the 2006 discussion of Bahrain's Article IV review, the USED in its statement agreed with IMF staff that development of contingency plans and a Prompt Corrective Action framework aimed at early improvement or least-cost resolution of problem banks would be beneficial.

- The USED's statement in Brazil's 2006 IMF Article IV review noted that bankruptcy reform and legalizing payroll deduction loans have had a positive effect on bank lending, and that the volume of bank loans, though still low, is increasing.

(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.

- The USED, in its March 2006 Board Statement, warned of a looming financial crisis in Eritrea driven by high inflation, unsustainable public debt, and a monetary policy beholden to fiscal demands.

- The USED strongly protested the proposed inclusion of a high ceiling of USD 700 million in non-concessional borrowing in Sudan's 2006 Staff-Monitored Program (SMP) in light of Sudan's already unsustainable external debt burden. The USED stressed the proposal was all the more troubling given the Sudanese authorities' previous decision to disregard the 2005 SMP framework by borrowing $935 million at non-concessional rates.

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 75% of all members in 2005 to 82% in 2006.

(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 Basel 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 in assessing countries' observance 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 conventionally had not included provisions which would permit modification of key payment terms by less than unanimous consent. This restriction made these bonds harder to restructure when a sovereign experienced financial distress. The United States has worked actively with the IMF and the private sector to promote the market's adoption of CACs in order to improve debt restructuring processes. CACs have now become the market standard for sovereign bonds issued under New York law.

As of October 2006, CACs are included in 63 percent of the stock of external sovereign bonds issued by emerging markets. The IMF, encouraged by the United States, has made CACs an important element of its crisis resolution agenda. The IMF has indicated it will continue to encourage future issuers to follow this trend.

(ii) Lending into Arrears

The IMF lending into arrears policy permits the Fund to provide financial support for policy adjustments, despite the presence of actual or impending arrears on a country's obligations to private creditors, where: (i) prompt IMF support is considered essential for the successful implementation of the member's adjustment program; and (ii) the member is pursuing appropriate policies and is making a good faith effort to reach a collaborative agreement with creditors. IMF efforts in recent years have focused on applying the "good faith" criterion to specific cases, including Argentina, the Dominican Republic, Iraq, and Dominica.

(iii) Clear Limits on Official Finance

The United States continues to press the IMF to improve its lending selectivity. In 2002 explicit criteria were developed for extending loans to countries seeking to borrow beyond normal limits ("exceptional access"). These include: (i) the member must be experiencing "exceptional balance of payments pressures on the capital account" which cannot be addressed with normal resources, (ii) an analysis of sustainable debt levels, (iii) reasonable prospects exist that the member will regain access to private capital markets during the program term, and (iv) the member's policy program can reasonably be expected to succeed. In addition, procedures were introduced to require: (i) a "higher burden of proof in program documentation", (ii) early consultation with the Board on sovereign creditor negotiations, (iii) the issuance of a staff note specifically outlining all of the relevant considerations, and (iv) an ex-post evaluation of such a program within twelve months of its completion.

(6) *Good governance*

The IMF's commitment to promoting good governance is outlined in its 1996 *Declaration on Partnership for Sustainable Global Growth* and its 1997 *Guidelines on Good Governance*. The IMF also supports good governance through its emphasis on transparency and its promotion of market-based reforms.[4] Recently, the IMF has been particularly active in promoting good governance through its efforts to protect against abuse of the financial system and to fight corruption.

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 codes and standards, such as the *Code of Good Practices on Fiscal Transparency*, and is collaborating with the World

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[4] IMF financing is provided to central banks to address balance of payments difficulties. The IMF does not lend to fund specific projects in member countries aimed at procurement and financial management controls.

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 called forcefully for improving governance and fighting corruption through the passage and implementation of anti-corruption laws that meet international standards in its July 2006 Board statement on Cambodia's Article IV review.

- At the March 2006 Board Meeting, the USED recommended that the government of Ethiopia improve its system of budget preparation, execution, and reporting in the interest of heightening transparency and better prioritizing of expenditures.

(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 India's most recent Article IV discussions, the USED in its Board statement urged greater public spending efficiency, including subsidy reform, pension reform, and reform of the pricing mechanism of petroleum products.

(8) *Economic prescriptions appropriate to the economic circumstances of each country*

The United States has supported flexibility in Fund programs while emphasizing the need to focus conditionality on issues critical to growth and macroeconomic stability using measurable results. 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.

(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. The United States has encouraged the inclusion of conditions on environmental issues in cases where such issues have significant macroeconomic consequences.

(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.[5] The USED consistently encourages countries to publish the full Article IV staff report on the IMF's public website.

(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 ten comprehensive reviews, including assessments of the IMF's engagement in Jordan, multilateral surveillance, and the IMF's approach to capital account liberalization. Reports on other topics such as the IMF's advice on exchange rate policies are forthcoming. All reports are publicly available from the IEO's website at (http://www.imf.org/external/np/ieo/index.htm).

In response to recommendations of a 2002 IEO study on prolonged use of IMF resources, the IMF now requires "Ex Post Assessments" (EPAs) of IMF engagement in countries where the IMF has had a program in place for at least 7 out of the past 10 years. The EPAs are intended to provide a long-term, arms-length perspective and are led by someone other than the country mission chief, ideally someone outside of the area department. EPAs provide valuable insights to guide future engagement with "prolonged use" countries.

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[5] "Exceptional access" refers to financing arrangements in amounts that exceed the Fund's normal limits.

(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 May 2006 Board Statement regarding Sierra Leone's new PRGF, the USED supported the recent adoption by that government of the Microfinance Investment and Technical Assistance Facility and the establishment of new banks that will bring more financial services to the rural population.

(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.

In May 2006, largely as a result of US and G7 leadership, the Executive Board of the IMF reiterated the importance of AML/CFT standards to strengthening the integrity of financial systems and deterring financial abuse, and affirmed the collaborative arrangements presently in place with the FATF and FATF-style Regional bodies (FSRBs) for assessing AML/CFT regimes in the context of the IMF's financial sector work. The Board also endorsed the efforts underway to strengthen the quality and consistency of assessments prepared by all assessor bodies, and adopted measures for enhancing cooperation with the FATF and the FSRBs.

Collaboration with the IMF, FATF and FSRBs, with the assessors using the same common 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 and implement reforms. As of June 2006, the IMF and World Bank have conducted over 60 assessments of country compliance with AML/CFT.

The IMF is also a substantial source of funding for countries' efforts to strengthen their own CFT regimes – an activity that Treasury has supported and has joined in to leverage Treasury's own bilateral CFT assistance. The IMF and World Bank together have substantially increased technical assistance (TA), delivering 250 missions and events from May 2005 to April 2006.

In the latest Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund (IMFC) - the Secretary of the Treasury is the Governor for the United States - the IMFC reiterated the importance of these issues and called for closer cooperation between the IMF and FATF in promoting stronger implementation of AML/CFT standards and encouraged publication of comprehensive country evaluations.

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 reviews and reports, IMF programs, and other regular reviews of country progress. Examples include:

- The July 2005 FATF assessment noted that Irish guidelines are not legally enforceable, and questioned whether financial system supervisors had sufficient sanction powers to address AML/CFT infractions in supervised institutions. The USED emphasized, in its Statement on Ireland's Article IV review, the need for these issues to be addressed by the Irish authorities.

- In its February 2006 statement on India's Article IV review, the USED encouraged IMF staff to pay closer attention to AML/CFT issues during the next Article IV consultation and asked that India address the deficiencies found by the Asia Pacific Group on Money Laundering, such as in India's AML law, the regulation of alternative remittance systems, and the operation of India's Financial Intelligence Unit.

- The USED July 2006 Board statement on Cape Verde's Article IV review called on the Cape Verde Government to criminalize terrorist financing, citing its obligations under the UN's International Convention for the Suppression of the Financing of Terrorism.

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.

(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").

- In Gabon's June 2006 Article IV review, the USED in its statement expressed willingness to support a proposed precautionary Fund arrangement if Gabon and the Fund could agree to appropriate conditionality to address fiscal slippages seen since the end of the previous program.

(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.

- The USED in its statement during the July 2006 Article IV review recognized that El Salvador's ratification of the CAFTA-DR Free Trade Agreement promises to bring about an improvement to the country's business and investment climate. The U.S. also expressed the need for continued trade-related reforms to further enhance investment prospects and diversify the export base.

(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 continued or prolonged 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 early 2006 the IMF activated an Exogenous Shocks Facility (ESF) for low-income countries, which the U.S. supported because of the IMF's focus on addressing short-term balance of payments needs. The U.S. also successfully pressed for the adoption of the non-borrowing Policy Support Instrument (PSI), to provide a framework for IMF policy advice and donor signaling without the need for IMF lending. The U.S. has discouraged low-income countries from pursuing serial PRGF programs. The U.S. urges those countries without a clear balance of payments financing need to opt for a PSI, in which case they would retain the option of seeking ESF financing in the event of sudden adverse developments in the balance of payments.

(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.

ANNEX 1: Report to Congress on International Monetary Fund Lending
October 1, 2005 – September 30, 2006

Board Approval Date	Country	Amount	Type	U.S. Position	Reason for Position
10/19/05	Haiti	SDR 10.23 million ($14.7 million)	Emergency Post-Conflict Assistance	Support	
10/24/05	Cameroon	SDR 18.57 million ($26.8 million)	PRGF	Support	
11/14/05	Niger	SDR 19.7 million ($21.8 million)	PRGF Augmentation	Support	
12/23/05	Iraq	SDR 475.4 million ($685 million)	SBA	Support	
01/27/06	Albania	SDR 17.045 million ($24.7 million)	PRGF	Support	
01/27/06	Central African Republic	SDR 6.962 million ($10.2 million)	Emergency Post-Conflict Assistance	Support	
4/17/06	Grenada	SDR 10.530 ($15.8 million)	PRGF	Support	
5/5/2006	Republic of Moldova	SDR 80.8 million ($121 million)	PRGF	Support	
5/10/2006	Sierra Leone	SDR 31.1 million ($46.6 million)	PRGF	Support	
5/31/06	Paraguay	SDR 65.0 million ($97.5 million)	SBA	Support	
6/12/06	Rwanda	SDR 8.010 ($12 million)	PRGF	Support	

Board Approval Date	Country	Amount	Type	U.S. Position	Reason for Position
6/26/06	Afghanistan	SDR 81.0 million ($121 million)	PRGF	Support	
07/21/06	Madagascar	SDR 55.0 million ($80.8 million)	PRGF	Support	
09/08/06	Burkina Faso	SDR 6.0 million ($8.9 million)	PRGF Augmentation	Support	

PRESS ROOM

December 13, 2006
HP-195

Treasury Nominees Sworn In

Five Treasury nominees were sworn in this week: Robert F. Hoyt as General Counsel, Phillip L. Swagel as Assistant Secretary for Economic Policy, Anthony W. Ryan as Assistant Secretary for Financial Markets, Eric Solomon as Assistant Secretary for Tax Policy, and Michele A. Davis as Assistant Secretary for Public Affairs.

As General Counsel, Hoyt serves as the chief law officer of the Department of the Treasury. In addition, he is responsible for the supervision of more than 1,400 lawyers within the Department's legal division. Prior to joining Treasury, Hoyt served as Associate Counsel to the President at the White House and before that he was a Partner at Wilmer, Cutler, Pickering, Hale and Dorr. Earlier in his career, he served as a law clerk to the Honorable Herbert P. Wilkins on the Massachusetts Supreme Judicial Court.

As Assistant Secretary, Swagel is an advisor to the Treasury Secretary on all aspects of economic policy. His office is responsible for reporting on current and prospective macroeconomic developments and assisting in the determination of appropriate economic policies. His office is also responsible for the review and analysis of domestic microeconomic issues and developments in the financial markets. Swagel has served as a Senior Advisor to Secretary Paulson since October. Prior to joining the Treasury Department, Swagel served as a Resident Scholar at the American Enterprise Institute. Prior to this, he served as Chief of Staff of the Council of Economic Advisers. Earlier in his career, he served as an Economist at the International Monetary Fund and the Federal Reserve Board.

As Assistant Secretary for Financial Markets, Ryan will lead the efforts of the Office of Financial Markets to formulate policy on federal debt management and financial markets oversight. He will advise the Under Secretary for Domestic Finance on policy and legislation on federal finance market issues and examine the impact of such policies on industries and the markets. Ryan has served as a Senior Advisor to Secretary Paulson since July. Prior to joining the Treasury Department, Ryan spent 20 years in the financial services industry. Most recently, he was a partner of Grantham, Mayo, van Otterloo & Co. Prior to GMO, Ryan was a portfolio manager and business executive for global institutional asset management firms including State Street Corporation and The Boston Company. As Assistant Secretary for Tax Policy, Solomon has supervisory responsibility for providing the Secretary of the Treasury with policy analysis, advice and recommendations relating to all aspects of domestic and international issues of federal taxation, including all legislative proposals, regulatory guidance, and tax treaties. His office is also responsible for providing the official estimates of all government receipts for the President's budget, fiscal policy decisions, and Treasury cash management decisions. Solomon joined Treasury in October of 1999. Since 2001 he has served as the Deputy Assistant Secretary for Regulatory Affairs. He has also held the position of Acting Deputy Assistant Secretary for Tax Policy since December 2004. Previously, Solomon was a partner at Ernst & Young. Before joining Ernst & Young, Solomon served at the Internal Revenue Service for five years as Assistant Chief Counsel (Corporate), heading the IRS legal division with responsibility for all corporate tax issues.

As Assistant Secretary for Public Affairs, Davis is the lead representative of the Treasury Department and Secretary Paulson for media, business, professional trade organizations, consumer groups, and the public. In addition to serving as the chief spokesman, Davis 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. Davis has served as a Senior Advisor to Secretary Paulson since October. Before joining the Treasury Department, Davis served as Deputy National Security Advisor and Deputy Assistant to the President for Communications for the National Security Council.

PRESS ROOM

December 13, 2006
HP-196

**Introductory Remarks by
Secretary Henry M. Paulson
at the U.S.-China Strategic
Economic Dialogue**

Beijing, China- Good morning. It is a great pleasure to be here for the inaugural meeting of the U.S.-China Strategic Economic Dialogue. My colleagues and I are looking forward to productive discussions with Madame Wu and the distinguished members of the Chinese delegation. We thank President Hu, Premier Wen and Vice Premier Wu for hosting the first Strategic Economic Dialogue in Beijing.

The Strategic Economic Dialogue is an opportunity to address important long-term issues that are central to our economic relationship with China while also providing an opportunity to address the most pressing short-term issues. China and the US have a shared economic interest and we look forward to listening carefully to our Chinese counterparts as well as putting forward our ideas and viewpoints. Our discussions will focus on China's successful integration into the global economy and on ensuring that both nations benefit from our growing trade relationship.

Three broad goals will guide our discussions today and throughout the Dialogue.

First we will focus on the importance of maintaining sustainable growth without large trade surpluses. We will consider ways to achieve balanced growth, and talk about the importance of currency flexibility in the short-term and a path to freely tradable currency in the medium-term.

Second, we will emphasize the importance of continuing to open markets to trade, competition, and investment. Within that discussion, we will highlight the importance of the rule of law, including property rights - as well as the importance of transparency in regulations and standards, which are crucial to businesses both domestic and foreign.

And the third main pillar of our discussions will be energy and the environment. The United States and China are the world's leading energy consumers. We are committed to developing the use of cleaner, more abundant energy sources and we will talk about the best ways to do that.

Today with the first meeting of the Dialogue, we are initiating a long-term effort to address strategic economic issues. Our goal is to make progress on pressing needs, while advancing on a number of fronts by laying the foundation for long-term cooperation.

My great thanks to Madame Wu and this group of distinguished Chinese leaders for hosting us in this grand venue. We are very much looking forward to today's discussions.

PRESS ROOM

December 13, 2006
HP-197

**Opening Statement by Secretary
Henry M. Paulson
before the Opening Session of
the U.S.-China Strategic
Economic Dialogue**

Beijing, China- Good morning. It is truly gratifying to see so many senior leaders from two of the world's most important economies gathered together, in the spirit of cooperation, for this inaugural Strategic Economic Dialogue. Such an illustrious gathering certainly demonstrates the shared commitment of President Bush and President Hu to further economic cooperation and integration between our two countries.

This is also an historic opportunity, for our countries and for the global economy. As you know, in recent years the United States and China have accounted for almost half of global growth. The world looks to us together to provide lift to the global economy. Therefore, we have a responsibility to do our utmost to create the right environment for sustainable and responsible economic growth, both at home and abroad.

We have much to learn from each other. The Dialogue should help us manage and address the most important long term issues facing our two nations while providing a forum to address the most pressing short term issues. Over the next two days, we will discuss a number of issues surrounding China's economic development strategy and the challenges that China faces in the future. It is in everyone's interest that China's growth continues and in doing so that it strengthens the world economy. This Dialogue can help us work together to do just that while reducing tensions along the way. By continuing to pursue economic reform, opening its markets further, and rebalancing its growth to allow for increased domestic consumption, China will be sustaining its own growth while contributing even more to the global economy.

As China advances toward a "Harmonious Society," it will be important that growth is balanced so that the countryside is not left behind. I look forward to hearing your plans for addressing the structural causes of the rural-urban divide and other imbalances that have arisen. My colleagues and I also welcome the opportunity to share lessons from our own experience with social safety nets, labor mobility, and transparent and flexible fiscal spending to address income inequality.

To maintain domestic support for continued global economic integration, we both must pursue macroeconomic policies that facilitate balanced, sustainable growth and raise living standards. In a market economy, governments have several essential macroeconomic policy tools that can assure stable and balanced growth. In order to bring about balanced growth in China's dynamic and increasingly market-oriented economy, it is important that the government have full use of all these policy tools, including monetary policy, which would be more effective under a regime where currency values are determined in a competitive open marketplace based upon economic fundamentals. We believe that China should move toward such a system over the next several years. And of course you understand our strong view that in the meantime more currency flexibility is necessary. I look forward to having a good discussion about how to bring about balanced growth in China, a goal we both share.

Having spent most of my career working in financial markets around the world, it is clear to me that those nations that are open to trade, competition, and investment are the ones that succeed in today's global market. Just look at how much China has benefited from joining the WTO - a doubling of the size of your economy in just a few short years. The best way governments can serve the economic interests of their citizens is by welcoming healthy competition in all areas, including services. In particular, increased openness in financial services can be a catalyst for investment and growth in all sectors of an economy. Economies innovate through competition and openness to investment, and constant innovation fuels growth. I welcome the chance to share views on how we can best promote mutually beneficial liberalization and investment throughout our economies. And I look forward to discussing the principles of transparency, rule of law, and property rights, which are essential to expanding trade and investment flows.

Innovation and investment play a particularly important role in ensuring efficiency in energy use and the development of clean energy technologies. As the world's two largest consumers of energy, we share a special responsibility to both allocate and consume energy as efficiently and cleanly as possible. Open, transparent markets for resources and technologies are the best means of doing so. It is only through these means that we can achieve the economic growth and environmental preservation needed to improve quality of life in our own countries and around the world. The opportunity we have to advance this agenda is important to the entire world.

China's integration into the world economy has the potential to greatly enhance global prosperity. As you know, there is resistance in both our countries to greater integration into the global economy. And there is also skepticism that this Dialogue will accomplish anything of substance. Therefore, it is incumbent upon us, not only to have frank and energetic discussions, but also to produce tangible results on the most important issues facing our two nations. With the collection of talented people in this room, I have no doubt we will be able to do so.

In closing, I thank Vice Premier Wu Yi who I know paid attention to every detail of the preparations of this historic event. Under her leadership, the cooperation between our two countries has been extraordinary. I also thank President Hu and Premier Wen for hosting the first Strategic Economic Dialogue and providing this grand venue. I look forward to a fruitful two days of open exchanges of ideas with this illustrious group of Chinese leaders, which will lay the groundwork for a strong and mutually beneficial economic relationship between our two countries for many years to come.

PRESS ROOM

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December 14, 2006
HP-198

Statement by Treasury Secretary Henry M. Paulson on Resignation of Don Hammond

Washington, DC– Treasury Secretary Henry M. Paulson issued the following statement on the resignation of Treasury Fiscal Assistant Secretary Don Hammond:

"Don Hammond's 23-year career at the Treasury Department has been marked by integrity, collegiality, and total dedication to the American people. Don is a public servant in the best sense of the term, always putting the needs of the public first. His efforts have made the Department more responsive to public needs and more efficient in meeting its responsibilities.

"As Fiscal Assistant Secretary for the past nine years, Don has been the key player in managing the government's cash flow and overseeing financial management activities. And his role as liaison with the Federal Reserve has no doubt prepared Don well for his next position.

"Don's deep knowledge of American financial operations and his cheerfulness in carrying out his duties have made him a valued and much-admired colleague. I wish Don all the best as he starts the next chapter in his distinguished public service career."

REPORTS

- Resignation Letter

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

December 11, 2006

The Honorable Henry M. Paulson, Jr.
Secretary of the Treasury
U. S. Treasury Department
Washington, DC 20220

Dear Mr. Secretary:

For more than 23 years and in particular the past 9 years as Fiscal Assistant Secretary, I have had the honor and the privilege of serving the American public as a professional at the Department of the Treasury. My service at Treasury has allowed me to work with the most dedicated and impressive professionals and to be involved in a wide range of important financial issues. After careful reflection and consideration, I believe it is now time for me to start another chapter in my public service career.

Throughout my time at Treasury, I have always been in awe of the commitment, energy, creativity and intelligence of everyone I have been fortunate to have worked with in both political and career positions. One constant throughout my tenure has been a clear organizational focus on doing things right. For me, continuous improvement of the effectiveness and efficiency of the government's financial operations has been a guiding principle. I am very proud of the people and operations of the Fiscal Service and believe that it is well positioned to continue in pursuit of this objective.

To begin the next stage of my career, I have accepted an offer from the Board of Governors of the Federal Reserve System to be Deputy Director of the Division of Reserve Bank Operations and Payment Systems. This exciting opportunity will provide me new challenges and perspectives in advancing the public interest.

Accordingly, I offer my resignation as Fiscal Assistant Secretary to be effective in early February. I look forward to providing you with a smooth transition. My time at the Treasury has been personally rewarding and I hope that I have given back some small measure of what I have received.

Sincerely,

Donald V. Hammond
Fiscal Assistant Secretary

U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL 9 a.m. (EST), December 15, 2006
CONTACT Brookly McLaughlin (202) 622-2920

TREASURY INTERNATIONAL CAPITAL DATA FOR OCTOBER

WASHINGTON, D.C.– Treasury International Capital (TIC) data for October are released today and posted on the U.S. Treasury web site ([illegible]). The next release, which will report on data for November, is scheduled for January 17, 2007.

Net foreign purchases of long-term securities were $82.3 billion.

- Net foreign purchases of long-term U.S. securities were $102.0 billion. Of this, net purchases by foreign official institutions were $25.3 billion, and net purchases by private foreign investors were $76.7 billion.

- U.S. residents purchased a net $19.7 billion in long-term foreign securities.

Net foreign acquisition of long-term securities is estimated to have been $73.5 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities increased $3.1 billion. Foreign holdings of Treasury bills increased $4.2 billion.

Banks' own net dollar-denominated liabilities to foreign residents decreased $14.4 billion.

Monthly net TIC flows were $62.2 billion. Of this, net foreign private flows were positive $69.1 billion, and net foreign official flows were negative $6.9 billion.

HP-199

TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

		2004	2005	12 Months Through Oct-05	12 Months Through Oct-06	Jul-06	Aug-06	Sep-06	Oct-06
	Foreigners' Acquisitions of Long-term Securities								
1	Gross Purchases of Domestic U.S. Securities	15178.9	17177.4	17192.2	18780.2	1448.3	1634.5	1632.6	1754.4
2	Gross Sales of Domestic U.S. Securities	14262.4	16166.8	16178.2	17720.9	1392.3	1516.5	1540.1	1652.4
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**916.5**	**1010.6**	**1014.0**	**1059.3**	**56.0**	**118.0**	**92.6**	**102.0**
4	**Private, net /2**	**680.9**	**890.5**	**876.6**	**884.1**	**33.3**	**88.4**	**75.8**	**76.7**
5	Treasury Bonds & Notes, net	150.9	270.1	224.9	146.5	-0.2	27.9	-7.9	7.8
6	Gov't Agency Bonds, net	205.7	187.8	221.2	188.4	6.7	21.7	17.7	9.9
7	Corporate Bonds, net	298.0	353.2	346.9	435.0	18.0	34.7	56.8	37.5
8	Equities, net	26.2	79.4	83.6	114.2	8.8	4.2	9.2	21.4
9	**Official, net /3**	**235.6**	**120.1**	**137.4**	**175.2**	**22.7**	**29.6**	**16.7**	**25.3**
10	Treasury Bonds & Notes, net	201.1	68.5	85.9	66.3	8.2	16.9	7.7	18.5
11	Gov't Agency Bonds, net	20.8	31.6	30.1	74.6	11.8	9.8	7.9	5.3
12	Corporate Bonds, net	11.5	19.0	18.3	25.8	1.0	2.7	1.8	2.0
13	Equities, net	2.2	1.0	3.0	8.5	1.6	0.2	-0.7	-0.4
14	Gross Purchases of Foreign Securities from U.S. Residents	3123.1	3700.0	3543.8	4996.3	365.4	406.4	406.0	483.6
15	Gross Sales of Foreign Securities to U.S. Residents	3276.0	3872.4	3710.6	5195.7	387.6	410.4	428.4	503.3
16	**Foreign Securities Purchased, net** (line 14 less line 15) /4	**-152.8**	**-172.4**	**-166.8**	**-199.3**	**-22.2**	**-4.0**	**-22.4**	**-19.7**
17	Foreign Bonds Purchased, net	-67.9	-45.1	-51.4	-100.1	-18.9	-9.9	-13.6	-7.8
18	Foreign Equities Purchased, net	-85.0	-127.3	-115.3	-99.2	-3.4	5.8	-8.8	-11.9
19	**Net Long-Term Securities Transactions** (line 3 plus line 16):	**763.6**	**838.2**	**847.2**	**859.9**	**33.8**	**114.0**	**70.2**	**82.3**
20	**Other Acquisitions of Long-term Securities, net /5**	**-38.8**	**-140.0**	**-84.5**	**-141.0**	**-14.5**	**-11.1**	**-11.9**	**-8.8**
21	**Net Foreign Acquisition of Long-Term Securities** (lines 19 and 20):	**724.8**	**698.2**	**762.7**	**718.9**	**19.3**	**102.8**	**58.3**	**73.5**
22	**Increase in Foreign Holdings of Dollar-denominated Short-term U.S. Securities and Other Custody Liabilities: /6**	**190.1**	**-47.2**	**-59.1**	**102.3**	**29.7**	**4.5**	**-11.5**	**3.1**
23	**U.S. Treasury Bills**	**60.0**	**-58.9**	**-64.7**	**-13.3**	**6.3**	**1.9**	**-14.4**	**4.2**
24	Private, net	26.8	-15.6	-4.1	8.0	5.1	-1.7	-3.9	5.1
25	Official, net	33.2	-43.3	-60.6	-21.3	1.2	3.6	-10.6	-0.9
26	**Other Negotiable Instruments and Selected Other Liabilities: /7**	**130.1**	**11.7**	**5.6**	**115.6**	**23.4**	**2.5**	**3.0**	**-1.0**
27	Private, net	77.4	10.9	8.9	128.3	25.4	10.3	4.7	9.8
28	Official, net	52.8	0.8	-3.3	-12.7	-2.0	-7.8	-1.7	-10.8
29	**Change in Banks' Own Net Dollar-Denominated Liabilities**	**63.9**	**16.4**	**68.6**	**22.0**	**7.0**	**-14.7**	**11.0**	**-14.4**
30	**Monthly Net TIC Flows** (lines 21,22,29) /8	**978.9**	**667.4**	**772.2**	**843.3**	**56.0**	**92.6**	**57.8**	**62.2**
	of which								
31	Private, net	637.2	580.4	675.4	730.2	28.7	81.1	45.9	69.1
32	Official, net	341.6	86.9	96.8	113.0	27.3	11.6	11.9	-6.9

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

/2 Includes international and regional organizations

/3 The reported division of net purchases of long-term securities between net purchases by foreign official institutions and net purchases of other foreign investors is subject to a "transaction bias" described in Frequently Asked Questions 7 and 10.a.4 on the TIC web site.

/4 Net transactions in foreign securities by U.S. residents. Foreign purchases of foreign securities = U.S. sales of foreign securities to foreigners. Thus negative entries indicate net U.S. purchases of foreign securities, or an outflow of capital from the United States; positive entries indicate net U.S. sales of foreign securities.

/5 Minus estimated unrecorded principal repayments to foreigners on domestic corporate and agency asset-backed securities +
estimated foreign acquisitions of U.S. equity through stock swaps -
estimated U.S. acquisitions of foreign equity through stock swaps +
increase in nonmarketable Treasury Bonds and Notes Issued to Official Institutions and Other Residents of Foreign Countries.

/6 These are primarily data on monthly changes in banks' and broker/dealers' custody liabilities. Data on custody claims are collected quarterly and published in the Treasury Bulletin and the TIC web site.

/7 "Selected Other Liabilities" are primarily the foreign liabilities of U.S. customers that are managed by U.S. banks or broker/dealers.

/8 TIC data cover most components of international financial flows, but do not include data on direct investment flows, which are collected and published by the Department of Commerce's Bureau of Economic Analysis. In addition to the monthly data summarized here, the TIC collects quarterly data on some banking and nonbanking assets and liabilities. Frequently Asked Question 1 on the TIC web site describes the scope of TIC data collection.

15-Feb-07

TIC monthly reports on Cross-Border Portfolio Financial Flows for November 2006
($ millions)

Rows in monthly press release table -->	Gross Foreign Purch. of Domes. U.S. L-T Secur.	Gross Foreign Sales of Domes. U.S. L-T Secur.	Domes. L-T Secur., Purch., net	Private, net	Private Treas Bonds& Notes, net	Private Gov't Agency Bonds, net	Private Corp Bonds, net	Private Equity, Net	Official, net	Official Treas Bonds& Notes, net	Official Gov't Agency Bonds, net	Official Corp Bonds, net
	1	2	3	4	5	6	7	8	9	10	11	12
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2006-Dec	1850359	1787352	63007	39044	4489	12531	33125	-11101	23963	6092	15506	2864
2006-Nov	1928132	1805886	122246	115733	33104	11812	61756	9061	6513	1016	3955	3640
2006-Oct	1875228	1766649	108579	83257	6227	10850	38781	27399	25322	18463	5260	2006
2006-Sep	1750381	1649925	100456	83730	-6051	17332	57128	15321	16726	7706	7872	1830
2006-Aug	1750503	1625179	125324	95706	27221	23700	37013	7772	29618	16882	9777	2752
2006-Jul	1575428	1509779	65649	42926	2917	7684	19538	12787	22723	8239	11853	1007
2006-Jun	1794191	1703268	90923	87663	33372	17797	39315	-2821	3260	-4702	5209	1575
2006-May	2064672	1953233	111439	113214	31731	28370	40323	12790	-1775	-13969	8521	2503
2006-Apr	1481780	1415025	66755	44850	-14919	12295	38552	8922	21905	11078	5710	1720
2006-Mar	1823433	1726711	96722	95859	16155	11550	47012	21142	863	-7332	3959	2608
2006-Feb	1620608	1515906	104702	86881	6445	27849	34087	18500	17821	12679	2214	3602
2006-Jan	1586113	1499782	86331	67681	-4664	20220	27818	24307	18650	6378	8934	2416
2005-Dec	1223188	1148772	74416	63226	11186	8414	33306	10320	11190	5838	2804	2535
2005-Nov	1461600	1354648	106952	96862	46867	7889	36479	5627	10090	4959	3217	1818
2005-Oct	1482801	1375150	107651	96643	24191	29596	34701	8155	11008	5973	3203	1604
2005-Sep	1669760	1561322	108438	104683	23315	17521	41819	22028	3755	-1116	1676	2190
2005-Aug	1430969	1350965	80004	74386	21901	16187	34737	1561	5618	3662	-411	2026
2005-Jul	1286950	1192482	94468	83904	23607	30523	21999	7775	10564	5064	4165	1392
2005-Jun	1523661	1431155	92506	68710	2076	15591	47886	3157	23796	17597	3052	2609
2005-May	1494716	1451858	42858	29241	-6302	17546	17568	429	13617	7925	3898	1842

2005-Apr	1407286	1348646	58640	47663	16535	8506	17762	4860	10977	13174	-1536	64
2005-Mar	1524677	1459445	65232	78514	48390	6188	21240	2696	-13282	-14227	1316	-422
2005-Feb	1364740	1273353	91387	73076	32326	10584	28930	1236	18311	12219	3932	2106
2005-Jan	1287113	1198125	88988	74219	25331	19082	16654	13152	14769	7621	6313	1377
2004-Dec	1308477	1224629	83848	73585	1378	25582	39313	7312	10263	6976	1025	1635
2004-Nov	1405663	1304212	101451	73496	12673	24311	24298	12214	27955	21049	3487	1891
2004-Oct	1193809	1130025	63784	48919	3554	22866	18853	3646	14865	15649	-928	887
2004-Sep	1250695	1183518	67177	52636	6165	5980	43824	-3333	14541	10874	2446	1234
2004-Aug	1207146	1153806	53340	34038	-2120	14923	23656	-2421	19302	15515	2568	1107
2004-Jul	1202863	1135014	67849	58476	6716	16761	27686	7313	9373	5935	2511	819
2004-Jun	1233569	1143270	90299	74539	29012	14748	26588	4191	15760	16335	-923	801
2004-May	1312229	1249365	62864	56089	20776	21025	19963	-5675	6775	7866	-1811	548
2004-Apr	1375483	1279556	95927	69776	27669	24337	18388	-618	26151	22691	1760	606
2004-Mar	1393455	1326107	67348	29391	17648	-3410	25235	-10082	37957	33567	2786	1274
2004-Feb	1157656	1089305	68351	45861	8266	16114	19568	1913	22490	17892	4227	193
2004-Jan	1137839	1043621	94218	64057	19202	22414	10664	11777	30161	26791	3602	469
2003-Dec	1018831	942865	75966	62262	19229	10625	19318	13090	13704	8660	4442	699
2003-Nov	986343	904199	82144	60474	16584	7372	27597	8921	21670	18968	1873	968
2003-Oct	1238429	1197265	41164	14267	-13091	8519	19968	-1129	26897	23593	2803	723
2003-Sep	1152366	1131733	20633	7587	-3913	-2167	19767	-6100	13046	10659	2039	437
2003-Aug	1266789	1213052	53737	56755	21238	7868	16078	11571	-3018	-4487	809	486
2003-Jul	1287886	1208420	79466	67390	39123	12201	25593	-9527	12076	11573	33	479
2003-Jun	1305375	1227542	77833	60548	23626	6963	20755	9204	17285	15925	956	311
2003-May	1252333	1150826	101507	87296	28363	25038	27191	6704	14211	13422	656	187
2003-Apr	938995	885852	53143	52244	9765	15902	22092	4485	899	-1100	2059	-41
2003-Mar	1196277	1124971	71306	70019	26967	13828	26444	2780	1287	-86	881	463
2003-Feb	932477	915596	16881	7484	-7531	4531	12565	-2081	9397	4321	4849	223
2003-Jan	949860	903780	46080	38652	-618	19199	22942	-2871	7428	2390	4521	498
2002-Dec	918565	872921	45644	35814	7227	12291	13111	3185	9830	6252	3511	67
2002-Nov	1185340	1117214	68126	54632	8735	17746	21635	6516	13494	12328	646	560
2002-Oct	1169945	1128270	41675	40010	6004	21164	9205	3637	1665	82	1031	570
2002-Sep	1089966	1049828	40138	40445	25407	17677	3665	-6304	-307	-3737	3380	209
2002-Aug	1166769	1125904	40865	35439	3712	13210	13830	4687	5426	635	4204	662
2002-Jul	1272460	1222711	49749	51516	29626	8523	3780	9587	-1767	-5268	3293	138
2002-Jun	1030579	979212	51367	45265	12162	8411	20715	3977	6102	2161	3653	246
2002-May	1160672	1105449	55223	53465	10596	16503	26531	-165	1758	-69	1864	113
2002-Apr	1061066	1019882	41184	41083	-7229	23372	16818	8122	101	-1605	1051	1033

2002-Mar	1097635	1025339	72296	62672	14099	15816	25209	7548	9624	5233	3744	1323
2002-Feb	891796	866772	25024	26293	11025	5144	7183	2941	-1269	-2177	1204	455
2002-Jan	978136	961862	16274	21616	-8592	6738	15027	8443	-5342	-6686	969	225
2001-Dec	792782	748392	44390	40750	7756	6413	13201	13380	3640	1061	2216	459
2001-Nov	1017349	960959	56390	46340	6096	10725	16426	13093	10050	6266	3348	357
2001-Oct	935742	871890	63852	58639	13484	25211	12875	7069	5213	2239	2066	716
2001-Sep	737737	732393	5344	-118	-3683	5651	9754	-11840	5462	2549	2177	428
2001-Aug	831736	794450	37286	37261	4493	13375	12451	6942	25	343	-1339	260
2001-Jul	766449	739065	27384	28948	-10753	13530	14985	11186	-1564	-741	-1054	-58
2001-Jun	809676	770751	38925	42562	-202	17640	14848	10276	-3637	-3243	-734	178
2001-May	910836	850057	60779	57951	2163	5500	33110	17178	2828	913	1450	322
2001-Apr	833448	803332	30116	33232	-4656	9754	21663	6471	-3116	-9055	5716	67
2001-Mar	900653	842081	58572	56745	4648	18357	26411	7329	1827	249	1187	292
2001-Feb	815745	760068	55677	54567	6547	9249	29334	9437	1110	667	278	167
2001-Jan	909599	867465	42134	37312	-10853	11165	13135	23865	4822	2226	2109	574
2000-Dec	741430	711110	30320	28446	-10857	9452	18778	11073	1874	1068	478	274
2000-Nov	703501	671191	32310	34549	-9139	15745	18922	9021	-2239	-4967	2598	97
2000-Oct	795478	750557	44921	46429	4161	13066	13076	16126	-1508	-7150	5120	312
2000-Sep	691864	661953	29911	32313	-2181	11977	13622	8895	-2402	-6626	4420	140
2000-Aug	655630	593176	62454	57107	-562	11432	21796	24441	5347	449	4879	187
2000-Jul	598022	567940	30082	25259	-5422	5205	10297	15179	4823	-639	4973	95
2000-Jun	699629	667564	32065	30921	-16520	3853	25773	17815	1144	-1412	2616	-38
2000-May	689038	668195	20843	18024	-5613	10026	7572	6039	2819	-1405	3845	105
2000-Apr	733753	698225	35528	24667	8117	5144	8263	3143	10861	6403	3873	424
2000-Mar	883228	846328	36900	33607	-16302	11101	14770	24038	3293	-569	3643	25
2000-Feb	806684	744519	62165	57287	3786	11018	14924	27559	4878	1777	2714	201
2000-Jan	685836	645507	40329	31485	2802	3914	14316	10453	8844	6769	1750	197
1999-Dec	558057	529051	29006	20867	-320	2449	9866	8872	8139	4962	2606	489
1999-Nov	673059	635114	37945	38522	-1290	6722	14860	18230	-577	-2325	1274	286
1999-Oct	605419	581976	23443	21759	-8485	6420	15970	7854	1684	-1248	2850	166
1999-Sep	569974	539410	30564	31338	1804	8056	16656	4822	-774	-1714	1836	641
1999-Aug	641162	591536	49626	47025	16724	5796	12363	12142	2601	2394	-276	463
1999-Jul	599397	568869	30528	31428	-4463	7228	20456	8207	-900	-1773	275	486
1999-Jun	626440	599080	27360	26130	-1006	3724	11632	11780	1230	397	1304	-597
1999-May	650081	618513	31568	26567	2415	4406	11301	8445	5001	3223	2156	-450
1999-Apr	640128	603279	36849	40881	3425	8931	10896	17629	-4032	-6696	2332	369
1999-Mar	675551	646200	29351	29642	6377	7684	13091	2490	-291	-4845	4130	-48

1999-Feb	640762	632265	8497	11830	-10924	2811	15213	4730	-3333	-3699	884	74
1999-Jan	603459	588035	15424	12783	-4349	7623	6545	2964	2641	1463	979	-336
1998-Dec	488536	455630	32906	25725	5275	5625	10225	4600	7181	5274	1894	56
1998-Nov	656452	602544	53908	43030	13613	9459	11666	8292	10878	11843	196	32
1998-Oct	785842	782063	3779	-4973	-11194	-5119	9040	2300	8752	9001	-528	-177
1998-Sep	793073	800835	-7762	3199	5034	28	8257	-10120	-10961	-10304	-136	-164
1998-Aug	690449	698145	-7696	7908	1169	1520	5073	146	-15604	-16920	2097	-575
1998-Jul	611186	597947	13239	14017	-2656	2310	10523	3840	-778	469	-55	131
1998-Jun	665399	640622	24777	28045	5043	5202	14586	3214	-3268	-3486	1590	-4
1998-May	598800	556842	41958	41087	20597	3996	8507	7987	871	898	-862	617
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1998-Mar	633419	604893	28526	22030	-10585	9708	9467	13440	6496	6133	135	253
1998-Feb	550282	514164	36118	33871	8501	6942	9006	9422	2247	1242	1194	-254
1998-Jan	574039	549223	24816	25719	6420	2709	8371	8219	-903	-1189	1281	98
1997-Dec	476383	471201	5182	5332	-9031	3030	6302	5031	-150	-367	-193	-89
1997-Nov	501631	476821	24810	22597	14078	-369	3841	5047	2213	1831	-189	146
1997-Oct	686696	656019	30677	42553	29724	7392	5697	-260	-11876	-12542	483	175
1997-Sep	543496	510060	33436	28699	12103	650	7040	8906	4737	3397	1122	364
1997-Aug	611738	565588	46150	36666	15941	7305	6244	7176	9484	8541	378	189
1997-Jul	543841	513364	30477	31252	5102	4602	10432	11116	-775	-2107	1212	227
1997-Jun	588904	544837	44067	32761	12571	1647	9829	8714	11306	9926	209	182
1997-May	542873	519784	23089	18720	3423	2334	6718	6245	4369	3428	794	46
1997-Apr	516121	471699	44422	37791	18700	6228	5910	6953	6631	6955	-41	-70
1997-Mar	499035	468501	30534	25021	12928	3536	5018	3539	5513	7154	191	209
1997-Feb	542494	498175	44319	35341	15091	5115	9221	5914	8978	10178	205	137
1997-Jan	520060	489244	30816	22966	9582	3854	6587	2943	7850	7565	358	3
1996-Dec	473080	417538	55542	41076	30369	2577	7644	486	14466	13903	487	-29
1996-Nov	468833	436018	32815	27163	14125	5228	6698	1112	5652	3078	1365	-50
1996-Oct	490382	454143	36239	30594	19356	3587	7532	119	5645	4765	331	-126
1996-Sep	441266	414202	27064	9205	-3664	3598	9255	16	17859	17094	519	359
1996-Aug	339801	314087	25714	22716	7458	4381	7814	3063	2998	3518	118	476
1996-Jul	402362	350277	52085	43460	36163	3728	6052	-2483	8625	9228	590	70
1996-Jun	298395	278689	19706	25306	15261	3585	5265	1195	-5600	-6691	663	325
1996-May	357245	330305	26940	19698	7620	2994	7883	1201	7242	6479	317	231
1996-Apr	292391	270731	21660	12481	3082	605	5032	3762	9179	8304	464	275
1996-Mar	343178	322088	21090	16282	6847	458	8340	637	4808	4794	-184	73
1996-Feb	408863	379885	28978	19882	9327	3225	5907	1423	9096	8653	454	-53

1996-Jan	351811	329426	22385	10217	490	2749	4799	2179	12168	12682	-116	-29
1995-Dec	265200	271534	-6334	-9427	-11995	-2064	2538	2094	3093	2651	321	108
1995-Nov	325796	296504	29292	30039	16368	3724	6766	3181	-747	-909	266	145
1995-Oct	323951	313378	10573	4427	-1038	1172	5561	-1268	6146	5705	178	363
1995-Sep	308182	308580	-398	3931	-6533	4824	5272	368	-4329	-4525	261	71
1995-Aug	340740	304067	36673	37142	26446	4355	3708	2633	-469	-364	89	-103
1995-Jul	305737	262469	43268	26279	15081	2549	6330	2319	16989	16790	168	-85
1995-Jun	368103	334142	33961	20893	11760	1949	6552	632	13068	10871	658	-55
1995-May	355200	331804	23396	23116	16222	1339	4651	904	280	-1707	345	-136
1995-Apr	229573	218253	11320	8072	3242	1763	2233	834	3248	3158	323	-267
1995-Mar	317252	302859	14393	9722	5189	2016	5025	-2508	4671	4022	553	-92
1995-Feb	317465	297126	20339	17558	11993	1332	4444	-211	2781	2110	611	68
1995-Jan	280442	264988	15454	13554	7749	2035	4554	-784	1900	1829	-38	202
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1994-Aug	325167	298806	26361	15611	6275	1516	4893	2927	10750	9756	1124	-17
1994-Jul	213424	208264	5160	-684	-4054	1179	2908	-717	5844	5063	902	-8
1994-Jun	280162	275650	4512	995	-7407	2306	7793	-1697	3517	3362	703	0
1994-May	329893	305191	24702	11942	8243	1879	478	1342	12760	11237	1486	50
1994-Apr	250087	264466	-14379	-12435	-12994	-592	2672	-1521	-1944	-1661	171	-161
1994-Mar	318299	313959	4340	9867	3786	823	4659	599	-5527	-4757	-130	-206
1994-Feb	324981	304637	20344	17110	9331	1812	2396	3571	3234	3547	-186	-25
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1993-Nov	332164	306725	25439	19129	9000	4860	2033	3236	6310	6223	340	-186
1993-Oct	277897	260463	17434	15392	2432	3248	5217	4495	2042	1619	390	-29
1993-Sep	286518	287745	-1227	-5355	-14025	4713	3130	827	4128	3165	800	118
1993-Aug	312248	289790	22458	21559	13256	2131	3663	2509	899	724	316	-72
1993-Jul	234345	234813	-468	3818	2806	1579	-14	-553	-4286	-4677	229	214
1993-Jun	282914	280503	2411	2363	-4938	3709	3212	380	48	-760	139	206
1993-May	226645	223207	3438	6072	2265	3124	368	315	-2634	-3424	316	3
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1992-Dec	178648	172639	6009	6917	729	1539	2212	2437	-908	-715	-243	137
1992-Nov	238758	218044	20714	20871	18251	1965	-683	1338	-157	-620	493	26
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1992-Aug	239322	231511	7811	6927	5762	493	2027	-1355	884	691	387	104
1992-Jul	261786	262003	-217	447	-1095	-192	1770	-36	-664	-766	92	191
1992-Jun	218504	200762	17742	12138	9036	1912	2163	-973	5604	5420	171	52
1992-May	195269	198814	-3545	-1506	-5241	1358	2299	78	-2039	-2685	574	79
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1992-Feb	210028	201896	8132	8365	4824	810	2566	165	-233	-192	-112	16
1992-Jan	252849	242038	10811	2142	2572	640	1302	-2372	8669	8693	160	56
1991-Dec	185999	181243	4756	1930	2154	1091	1233	-2548	2826	2521	518	-35
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1991-Oct	209378	206217	3161	2843	102	273	2003	465	318	512	-221	58
1991-Sep	189966	192587	-2621	-3397	-4891	1389	489	-384	776	830	265	41
1991-Aug	224246	217059	7187	7322	1689	1451	2521	1661	-135	-458	133	57
1991-Jul	180790	175947	4843	5259	1862	989	1428	980	-416	-716	76	112
1991-Jun	156589	157740	-1151	4755	112	1098	2280	1264	-5906	-5832	60	6
1991-May	223771	202939	20832	18620	13204	618	1589	3209	2212	2020	-60	122
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1989-Mar	176120	163754	12367	5115	2096	642	2170	207	7251	6549	293	224
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1988-Dec	114628	111585	3043	520	-1930	979	2706	-1235	2523	2243	246	47
1988-Nov	152656	141044	11612	9199	6452	441	2297	10	2413	2196	69	50
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1988-Sep	143937	144596	-659	531	-454	573	791	-379	-1190	-1481	498	4
1988-Aug	161183	159128	2055	3465	1072	183	1539	671	-1410	-1450	44	5
1988-Jul	142109	137156	4953	7581	3277	134	3146	1024	-2628	-2362	30	-97
1988-Jun	208581	206659	1922	3807	-503	943	2596	772	-1886	-1658	297	-85
1988-May	144549	130453	14095	9007	6000	1360	2788	-1140	5088	5062	-82	45
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1988-Feb	180102	167954	12148	5212	4945	-30	500	-203	6936	7169	-36	-22
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1987-Aug	144637	141897	2740	84	-1502	-20	1355	251	2656	2612	85	-18
1987-Jul	146116	140672	5444	3878	-1444	488	2511	2324	1567	2251	74	-197
1987-Jun	175328	159300	16028	12417	8562	506	1714	1634	3611	3719	79	-184
1987-May	134946	129563	5383	851	-4730	128	1680	3773	4532	4447	233	-51
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1986-Nov	91662	90971	691	886	-2595	1356	2067	59	-196	173	-49	-207

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1986-Aug	111909	106243	5666	5492	17	351	3703	1420	175	40	121	-19
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1985-Nov	74376	63748	10627	11175	1404	935	7413	1422	-548	-236	-124	-35
1985-Oct	51095	46189	4907	5952	847	680	3787	638	-1046	-1232	182	-23
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1985-Aug	52241	53159	-918	-624	-3120	-97	1930	663	-295	-243	86	-125
1985-Jul	65952	56248	9704	8008	3028	838	3529	612	1696	1792	69	-201
1985-Jun	48714	41186	7528	5154	3024	204	1621	305	2374	2691	-36	-395
1985-May	58476	52033	6443	2717	-336	107	2921	25	3726	3580	328	-255
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1985-Feb	44744	37846	6899	5800	985	586	4186	42	1099	1345	-160	18
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1984-Oct	43543	37401	6141	7408	3801	176	3897	-467	-1266	-862	-157	33
1984-Sep	20369	23729	-3360	-1175	-1835	129	1135	-605	-2185	-1968	29	-1
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1983-Jul	13602	14766	-1164	-16	-779	42	101	621	-1148	-895	-91	-76
1983-Jun	18570	16813	1757	1632	1156	138	-31	369	125	407	-204	-104
1983-May	23027	19971	3056	3505	2587	58	405	455	-449	36	-77	-217
1983-Apr	15069	15232	-163	-274	-1485	-18	317	911	112	341	112	-21
1983-Mar	21941	18550	3391	2691	1640	-54	85	1021	700	966	-142	-26
1983-Feb	17295	15770	1525	90	-957	-33	78	1002	1435	1552	-57	-34
1983-Jan	16449	15209	1240	1574	734	27	-58	872	-335	34	-173	-134
1982-Dec	17051	15339	1712	244	-700	11	-141	1074	1467	1866	-264	15
1982-Nov	19930	18946	984	989	577	-52	131	334	-5	231	-169	-73
1982-Oct	17331	15356	1975	1612	1062	72	110	368	363	641	-26	-141
1982-Sep	16324	14002	2322	831	841	-2	216	-225	1491	1500	-58	-78
1982-Aug	15395	14241	1154	727	448	-176	29	426	426	416	-81	-26
1982-Jul	11492	9425	2067	-450	-815	-18	241	142	2517	2797	-53	-99
1982-Jun	10838	9840	997	522	44	-20	236	262	476	318	192	-72
1982-May	11751	9468	2283	802	-454	150	769	337	1481	1476	-58	-36
1982-Apr	10813	8444	2368	1473	662	141	489	181	895	791	123	-91
1982-Mar	11934	9691	2243	931	688	45	155	43	1312	1325	-78	-23
1982-Feb	9932	7084	2847	580	-30	129	74	406	2268	2348	-182	-28
1982-Jan	6724	5006	1718	905	445	59	184	217	813	841	-41	-34
1981-Dec	10982	9870	1112	1841	1551	-54	135	209	-729	-787	39	29
1981-Nov	13529	11607	1922	21	-99	-59	43	135	1902	2033	-147	-46
1981-Oct	8368	6871	1496	-169	-152	43	49	-110	1665	1627	-122	3
1981-Sep	9892	7844	2048	35	-125	-18	126	53	2013	1381	255	-108
1981-Aug	9331	7308	2023	483	271	41	177	-7	1540	1529	4	54
1981-Jul	9521	7097	2424	750	352	63	231	105	1674	798	286	496
1981-Jun	13634	10817	2817	1589	286	55	216	1033	1227	980	-53	270
1981-May	10133	7951	2182	1566	393	-24	164	1033	616	321	58	31
1981-Apr	10280	8420	1860	722	-127	87	120	643	1137	495	531	29
1981-Mar	13170	10197	2972	1409	441	17	196	754	1564	1084	7	581
1981-Feb	9315	6600	2716	1115	364	28	367	356	1601	1404	116	27
1981-Jan	8297	5952	2345	874	170	82	28	595	1471	865	332	248
1980-Dec	11024	10085	939	1148	532	49	89	478	-208	-335	-85	44
1980-Nov	9652	7804	1847	1533	363	102	72	997	314	301	107	11
1980-Oct	10033	7978	2055	499	17	-15	62	435	1556	663	565	241
1980-Sep	10890	8707	2183	551	729	-65	43	-156	1632	1023	48	151

1980-Aug	7675	7736	-62	117	-22	70	33	36	-178	-745	104	291
1980-Jul	9015	7178	1837	236	-70	85	49	172	1601	762	396	306
1980-Jun	11907	9277	2630	291	41	41	67	142	2338	1718	1	603
1980-May	5703	6339	-635	-1076	-1102	-160	103	84	440	425	118	-37
1980-Apr	6073	6208	-135	-536	-846	-86	248	148	400	-63	130	224
1980-Mar	7769	7198	571	222	-128	40	59	252	349	-103	403	-62
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1980-Jan	8174	5451	2723	1761	911	208	-26	668	962	483	333	126
1979-Dec	8024	7040	984	105	-4	-9	-21	138	879	547	24	274
1979-Nov	5914	7008	-1094	-134	-58	-86	-46	57	-960	-1037	-18	-37
1979-Oct	8581	7693	888	795	576	155	51	13	93	56	35	-16
1979-Sep	5170	4299	871	680	564	106	-5	16	191	92	-17	72
1979-Aug	7933	7129	803	161	83	-14	-35	128	642	511	109	-9
1979-Jul	7758	5960	1798	486	509	6	-36	8	1311	1042	241	22
1979-Jun	5205	4496	709	159	22	55	17	64	550	297	127	105
1979-May	4780	5584	-804	-617	-775	-107	105	160	-187	-149	-82	24
1979-Apr	5596	4653	943	620	390	144	36	49	324	242	49	-11
1979-Mar	4624	3497	1127	338	-14	32	54	266	789	524	20	1
1979-Feb	3779	4366	-587	-4	-26	-92	35	78	-583	-597	23	-60
1979-Jan	5558	5515	43	-63	-100	-109	64	81	107	168	-49	9
1978-Dec	3369	3208	161	496	-157	215	98	340	-335	-349	-71	88
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1978-Oct	6467	4863	1605	1006	838	148	64	-44	599	572	-67	52
1978-Sep	5483	4542	941	158	-65	14	80	129	783	704	-7	-28
1978-Aug	6167	5598	569	-165	-285	45	177	-102	734	710	87	70
1978-Jul	5018	4101	918	-860	-823	35	-29	-44	1778	1313	382	30
1978-Jun	5730	3942	1788	1003	748	93	61	100	785	522	136	72
1978-May	6156	5607	549	578	245	22	-37	348	-29	-541	73	358

Official Equity, Net	Gross Foreign Purch. Foreign L-T Secur. from US	Gross Foreign Sales Foreign L-T Secur. to US	Foreign L-T Secur., Purch., net	Foreign Bonds Purch., net	Foreign Equity Purch., net	Net L-T Secur., Transac.	Other Acquis. L-T Secur., net	Net Foreign Acquis. of L-T Secur.	Increase in Foreign Holdings of Dollar-denom. S-T U.S. Secur.& Other Custody Liabs.	U.S. Treas. Bills,	Private, net	Official, net
13	14	15	16	17	18	19	20	21	22	23	24	25
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56	1357	2054	-697	-636	-61	1091	0	1091	-486	-1164	-266	-899
80	1292	1347	-55	-43	-12	494	0	494	-391	-860	321	-1182

Other Negot. Instr.& Select. Other Liabs,	Private, net	Official, net	Change in Banks' Own Net Dollar-denom. Liabs.	Monthly Net TIC Flows	Private, net	Official, net
26	27	28	29	30	31	32
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-141	-171	30	3768	224	2376	-2152
459	-254	713	5880	6727	6333	394
-17	-173	156	-6803	-1580	-7343	5763
-109	-619	510	-4603	-728	-5305	4578
1070	1078	-9	-433	3912	-1751	5663
-338	187	-525	2499	2466	3310	-843
936	161	775	-564	493	-375	868
34	356	-322	2056	3170	-503	3672
678	338	340	-1021	-417	-144	-273
469	53	416	-3244	-3142	-1774	-1367

PRESS ROOM

December 15, 2006
HP-200

Statement from Treasury Secretary Henry M. Paulson at the Closing of the U.S.-China Strategic Economic Dialogue

Beijing, China– Thank you Madame Wu for your great hospitality. My colleagues and I have been welcomed with tremendous warmth by you, your colleagues, and the Chinese people. We are grateful to President Hu, Premier Wen and you for hosting the first Strategic Economic Dialogue.

Thank you also, for fostering the spirit of openness and cooperation in which our discussions were held. China and the United States have shared economic interests, and we agree on many issues. When we disagree, we do so with mutual respect and with an eye toward finding agreement where possible.

Our conversations over the last two days have been very frank and productive. We both seek the best way forward on difficult issues. While we cannot resolve every difference in a single meeting, the candid conversations we have had here will make progress more achievable.

The United States and China know that our economic relationship is best when it produces benefits for both our countries. And we know that balanced sustainable growth in China is vital to the strength of the global economy.

We will each take measures to address global imbalances, notably through greater national savings in the United States and through increased domestic consumption and exchange rate flexibility in China, and maintaining open investment in both countries.

The United States will share our experiences with the Chinese government on enhancing China's social safety net; opening China's markets to competition and investment: and developing cleaner, more abundant sources of energy.

And we welcome China's role as a responsible stakeholder in international organizations particularly the WTO. We look forward to working together to help craft a successful Doha agreement. It also is encouraging that we have agreed on so many principles even though we have differences on the timing of certain reforms.

We have agreed to continue and focus discussions on a number of issues, including working toward sustainable growth and greater integration into the global economy without significant trade imbalances, and maintaining high productivity and enhancing protections for intellectual property rights.

The agreements we have forged and the relationships we have built will make future discussions even more fruitful. On behalf of the American delegation, I thank Madame Wu for her hospitality. We leave here with more optimism for the future, and we look forward to hosting you in Washington next year.

PRESS ROOM

December 15, 2006
hp-201

Statement by Treasury Secretary Henry M. Paulson at U.S. Delegation Press Conference following the U.S.-China Strategic Economic Dialogue

Beijing, China– Good afternoon. Over the last two days my colleagues and I have met with our Chinese partners to discuss a range of issues that are at the heart of our long-term economic relationship. Our discussions have been frank and productive.

We have agreement with the Chinese government on a number of fundamental principles. We agree on the need for balanced, sustainable growth in China, without large trade imbalances, which will aid China's successful integration into the global economy. Important pieces of that equation include exchange rate flexibility, intellectual property rights protections, increasing the role of consumption in the economy and opening up the service sector. We will establish a working group to discuss opening the services sector to competition and investment.

China's currency policy is a core issue in our economic relationship. We have indicated to the Chinese in the clearest possible terms that more flexibility in their exchange rate will help China achieve more balanced economic growth, enhance the effectiveness of monetary policy, safeguard the health of the financial sector and promote over time an orderly reduction of external imbalances.

The Chinese share our view that long-term growth, balance and stability in their economy will depend on open, competitive markets, including capital markets. Open capital markets will create an infrastructure for the Chinese to float their currency over the medium-term. Both sides have agreed that the NYSE and the NASDAQ should open offices in China, a symbolic milestone toward China's further integration into global capital markets. We also have agreed to launch an investment dialogue with exploratory discussions to encourage investment and protect investor rights in each of our countries.

China's full participation in the global economy requires transparency and a commitment to enforcing international laws, especially in relation to property rights. Both sides have committed to reinvigorating discussions within the Joint Committee on Commerce and Trade to improve transparency and intellectual property protections.

Trade is of course an essential element of China's economy and of its connection with the global economy. We have agreed that both the United States and China will strive for a successful resolution of the Doha Round of world trade talks, and we will intensify bilateral contacts to advance toward that goal.

Energy issues were an important part of our discussions. The United States and China are two of the largest energy users in the world. Our energy policies and actions have a significant impact on energy markets and on the global environment. In addition to continuing our dialogue on sustainable and environmentally responsible growth, we have agreed that China will participate in the FutureGen project, which is an international effort aimed at developing clean, energy supplies. We are also launching a joint economic study on energy and the environment.

We leave here with greater confidence that we are on the right path. The Strategic Economic Dialogue is focused on long-term challenges, but we need tangible successes to measure our progress along the way. With that in mind, we have established a number of important workplans to focus our efforts to tackle a number of significant issues, including opening of services, health care, energy and the environment, transparency, investment and aviation.

Our next meeting of the Dialogue will take place in May in Washington. Today we agreed that at the next meeting we will focus on the efforts of both nations to achieve innovative societies and greater openness to trade and investment and without significant trade imbalances.

I am grateful to my colleagues Secretary Leavitt, Secretary Gutierrez, Secretary Bodman, Secretary Chao, and Ambassador Schwab for making this first meeting of the Strategic Economic Dialogue a success. I've been in Washington now only a short time. And I am thoroughly enjoying working with these talented colleagues and the rest of President Bush's economic team to advance America's interests.

PRESS ROOM

December 15, 2006
HP-202

US Government Releases FY06 Financial Report

Washington, DC- The Treasury Department and the Office of Management and Budget today released the fiscal year 2006 *Financial Report of the United States Government*. The Financial Report, which complements the President's Budget to be released in February, details the U.S. government's financial position and condition. The report also provides information about significant future obligations by looking at prospective Social Security and Medicare costs.

The revenue results were $2.4 trillion, nearly a 12 percent increase over 2005 revenues. These Financial Report revenues are approximately the same as the 2006 year-end budget receipts because the accounting basis for tax revenues is generally the same for financial reporting as it is for budgeting.

"The President's economic agenda has produced a strong economy, creating millions of jobs, spurring revenues and meeting the President's deficit reduction goal well ahead of schedule," said Secretary Henry M. Paulson. "This report also demonstrates the urgency of addressing Americans' retirement security. The health of today's economy provides a strong foundation for addressing the long-term fiscal challenges highlighted in the Financial Report."

As reported in the fiscal year-end budget results this fall, record level tax receipts led to a narrowing gap between costs and revenues for the federal government. Consistent with the improved budget results, the Financial Report's 2006 $450 billion net operating costs are approximately $310 billion lower than the 2005 figure.

Despite this short-term progress, funding for current Social Security and Medicare participants will come up $44 trillion short in the next 75 years at net present value, according to the report. Without fundamental reform, the cost of these programs is projected to triple as a percentage of the U.S. economy by the year 2080.

"This report shows we are making progress getting our fiscal house in order in the near-term. But it also puts in stark terms the necessity of addressing the rapid increase in entitlement spending over time," said OMB Director Rob Portman. "The burden on future generations will be overwhelming if we don't face the unsustainable growth in important programs like Medicare, Medicaid and Social Security. This is our biggest budgetary challenge and one that will require a bipartisan solution."

The report states that gross operating costs of the federal government were $3.1 trillion, down $47 billion from 2005. The decrease was partly due to a change in interest rate assumptions used in actuarial accounting methods for post-employment benefits in certain agencies.

As required by law, Treasury first issued the Financial Report subject to audit for fiscal year 1997 to increase public awareness of the government's finances. For the past three years, Treasury has issued the report on December 15, ahead of the statutory deadline of March 31.

The Department has delivered the report to all members of the Congressional leadership, as required by law. OMB and the Department are also taking the additional step this year of sending the report to all members of the U.S. House of

Representatives and the U.S. Senate. As it moves to electronic distribution, Treasury has delivered the report to tens of thousands e-mail subscribers and posted the report on several government websites including http://www.fms.treas.gov/fr/index.html.

PRESS ROOM

December 15, 2006
HP-203

Ryan to Be Sworn Into Office with Treasury Ceremony

Washington, DC-Treasury Secretary Henry M. Paulson will swear in Assistant Secretary for Financial Markets Anthony W. Ryan at a ceremony in Treasury's Cash Room on Monday, December 18 at 10:00 a.m. Under Secretary Robert K. Steel will participate in the ceremony. The Assistant Secretary for Financial Markets serves as senior adviser to the Secretary, Deputy Secretary, and Under Secretary on broad matters of domestic finance, financial markets, Federal, State and local finance, Federal Government credit policies, lending and privatization. The Assistant Secretary also serves as the senior member of the Treasury Financing Group and coordinates the inter-agency President's Working Group on Financial Markets.

Media without Treasury press credentials should contact Frances Anderson at (202) 622-2960, or frances.anderson@do.treas.gov with the following information: name, Social Security number, and date of birth.

Who Secretary Henry M. Paulson
Under Secretary for Domestic Finance Robert K. Steel
Assistant Secretary for Financial Markets Anthony W. Ryan

What Swearing In Ceremony

When Monday, December 18
10:00 a.m. EST

Where Cash Room
U.S. Treasury Department
1500 Pennsylvania Ave., NW
Washington, DC

PRESS ROOM

December 14, 2006
hp204

Iannicola Remarks before BITS Financial Services Roundtable Advisory Committee

Before the BITS Financial Services Roundtable Advisory Council Meeting

Washington, DC - Good morning. Thank you for inviting me to speak today. I'm here to give you an update on the field of financial education and to tell you how you can play a role in that field.

First of all the good news is that there truly is a field of financial education. If you go back as recently as 10 to 15 years ago you won't find the emphasis on this issue as we have today. While some people certainly did write about and learn about personal finance before then, the same focus simply wasn't there. Financial education was a minor detail or an asterisk, and was targeted to a relatively small segment of the population. But today financial education is a pursuit in its own right with broad applicability for all Americans. Now policy makers, non-profits, for-profits and consumers are all beginning to see how financial literacy issues come up frequently in everyday life. The inevitability, the necessity of this topic is quickly becoming more obvious to more people.

Our robust marketplace for financial services has placed all of us in charge of a large and growing number of our own financial decisions. For instance, your retirement savings program used to be managed solely by your employer without your input. That's not as common anymore. Also, credit cards used to be hard to come by. If you've checked your mailbox lately, you'll know those days are gone. And at one time there were only a few basic ways to finance a home. Now there are a number of options for structuring or restructuring a mortgage.

Times have changed on us. It's as if every American adult has suddenly received an unwelcome promotion to the position of CFO of his or her household. Are we ready for the job? And if not, why not? Is it that we know less than our parents' or grandparents' generations? Or is it perhaps that we simply need to know more now than they did then?

Everything that I've seen leads me to the same basic conclusion – that over the years our financial choices have simply outpaced our financial knowledge. And the only way to catch up to those choices is through financial education.

When I'm asked about the status of financial education in America, I frequently say that the movement of financial literacy is in its adolescence. It's not new anymore, but it is not mature yet either. At the federal level we're trying to bring this issue to adulthood. So let me give you a high level update about our efforts the last few years.

In 2002 the Department of Treasury set up its Office of Financial Education. As the Office has developed it has grown to execute a variety of functions including: setting standards for financial literacy programs; giving technical assistance to financial educators; brokering partnerships between the supply and demand sides of financial education; and performing outreach across the country to raise the awareness of the need for financial education and the resources available to meet those needs.

In 2003 Congress passed and the President signed the Fair and Accurate Credit

Transactions Act which, among other things, addressed financial literacy by establishing a commission of 20 federal agencies, all of which do something in financial education. Treasury was named the head of that commission.

In 2004 that commission launched a central web site and toll free hotline. The address is www.mymoney.gov & the hotline is 1-888 my money. Both are available in English and Spanish. These resources provide a one-stop shop for free, federal financial education information covering a broad range of topics. I encourage you to visit the site and to have your institutions link to it for the benefit of your customers.

In April of this year that same commission released the first-ever national strategy for financial literacy. The document is called "Taking Ownership of the Future." It is available for you here today and at mymoney.gov.

The purpose of the Strategy and of our efforts in general is to help advance the noble goal of bringing more people, more families into the sunlight of prosperity, of giving them a tangible, enduring stake in their own futures.

There are two paths before each person we are trying to help. The first is a rocky path that leads to a place where the complexity of the marketplace is overwhelming, where people are easy prey for fraud and where bad choices lead to bad outcomes that can last a lifetime.

The other path travels through financial literacy and it takes people to a place where understanding replaces apprehension, where people make the most of their abundant options and where people have that real stake in their futures – it is a place some of us refer to as the Ownership Society. It is based on the idea that a community is defined as much by shared aspirations as shared geography. All of us want to provide for our families, save for a "rainy day," own a home and have a financially secure retirement. Our growing economy opens the door to those things for us; financial knowledge empowers us to walk through that door.

But what can financial institutions like yours do to help? Quite a bit. Your organizations are uniquely positioned to help not just your customers but all Americans learn more about their money.
I am here today to encourage you to do just that. In my work at Treasury's Office of Financial Education, I've seen a number of solid programs sponsored by financial institutions which represent a good start. However the need is great and there is still room for programs that are well-researched, carefully designed and actively distributed. In fact the National Strategy's Call to Action 4.3 specifically invites consumer lenders to play a role in promoting financial literacy. Our office stands ready to help your institutions play this important role in raising our nation's level of financial literacy.

As I close, let me remind you of something I'm sure you already know. That in business making a profit and making a difference are not just compatible, they're complementary. The best educated consumers will be your best customers. People with a good understanding of financial concepts will be your best employees. Citizens who understand basic economic issues will be better informed voters. Because of all this I'm sure you can see how starting or expanding your efforts to promote financial literacy is in the best interest of everyone, including your shareholders. Thanks for your time today and best wishes on a successful conference.

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PRESS ROOM

December 15, 2006
HP-205

The First U.S.-China Strategic Economic Dialogue
December 14-15, Beijing
Fact Sheet

In Beijing on December 14 and 15, the United States and China held the first Strategic Economic Dialogue, with the theme of "China's Development Road and China's Economic Development Strategy." The dialogue was co-chaired by Treasury Secretary Henry M. Paulson, Jr. and Vice Premier Wu Yi, as representatives of the two countries' Presidents. During one and a half days of productive and in-depth discussions on overarching and long-term strategic economic issues, we reaffirmed our commitment to pursuing macroeconomic policies, such as China's exchange rate regime reform and increasing the U.S. savings rate, to promote balanced and strong growth and prosperity in our two nations.

Based on effective intellectual property rights protection, the rule of law, and the dismantling of trade and investment barriers, we agreed on the importance of establishing open and competitive markets, accelerating development and job creation, stimulating domestic and international trade and investment, and promoting sustainable development through energy security, environmental protection, and access to health care. Both sides committed to take positive steps to strengthen the WTO, including through successful conclusion of the Doha Round, and will intensify bilateral contacts to this end.

Through our discussions, we decided to prioritize work during the next six months in several strategic areas. Both sides agreed to conduct discussions on development of efficient innovative service sectors and on ways to improve health care. We are launching a bilateral investment dialogue with exploratory discussions to consider the possibility of a bilateral investment agreement, enhancing cooperation on transparency issues, and launching a joint economic study on energy and environment.

Furthermore, we committed to invigorate ongoing work within the JCCT on high-tech trade, IPR, and market economy status/structural issues. Utilizing other existing mechanisms, both sides agreed to increase bilateral cooperation on more efficient and environmentally sustainable energy use, facilitation of personal and business travel, development assistance, and MDB lending.

Finally, both sides agreed that NYSE and NASDAQ should open offices in China, that China will participate in the government steering committee of the FutureGen project, and that the United States will support China's membership in the IADB. Both sides concluded an agreement facilitating financing to support U.S. exports to China and agreed to re-launch bilateral air services negotiations.

The next SED will be held in Washington, D.C. in May 2007.

PRESS ROOM

December 19, 2006
2006-12-19-10-32-11-12217

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 $65,980 million as of the end of that week, compared to $66,522 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	December 8, 2006			December 15, 2006		
TOTAL	66,522			65,980		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	12,529	10,928	23,457	12,408	10,784	23,192
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,453	5,327	17,780	12,348	5,255	17,603
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]			5,326			5,289
3. Special Drawing Rights (SDRs) [2]			8,918			8,855
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	December 8, 2006			December 15, 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						
	December 8, 2006			December 15, 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

December 19, 2006
HP-206

Treasury Designates Individual Supporting Al Qaida, Other Terrorist Organizations

The U.S. Department of the Treasury today designated Mohammed Al Ghabra, a naturalized British citizen who provides material and logistical support to al Qaida and other terrorist organizations.

"Mohammed Al Ghabra has backed al Qaida and other violent jihadist groups, facilitating travel for recruits seeking to meet with al Qaida leaders and take part in terrorist training," said Adam Szubin, Director of the Office of Foreign Assets Control (OFAC). "We must act against those who fund and facilitate al Qaida's agenda of violence against innocents."

Al Ghabra has organized travel to Pakistan for individuals seeking to meet with senior al Qaida individuals and to undertake jihad training. Several of these individuals have returned to the UK to engage in covert activity on behalf of al Qaida. Additionally, Al Ghabra has provided material support and facilitated the travel of UK-based individuals to Iraq to support the insurgents fight against coalition forces.

In addition, Al Ghabra has also provided material and logistical support to other terrorist organizations based in Pakistan, such as Harakat ul-Jihad-I-Islami (HUJI). While in Pakistan, Al Ghabra met with Haroon Rachid Aswat, who is currently detained in the U.K. and subject to a U.S. extradition request on terrorism charges.

Apart from the financial and logistical support activities that led to his designation, Al Ghabra maintains contact with a significant number of terrorists, including senior al Qaida officials in Pakistan. In 2002, Al Ghabra met with and stayed at the home of Faraj Al-Libi, who, until he was detained by Pakistani authorities in 2005, served as al Qaida's Director of Operations. Al Ghabra is also in regular contact with UK-based Islamist extremists and has been involved in the radicalizing of individuals in the UK through the distribution of extremist media.

Al Ghabra also has strong links to the Kashmiri militant group Harakat Ul-Mujahidin (HuM), which has been designated a terrorist organization by the United Nations. Information shows that Al Ghabra himself has undertaken jihadi training at a HuM training camp in Kashmir. Al Ghabra intended to fight in Kashmir but was prevented from doing so by HuM as they needed individuals to return to the UK to raise funds.

Identifier Information
Mohammed Al Ghabra

DOB:	June 1, 1980
POB:	Damascus, Syria
Nationality:	British
U.K. Passport:	094629366
Address:	East London United Kingdom (UK)

Mohammed Al Ghabra was designated today pursuant to Executive Order 13224, which is aimed at financially isolating terrorists, terrorist facilitators, and financiers.

This designation freezes any assets Al Ghabra may have under U.S. jurisdiction and prohibits all financial and commercial transactions by any U.S. person and Al Ghabra.

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PRESS ROOM

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December 19, 2006
HP-207

Treasury, IRS Issue Final S-Corporation ESOP Regulations

Washington, DC- Treasury and the IRS issued final regulations today under section 409(p) of the Internal Revenue Code with respect to an employee stock ownership plan (ESOP) that holds stock of a Subchapter S corporation.

The final regulations are the culmination of a process that began when the Economic Growth and Tax Relief Reconciliation Act of 2001 enacted section 409 (p), which ensures that the special tax benefits afforded to ESOPs that hold Subchapter S corporation stock do not extend to cases in which the ownership is concentrated among a small number of owners.

The regulations, effective for plan years that begin on or after January 1, 2006, replace existing temporary regulations with various modifications to reflect comments received.

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REPORTS

- Final Regulations

[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[TD 9302]

RIN 1545-BC34

Prohibited Allocations of Securities in an S Corporation

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations that provide guidance concerning requirements under section 409(p) of the Internal Revenue Code for employee stock ownership plans (ESOPs) holding stock of Subchapter S corporations. These final regulations generally affect plan sponsors of, and participants in, ESOPs holding stock of Subchapter S corporations.

DATES: Effective Date: These regulations are effective December 20, 2006.

Applicability Dates: These regulations are generally applicable with respect to plan years beginning on or after January 1, 2006. See the Effective Date section of the preamble for specific information.

FOR FURTHER INFORMATION CONTACT: John T. Ricotta or Veronica A. Rouse at (202) 622-6090 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

This document contains final regulations (26 CFR Part 1) under section 409(p) of the Internal Revenue Code (Code).

Section 409(p)(1) requires an ESOP holding employer securities consisting of stock in an S corporation to provide that, during an allocation year, no portion of the assets of the plan attributable to, or allocable in lieu of, the employer securities may accrue (or be allocated directly or indirectly under any plan of the employer meeting the requirements of section 401(a)) for the benefit of any disqualified person. Section 409(p)(3)(A) provides that a nonallocation year includes any plan year during which the ownership of the S corporation is so concentrated among disqualified persons that they own or are deemed to own at least 50 percent of its shares. Section 409(p)(4) provides, in general, that a disqualified person is any person whose deemed-owned ESOP shares (allocated ESOP shares and proportion of suspense account shares) are at least 10 percent of the number of deemed-owned shares of S corporation stock held by an ESOP or for whom the aggregate number of shares owned by such person and the members of such person's family is at least 20 percent of deemed-owned ESOP shares. Under section 409(p)(5), the determination of whether a person is a disqualified person and whether a plan year is a nonallocation year is also made separately taking into account synthetic equity if such treatment results in treating the person as a disqualified person or the year as a nonallocation year.

Temporary regulations under section 409(p) were issued on July 21, 2003, (68 FR 42970). The text of those temporary regulations also served as the text of a notice of proposed rulemaking (REG-129709-03) published at 68 FR 43058. The 2003 regulations provided guidance on identifying disqualified persons, determining whether an ESOP has a nonallocation year, and defining synthetic equity under section 409(p)(5), and reserved some issues, including the definition of a prohibited allocation, the tax effect of a prohibited allocation, and certain issues relating to the definition of synthetic equity.

A public hearing on the 2003 regulations was held on November 17, 2003. New temporary regulations under section 409(p) (TD 9164) were published in the **Federal Register** on December 17, 2004, (69 FR 75455). The new temporary regulations (2004 temporary regulations) addressed certain issues raised in the comments, as well as addressing the topics reserved in the 2003 temporary regulations. The text of the 2004 temporary regulations also served as the text for a notice of proposed rulemaking (REG-129709-03) published at (69 FR 75492).

A public hearing on the 2004 proposed regulations was held on April 20, 2005. After consideration of the comments received, these final regulations adopt the provisions of the proposed regulations with certain modifications discussed in this preamble.

Explanation of Provisions

<u>Definition of Prohibited Allocation</u>

These regulations retain the rule of the 2004 temporary regulations concerning prohibited allocations under which there is an impermissible accrual to the extent employer securities consisting of stock in an S corporation are held under the ESOP for the benefit of a disqualified person during a nonallocation year. Thus, in the event of a nonallocation year, S corporation shares held in a disqualified person's account and all other ESOP assets attributable to S corporation stock, including distributions, sales proceeds, and earnings, are treated as an impermissible accrual whether attributable to contributions in the current year or a prior year. A commentator questioned whether the definition of prohibited allocation in the 2004 temporary regulations should include account balances of disqualified persons from prior years. The rule of the 2004 temporary regulations has been retained because it is consistent with the intent of the statute, and the IRS and Treasury Department believe it is necessary to prevent the concentration of ownership interests that section 409(p) was intended to prevent.

A commentator also questioned the treatment of proceeds from the sale of stock previously allocated to a disqualified person's account under the 2004 temporary regulations. The commentator expressed concern that treating the sales proceeds as an impermissible accrual when the original allocation of stock is already a prohibited allocation is a double penalty. The final regulations do not change this rule in the 2004 temporary regulations. An allocation of sales proceeds from stock held for the benefit of a disqualified person back into the account of the disqualified person is as valuable an accrual for the disqualified person as an investment in employer stock. This treatment is also consistent with the prohibition in section 409(p)(1) with respect to amounts that are "allocable in lieu of" employer stock.

Effect of a Prohibited Allocation

These regulations retain the rule of the 2004 regulations that if there is a prohibited allocation during a nonallocation year, the ESOP fails to satisfy the requirements of section 4975(e)(7) and ceases to be an ESOP. As a result, the exemption from the excise tax on prohibited transactions for loans to leveraged ESOPs contained in section 4975(d)(3) would cease to apply to any loan (with the result that the employer would owe an excise tax with respect to the previously exempt loan). These regulations clarify that an additional result would be the plan's failure to satisfy the qualification requirements under section 401(a) for not operating the plan in accordance with its terms to reflect section 409(p). Other consequences include imposition of an excise tax on the S corporation under section 4979A. An example has been added to these final regulations to illustrate the impact of these rules on an S corporation ESOP.

These regulations include the rule from the 2004 regulations under which a prohibited allocation is a deemed distribution that is not an eligible rollover distribution. These regulations also add that same rule to the list of distributions that are not eligible rollover distributions in the regulations under section 402(c) (at §1.402(c)-2 of the Treasury Regulations). As a result, under recently proposed regulations relating to designated Roth contributions under section 402A, a deemed distribution as a result of a section 409(p) prohibited allocation with respect to a designated Roth account would not constitute a qualified distribution for purposes of section 402A. See proposed §1.402A-1, A-11, at 71 FR 4320 (January 26, 2006).

Prevention of Nonallocation Year

The preamble to the 2004 regulations described methods that a plan might use to prevent the occurrence of a nonallocation year, including (1) a reduction of synthetic equity (for example, through cancellation or distribution), (2) a sale of the S corporation securities held in the participant's ESOP account before a nonallocation year occurs so that the account is not invested in S corporation stock, or (3) a transfer of the S corporation securities held for the participant under the ESOP into a separate portion of the plan that is not an ESOP or to another qualified plan of the employer that is not an ESOP.

Any methods of preventing a nonallocation year must satisfy applicable legal and qualification requirements, including the nondiscrimination requirements of section 401(a)(4) (including the rules at § 1.401(a)(4)-4 relating to benefits, rights and features), and implementation of these methods must be completed before a nonallocation year occurs. These regulations retain the special rule provided in the 2004 regulations for applying the nondiscrimination requirements under section 401(a)(4) for a plan that uses the transfer method. Thus, these regulations provide that, if a transfer is made from an ESOP to a separate portion of the plan (or to another qualified plan of the employer) that is not an ESOP in order to prevent a nonallocation year, then both the ESOP and the plan that is not an ESOP will not fail to satisfy the requirements of

§1.401(a)(4)-4 merely because of the transfer. Similarly, these regulations provide that, subsequent to the transfer, the plan will not fail to satisfy the requirements of §1.401(a)(4)-4 merely because of the benefits, rights, and features with respect to the transferred benefits if those benefits, rights, and features would satisfy the requirements of §1.401(a)(4)-4 if the mandatory disaggregation rule for ESOPs at §1.410(b)-7(c)(2) did not apply. These regulations clarify that any such transfers must be effectuated by an affirmative action taken no later than the date of the transfer, and all subsequent actions (including benefit statements) must be consistent with the transfer having occurred on that date. Further, in order to use the transfer method to prevent a nonallocation year, the plan must provide for the transfer of the stock to the non-ESOP portion of the plan.

A commentator described another method of preventing a nonallocation year under which stock of a participant is exchanged for cash or other assets, which are already in the accounts of other participants in order to change the stock holdings among participants before a nonallocation year occurs, but which does not change the overall stock holding of the ESOP trust. This method has been referred to as reshuffling. The commentator requested that relief from the nondiscriminatory availability requirements be extended to this method.

Absent a special rule for applying the nondiscrimination requirements of section 401(a)(4), it will be difficult for a plan to prevent a nonallocation year through reshuffling without violating section 401(a)(4). The right of each participant to have or not have a particular investment in his or her account (either as a participant-directed investment or as a trustee-directed investment) is a plan right or feature that is subject to the current and effective availability requirements of §1.401(a)(4)-4. Accordingly, if assets in the accounts of one or more non-highly compensated employees (NHCEs) are mandatorily exchanged, then, in the absence of other relevant factors, the plan would generally be expected to fail to satisfy the nondiscriminatory availability requirements of §1.401(a)(4)-4.

The IRS and Treasury Department do not believe that it would be appropriate to provide a special rule that would materially weaken the standard for nondiscriminatory availability of participant rights to a particular investment under the plan. By contrast, the special nondiscrimination rules for stock transferred out of the ESOP do not change the rights of NHCEs to any particular investment in the plan as a whole, but simply allow the transfer and allow the rights of participants whose stock is transferred out of the ESOP to be taken into account in determining whether the rights of participants whose stock remains in the ESOP satisfy the nondiscriminatory availability requirements of §1.401(a)(4)-4.

An S corporation may be able to achieve the same result as reshuffling by reducing contributions for HCEs who are or may become disqualified persons, by providing additional benefits to NHCEs who are not disqualified persons, by expanding coverage to include all employees, or by diversifying out of employer stock for HCEs who are or may become disqualified persons and who are qualified participants within the meaning of section 401(a)(28)(B)(iii) (that is, by mandating diversification using one of the diversification options that are offered to all qualified participants, for which there is an existing special nondiscrimination rule at §1.401(a)(4)-4(d)(6)). Thus, in addition to plan transfers, any of these actions may help prevent the concentration of deemed-owned ESOP shares that section 409(p) prohibits, without the nondiscrimination problems otherwise associated with reshuffling. Of course, any transfer or other method used to ensure compliance with section 409(p) must also satisfy any other legal requirements that may apply, including section 407(b)(2) of the Employee Retirement Income Security Act of 1974 (ERISA) (88 Stat. 829) Public Law 93-406 (which, in relevant part, generally prohibits a plan from investing more than 10 percent of elective deferral accounts in employer stock, unless the plan is an ESOP, the investment is at the direction of the participant, or another exception applies).

Treatment of Family Members as Disqualified Persons

The 2004 regulations included a number of attribution rules, which these regulations retain, including the application of the section 318 attribution rules to ownership of synthetic equity in determining who is a disqualified person. Section 409(p) contains references to the section 318 rules in certain cases, such as in determining a nonallocation year, but commentators pointed out that the section 318 rules did not apply for purposes of the disqualified person definition, which was not reflected in an example. Another commentator pointed out that the rules for determining whether family members are disqualified persons varies according to the individual being tested. For example, the technical language of section 409(p)(4)(D) treats parents-in-law as members of a married child's family when testing whether a child is a disqualified person, but not as members of the same family as the child's parents when testing whether the child's parents are disqualified persons. In response to comments, the regulations have been modified to clarify these rules, including revisions in the examples to illustrate the application of the rules to specific factual patterns.

Determination of Number of Shares of Non-Stock-Based Synthetic Equity

These regulations retain the rules from both the 2003 and the 2004 regulations regarding calculation of the number of shares of synthetic equity that are not determined by reference to shares of stock of the S corporation. These regulations provide that the person who is entitled to the synthetic equity is treated as owning a number of shares of stock in the S corporation equal to the present value of the synthetic equity (with such value determined without regard to any lapse restriction as defined under the section 83 regulations) divided by the fair market value of a share of the S corporation's stock as of the same date. These regulations also retain the special rule under the 2004 regulations that permits the ESOP to provide, on a reasonable and consistent basis for all persons, for the number of synthetic equity shares treated as owned on a determination date to remain constant for up to a 3-year period from that date (triennial method). This rule addresses concerns raised in comments to the 2003 regulations regarding the volatility of the number of shares of synthetic equity where that calculation is based on the value of an S corporation share.

A commentator questioned whether the triennial method of the 2004 regulations should be expanded to permit a more flexible triennial period that allows for the acceleration or delay of the triennial determination date. The commentator argued that, since the triennial method's purpose is to eliminate the risk attributable to volatility of the present value of the nonqualified deferred compensation stock and the risk attributable to the fair market value of company stock, the inability to delay or accelerate the date, automatically and daily if necessary, weakens the purpose of the method.

These regulations include changes in the triennial methodology to permit the ability, during the 3-year period, to accelerate a determination date prospectively in the event of a change in the plan year or any merger, consolidation, or transfer of ESOP assets under section 414(l). However, a determination date may not be changed retroactively and the change must be effectuated by a plan amendment adopted before the new determination date.[1]

A commentator also requested clarification regarding how shares of synthetic equity are calculated with respect to nonqualified deferred compensation. Specifically, the commentator wanted to know what discount rate should be used to calculate the present value of nonqualified deferred compensation, and how to determine the number of equivalent shares for a split-dollar life insurance arrangement. These regulations do not mandate a specific discount rate for calculating the present value of nonqualified deferred

[1] As indicated in Notice 2005-95, 2005-51 IRB, dated December 19, 2005, the general deadline for discretionary amendments in Rev. Proc. 2005-66, 2005-37 IRB 509, does not apply if a statute or regulation specifically provides an earlier deadline. These regulations provide such an earlier deadline.

compensation or a specific method for determining the equivalent number of shares for a split dollar arrangement. However, any assumptions used for such purposes must be reasonable.

Finally, a commentator asked whether an individual S corporation shareholder's right of first refusal to acquire S corporation stock from an ESOP for its fair market value is considered synthetic equity. The regulations have been revised to clarify that the right of first refusal to acquire stock held by an ESOP is not treated as a right to acquire stock of an S corporation under these regulations if the right to acquire stock would not be taken into account under §1.1361-1(l)(2)(iii)(A) in determining whether an S corporation has a second class of stock and the price at which the stock is acquired under the right of first refusal is not less than the price determined for purposes of the put right required by section 409(h). See §54.4975-11(d)(5) of the Excise Tax Regulations. Of course, any right of first refusal must comply with the requirements of §54.4975-7(b)(9) of the Excise Tax Regulations. In addition, these regulations give the Commissioner the authority to treat a right of first refusal as synthetic equity if the Commissioner determines, based on the facts and circumstances, that the right to acquire stock held by the ESOP constitutes an avoidance or evasion of section 409(p).

Effective Dates

These regulations generally are applicable for plan years beginning on or after January 1, 2006. However, these regulations retain, by cross reference, the 2004 regulations for plan years beginning before January 1, 2006.

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, and because the regulation does not impose a collection of information requirement upon small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Internal Revenue Code, the temporary and proposed regulations preceding these final 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 John T. Ricotta and Veronica A. Rouse 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 their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Adoption of Amendments to the Regulations

Accordingly, 26 CFR part 1 is amended as follows:

PART 1--INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by adding an entry to read, in part, as follows:

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

Section 1.409(p)-1 is also issued under 26 U.S.C. 409(p)(7). * * *

Par. 2. Section 1.402(c)-2, A-4, is revised by redesignating paragraph (g) as (h) and adding a new paragraph (g) to read as follows:

<u>§1.402(c)-2 Eligible rollover distributions; questions and answers.</u>

* * * * *

A-4. * * *

(g) Prohibited allocations that are treated as deemed distributions pursuant to section 409(p). * * *

Par. 3 Section 1.409(p)-1 is added to read as follows:

<u>§1.409(p)-1 Prohibited allocation of securities in an S corporation</u>.

(a) <u>Organization of this section and definition</u>--(1) <u>Organization of this section</u>. Section 409(p) applies if a nonallocation year occurs in an ESOP that holds shares of stock of an S corporation that are employer securities. Paragraph (b) of this section sets forth the general rule under section 409(p)(1) and (2) prohibiting any accrual or allocation to a disqualified person in a nonallocation year. Paragraph (c) of this section sets forth rules under section 409(p)(3), (5), and (7) for determining whether a year is a nonallocation year, generally based on whether disqualified persons own at least 50 percent of the shares of the S corporation, either taking into account only the outstanding shares of the S corporation (including shares held by the ESOP) or taking into account both the outstanding shares and synthetic equity of the S corporation. Paragraphs (d), (e), and (f) of this section contain definitions of disqualified person under section 409(p)(4) and (5), deemed-owned ESOP shares under section 409(p)(4)(C), and synthetic equity under section 409(p)(6)(C). Paragraph (g) of this section contains a standard for determining when the principal purpose of the ownership structure of an S corporation constitutes an avoidance or evasion of section 409(p).

(2) Definitions. The following definitions apply for purposes of section 409(p) and this section, as well as for purposes of section 4979A, which imposes an excise tax on certain events.

(i) Deemed-owned ESOP shares has the meaning set forth in paragraph (e) of this section.

(ii) Disqualified person has the meaning set forth in paragraph (d) of this section.

(iii) Employer has the meaning set forth in §1.410(b)-9.

(iv) Employer securities means employer securities within the meaning of section 409(l).

(v) ESOP means an employee stock ownership plan within the meaning of section 4975(e)(7).

(vi) Prohibited allocation has the meaning set forth in paragraph (b)(2) of this section.

(vii) S corporation means S corporation within the meaning of section 1361.

(viii) Synthetic equity has the meaning set forth in paragraph (f) of this section.

(b) Prohibited allocation in a nonallocation year--(1) General rule. Section 409(p)(1) provides that an ESOP holding employer securities consisting of stock in an S corporation must provide that no portion of the assets of the plan attributable to (or allocable in lieu of) such employer securities may, during a nonallocation year, accrue under the ESOP, or be allocated directly or indirectly under any plan of the employer (including the ESOP) meeting the requirements of section 401(a), for the benefit of any disqualified person.

(2) Additional rules--(i) Prohibited allocation definition. For purposes of section 409(p) and this section, a prohibited allocation means an impermissible accrual or an impermissible allocation. Whether there is impermissible accrual is determined under paragraph (b)(2)(ii) of this section and whether there is an impermissible allocation is determined under paragraph (b)(2)(iii) of this section. The amount of the prohibited allocation is equal to the sum of the amount of the impermissible accrual plus the amount of the impermissible allocation.

(ii) Impermissible accrual. There is an impermissible accrual to the extent that employer securities consisting of stock in an S corporation owned by the ESOP and any assets attributable thereto are held under the ESOP for the benefit of a disqualified person during a nonallocation year. For this purpose, assets attributable to stock in an S corporation owned by an ESOP include any distributions, within the meaning of section 1368, made on S corporation stock held in a disqualified person's account in the ESOP (including earnings thereon), plus any proceeds from the sale of S corporation securities held for a disqualified person's account in the ESOP (including any earnings thereon). Thus, in the event of a nonallocation year, all S corporation shares and all other ESOP assets attributable to S corporation stock, including distributions, sales proceeds, and earnings on either distributions or proceeds, held for the account of such disqualified person in the ESOP during that year are an impermissible accrual for the benefit of that person, whether attributable to contributions in the current year or in prior years.

(iii) Impermissible allocation. An impermissible allocation occurs during a nonallocation year to the extent that a contribution or other annual addition (within the meaning of section 415(c)(2)) is made with respect to the account of a disqualified person, or the disqualified person otherwise accrues additional benefits, directly or indirectly under the ESOP or any other plan of the employer qualified under section 401(a) (including a release and allocation of assets from a suspense account, as described at §54.4975-11(c) and (d) of this chapter) that, for the nonallocation year, would have been added to the account of the disqualified person under the ESOP and invested in employer securities consisting of stock in an S corporation owned by the ESOP but for a provision in the ESOP that precludes such addition to the account of the disqualified person, and investment in employer securities during a nonallocation year.

(iv) Effects of prohibited allocation--(A) Deemed distribution. If a plan year is a nonallocation year, the amount of any prohibited allocation in the account of a disqualified person as of the first day of the plan year, as determined under this paragraph (b)(2), is treated as distributed from the ESOP (or other plan of the employer) to the disqualified person on the first day of the plan year. In the case of an impermissible accrual or impermissible allocation that is not in the account of the disqualified person as of the first day of the plan year, the amount of the prohibited allocation, as determined under this paragraph (b)(2), is treated as distributed on the date of the prohibited allocation. Thus, the fair market value of assets in the disqualified person's account that constitutes an impermissible accrual or allocation is included in gross income (to the extent in excess of any investment in the contract allocable to such amount) and is subject to any additional income tax that applies under section 72(t). A deemed distribution under this paragraph (b)(2)(iv)(A) is not an actual distribution from the ESOP. Thus, the amount of the prohibited allocation is not an eligible rollover distribution under section 402(c). However, for purposes of applying sections 72 and 402 with respect to any subsequent distribution from the ESOP, the amount that the disqualified person previously took into account as income as a result of the deemed distribution is treated as investment in the contract.

(B) Other effects. If there is a prohibited allocation, then the plan fails to satisfy the requirements of section 4975(e)(7) and ceases to be an ESOP. In such a case, the exemption from the excise tax on prohibited transactions for loans to leveraged ESOPs contained in section 4975(d)(3) would cease to apply to any loan (with the result that the employer would owe an excise tax with respect to the previously exempt loan). As a result of these failures, the plan would lose the prohibited transaction exemption for loans to an ESOP under section 4975(d)(3) of the Code and section 408(b)(3) of Title I of the Employee Retirement Income Security Act of 1974, as amended (ERISA). Finally, a plan that does not operate in accordance with its terms to reflect section 409(p) fails to satisfy the qualification requirements of section 401(a), which would cause the corporation's S election to terminate under section 1362. See also section 4979A(a) which imposes an excise tax in certain events, including a prohibited allocation under section 409(p).

(C) Example. The rules of this paragraph (b)(2)(iv) are illustrated by the following example:

Example. (i) Facts. Corporation M, an S corporation under section 1361, establishes Plan P as an ESOP in 2006, with a calendar plan year. Plan P is a qualified plan that includes terms providing that a prohibited allocation will not occur during a nonallocation year in accordance with section 409(p). On December 31, 2006, all of the 1,000 outstanding shares of stock of Corporation M, with a fair market value of $30 per share, are contributed to Plan P and allocated among accounts established within Plan P for the benefit of Corporation M's three employees, individuals A, B, and C, based on their compensation for 2006. As a result, on December 31, 2006, participant A's account includes 800 of the shares ($24,000); participant B's account includes 140 of the shares ($4,200); and participant C's account includes the remaining 60 shares ($1,800). The plan year 2006 is a nonallocation year, participants A and B are disqualified persons on December 31, 2006, and a prohibited allocation occurs for A and B on December 31, 2006.

(ii) Conclusion. On December 31, 2006, participants A and B each have a deemed distribution as a result of the prohibited allocation, resulting in income of $24,000 for participant A and $4,200 for participant B. Corporation M owes an excise tax under section 4979A, based on an amount involved of $28,200. Plan P ceases to be an ESOP on the date of the prohibited allocation (December 31, 2006) and also fails to satisfy the qualification requirements of section 401(a) on that date due to the failure to comply with the provisions requiring compliance with section 409(p). As a result of having an ineligible shareholder under section 1361(b)(1)(B), Corporation M ceases to be an S corporation under section 1361 on December 31, 2006.

(v) Prevention of prohibited allocation--(A) Transfer of account to non-ESOP. An ESOP may prevent a nonallocation year or a prohibited allocation during a nonallocation year by providing for assets (including S corporation securities) allocated to the account of a disqualified person (or a person reasonably expected to become a disqualified person absent a transfer described in this paragraph (b)(2)(v)(A)) to be transferred into a separate portion of the plan that is not an ESOP, as described in §54.4975-11(a)(5) of this chapter, or to another plan of the employer that satisfies the requirements of section 401(a) and that is not an ESOP. Any such transfer must be effectuated by an affirmative action taken no later than the date of the transfer, and all subsequent actions (including benefit statements) generally must be consistent with the transfer having occurred on that date. In the event of such a transfer involving S corporation securities, the recipient plan is subject to tax on unrelated business taxable income under section 512.

(B) Relief from nondiscrimination requirement. Pursuant to this paragraph (b)(2)(v)(B), if a transfer described in paragraph (b)(2)(v)(A) of this section is made from an ESOP to a separate portion of the plan or to another qualified plan of the employer that is not an ESOP, then both the ESOP and the plan or portion of a plan that is not an ESOP do not fail to satisfy the requirements of §1.401(a)(4)-4 merely because of the transfer. Further, subsequent to the transfer, that plan will not fail to satisfy the requirements of §1.401(a)(4)-4 merely because of the benefits, rights, and features with respect to the transferred benefits if those benefits, rights, and features would satisfy the requirements of §1.401(a)(4)-4 if the mandatory disaggregation rule for ESOPs at §1.410(b)-7(c)(2) did not apply.

(c) Nonallocation year. A year is a nonallocation year if it is described in the general definition in paragraph (c)(1) of this section or if the special rule of paragraph (c)(3) of this section applies.

(1) General definition. For purposes of section 409(p) and this section, a nonallocation year means a plan year of an ESOP during which, at any time, the ESOP holds any employer securities that are shares of an S corporation and either--

(i) Disqualified persons own at least 50 percent of the number of outstanding shares of stock in the S corporation (including deemed-owned ESOP shares); or

(ii) Disqualified persons own at least 50 percent of the sum of:

(A) The outstanding shares of stock in the S corporation (including deemed-owned ESOP shares); and

(B) The shares of synthetic equity in the S corporation owned by disqualified persons.

(2) Attribution rules. For purposes of this paragraph (c), the rules of section 318(a) apply to determine ownership of shares in the S corporation (including deemed-owned ESOP shares) and synthetic equity. However, for this purpose, section 318(a)(4) (relating to options to acquire stock) is disregarded and, in applying section 318(a)(1), the members of an individual's family include members of the individual's family under paragraph (d)(2) of this section. In addition, an individual is treated as owning deemed-owned ESOP shares of that individual notwithstanding the employee trust exception in section 318(a)(2)(B)(i).

If the attribution rules in paragraph (f)(1) of this section apply, then the rules of paragraph (f)(1) of this section are applied before (and in addition to) the rules of this paragraph (c)(2).

(3) Special rule for avoidance or evasion. (i) Any ownership structure described in paragraph (g)(3) of this section results in a nonallocation year. In addition, each individual referred to in paragraph (g)(3) of this section is treated as a disqualified person and the individual's interest in the separate entity described in paragraph (g)(3) of this section is treated as synthetic equity.

(ii) Pursuant to section 409(p)(7)(B), the Commissioner, in revenue rulings, notices, and other guidance published in the Internal Revenue Bulletin (see §601.601(d)(2)(ii)(b) of this chapter), may provide that a nonallocation year occurs in any case in which the principal purpose of the ownership structure of an S corporation constitutes an avoidance or evasion of section 409(p). For any year that is a nonallocation year under this paragraph (c)(3), the Commissioner may treat any person as a disqualified person. See paragraph (g) of this section for guidance regarding when the principal purpose of an ownership structure of an S corporation involving synthetic equity constitutes an avoidance or evasion of section 409(p).

(4) Special rule for certain stock rights. (i) For purposes of paragraph (c)(1) of this section, a person is treated as owning stock if the person has an exercisable right to acquire the stock, the stock is both issued and outstanding, and the stock is held by persons other than the ESOP, the S corporation, or a related entity (as defined in paragraph (f)(3) of this section).

(ii) This paragraph (c)(4) applies only if treating persons as owning the shares described in paragraph (c)(4)(i) of this section results in a nonallocation year. This paragraph (c)(4) does not apply to a right to acquire stock of an S corporation held by a shareholder that is subject to Federal income tax that, under §1.1361-1(l)(2)(iii)(A) or (l)(4)(iii)(C), would not be taken into account in determining if an S corporation has a second class of stock, provided that a principal purpose of the right is not the avoidance or evasion of section 409(p). Under the last sentence of paragraph (f)(2)(i) of this section, this paragraph (c)(4)(ii) does not apply for purposes of determining ownership of deemed-owned ESOP shares or whether an interest constitutes synthetic equity.

(5) Application with respect to shares treated as owned by more than one person. For purposes of applying paragraph (c)(1) of this section, if, by application of the rules of paragraph (c)(2), (c)(4), or (f)(1) of this section, any share is treated as owned by more than one person, then that share is counted as a single share and that share is treated as owned by disqualified persons if any of the owners is a disqualified person.

(6) Effect of nonallocation year. See paragraph (b) of this section for a prohibition applicable during a nonallocation year. See also section 4979A for an excise tax applicable in certain cases, including section 4979A(a)(3) and (4) which applies during a nonallocation year (whether or not there is a prohibited allocation during the year).

(d) Disqualified persons. A person is a disqualified person if the person is described in paragraph (d)(1), (d)(2), or (d)(3) of this section.

(1) General definition. For purposes of section 409(p) and this section, a disqualified person means any person for whom--

(i) The number of such person's deemed-owned ESOP shares of the S corporation is at least 10 percent of the number of the deemed-owned ESOP shares of the S corporation;

(ii) The aggregate number of such person's deemed-owned ESOP shares and synthetic equity shares of the S corporation is at least 10 percent of the sum of--

(A) The total number of deemed-owned ESOP shares of the S corporation; and

(B) The person's synthetic equity shares of the S corporation;

(iii) The aggregate number of the S corporation's deemed-owned ESOP shares of such person and of the members of such person's family is at least 20 percent of the number of deemed-owned ESOP shares of the S corporation; or

(iv) The aggregate number of the S corporation's deemed-owned ESOP shares and synthetic equity shares of such person and of the members of such person's family is at least 20 percent of the sum of--

(A) The total number of deemed-owned ESOP shares of the S corporation; and

(B) The synthetic equity shares of the S corporation owned by such person and the members of such person's family.

(2) Treatment of family members; definition--(i) Rule. Each member of the family of any person who is a disqualified person under paragraph

(d)(1)(iii) or (iv) of this section and who owns any deemed-owned ESOP shares or synthetic equity shares is a disqualified person.

(ii) General definition. For purposes of section 409(p) and this section, member of the family means, with respect to an individual--

(A) The spouse of the individual;

(B) An ancestor or lineal descendant of the individual or the individual's spouse;

(C) A brother or sister of the individual or of the individual's spouse and any lineal descendant of the brother or sister; and

(D) The spouse of any individual described in paragraph (d)(2)(ii)(B) or (C) of this section.

(iii) Spouse. A spouse of an individual who is legally separated from such individual under a decree of divorce or separate maintenance is not treated as such individual's spouse under paragraph (d)(2)(ii) of this section.

(3) Special rule for certain nonallocation years. See paragraph (c)(3) of this section (relating to avoidance or evasion of section 409(p)) for special rules under which certain persons are treated as disqualified persons.

(4) Example. The rules of this paragraph (d) are illustrated by the following examples:

Example 1. (i) Facts. An S corporation has 800 outstanding shares, of which 100 are owned by individual O and 700 are held in an employee stock ownership plan (ESOP) during 2006, including 200 shares held in the ESOP account of O, 65 shares held in the ESOP account of participant P, 65 shares held in the ESOP account of participant Q who is P's spouse, and 14 shares held in the ESOP account of R, who is the daughter of P and Q. There are no unallocated suspense account shares in the ESOP. The S corporation has no synthetic equity.

(ii) Conclusion. Under paragraph (d)(1)(i) of this section, O is a disqualified person during 2006 because O's account in the ESOP holds at least 10% of the shares owned by the ESOP (200 is 28.6% of 700). During 2006, neither P, Q, nor R is a disqualified person under paragraph (d)(1)(i) of this section, because each of their accounts holds less than 10% of the shares owned by the ESOP. However, each of P, Q, and R is a disqualified person under paragraph (d)(1)(iii) of this section because P and members of P's family own at least 20% of the deemed-owned ESOP shares (144 (the sum of 65, 65 and 14) is 20.6% of 700). As a result, disqualified persons own at least 50% of the outstanding shares of the S corporation during 2006 (O's 100 directly owned shares, O's 200 deemed-owned shares, P's 65 deemed-owned shares, Q's 65 deemed-owned shares, and R's 14 deemed-owned shares are 55.5% of 800).

Example 2. (i) Facts. An S corporation has shares that are owned by an ESOP and various individuals. Individuals S and T are married and have a son, U. Individuals V and W are married and have a daughter, X. Individuals U and X are married. Individual V has a brother Y. Their percentages of the deemed-owned ESOP shares of the S corporation are as follows: T has 6%; U has 7%; and V has 8%. Neither S, W, X, nor Y has any deemed-owned ESOP shares and the S corporation has no synthetic equity. However, individual S and individual Y each own directly a number of shares of the outstanding shares of the S corporation.

(ii) Conclusion. In this example, individual U is a disqualified person under paragraph (d)(1) of this section (because U's family consists of S, T, U, V, W, and X, and, in the aggregate, those persons own more than 20% of the deemed-owned ESOP shares) and individual X is also a disqualified person under paragraph (d)(1) of this section (because T's family consists of S, T, U, V, W, and X, and, in the aggregate, those persons own more than 20% of the deemed-owned ESOP shares). Further, individuals T and V are each a disqualified person under paragraph (d)(2) of this section because each is a member of a family that includes one or more disqualified persons and each has deemed-owned ESOP shares. However, individuals S, W, and Y are not disqualified persons under this paragraph (d). For example, S does not own more than 10% of the deemed-owned ESOP shares, and S's family, which consists of S, T, U, and X, owns, in the aggregate, only 13% of the deemed-owned ESOP shares (X's parents are not members of S's family because the family members of a person do not include the parents-in-law of the person's descendants). Further, note that, for purposes of determining whether the ESOP has a nonallocation year under paragraph (c) of this section, the shares directly owned by S and Y would be taken into account as shares owned by disqualified persons under the attribution rules in paragraph (c)(2) of this section.

(e) Deemed-owned ESOP shares. For purposes of section 409(p) and this section, a person is treated as owning his or her deemed-owned ESOP shares. Deemed-owned ESOP shares owned by a person mean, with respect to any person--

(1) Any shares of stock in the S corporation constituting employer securities that are allocated to such person's account under the ESOP; and

(2) Such person's share of the stock in the S corporation that is held by the ESOP but is not allocated to the account of any participant or beneficiary (with such person's share to be determined in the same proportion as the shares released and allocated from a suspense account, as described at §54.4975-11(c) and (d) of the Excise Tax Regulations, under the ESOP for the most recently ended plan year for which there were shares released and allocated from a suspense account, or if there has been no such prior release and allocation from a suspense account, then determined in proportion to a reasonable estimate of the shares that would be released and allocated in the first year of a loan repayment).

(f) Synthetic equity and rights to acquire stock of the S corporation--(1) Ownership of synthetic equity. For purposes of section 409(p) and this section, synthetic equity means the rights described in paragraph (f)(2) of this section. Synthetic equity is treated as owned by the person that has any of the rights specified in paragraph (f)(2) of the section. In addition, the attribution rules as set forth in paragraph (c)(2) of this section apply for purposes of attributing ownership of synthetic equity.

(2) Synthetic equity--(i) Rights to acquire stock of the S corporation--(A) General rule. Synthetic equity includes any stock option, warrant, restricted stock, deferred issuance stock right, stock appreciation right payable in stock, or similar interest or right that gives the holder the right to acquire or receive stock of the S corporation in the future. Rights to acquire stock in an S corporation with respect to stock that is, at all times during the period when such rights are effective, both issued and outstanding, and held by a person other than the ESOP, the S corporation, or a related entity are not synthetic equity but only if that person is subject to federal income taxes. (See also paragraph (c)(4) of this section.)

(B) Exception for certain rights of first refusal. A right of first refusal to acquire stock held by an ESOP is not treated as a right to acquire stock of an S corporation under this paragraph if the right to acquire stock would not be taken into account under §1.1361-1(l)(2)(iii)(A) in determining if an S corporation has a second class of stock and the price at which the stock is acquired under the right of first refusal is not less than the price determined under section 409(h). See § 54.4975-11(d)(5) of the Excise Tax Regulations. The right of first refusal must also comply with the requirements of §54.4975-7(b)(9) of the Excise Tax Regulations. This paragraph (f)(2)(i)(B) does not apply if, based on the facts and circumstances, the Commissioner finds that the right to acquire stock held by the ESOP constitutes an avoidance or an evasion of section 409(p). See also section 408(d) of ERISA, under which the exemption provided by section 408(e) of ERISA (and the related exemption at section 4975(d)(13) of the Code) does not apply to an owner-employee, including an employee or officer of an S corporation who is a 5 percent owner.

(ii) Special rule for certain stock rights. Synthetic equity also includes a right to a future payment (payable in cash or any other form other than stock of the S corporation) from an S corporation that is based on the value of the stock of the S corporation, such as appreciation in such value. Thus, for example, synthetic equity includes a stock appreciation right with respect to stock of an S corporation that is payable in cash or a phantom stock unit with respect to stock of an S corporation that is payable in cash.

(iii) Rights to acquire interests in or assets of an S corporation or a related entity. Synthetic equity includes a right to acquire stock or other similar interests in a related entity to the extent of the S corporation's ownership. Synthetic equity also includes a right to acquire assets of an S corporation or a related entity other than either rights to acquire goods, services, or property at fair market value in the ordinary course of business or fringe benefits excluded from gross income under section 132.

(iv) Special rule for nonqualified deferred compensation. (A) Synthetic equity also includes any of the following with respect to an S corporation or a related entity: any remuneration to which section 404(a)(5) applies; remuneration for which a deduction would be permitted under section 404(a)(5) if separate accounts were maintained; any right to receive property, as defined in §1.83-3(e) of the Income Tax Regulations (including a payment to a trust described in section 402(b) or to an annuity described in section 403(c)) in a future year for the performance of services; any transfer of property in connection with the performance of services to which section 83 applies to the extent that the property is not substantially vested within the meaning of §1.83-3(i) by the end of the plan year in which transferred; and a split-dollar life insurance arrangement under §1.61-22(b) entered into in connection with the performance of services (other than one under which, at all times, the only economic benefit that will be provided under the arrangement is current life insurance protection as described in §1.61-22(d)(3)). Synthetic equity also includes any other remuneration for services under a plan, method, or arrangement deferring the receipt of compensation to a date that is after the 15th day of the 3rd calendar month after the end of the entity's taxable year in which the related services are rendered. However, synthetic equity does not include benefits under a plan that is an eligible retirement plan within the meaning of section 402(c)(8)(B).

(B) For purposes of applying paragraph (f)(2)(iv)(A) of this section with respect to an ESOP, synthetic equity does not include any interest described in such paragraph (f)(2)(iv)(A) of this section to the extent that--

(1) The interest is nonqualified deferred compensation (within the meaning of section 3121(v)(2)) that was outstanding on December 17, 2004;

(2) The interest is an amount that was taken into account (within the meaning of §31.3121(v)(2)-1(d) of this chapter) prior to January 1, 2005, for purposes of taxation under chapter 21 of the Internal Revenue Code (or income attributable thereto); and

(3) The interest was held before the first date on which the ESOP acquires any employer securities.

(v) No overlap among shares of deemed-owned ESOP shares or synthetic equity. Synthetic equity under this paragraph (f)(2) does not include shares that are deemed-owned ESOP shares (or any rights with respect to deemed-owned ESOP shares to the extent such rights are specifically provided under section 409(h)). In addition, synthetic equity under a specific subparagraph of this paragraph (f)(2) does not include anything that is synthetic equity under a preceding provision of paragraph (f)(2)(i), (ii), (iii), or (iv) of this section.

(3) Related entity. For purposes of this paragraph (f), related entity means any entity in which the S corporation holds an interest and which is a partnership, a trust, an eligible entity that is disregarded as an entity that is separate from its owner under §301.7701-3 of this chapter, or a qualified subchapter S subsidiary under section 1361(b)(3).

(4) Number of synthetic shares--(i) Synthetic equity determined by reference to S corporation shares. In the case of synthetic equity that is determined by reference to shares of stock of the S corporation, the person who is entitled to the synthetic equity is treated as owning the number of shares of stock deliverable pursuant to such synthetic equity. In the case of synthetic equity that is determined by reference to shares of stock of the S corporation, but for which payment is made in cash or other property (besides stock of the S corporation), the number of shares of synthetic equity treated as owned is equal to the number of shares of stock having a fair market value equal to the cash or

other property (disregarding lapse restrictions as described in §1.83-3(i)). Where such synthetic equity is a right to purchase or receive S corporation shares, the corresponding number of shares of synthetic equity is determined without regard to lapse restrictions as described in §1.83-3(i) or to any amount required to be paid in exchange for the shares. Thus, for example, if a corporation grants an employee of an S corporation an option to purchase 100 shares of the corporation's stock, exercisable in the future only after the satisfaction of certain performance conditions, the employee is the deemed owner of 100 synthetic equity shares of the corporation as of the date the option is granted. If the same employee were granted 100 shares of restricted S corporation stock (or restricted stock units), subject to forfeiture until the satisfaction of performance or service conditions, the employee would likewise be the deemed owner of 100 synthetic equity shares from the grant date. However, if the same employee were granted a stock appreciation right with regard to 100 shares of S corporation stock (whether payable in stock or in cash), the number of synthetic equity shares the employee is deemed to own equals the number of shares having a value equal to the appreciation at the time of measurement (determined without regard to lapse restrictions).

(ii) Synthetic equity determined by reference to shares in a related entity. In the case of synthetic equity that is determined by reference to shares of stock (or similar interests) in a related entity, the person who is entitled to the synthetic equity is treated as owning shares of stock of the S corporation with the same aggregate value as the number of shares of stock (or similar interests) of the related entity (with such value determined without regard to any lapse restriction as defined at §1.83-3(i)).

(iii) Other synthetic equity--(A) General rule. In the case of any synthetic equity to which neither paragraph (f)(4)(i) of this section nor paragraph (f)(4)(ii) of this section apply, the person who is entitled to the synthetic equity is treated as owning on any date a number of shares of stock in the S corporation equal to the present value (on that date) of the synthetic equity (with such value determined without regard to any lapse restriction as defined at §1.83-3(i)) divided by the fair market value of a share of the S corporation's stock as of that date.

(B) Use of annual or more frequent determination dates. A year is a nonallocation year if the thresholds in paragraph (c) of this section are met at any time during that year. However, for purposes of this paragraph (f)(4)(iii), an ESOP may provide that the number of shares of S corporation stock treated as owned by a person who is entitled to synthetic equity to which this paragraph (f)(4)(iii) applies is determined annually (or more frequently), as of the first day of the ESOP's plan year or as of any other reasonable determination date or dates during a plan year. If the ESOP so provides, the number of shares of synthetic equity to which this paragraph (f)(4)(iii) applies that are treated as owned by that person for any period from a given determination date through the date immediately preceding the next following determination date is the number of shares treated as owned on the given determination date.

(C) Use of triennial recalculations. (1) Although an ESOP must have a determination date that is no less frequent than annually, if the terms of the

ESOP so provide, then the number of shares of synthetic equity with respect to grants of synthetic equity to which this paragraph (f)(4)(iii) applies may be fixed for a specified period from a determination date identified under the ESOP through the day before a determination date that is not later than the third anniversary of the identified determination date. Thus, the ESOP must provide for the number of shares of synthetic equity to which this paragraph (f)(4)(iii) applies to be re-determined not less frequently than every three years, based on the S corporation share value on a determination date that is not later than the third anniversary of the identified determination date and the aggregate present value of the synthetic equity to which this paragraph (f)(4)(iii) applies (including all grants made during the three-year period) on that determination date.

(2) However, additional accruals, allocations, or grants (to which this paragraph (f)(4)(iii) applies) that are made during such three-year period are taken into account on each determination date during that period, based on the number of synthetic equity shares resulting from the additional accrual, allocation, or grant (determined as of the determination date on or next following the date of the accrual, allocation, or grant). See Example 3 of paragraph (h) of this section for an example illustrating this paragraph (f)(4)(iii)(C).

(3) If, as permitted under this paragraph (f)(4)(iii)(C), an ESOP provides for the number of shares of synthetic equity to be fixed for a specified period from a determination date to a subsequent determination date, then that subsequent determination date can be changed to a new determination date, subject to the following conditions:

(i) The change in the subsequent determination date must be effectuated through a plan amendment adopted before the new determination date;

(ii) The new determination date must be earlier than the prior determination date (that is, the new determination date must be earlier than the determination date applicable in the absence of the plan amendment);

(iii) The conditions in paragraph (f)(4)(iii)(C)(2) of this section must be satisfied measured from the new determination date; and

(iv) Except to the extent permitted by the Commissioner in revenue rulings, notices, or other guidance published in the Internal Revenue Bulletin (see §601.601(d)(2)(ii)(b) of this chapter), the change must be adopted in connection with either a change in the plan year of the ESOP or a merger, consolidation, or transfer of plan assets of the ESOP under section 414(l) (and the new determination date must consistent with that plan year change or section 414(l) event).

(4) Conditions for application of rules. This paragraph (f)(4)(iii)(C) only applies with respect to grants of synthetic equity to which this paragraph (f)(4)(iii) applies. In addition, paragraph (f)(4)(iii)(C) of this section applies only if the fair market value of a share of the S corporation securities on any determination date is not unrepresentative of the value of the S corporation securities throughout the rest of the plan year and only if the terms of the ESOP include provisions conforming to paragraph (f)(4)(iii)(C)(1) of this section which are consistently used by the ESOP for all persons. In addition, paragraph (f)(4)(iii)(C)(1) of this section applies only if the terms of the ESOP include provisions conforming to

paragraphs (f)(4)(iii)(C)(1) of this section which are consistently used by the ESOP for all persons.

(iv) Adjustment of number of synthetic equity shares where ESOP owns less than 100 Percent of S corporation. The number of synthetic shares otherwise determined under this paragraph (f)(4) is decreased ratably to the extent that shares of the S corporation are owned by a person who is not an ESOP and who is subject to Federal income taxes. For example, if an S corporation has 200 outstanding shares, of which individual A owns 50 shares and the ESOP owns the other 150 shares, and individual B would be treated under this paragraph (f)(4) as owning 100 synthetic equity shares of the S corporation but for this paragraph (f)(4)(iv), then, under the rule of this paragraph (f)(4)(iv), the number of synthetic shares treated as owned by B under this paragraph (f)(4) is decreased from 100 to 75 (because the ESOP only owns 75 percent of the outstanding stock of the S corporation, rather than 100 percent).

(v) Special rule for shares with greater voting power than ESOP shares. Notwithstanding any other provision of this paragraph (f)(4), if a synthetic equity right includes (directly or indirectly) a right to purchase or receive shares of S corporation stock that have per-share voting rights greater than the per-share voting rights of one or more shares of S corporation stock held by the ESOP, then the number of shares of deemed owned synthetic equity attributable to such right is not less than the number of shares that would have the same voting rights if the shares had the same per-share voting rights as shares held by the ESOP with the least voting rights. For example, if shares of S corporation stock held by the ESOP have one voting right per share, then an individual who holds an option to purchase one share with 100 voting rights is treated as owning 100 shares of synthetic equity.

(g) Avoidance or evasion of section 409(p) involving synthetic equity--(1) General rule. Paragraph (g)(2) of this section sets forth a standard for determining whether the principal purpose of the ownership structure of an S corporation involving synthetic equity constitutes an avoidance or evasion of section 409(p). Paragraph (g)(3) of this section identifies certain specific ownership structures that constitute an avoidance or evasion of section 409(p). See also paragraph (c)(3) of this section for a rule under which the ownership structures in paragraph (g)(3) of this section result in a nonallocation year for purposes of section 409(p).

(2) Standard for determining when there is an avoidance or evasion of section 409(p) involving synthetic equity. For purposes of section 409(p) and this section, whether the principal purpose of the ownership structure of an S corporation involving synthetic equity constitutes an avoidance or evasion of section 409(p) is determined by taking into account all the surrounding facts and circumstances, including all features of the ownership of the S corporation's outstanding stock and related obligations (including synthetic equity), any shareholders who are taxable entities, and the cash distributions made to shareholders, to determine whether, to the extent of the ESOP's stock ownership, the ESOP receives the economic benefits of ownership in the S corporation that occur during the period that stock of the S corporation is owned

by the ESOP. Among the factors indicating that the ESOP receives those economic benefits include shareholder voting rights, the right to receive distributions made to shareholders, and the right to benefit from the profits earned by the S corporation, including the extent to which actual distributions of profits are made from the S corporation to the ESOP and the extent to which the ESOP's ownership interest in undistributed profits and future profits is subject to dilution as a result of synthetic equity. For example, the ESOP's ownership interest is not subject to dilution if the total amount of synthetic equity is a relatively small portion of the total number of shares and deemed-owned shares of the S corporation.

(3) Specific transactions that constitute an avoidance or evasion of section 409(p) involving segregated profits. Taking into account the standard in paragraph (g)(2) of this section, the principal purpose of the ownership structure of an S corporation constitutes an avoidance or evasion of section 409(p) in any case in which--

(i) The profits of the S corporation generated by the business activities of a specific individual or individuals are not provided to the ESOP, but are instead substantially accumulated and held for the benefit of the individual or individuals on a tax-deferred basis within an entity related to the S corporation, such as a partnership, trust, or corporation (such as in a subsidiary that is a disregarded entity), or any other method that has the same effect of segregating profits for the benefit of such individual or individuals (such as nonqualified deferred compensation described in paragraph (f)(2)(iv) of this section);

(ii) The individual or individuals for whom profits are segregated have rights to acquire 50 percent or more of those profits directly or indirectly (for example, by purchase of the subsidiary); and

(iii) A nonallocation year would occur if this section were separately applied with respect to either the separate entity or whatever method has the effect of segregating profits of the individual or individuals, treating such entity as a separate S corporation owned by an ESOP (or in the case of any other method of segregation of profits by treating those profits as the only assets of a separate S corporation owned by an ESOP).

(h) Examples. The rules of this section are illustrated by the following examples:

Example 1. Relating to determination of disqualified persons and nonallocation year if there is no synthetic equity. (i) Facts. Corporation X is a calendar year S corporation that maintains an ESOP. X has a single class of common stock, of which there are a total of 1,200 shares outstanding. X has no synthetic equity. In 2006, individual A, who is not an employee of X (and is not related to any employee of X), owns 100 shares directly, B, who is an employee of X, owns 100 shares directly, and the remaining 1,000 shares are owned by an ESOP maintained by X for its employees. The ESOP's 1,000 shares are allocated to the accounts of individuals who are employees of X (none of whom are related), as set forth in columns 1 and 2 in the following table:

1 Shareholders	2 Deemed-Owned ESOP Shares (total of 1,000)	3 Percentage Deemed-Owned ESOP Shares	4 Disqualified Person
B	330	33%	Yes
C	145	14.5%	Yes
D	75	7.5%	No
E	30	3%	No
F	20	2%	No
Other participants	400 (none exceed 10 shares)	1% or less	No

(ii) Conclusion with respect to disqualified persons. As shown in column 4 in the table contained in paragraph (i) of Example 1, individuals B and C are disqualified persons for 2006 under paragraph (d)(1) of this section because each owns at least 10% of X's deemed-owned ESOP shares. However, the synthetic equity shares owned by any person do not affect the calculation for any other person's ownership of shares.

(iii) Conclusion with respect to nonallocation year. 2006 is not a nonallocation year under section 409(p) because disqualified persons do not own at least 50% of X's outstanding shares (the 100 shares owned directly by B, B's 330 deemed-owned ESOP shares, plus C's 145 deemed-owned ESOP shares equal only 47.9% of the 1,200 outstanding shares of X).

Example 2. Relating to determination of disqualified persons and nonallocation year if there is synthetic equity. (i) Facts. The facts are the same as in Example 1, except that, as shown in column 4 of the table in this Example 2, individuals E and F have options to acquire 110 and 130 shares, respectively, of the common stock of X from X:

1 Shareholder	2 Deemed-Owned ESOP Shares (total of 1,000)	3 Percentage Deemed-Owned ESOP Shares	4 Options (240)	5 Shareholder Percentage of Deemed-Owned ESOP plus Synthetic Equity Shares	6 Disqualified Person
B	330	33%			Yes (col. 3)
C	145	14.5%			Yes (col.3)
D	75	7.5%			No
E	30	3%	110	11.1% ([30+ 91.7] divided by 1,091.7)	Yes (col. 5)
F	20	2%	130	11.6% ([20 +108.3] divided by 1,108.3)	Yes (col. 5)
Other participants	400 (none exceeds 10 shares)	1% or less			No

(ii) Conclusion with respect to disqualified persons. Individual E's synthetic equity shares are counted in determining whether E is a disqualified person for 2006, and individual F's synthetic equity shares are counted in determining whether F is a disqualified person for 2006. Applying the rule of paragraph (f)(4)(iv) of this section, E's option to acquire 110 shares of the S corporation converts under paragraph (f)(4)(iv) of this section, into 91.7 shares of synthetic equity (110 times the ratio of the 1,000 deemed-owned ESOP shares to the sum of the 1,000 deemed-owned ESOP shares plus the 200 shares held outside the ESOP by A and B). Similarly, F's option to acquire 130 shares of the S corporation converts into 108.3 shares of synthetic equity (130 times the ratio of the 1,000 deemed-owned ESOP shares to the sum of the 1,000 deemed-owned ESOP shares plus the 200 shares held outside the ESOP by A and B). However, the synthetic equity shares owned by any person do not affect the calculation for any other person's ownership of shares. Accordingly, as shown in column 6 in the table contained in paragraph (i) of Example 2, individuals B, C, E, and F are disqualified persons for 2006.

(iii) Conclusion with respect to nonallocation year. The 100 shares owned directly by B, B's 330 deemed-owned ESOP shares, C's 145 deemed-owned ESOP shares, E's 30 deemed-owned ESOP shares, E's 91.7 synthetic equity shares, F's 20 deemed-owned ESOP shares, plus F's 108.3 synthetic equity shares total 825, which equals 58.9% of 1,400, which is the sum of the 1,200 outstanding shares of X and the 200 shares of synthetic equity shares of X held by disqualified persons. Thus, 2006 is a nonallocation year for X's ESOP under section 409(p) because disqualified persons own at least 50% of the total shares of outstanding stock of X and the total synthetic equity shares of X held by disqualified persons. In addition, independent of the preceding conclusion, 2006 would be a nonallocation year because disqualified persons own at least 50% of X's outstanding shares because the 100 shares owned directly by B, B's 330 deemed-owned ESOP shares, C's 145 deemed-owned ESOP shares, E's 30 deemed-owned ESOP shares, plus F's 20 deemed-owned ESOP shares equal 52.1% of the 1,200 outstanding shares of X.

Example 3. Relating to determination of number of shares of synthetic equity. (i) Facts. Corporation Y is a calendar year S corporation that maintains an ESOP. Y has a single class of common stock, of which there are a total of 1,000 shares outstanding, all of which are owned by the ESOP. Y has no synthetic equity, except for four grants of nonqualified deferred compensation that are made to an individual during the period from 2005 through 2011, as set forth in column 2 in the following table. The ESOP provides for the special rules in paragraph (f)(4)(iii) of this section to determine the number of shares of synthetic equity owned by that individual with a determination date of January 1 and the triennial rule redetermining value, as shown in columns 4 and 5:

1 Determination Date	2 Present Value of Nonqualified Deferred Compensation on Determination Date	3 Share Value on Determination Date	4 New Shares of Synthetic Equity on Determination Date	5 Aggregate Number of Synthetic Equity Shares on Determination Date
January 1, 2005	A grant is made on January 1, 2005, with a present value of $1,000. An additional grant of nonqualified deferred compensation with a present value of $775 is	$10 per share	100	100

	made on March 1, 2005.			
January 1, 2006	An additional grant is made on December 31, 2005, which has a present value of $800 on January 1, 2006. The March 1, 2005, grant has a present value on January 1, 2006, of $800.	$8 per share	200	300
January 1, 2007	No new grants made.	$12 per share		300
January 1, 2008	An additional grant is made on December 31, 2007, which has a present value of $3,000 on January 1, 2008. The grants made during 2005 through 2007 have an aggregate present value on January 1, 2008, of $3,750.	$15 per share	200	450
January 1, 2009	No new grants are made.	$11 per share		450
January 1, 2010	No new grants are made.	$22 per share		450
January 1, 2011	No new grants are made. The grants made during 2005 through 2008 have an aggregate present value on January 1, 2011, of $7,600.	$20 per share		380

(ii) Conclusion. The grant made on January 1, 2005, is treated as 100 shares until the determination date in 2008. The grant made on March 1, 2005, is not taken into account until the 2006 determination date and its present value on that date, along with the then present value of the grant made on December 31, 2005, is treated as a number of shares that are based on the $8 per share value on the 2006 determination date, with the resulting number of shares continuing to apply until the determination date in 2008. On the January 1, 2008, determination date, the grant made on the preceding day is taken into account at its present value of $3,000 on January 1, 2008 and the $15 per share value on that date with the resulting number of shares (200) continuing to apply until the next determination date. In addition, on the January 1, 2008, determination date, the number of shares determined under other grants made between January 1, 2005 and December 31, 2007, must be revalued. Accordingly, the aggregate value of all nonqualified deferred compensation granted during that period is determined to be $3750 on January 1, 2008, and the corresponding number of shares of synthetic equity based on the $15 per share value is determined to be 250 shares on the 2008 determination date, with the resulting aggregate number of shares (450) continuing to apply until the determination date in 2011. On the January 1, 2011, determination date, the aggregate value of all nonqualified deferred compensation is determined to be $7,600 and the corresponding number of shares of synthetic equity based on the $20 per share value on the 2011 determination date is determined to be 380 shares (with the resulting number of shares continuing to apply until the day before the determination date in 2014, assuming no further grants are made).

(i) Effective dates--(1) Statutory effective date. (i) Except as otherwise provided in paragraph (i)(1)(ii) of this section, section 409(p) applies for plan years ending after March 14, 2001.

(ii) If an ESOP holding stock in an S corporation was established on or before March 14, 2001, and the election under section 1362(a) with respect to that S corporation was in effect on March 14, 2001, section 409(p) applies for plan years beginning on or after January 1, 2005.

(2) Regulatory effective date. This section applies for plan years beginning on or after January 1, 2006. For plan years beginning before January 1, 2006, §1.409(p)-1T (as it appeared in the April 1, 2005, edition of 26 CFR part 1) applies.

Deputy Commissioner for Services and Enforcement.

Mark E. Matthews

Approved: November 30, 2006

Acting Assistant Secretary of the Treasury (Tax Policy).

Eric Solomon

PRESS ROOM

December 19, 2006
HP-208

Treasury Releases Semiannual Report on International and Economic and Exchange Rate Policies

Washington, DC -- The Treasury Department today released its Semiannual Report on International and Economic and Exchange Rate Policies.

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SEMIANNUAL REPORT ON INTERNATIONAL ECONOMIC AND EXCHANGE RATE POLICIES

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The Treasury Department's Report to Congress on International Economic and Exchange Rate Policies outlines the currency practices of America's major trading partners.

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Last Updated: December 19, 2006

PRESS ROOM

December 20, 2006
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President Bush Signs Bill
to Make Health Care more Affordable, Accessible

Washington, DC- President George W. Bush signed the Health Opportunity Patient Empowerment Act of 2006 today, enhancing Americans' access to tax-advantaged health care savings. The law, part of the Tax Relief and Health Care Act of 2006, provides new opportunities for health savings account (HSA) participants' to build their funds.

"Health savings accounts are improving the way Americans obtain the care they need. This bill makes HSAs more flexible and makes it easier for participants to put money aside for their personal health care," said Treasury Assistant Secretary for Tax Policy Eric Solomon.

HSA provisions of the Act include:

Allow rollovers from health FSAs and HRAs into HSAs through 2011. Employers can transfer funds from Flexible Spending Arrangements (FSAs) or Health Reimbursement Arrangements (HRAs) to an HSA for employees switching to coverage under an HSA-compatible health plan. The amounts rolled over to HSAs from FSAs or HRAs are over and above the amounts allowed as annual contributions. The maximum contribution is the balance in the FSA or HRA as of September 21, 2006, or if less, the balance as of the date of the transfer. The provision is limited to one distribution with respect to each health FSA or HRA of the individual. If an individual does not remain an eligible individual for the 12 months following the month of the contribution, the transferred amount is included in income and subject to a 10 percent additional tax.

Increase in annual HSA contribution. Previously, the maximum HSA contribution was the lesser of the deductible of the individual's HSA-eligible plan or a statutory maximum. The new rules make the limit the statutory maximum contribution, regardless of the individual's deductible. For 2007, the maximum contribution for an eligible individual with self-only coverage is $2,850, and the maximum contribution for an eligible individual with family coverage is $5,650. These limits are indexed for inflation.

Full HSA contribution regardless of month individual becomes eligible. Normally, the HSA contribution is pro rated based on the number of months that an individual during the year a person was an eligible individual. The new provisions provide an exception to this rule that will allow individuals who become covered under an HSA-eligible plan in a month other than January to make the maximum HSA contribution for the year based on their coverage in the last month of the year. This eliminates a common barrier to switching to HSA-eligible coverage. If an individual does not stay in the HSA-eligible plan 12 months following the last month of the year of the first year of eligibility, the amount which could not have been contributed except for this provision will be included in income and subject to a 10 percent additional tax.

One-time transfer from IRAs to HSAs. The new rules allow for a one-time contribution to an HSA of amounts distributed from an Individual Retirement Arrangement (IRA). The contribution must be made in a direct trustee-to-trustee transfer. The IRA transfer will not be included in income or subject to the early withdrawal additional tax. The transfer is limited to the maximum HSA contribution for the year, and the amount contributed is not allowed as a deduction. Generally, only one transfer may be made during the lifetime of an individual. If an individual electing the one-time transfer does not remain an eligible individual for the 12 months following the month of the contribution, the transferred amount is included in income and subject to a 10 percent additional tax.

Certain FSA coverage treated as disregarded coverage. Under previous law, if an FSA had a grace period following the end of the plan year allowing participants to incur additional reimbursable expenses, participants were treated as having disqualifying coverage, reducing their HSA contribution for that year, even though they had switched to HSA-eligible coverage at the first of the year. The new rules treat certain FSA coverage during a grace period as disregarded coverage, eliminating any resulting reduction in the HSA contribution for the year. First, the coverage is disregarded if the balance in the health FSA at the end of the plan year is zero. Second, the coverage is disregarded if the year-end balance is transferred directly to an HSA fom the FSA, as noted above.

Earlier indexing of cost of living adjustments. Previously, indexing was based on a 12-month period ending on August 31. The new rules change the base period to the 12-month period ending on March 31 and require that adjusted amounts for a year be published by June 1 of the preceding year. This change will provide employers and health plans with more time to design qualifying HSA-eligible plans and individuals with more time to make decisions about their health care for the next year.

Allow greater employer contributions for lower-paid employees. Previously, employer contributions under the comparability rules had to be the same amount or percentage of the deductible for all employees with the same category of coverage. Consequently, employers could not contribute higher amounts to lower-paid employees. The new rules provide an exception to the comparability rules allowing employers to contribute more to the HSAs of non-highly compensated individuals. For this purpose, the definition of "highly compensated employee" is based on same definition used for qualified retirement plans.

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PRESS ROOM

December 21, 2006
HP-210

TREASURY WELCOMES ENTRY INTO FORCE OF US-FRENCH INCOME, ESTATE TAX PROTOCOLS

Washington, DC- The Treasury Department today welcomed the entry into force of protocols to the income tax and estate tax treaties between the United States and France. The protocols were signed in December 2004, and amend the existing income tax treaty concluded in 1994 and the existing estate tax treaty concluded in 1978.

The protocol to the income tax treaty makes technical changes to resolve several issues that have arisen under the treaty following its entry into force in 1995. The most important provision clarifies the manner in which the treaty will apply in the case of investments made into France by U.S. persons through partnerships and other fiscally-transparent entities.

In general, this protocol will have effect, with respect to taxes withheld at source, for amounts paid or credited on or after February 1, 2007, and with respect to other taxes, for taxable periods beginning on or after January 1, 2007. However, because the rules benefiting U.S. residents investing through partnerships are intended to ensure that the treaty provides results that are consistent with the intent of the negotiators of the 1995 treaty, those changes will be applicable as of the effective dates of the 1995 treaty.

The protocol to the estate tax treaty was negotiated following changes in the U.S. estate tax law in 1988 that affected non-citizen spouses of U.S. decedents. The protocol provides some estate tax relief in the form of a marital deduction in the case of a French spouse of a U.S. decedent where the estate is of relatively modest size. The estate tax protocol also makes a number of technical changes to take into account changes in each country's tax law since the estate tax treaty entered into force in 1980.

Although the estate tax protocol generally will be effective with respect to gifts made and deaths occurring after the exchange of instruments of ratification, the relief provided with respect to surviving non-citizen spouses and the pro rata unified credit will be effective with respect to gifts made and deaths occurring after November 10, 1988 (the effective date of the 1988 legislative changes).

Claims for refund asserting the benefits of the protocol that otherwise would be barred by the statute of limitations must be made within one year of entry into force of the protocol, however, and all claims for retroactive relief are subject to the rules regarding the United States' ability to tax former citizens and long-term residents.

The two protocols are an important step forward in keeping our existing treaty network up to date and serve to strengthen an already strong relationship with an important treaty partner. They are the latest manifestation of the close economic ties and deep friendship between our two countries.

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PRESS ROOM

December 1, 2006
HP-211

Remarks by Treasury Deputy Assistant Secretary Ahmed Saeed at the Africa Oil & Gas Forum: Expectations & Reality

Washington, D.C.– I would like to thank the Corporate Council on Africa and in particular, Steven Hayes for the opportunity to speak on this very important matter. I am also honored to be speaking at this lunch along with Deputy Minister Noormahomed from Mozambique. I must begin, however, with a mild reproach to CCA for my position in the line of speakers. Not only do I have the daunting task of trying to add something insightful after all of the distinguished speakers who have participated in the last two days, but I also stand between our guests and lunch. Therefore, I'll try to be brief.

The Treasury Department focuses on the world's financial sectors and global economic developments. I will therefore focus on this theme, and discuss the linkages between Africa's oil and gas sector and the U.S. and global economies.

Africa has long played an important role on the world stage. It is a continent that is significant in population and diversity, and is rich in tradition and culture. Its contributions to world civilization are numerous and long-standing. However, the continent represents a small fraction – less than 2 percent - of global GDP.

But Africa is a global player in the energy markets, and it plays a particularly important role here in the United States. As others this morning have noted, the continent currently supplies 19 percent of U.S. crude oil imports – a figure that will rise as the U.S. continues to diversify its supply. Africa is also an important source of global energy supply, accounting for 12 percent of world crude oil production.

Africa has reaped the benefits of its oil resources. The IMF estimates that GDP growth could top on average 10 percent in 2007 in sub-Saharan Africa's net oil exporters. In certain countries, oil will have an even more pronounced impact. For instance, the IMF projects Angola's GDP to increase by 30 percent in 2007.

And yet despite this oil wealth, some of the countries richest in oil and other extractives are also the poorest. Average per capita income in 2005 in sub-Saharan Africa oil producers was $537. Furthermore, despite the availability of abundant oil reserves, Africa has yet to fully exploit its resources fully. Although Nigeria alone has greater proven reserves than the United States, in September there were 27 times as many offshore rigs in operation in the United States as there were in all of Africa - 1,739 rigs compared to 64. In addition, Africa has far more unexplored territory than we do in our country. There are a number of reasons for this discrepancy, but these statistics reveal the stark reality that global resources are poorly distributed in the pursuit of this valuable resource, and Africa has large untapped areas that could be explored and harnessed.

How African Governments Can Realize the Benefits of Natural Resources

The important question is, of course, how African governments could do more to realize the benefits inherent in this untapped wealth. I would like to discuss three areas where there is much to commend, but where more remains to be done.

First, and in many ways most significantly, resource allocations cannot be made more efficient until investment environments are improved substantially in African oil, and for that matter, non-oil producing countries. Speakers have noted Africa's poor rankings on a variety of surveys, such as Transparency International's Corruption Index. Another similar ranking is the IFC's annual Doing Business Indicators report. Unfortunately, many African countries continue to score very poorly on these indices. The IFC's doing business indicators recently ranked three African oil producing countries (Cameroon, the Democratic Republic of Congo and Chad) as some of the most difficult places in the world to enforce contracts.

There is, however, clearly an impetus for change emerging in Africa, and strong models for business climate reform are emerging on the continent. Zambia, Egypt, and Burkina Faso all ranked in the IFC's top ten list of reformers this year. I personally had the opportunity to see the reforms in Burkina Faso first hand earlier this year when I visited Burkina's new business registration center (CEFORE). The streamlined processes put in place at CEFORE have dramatically reduced the time required to register a business in Burkina Faso – a fact born out not just in statistics but by the conversations that I had with many small businesspeople in Ouagadougou.

Second, it is imperative that oil resources be used to foster broader economic development if Africa's oil wealth is to translate into long-run sustainable growth. Even as world oil prices and Africa's oil production increase, ordinary Africans do not always reap the benefits. Continuing poverty and lack of equity, against the backdrop of high oil prices, can lead to civil strife and attacks on oil infrastructure. The Niger Delta is a case in point, where fully a quarter of Nigeria's existing oil production capacity is off line due to militant activity spurred by worsening socio-economic conditions.

Establishing transparent processes for collecting and using national revenues, including those derived from energy production, could help avoid such troubles. Put succinctly, oil revenues should benefit all citizens in oil producing countries. Several countries are making progress in this area. For example, Cameroon and Angola publish information on oil revenue. Nigeria has published a series of oil-sector-related audit reports and brought the quasifiscal activities of its national oil company into the national budget. Four more oil producing countries subscribed to the Extractive Industry Transparency Initiative in 2005-06. This initiative empowers citizens to know what amount of wealth their governments are receiving so that governments can be held accountable.

The IMF has also shown its commitment to helping countries improve transparency in the oil sector, particularly with its recent "Guide on Resource Revenue Transparency," a guide we highly recommend to all oil-producing countries. There has been progress in improving transparency, but African governments and private oil companies need to build on this platform. They can and should do more.

Third, it is essential that the stewards of government economic policy ensure that the macroeconomic framework is robust enough to manage the impact of volatile oil revenues on the economy. It is heartening to see that there has been a real improvement in macro-economic policy management on the African continent, and there is a great deal to commend on this front.

Monetary policy, increasingly implemented by independent central banks, has effectively controlled inflation. Some central banks have also taken proactive measures, such as introducing new monetary tools to help control growth in the money supply. As a result of these efforts, the average year-end inflation rate of sub-Saharan Africa's oil exporting countries has actually fallen over the last four years. Nigeria, for example, has managed to bring inflation to historically low levels despite the influx of billions of dollars of surplus oil inflows in 2006.

Fiscal policy management has also improved. While each country has pursued its own combination of policies, a key policy measure in some countries, and again Nigeria deserves mention, has been the adoption of a fiscal rule for budgeting purposes that saves all oil revenue receipts above a certain price per barrel. In addition, efforts have been made in some countries to improve the medium-term expenditure frameworks and strengthen public expenditure management. One area that certainly could use more attention is extending fiscal prudence at the national level to sub-national and provincial governments and strengthening their ability to spend efficiently.

African policymakers also need to think about how they will manage their oil resources for the long-term. Although circumstances vary significantly from country to country, there are intriguing models to consider from other countries. In the Persian Gulf, an area that I deal with quite frequently, governments invest excess oil revenue in state-owned funds that generate investment returns and which can be tapped when oil revenues fall or other circumstances arise. Kuwait, for example, withdrew $80 billion from its oil fund at the time of the first Gulf War in order to manage the task of reconstruction. Other examples such as Alaska or Norway offer other potential models.

Conclusion

The world needs Africa. Global markets will increasingly depend on African energy reserves to meet rising demand. This situation presents a challenge and opportunity to African policy makers. The wealth that oil will provide to Africa, if managed efficiently, has the potential to drive sustainable and equitable economic growth, and this in turn can improve the welfare and well-being of citizens. At the Treasury Department, and in the United States Government as a whole, we look forward to being a partner in this endeavor. Thank you.

PRESS ROOM

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December 29, 2006
hp-212

Report On U.S. Holdings of Foreign Securities At End-Year 2005

The findings from an annual survey of U.S. portfolio holdings of foreign securities at year-end 2005 are released today and posted on the U.S. Treasury web site (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. Future surveys are scheduled to be carried out annually. The next report will present results from the survey for year-end 2006.

A complementary survey measuring foreign portfolio holdings of U.S. securities is also carried out annually. Preliminary results from the most recent such survey, covering securities held as of June 30, 2006, are expected to be reported by March 30, 2007.

Overall Results

The survey measured the value of U.S. holdings of foreign securities at year-end 2005 of approximately $4,609 billion, with $3,318 billion held in foreign equities, $1,028 billion in foreign long-term debt securities (original term-to-maturity in excess of one year), and $263 billion in foreign short-term debt securities. The previous survey measured U.S. holdings 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, and $233 billion in foreign short-term debt securities (see Table 1).

U.S. holdings by country at the end of 2005 were by far the largest for the United Kingdom ($815 billion), followed by Japan ($531 billion) and Canada ($419 billion) (see Table 2).

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. Value of U.S. holdings of foreign securities, by type of security, at end-2004 and end-2005

(Billions of dollars)

Type of Security	Dec. 31, 2004	Dec. 31, 2005
Long-term Securities	3,553	4,346
equity	2,560	3,318
long-term debt	993	1,028

Short-term debt securities	233	263
Total	3,787	4,609

U.S. Portfolio Investment by Country

Table 2. Value of 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, 2005

(Billions of dollars, except as noted)

				Debt securities:	
		Total	Equities	Long-term	Short-term
1	United Kingdom	815	538	185	92
2	Japan	531	493	35	2
3	Canada	419	248	158	14
4	France	274	205	48	21
5	Cayman Islands	249	103	118	28
6	Germany	217	158	49	10
7	Switzerland	196	192	2	2
8	Netherlands	192	133	52	7
9	Bermuda	187	174	11	2
10	Australia	128	71	49	9
11	South Korea	119	110	8	0
12	Brazil	90	69	22	0
13	Mexico	86	58	28	0
14	Italy	79	64	12	3
15	Ireland	75	33	17	25
16	Sweden	75	41	16	18
17	Spain	70	64	6	1
18	Taiwan	58	57	1	*
19	Finland	49	44	4	0

20	Netherlands Antilles	47	45		2		
21	Luxembourg	46	11		29		6
22	Hong Kong, SAR	46	44		2		0
23	Israel	44	29		15		0
24	Singapore	36	29		7		0
25	Norway	36	22		9		5
	Rest of world	445	283		143		19
	Total value of investment	4,609	3,318		1.028		263

Greater than zero and less than $500 million. Note: items may not add to total due to rounding.

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The stock of foreign securities for December 31, 2005, reported in this survey does not, for a number or reasons, correspond to the stock of foreign securities on December 31, 2004, 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 2005.

REPORTS

- (PDF) Report on U.S. Portfolio Holdings of Foreign Securities at End-Year 2005

Report on

U.S. Portfolio Holdings of Foreign Securities

as of December 31, 2005

Department of the Treasury

Federal Reserve Bank of New York

Board of Governors of the Federal Reserve System

December 2006

CONTENTS

Introduction

This report presents data and analyses regarding U.S. portfolio investment in foreign equity and debt securities.[1] The data are drawn primarily from the latest survey of U.S. holdings of foreign securities as of December 31, 2005. The survey was a joint undertaking of the U.S. Treasury Department, the Federal Reserve Bank of New York, and the Board of Governors of the Federal Reserve System.

The 2005 survey was the sixth survey of U.S. ownership of foreign securities conducted by the United States, with prior surveys conducted as of March 31, 1994, December 31, 1997, December 31, 2001, December 31, 2003, and December 31, 2004.[2] The surveys were initiated as the level of U.S. investment in foreign securities began to grow significantly in the 1990s.

The structure of the surveys has evolved over time. The first two U.S. surveys measured only holdings of foreign long-term securities; beginning with the 2001 survey, information is collected on U.S. holdings of both foreign long-term and short-term securities.[3] Further, the first three surveys were conducted at widely-spaced intervals and were "benchmark" surveys; that is, they collected data from a large number of institutions in an attempt to measure total U.S. holdings as comprehensively as practical. Beginning with the December 2003 survey, surveys are conducted annually. Full benchmark surveys will continue to be conducted at five-year intervals. In the four years following each benchmark survey, annual data will be collected from only the largest reporters who collectively reported approximately 90 percent of the market value of foreign holdings as measured by the preceding benchmark survey. The December 2005 survey was not a benchmark survey, thus its measured results had to be "grossed-up" to estimate total U.S. holdings. The procedures used to perform this extrapolation are described in Chapter 2, Survey Methodology.

The surveys collect information at the individual security level, making possible both detailed editing and the presentation of data in a wide variety of ways, such as by country, security type, currency, remaining term-to-maturity, and industry. Experience has shown that collecting security level data results in far more accurate survey results than can be obtained by collecting aggregate information. Many significant errors can be detected in the security-level data that would otherwise go undetected in aggregate data. In addition, the collection of security level data is efficient because survey respondents need to report data in only one format, instead of

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1. U.S. portfolio investment in foreign securities, for the purposes of this report, includes all foreign securities owned by U.S. residents except where the owner has a direct investment relationship with the foreign issuer of the securities. Direct investment means the ownership or control, directly or indirectly, by one person or by a group of affiliated persons, of 10 percent or more of the voting stock of an incorporated business enterprise, or an equivalent interest in an unincorporated enterprise. Data on direct investment are collected by the Bureau of Economic Analysis (BEA), Department of Commerce, and published in the *Survey of Current Business* and on the BEA web site.

2. The Treasury Department conducted a survey during World War II of all foreign assets owned by U.S. residents as of May 1943. That survey measured portfolio investment as well as other forms of investment, but it is removed in time and in purpose from the modern survey program that began with the 1994 survey.

3. Long-term securities are defined as all equity securities and all debt securities with an original term-to-maturity of more than one year. Short-term securities are debt securities with an original term-to-maturity of one year or less.

aggregating and reporting their holdings in a variety of different ways, such as those shown in the tables in this report.

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.[4] Seventy-three countries or geographic regions, including most of the industrial and financial center countries, participated in the 2005 survey. The Coordinated Portfolio Investment Surveys (CPIS) were initiated primarily because there has been a wide discrepancy between worldwide measured portfolio assets and worldwide measured portfolio liabilities, with reported liabilities exceeding reported assets. Future U.S. asset surveys will also be part of IMF-coordinated efforts and will continue to measure U.S. holdings of both long-term and short-term foreign securities.

Chapter 1 of this report presents the 2005 survey findings. Chapter 2 discusses data collection methodology. Appendix A presents a variety of statistics not included elsewhere in the report. Appendix B contains a copy of the forms and instructions used by the survey.

The Treasury Department, the Federal Reserve Bank of New York, and the Federal Reserve Board wish to express their appreciation to all survey respondents whose efforts and information have made this report possible.

4. International Monetary Fund, *Portfolio Investment: CPIS Data Results*, which can be found on the web at http://www.imf.org/external/np/sta/pi/datarsl.htm. Also, see the discussion regarding the CPIS following Table 1 below.

Chapter 1. Findings from the 2005 Survey

The data presented in this report are drawn primarily from the survey of U.S. ownership of foreign securities conducted as of December 31, 2005. Data from previous surveys -- conducted as of March 31, 1994, December 31, 1997, December 31, 2001, December 31, 2003, and December 31, 2004 -- are also frequently included. In all tables, components may not sum to totals because of rounding. All data are presented, to the extent possible, at market value as of the date of the survey. With the exception of zero-coupon securities, the market value of U.S. holdings of foreign securities in this report are given using "clean prices"; that is, values are computed exclusive of accrued and unpaid interest. The value of accrued and unpaid interest for U.S. holdings of foreign long-term debt securities was not estimated for the most recent survey but was calculated at approximately $12 billion as of December 31, 2004.

U.S. Holdings over Time by Type of Security

Table 1 shows total U.S. holdings of foreign securities, by type of security held, as measured by the six surveys conducted. U.S. holdings of foreign short-term securities were only measured by the four most recent surveys.

1. Market value of U.S. holdings of foreign securities, by type of security, as of the survey dates

Billions of dollars except as noted

Type of security	March 1994	December 1997	December 2001	December 2003	December 2004	December 2005
Long-term securities[1]	870	1,755	2,170	2,954	3,553	4,346
Equity	567	1,208	1,613	2,079	2,560	3,318
Long-term debt	304	547	557	874	993	1,028
Short-term debt	n.a.	n.a.	147	199	233	263
Total	**n.a.**	**n.a.**	**2,317**	**3,152**	**3,787**	**4,609**

n.a. Not available.

1. Long-term securities are defined as those without a stated maturity date (such as equities) or with an original term-to-maturity in excess of one year.

U.S. holdings of foreign securities increased significantly during 2005. Holdings of foreign equities ($758 billion) increased much more rapidly than did holdings of foreign debt ($65 billion), making total U.S. ownership of foreign equities ($3,318 billion) almost three times as large as holdings of foreign debt ($1,291 billion). However, the increase in U.S. equity holdings during 2005 resulted more from equity price appreciation than from actual increased net acquisitions of foreign securities. A more complete discussion of the factors affecting the change in U.S. holdings during 2005 accompanies Table 4.

U.S. investors have not always shown such a marked preference for foreign equities. A survey conducted by the United States during World War II found that equities accounted for only 38 percent of U.S. foreign securities holdings. It is estimated that by 1984 only 29 percent of U.S. foreign securities holdings were estimated to be equities. But after 1984 the pattern began to change and by 1987 the levels of debt and equity held were essentially equal.[5]

The U.S. preference for cross-border equities is not shared by other major cross-border investing countries. The IMF's most recently completed Coordinated Portfolio Investment Survey (which measures holdings of foreign securities) shows that of the ten countries with the largest private sector holdings of foreign securities (United States, United Kingdom, Japan, France, Luxembourg, Germany, Ireland, Netherlands, Italy, and Switzerland), only the United States held more foreign equity than debt.[6]

U.S. Portfolio Investment by Country

The United Kingdom was by far the first choice of U.S. international investors at the end of 2005, as it has been in all previous surveys except for the initial survey in 1994, which showed Japan as the country attracting the highest level of U.S. investment. The United Kingdom also attracted the highest level of investment into each type of security (equity, long-term debt, short-term debt). Japan was a close second in terms of attracting U.S. equity investment, and together Japan and the United Kingdom attracted almost a third of total U.S. foreign portfolio equity investment.

The table shows very different patterns of investment by country, with U.S. holdings of Swiss securities almost exclusively in equities while U.S. investors owned more Cayman Island debt than equity. To some extent these patterns represent the availability of securities, as relatively little debt has been issued by Swiss institutions, whereas the Swiss equity market is one of the largest in the world. The very high percentage of short-term debt holdings attributed to the United Kingdom reflects a tendency of internationally active financial firms to issue short-term debt through their United Kingdom offices.

It should be noted that the country attribution of U.S. holdings of foreign securities presented in this report should be very accurate. This is because information was collected at the individual security level, and it is a relatively straightforward matter to determine the country of residence of the security issuer in most cases. This point is made because in the companion surveys of foreign ownership of U.S. securities, it is often not possible to determine the country of residence of the ultimate beneficial owners of U.S. securities, due to either chains of intermediaries involved in the custody or management of these securities or lack of ownership information on bearer (unregistered) securities.

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5. These estimates were based on monthly Treasury International Capital securities transactions data.

6. International Monetary Fund, *Portfolio Investment: CPIS Data Results*, table 9, which can be found on the web at http://www.imf.org/external/np/sta/pi/04/Table09.htm.

2. Market value of 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, 2005

Billions of dollars

Country or category	Total	Equity	Debt		
			Total	Long-term	Short-term
United Kingdom	815	538	277	185	92
Japan	531	493	38	35	2
Canada	419	248	171	158	14
France	274	205	69	48	21
Cayman Islands	249	103	146	118	28
Germany	217	158	59	49	10
Switzerland	196	192	4	2	2
Netherlands	192	133	59	52	7
Bermuda	187	174	13	11	2
Australia	128	71	57	49	9
Korea, South	119	110	8	8	0
Brazil	90	69	22	22	*
Rest of world	1,192	824	368	291	76
Total	**4,609**	**3,318**	**1,291**	**1,028**	**263**

* Greater than zero but less than $500 million.

Table 16 in the Statistical Appendix shows the data in Table 2 above for an expanded list of countries.

Level of Portfolio Investment by Country over Time

Table 3 shows the countries attracting the most U.S. portfolio investment in their long-term securities as of the six survey dates. Only data on long-term securities are presented because the 1994 and 1997 surveys did not collect information on short-term securities. However, Table 20 in the Statistical Appendix shows U.S. holdings of foreign short-term securities in the four most recent surveys.

By a clear margin, the United Kingdom, Japan, and Canada have occupied the top three positions in each survey. In the 1994 survey U.S. investment in these three countries was roughly equal. But U.S. holdings of United Kingdom securities have grown much more rapidly than have holdings of Japanese or Canadian securities and are much larger than in either of these two countries in the 2005 survey.

3. Market value of U.S. holdings of foreign long-term securities, for the countries attracting the most U.S. investment, as of the survey dates

Billions of dollars

Country or category	March 1994	December 1997	December 2001	December 2003	December 2004	December 2005
United Kingdom	120	272	431	564	627	815
Japan	131	167	197	293	367	531
Canada	108	177	205	289	332	419
France	42	100	138	174	206	274
Cayman Islands	11	19	70	121	184	249
Germany	48	108	118	175	192	217
Switzerland	21	63	76	119	140	196
Netherlands	48	120	143	174	192	192
Bermuda	9	27	125	116	163	187
Australia	24	57	53	86	97	128
Rest of world	308	645	614	843	1,053	1,206
Total	**870**	**1,755**	**2,170**	**2,954**	**3,553**	**4,346**

The rapid growth in holdings of Bermudan securities over the 1994-2005 period owes in large part to the fact that several large corporations changed their country of incorporation from the United States to Bermuda, which had the effect of changing what had been U.S. investment in U.S. securities into investment in Bermudan securities. The Cayman Islands is another small island economy attracting a rapidly increasing level of U.S. investment. Much of this investment is the result of ownership of securities issued by companies that are incorporated in the Cayman Islands (a so-called "offshore financial centers") for tax or regulatory reasons by companies whose center of economic activity is elsewhere.

Tables 17-20 in the Statistical Appendix show, respectively, historical data by country on U.S. ownership of total foreign securities, equities, long-term debt, and short-term debt. In these tables there are some figures which may be explained by factors other than U.S. investor sentiment. For instance, a sharp rise or decline in the level of U.S. investment could be caused by a company in country A having been acquired in total by a company in country B, causing what had been U.S. investment in country A to become U.S. investment in country B.

Measured and Estimated Value of U.S. Holdings of Foreign Long-Term Securities

The United States has a two-part system for measuring cross-border securities activity. In addition to annual direct surveys of *positions*, such as those discussed in this report, the system also collects monthly data on cross-border *transactions* in long-term securities.[7] The monthly data are available with an approximately 45-day lag and can thus be combined with the most recent position data to form more timely estimates of positions. The estimation procedure involves adjusting data from the preceding survey for price and exchange rate changes, adding price-adjusted transactions data, and making adjustments for estimated stock swaps, transactions cost, and principal repayments of asset-backed securities. It should be noted that there are inherent inaccuracies in such estimates. For example, it is not possible to know precisely which foreign securities U.S. residents buy or sell or the exact timing of the transactions. Table 4 presents both the estimated and directly measured positions. There are errors possible in all parts of such computations: the previous survey, the transactions data, the adjustments, and the current survey.

4. Measured and estimated market value of U.S. holdings of foreign long-term securities, by type of security, as of December 31, 2005

Billions of dollars

	December 2004	January 2005 - December 2005				December 2005		
Type of security	Measured (1)	Net purchases (2)	Transaction costs[1] (3)	Stock swaps[1] (4)	Valuation adjustments[1] (5)	Estimated (1)+(2)+(3)+(4)+(5)	Measured (7)	Measured less estimated (8)
Debt	993	45	(7)	n.a.	(55)	976	1,028	52
Equity	2,560	127	(12)	4	393	3,072	3,318	246
Total	**3,553**	**172**	**(19)**	**4**	**338**	**4,048**	**4,346**	**298**

1. Staff estimates.
n.a. Not applicable.

U.S. holdings of foreign long-term securities, as measured by the two most recent portfolio asset surveys, increased by $793 billion during 2005, from $3,553 at end-2004 to $4,346 at end-2005. This compares to an estimated increase during the year of $495 billion, composed of $172 billion in net purchases of foreign long-term securities as measured by the TIC monthly transactions systems (column 2), estimated valuation gains of $338 billion (column 5), and -$15 billion in other adjustments (columns 3 and 4). The bulk of both the increase in holdings and the gap between the measured and estimated levels was in the equity position. In contrast, the position measured by the end-2004 survey was very close to the estimated position formed as described above.

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[7] For a detailed discussion on the U.S. system for measuring cross-border financial flows, see C. Bertaut, W. Griever, and R. Tryon, "Understanding U.S. Cross-Border Securities Data", *Federal Reserve Bulletin*, May 2006, 59-75, available online at http://www.federalreserve.gov/pubs/bulletin/2006/cross_border_securities.pdf.

U.S. Foreign Portfolio Investment Compared with Foreign Portfolio Investment in the United States

The following table shows both U.S. holdings of foreign long-term securities and foreign holdings of U.S. long-term securities over time. The dates chosen are those when a survey was conducted either of foreign holdings of U.S. securities or of U.S. holdings of foreign securities. Thus for each date one figure represents a survey-measured position and the other an estimated position (marked with an asterisk).

5. Market value of U.S. holdings of foreign long-term securities and foreign holdings of U.S. long-term securities, selected dates, 1994-2005

Billions of dollars except as noted

Date	U.S. holdings of foreign long-term securities	Foreign holdings of U.S. long-term securities	Ratio of U.S. holdings to foreign holdings	Net foreign holdings of long-term securities
Dec. 1994	870*	1,244	.70	374
Dec. 1997	1,755	2,806*	.63	1,051
Dec. 2001	2,170	3,944*	.55	1,774
Dec. 2003	2,954	4,970*	.59	2,016
Dec. 2004	3,553	5,972*r	.59	2,419 r
Dec. 2005	4,346	6,712*	.65	2,366

* Staff estimates.
r. Revised.

Foreign holdings of U.S. long-term securities have consistently exceeded U.S. holdings of foreign long-term securities. However, during 2005 this gap decreased by about $50 billion, as U.S. holdings of foreign long-term securities grew faster than did the estimated level of foreign holdings of U.S. securities. This reversal of trend was caused in part by the difference in valuation changes in cross-border equity holdings: U.S. holdings of foreign equities increased in value by almost $400 billion, whereas (from the U.S. perspective) foreign-held U.S. equities gained less than $100 billion.

There are two significant differences between the U.S. and foreign cross-border holdings. First, U.S. investors predominantly hold equities (76 percent), whereas foreign investors predominantly hold U.S. debt securities (only 34 percent are equities). Thus, although total foreign holdings are well in excess of total U.S. holdings, U.S. holdings of foreign equity ($3.3 trillion) easily exceed foreign holdings of U.S. equity ($2.3 trillion). Second, while almost all U.S. holdings represent investments made by private investors (both institutions and individuals), approximately a quarter of foreign holdings are owned by foreign official institutions, such as central banks and other governmental entities. Since foreign official institutions predominantly own debt securities (89 percent), their holdings help to explain the overall foreign preference for U.S. debt securities.[8]

[8] See Table 6 in the "Report on Foreign Portfolio Holdings of U.S. Securities as of June 30, 2005" at www.treas.gov/tic/shl2005r.pdf.

U.S. Equity Investment by Country

Table 6 ranks countries based on the level of U.S. investment in their equity securities. Also shown is the relative size of each country's equity market based on data from Standard & Poor's *Global Stock Markets Factbook 2006,* and the ratio of U.S. holdings of the country's equities to the total market capitalization. This ratio can give a rough indication of the percentage of each country's total equities outstanding that are U.S.-owned. However, in some instances a company will incorporate in one country but have its securities trade in another. This practice can cause the ratio to yield odd results, such as those shown for Bermuda, where U.S. investors' holdings easily exceed the size of the country's domestic equity market.

For the leading countries (excluding the offshore financial centers of Bermuda and the Cayman Islands), U.S. investors held between 10 percent (Japan) and 20 percent (Switzerland) of each country's total equity markets. Overall, U.S. investors held approximately 12 percent of total foreign equities outstanding. By comparison, foreign investors held just under 10 percent of total U.S. equities outstanding as of June 2005.[9]

6. Market value of U.S. holdings of foreign equities, by country, size of domestic equity markets, and share of each market that is U.S. held, for the countries attracting the most U.S. investment, as of December 31, 2005

Billions of dollars except as noted

Country or region	Equity	Rank according to market capitalization[1]	Ratio of U.S. holdings to total domestic market capitalization[2]
United Kingdom	538	2	.18
Japan	493	1	.10
Canada	248	4	.17
France	205	3	.12
Switzerland	192	8	.20
Bermuda	174	90	>1
Germany	158	5	.13
Netherlands	133	12	.18
Korea, South	110	13	.15
Cayman Islands	103	104	>1
Rest of world	964	---	---
Total	**3,318**	---	**.12**

1. Market capitalization data are from Standard & Poor's Global Stock Markets Factbook 2006 and are based on year-end 2005 total market values of domestic exchanges. Rank order excludes the United States, which has the largest equity market capitalization.
2. U.S. holdings include securities of companies registered in each country, some of which may not trade on domestic exchanges, thus U.S. holdings can exceed the total size of a country's domestically-traded securities.

9 See Table 2 in the "Report on Foreign Portfolio Holdings of U.S. Securities as of June 30, 2005" at www.treas.gov/tic/shl2005r.pdf.

Table 28 in the Statistical Appendix shows the information contained in the above table for an expanded list of countries.

U.S. Investment in Depositary Receipts

Table 7 again ranks countries based on the level of U.S. investment in their equity securities as well as presenting the amounts of these investments that are represented by holdings of depositary receipts (DRs), primarily American Depositary Receipts (ADRs). Depositary receipts are negotiable certificates held in a bank in one country that represent a specific number of shares of a stock that trades on an exchange in another country. They entitle their owners to all dividends, capital gains or losses, and voting rights, just as if the underlying shares were directly owned. ADRs are depositary receipts that trade on U.S. exchanges in U.S. dollars and that facilitate the holding and trading of foreign securities by U.S. residents.

7. Market value of U.S. holdings of foreign equities, by country and amount held in depositary receipts, for the countries attracting the most U.S. investment, as of December 31, 2005

Billions of dollars except as noted

Country or region	Equity	Depositary Receipts	Percentage Depositary Receipts
United Kingdom	538	151	28
Japan	493	36	7
Canada	248	1	*
France	205	30	15
Switzerland	192	28	15
Bermuda	174	1	*
Germany	158	17	10
Netherlands	133	31	23
Korea, South	110	21	19
Cayman Islands	103	4	4
Rest of world	964	221	23
Total	**3,318**	**541**	**16**

Table 26 in the Statistical Appendix shows the information contained in the above table for an expanded list of countries.

U.S. Investment in Foreign Debt Securities by Currency of Denomination

U.S. investors have a strong and growing preference for foreign debt securities denominated in U.S. dollars. In the 2005 survey, 78 percent of U.S.-owned foreign debt securities were denominated in U.S. dollars, compared with 74 percent at year-end 2004 and 69 percent at year-end 2003. During both 2004 and 2005, although U.S. investors increased their total holdings of foreign debt securities, in both years they decreased their holdings of foreign currency-denominated foreign debt securities.

The preference for U.S. dollar-denominated debt was strongest in short-term securities, with 87 percent of all such holdings denominated in U.S. dollars, whereas 76 percent of long-term debt was U.S. dollar-denominated.

The vast majority of foreign currency-denominated foreign debt holdings are denominated in one of the world's other major currencies (euros, yen, British pounds, and Canadian dollars). During 2005, U.S. investors decreased their holdings of debt securities denominated in euros and yen while increasing their holdings denominated U.K. pounds and Canadian dollars.

8. Market value of U.S. holdings of foreign debt securities, by currency of denomination, as of December 31, 2004, and December 31, 2005

Billions of dollars except as noted

Currency	2005		2004	
	Amount	Percentage	Amount	Percentage
U.S. dollar	1,011	78	906	74
Euro	128	10	159	13
Canadian dollar	41	3	33	3
U.K. pound	38	3	34	3
Yen	33	3	58	5
Other currencies	40	3	36	3
Total	**1,291**	**100**	**1,226**	**100**

Table 21 in the Statistical Appendix shows U.S. holdings of foreign long-term debt securities by country and currency for an expanded list of countries. Table 22 shows the same data for holdings of foreign short-term debt securities.

Maturity Structure of U.S. Foreign Debt Holdings

Table 9 presents the maturity structure of U.S.-owned foreign long-term debt securities. In both the 2004 and 2005 surveys the median time-to-maturity, or remaining maturity, for long-term securities (those issued with an *original* time-to-maturity in excess of one year) was just under 7 years (see footnote 1 of Table 9). There was no appreciable difference in the maturity structure of U.S.-owned securities issued by foreign governments and those issued by the private sector.

9. Market value of U.S. holdings of foreign long-term debt securities, by remaining maturity, as of December 31, 2004, and December 31, 2005

Remaining maturity (years)	2005 Percent of total[1]	2004 Percent of total[1]
One or less	10.0	7.8
1-2	8.9	7.7
2-3	6.7	6.5
3-4	6.3	7.2
4-5	8.0	7.6
5-6	6.7	6.8
6-7	5.3	8.7
7-8	6.1	6.0
8-9	5.2	6.7
9-10	6.0	6.4
10-15	6.8	6.9
15-20	4.5	4.4
20-25	6.1	3.9
25-30	9.0	9.8
30-40	4.3	3.7

1. Excludes perpetual bonds and securities with unknown maturity dates that together amounted to approximately $30 billion in 2004 and $40 billion in 2005, or about 3 percent of total foreign long-term debt securities held by U.S. residents.

U.S. Holdings of Foreign Private and Government Debt

In the most recent survey, U.S. investors held primarily long-term debt issued by foreign private institutions. This pattern represents a significant shift from the first asset survey conducted in 1994, when U.S. investors held predominantly foreign government debt. Each succeeding survey has shown an increasing percentage of U.S. holdings of foreign long-term debt invested in private sector securities (1994 - 25% private, 1997 - 48%, 2001 - 56%, 2003 - 62%, 2004 - 66%, 2005 - 70%). U.S. holdings of short-term debt are highly concentrated in private sector issues.

10. Market value of U.S. holdings of foreign debt securities, by country and sector of issuer, as of December 31, 2005

Billions of dollars

		Long-term		Short-term	
Country	Total	Private	Government[1]	Private	Government[1]
United Kingdom	277	168	17	91	1
Canada	171	108	49	10	4
Cayman Islands	146	118	*	28	0
France	69	29	19	15	6
Germany	59	21	28	7	2
Netherlands	59	48	3	5	2
Australia	57	43	5	8	*
Ireland	42	15	2	22	3
Japan	38	7	28	1	2
Luxembourg	35	29	*	6	*
Rest of world	338	135	156	48	2
Total	**1,291**	**721**	**307**	**241**	**22**

* Greater than zero but less than $500 million.

1. "Government" includes central, local, and provincial governments, government-sponsored or guaranteed corporations, and international organizations.

Table 25 in the Statistical Appendix shows the information contained in the above table for an expanded list of countries.

U.S. Portfolio Investment by Type of Market

Tables 11a and 11b present U.S. foreign portfolio investment by type of foreign market: advanced economies, Caribbean financial centers, and developing countries. Table 11a shows the levels of such investment in the two most recent surveys, while Table 11b compares this investment to the total size of the domestic equity markets.

Investment in the twenty-eight advanced economies accounted for the bulk of U.S. foreign investment in the two most recent surveys (Table 11a), attracting 79 percent and 78 percent of the total in 2004 and 2005, respectively. The share invested in both developing countries and Caribbean financial centers was little changed during 2005. Much of the investment recorded for the Caribbean financial centers results from investment in securities that are registered in these countries for tax or regulatory reasons by companies whose center of economic activity is elsewhere.

U.S. investment in all of these market categories was predominantly in equity securities at end-2005, whereas in 2004 U.S. investment in developing countries was split more evenly between equity and debt securities.

11a. Market value of U.S. holdings of foreign securities in advanced economies, Caribbean financial centers, and developing countries and countries in transition, as of December 31, 2004, and December 31, 2005

Billions of dollars except as noted

	2005				2004			
Market	Total	Pct.	Equity	Debt	Total	Pct.	Equity	Debt
Advanced economies[1]	3,605	78	2,652	952	3,003	79	2,076	928
Caribbean financial centers[2]	520	11	351	169	421	11	277	144
Developing countries and countries in transition	484	11	314	170	362	10	207	154
Total	**4,609**	**100**	**3,318**	**1,291**	**3,787**	**100**	**2,560**	**1,226**

1. Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan, and the United Kingdom.
2. Bahamas, Bermuda, British Virgin Islands, Cayman Islands, Netherlands Antilles, and Panama.

Based on the share of total equity markets held (Table 11b), U.S. investors have a clear preference for equities issued by advanced economies rather than those issued by developing countries, holding almost twice as great a share of the advanced economies' total markets. The figures for Caribbean Financial Centers are essentially meaningless in this type of comparison, because many of the securities issued through these countries trade on exchanges outside of these countries, resulting in foreign ownership far exceeding total domestic market capitalization.

11b. Market value of U.S. holdings of foreign equities in advanced economies, Caribbean financial centers, and developing countries and countries in transition, as a share of the total outstanding, as of December 31, 2004 and December 31, 2005

Billions of dollars except as noted

Region/category	2005		2004	
	Equity	Ratio of U.S. holdings to total domestic market capitalization[3]	Equity	Ratio of U.S. holdings to total domestic market capitalization[3]
Advanced economies[1]	2,652	.127	2,076	.110
Caribbean financial centers[2]	351	>1	277	>1
Developing countries	314	.054	207	.056
Total	**3,318**	**.125**	**2,560**	**.113**

1. Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan, and the United Kingdom.
2. Bahamas, Bermuda, British Virgin Islands, Cayman Islands, Netherlands Antilles, and Panama.
3. Market capitalization data are from Standard & Poor's Global Stock Markets Factbook 2006 and are based on year-end 2005 total market values of domestic exchanges. Rank order excludes the United States, which has the largest equity market capitalization. U.S. holdings include securities of companies registered in each country that may not trade on domestic exchanges, thus U.S. holdings can exceed the total market value of a country's domestically-traded securities.

U.S. Portfolio Investment by Geographic Region

Tables 12a and 12b show the distribution of U.S. portfolio investment by geographic region, with again the first table showing the levels of such investment in the two most recent surveys, while the following table compares this investment to the total size of the domestic equity markets.

As shown in Table 12a, Europe continued to attract the lion's share of U.S. cross-border portfolio investment, increasing by 11 percent since the 2004 survey and garnering 50 percent of the total in the 2005 survey. However, Europe's share was down from 53 percent in the prior survey, as U.S. investment in Asia grew very rapidly during 2005. Although U.S. holdings of Asian equity increased from $566 billion to $851 billion during 2005, U.S. holdings of Asian debt declined from $98 billion to $90 billion. The market value of U.S. portfolio investment grew particularly fast in Japan (45 percent), Korea (61 percent), and Taiwan (66 percent) during 2005.

U.S. investment in Canadian securities ($418 billion) was only slightly lower than was U.S. investment in securities of issuers in South America, Central America, Africa, and Australia and Oceania combined ($433 billion). Holdings of Canadian debt securities were higher than those of any other geographic area shown in Table 12a with the exception of Europe.

A large share of U.S. investment in Africa continued to be directed to South Africa, which attracted $34 billion of the $46 billion invested in the continent. U.S. portfolio investment in the Australia and Oceania region is composed primarily of investment in Australia and New Zealand.

12a. Market value of U.S. holdings of foreign securities, by geographic region, as of December 31, 2004, and December 31, 2005

Billions of dollars except as noted

	2005				2004			
Region/category	Total	Percent	Equity	Debt	Total	Percent	Equity	Debt
Europe	2,297	50	1,614	683	2,013	53	1,356	657
Of which: euro currency countries[1]	*1,061*	*23*	*757*	*303*	*953*	*25*	*659*	*294*
Asia	940	20	851	90	664	18	566	98
Caribbean[2]	498	11	330	168	400	11	258	142
Canada	418	10	248	171	345	9	180	164
Australia and Oceania	146	3	81	65	120	3	65	54
South America	127	3	75	52	97	3	48	49
Central America[3]	114	2	79	35	92	2	57	35
Africa	46	1	40	7	35	1	29	6
Int'l orgs.	22	0	*	22	20	1	*	20
Total	**4,609**	**100**	**3,318**	**1,291**	**3,787**	**100**	**2,560**	**1,226**

* Greater than zero but less than $500 million.

1. Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain.

2. Includes Bermuda and the Bahamas well as all Caribbean nations. This grouping is different than the Caribbean financial centers shown in tables 11a and 11b.

3. Includes Mexico.

U.S. investors held 12 percent of the total value of foreign equities outstanding at end-2005, up from 11 percent of the total at end-2004 (Table 12b). The share held by U.S. investors increased or remained constant in each of the geographic regions shown. The percentage held is, again, not meaningful for the Caribbean region and it is skewed upwards for Central America, due to the presence of offshore financial centers in these regions. The share of U.S. holdings in the Central American region drops from .32 to .24 if Panama, an offshore financial center, is removed from the calculation.

12b. Market value of U.S. holdings of foreign equities, by geographic region, as a share of the total outstanding, as of December 31, 2004 and December 31, 2005

Billions of dollars except as noted

Region/category	2005 Equity	2005 Ratio of U.S. holdings to total domestic market capitalization[1]	2004 Equity	2004 Ratio of U.S. holdings to total domestic market capitalization[1]
Europe	1,614	.13	1,356	.12
Of which: euro currency countries	*757*	*.12*	*659*	*.10*
Asia	851	.08	566	.08
Caribbean[2]	330	>1	258	>1
Canada	248	.17	180	.15
Australia and Oceania	81	.10	65	.08
South America	75	.10	48	.09
Central America[3]	79	.32	57	.32
Africa	40	.06	29	.05
Total	**3,318**	**.12**	**2,560**	**.11**

1. Market capitalization data are from Standard & Poor's Global Stock Markets Factbook 2006. U.S. holdings include securities of companies registered in each country that may not trade on domestic exchanges, thus U.S. holdings can exceed the total market value of a country's domestically-traded securities.
2. Includes Bermuda and the Bahamas well as all Caribbean nations. This grouping is different than the Caribbean financial centers shown in tables 11a and 11b.
3. Includes Mexico.

U.S. Ownership of Foreign Securities by Industry

Combining both equity and debt investments, the foreign economic sectors attracting the highest levels of U.S. investments (based on the GICs[10] classification system) were Commercial Banking ($453 billion), Oil and Gas ($334 billion), Government ($330 billion), Diversified Financial Services ($248 billion), and Insurance ($204 billion).[11] The fastest growing sectors were Oil & Gas ($97 billion) and Pharmaceuticals ($65 billion), whereas the Government sector recorded

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[10] The Global Industry Classification Standard (GICS) system, developed by Morgan Stanley Capital International and Standard & Poor's, was selected because it can be used to categorize security issuers worldwide, enabling both foreign holdings of U.S. securities and U.S. holdings of foreign securities to be shown using the same classification system.

[11] In the 2005 survey, some firms that were classified as Commercial Banks in prior surveys were shifted into the Capital Markets category, lowering the Commercial Banks total and increasing the Capital Markets total by approximately $41 billion.

the greatest decrease ($37 billion).

Equity investment was highest in the Oil and Gas ($309 billion) and Commercial Banks ($224 billion) sectors; debt holdings were highest in the Government ($328 billion) and Commercial Banks ($229 billion) sectors.

13. Market value of U.S. holdings of foreign securities, by industry, as of December 31, 2005

Millions of dollars

Industry	Total	Equity	Debt	
			Long-term	Short-term
Aerospace & Defense	24,980	19,477	5,503	0
Air Freight & Logistics	3,310	3,074	236	0
Airlines	14,653	13,950	703	0
Auto Components	9,056	7,655	294	1,107
Automobiles	81,847	80,372	1,474	0
Beverages	49,500	37,511	9,124	2,866
Biotechnology	738	738	*	0
Building Products	2,508	2,298	209	0
Capital Markets (including Mutual Funds)	208,313	103,289	71,926	33,098
Chemicals	75,672	68,072	7,600	0
Commercial Banks	453,360	224,650	105,853	122,857
Commercial Services & Supplies	82,721	74,788	7,934	0
Communications Equipment	112,262	81,954	30,308	0
Computers & Peripherals	16,161	15,798	363	0
Construction & Engineering	40,288	37,462	2,826	0
Construction Materials	51,264	45,609	5,016	638
Consumer Finance	13,395	10,732	914	1,749
Containers & Packaging	2,634	1,986	648	0
Distributors	9,633	9,414	220	0
Diversified Financial Services	248,004	149,574	77,359	21,071
Diversified Telecommunication Services	172,747	131,091	41,655	0
Electrical Equipment	83,227	82,022	1,204	0
Electronic Equipment & Instruments	72,327	65,814	6,328	185
Energy Equipment & Services	75,811	69,843	5,555	414
Food & Staples Retailing	31,083	29,387	1,574	122
Food Products	20,998	18,634	2,255	109
Government[1]	330,778	2,034	306,858	21,886
Health Care Equipment & Supplies	91,968	83,855	2,102	6,011
Health Care Providers & Services	21,150	17,427	3,723	0
Hotels, Restaurants & Leisure	50,423	46,054	4,369	0
Household Durables	48,014	46,542	1,472	0
Household Products	67,891	66,628	1,263	0
Industrial Conglomerates	136,622	123,796	12,826	0

* Greater than zero but less than $500,000.

1. Includes securities issued by local governments as well as government-sponsored or guaranteed corporations.

13. Market value of U.S. holdings of foreign securities, by industry, as of December 31, 2005 (continued)

Millions of dollars

Industry	Total	Equity	Debt	
			Long-term	Short-term
Insurance	203,640	187,107	13,929	2,605
Internet & Catalog Retail	12,072	11,990	83	0
Internet Software & Services	1,891	1,883	8	0
IT Services	19,570	18,891	679	0
Leisure Equipment & Products	22,673	22,147	525	0
Machinery	75,955	70,043	5,912	0
Marine	24,441	20,380	4,061	0
Media	66,557	54,521	12,036	0
Metals & Mining	168,578	141,242	27,226	110
Multiline Retail	15,522	14,606	916	0
Office Electronics	13,792	13,478	314	0
Oil & Gas	333,783	309,314	22,130	2,339
Paper & Forest Products	34,348	16,834	17,514	0
Personal Products	9,395	9,385	10	0
Pharmaceuticals	161,524	155,525	4,672	1,327
Real Estate	60,879	54,452	5,092	1,335
Road & Rail	30,215	23,939	6,276	0
Semiconductors & Semiconductor Equipment	21,425	20,376	1,048	0
Software	16,637	16,224	413	0
Specialty Retail	40,570	39,749	820	0
Textiles, Apparel & Luxury Goods	29,758	29,041	717	0
Thrifts & Mortgage Finance	96,789	28,329	49,981	18,479
Tobacco	24,287	23,848	439	0
Trading Companies & Distributors	12,648	12,634	14	0
Transportation Infrastructure	5,133	3,676	633	824
Utilities - Electric	58,963	52,283	6,550	130
Utilities - Gas	94,066	69,367	24,601	98
Utilities - Multi- & Unregulated Power	5,632	4,119	1,060	453
Utilities - Water	4,912	2,989	1,922	0
Utilities - Other	659	659	0	0
Wireless Telecommunication Services	36,392	34,525	1,867	0
Unknown	203,066	82,620	97,037	23,409
Total	**4,609,105**	**3,317,705**	**1,028,179**	**263,221**

Chapter 2. Data Collection Methodology

As stated in the Introduction, the U.S. system for measuring U.S. holdings of foreign securities consists of "benchmark" surveys conducted at five-year intervals and smaller surveys conducted annually in non-benchmark years. The benchmark surveys collect data from a large number of institutions in an attempt to measure total U.S. holdings as comprehensively as practical. In the four years following each benchmark survey, data are collected from only the largest reporters who collectively reported the vast majority of data in the preceding benchmark survey. The December 2005 survey was not a benchmark survey, thus its measured results had to be "grossed-up", as described below, to estimate total U.S. holdings.

Custodians were required to report holdings of foreign securities at the individual security level. End-investors that did not use U.S.-resident custodians exclusively were required to report in the same manner on securities they held or entrusted to foreign custodians. End-investors exclusively using U.S.-resident custodians were only required to report aggregate holdings so entrusted, by custodian and type of security. In total, 218 firms reported data in this survey, with most data being reported by custodians.

A relatively small number of U.S. firms dominated the foreign securities custody business at the end of 2005, with the ten largest respondents reporting 89 percent of the total security-by-security data submitted on the survey. Banks were the leading custodians, though broker-dealers also reported significant amounts of custodial holdings.

Data provided by respondents were supplemented by information on security characteristics obtained on-line through Bloomberg Data Services. The collection of data on individual securities, combined with this ancillary information, made it possible for the survey compilers to present the data in a variety of ways without placing additional burden on survey respondents for that information.

The survey was conducted under the authority of the International Investment and Trade in Services Survey Act (22 U.S.C. 3101 et seq.). Reporting on the survey was mandatory, and penalties could have been imposed for noncompliance. Data were collected for holdings as of December 31, 2005, and were to be reported to the Federal Reserve Bank of New York, acting as agent for the Department of the Treasury, no later than the first Friday of March 2006. A copy of the survey forms and instructions is included in Appendix B.

Data Analysis and Editing

The detailed security level data submitted by respondents were subjected to extensive analysis and editing before they were accepted as accurate. The first step in the process was to scrutinize respondent data to identify systemic errors within each respondent's submission. Each respondent's data were analyzed individually and compared with the data submitted in the previous year's survey. Reported securities with the largest market values were analyzed in detail, and the other reported securities were analyzed in the aggregate to identify common types of reporting errors.

Once the analysis of the data for each respondent was completed, the data were analyzed on a security-by-security basis, across all reporters. Securities subject to particular scrutiny included those with either a large quantity or market value reported, those with particularly high or low prices, and those comprising a large percentage of securities issued by a particular country.

The data were also examined by categories, such as country of issuer, type of security, and type of issuer. This review was especially useful in eliminating cases in which the mis-coding of a security with a small market value could have a large relative impact upon a small category.

The most common reporting problem was the provision of inconsistent information for the same security from different subparts of a large reporting financial institution or from different reporting institutions. Procedures were developed to identify and resolve inconsistent reporting within a reporting institution as well as across reporting institutions.

Research was conducted to reconcile the year-end holdings reported on the 2005 survey with monthly transactions data on long-term securities reported on the TIC S form. These two sets of data were compared on both the individual respondent level and the macro level. Estimates of year-end 2005 holdings for both equity and long-term debt were calculated by combining the year-end 2004 survey data with aggregate TIC S transactions data during 2005 and valuation adjustments. Respondents with resulting positions outside of the expected range, either in total or at the country level, were asked to explain the observed differences.

Many securities were submitted without market values, which led to calculated prices of zero. In some cases, this presented no problem because the relevant price could be determined from commercial sources or from data submitted by other survey respondents. For the remaining securities that were reported without market values, a great deal of time and effort was involved in attempting to determine their prices.

Avoidance of Data Gaps and Double Counting

Respondent's reports were examined to ensure that frequently omitted securities were included, such as those of international organizations resident in the United States and those of former U.S. corporations that have re-incorporated outside of the United States. Checks were also made to detect and exclude securities of U.S.-resident entities. In addition, the security-by-security data provided by end-investors were examined to ensure that only securities held either directly by the end-investor or through foreign custodians were reported on a security-by-security basis.

In some cases, foreign securities may be entrusted to a U.S.-resident custodian which, in turn, entrusts the securities to another U.S.-resident custodian. To avoid double-counting in custodians' reports, U.S.-resident custodians who passed the foreign securities to other U.S.-resident custodians were instructed not to provide security-by-security information on these securities, but instead only to identify the custodian(s) involved and the amount(s) entrusted. The reports provided by end-investors and U.S.-resident custodians using U.S.-resident sub-custodians were examined to ensure that all significant U.S.-resident custodians were included on the survey panel and to provide a crude check on the aggregate amounts reported by each custodian. Special analyses were performed to ensure that respondents excluded their foreign operations and foreign customers and that they included all of their U.S. organizational units.

Gross-Up Factors and Calculation of Total U.S. Holdings of Foreign Securities

As previously stated, the December 2005 survey collected data from only the largest U.S.-resident custodians and end-investors. Thus, the data collected had to be "grossed-up" to provide an estimate for the unreported residual. The procedures used to perform this extrapolation are described below.

The institutions included in the December 2005 survey collectively reported 94 percent of the total market value of securities measured in the December 2001 benchmark survey. Thus it was assumed that approximately 6 percent of total U.S. foreign holdings were unmeasured by the 2005 survey. However, the percentage of coverage varied significantly by type of issuer and type of security, as shown in Table 14.

14. Coverage in 2001 of the Institutions Reporting in 2005

Millions of dollars except as noted

Type of security and foreign issuer	Amount reported in 2001	Amount reported in 2001 by 2005 reporters	Ratio of 2001 amount reported to amount reported in 2001 by 2005 reporters
Equity			
Total	1,611,582	1,539,533	1.04680
Government issuers	164	136	1.20510
Private issuers	1,611,418	1,539,397	1.04679
Long-Term Debt			
Total	501,266	442,827	1.13197
Government issuers	224,944	204,433	1.10033
Private issuers	276,322	238,394	1.15910
Short-Term Debt			
Total	147,849	137,690	1.06653
Government issuers	15,971	14,264	1.11967
Private issuers	130,878	123,426	1.06038

One gross-up option was to extrapolate each component in the 2005 data by the broad ratios (gross-up factors) in the last column in Table 14. However, extrapolating every country cell by a simple ratio (for that security type and issuer type) would in some cases lead to poor country-specific results because the securities issued by entities in some countries are not uniformly likely to be held by the 2005 survey reporters. Performing the extrapolation on a country-by-country basis for each specific type of security and issuer would clearly provide more accurate country-specific results. However, in most cases, the sum of the country-specific basic extrapolation will not equal the total provided by the ratios shown in Table 14. The reason, of course, is that through time there will be shifts in the relative amounts of U.S.-held securities issued by each country. The relative accuracy of the two procedures cannot be known.

The gross-up procedure used to estimate the market values for all foreign holdings was a two-step process. First, for each country and specific security type and issuer, a "first order" total market value was calculated. In almost all cases, this first order estimate was obtained by multiplying the 2005 reported market values by the corresponding 2001 gross-up factors (obtained by dividing the 2001 reported market value for that country, type of security, and type of issuer for all reporters in 2001, by the corresponding amount reported in 2001 by the institutions on the 2005 panel). However, in some cases, mostly those in which the 2001 reported market values were small, the gross-up factor was above 2.0. In these cases (with a few exceptions for equities in which the ratio was only slightly above 2.0), it was felt that an additive process would yield, on average, more accurate results. Therefore, the 2005 estimates of total market value were obtained by adding the amount reported in 2001 by those reporters which were not on the 2005 panel to the reported data.

The first step approach yielded aggregate country totals that, for most combinations of securities and issuers, approximated the amounts which would have been obtained by applying the gross-up factors shown in Table 14 to the country totals directly. However, where the two results were significantly different, the individual country data were examined in order to determine the likely cause of the discrepancy and judgemental adjustments were applied. For example, if a country had a large increase in reported holdings by institutions in the 2005 panel and the multiplicative technique was used, the reviewers may have believed that the gross-up factor obtained from 2001 data was too high to be appropriate for 2005. If so, the factor was adjusted downward slightly. In some cases in which the additive option was used and the country experienced a major economic decline (or rapid growth), the additive amount was adjusted downward (or upward).

For security/issuer types in which U.S. residents had large holdings, these judgemental adjustments tended to be small. For security/issuer types in which the market values were small, the adjustments relied on specific information about the types of shifts observed and less effort was made to approximate the average factors shown in Table 14. In general, the judgemental adjustments made in 2005 were similar to than those made for the 2004 survey for two reasons: (1) the differences from 2001 observed in 2005 were similar to those observed in 2004, and (2) changing the adjustment strategy between 2004 and 2005 would have resulted in changes to the annual growth rates which were not data-based.

Table 15 repeats the information presented in Table 14 and in addition shows the final implicit gross-up factors that were actually used, by type of issuer and broad security type, in the rightmost column.

15. Final Gross-up Factors

Millions of dollars except as noted

Type of security and foreign issuer	Amount reported in 2001	Amount reported in 2001 by 2005 reporters	Ratio of 2001 amount reported to amount reported in 2001 by 2005 reporters	Implicit gross-up factors actually used
Equity				
Total	1,611,582	1,539,533	1.04680	1.04418
Government issuers	164	136	1.20510	1.00788
Private issuers	1,611,418	1,539,397	1.04679	1.04420
Long-Term Debt				
Total	501,266	442,827	1.13197	1.10751
Government issuers	224,944	204,433	1.10033	1.08136
Private issuers	276,322	238,394	1.15910	1.11915
Short-Term Debt				
Total	147,849	137,690	1.06653	1.09946
Government issuers	15,971	14,264	1.11967	1.09919
Private issuers	130,878	123,426	1.06038	1.09949

Currency tables on a country-by-country basis also required extrapolation. The separate gross-up factors required to extrapolate these tables created minor differences in the adjusted currency totals by country when compared to the country data for each specific type of security and issuer. Realignment of these minor differences was achieved by "scaling" these tables. For each country, the grossed-up total by specific type of security was divided by the grossed-up total by currency. This ratio was then applied to the data for each currency for the specific country.

Acknowledgments

The Department of the Treasury, the Federal Reserve Bank of New York and the Federal Reserve Board of Governors wish to express their appreciation to the Securities Reports Division of the Federal Reserve Bank of New York for preparation of the U.S. portfolio data. Under the direction of Patricia Selvaggi, divisional staff who were responsible for data analysis were: Kenneth Aberbach, Lois Burns, Evelyn Castillo, David Hubbs, Nigel Jones, Aaron Gononsky, Brian Goodwin, Frank Innocenti, Jason Nuccio, Philip Papaelias, Marc Plotsker, and Paula Webster. Automation staff, working under the direction of Howard Brickman, who were responsible for obtaining properly formatted data files and for facilitating data loads and update were: Amador Castelo, Melissa Harris and Susan Ma. Business Systems Development staff, working under the direction of Jean Stoloff and Kenneth Ruff, who developed and enhanced the database and reports, were: Yee Ying Chan and Aswin Subramaniam. Staff who provided timely data entry and file loading support, working under the direction of Laura Iannolino, were: Mary Ann Campano, Jackie Charles-Gouaige, Natasha Fair, and Ada Hernandez. Yvonne Nickens of the Board of Governors of the Federal Reserve System also provided valuable assistance in preparing this report.

Statistical Appendix

16. Market value of U.S. holdings of foreign securities, by country and type of security, as of December 31, 2005

Millions of dollars except as noted

Country or region	Total	Equity	Debt	
			Long-term	Short-term
Albania	6	0	6	0
Andorra	5	5	0	0
Anguilla	3	3	0	0
Antigua and Barbuda	33	32	2	0
Argentina	6,853	1,144	5,696	12
Aruba	1,189	0	1,189	0
Australia	128,202	71,141	48,560	8,501
Austria	17,280	10,724	5,113	1,444
Bahamas	3,266	2,327	930	9
Bangladesh	*	*	0	0
Barbados	272	*	272	0
Belgium	24,664	19,947	4,215	502
Belize	50	41	9	0
Bermuda	186,662	173,842	11,232	1,588
Bolivia	*	0	*	0
Bosnia and Herzegovina	114	0	114	0
Botswana	5	3	1	0
Brazil	90,286	68,560	21,697	28
British Virgin Islands	8,383	5,899	2,449	34
Bulgaria	428	78	350	0
Canada	418,925	247,823	157,509	13,593
Cayman Islands	248,771	102,603	118,399	27,768

* Greater than zero but less than $500,000.

16. Market value of U.S. holdings of foreign securities, by country and type of security, as of December 31, 2005 (continued)

Millions of dollars except as noted

Country or region	Total	Equity	Debt	
			Long-term	Short-term
Chile	12,099	3,520	8,577	2
China, mainland[1]	28,443	26,888	1,544	11
Colombia	5,018	753	4,266	*
Cook Islands	73	73	0	0
Costa Rica	439	20	400	19
Cote d'Ivoire	92	0	92	0
Croatia	703	189	514	0
Cuba	*	*	0	0
Cyprus	210	105	103	2
Czech Republic	1,742	1,727	15	0
Denmark	25,276	15,652	8,970	653
Dominican Republic	764	*	662	101
Ecuador	984	41	942	*
Egypt	3,754	2,567	983	205
El Salvador	838	*	822	16
Estonia	97	62	35	0
Falkland Islands	1	1	0	0
Finland	48,777	44,393	4,010	375
France	273,879	205,113	47,801	20,965
French Guiana	*	*	0	0
Georgia	*	0	*	0
Germany	216,726	158,013	48,997	9,717
Ghana	3	2	1	0
Gibraltar	211	211	0	0

* Greater than zero but less than $500,000.

1. Excludes Hong Kong, Macau, and Taiwan, which are reported separately.

16. Market value of U.S. holdings of foreign securities, by country and type of security, as of December 31, 2005 (continued)

Millions of dollars except as noted

Country or region	Total	Equity	Debt	
			Long-term	Short-term
Greece	10,555	9,529	1025	0
Grenada	2	0	2	0
Guatemala	207	*	206	0
Guernsey	6,396	5,797	597	2
Honduras	45	0	17	28
Hong Kong	46,225	44,465	1,731	29
Hungary	5,635	4,880	754	1
Iceland	3,229	14	3,215	0
India	33,226	32,753	473	0
Indonesia	9,025	7,127	1,874	24
Ireland	75,368	33,027	16,893	25,448
Isle of Man	61	36	26	0
Israel	44,313	29,125	15,183	5
Italy	79,393	63,915	12,038	3,440
Jamaica	446	2	440	4
Japan	530,885	493,343	35,072	2,470
Jersey	19,057	824	8,316	9,917
Jordan	72	40	32	0
Kazakhstan	336	6	330	0
Kenya	21	3	17	0
Korea, South	118,507	110,264	8,243	0

* Greater than zero but less than $500,000.

16. Market value of U.S. holdings of foreign securities, by country and type of security, as of December 31, 2005 (continued)

Millions of dollars except as noted

Country or region	Total	Equity	Debt	
			Long-term	Short-term
Latvia	12	10	3	0
Lebanon	408	100	308	*
Liberia	6,749	5,172	1,576	0
Liechtenstein	66	66	*	0
Lithuania	52	20	33	0
Luxembourg	46,287	11,134	29,329	5,824
Macedonia	53	0	53	0
Malaysia	11,282	6,934	4,348	0
Malta	96	*	96	0
Marshall Islands	5,546	5,047	498	0
Mauritius	238	188	48	1
Mexico	86,107	57,876	28,198	34
Monaco	9	9	0	0
Morocco	440	299	141	0
Namibia	1	1	0	0
Netherlands	191,883	132,769	51,760	7,353
Netherlands Antilles	47,223	45,378	1,844	*
New Zealand	11,935	4,633	5,238	2,064
Nicaragua	31	0	30	1

* Greater than zero but less than $500,000.

16. Market value of U.S. holdings of foreign securities, by country and type of security, as of December 31, 2005 (continued)

Millions of dollars except as noted

Country or region	Total	Equity	Debt	
			Long-term	Short-term
Norway	36,334	22,023	9,455	4,856
Pakistan	389	364	25	0
Panama	26,151	20,998	4,940	213
Papua New Guinea	782	782	0	0
Peru	4,588	870	3,718	0
Philippines	7,179	3,068	4,111	0
Poland	7,537	4,562	2,974	1
Portugal	6,053	5,323	643	87
Romania	251	249	2	0
Russia	28,764	18,631	10,133	0
Saint Kitts and Nevis	3	3	0	0
Saint Lucia	98	0	98	0
Senegal	*	*	0	0
Serbia and Montenegro	108	7	101	0
Singapore	36,361	29,109	6,938	314
Slovakia	309	1	309	0
Slovenia	79	48	31	0
South Africa	34,211	31,605	2,607	0
Spain	69,821	63,514	5,712	595
Sri Lanka	93	74	19	0
Sweden	74,618	40,530	16,481	17,608
Switzerland	196,138	191,812	2,187	2,139

* Greater than zero but less than $500,000.

16. Market value of U.S. holdings of foreign securities, by country and type of security, as of December 31, 2005 (continued)

Millions of dollars except as noted

Country or region	Total	Equity	Debt	
			Long-term	Short-term
Taiwan	57,877	57,088	789	*
Thailand	10,538	8,992	1,400	145
Trinidad and Tobago	516	2	488	26
Tunisia	639	*	639	0
Turkey	14,201	11,122	3,056	22
Turks and Caicos Islands	*	*	0	0
Ukraine	1,276	50	1,226	0
United Kingdom	814,784	537,891	184,958	91,935
Uruguay	1,073	3	1,070	0
Venezuela	6,113	483	5,520	111
Vietnam	306	*	306	0
Zambia	12	11	1	0
Zimbabwe	79	32	47	0
Other and unknown	*	*	0	0
International Organizations	21,962	21	18,965	2,976
Middle East oil-exporters[1]	2,696	138	2,555	3
African oil-exporters[2]	222	11	211	0
Total	**4,609,112**	**3,317,712**	**1,028,179**	**263,221**

1. Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.
2. Algeria, Gabon, Libya, Nigeria.

* Greater than zero but less than $500,000.

17. Market value of U.S. holdings of foreign long-term securities, by country, as of the survey dates

Millions of dollars

Country or category	March 1994	December 1997	December 2001	December 2003	December 2004	December 2005
Albania	0	32	10	4	5	6
Andorra	0	14	0	0	2	5
Anguilla[1]	n.a.	0	0	0	2	3
Antigua and Barbuda	0	0	0	1	12	33
Argentina	16,319	38,567	4,379	4,304	4,826	6,841
Aruba	0	22	271	906	1,114	1,189
Australia	26,592	46,999	53,111	85,672	97,418	119,701
Austria	2,626	5,662	3,510	9,170	13,659	15,836
Bahamas	1,064	910	1,640	2,889	2,650	3,257
Bangladesh	5	7	4	*	0	*
Barbados	0	17	54	253	256	272
Belarus	0	3	0	*	0	0
Belgium-Luxembourg[2]	7,329	n.a.	n.a.	n.a.	n.a.	n.a.
Belgium[2]	n.a.	9,169	12,140	15,764	23,297	24,162
Belize	5	34	8	77	60	50
Bermuda	9,115	26,607	125,207	116,206	163,411	185,074
Bolivia	1	12	0	2	0	*
Bosnia and Herzegovina	0	3	11	50	149	114
Botswana	1	147	22	4	7	5
Brazil	12,013	51,656	33,453	50,146	62,989	90,257
British Virgin Islands	n.a.	1,138	2,011	3,599	4,463	8,348
British West Indies[1]	10,803	n.a.	n.a.	n.a.	n.a.	n.a.

* Greater than zero but less than $500,000. n.a. Not available.

1. Separate reporting for Anguilla, British Virgin Islands, Cayman Islands, Montserrat, and Turks and Caicos began with the 1997 survey; previously these were reported as the British West Indies.
2. Belgium and Luxembourg were reported as a combined entity in the 1994 survey.

17. Market value of U.S. holdings of foreign long-term securities, by country, as of the survey dates (continued)

Millions of dollars

Country or category	March 1994	December 1997	December 2001	December 2003	December 2004	December 2005
Bulgaria	23	1,310	1,763	1,443	1,173	428
Burma	0	142	0	0	0	0
Cambodia	0	1	0	0	0	0
Cameroon	0	4	0	0	0	0
Canada	108,190	177,473	205,209	288,700	332,249	405,332
Cayman Islands[1]	n.a.	19,247	70,081	120,954	184,128	221,003
Central African Republic	0	0	1	0	0	0
Chile	2,671	8,126	5,947	9,697	11,598	12,097
China, mainland[2]	2,085	5,434	3,004	13,731	12,710	28,432
Colombia	555	4,163	2,760	3,488	4,455	5,018
Comoros	0	21	0	*	0	0
Congo (Brazzaville)	0	13	0	0	0	0
Congo (Kinshasa)	0	*	0	0	0	0
Cook Islands	0	1	0	0	*	73
Costa Rica	111	165	158	319	241	420
Cote d'Ivoire	19	458	162	96	98	92
Croatia	10	496	763	676	716	703
Cuba	1	*	0	*	1	*
Cyprus	0	322	110	101	103	208
Czech Republic	453	808	481	1,293	1,876	1,742
Denmark	9,911	16,758	11,551	20,416	22,780	24,623
Dominica	0	2	0	0	0	0

* Greater than zero but less than $500,000. n.a. Not available.

1. Separate reporting for Anguilla, British Virgin Islands, Cayman Islands, Montserrat, and Turks and Caicos began with the 1997 survey; previously these were reported as the British West Indies.
2. Excludes Hong Kong, Macau, and Taiwan, which are reported separately.

17. Market value of U.S. holdings of foreign long-term securities, by country, as of the survey dates (continued)

Millions of dollars

Country or category	March 1994	December 1997	December 2001	December 2003	December 2004	December 2005
Dominican Republic	0	87	164	512	472	662
Ecuador	201	2,032	774	902	1,091	984
Egypt	2	832	603	571	1,149	3,549
El Salvador	0	51	51	582	658	822
Estonia	0	27	44	174	343	97
Ethiopia	0	*	0	0	0	0
Falkland Islands	0	0	0	0	*	1
Finland	7,052	20,715	54,604	40,705	38,353	48,403
France	42,412	99,752	138,291	173,716	206,465	252,914
French Guiana	0	*	0	*	*	*
Gambia	0	32	22	30	0	0
Georgia	0	*	4	*	0	*
Germany	47,652	108,414	118,319	174,641	191,604	207,010
Ghana	12	358	208	350	4	3
Gibraltar	259	*	22	11	64	211
Greece	676	2,741	4,563	5,935	8,290	10,555
Grenada	0	*	8	6	2	2
Guadeloupe	0	1	0	0	0	0
Guatemala	28	193	58	109	173	206
Guernsey[1]	n.a.	450	4,645	5,348	5,941	6,394
Guyana	0	*	0	5	0	0
Haiti	0	*	0	0	0	0

* Greater than zero but less than $500,000. n.a. Not available.

1. Separate reporting for Guernsey and Jersey began with the 1997 survey; in the 1994 survey these were included in the United Kingdom.

17. Market value of U.S. holdings of foreign long-term securities, by country, as of the survey dates (continued)

Millions of dollars

Country or category	March 1994	December 1997	December 2001	December 2003	December 2004	December 2005
Honduras	0	17	17	22	15	17
Hong Kong	18,171	31,628	32,047	37,628	37,328	46,197
Hungary	567	4,846	2,026	3,064	5,104	5,634
Iceland	352	309	224	133	243	3,229
India	1,352	8,138	7,173	18,683	23,515	33,226
Indonesia	2,164	4,345	1,841	5,072	6,985	9,001
Ireland	4,482	17,666	31,384	30,642	46,244	49,920
Isle of Man	0	9	1	0	15	61
Israel	4,436	12,298	21,180	28,653	34,308	44,308
Italy	31,587	59,171	46,985	63,927	74,845	75,953
Jamaica	7	329	268	40	195	442
Japan	131,198	166,758	196,866	292,668	366,860	528,415
Jersey[1]	n.a.	1,554	1,615	5,197	7,074	9,140
Jordan	39	219	98	57	41	72
Kazakhstan	0	121	140	102	346	336
Kenya	0	36	16	22	17	21
Kiribati	0	24	0	0	0	0
Korea, South	6,925	15,262	34,475	53,338	73,544	118,507
Kyrgyzstan	0	0	0	*	11	0
Latvia	0	4	13	*	8	12
Lebanon	6	813	87	151	223	408
Lesotho	0	73	2	2	26	0

* Greater than zero but less than $500,000. n.a. Not available.

1. Separate reporting for Guernsey and Jersey began with the 1997 survey; in the 1994 survey these were included in the United Kingdom.

17. Market value of U.S. holdings of foreign long-term securities, by country, as of the survey dates (continued)

Millions of dollars

Country or category	March 1994	December 1997	December 2001	December 2003	December 2004	December 2005
Liberia	291	1,400	1,359	4,328	7,829	6,749
Liechtenstein	70	5	59	19	35	66
Lithuania	0	41	51	28	5	52
Luxembourg[1]	n.a.	8,289	10,941	21,069	34,181	40,463
Macedonia	0	20	34	42	40	53
Madagascar	0	2	3	0	0	0
Malawi	0	0	19	0	0	0
Malaysia	9,564	9,078	4,258	7,954	10,684	11,282
Maldives	0	*	0	0	0	0
Mali	0	0	4	0	0	0
Malta	43	148	93	19	17	96
Marshall Islands	72	35	66	942	4,475	5,546
Mauritania	0	0	0	0	0	*
Mauritius	3	731	149	174	325	237
Mexico	51,526	63,751	48,772	56,145	66,121	86,074
Moldova	0	39	29	0	0	0
Monaco	25	0	2	3	8	9
Mongolia	0	0	0	1	0	0
Morocco	365	561	369	162	228	440
Mozambique	0	0	3	0	0	0
Namibia	9	132	1	3	1	1
Netherlands	47,464	120,150	143,375	173,780	191,544	184,530
Netherlands Antilles	10,326	17,002	15,871	24,727	30,252	47,223

* Greater than zero but less than $500,000. n.a. Not available.

1. Belgium and Luxembourg were reported as a combined entity in the 1994 survey.

17. Market value of U.S. holdings of foreign long-term securities, by country, as of the survey dates (continued)

Millions of dollars

Country or category	March 1994	December 1997	December 2001	December 2003	December 2004	December 2005
New Caledonia	0	1	0	0	0	0
New Zealand	6,283	8,817	4,056	8,905	10,439	9,871
Nicaragua	7	76	19	0	37	30
Norway	6,349	14,267	13,831	20,168	28,422	31,478
Pakistan	226	1,521	180	133	147	389
Palau	0	1	0	0	0	0
Panama	2,208	6,595	9,868	18,583	24,279	25,938
Papua New Guinea	55	174	155	235	314	782
Paraguay	1	81	0	0	0	0
Peru	463	3,544	1,673	3,999	3,874	4,588
Philippines	2,491	7,327	4,015	5,037	5,690	7,179
Poland	95	4,495	3,098	3,480	5,624	7,536
Portugal	1,323	8,233	4,350	5,077	6,313	5,966
Romania	0	211	13	151	172	251
Russia	47	12,153	10,208	21,554	21,314	28,764
Rwanda	0	*	0	0	0	0
Saint Kitts and Nevis	0	*	0	*	*	3
Saint Lucia	0	0	0	0	49	98
Saint Vincent and Grenadine	1	0	0	0	0	0
Sao Tome and Principe	0	33	0	0	0	0
Senegal	1	7	0	*	*	*
Serbia and Montenegro	0	13	1	15	1	108

* Greater than zero but less than $500,000.

17. Market value of U.S. holdings of foreign long-term securities, by country, as of the survey dates (continued)

Millions of dollars

Country or category	March 1994	December 1997	December 2001	December 2003	December 2004	December 2005
Seychelles	0	52	0	1	0	0
Sierra Leone	0	1	0	*	0	0
Singapore	6,838	10,735	22,818	24,883	29,081	36,047
Slovakia	1	184	133	88	190	309
Slovenia	0	224	14	87	37	79
Solomon Islands	0	*	0	0	0	0
Somalia	0	6	0	*	0	0
South Africa	5,179	12,541	7,861	17,849	24,647	34,211
Spain	24,493	32,146	39,825	50,094	68,074	69,226
Sri Lanka	86	193	158	87	79	93
Sudan	0	*	0	0	0	0
Suriname	0	46	0	0	0	0
Swaziland	0	1	3	5	3	0
Sweden	21,925	51,886	33,606	40,284	52,862	57,011
Switzerland	21,073	63,140	76,354	119,000	139,738	193,999
Taiwan	531	6,227	19,860	27,228	34,885	57,877
Tanzania	0	*	7	0	0	0
Thailand	4,793	5,624	2,698	7,312	7,097	10,392
Tokelau Islands	0	20	0	*	0	0
Tonga	0	50	0	0	0	0
Trinidad and Tobago	83	464	469	606	477	490
Tunisia	37	280	168	1,280	588	639

* Greater than zero but less than $500,000.

17. Market value of U.S. holdings of foreign long-term securities, by country, as of the survey dates (continued)

Millions of dollars

Country or category	March 1994	December 1997	December 2001	December 2003	December 2004	December 2005
Turkey	963	7,010	3,525	5,713	8,137	14,179
Turks and Caicos Islands[1]	n.a.	419	32	57	*	*
Uganda	0	1	5	*	0	0
Ukraine	0	90	203	603	1,548	1,276
United Kingdom[2]	119,607	271,680	430,882	563,955	627,365	722,849
Uruguay	254	613	603	603	1,303	1,073
Uzbekistan	0	0	1	4	0	0
Venezuela	5,115	7,827	3,655	5,303	6,863	6,003
Vietnam	0	37	21	81	113	306
Zambia	18	9	5	5	2	12
Zimbabwe	75	169	88	61	68	79
Country Unknown	180	870	40	35	*	*
International Organizations	9,854	16,975	11,878	17,552	18,162	18,986
Middle East oil-exporters[3]	0	458	602	990	1,454	2,693
African oil-exporters[4]	361	843	636	320	191	222
Total	**870,260**	**1,755,015**	**2,169,735**	**2,953,781**	**3,553,387**	**4,345,891**

* Greater than zero but less than $500,000. n.a. Not available.

1. Separate reporting for Anguilla, British Virgin Islands, Cayman Islands, Montserrat, and Turks and Caicos began with the 1997 survey; previously these were reported as the British West Indies.
2. Separate reporting for Guernsey and Jersey began with the 1997 survey; in the 1994 survey these were included in the United Kingdom.
3. Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.
4. Algeria, Gabon, Libya, Nigeria.

18. Market value of U.S. holdings of foreign equities, by country, as of the survey dates

Millions of dollars

Country or category	March 1994	December 1997	December 2001	December 2003	December 2004	December 2005
Albania	0	0	0	0	0	0
Andorra	0	5	0	0	2	5
Anguilla[1]	n.a.	0	0	0	2	3
Antigua and Barbuda	0	0	0	1	12	32
Argentina	7,616	12,892	744	846	1,161	1,144
Aruba	0	11	*	0	*	0
Australia	16,917	31,120	37,112	56,454	57,052	71,141
Austria	1,223	3,707	1,204	3,925	8,976	10,724
Bahamas	88	568	1,162	1,819	1,779	2,327
Bangladesh	5	7	4	0	0	*
Barbados	0	1	1	2	10	*
Belarus	0	1	0	0	0	0
Belgium-Luxembourg[2]	5,021	n.a.	n.a.	n.a.	n.a.	n.a.
Belgium[2]	n.a.	6,099	8,415	10,621	18,083	19,947
Belize	5	29	7	25	26	41
Bermuda	8,356	22,617	118,878	107,538	153,549	173,842
Bolivia	0	*	*	2	0	0
Bosnia and Herzegovina	0	0	1	0	4	0
Botswana	1	131	20	3	3	3
Brazil	8,447	31,338	21,801	31,781	43,104	68,560
British Virgin Islands[1]	n.a.	698	1,774	2,269	3,716	5,899
British West Indies[1]	6,536	n.a.	n.a.	n.a.	n.a.	n.a.

* Greater than zero but less than $500,000. n.a. Not available.

1. Separate reporting for Anguilla, British Virgin Islands, Cayman Islands, Montserrat, and Turks and Caicos began with the 1997 survey; previously these were reported as the British West Indies.

2. Belgium and Luxembourg were reported as a combined entity in the 1994 survey.

18. Market value of U.S. holdings of foreign equities, by country, as of the survey dates (continued)

Millions of dollars

Country or category	March 1994	December 1997	December 2001	December 2003	December 2004	December 2005
Bulgaria	0	*	*	5	6	78
Burma	0	3	0	0	0	0
Cambodia	0	1	0	0	0	0
Cameroon	0	0	0	0	0	0
Canada	39,655	70,798	89,591	149,267	180,398	247,823
Cayman Islands[1]	n.a.	5,612	35,764	45,287	69,750	102,603
Central African Republic	0	0	0	0	0	0
Chad	0	0	0	0	0	0
Chile	2,492	4,555	1,917	2,102	2,564	3,520
China, mainland[2]	899	2,256	2,370	13,064	11,645	26,888
Colombia	284	704	150	133	270	753
Comoros	0	2	0	*	0	0
Congo (Brazzaville)	0	0	0	0	0	0
Congo (Kinshasa)	0	*	0	0	0	0
Cook Islands	0	1	0	0	0	73
Costa Rica	0	*	5	5	5	20
Cote d'Ivoire	0	2	6	0	2	0
Croatia	0	126	255	270	234	189
Cuba	0	*	0	*	*	*
Cyprus	0	120	59	17	3	105
Czech Republic	300	763	444	1,249	1,843	1,727
Denmark	1,819	8,917	7,533	10,429	14,488	15,652

* Greater than zero but less than $500,000. n.a. Not available.

1. Separate reporting for Anguilla, British Virgin Islands, Cayman Islands, Montserrat, and Turks and Caicos began with the 1997 survey; previously these were reported as the British West Indies.

2. Excludes Hong Kong, Macau, and Taiwan, which are reported separately.

18. Market value of U.S. holdings of foreign equities, by country, as of the survey dates (continued)

Millions of dollars

Country or category	March 1994	December 1997	December 2001	December 2003	December 2004	December 2005
Dominica	0	2	0	0	0	0
Dominican Republic	0	*	13	4	*	*
Ecuador	6	98	18	5	25	41
Egypt	2	763	340	523	1,093	2,567
El Salvador	0	39	2	0	*	*
Estonia	0	17	39	138	304	62
Falkland Islands	0	0	0	0	*	1
Finland	2,957	14,785	51,307	35,162	33,860	44,393
France	25,647	85,019	112,205	130,761	164,634	205,113
French Guiana	0	*	0	*	*	*
Gambia	0	*	1	0	0	0
Georgia	0	*	3	*	0	0
Germany	25,580	64,965	72,200	103,239	123,685	158,013
Ghana	12	358	207	349	3	2
Gibraltar	252	*	22	1	64	211
Greece	538	1,513	2,810	3,957	6,980	9,529
Grenada	0	*	*	0	0	0
Guadeloupe	0	0	0	0	0	0
Guatemala	0	2	0	0	0	*
Guernsey[1]	n.a.	378	4,576	4,636	5,399	5,797
Guyana	0	*	0	0	0	0
Honduras	0	*	0	*	0	0

* Greater than zero but less than $500,000. n.a. Not available.

1. Separate reporting for Guernsey and Jersey began with the 1997 survey; in the 1994 survey these were included in the United Kingdom.

18. Market value of U.S. holdings of foreign equities, by country, as of the survey dates (continued)

Millions of dollars

Country or category	March 1994	December 1997	December 2001	December 2003	December 2004	December 2005
Hong Kong	17,527	28,102	30,154	36,210	35,395	44,465
Hungary	145	3,483	1,702	2,412	4,503	4,880
Iceland	0	3	41	3	2	14
India	1,134	6,176	6,897	18,500	23,152	32,753
Indonesia	1,935	2,488	1,526	4,406	6,116	7,127
Ireland	2,641	14,147	28,374	22,191	32,422	33,027
Isle of Man	0	9	1	0	*	36
Israel	2,581	7,036	13,333	16,361	19,054	29,125
Italy	13,797	41,547	33,686	38,971	57,494	63,915
Jamaica	4	3	1	1	2	2
Japan	99,413	136,404	170,714	255,494	330,427	493,343
Jersey[1]	n.a.	1,517	29	867	436	824
Jordan	0	40	61	40	19	40
Kazakhstan	0	1	2	*	*	6
Kenya	0	19	5	6	2	3
Kiribati	0	*	0	0	0	0
Korea, South	4,352	4,428	29,537	49,121	66,639	110,264
Kyrgyzstan	0	0	0	0	*	0
Latvia	0	4	13	*	4	10
Lebanon	0	133	38	23	49	100
Lesotho	0	70	2	2	25	0
Liberia	100	924	701	2,589	5,866	5,172

* Greater than zero but less than $500,000. n.a. Not available.

1. Separate reporting for Guernsey and Jersey began with the 1997 survey; in the 1994 survey these were included in the United Kingdom.

18. Market value of U.S. holdings of foreign equities, by country, as of the survey dates (continued)

Millions of dollars

Country or category	March 1994	December 1997	December 2001	December 2003	December 2004	December 2005
Liechtenstein	70	5	59	19	35	66
Lithuania	0	14	3	3	3	20
Luxembourg[1]	n.a.	5,345	2,357	6,026	7,634	11,134
Macedonia	0	0	0	0	0	0
Madagascar	0	1	3	0	0	0
Malawi	0	0	19	0	0	0
Malaysia	9,115	4,713	2,578	4,075	6,474	6,934
Mali	0	0	4	0	0	0
Malta	0	0	*	*	*	*
Marshall Islands	0	0	65	705	3,727	5,047
Mauritania	0	0	0	0	0	0
Mauritius	3	65	71	62	143	188
Mexico	34,665	34,965	26,279	28,529	37,516	57,876
Moldova	0	*	*	0	0	0
Monaco	25	0	2	3	8	9
Mongolia	0	0	0	0	0	0
Morocco	24	217	37	16	89	299
Mozambique	0	0	3	0	0	0
Namibia	0	130	1	*	1	1
Netherlands	38,054	106,984	112,751	115,792	136,467	132,769
Netherlands Antilles	8,096	15,809	14,544	23,359	28,730	45,378
New Caledonia	0	1	0	0	0	0
New Zealand	4,300	5,311	2,004	3,861	4,720	4,633

* Greater than zero but less than $500,000. n.a. Not available.

1. Belgium and Luxembourg were reported as a combined entity in the 1994 survey.

18. Market value of U.S. holdings of foreign equities, by country, as of the survey dates (continued)

Millions of dollars

Country or category	March 1994	December 1997	December 2001	December 2003	December 2004	December 2005
Nicaragua	0	0	0	0	0	0
Norway	3,929	9,494	7,906	11,972	18,153	22,023
Pakistan	226	1,180	86	85	111	364
Palau	0	*	0	0	0	0
Panama	2,152	3,556	7,450	14,822	19,450	20,998
Papua New Guinea	55	165	155	235	314	782
Paraguay	1	*	0	0	0	0
Peru	449	2,341	452	1,087	666	870
Philippines	1,910	2,848	1,344	1,634	2,222	3,068
Poland	75	1,618	1,197	1,671	3,072	4,562
Portugal	1,106	6,993	3,819	3,949	5,505	5,323
Romania	0	4	3	24	120	249
Russia	16	8,457	4,613	13,259	10,775	18,631
Saint Kitts and Nevis	0	*	0	*	*	3
Saint Lucia	0	0	0	0	0	0
Saint Vincent and Grenadine	0	0	0	0	0	0
Sao Tome and Principe	0	0	0	0	0	0
Senegal	1	4	0	*	*	*
Serbia and Montenegro	0	*	0	0	0	7
Seychelles	0	6	0	1	0	0
Sierra Leone	0	1	0	*	0	0
Singapore	6,832	10,185	21,376	21,932	23,968	29,109

* Greater than zero but less than $500,000.

18. Market value of U.S. holdings of foreign equities, by country, as of the survey dates (continued)

Millions of dollars

Country or category	March 1994	December 1997	December 2001	December 2003	December 2004	December 2005
Slovakia	1	87	3	14	*	1
Slovenia	0	56	4	13	1	48
Somalia	0	3	0	*	0	0
South Africa	4,438	9,937	6,714	15,101	21,600	31,605
Spain	13,733	25,223	32,455	43,801	63,002	63,514
Sri Lanka	86	133	35	33	31	74
Suriname	0	46	0	0	0	0
Swaziland	0	1	*	0	*	0
Sweden	11,769	38,784	24,274	27,529	38,284	40,530
Switzerland	20,962	61,897	75,587	117,910	138,187	191,812
Taiwan	468	4,939	19,607	26,970	34,554	57,088
Tanzania	0	*	7	0	0	0
Thailand	4,113	2,158	1,916	6,477	5,961	8,992
Tokelau Islands	0	*	0	*	0	0
Tonga	0	0	0	0	0	0
Trinidad and Tobago	2	1	158	*	5	2
Tunisia	0	0	4	*	*	*
Turkey	630	6,005	2,269	3,781	5,561	11,122
Turks and Caicos Islands[1]	n.a.	384	32	57	*	*
Uganda	0	1	5	0	0	0
Ukraine	0	61	2	17	25	50
United Kingdom[2]	99,729	217,525	350,014	420,675	455,919	537,891

* Greater than zero but less than $500,000. n.a. Not available.

1. Separate reporting for Anguilla, British Virgin Islands, Cayman Islands, Montserrat, and Turks and Caicos began with the 1997 survey; previously these were reported as the British West Indies.

2. Separate reporting for Guernsey and Jersey began with the 1997 survey; in the 1994 survey these were included in the United Kingdom

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December 29, 2006
hp-213

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

Q4 2005 and Q1 – Q4 2006

REPORTS

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

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

Q4 2005 and Q1 – Q4 2006

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 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 2005 and the full fiscal year of 2006. 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 2005 and the first to fourth quarters of fiscal year 2006 are provided in Table 1. For comparison purposes, the previous three fiscal years of data are also provided.[3]

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 2005 and the first to fourth quarters of fiscal year 2006 are provided in Table 2. For comparison purposes, previously-reported data for the last three fiscal years are also provided.

[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] Data for the second quarter of fiscal year 2005 have been revised. The resultant increase in net interest income is $3 million.

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 2005 and the first to fourth quarters of fiscal year 2006, the financial implications of U.S. participation in the General Department reflected a net interest income effect of negative $105 million. The valuation change in the U.S. Reserve Position for the fourth quarter of fiscal year 2005 and the first to fourth quarters of fiscal year 2006 was $32 million.[4]

As shown in Table 2, for the fourth quarter of fiscal year 2005 and the first to fourth quarters of fiscal year 2006, the net interest income effect of U.S. participation in the SDR Department was negative $1 million. The valuation change on U.S. SDR holdings for the fourth quarter of fiscal year 2005 and the first to fourth quarters of fiscal year 2006 was $5 million.[5]

Attachments

[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 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

[5] 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.

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/1	Interest Expense Associated with Financing U.S. Transactions with the IMF	Remuneration Received by U.S. from IMF & Refund of Burden Sharing	Interest Received by U.S. 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
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	-9,119	0	-9,119	-$53	$88	$0	$35	-440	-405
Q3: Apr -June 05	-9,677	0	-9,677	-$59	$71	$0	$12	-565	-553
Q4: July -Sept 05	-7,772	0	-7,772	-$51	$75	$0	$24	-75	-51
Total				**-$237**	**$316**	**$0**	**$79**	**-$54**	**$25**
2006									
Q1: Oct - Dec 05	-2,660	0	-2,660	-$41	$69	$0	$29	-159	-130
Q2: Jan - Mar 06	-1,947	0	-1,947	-$18	$58	$0	$41	69	110
Q3: Apr -June 06	-2,296	0	-2,296	-$14	$40	$0	$26	179	205
Q4: July -Sept 06	-1,023	0	-1,023	-$12	$42	$0	$30	18	48
Total				**-$85**	**$210**	**$0**	**$125**	**$107**	**$232**

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
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	11,243	7,137	4,106	26	-32	-6	-149	-155
Q4: July - Sept 05	8,245	7,102	1,143	26	-10	16	-20	-4
Total				**$114**	**-$106**	**$8**	**-$14**	**-$5**
2006								
Q1: Oct - Dec 05	$8,210	$7,003	$1,207	$11	-$12	-$1	-$16	-$17
Q2: Jan - Mar 06	$8,344	$7,059	$1,284	$9	-$15	-$5	$10	$5
Q3: Apr - June 06	$8,618	$7,248	$1,369	$11	-$17	-$6	$34	$29
Q4: July - Sept 06	$8,655	$7,234	$1,421	$13	-$18	-$5	-$3	-$8
Total				**$44**	**-$62**	**-$17**	**$25**	**$8**

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

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). This does not include cumulative valuation changes.

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

January 3, 2007
HP-214

President's Proposal to Balance the Budget by 2012

"Over the past few years, pro-growth economic policies have generated higher revenues. Together with spending restraint, these policies allowed us to meet our goal of cutting the budget deficit in half three years ahead of schedule. We did so without taxing the working people. We kept taxes low."
– President Bush, January 3, 2007

"The President's tax cuts have laid the foundation for sustained economic growth and job creation. A strong economy means higher revenues to the Treasury. If we can keep our economy growing by continuing with economic policies that keep taxes low and drive job creation and productivity, while restraining spending, we can achieve a balanced budget by 2012."
-- Treasury Secretary Henry M. Paulson, January 3, 2007

Americans are keeping more of their hard-earned money because of the President's tax cuts.
(*Figures are since June of 2001 and include the Economic Growth and Tax Relief Act of 2001, the Job Creation and Worker Assistance Act of 2002, and the Jobs and Growth Tax Relief Act of 2003.)

- Americans kept $1.1 trillion by the end of 2006.
- Americans will keep $2.4 trillion over the next ten years (with permanent tax relief).
- Americans will keep $3.5 trillion total through 2016 (if permanently extended).

The President's tax relief boosted economic growth which has generated higher and higher revenues for the federal coffers.

- Tax receipts were up 11.8 percent in FY06 on top of FY05's 14.6 percent increase.
- So far this fiscal year, receipts have grown another 8.8 percent compared to the same period last year.
- Since FY03, when the President signed the most recent tax cuts into law, revenues have increased 35 percent.

-30-

PRESS ROOM

January 4, 2007
HP-215

Hoyt to Be Sworn Into Office with Treasury Ceremony

Washington, DC--Treasury Secretary Henry M. Paulson will swear in the Department's General Counsel Bob Hoyt at a ceremony in Treasury's Cash Room on Friday, January 5 at 4:00p.m.

Treasury's General Counsel serves as the chief law officer of the Department of the Treasury and a senior policy advisor to the Secretary. In addition, he is responsible for the supervision of approximately 2,000 lawyers within the Department's legal division.

Media without Treasury press credentials should contact Brittni Aldridge at (202) 622-2960, or Brittni.Aldridge@do.treas.gov with the following information: full name, Social Security number, and date of birth.

Who
Secretary Henry M. Paulson
Deputy Secretary Robert M. Kimmitt
General Counsel Robert F. Hoyt

What
Swearing In Ceremony

When
Friday, January 5
4:00 p.m. EST

Where
Department of the Treasury
Cash Room
1500 Pennsylvania Ave., NW
Washington, DC

PRESS ROOM

January 4, 2007
HP-216

Three Entities Targeted by Treasury for Supporting Syria's WMD Proliferation

The U.S. Department of the Treasury today designated three Syrian entities, the Higher Institute of Applied Science and Technology (HIAST), the Electronics Institute, and the National Standards and Calibration Laboratory (NSCL), pursuant to Executive Order 13382, an authority aimed at freezing the assets of proliferators of weapons of mass destruction (WMD) and their supporters.

"Syria is using official government organizations to develop nonconventional weapons and the missiles to deliver them," said Stuart Levey, Treasury's Under Secretary for Terrorism and Financial Intelligence (TFI). "We will continue to take action to prevent such state-sponsored WMD proliferators from using the international financial system."

All three entities meet the criteria for designation under E.O. 13382 because they are subordinates of the Scientific Studies and Research Center (SSRC), which was designated by President George W. Bush in the Annex to E.O. 13382 issued on June 29, 2005. SSRC is the Syrian government agency responsible for developing and producing non-conventional weapons and the missiles to deliver them. SSRC also has an overtly promoted civilian research function; however, its activities focus substantively on the development of biological and chemical weapons.

Syria's Electronics Institute is responsible for missile-related research and development, and HIAST is a Syrian educational institution which provides training to SSRC engineers. The U.S. Commerce Department's Bureau of Industry and Security in March 2005 added SSRC, HIAST, and NSCL to the Entity List, a public list of entities whose activities pose a risk of diverting exported and reexported items into programs related to weapons of mass destruction, among other sensitive activities. The Entities List also includes entities for which U.S. foreign policy goals are served by imposing additional license requirements on exports and reexports to those entities.

Additionally, Japan has identified the SSRC, HIAST, and NSCL as entities of proliferation concern. NSCL has also been identified by South Korea as an entity of proliferation concern.

Designations under E.O. 13382 prohibit all transactions between the designees and any U.S. person and freeze any assets of the designees that are in the United States or in the possession or control of U.S. persons.

Background on E.O. 13382

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.

In the Annex to E.O. 13382, the President identified eight entities operating in North Korea, Iran, and Syria for their support of WMD proliferation. E.O. 13382 authorizes the Secretary of the Treasury, in consultation with the Secretary of State, the Attorney General, and other relevant agencies, to designate additional entities and individuals providing support or services to the entities identified in the Annex to the Order.

In addition to the entities identified in the annex of E.O. 13382, the Treasury Department has designated twenty-one entities and one individual as proliferators of WMD, specifically:

- Eight North Korean entities on October 21, 2005;
- Two Iranian entities on January 4, 2006;
- One Swiss individual and one Swiss entity tied to North Korean proliferation activity on March 30, 2006;
- Four Chinese entities and one U.S. entity tied to Iranian proliferation activity on June 8, 2006;
- Two Iranian entities on July 18, 2006; and
- Three Syrian entities on January 4, 2007.

The designation announced today is part of the ongoing interagency effort by the United States Government to combat WMD trafficking by blocking the property of entities and individuals that engage in proliferation activities and their support networks.

PRESS ROOM

January 4, 2007
hp-217

Secretary Paulson on Nightly Business Report

Treasury Secretary Henry M. Paulson discussed balancing the budget, entitlement reform, and capital markets issues in an interview with Nightly Business Report on January 4.

REPORTS

- Transcript of Secretary Paulson's Interview

NIGHTLY BUSINESS REPORT

ON AIR

Transcripts

Treasury Secretary Henry Paulson Talks About How He Plans To Work With The Democrats

Thursday, January 04, 2007

PAUL KANGAS: As the Democrats take control of the House, Treasury Secretary Henry Paulson is hoping members of Congress will embrace President Bush's soon to be released new budget. That plan is expected to call for extending tax cuts and increasing defense spending, while holding the line on other programs. In an exclusive interview, Washington bureau chief Darren Gersh talked with Paulson this afternoon and began by asking how he plans to sell that budget to the Democrats.

HENRY PAULSON, TREASURY SECRETARY: I think it's going to be an easy budget to sell to the American people, and hopefully to -- to sell to members of the Congress. Because it's a -- it shows real progress with regard to the deficit. You know, we're two years -- three years ahead of schedule to cut the deficit in half. And the budget shows steady progress in balancing in 2012. And the key is -- is a strong and growing economy and tax revenues that are coming in at a very fast pace.

DARREN GERSH, NIGHTLY BUSINESS REPORT CORRESPONDENT: Now the president has for years said his goal was to cut the budget deficit in half. And the administration has argued that the budget deficit at current levels was really not much of a factor in the economy. So why is it that the president was OK with the budget deficit when the Republicans were in control, but now Democrats are in charge and he wants to balance the budget.

PAULSON: This is a natural extension of where we have been going. And nothing has changed in terms of the fiscal situation in the last four or five months. It's a strong fiscal situation. We've got a budget deficit that's less than two percent of GDP. And it is -- and given the fact that revenues are coming in and the economy is strong, it looks like we're going to be able to balance.

GERSH: You came to Washington in part, in large part, because you wanted to work on entitlement reform. And lately I've been hearing Democrats and Republicans talk about back in the mid '80s when Ronald Reagan, Tip O'Neill, the Democratic speaker got together and they shored up Social Security. Would the administration accept a deal on Social Security that shored it up financially, that ensured solvency, but didn't reform the system, didn't add the private accounts the president wants.

PAULSON: Let me be real clear here. As we've talked, and as I've talked to members of Congress, there is a real understanding on both sides of the aisle -- Democrats and Republicans that this is a serious problem. And there is a real understanding that it can be fixed. But it's going to be very difficult, because the impediments are political. And so no one says it's going to be easy. And so we're at the stage right now where I'm not dealing in hypotheticals. What I'm doing is I'm reaching out and I'm getting some receptivity and saying let's come in and let's discuss this topic and let's not have any preconditions. You know how strongly that we feel about personal accounts. We're not going to take those off the table. We're not going to ask you to take things off the table that you may want to put on the table. So everybody will come in with their ideas and we will talk.

GERSH: Let me ask you about CEO compensation. I understand that the Senate Finance Committee is looking at the tax treatment of these huge stock-option grants that fired CEOs like Bob Nardelli at Home Depot are getting. Do you think it's a good idea to take a look at the tax treatment that stock options get and might that have an impact on executive compensation?

PAULSON: Well, I'm very willing to talk with either the Senate Finance Committee or the House Ways & Means about tax treatments and tax generally. I don't believe, you know, radical or dramatic tax reform is the answer to CEO compensation.

GERSH: Do you think these -- the tax treatment of stock options, because they are favored, they're tax favored, has encouraged --

PAULSON: We could have quite a discussion about whether it's tax favored or not. Because the -- the CEOs don't pay taxes on stock options until they are realized, OK. And many stock options expire worthless. You know, they are only worth something if the stock price goes up. But again, the -- I don't believe the issue of CEO compensation and any excesses there, I don't think that's a -- it's a tax matter. I think that is another matter and that is between shareholders, boards of directors and the CEOs.

GERSH: You also chair the president's working group on financial markets.

PAULSON: Right.

GERSH: And there is a lot of money flowing into private equity right now. And I hear some concerns that there is a lot of debt being built up because of the private equity boom. And some people are worried that when you have a lot of debt, things could end badly. Is that an issue that you are looking at?

PAULSON: I would say that the president's working group is looking at a number of topics. And we're very carefully following changes in the capital markets. And one of the changes in the last four or five years has been a pretty dramatic increase in private pools of capital. And these would be private equity funds, hedge funds and I believe by and large that private pools of capital have made our capital markets more efficient, more effective and they have been good for the capital markets. But there have been significant changes and you know, I think it bears looking at pretty carefully. And so we're taking a careful look at it.

GERSH: Secretary Paulson, thank you for your time.

PAULSON: Thank you.

PRESS ROOM

January 8, 2007
2007-1-8-16-57-59-9012

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 $65,954 million as of the end of that week, compared to $65,980 million as of the end of the prior week.

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

	December 15, 2006			December 22, 2006		
TOTAL	65,980			65,954		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	12,408	10,784	23,192	12,435	10,699	23,134
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,348	5,255	17,603	12,390	5,208	17,598
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]			5,289			5,302
3. Special Drawing Rights (SDRs) [2]			8,855			8,878
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	December 15, 2006			December 22, 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

	December 15, 2006			December 22, 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 8, 2007
2007-1-8-17-5-0-9109

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 $66,053 million as of the end of that week, compared to $65,954 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	December 22, 2006			December 29, 2006		
TOTAL	65,954			66,053		
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	12,435	10,699	23,134	12,498	10,683	23,181
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,390	5,208	17,598	12,460	5,203	17,663
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]			5,302			5,297
3. Special Drawing Rights (SDRs) [2]			8,878			8,870
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	December 22, 2006			December 29, 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						
	December 22, 2006			December 29, 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 8, 2007
2007-1-8-17-16-24-9241

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 $65,688 million as of the end of that week, compared to $66,053 million as of the end of the prior week.

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

	December 29, 2006			January 5, 2007		
TOTAL	66,053			65,688		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	12,498	10,683	23,181	12,322	10,703	23,025
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,460	5,203	17,663	12,287	5,214	17,501
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]			5,297			5,280
3. Special Drawing Rights (SDRs) [2]			8,870			8,841
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	December 29, 2006			January 5, 2007		
	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 29, 2006			January 5, 2007		
	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 8, 2007
HP-218

Under Secretary Levey to Hold a Press Conference on Iran

Under Secretary for Terrorism and Financial Intelligence Stuart Levey will make an announcement on Iran during a Tuesday morning press conference at the Treasury Department.

The following event is open to credentialed media:

Who
Stuart Levey, Under Secretary for Terrorism and Financial Intelligence

What
Press Conference on Iran

When
Tuesday, January 9, 2007 at 11:00 a.m. EST

Where
U.S. Department of the Treasury
Media Room – 4121
1500 Pennsylvania Ave., NW
Washington, DC

Note *Media without Treasury press credentials must contact Anita Hunt at (202) 622-2920 or anita.hunt@do.treas.gov **with the following information for clearance into the building: full name, Social Security number and date of birth.**

PRESS ROOM

January 9, 2007
HP-219

Iran's Bank Sepah Designated by Treasury
Sepah Facilitating Iran's Weapons Program

The Department of the Treasury today designated Bank Sepah, a state-owned Iranian financial institution for providing support and services to designated Iranian proliferation firms. Bank Sepah International Plc, a wholly-owned subsidiary of Bank Sepah in the United Kingdom, and Ahmad Derakhshandeh, Bank Sepah's Chairman and Director, were also designated today.

"Bank Sepah is the financial linchpin of Iran's missile procurement network and has actively assisted Iran's pursuit of missiles capable of carrying weapons of mass destruction," said Stuart Levey, Treasury's Under Secretary for Terrorism and Financial Intelligence (TFI). "Our action today gives effect to the United Nation's call on all nations to deny financial assistance to Iran's nuclear and missile programs, and we urge other countries likewise to fulfill this serious obligation."

Treasury's Office of Foreign Assets Control (OFAC) took this action pursuant to Executive Order 13382, an authority aimed at freezing the assets of proliferators of weapons of mass destruction (WMD) and their supporters and isolating them financially. Designations under E.O. 13382 prohibit all transactions between the designees and any U.S. person and freeze any assets the designees may have under U.S. jurisdiction.

Additionally, the United Nation Security Council unanimously passed Resolution 1737 on December 23, 2006, requiring governments worldwide to take steps to combat Iran's illicit conduct, including freezing the assets of named entities and individuals associated with Iran's nuclear and missile programs, as well as the assets of entities owned or controlled by them. The resolution also requires states to prevent the provision to Iran of any financial assistance, or the transfer of any financial resources or services, related to the supply, sale, transfer, manufacture, or use of prohibited items associated with Iran's nuclear and missile programs.

Bank Sepah provides financial support and services to Iran's Aerospace Industries Organization (AIO), Shahid Hemmat Industries Group (SHIG), and the Shahid Bakeri Industries Group (SBIG), which were designated by President George W. Bush on June 29, 2005, in the Annex to E.O. 13382.

AIO, a subsidiary of the Iranian Ministry of Defense and Armed Forces Logistics, oversees all of Iran's missile industries and is the overall manager and coordinator of Iran's missile program.

Bank Sepah is AIO's bank of choice, and since at least 2000, Sepah has provided a variety of critical financial services to Iran's missile industry, arranging financing and processing dozens of multi-million dollar transactions for AIO and its subordinates, including SBIG and SHIG.

Through its role as a financial conduit, Bank Sepah has facilitated Iran's international purchases of sensitive material for its missile program. In 2005, Bank Sepah financed a Chinese firm's sale of missile related items to Iran. Also in that year, AIO directed Sepah to transfer well over half of a million dollars to a North Korean firm associated with Komid, a North Korean entity designated for providing Iran with missile technology.

SHIG is responsible for Iran's ballistic missile program, most notably the Shahab series of medium range ballistic missiles based on the North Korean-designed No Dong missile. The Shahab is believed to be capable of carrying unconventional warheads and has a range of at least 1500 kilometers. SHIG has received help from China and North Korea in the development of this missile.

SBIG, an affiliate of Iran's AIO, is also involved in Iran's missile program. Among the weapons SBIG produces is the Fateh-110 missile, with a range of 200 kilometers, and the Fajr rocket systems, a series of North Korean-designed rockets produced under license by SBIG with ranges of between 40 and 100 kilometers. Both systems are capable of being armed with at least chemical warheads.

Bank Sepah is the fifth largest Iranian state-owned bank with more than 290 domestic branches and a presence in Rome, Paris, Frankfurt, and a wholly-owned subsidiary in London. According to the Banker's Almanac, Bank Sepah's total branch assets were USD 13.9 billion as of early 2005.

Background on E.O. 13382

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.

In the Annex to E.O. 13382, the President identified eight entities operating in North Korea, Iran, and Syria for their support of WMD proliferation. E.O. 13382 authorizes the Secretary of the Treasury, in consultation with the Secretary of State, the Attorney General, and other relevant agencies, to designate additional entities and individuals providing support or services to the entities identified in the Annex to the Order.

In addition to the entities identified in the annex of E.O. 13382, the Treasury Department has designated 23 entities and two individuals as proliferators of WMD, specifically:

- Eight North Korean entities on October 21, 2005;
- Two Iranian entities on January 4, 2006;
- One Swiss individual and one Swiss entity tied to North Korean proliferation activity on March 30, 2006; and
- Four Chinese entities and one U.S. entity tied to Iranian proliferation activity on June 8, 2006.
- Two Iranian entities on July 18, 2006;
- Three Syrian entities on January 4, 2007; and
- One Iranian entity, one UK entity, and one individual tied to Iranian proliferation activity on January 9, 2007.

PRESS ROOM

January 9, 2007
HP-220

Prepared Remarks of Stuart Levey
Under Secretary for Terrorism and Financial Intelligence
On the Designation of Bank Sepah for Facilitating Iran's Weapons Program

The world is by now well aware of Iran's defiance of the international community in pursuing its nuclear program and its sponsorship of terrorist organizations that maim and murder innocent civilians. What may be less well-known is that the Government of Iran is facilitating its proliferation and terrorism activities through the world's financial system, using its state-owned banks and an array of front companies and other deceptive techniques specifically designed to evade the controls of responsible financial institutions.

Over the past several months, we have been sharing information with our foreign counterparts and key executives in the private sector about these deceptive practices and discussing how best to safeguard the international financial system against them.

As the evidence of Iran's deceptive financial practices has mounted, financial institutions and other companies worldwide have begun to reevaluate their business relationships with Iran. Many leading financial institutions have either scaled back dramatically or even terminated their Iran-related business entirely. They have done so of their own accord, many concluding that they did not wish to be the banker for a regime that funds terrorism, defies the UN Security Council in pursuing a nuclear program, and deliberately conceals the nature of its business.

We have taken a number of steps to combat Iran's abuse of the international financial system. In September, the Treasury took action against Iran's Bank Saderat, which Iran used to move millions of dollars to terrorist organizations such as Hizballah, HAMAS, and the Palestinian Islamic Jihad. Our action alerted the world's financial community to Bank Saderat's role in funding terrorism and cut the bank off from the U.S. financial system altogether.

On December 23, 2006, the UN Security Council unanimously passed Resolution 1737, requiring states to take a number of actions to deny Iran access to the materials and services that support its nuclear and ballistic missile capabilities.

Under the resolution, all governments are obligated to take a number of steps to combat Iran's proliferation activities. Among other things, the resolution requires states to deny Iran any financial assistance, or the transfer of any financial resources or services, related to the supply, sale, transfer, manufacture, or use of prohibited items associated with Iran's nuclear and missile programs. It also contains an annex listing entities and individuals responsible for these programs, and requires states to freeze their assets and those of entities owned or controlled by them.

In accord with these UN obligations, the Treasury today is designating Bank Sepah, the fifth largest Iranian state-owned bank, as a supporter of WMD proliferation. In particular, Sepah provides direct and extensive financial services to Iranian entities responsible for developing missiles capable of carrying weapons of mass destruction. The Treasury is taking this action under our authority aimed at combating proliferation, Executive Order 13382.

Bank Sepah has been a key provider of financial services to the Shahid Hemmat Industries Group (SHIG) and the Shahid Bakeri Industries Group (SBIG), two Iranian missile firms listed in the annex to the Resolution 1737 for their direct role in advancing Iran's ballistic missile programs. Bank Sepah also provides financial services to SHIG's and SBIG's parent entity, Iran's Aerospace Industries Organization (AIO), which has been designated as a proliferator by the United States for its role in overseeing all of Iran's missile industries. AIO's Director is listed in the annex of Resolution 1737, thereby requiring states to freeze his assets as well as the assets of entities under his ownership or control.

Since at least 2000, Bank Sepah has provided a variety of critical financial services to Iran's missile industry, arranging financing and processing dozens of multi-million dollar transactions for AIO and its subordinates.

The bank has also facilitated business between AIO and North Korea's chief ballistic missile-related exporter, KOMID. Also previously designated by the Treasury, KOMID is known to have provided Iran with missile technology. The financial relationship between Iran and North Korea, as represented by the business handled by Bank Sepah, is of great concern to the United States.

Finally, like certain other Iranian banks and entities, Bank Sepah has engaged in a range of deceptive practices in an effort to avoid detection, including requesting that other financial institutions take its name off of transactions when processing them in the international financial system.

Our action today applies to all branches of Bank Sepah, including those in Paris, Rome, and Frankfurt, its wholly-owned subsidiary in London, and the Bank's chairman and director, as well as its more than 290 branches based in Iran.

The United States urges all governments to comply with their obligations under Resolution 1737 by taking appropriate action against all entities involved in Iran's nuclear or missile programs. The Treasury will continue to monitor and act against any threats that Iran and other rogue actors pose to the international financial system.

January 10, 2007
HP-221

Treasury Secretary Paulson and MRS. Laura Bush Tour the Restoration and Modernization of the Treasury Building

U.S. Treasury Secretary Henry M. Paulson and Mrs. Laura Bush will mark the restoration and modernization of the Treasury Building with a tour of the building and a ceremonial ribbon cutting this week.

The Treasury Department completed a ten year, four-phase restoration and modernization project in October of 2006, the first in almost 100 years. Many of the most historic features of the building have been carefully restored and in some cases presented in ways that have not been seen since the early 1870s, including the décor of the Andrew Johnson Suite and the ceiling in the Salmon Chase Suite. During the restoration project, the Department also was able to collect and document architectural artifacts that span the 19th and 20th centuries. The project also allowed the Department to update the systems, infrastructure, and safety features of the building. For example, energy efficient lighting fixtures that replicate the historic fixtures were installed. A public-private partnership with the Treasury Historical Association resulted in the restoration of the decorative gilding on the Cash Room ceiling and restoration of the West Dome.

Who
U. S. Treasury Secretary Henry M. Paulson
Mrs. Laura Bush

What
Building Tour and Ribbon Cutting

When
Thursday, January 11, 2007, 9:10 a.m. EST

Where
Department of the Treasury
Cash Room
1500 Pennsylvania Ave., NW
Washington, DC

Note
Building tour is a pooled event
ribbon cutting is open to the press
press attending the ribbon cutting must arrive by 7:30 a.m.

REPORTS

- Attached White House press schedule for credential information.

THE WHITE HOUSE

OFFICE OF THE FIRST LADY

FOR IMMEDIATE RELEASE **January 9, 2007**

PRESS SCHEDULE OF MRS. BUSH
FOR THURSDAY, JANUARY 11, 2007

Thursday, January 11, 2007

9:10 a.m. **MRS. BUSH participates in a Tour and Ribbon-cutting of the Restored Treasury Building.**

U.S. Department of Treasury
1500 Pennsylvania Ave., N.W.
Washington, D.C. 20220

Note: Remarks will take place in the Cash Room (2^{nd} Floor).

TOUR – POOL COVERAGE
REMARKS – OPEN PRESS

Final access for all print and electronic media is 7:30 a.m.

NOTE: Those members of the press who do NOT have White House or Treasury press credentials but would like to cover the event, you must fax your name (as it appears on your driver's license), Social Security number and date of birth on company letterhead to (202) 456-1523 no later than 5:00 p.m. on Wednesday, January 10, 2007. For additional credentialing or logistical questions, please contact Dan Meyers at (440) 821-8830.

# # #

PRESS ROOM

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

January 10, 2007
HP-222

Treasury and IRS Issue Guidance on New Distribution Provisions of the Pension Protection Act

Washington, DC- The Treasury Department and the IRS issued a notice today providing extensive guidance on several Pension Protection Act rules relating to distributions from tax-qualified retirement plans.

The guidance addresses many questions on PPA provisions, including:

- interest rate assumptions for lump sum distributions
- hardship distributions from a 401(k) and similar plans
- early distributions from qualified plans to terminated public safety employees
- rollovers from qualified plans to IRAs for non-spouse beneficiaries
- distributions to pay for health insurance for retired public safety officers
- earlier vesting of certain employer contributions
- new rules for the notice and consent period for distributions

The notice also clarifies several issues concerning the provision permitting IRA owners age 70 ½ or older to directly transfer tax-free, up to $100,000 per year to an eligible charity. For example, a check from an IRA made payable to an eligible charity but delivered by the IRA holder still qualifies for tax-free treatment. IRAs held on behalf of beneficiaries, as well as IRAs held by the original owners, are eligible to use this provision. Additionally, the $100,000 annual limit applies separately for each spouse of a married couple. If both spouses have IRAs and are at least age 70 ½, the couple can transfer a combined total of $200,000.

REPORTS

- Notice 2007-7

Part III. Administrative, Procedural, and Miscellaneous

Miscellaneous Pension Protection Act Changes

Notice 2007-7

I. PURPOSE

This notice provides guidance in the form of questions and answers with respect to certain provisions of the Pension Protection Act of 2006, P.L. 109-280 ("PPA '06"), that are effective in 2007 or earlier. The sections of PPA '06 addressed in this notice, which are primarily related to distributions, are § 303 (relating to interest rate assumptions for lump sum distributions), § 826 (relating to hardship distributions), § 828 (relating to early distributions to public safety employees), § 829 (relating to rollovers for nonspouse beneficiaries), § 845 (relating to distributions to pay for accident or health insurance for public safety officers), § 904 (relating to vesting of nonelective contributions), § 1102 (relating to the notice and consent period for distributions), and § 1201 (relating to distributions from IRAs to charitable organizations).

II. SECTION 303 OF PPA '06

Section 415(b) of the Code provides limitations on annual benefits under a defined benefit plan. Under § 415(b)(2)(B), if a benefit is payable in a form other than a straight life annuity, the benefit is adjusted to an actuarially equivalent straight life annuity for purposes of determining whether the limitations of § 415(b) have been satisfied. Section 415(b)(2)(E) provides limitations on the actuarial assumptions that can be used in making the adjustment under § 415(b)(2)(B). Prior to the enactment of PPA '06, for purposes of adjusting a benefit payable in a form that is subject to the minimum present value requirements of § 417(e)(3), § 415(b)(2)(E)(ii) provided that the interest rate assumption must not be less than the greater of the applicable interest rate as defined in § 417(e)(3) or the rate specified in the plan. However, § 101(b)(4) of the Pension Funding Equity Act of 2004, P.L. 108-218, amended § 415(b)(2)(E)(ii) to provide that, for plan years beginning in 2004 and 2005, 5.5% must be used in lieu of the applicable interest rate (as defined in § 417(e)(3)) for purposes of adjusting the benefit.

Section 303(a) of PPA '06 amended § 415(b)(2)(E)(ii) to provide that the interest rate assumption for purposes of adjusting a benefit payable in a form that is subject to the minimum present value requirements of § 417(e)(3) must not be less than the greatest of (i) 5.5%, (ii) the rate that provides a benefit of not more than 105% of the benefit that would be provided if the applicable interest rate (as defined in § 417(e)(3)) were the interest rate assumption, or (iii) the rate specified under the plan.

Q-1. What is the effective date of the changes made to § 415 of the Code by § 303(a) of PPA '06?

A-1. The changes to § 415 of the Code made by § 303(a) of PPA '06 apply to distributions made in plan years beginning after December 31, 2005. However, the changes do not apply to a plan with a termination date that is on or before August 17, 2006, the date of enactment of PPA '06.

Q-2. May a plan be amended retroactively to comply with the requirements of § 303(a) of PPA '06 without violating the anti-cutback rules provided in § 411(d)(6) of the Code?

A-2. Yes. Under § 1107 of PPA '06, a plan does not violate the anti-cutback rules of § 411(d)(6) of the Code if it is amended retroactively to comply with § 303(a) of PPA '06, provided the amendment is adopted on or before the last day of the first plan year beginning on or after January 1, 2009 (2011 in the case of a governmental plan), and the plan is operated as if such amendment were in effect as of the first date the amendment is effective.

Q-3. If a plan made a distribution in a plan year beginning in 2006 that satisfied the limitations of § 415(b) prior to the enactment of PPA '06 but which is in excess of the limitations of § 415(b) taking into account the amendments to § 415 made by § 303(a) of PPA '06 (a "§ 303 excess distribution"), does the distribution violate the requirements of § 415(b)?

A-3. Yes. However, three methods are available for correcting a § 303 excess distribution. First, Q&A-4 of this notice sets forth a special correction method that is available for a § 303 excess distribution made prior to September 1, 2006, provided that the correction is completed by March 15, 2007. Second, if correction is completed by December 31, 2007 (even if the § 303 excess distribution occurs after September 1, 2006), a plan may correct a § 303 excess distribution by using the correction method for a § 415(b) excess distribution described in the Employee Plans Compliance Resolution System ("EPCRS") (see section 2.04(1) in Appendix B in Rev. Proc. 2006-27, 2006-22 IRB 945) even if the plan does not meet the requirements specified in Rev. Proc. 2006-27, including the special requirements for self correction under Part IV of Rev. Proc. 2006-27. Finally, a plan that meets the requirements of Rev. Proc. 2006-27 may correct § 303 excess distributions by using the correction method for § 415(b) excess distributions under EPCRS even after December 31, 2007. A plan that is amended retroactively to comply with § 303(a) of PPA '06 will not fail to satisfy the requirement in § 1107(b)(2)(A) of PPA '06 (that the plan be operated in accordance with the terms of the amendment) merely because it made a § 303 excess distribution, provided the § 303 excess distribution is corrected using one of these three correction methods.

Q-4. What special correction method is available to correct a § 303 excess distribution made prior to September 1, 2006?

A-4. A special correction method is available for a § 303 excess distribution made prior to September 1, 2006, provided the correction is completed by March 15,

2007. Under the special correction method, a plan may use the EPCRS correction method for a § 415(b) excess distribution (as described in section 2.04(1) in Appendix B in Rev. Proc. 2006-27, even if the plan does not otherwise meet the requirements of Rev. Proc. 2006-27, including the special requirements for self correction) with the following modifications. The excess amount (i.e., the amount by which the distribution actually made exceeds the distribution permitted using the interest assumption specified in § 415(b) as amended by PPA '06) is not required to be returned to the plan (as otherwise required under the EPCRS correction method). Instead, a plan must issue two Forms 1099-R (Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.) to a participant who has received a § 303 excess distribution. The first Form 1099-R should include only the amount that would have been distributed had the benefit payable been adjusted using the interest assumptions specified in § 415(b) as amended by PPA '06. The second Form 1099-R should include only the excess amount that was distributed, and should include code "E" in box 7 to identify the amount as an excess distribution. As provided in the EPCRS correction, this excess amount is not an eligible rollover distribution, and therefore must be included in gross income in the year distributed from the plan.

III. SECTION 826 OF PPA '06

An employee's elective contributions under a cash or deferred arrangement can only be distributed upon the occurrence of certain events, one of which is the employee's hardship. A distribution is made on account of hardship only if the distribution both is made on account of an immediate and heavy financial need of the employee and is necessary to satisfy the financial need. A distribution made for any of the expenses listed in Regulation § 1.401(k)-1(d)(3)(iii)(B) is deemed to be on account of an immediate and heavy financial need of the employee. Several of these listed expenses can be expenses of the employee's spouse or dependents.

Section 826 of PPA '06 directs the Secretary of the Treasury to modify the rules relating to distributions from § 401(k), § 403(b), § 409A, and § 457(b) plans on account of a participant's hardship or unforeseeable financial emergency to permit such plans to treat a participant's beneficiary under the plan the same as the participant's spouse or dependent in determining whether the participant has incurred a hardship or unforeseeable financial emergency.

Q-5. What changes are being made pursuant to § 826 of PPA '06 in the rules relating to hardship distributions from § 401(k) plans and § 403(b) plans and relating to distributions on account of an unforeseeable financial emergency from a plan described in § 457(b) or § 409A?

A-5. (a) *Hardship distributions from § 401(k) plans and § 403(b) plans.* A § 401(k) plan that permits hardship distributions of elective contributions to a participant only for expenses described in § 1.401(k)-1(d)(3)(iii)(B) may, beginning August 17, 2006, permit distributions for expenses described in § 1.401(k)-1(d)(3)(iii)(B)(*1*), (*3*), or (*5*) (relating to medical, tuition, and funeral expenses, respectively) for a primary beneficiary under the plan. For this purpose, a "primary beneficiary under the plan" is an individual who is named as a beneficiary under the plan and has an unconditional right to all or a portion of the participant's account balance under the plan upon the death of the participant. A plan that adopts these expanded hardship provisions must still satisfy all the other requirements applicable to hardship distributions, such as the requirement that the distribution be necessary to satisfy the financial need. These rules also apply to § 403(b) plans.

(b) *Distributions on account of an unforeseeable financial emergency from a plan described in § 457(b) or § 409A.* In applying § 457(d)(1)(A)(iii), § 1.457-6(c)(2)(i), § 409A(a)(2)(A)(vi), and Proposed Regulation § 1.409A-3(g)(3)(i), a plan described in § 457(b) or § 409A may treat a participant's beneficiary under the plan the same as the participant's spouse or dependent in determining whether the participant has incurred an unforeseeable financial emergency. This will be reflected in the upcoming final regulations under § 409A.

IV. SECTION 828 OF PPA '06

Section 72(t)(1) of the Code provides for a 10% additional tax on an early distribution from a qualified retirement plan (as defined in § 4974(c)), unless the early distribution qualifies for one of the exceptions listed in § 72(t)(2). For example, § 72(t)(2)(A)(v) provides an exception to the 10% additional tax for distributions made to an employee who separates from service after attainment of age 55. Under § 72(t)(3)(A), § 72(t)(2)(A)(v) does not apply to individual retirement plans.

Section 828 of PPA '06 amended § 72 of the Code by adding § 72(t)(10), which provides that in the case of a distribution to a qualified public safety employee from a governmental defined benefit plan, § 72(t)(2)(A)(v) is applied by substituting age 50 for age 55. Thus, the 10% additional tax on early distributions under § 72(t)(1) does not apply to a distribution from a governmental defined benefit plan made to a qualified public safety employee who separates from service after attainment of age 50. This exception to the 10% additional tax applies to distributions made after August 17, 2006 (the date of enactment of PPA '06).

Q-6. Who is a qualified public safety employee?

A-6. For purposes of § 72(t)(10), the term "qualified public safety employee" means an employee of a State or of a political subdivision of a State (such as a county or city) whose principal duties include services requiring specialized training in the area of police protection, firefighting services, or emergency medical services for any area within the jurisdiction of the State or the political subdivision of the State.

Q-7. How does a qualified public safety employee qualify for the exception to the 10% additional tax under § 72(t)(10)?

A-7. In order to qualify for the exception to the 10% additional tax under § 72(t)(10), a qualified public safety employee (i) must have received the distribution from a governmental defined benefit plan after separating from service with the employer maintaining the plan and (ii) the separation from service must have occurred during or after the calendar year in which the qualified public safety employee attained age 50. For example, a qualified public safety employee who separated from service on June 30, 2006, and attained age 50 on December 12, 2006, is eligible for the exception under § 72(t)(10) with respect to distributions made after August 17, 2006.

Q-8. What are the consequences if, before August 18, 2006, a qualified public safety employee began receiving substantially equal periodic payments that qualify for the exception to the 10% additional tax described in § 72(t)(2)(A)(iv) and then modified the periodic payments after August 17, 2006?

A-8. If the payments satisfy the requirements in Q&A-7 of this notice, payments received by the qualified public safety employee after August 17, 2006, would qualify for the exception to the 10% additional tax under § 72(t)(10). However, if the modification would result in the imposition of the recapture tax under the rules of § 72(t)(4), then the recapture tax applies to the payments made before August 18, 2006.

Q-9. Does the exception to the 10% additional tax under § 72(t)(10) apply if the qualified public safety employee rolls over distributions from a governmental defined benefit plan into an IRA or a defined contribution plan and subsequently takes an early distribution from the IRA or defined contribution plan?

A-9. No. The exception to the 10% additional tax under § 72(t)(10) applies only to amounts distributed from a governmental defined benefit plan and does not apply to distributions from a defined contribution plan or an individual retirement plan.

Q-10. How does a payer report distributions that qualify for the exception to the 10% additional tax under § 72(t)(10) on Form 1099-R?

A-10. A payer is permitted to use distribution code 2 (early distribution, exception applies) in box 7 of Form 1099-R. However, a payer is also permitted to use distribution code 1 (early distribution, no known exception) in box 7 of Form 1099-R, if the payer does not know whether the exception under § 72(t)(10) applies. For further information on reporting, see Instructions for Forms 1099-R and 5498.

V. SECTION 829 OF PPA '06

Under § 402(c)(11) of the Code, which was added by § 829 of PPA '06, if a direct trustee-to-trustee transfer of any portion of a distribution from an eligible retirement plan is made to an individual retirement plan described in § 408(a) or (b) (an "IRA") that is established for the purpose of receiving the distribution on behalf of a designated beneficiary who is a nonspouse beneficiary, the transfer is treated as a direct rollover of an eligible rollover distribution for purposes of § 402(c). The IRA of the nonspouse beneficiary is treated as an inherited IRA within the meaning of § 408(d)(3)(C). Section 402(c)(11) applies to distributions made after December 31, 2006.

Q-11. Can a qualified plan described in § 401(a) offer a direct rollover of a distribution to a nonspouse beneficiary?

A-11. Yes. Under § 402(c)(11), a qualified plan described in § 401(a) can offer a direct rollover of a distribution to a nonspouse beneficiary who is a designated beneficiary within the meaning of § 401(a)(9)(E), provided that the distributed amount satisfies all the requirements to be an eligible rollover distribution other than the requirement that the distribution be made to the participant or the participant's spouse. (See § 1.401(a)(9)-4 for rules regarding designated beneficiaries.) The direct rollover must be made to an IRA established on behalf of the designated beneficiary that will be treated as an inherited IRA pursuant to the provisions of § 402(c)(11). If a nonspouse beneficiary elects a direct rollover, the amount directly rolled over is not includible in gross income in the year of the distribution. See § 1.401(a)(31)-1, Q&A-3 and-4, for procedures for making a direct rollover.

Q-12. Can other types of plans offer a direct rollover of a distribution to a nonspouse beneficiary?

A-12. Yes. Section 402(c)(11) also applies to annuity plans described in § 403(a) or (b) and to eligible governmental plans under § 457(b).

Q-13. How must the IRA be established and titled?

A-13. The IRA must be established in a manner that identifies it as an IRA with respect to a deceased individual and also identifies the deceased individual and the beneficiary, for example, "Tom Smith as beneficiary of John Smith."

Q-14. Is a plan required to offer a direct rollover of a distribution to a nonspouse beneficiary pursuant to § 402(c)(11)?

A-14. No. A plan is not required to offer a direct rollover of a distribution to a nonspouse beneficiary. If a plan does offer direct rollovers to nonspouse beneficiaries of some, but not all, participants, such rollovers must be offered on a nondiscriminatory basis because the opportunity to make a direct rollover is a benefit, right, or feature that is subject to § 401(a)(4). In the case of distributions from a terminated defined contribution plan pursuant to 29 C.F.R. § 2550.404a-3(d)(1)(ii), the plan will be considered to offer direct rollovers pursuant to § 402(c)(11) with respect to such distributions without regard to plan terms.

Q-15. For what purposes is the direct rollover of a distribution by a nonspouse beneficiary treated as a rollover of an eligible rollover distribution?

A-15. Section 402(c)(11) provides that a direct rollover of a distribution by a nonspouse beneficiary is a rollover of an eligible rollover distribution only for purposes of § 402(c). Accordingly, the distribution is not subject to the direct rollover requirements of § 401(a)(31), the notice requirements of § 402(f), or the mandatory withholding requirements of § 3405(c). If an amount distributed from a plan is received by a nonspouse beneficiary, the distribution is not eligible for rollover.

Q-16. If the named beneficiary of a decedent is a trust, is a plan permitted to make a direct rollover to an IRA established with the trust as beneficiary?

A-16. Yes. A plan may make a direct rollover to an IRA on behalf of a trust where the trust is the named beneficiary of a decedent, provided the beneficiaries of the trust meet the requirements to be designated beneficiaries within the meaning of § 401(a)(9)(E). The IRA must be established in accordance with the rules in Q&A-13 of this notice, with the trust identified as the beneficiary. In such a case, the beneficiaries of the trust are treated as having been designated as beneficiaries of the decedent for purposes of determining the distribution period under § 401(a)(9), if the trust meets the requirements set forth in § 1.401(a)(9)-4, Q&A-5, with respect to the IRA.

Q-17. How is the required minimum distribution (an amount not eligible for rollover) determined with respect to a nonspouse beneficiary if the employee dies before his or her required beginning date within the meaning of § 401(a)(9)(C)?

A-17. (a) *General rule.* If the employee dies before his or her required beginning date, the required minimum distributions for purposes of determining the amount eligible for rollover with respect to a nonspouse beneficiary are determined under either the 5-year rule described in § 401(a)(9)(B)(ii) or the life expectancy rule described in § 401(a)(9)(B)(iii). See Q&A-4 of § 1.401(a)(9)-3 to determine which rule applies to a particular designated beneficiary. Under either rule, no amount is a required minimum distribution for the year in which the employee dies. The rule in Q&A-7(b) of § 1.402(c)-2 (relating to distributions before an employee has attained age 70½) does not apply to nonspouse beneficiaries.

(b) *Five-year rule.* Under the 5-year rule described in § 401(a)(9)(B)(ii), no amount is required to be distributed until the fifth calendar year following the year of the employee's death. In that year, the entire amount to which the beneficiary is entitled under the plan must be distributed. Thus, if the 5-year rule applies with respect to a nonspouse beneficiary who is a designated beneficiary within the meaning of § 401(a)(9)(E), for the first 4 years after the year the employee dies, no amount payable to the beneficiary is ineligible for direct rollover as a required minimum distribution. Accordingly, the beneficiary is permitted to directly roll over the beneficiary's entire benefit until the end of the fourth year (but, as described in Q&A-19 of this notice, the 5-year rule must also apply to the IRA to which the rollover contribution is made). On or after January 1 of the fifth year following the year in which the employee died, no amount payable to the beneficiary is eligible for rollover.

(c) *Life expectancy rule.* (1) *General rule.* If the life expectancy rule described in § 401(a)(9)(B)(iii) applies, in the year following the year of death and each subsequent year, there is a required minimum distribution. See Q&A-5(c)(1) of § 1.401(a)(9)-5 to determine the applicable distribution period for the nonspouse beneficiary. The amount not eligible for rollover includes all undistributed required minimum distributions for the year in which the direct rollover occurs and any prior year (even if the excise tax under § 4974 has been paid with respect to the failure in the prior years). See the last sentence of § 1.402(c)-2, Q&A-7(a).

(2) *Special rule.* If, under paragraph (b) or (c) of Q&A-4 of § 1.401(a)(9)-3, the 5-year rule applies, the nonspouse designated beneficiary may determine the required minimum distribution under the plan using the life expectancy rule in the case of a distribution made prior to the end of the year following the year of death. However, in order to use this rule, the required minimum distributions under the IRA to which the direct rollover is made must be determined under the life expectancy rule using the same designated beneficiary.

Q-18. How is the required minimum distribution with respect to a nonspouse beneficiary determined if the employee dies on or after his or her required beginning date?

A-18. If an employee dies on or after his or her required beginning date, within the meaning of § 401(a)(9)(C), for the year of the employee's death, the required minimum distribution not eligible for rollover is the same as the amount that would have applied if the employee were still alive and elected the direct rollover. For the year after the year of the employee's death and subsequent years, see Q&A-5 of § 1.401(a)(9)-5 to determine the applicable distribution period to use in calculating the required minimum distribution. As in the case of death before the employee's required beginning date, the amount not eligible for rollover includes all undistributed required minimum distributions for the year in which the direct rollover occurs and any prior year, including years before the employee's death.

Q-19. After a direct rollover by a nonspouse designated beneficiary, how is the required minimum distribution determined with respect to the IRA to which the rollover contribution is made?

A-19. Under § 402(c)(11), an IRA established to receive a direct rollover on behalf of a nonspouse designated beneficiary is treated as an inherited IRA within the meaning of § 408(d)(3)(C). The required minimum distribution requirements set forth in § 401(a)(9)(B) and the regulations thereunder apply to the inherited IRA. The rules for determining the required minimum distributions under the plan with respect to the nonspouse beneficiary also apply under the IRA. Thus, if the employee dies before his or her required beginning date and the 5-year rule in § 401(a)(9)(B)(ii) applied to the nonspouse designated beneficiary under the plan making the direct rollover, the 5-year rule applies for purposes of determining required minimum distributions under the IRA. If the life expectancy rule applied to the nonspouse designated beneficiary under the plan, the required minimum distribution under the IRA must be determined using the same applicable distribution period as would have been used under the plan if the direct rollover had not occurred. Similarly, if the employee dies on or after his or her required beginning date, the required minimum distribution under the IRA for any year after the year of death must be determined using the same applicable distribution period as would have been used under the plan if the direct rollover had not occurred.

VI. SECTION 845 OF PPA '06

Code § 402(l), which was added by § 845(a) of PPA '06, provides for an exclusion from gross income for distributions from certain retirement plans (referred to in this notice as "Eligible Government Plans") used to pay qualified health insurance premiums of an eligible retired public safety officer. The exclusion applies with respect to an eligible retired public safety officer who elects to have qualified health insurance premiums deducted from amounts distributed from an Eligible Government Plan and paid directly to the insurer. Qualified health insurance premiums include premiums for accident and health insurance or qualified long-term care insurance contracts for the eligible retired public safety officer and his or her spouse and dependents. The distribution is excluded from gross income to the extent that the aggregate amount of the distributions does not exceed the amount used to pay the qualified health insurance premiums of the eligible retired public safety officer and his or her spouse and dependents. An "Eligible Government Plan" is a governmental plan described in § 414(d) that is either: a § 401(a), § 403(a), or § 403(b) plan; or an eligible governmental plan under § 457(b). Section 402(l) applies to distributions in taxable years beginning after December 31, 2006.

Q-20. Who is an eligible retired public safety officer for purposes of the exclusion under § 402(l)?

A-20. An employee is an eligible retired public safety officer for purposes of the exclusion under § 402(l) only if the employee is an individual who separated from service, either by reason of disability or after attainment of normal retirement age, as a public safety officer with the employer who maintains the Eligible Government Plan from which the distributions to pay qualified health insurance premiums are made. Thus, a public safety officer who retires before attainment of normal retirement age is not an eligible retired public safety officer unless the public safety officer retires by reason of disability. The terms of the Eligible Government Plan from which the participant will be receiving the distributions apply in determining whether a public safety officer has separated from service by reason of disability or after attainment of normal retirement age.

Q-21. Who is a public safety officer?

A-21. For purposes of § 402(l), the term "public safety officer" means an individual serving a public agency in an official capacity, with or without compensation, as a law enforcement officer, a firefighter, a chaplain, or as a member of a rescue squad or ambulance crew. See § 1204(9)(A) of the Omnibus Crime Control and Safe Streets Act of 1968 (42 U.S.C. 3796b(9)(A)).

Q-22. Under what circumstances are the provisions of § 402(l) available for eligible retired public safety officers?

A-22. The favorable tax treatment under § 402(l) is available only when an eligible retired public safety officer elects to have an amount subtracted from his or her distributions from an Eligible Government Plan and such amount is used to pay qualified health insurance premiums. The employer sponsoring the Eligible Government Plan is not required to offer such an election.

Q-23. Can the accident or health plan receiving the payments of qualified health insurance premiums be a self-insured plan?

A-23. No. The accident or health plan must be an accident or health insurance plan. Thus, the plan must be providing insurance issued by an insurance company regulated by a State (including a managed care organization that is treated as issuing insurance).

Q-24. Will an eligible retired public safety officer be entitled to favorable tax treatment under § 402(l) with respect to benefits attributable to service other than as a public safety officer?

A-24. Yes. Benefits attributable to service other than as a public safety officer are eligible for favorable tax treatment under § 402(l), as long as the individual separates from service as a public safety officer, by reason of disability or after attainment of normal retirement age, with the employer maintaining the Eligible Government Plan.

Q-25. If an eligible retired public safety officer dies, are amounts subtracted from distributions made to the decedent's surviving spouse or dependents eligible for favorable tax treatment under § 402(l)?

A-25. No. Section 402(l) provides that the distribution is not includible in the gross income of an employee who is an eligible retired public safety officer. Thus, the exclusion would not extend to amounts subtracted from distributions to other distributees.

Q-26. Is an eligible retired public safety officer limited in the amount that the officer can exclude from gross income for distributions from an Eligible Government Plan used to pay qualified health insurance premiums?

A-26. Yes. The aggregate amount that is permitted to be excluded, with respect to any taxable year, from an eligible retired public safety officer's gross income by reason of § 402(l) is limited to $3,000. For purposes of applying this $3,000 limitation, distributions with respect to the eligible retired public safety officer that are used to pay for qualified health insurance premiums from all Eligible Government Plans are aggregated.

Q-27. Are amounts used to pay qualified health insurance premiums that are excluded from gross income under § 402(l) taken into account for purposes of determining the itemized deduction for medical care expenses under § 213?

A-27. No. Amounts used to pay qualified health insurance premiums that are excluded from gross income under § 402(l) are not taken into account in determining the itemized deduction for medical care expenses under § 213.

VII. SECTION 904 OF PPA '06

Prior to the effective date of PPA '06 § 904, a defined contribution plan satisfied the minimum vesting requirements of Code § 411(a) with respect to employer nonelective contributions if it maintained a 5-year vesting schedule or a 3 to 7 year vesting schedule. Section 904 of PPA '06 amended the minimum vesting requirements to require faster vesting of employer nonelective contributions to a defined contribution plan. Under Code § 411(a)(2)(B) as amended by § 904 of PPA '06, a defined contribution plan satisfies the minimum vesting requirements with respect to employer nonelective contributions if it has a 3-year vesting schedule or a 2 to 6 year vesting schedule. Code § 411(a)(2)(B) as amended by § 904 of PPA '06 generally applies to contributions for plan years beginning after December 31, 2006.

Q-28. If a plan amendment changes the plan's vesting schedule to satisfy Code § 411(a)(2)(B) as amended by § 904 of PPA '06, is the plan amendment required to satisfy § 411(a)(10).?

A-28. Yes. A plan amendment that changes the vesting schedule must satisfy Code § 411(a)(10). Although § 411(a)(10)(B) would require a participant with at least 3 years of service to elect to have the nonforfeitable percentage of his accrued benefit determined without regard to the amendment, the plan must ensure that any such election satisfies the vesting requirements of § 411(a)(2)(B), as amended by § 904 of PPA '06. Thus, such a participant must be provided, at all times, a vesting percentage that is no less than the minimum under a vesting schedule that satisfies § 904 and the vesting percentage determined under the plan without regard to the amendment. Under Temporary Regulation § 1.411(a)-8T, no election need be provided for any participant whose nonforfeitable percentage under the plan, as amended, at any time cannot be less than such percentage determined without regard to such amendment.

Q-29. Can a plan have separate vesting schedules for employer nonelective contributions that are and are not subject to Code § 411(a)(2)(B), as amended by § 904 of PPA '06?

A-29. Yes. A plan can have a vesting schedule for employer nonelective contributions for plan years beginning after December 31, 2006, and another vesting schedule for other employer nonelective contributions under the plan, provided that the plan separately accounts for the contributions made under the vesting schedule in effect prior to the first day of the first plan year beginning after December 31, 2006, and the vesting schedule for employer nonelective contributions for plan years beginning after December 31, 2006, satisfies Code § 411(a)(2)(B), as amended by § 904 of PPA '06.

Q-30. If a plan maintains a bifurcated vesting schedule, how is it determined whether a contribution is for a plan year beginning before January 1, 2007?

A-30. A contribution is for a plan year that begins before January 1, 2007, if it is allocated under the terms of the plan as of a date in that plan year and is not subject to any conditions that have not been satisfied by the end of that plan year. This applies even if the contribution is not made until the next plan year. Thus, for example, if a plan with a calendar-year plan year makes a contribution as of December 31, 2006, based on compensation and service in 2006, and the contribution is not contingent on the occurrence of an event after 2006, then the contribution is treated as made for the 2006 plan year and is not subject to Code § 411(a)(2)(B), as amended by § 904 of PPA '06, even if it is not contributed until 2007. Forfeitures and ESOP allocations from a suspense account are treated in the same manner for this purpose.

VIII. SECTION 1102 OF PPA '06

Section 1102 of PPA '06 makes certain changes to the notice requirements related to distributions. Section 1102(a) provides that a notice required to be provided under § 402(f), § 411(a)(11), or § 417 may be provided to a participant as much as 180 days before the annuity starting date. Section 1102(b) directs the Secretary to modify the regulations under § 411(a)(11) of the Code and § 205 of ERISA to provide that the description of a participant's right to defer a distribution must also include a description of the consequences of failing to defer receipt of a distribution. The modifications made by § 1102 apply to years beginning after December 31, 2006. However, § 1102(b)(2)(B) provides that a plan will not be treated as failing to meet the new requirements under § 1102(b) if the plan administrator makes a reasonable attempt to comply with the new requirements under that section during the period that is within 90 days of the issuance of regulations required by § 1102(b).

Q-31. How does the effective date of § 1102 operate?

A-31. The provisions of § 1102 apply to plan years that begin after December 31, 2006. This means that the new rules relating to the content of the notices apply only to notices issued in those plan years, without regard to the annuity starting date for the distributions. Similarly, the 180-day period for distributing notices applies to notices distributed in a plan year that begins after December 31, 2006. This change to the 180-day period also modifies the definition of the maximum QJSA explanation period under § 1.411(d)-3(g), which is used in applying the timing rules for the effective date of a plan amendment under the rules of § 1.411(d)-3(c) and (f) in the case of an amendment that is adopted in a plan year that begins after December 31, 2006.

Q-32. Is a plan required to revise the notice under § 411 pursuant to the modifications made by § 1102(b) before the regulations are amended to reflect the requirement?

A-32. Yes. A plan administrator is required to revise the notice under § 411 to reflect the modifications to the requirements made by § 1102(b) for notices provided in plan years beginning after December 31, 2006. However, pursuant to § 1102(b)(2)(B) of PPA '06, a plan will not be treated as failing to meet the new requirements under § 1102(b) if the plan administrator makes a reasonable attempt to comply with the new requirements under that section in the case of a notice that is provided prior to the 90th day after the issuance of regulations reflecting the modifications required by § 1102(b).

Q-33. Is there a safe harbor available to a plan administrator that would be considered a reasonable attempt to comply with the requirement in § 1102(b)(1) that a description of a participant's right to defer receipt of a distribution include a description of the consequences of failing to defer?

A-33. Yes. A description that is written in a manner reasonably calculated to be understood by the average participant and that includes the following information is a reasonable attempt to comply with the requirements of § 1102(b)(2)(B): (a) in the case of a defined benefit plan, a description of how much larger benefits will be if the commencement of distributions is deferred; (b) in the case of a defined contribution plan, a description indicating the investment options available under the plan (including fees) that will be available if distributions are deferred; and (c) the portion of the summary plan description that contains any special rules that might materially affect a participant's decision to defer. For purposes of clause (a), a plan administrator can use a description that includes the financial effect of deferring distributions, as described in § 1.417(a)(3)-1(d)(2)(i), based solely on the normal form of benefit.

IX. SECTION 1201 OF PPA '06

Section 1201(a) of PPA '06 adds § 408(d)(8) to the Code, which is applicable to distributions made in taxable years 2006 and 2007. Under § 408(d)(8), generally, if a distribution from an IRA owned by an individual after the individual has attained age 70½ is made directly by the trustee to certain organizations described in § 170(b)(1)(A), the distribution is excluded from gross income. The exclusion is only available to the extent that the distribution would otherwise have been includible in gross income, and § 408(d)(8)(D) provides a special rule for determining the amount that would otherwise be includible in gross income. In addition, the exclusion applies only if the contribution would otherwise qualify for a charitable contribution deduction under § 170 (without regard to the percentage limitations of § 170(b)). A distribution that is eligible for this exclusion is called a qualified charitable distribution.

Q-34. Is there an overall limit on the amount that may be excluded from gross income for qualified charitable distributions that are made in a year?

A-34. Yes. The income exclusion for qualified charitable distributions only applies to the extent that the aggregate amount of qualified charitable distributions made during any taxable year with respect to an IRA owner does not exceed $100,000. Thus, if an IRA owner maintains multiple IRAs in a taxable year, and qualified charitable distributions are made from more than one of these IRAs, the maximum total amount that may be excluded for that year by the IRA owner is $100,000. For married individuals filing a joint return, the limit is $100,000 per individual IRA owner.

Q-35. Is the exclusion for qualified charitable distributions available for a distribution made to any organization eligible to receive charitable contributions that are deductible by the donor for income tax purposes?

A-35. No. Qualified charitable distributions may be made to an organization described in § 170(b)(1)(A), other than supporting organizations described in § 509(a)(3) or donor advised funds that are described in § 4966(d)(2).

Q-36. Is the exclusion for qualified charitable distributions available for distributions from any type of IRA?

A-36. Generally, the exclusion for qualified charitable distributions is available for distributions from any type of IRA (including a Roth IRA described in § 408A and a deemed IRA described in § 408(q)) that is neither an ongoing SEP IRA described in § 408(k) nor an ongoing SIMPLE IRA described in § 408(p). For this purpose, a SEP IRA or a SIMPLE IRA is treated as ongoing if it is maintained under an employer arrangement under which an employer contribution is made for the plan year ending with or within the IRA owner's taxable year in which the charitable contributions would be made.

Q-37. Is the exclusion for qualified charitable distributions available for distributions from an IRA maintained for a beneficiary if the beneficiary has attained age 70½ before the distribution is made?

A-37. Yes. The exclusion from gross income for qualified charitable distributions is available for distributions from an IRA maintained for the benefit of a beneficiary after the death of the IRA owner if the beneficiary has attained age 70½ before the distribution is made.

Q-38. If a 2006 distribution satisfies all the requirements under § 408(d)(8), but it was made before August 17, 2006 (the date PPA '06 was enacted), is the amount distributed excludable as a qualified charitable distribution?

A-38. Yes. Section 408(d)(8) is applicable to distributions made at any time in 2006. Thus, a distribution made in 2006 that satisfies the requirements under

§ 408(d)(8) is a qualified charitable distribution even if it was made before August 17, 2006.

Q-39. Is the amount of a qualified charitable distribution deductible as a charitable contribution under § 170?

A-39. No. For purposes of determining the amount of charitable contributions that may be deducted under § 170, qualified charitable distributions which are excluded from income under § 408(d)(8) are not taken into account. However, qualified charitable distributions must still satisfy the requirements to be deductible charitable contributions under § 170 (other than the percentage limits of § 170(b)), including the substantiation requirements under § 170(f)(8).

Q-40. Is a qualified charitable distribution subject to withholding under § 3405?

A-40. No. A qualified charitable distribution is not subject to withholding under § 3405 because an IRA owner that requests such a distribution is deemed to have elected out of withholding under § 3405(a)(2). For purposes of determining whether a distribution requested by an IRA satisfies the requirements under § 408(d)(8), the IRA trustee, custodian, or issuer may rely upon reasonable representations made by the IRA owner.

Q-41. Is a check from an IRA made payable to a charitable organization described in § 408(d)(8) and delivered by the IRA owner to the charitable organization a direct payment to such organization?

A-41. Yes. If a check from an IRA is made payable to a charitable organization described in § 408(d)(8) and delivered by the IRA owner to the charitable organization, the payment to the charitable organization will be considered a direct payment by the IRA trustee to the charitable organization for purposes of § 408(d)(8)(B)(i).

Q-42. Will a qualified charitable distribution be taken into account in determining whether the required minimum distribution requirements of §§ 408(a)(6), 408(b)(3), and 408A(c)(5) have been satisfied?

A-42. Yes. The amount distributed in a qualified charitable distribution is an amount distributed from the IRA for purposes of §§ 408(a)(6), 408(b)(3), and 408A(c)(5).

Q-43. What are the tax consequences of a direct payment of an amount from an IRA to a charity where the transaction is intended to satisfy the requirements of § 408(d)(8) but fails to do so?

A-43. If an amount intended to be a qualified charitable distribution is paid to a charitable organization but fails to satisfy the requirements of § 408(d)(8), the amount paid is treated as (1) a distribution from the IRA to the IRA owner that is includible in gross income under the rules of § 408 or § 408A, as applicable; and (2) a contribution from the IRA owner to the charitable organization that is subject to the rules under § 170 (including the percentage limits of § 170(b)).

Q-44. Will a distribution made directly by the trustee to a § 170(b)(1)(A) organization (as permitted by § 408(d)(8)(B)(i)) be treated as a receipt by the IRA owner under § 4975(d)(9)?

A-44. Yes. The Department of Labor, which has interpretive jurisdiction with respect to § 4975(d), has advised Treasury and the IRS that a distribution made by an IRA trustee directly to a § 170(b)(1)(A) organization (as permitted by § 408(d)(8)(B)(i)) will be treated as a receipt by the IRA owner under § 4975(d)(9), and thus would not constitute a prohibited transaction. This would be true even if the individual for whose benefit the IRA is maintained had an outstanding pledge to the receiving charitable organization.

DRAFTING INFORMATION

The principal author of this notice is Angelique V. Carrington of the Employee Plans, Tax Exempt and Government Entities Division. 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 8:30 am and 4:30 pm Eastern Time, Monday through Friday. Ms. Carrington may be reached at (202) 283-9888 (not a toll-free number).

PRESS ROOM

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January 11, 2007
HP-223

**Remarks by Treasury Secretary
Henry M. Paulson
at the Treasury Ribbon Cutting Ceremony
Treasury Department Cash Room**

Good morning. Thank you all for being here.

It is truly a special occasion when the First Lady of the United States visits the Treasury Department. Mrs. Bush, welcome – we are delighted you're here. We appreciate the opportunity to show you our historic building.

Thank you also to our Treasurer, Anna Cabral, and to the Chairman of the Treasury Historical Association, Tom O'Malley, for speaking earlier. And welcome to all the members of the Treasury Historical Association who dedicate time and resources to preserving the history of the Department.

Thanks to Deputy Secretary Bob Kimmitt and his wife, Holly, who just accompanied Wendy and the First Lady and me on a tour of the building. And great thanks to Richard Cote, our curator, for an expert history of the building.

Today is a special day for the Treasury. And Mrs. Bush, we are honored to have you here for the official ribbon-cutting of the Treasury Building and Annex Repair and Restoration Project.

Over the last decade, architects, historians, engineers, carpenters, and many other contributors have worked to modernize the Treasury building while remaining true to its historic character. Many of you – including Polly Dietz, the project manager, and Jim Thomas, our facilities director – are on stage and in the audience – and you deserve a round of applause.

Few buildings in Washington boast such a rich history as this one. Today's Treasury building stands on the same spot as the very first Treasury building in Washington in 1800.

Since then, the history of the Treasury building has been shaped by our close proximity to our neighbor, the President.

Sometimes it would have been helpful to be a little further away. For instance, in 1814, as the British burned the White House, they torched the Treasury building for good measure.

The task of rebuilding Treasury fell to James Hoban, the original architect of the White House.

In 1869, President Ulysses S. Grant held his inaugural ball here in the Cash Room. Unfortunately, little attention was paid to the hats and coats of partygoers, some of whom had to wait hours to retrieve their possessions. Thus it became the first and last inaugural ball held in the Cash Room.

But we've been much better about keeping track of money.

Up until the 1970s, members of the public could come into the Cash Room and exchange notes and bonds of the United States government for cash. Currency was stored in this room and in the adjacent vaults.

However, I'm sorry to inform everyone here today that the only cash you'll find in this room is in your wallets.

On our tour today, we saw two other magnificent rooms with presidential history – the Salmon Chase suite and the Andrew Johnson suite.

The Chase suite has been restored beautifully. Today the rooms look much the same as they did when Abraham Lincoln and Salmon Chase met there to discuss the financing of the Civil War.

After President Lincoln's assassination in 1865, the newly sworn-in President Andrew Johnson wanted to allow an appropriate amount of time for Mrs. Lincoln and her family to move out of the White House. Treasury Secretary Hugh McCulloch offered the new president his own suite on the third floor, and President Johnson took him up on the offer. He ran the federal government out of the Treasury building for eight weeks.

We share plenty of happy memories with the White House, too. In fact, the very first telephone line installed in the Treasury Building – back in 1877 – connected Treasury with the White House.

And believe me, President Bush keeps the number handy.

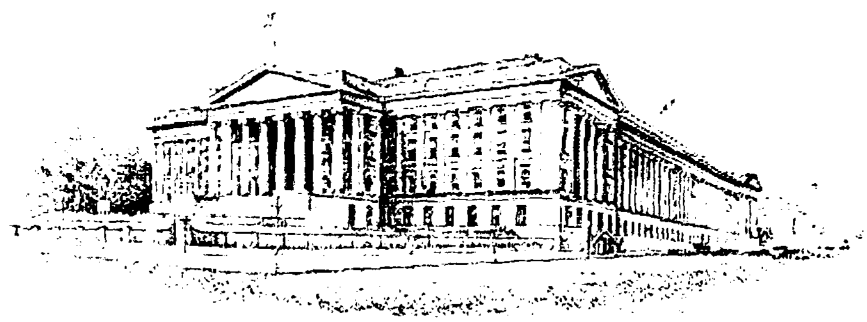
Mrs. Bush, this is just part of the rich history shared by the Treasury Department and the White House. It's a history we're proud of. And through the active involvement of Treasury employees, as well as public and private donors, we intend to preserve the historical integrity of our building for future generations.

Mrs. Bush's own work in support of historic preservation has been demonstrated throughout her public life. She is also a highly respected and effective voice on education and youth, and she is active around the world on issues of economic development, the rights of women, and the eradication of diseases such as HIV/AIDS and malaria. Everywhere Mrs. Bush travels, she represents the President and the United States of America in a truly exemplary manner.

It is now my great pleasure and honor to introduce the First Lady of the United States, Laura Bush.

REPORTS

- Treasury Building Restoration and Modernization Fact Sheet
- Treasury Tour



U.S. Treasury Department Office of Public Affairs

Treasury Building Restoration and Modernization Fact Sheet

- The restoration project began in June 1996 prompted by a fire on the roof. The restoration was completed in October 2006.

- The primary intent was to modernize the building infrastructure with an emphasis on safety, electrical, mechanical, and plumbing systems while maintaining a balance with the historic fabric.

- During the course of the ten year project an estimated 1,100 individuals were involved. Their efforts included: fire recovery, construction, design, security, telecommunications, relocations, maintenance, preservation and project management.

- Many of the building's basic infrastructure systems dated from the early 1900s. They outlived their useful life and were in need of major repair, alteration, and renovation. Examples of some of the renovations:

    - Deteriorated and damaged architectural interiors
    - Antiquated and inefficient heating system
    - No central air conditioning system
    - Insufficient fresh air supply
    - Inadequate electrical grounding
    - No dedicated power supply
    - No comprehensive fire protection and suppression system
    - Antiquated elevator system
    - Unrepaired fire damage
    - Antiquated plumbing system
    - No emergency power system
    - Numerous deficiencies in Building Codes, Life Safety Codes, and ADA compliance

- Construction was accomplished in four sequential phases. A single phase at a time was fully vacated for construction, with the remaining three phases being fully occupied and operational.

- Accomplishments include:

  Architectural: Repaired and restored interior finishes and architectural details, provided accessibility to the physically challenged, installed a new skylight system, provided new reproduction energy efficient sash, cleaned and repainted exterior granite façade, and provided tenant build-outs.

  Mechanical: Replaced the entire HVAC system, installed new chillers and cooling towers, replaced the hot and chilled water distribution systems, replaced the air distribution system, and provided a Direct Digital Control (DDC) energy management system.

  Electrical: Provided a new electrical system, replaced switchgear and transformers, provided new feeds to building, replaced all panels and wiring, changed service from 120/208 volt to 480/277 volt, replaced all light fixtures, provide exterior lighting, provided clean power source, and provided an emergency power system.

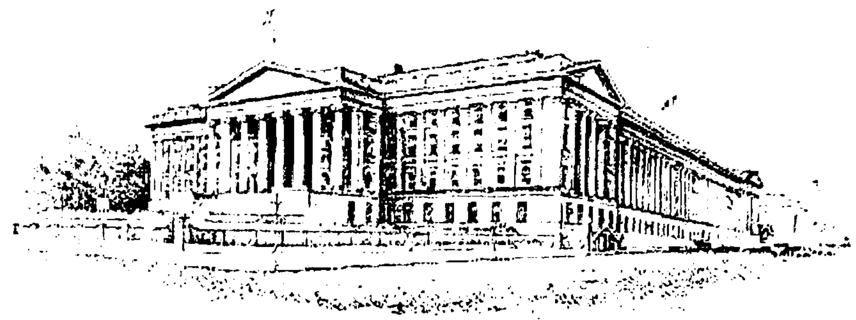
  Plumbing: Replaced waste lines, vent stacks, plumbing fixtures, rain leaders, toilet fixtures, and supply lines.

  Life Safety: Provided full sprinkler protection and a new fire alarm system; established fire safety barriers along with fire control and evacuation zones.

  Security: Provide an electronic security access system with optical readers and smart card technology.

  Elevators: Replaced or upgraded seven elevators.

  Telecommunications: Provided a new infrastructure with fiber optics to each work station, and provided a state of the art teleconferencing and broadcasting center.



U.S. Treasury Department Office of Public Affairs

Treasury Secretary Paulson and Mrs. Laura Bush Tour the Restoration and Modernization of the Treasury Building January 11, 2007

***Andrew Johnson Suite:**

In 1864, the Treasury Secretary's office was relocated to a suite overlooking the White House. This second suite of rooms, called the Andrew Johnson Suite, has been restored. Following the assassination of Abraham Lincoln in 1865, Treasury Secretary Hugh McCulloch offered the use of his office to President Johnson for six weeks while Mary Todd Lincoln remained in the White House. This historical event was captured in period engravings by the press, which provided pictorial archival materials for its restoration in 1991. The project was a public-private enterprise with the Committee for the Preservation of the Treasury Building providing funding for the restoration. It now serves as the office of the Under Secretary for International Affairs.

President Johnson occupied the outer office while Secretary McCulloch kept his own adjacent office. The office was decorated by the New York firm of Pottier & Stymus who also decorated the White House for President Grant in 1869. The chairs, table and over-mantel mirror are by Pottier & Stymus, and the gilt rams head chairs are stylistically similar to what is in the White House collection. The star carpet was reproduced based on period engravings as were the drapery treatments. The room originally had a dado paper and the doors were originally faux grained, distinguishing this office from the others on the floor.

***Salmon P. Chase Suite:**

The Curator's Office restored the Salmon P. Chase Suite in 1992. The Chase Suite is named after the Treasury Secretary who served under President Abraham Lincoln. President Lincoln met with Chase in this office on a regular basis to discuss the financing of the Civil War.

The interior of Chase's office was restored to its 1860 appearance, as the office was described in great detail in period newspaper accounts. The original ceiling is especially noteworthy, containing allegorical figures of Treasury and Justice, indicative of Chase's role as Treasury

Secretary and also his background in law. Secretary Chase would later assume the position of Chief Justice of the U.S. Supreme Court.

The antique furnishings in the room are from the Treasury Collection which consists of over 5,000 objects of fine and decorative arts. Much of the collection has come from the Treasury building and from the Treasury bureaus. It was first recognized by Treasury Secretary Andrew Mellon who grouped the antiques together and organized the first Treasury Collection.

Highlights in the room include the large over-mantel mirror which is described in detail in a period newspaper account and a sofa bearing the "US" crest, both designed by the Office of the Supervising Architect in their attempt to standardize government furnishings. Comparable pieces with emblematic shields are found in the White House collection and date to the same period.

Diplomatic Reception Room:

The Secretary's Diplomatic Reception Room is a historically inspired space, created for Treasury Secretary James Baker. The restoration was completed in 1988. The furniture in the room dates from the period 1865-1870, many of the pieces by the New York firm of Pottier & Stymus. This is the same prominent decorating firm who completed the Andrew Johnson Suite in 1864 and the White House in 1869.

***Secretary Paulson's Office:**

The present space became the Office of the Secretary in 1910, the date of the last building modernization before the present TBARR project. It is the fifth site in the building to be occupied by the Secretary of the Treasury.

Deputy Secretary Kimmitt's Office:

Immediately adjacent to the Secretary's Office is Deputy Secretary Robert Kimmitt's office. When the TBARR project was working in this space, the Curator's Office conducted investigative work on the ceiling and found decorative paint that dates to 1875.
From our research, we know that it is the work of William J. McPherson, a decorative painter from Boston who worked in the building for seven weeks. McPherson is best known for his decorative paint in the Secretary of the Navy's Office in the former State, War and Navy building as well as at the Connecticut State Capitol.

***West Dome:**

The West Dome restoration was undertaken during the last phase of the TBARR project, and completed in 2004. The monumental dome represents the work of the Supervising Architect Alfred Mullett.

The original construction was delayed five years because of the Civil War and the financial hardships that it imposed on the building project. The surviving drawings show Mullett's careful consideration of several design options, finally settling on a triple dome. This design solution allowed natural light to come through two contiguous skylights each positioned directly over a staircase. The central oculus was originally frosted and contained a ventilator to circulate air throughout the attic story.

Paint analysis revealed that the original decorative palette contained many architectural elements that were gilt. The palette is the same used by the architect for Treasury's West Lobby, the second floor White House entrance, as well as the Cash Room. The gilding is now symbolic of the period called the "gilded age," when America achieved great economic prosperity after the Civil War.

Treasurer's Office:

The Treasurer's Office contains one of the last remaining of the original four vaults that served the Cash Room. Constructed under an 1863 patent by the architect, Isaiah Rogers, the "Burglar-Proof Vault" consisted of iron and steel plates with two layers of iron balls in cavities that were intended to rotate freely if pierced by a drill.

The Treasurer's Office has traditionally been located at Treasury's North entrance since the wing was completed in 1869.

***Cash Room:**

The Cash Room and the West Dome are regarded as Treasury's most important architectural spaces. Both areas represent the designs of Treasury Supervising Architect, Alfred Mullett, who would go on to design the State, War and Navy Building, now the Eisenhower Executive Office Building. The Cash Room was originally designed as a banking hall where any government draft could be redeemed for cash.

While the façade of Treasury's North Wing is Greek Revival, the Cash Room is architect Mullett's first venture into the French Second Empire Style. This building style would completely consume architect Mullett in his designs for the State, War and Navy Building.

Completed in 1869, the room is constructed of seven different types of marble, the ceiling gilded with a palette similar to what you have just seen in the West Dome. The room is the result of a public-private partnership, the initial funding from the Committee for the Preservation of the Treasury Building and most recently, the restoration of the ceiling gilding a gift to the Department from the Treasury Historical Association.

*** notes pooled event portion**

PRESS ROOM

January 12, 2007
HP-224

U.S. Fiscal Outlook Improves Significantly in December
Fiscal Year to Date Deficit Down;
Monthly Surplus Up More than 300 Percent

"Today's monthly Treasury statement shows that tax receipts have reached a new record and that we are moving in the right direction toward a balanced budget by 2012. This good news reflects the strong state of our economy. The President's tax relief has helped make this possible by creating the conditions for sustained economic growth and job creation."
- Assistant Secretary for Economic Policy Phillip Swagel

Highlights:
The Fiscal Year to Date deficit ($80 billion) is down 33 percent ($39 billion) compared to the same period last year. The President's tax relief has stimulated strong economic growth. This strong growth has contributed to record-level receipts and the creation of more than 7.2 million jobs since August 2003. October to December receipts for FY 07 are at $574 billion, running 8 percent ($43 billion) higher compared to the same period for FY 06.

December brought record-level monthly tax receipts ($260 billion) and a record-level surplus ($45 billion) for the month. The monthly surplus was up 306 percent ($34 billion) compared to December 2005 ($11 billion).

December 15 brought the largest ever single day corporate tax receipts ($73 billion). This broke the previous record set in September 2006 ($72 billion).

Maintaining low tax rates will help ensure continued economic growth, lift Americans living standards, and enable us to address our longer term fiscal challenges from a position of economic strength.

PRESS ROOM

January 16, 2007
2007-1-16-17-12-19-25673

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 $64,996 million as of the end of that week, compared to $65,688 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	January 5, 2007			January 12, 2007		
TOTAL	65,688			64,996		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	12,322	10,703	23,025	12,252	10,562	22,814
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,287	5,214	17,501	12,221	5,145	17,366
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]			5,280			4,991
3. Special Drawing Rights (SDRs) [2]			8,841			8,784
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	January 5, 2007			January 12, 2007		
	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 5, 2007			January 12, 2007		
	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.

U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL 9 a.m. (EST) January 17, 2007
CONTACT Brookly McLaughlin (202) 622-2920

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, which will report on data for December, is scheduled for February 15, 2007.

Net foreign purchases of long-term securities were $68.4 billion.

- Net foreign purchases of long-term U.S. securities were $107.4 billion. Of this, net purchases by foreign official institutions were $6.5 billion, and net purchases by private foreign investors were $101.0 billion.

- U.S. residents purchased a net $39.1 billion in long-term foreign securities.

Net foreign acquisition of long-term securities is estimated to have been $58.0 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities increased $15.6 billion. Foreign holdings of Treasury bills increased $9.5 billion.

Banks' own net dollar-denominated liabilities to foreign residents increased $1.3 billion.

Monthly net TIC flows were $74.9 billion. Of this, net foreign private flows were $65.8 billion and net foreign official flows were $9.1 billion.

HP -225

TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

				12 Months Through					
		2004	2005	Nov-05	Nov-06	Aug-06	Sep-06	Oct-06	Nov-06
	Foreigners' Acquisitions of Long-term Securities								
1	Gross Purchases of Domestic U.S. Securities	15178.9	17157.5	17242.8	19020.9	1623.1	1626.1	1746.3	1803.6
2	Gross Sales of Domestic U.S. Securities	14262.4	16145.9	16221.8	17930.5	1501.6	1532.5	1642.1	1696.2
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**916.5**	**1011.5**	**1021.0**	**1090.4**	**121.5**	**93.6**	**104.2**	**107.4**
4	**Private, net /2**	**680.9**	**891.1**	**901.5**	**917.6**	**91.9**	**76.9**	**78.9**	**101.0**
5	Treasury Bonds & Notes, net	150.9	269.4	259.6	123.9	27.9	-7.9	7.8	26.0
6	Gov't Agency Bonds, net	205.7	187.6	204.8	190.9	21.7	17.7	9.9	10.8
7	Corporate Bonds, net	298.0	353.1	359.1	461.9	34.7	56.8	37.5	60.3
8	Equities, net	26.2	81.0	78.0	140.9	7.7	10.3	23.6	3.9
9	**Official, net /3**	**235.6**	**120.4**	**119.5**	**172.8**	**29.6**	**16.7**	**25.3**	**6.5**
10	Treasury Bonds & Notes, net	201.1	68.7	69.8	62.3	16.9	7.7	18.5	1.0
11	Gov't Agency Bonds, net	20.8	31.6	29.9	76.0	9.8	7.9	5.3	3.9
12	Corporate Bonds, net	11.5	19.1	18.2	28.2	2.7	1.8	2.0	3.6
13	Equities, net	2.2	1.0	1.6	6.3	0.2	-0.7	-0.4	-2.1
14	Gross Purchases of Foreign Securities from U.S. Residents	3123.1	3700.0	3615.1	5154.4	406.0	405.6	483.0	510.5
15	Gross Sales of Foreign Securities to U.S. Residents	3276.0	3872.4	3787.9	5386.2	410.0	427.7	501.9	549.6
16	**Foreign Securities Purchased, net** (line 14 less line 15) /4	**-152.8**	**-172.4**	**-172.7**	**-231.9**	**-4.0**	**-22.0**	**-18.9**	**-39.1**
17	Foreign Bonds Purchased, net	-67.9	-45.1	-47.8	-121.6	-9.9	-13.4	-7.5	-17.8
18	Foreign Equities Purchased, net	-85.0	-127.3	-125.0	-110.3	5.9	-8.6	-11.4	-21.2
19	**Net Long-Term Securities Transactions** (line 3 plus line 16):	**763.6**	**839.1**	**848.2**	**858.5**	**117.6**	**71.6**	**85.3**	**68.4**
20	**Other Acquisitions of Long-term Securities, net /5**	**-38.8**	**-140.0**	**-136.3**	**-141.9**	**-11.1**	**-11.9**	**-10.4**	**-10.4**
21	**Net Foreign Acquisition of Long-Term Securities** (lines 19 and 20):	**724.8**	**699.1**	**712.0**	**716.6**	**106.4**	**59.7**	**74.9**	**58.0**
22	**Increase in Foreign Holdings of Dollar-denominated Short-term U.S. Securities and Other Custody Liabilities: /6**	**190.1**	**-47.6**	**-44.6**	**112.4**	**3.9**	**-10.3**	**0.5**	**15.6**
23	**U.S. Treasury Bills**	**60.0**	**-58.9**	**-47.5**	**-21.3**	**2.1**	**-14.5**	**4.1**	**9.5**
24	Private, net	26.8	-15.6	-5.5	7.4	-1.5	-3.9	5.0	1.8
25	Official, net	33.2	-43.3	-42.0	-28.7	3.6	-10.6	-0.9	7.7
26	**Other Negotiable Instruments and Selected Other Liabilities: /7**	**130.1**	**11.4**	**2.9**	**133.7**	**1.8**	**4.1**	**-3.5**	**6.1**
27	Private, net	77.4	10.6	4.9	144.0	9.6	5.9	7.3	7.9
28	Official, net	52.8	0.8	-2.0	-10.3	-7.8	-1.7	-10.8	-1.8
29	**Change in Banks' Own Net Dollar-Denominated Liabilities**	**63.9**	**16.4**	**15.2**	**14.2**	**-14.8**	**11.2**	**-15.0**	**1.3**
30	**Monthly Net TIC Flows** (lines 21,22,29) /8	**978.9**	**667.9**	**682.5**	**843.2**	**95.5**	**60.6**	**60.4**	**74.9**
	of which								
31	Private, net	637.2	580.6	578.4	741.9	83.9	48.6	67.3	65.8
32	Official, net	341.6	87.3	104.2	101.3	11.6	11.9	-6.9	9.1

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

/2 Includes international and regional organizations

/3 The reported division of net purchases of long-term securities between net purchases by foreign official institutions and net purchases of other foreign investors is subject to a "transaction bias" described in Frequently Asked Questions 7 and 10.a.4 on the TIC web site.

/4 Net transactions in foreign securities by U.S. residents. Foreign purchases of foreign securities = U.S. sales of foreign securities to foreigners. Thus negative entries indicate net U.S. purchases of foreign securities, or an outflow of capital from the United States; positive entries indicate net U.S. sales of foreign securities.

/5 Minus estimated unrecorded principal repayments to foreigners on domestic corporate and agency asset-backed securities +
estimated foreign acquisitions of U.S. equity through stock swaps -
estimated U.S. acquisitions of foreign equity through stock swaps +
increase in nonmarketable Treasury Bonds and Notes Issued to Official Institutions and Other Residents of Foreign Countries.

/6 These are primarily data on monthly changes in banks' and broker/dealers' custody liabilities. Data on custody claims are collected quarterly and published in the Treasury Bulletin and the TIC web site.

/7 "Selected Other Liabilities" are primarily the foreign liabilities of U.S. customers that are managed by U.S. banks or broker/dealers.

/8 TIC data cover most components of international financial flows, but do not include data on direct investment flows, which are collected and published by the Department of Commerce's Bureau of Economic Analysis. In addition to the monthly data summarized here, the TIC collects quarterly data on some banking and nonbanking assets and liabilities. Frequently Asked Question 1 on the TIC web site describes the scope of TIC data collection.

PRESS ROOM

January 18, 2007
HP-226

Treasury Deputy Secretary Kimmitt
and
Under Secretary Adams
to Attend World Economic Forum in Davos

Washington, D.C.– Treasury Deputy Secretary Robert M. Kimmitt and International Affairs Under Secretary Timothy Adams will attend the World Economic Forum's annual gathering next week in Davos, Switzerland.

Deputy Secretary Kimmitt will appear on a panel to discuss global economic trends. He'll also participate in a panel looking at the way forward for the G-20, a group established in 1999 to bring together major industrialized and developing economies to discuss key issues in the global economy. Under Secretary Adams will appear on two panels to discuss development and demographic trends in China.

Deputy Secretary Kimmitt's Panels:

January 26, 3 p.m. (CET) – The G20 Agenda: 2007 and Beyond
January 27, 8:15 a.m. (CET) – Global Economic Outlook

Under Secretary Adams' Panels:

January 25, 8 p.m. (CET) – Pricing China's Demographic Trends
January 26, 11:15 a.m. (CET) – Sustaining China's Next Stage Development

NOTE: Panel details are subject to change; please consult the World Economic Forum website for the most current information:
http://www.weforum.org/en/events/AnnualMeeting2007/index.htm

Media wishing to interview Deputy Secretary Kimmitt or Under Secretary Adams in Davos should contact Brookly McLaughlin at: brookly.mclaughlin@do.treas.gov.

PRESS ROOM

January 18, 2007
HP-227

Paulson Announces Kimberly A. Reed to Head CDFI Fund

Washington, D.C- U.S. Treasury Secretary Henry M. Paulson today announced the appointment of Kimberly A. Reed as the new director of the Treasury Department's Community Development Financial Institutions (CDFI) Fund.

"Kimberly has served this Administration with distinction," said Treasury Secretary Paulson. "I look forward to continuing to work with her in this important new role at the CDFI Fund. She will help in Treasury's work to encourage more jobs and opportunity in America's neediest communities."

The CDFI Fund expands the capacity of financial institutions to provide credit, investment capital, and financial services to distressed urban and rural communities in the United States. Since its creation in 1994, the Fund has awarded $820 million through its programs. In addition, the Fund administers the New Markets Tax Credit Program, which has authority to allocate $19.5 billion in tax credits to Community Development Entities.

Reed has served as senior adviser to both Secretary Paulson and Secretary John W. Snow since May 2004. As senior adviser, she provided counsel on key policy matters, including tax and economic issues. Reed also has played a key role in coordinating issues within the Department and its Bureaus, including the CDFI Fund, as well as with the White House and other agencies, and was involved in the day-to-day management of Departmental operations.

Reed served as counsel and professional staff to three U.S. House of Representatives committees from 1997 to 2004, including the Ways and Means Committee, the Government Reform Committee and the Education and the Workforce Committee. While at the Ways and Means Committee, she conducted oversight reviews of various issues within the Committee's jurisdiction, including Treasury and Internal Revenue Service policies and procedures, tax incentive programs for economically distressed communities, the activities of tax-exempt organizations, and the charitable response to September 11.

Originally from Buckhannon, West Virginia, Reed graduated in 1996 with a Juris Doctor degree from West Virginia University College of Law. In 1993, she graduated from Wesleyan College with dual degrees in biology and government.

Reed received the 2004 West Virginia Wesleyan College Young Alumni Achievement Award, and, in 2006, Secretary Snow awarded her the Secretary's Honor Award.

PRESS ROOM

January 22, 2007
2007-1-22-14-46-55-13499

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 $65,023 million as of the end of that week, compared to $64,996 million as of the end of the prior week.

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

	January 12, 2007			January 19, 2007		
TOTAL	64,996			65,023		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	12,252	10,562	22,814	12,296	10,500	22,796
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,221	5,145	17,366	12,269	5,110	17,379
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]			4,991			5,003
3. Special Drawing Rights (SDRs) [2]			8,784			8,804
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	January 12, 2007			January 19, 2007		
	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 12, 2007			January 19, 2007		
	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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January 23, 2007
HP-228

Administration's Proposal for Affordable, Accessible, and Flexible Health Coverage

In his State of the Union Address, President Bush will announce proposals to make health insurance available and affordable for more Americans. The new standard deduction for health insurance will make the tax system more progressive, with the benefits concentrated on low- and middle-income Americans, and will increase the number of people with health insurance.

Taxes as a percent of income would fall for the first four quintiles - the bottom 80 percent of the population.

REPORTS

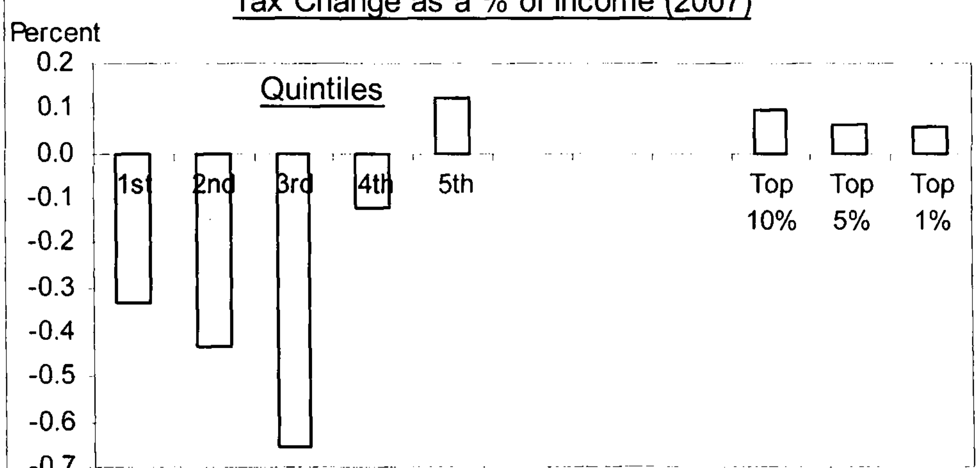
- Administration's Proposal for Affordable, Accessible, and Flexible Health Coverage

Administration's Proposal for Affordable, Accessible, and Flexible Health Coverage

In his State of the Union Address, President Bush will announce proposals to make health insurance available and affordable for more Americans. The new standard deduction for health insurance will make the tax system more progressive, with the benefits concentrated on low- and middle-income Americans, and will increase the number of people with health insurance.

The New Standard Deduction for Health Insurance Makes the Tax Code More Progressive

Tax Change as a % of Income (2007)



Note: Quintiles begin at: 2nd $13,310; 3rd $28,507 ; 4th $50,448; 5th $87,758; top 10% $128,676; top 5% $177,816; top 1% $432,275.

Source: U.S. Department of the Treasury, Office of Tax Analysis.

Taxes as a percent of income would fall for the first four quintiles – the bottom 80 percent of the population.

PRESS ROOM

January 24, 2007
HP-229

Remarks of Anna Escobedo Cabral
U.S.Treasurer
U.S. Department of the Treasury

Before the El Salvador Chamber of Commerce
"Motor De Crecimiento Y Desarrollo"

San Salvador, El Salvador - Good evening. Mr. President, Madame Vice President, distinguished leaders of El Salvador, it's truly an honor to be here. I want to thank Maria Elena de Alfaro and the El Salvador Chamber of Commerce and Industry for inviting me to join you this evening. Thank you, Patricia, for that kind introduction, and thanks to all of you for your warm welcome.

This is my second visit to El Salvador. I was here just last March when we released design changes to the $10 note. It's a pleasure to return to this beautiful country once again. It's wonderful to see your picturesque mountains and stunning waters. It's no surprise that El Salvador's beaches attract visitors from around the world.

But I'm most excited to be here because El Salvador is such an important and close partner to the United States. We continue to work together to combat terror, drug trafficking, money laundering and other international crimes. In addition, we remain committed to advancing economic reform and trade throughout the region. On behalf of President Bush and Secretary Paulson, I want to thank President Saca and his Administration for your close friendship and cooperation.

One of President Bush's priorities remains working with El Salvador and countries throughout Latin America to promote economic development and opportunity. We will continue to strengthen our cooperation to improve quality of life throughout the region and achieve our critical goals.

This is also a unique time for our countries in some respects. Charles Glazer was recently sworn-in as the new United States Ambassador to El Salvador. Ambassador Glazer is scheduled to arrive at the Embassy tomorrow. I had the privilege of attending dinner at former Ambassador Barclay's residence last year. I know his tremendous work here has been well-appreciated by the Salvadorans. Ambassador Barclay was recently named Noble Friend of El Salvador by the Legislative Assembly – the highest recognition that branch of government can give to a foreign citizen. I'm sure Ambassador Glazer will draw on the strong foundation of progress that Ambassador Barclay achieved during his tenure.

In particular, I'm pleased to be a part of this very important conference. I applaud the efforts of the Chamber of Commerce and Industry to promote professional development and leadership among Salvadoran women. All citizens must have the opportunity to participate in the social, political and economic spheres of society in order for a country to truly thrive.

Salvadoran women have continued to play a key role in the reconstruction of Salvadoran communities and society, and women's contributions to the mainstream economy has increased dramatically since 1992. Salvadoran women have a critical role in this society as mothers, wives, and business leaders. Because many men leave the country to seek work, women head an estimated 30 percent of

Salvadoran families.

But Salvadoran women also hold many prominent political and professional positions. You have a strong example of a positive female role model in your Vice President. And the leader of this Chamber is a woman. Those are just two examples, and I know I wouldn't have to look very hard to find more. When I was asked to come here to talk about balancing public and private life, I wasn't sure if I could offer any more insight than what you see every day from women like these.

The fact is, women in so many cultures learn very quickly how to manage their professional and personal lives. After all, many of the skills we must develop to ensure the health and well-being of our families also come in handy in the workplace. For example, communication, time management, teamwork and morale building, smart decision-making, and of course, leadership are all essential skills for managers and entrepreneurs. Women carry out at least some – if not all – of these skills every day in their personal lives. We learn how to prioritize and remain committed and focused on what's most important.

Looking around in the audience, I know that many of the women here own their own businesses. Many of you serve as role models for other women in your community as well as for young women who have not yet started their careers. Your important work is laying the foundation for others to follow. And I challenge you to continue building on your skills and developing new ones. Because I truly believe that if we continue pushing ourselves to learn new things we can continue to open doors of opportunity for ourselves as well as for others.

I know this has been true in my own life. I credit education for many of the wonderful opportunities I've been fortunate to have throughout my life. Each of us has unique skills and talents, and it's up to us to develop those skills through education so that we can contribute to our communities, whether it's through our careers, community work, or family life. Today, like so many women, I wear many hats that extend beyond my professional career as U.S. Treasurer. I am also a wife and a mother among other things.

I've always believed that a key way to teach and motivate young people is to lead by example. When my children were young I wanted them to understand the importance of education, and I wanted to set high standards for them.

I believe children will often live up to the standards we set so my children knew at a very early age that they were expected to finish high school and go on to college. All of them did.

As women, especially those who are mothers and those who are heads of households, we have the opportunity through our professional careers to teach our children that they can achieve their dreams. They can eventually have their own business or pursue the career of their choice.

This is important because young people represent the future. The strong values we can instill today will help enhance quality of life and advance economic growth and security for generations to come.

In El Salvador, this is significant because you're now at a critical time. El Salvador has experienced a rebirth in many ways after 12 years of bitter conflict and civil war. Since signing the 1992 Peace Accords, the Republic has emerged a leader in the region in addressing economic issues. You were the first to ratify and implement CAFTA. According to the World Bank, in the next five years this landmark trade agreement has the potential to increase trade and investment and boost economic growth in El Salvador, lifting tens of thousands out of poverty. CAFTA will also deepen integration in the region and promote greater levels of foreign investment.

In addition, the tourism sector has thrived in recent years, and since dollarization in 2001, the financial sector in El Salvador continues to expand.

I also want to congratulate you on the recent signing of a compact with the Millennium Challenge Corporation. This is a five-year compact that will provide more than $460 million to stimulate economic growth and reduce poverty in El Salvador. This grant enables strategic investments in education, public services, agricultural production, rural business development and transportation infrastructure, among other critical areas that will help improve the quality of life for some 850,000 Salvadorans. Overall, the Millennium Challenge compact will provide new economic opportunities in the Northern Zone and throughout El Salvador. As El Salvador grows stronger in areas such as education, trade infrastructure, technical assistance and governance through the Millennium Challenge, the promises of the CAFTA will continue to emerge.

To be sure, this country has come a long way since 1992. You have held seven free national elections. You have strengthened your democratic institutions, your Armed Forces and Police. Foreign investment has increased, and you play an increasing role in the global economy. In fact El Salvador is one of the strongest and most stable countries in our hemisphere. Today, this Republic represents the promises of hope and opportunity achieved through a stable democracy.

Despite this progress, critical challenges remain. Violent crime and poverty continue to plague Salvadoran communities, affecting many women in particular. Lack of security threatens economic growth and reduces quality of life, and more must be done to stop it.

As I mentioned earlier, El Salvador and the United States share an important partnership. We share strong trade ties, and we know that working together to promote economic growth and stability throughout Central and Latin America is in all of our interests. Stronger trade and investment links between our countries could create increased growth throughout the Western Hemisphere and promote greater security and stability. But we also know that trade alone is not enough. That is why President Bush and his Administration remain committed to working with Latin America to confront a range of challenges from poverty and income inequality to infrastructure and investment.

One area that we're focused on at Treasury is how do we increase investment flows throughout Latin America? In the case of El Salvador, remittances can play a very significant role in enhancing development. Today, over two million Salvadoran citizens live in the United States. That's more than a quarter of El Salvador's population. Each year, they send home an estimated $3 billion to their families here in El Salvador.

The good news is that an estimated 2.7 million Salvadorans – 42 percent of the population – have either a checking or a savings account. In fact, El Salvador falls second to Chile for bank usage throughout Latin America. That means that there is a tremendous opportunity for remittances
to become a driving force for economic growth through savings and investment. For example, about half of the money remitted is spent on health and education. In other words, the money is being invested back into Salvadoran communities, helping to create jobs and expand opportunity.

Remittances can have an even greater impact if we can help those receiving this money build their assets and invest their money wisely. This way there is a real opportunity for individuals, especially low-income families, to build their wealth, invest in an education, buy a house or build a business. That is why it is critical for financial institutions to reach out to their remittance customers and make valuable resources – such as credit, insurance and mortgage products – easily accessible.

One thing we also need to consider is the cost of remittance transactions. For example, the average value of a transfer to El Salvador is over $300, while the average cost of sending the remittance is roughly five percent of the transfer value. These transfer fees make up a large transaction cost.

At Treasury, we are committed to working with the public and private sectors to promote expansion of savings and investment options for remittance recipients throughout Latin American. We support and encourage the development of an environment which will facilitate the private sector's efforts to offer remittances through formal financial channels, including the banking system.

Now, what does all of this mean to you here?

A strong economy is the lifeblood of a country. It creates opportunities for growth and advancement and ensures prosperity for our families, our communities, and our countries.

There's no question, El Salvador has achieved a great deal in recent years. Not too long ago, war was a daily reality and prosperity was an unrealized hope. You have found new wealth and adopted new ideals. You have every reason to be optimistic about the bright future that lies ahead for this country. All of you here can continue to build on this success and take advantage of these opportunities by broadening your education, building your skills, and giving back to your communities.

Mother Teresa once said, "God gave us faculties for our use; each of them will receive its proper reward. Then do not let us try to charm them to sleep, but permit them to do their work until divinely called to something higher."

El Salvador will continue to flourish and it's renewed belief in democracy, freedom, and human rights will continue to bind our two nations together and ensure prosperity throughout Latin America.

January 26, 2007
HP-230

Treasury Targets Al Qaida Facilitators in South Africa

The U.S. Department of the Treasury today moved to designate two South African individuals, Farhad Ahmed Dockrat and Junaid Ismail Dockrat, and a related entity for financing and facilitating al Qaida, pursuant to Executive Order 13224. This action freezes any assets the designees have under U.S. jurisdiction and prohibits transactions between U.S. persons and the designees.

"Today's action targets two family members that have supported al Qaida – one by providing funds to Al Akhtar Trust, a globally-recognized al Qaida fundraiser, and another by facilitating travel for individuals to train in al Qaida camps," said Adam Szubin, Director of Treasury's Office of Foreign Assets Control (OFAC). "This designation freezes the Dockrats out of the U.S. financial system and notifies the international community of the dangerous conduct in which the Dockrats are engaged."

Identifying Information

Farhad Ahmed Dockrat
AKAs:
Farhaad Ahmed Dockrat
Farhad Ahmad Dockrat
Farhad Dockrat
Ahmed Dockrat
Farhaad Dockrat
Farhad Docrate
F. Dockrat
Maulana Farhad Dockrat

POB:
Pretoria, South Africa

DOB:
28 February 1959

Nationality:
South African

Address:
386 Swanepoel Street, Erasmia, Pretoria, South Africa.

Identification No.:
5902285162089/055 (South African)

Passport:
446333407 (South African, exp. 26 May 2014)

Farhad Dockrat both finances and facilitates al Qaida. In one example, Dockrat in 2001 provided over 400,000 South African Rand (approximately $62,900 US) to the Taliban ambassador to Pakistan to be forwarded to al Akhtar Trust, an Afghanistan-based fundraiser for al Qaida. Al Akhtar Trust was previously designated by the United States under E.O. 13224 for its support to al Qaida. Al Akhtar Trust is also on the United Nations 1267 Committee's list of sanctioned individuals and entities designated for providing support to al Qaida, Usama bin Ladin and the Taliban.

Junaid Ismail Dockrat
AKAs:
Junaid Docrate
Junaid Dockrat
J.I. Dockrat
Dr. Ahmed

DOB:
16 March 1971

Address 1:
Johannesburg, South Africa

Address 2:
71 Fifth Avenue, Mayfair, South Africa 2108

Address 3:
P.O. Box 42928, Fordsburg, South Africa, 2033.

Identification No.:
7103165178083 (South African)

Junaid Dockrat is an al Qaida financier, recruiter and facilitator. Junaid Dockrat in 2004 worked via phone and email with Al Qaida operations chief Hamza Rabi'a (now deceased) to coordinate the travel of South Africans to Pakistan in order for them to train with al Qaida. He is also responsible for raising US $120,000 that Rabi'a received in the spring of 2004.

Sniper Africa
AKAs:
Sniper Outdoor CC
Sniper Outdoors CC
True Motives 1236 CC

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Address 4:
P.O. Box 28215, Kensington 2101 South Africa

Website:
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Tax Number:
9113562152 (South African)

Registration:
200302847123 (South African)

Sniper Africa is seventy percent (70%) owned by Junaid Ismail Dockrat.

PRESS ROOM

January 26, 2007
HP-231

Paulson, Irs To Push Use Of Credit
Helping Low-Income, Working Americans

U.S. Treasury Secretary Henry M. Paulson, Jr. will join U.S. Treasurer Anna Escobedo Cabral and IRS Commissioner Mark W. Everson on Thursday, February 1 to promote the earned income tax credit (EITC), which has brought millions of low-income, working Americans out of poverty.

A recent Census study found that 4.6 million people – including 2.4 million children – were lifted out of poverty in 2002, thanks to the Earned Income Tax Credit. The EITC is already the government's largest cash assistance program targeted to low-income Americans. Many taxpayers are eligible but fail to claim the credit.

The Treasury and the IRS will promote EITC Day, a nationwide campaign to promote the EITC and free tax preparation services for working families. Advocates of EITC and free tax preparation sites also will be on hand.

Who
Secretary Henry M. Paulson
Treasurer Anna Escobedo Cabral
Commissioner Mark W. Everson

What
EITC Awareness Day

When
Thursday February 1, 2:30 p.m. (EDT)

Where
Department of Treasury
Media Room 4121
1500 Pennsylvania Ave., NW
Washington, DC

Media interested in attending the event at the Treasury Department must have Treasury press credentials or should contact Frances Anderson for clearance at (202) 622-2960 or Frances.Anderson@do.treas.gov with the following information: name, Social Security number, and date of birth.

PRESS ROOM

January 29, 2007
2007-1-29-11-34-28-14233

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 $64,852 million as of the end of that week, compared to $65,023 million as of the end of the prior week.

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

	January 19, 2007			January 26, 2007		
TOTAL	65,023			64,852		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	12,296	10,500	22,796	12,244	10,473	22,717
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,269	5,110	17,379	12,221	5,101	17,322
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]			5,003			4,990
3. Special Drawing Rights (SDRs) [2]			8,804			8,782
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	January 19, 2007			January 26, 2007		
	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 19, 2007			January 26, 2007		
	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 29, 2007
HP-232

Assistant Secretary of the Office of Economic Policy
Phillip Swagel
Statement for the Treasury Borrowing Advisory Committee
of the Securities Industry and Financial Markets Association

Economic indicators have broadly improved since the Committee last met three months ago. Economic activity appears to have strengthened in late 2006, the labor market remains solid, and inflation has eased.

The labor market turned in a solid performance in 2006. The unemployment rate ended 2006 at 4.5 percent, close to a 5-1/2 year low. Payroll job gains averaged more than 150,000 per month during the year, with more than 7.2 million net jobs added since the employment trough in August 2003. The labor force participation rate increased in the final two months of the year and now stands at a 3-1/2 year high. Real wages grew strongly in the second half of 2006; coupled with a decline in energy prices, these income gains have helped to support consumer spending.

The advance estimate of GDP data for the fourth quarter of 2006 will be released on January 31. Real GDP grew 2.0 percent at an annual rate in 2006Q3, as declines in housing construction and a pullback in motor vehicle production offset expansion in other sectors. The decline in residential construction alone shaved 1.2 percentage points from Q3 GDP growth. Strength in nonresidential construction activity helped compensate in part for the slowdown in residential construction, with investment in nonresidential structures such as commercial buildings and offices up by nearly 16 percent at an annual rate in the third quarter.

Data released through late-January point to solid GDP growth in 2006Q4. Consumer spending remains buoyant, while strong corporate profits in the third quarter suggest that businesses have a solid financial base for future expansion and job creation. The trade deficit narrowed in October and November and net exports are likely to make a strong positive contribution to growth in the quarter.

The housing sector appears likely to remain a substantial drag on GDP growth in 2006Q4, but there are signs that homebuilding activity has stabilized. Housing starts were up in November and December (though still well below year-earlier levels), and building permits rose in December for the first time since January 2006. The pace of existing home sales in the last quarter was below year-earlier levels, but quite close to third-quarter levels, while new homes sales in the fourth quarter rose 5 percent from the third quarter. The inventory of new homes on the market equaled a 5.9 months supply at December's sales pace; while elevated, this is below the recent 7.2 month peak in July.

Importantly, the housing slowdown does not appear to have spilled over to consumer spending, which accounts for more than two-thirds of GDP. Retail sales growth in December was solid, and overall consumer spending appears to have accelerated noticeably in the fourth quarter after posting a gain of less than 3 percent in 2006Q3. Strong growth in wages, which represent the majority of income for most Americans, has likely been an important factor in supporting consumption. Real average hourly earnings grew by 1.7 percent over the twelve months ending in December, the largest annual rise since 2001. Survey data suggest that consumers are feeling relatively confident about current economic conditions and prospects over the near term. The University of Michigan survey of consumer sentiment reached a 3-year high in early January.

The Administration economic forecast underlying the Budget projects 2.9 percent GDP growth during the four quarters of 2007. This is in line with the consensus of private sector forecasts.

Headline inflation moderated substantially in the last three months of 2006. The consumer price index (CPI) was up 2.5 percent from a year earlier in December. This pace is well below readings in excess of 4 percent in the summer that were driven by double-digit increases in energy prices. Energy prices have retreated substantially since the end of last summer, at which time oil prices were above $70 per barrel and retail gasoline was above $3 per gallon. Mild winter weather across most of the United States has reduced heating demand, allowing key petroleum product inventories to rise to comfortable levels. Oil prices are averaging $55 per barrel through late January, and retail gasoline prices have declined from an average of more than $2.90 per gallon in the summer of 2006 to about $2.15 per gallon. A simple back-of-the-envelope calculation illustrates the positive impact of these developments on American families. The typical two-car household uses about 550 gallons of gasoline every six months. A 75 cent reduction in retail gasoline represents a per-household savings of more than $400 over that six-month period.

There was also improvement in the core CPI, which strips out the volatile food and energy categories. That price measure was up 2.6 percent from a year earlier in December, but rose at only a 1.4 percent annual rate in the last three months of the year, after rising at a 3.6 percent rate in the three months ending in June. One measure of inflation expectations, the spread between nominal five-year Treasuries and inflation-indexed bonds, has edged up recently but remains well below the levels of last summer. Recent readings from that indicator suggest 2.3 percent inflation going forward.

In sum, the economy is solid, with a firm labor market and signs that inflationary pressures are easing. The outlook for 2007 is for those trends to continue.

PRESS ROOM

January 31, 2007
HP-233

Assistant Secretary for Financial Markets Anthony W. Ryan

February 2007 Quarterly Refunding Statement

We are offering $38.0 billion of Treasury securities to refund approximately $35.1 billion of privately held securities maturing on February 15 and to raise approximately $2.9 billion. The securities are:

- A new 3-year note in the amount of $16.0 billion, maturing February 15, 2010;
- A new 10-year note in the amount of $13.0 billion, maturing February 15, 2017;
- A new 30-year bond in the amount of $9.0 billion, maturing February 15, 2037.

These securities will be auctioned on a yield basis at 1:00 PM EST on Tuesday, February 6; Wednesday, February 7; and Thursday, February 8, respectively. All of these auctions will settle on Thursday, February 15. The balance of our financing requirements will be met with weekly bills, monthly 2-year and 5-year notes, the March 10-year note reopening and the April 5-year TIPS offering and the 10-year TIPS reopening. Treasury also is likely to issue cash management bills in March and April. Additional cash management bills may be required to manage volatility associated with tax refunds.

New Treasury Auction System

Treasury will soon begin testing its new auction system, which is designed to update existing technology, automate manual processes, and continue to maintain the speed and reliability of the auction process. We expect testing to continue until summer 2007. Prior to implementation of the new system, Treasury will be asking dealers and investors to participate in mock auctions and functionality testing.

Debt Issuance Considerations

In response to ongoing strength in receipts, Treasury has made recent cuts in nominal and TIPS coupon issuance. Continued strength in the fiscal outlook may necessitate additional adjustments to our marketable borrowing. Treasury may need to reduce auction sizes further or institute changes in the frequency or composition of the current auction cycle.

Accordingly, Treasury is considering options related to the 3-year note, including changing the frequency of issuance or eliminating the issue. We will make any announcement regarding our decision on the 3-year note at the May refunding.

Regardless of our decision on the future of the 3-year note, Treasury confirms that it will auction a 3-year note at the May 2007 quarterly refunding.

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, May 2, 2007.

PRESS ROOM

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January 31, 2007
HP-234

**Report To The Secretary Of The Treasury
From The
Treasury Borrowing Advisory Committee
Of The
Securities Industry And
Financial Markets Association**

January 30, 2007

Dear Mr. Secretary:

Since the Committee's previous meeting in November, the economic expansion has strengthened somewhat from the slow pace that prevailed last spring and summer. The consensus for the quarter just ended estimates that overall growth reached 3% or better despite another steep drop in homebuilding and related activities. Consumer spending responded vigorously to a sharp fall in energy costs and a highly promotional holiday season. Although a mild start to the winter may have provided an additional temporary boost to activity, confidence is rising that growth in coming quarters will moderate close to trend barring major spillover from soft housing markets to consumers.

Weakness in housing and autos in the second half of last year contributed to reduced price pressures toward year end. Prices of light vehicles and other large household goods declined at a 4% annual rate in the fall, helping to shave a couple of tenths off year-to-year increases in core inflation rates. The more recent fall in energy prices should also diminish or even reverse the earlier threat of pass-through effects to core inflation. Nonetheless, underlying inflation remains slightly elevated in a 2¼% to 2¾% range, while resilient hiring demands in a tight labor market and some indications of rising labor costs have kept alive concerns about upside risks.

Against a backdrop of tentative signs that an overbuilt housing market has begun to clear without sizable collateral effects on the broader economy, earlier expectations for lower interest rates in 2007 have faded. Yields on U.S. Treasury securities have risen by roughly 40 basis points above their late November lows and market participants now expect very little activity by the Federal Reserve over the medium term horizon.

The Federal government's fiscal balance continues to narrow. Fiscal year 2007 budget flows thus far point to another decline in the deficit this year. Continued economic expansion joined with the equity market's rise should support tax receipts, but public spending, especially on entitlements, also remains brisk.

In the first section of the charge, Treasury solicited the Committee's view on the fiscal outlook and whether the continued positive surprises on tax receipts and the overall deficit warrant any change in the debt issuance schedule.

The Treasury reviewed a series of exhibits with the Committee that highlighted the elevated tax receipts from corporations and individuals and the fact that recent figures on corporate profits, stock prices and employment suggest that these trends should continue over the near term.

At the same time, however, the Treasury also provided charts on the US housing market and recent volatility in oil prices that serve as a reminder of the uncertainty of future economic activity and tax revenue.

Members were quick to point out that while recent tax revenues have been tremendous, the ability to forecast tax revenues, expenditures and the Federal deficit is difficult and Treasury needs to be cautious not to extrapolate the recent success too far into the future. In fact, several members agreed that the demographic effects from entitlement spending will likely put significant strains on the budget beginning in less than a decade and that Treasury should be cautious in making any radical changes to its coupon issuance resulting from near-term trends.

Another member highlighted the confusion over the role of the alternative minimum tax (AMT) and its significance to recent surprises in tax revenue. And that, with the uncertainty surrounding the election season on this and other tax and spending issues suggests caution with respect to forecasting the deficit over the intermediate term.

The continuation of outsized tax receipts has improved market forecasts of the US budget deficit for fiscal year 2007 by approximately $75 billion. Committee members discussed what actions the Treasury might take in response to the continued reduction in net borrowing needs.

Most members agreed that the security with the least investor value was the 5-year TIPs. While, overall, TIPs play a tremendous role for investors and are useful to diversify issuance risk to the Treasury, members noted that the 5-year TIP is too short in maturity to attract true investment demand and that the security was primarily held and traded by speculators responding to and anticipating near-term changes in commodity prices and their commensurate effect on short-term inflation measures.

Additionally, Committee members generally agreed that the quarterly 3-year note was the next security that the Treasury should consider reducing or eliminating if borrowing needs merit a reduction in coupon issuance.

The three-year note which was only re-introduced a few years ago, has served the Treasury well over time as a security that is well received in the market but does not enjoy the same level of benchmark status as the 2-, 5- and 10-year notes. Consequently, it is a logical choice as a security to be introduced or eliminated as borrowing needs change over an intermediate period.

Alternatively, one Committee member suggested that the Treasury reduce the 10-year note in size or frequency along with the size of the 2-year note. However, there was little agreement from other Committee members who almost universally favored the reduction or elimination of 5-year TIPs and 3-year notes as needed.

A number of Committee members reiterated their belief that the bill market provides the Treasury with tremendous financing flexibility and that the Treasury should be cautious in making significant changes to the issuance calendar for notes and bonds until the need for such changes is very clear.

And, at the same time, several members stressed the importance of providing the market with advanced warning of any significant changes to the coupon calendar and the maintenance of the Treasury's hallmark of regular and predictable issuance.

In the second part of the charge, Treasury asked the Committee for its views on short-term debt management in the context of recent increased volatility of borrowing needs and cash balances.

A member of the Committee presented a series of charts depicting the volatility of current borrowing needs, the Treasury's effectiveness of managing short-term debt issuance and cash balances, the current state of preparedness in the financial system for a large-scale disruption and suggested other possible tools for Treasury to consider in the case of a contingency event.

It was pointed out that while budgetary forecasting errors have been quite significant, driven by a large number of factors, the volatility of outlays and receipts is currently near the long-term average as a percentage of output. Treasury has implemented a number of successful innovations over the past several years in the area of short-term financing including the 4-week bill program, the Term Investment Option Program and the recent launch of a repurchase agreement pilot program which have served to both minimize their cost of short-term issuance and to increase the interest earned on high cash balances.

As for contingency planning, it was noted that post 9/11 the Treasury, Federal Reserve, large member banks, primary dealers and clearing entities have upgraded capacity to deal with business continuity issues in critical lines and functions. Members discussed the idea of Treasury employing Tri-Party Repurchase Agreements for contingency planning purposes. While some members felt this tool would be more useful and appropriate than Treasury setting up a line of credit or borrowing directly from the Federal Reserve, most felt that Treasury's strongest tools in the event of a large scale disruption would continue to be the use of moral suasion and stopgap financing measures.

The third charge to the Committee centered on the competitiveness of the U.S. Treasury market and what steps, if any, could be taken to improve its position.

The U.S. Treasury market is the most liquid debt market in the world and is a benchmark against which all other debt markets are measured. The average daily trading volume in Treasury securities exceeds $500 billion. The Treasury holds over 200 auctions a year and over 95% of the auction results are posted within two minutes.

One of the hallmarks of the Treasury market is the regular and predictable issuance pattern that the Treasury maintains and the transparency the Treasury has provided to investors and market makers. While the Committee was universal in recognizing the success the market enjoys, members pointed out that the continued success of the market is dependent on the continuation of these practices and policies. Also, technology was seen as a key focus to ensure that the auction process continues to improve both in efficiency and timeliness.

Additionally, several members stressed the importance of a "light regulatory approach" or minimal "regulatory burden" for the Treasury. This approach has served the Treasury well in the past and is increasingly important in a global and more competitive market- place.

One member noted that the Treasury has distinguished itself through the fairness it has achieved in the dissemination of information to all market participants, which is not universally seen in many foreign government markets.

One member suggested that the Treasury should not hesitate to take a stronger leadership role in world government bond markets and assist in the setting of standards and policies which benefit all market participants.

In the final section of the charge, the Committee considered the composition of marketable financing for the January-March quarter to refund approximately $35.1 billion of privately held notes maturing on February 15, 2007 as well as the composition of marketable financing for the remainder of the January-March quarter, including cash management bills, as well as the composition of marketable financing for the April-June quarter.

To refund $35.1 billion of privately held notes and bonds maturing on February 15, 2007, the Committee recommended an $18 billion 3-year note due February 15, 2010, a $13 billion 10-year note due February 15, 2017 and a $10 billion 30-year bond due February 15, 2037. For the remainder of the quarter, the Committee recommended a $20 billion 2-year note in February and March, a $13 billion 5-year note in February and March and an $8 billion reopening of the 10-year note in March.

The Committee also recommended a $30 billion 14-day cash management bill issued March 1, 2007 and maturing March 15, 2007 as well as a $10 billion 7-day cash management bill issued March 8, 2007 and maturing March 15, 2007. For the April-June quarter the Committee recommended financing as found in the attached table. Relevant features include three 2-year note issuances monthly, three 5-year note issuances monthly, one 3-year note issuance in May, a 10-year note issuance in May with a reopening in June, a 30-year bond reopening in May, as well as a 10-year TIPs reopening in April and a 5-year TIPs issuance in April.

Respectfully submitted,

Thomas G. Maheras
Chairman

Keith T. Anderson
Vice Chairman

Attachments (2)
Table Q1 07
Table Q2 07

REPORTS

- Table Q1 07
- Table Q2 07

US TREASURY FINANCING SCHEDULE FOR 1st QUARTER 2007
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	12/28	1/2	1/4	8.00	17.00	14.00	48.00	-9.00
	1/4	1/8	1/11	8.00	17.00	14.00	41.00	-2.00
	1/11	1/16	1/18	8.00	17.00	14.00	41.00	-2.00
	1/18	1/22	1/25	9.00	17.00	14.00	40.00	0.00
	1/25	1/29	2/1	10.00	17.00	14.00	40.00	1.00
	2/1	2/5	2/8	*14.00*	*18.00*	*15.00*	*41.00*	*6.00*
	2/8	2/12	2/15	*20.00*	*18.00*	*16.00*	*41.00*	*13.00*
	2/15	2/20	2/22	*24.00*	*20.00*	*16.00*	*43.00*	*17.00*
	2/22	2/26	3/1	*30.00*	*20.00*	*18.00*	*44.00*	*24.00*
	3/1	3/5	3/8	*30.00*	*22.00*	*18.00*	*48.00*	*22.00*
	3/8	3/12	3/15	*30.00*	*22.00*	*18.00*	*54.00*	*16.00*
	3/15	3/19	3/22	*25.00*	*22.00*	*18.00*	*57.00*	*8.00*
	3/22	3/26	3/29	*22.00*	*20.00*	*16.00*	*63.00*	*-5.00*
					690.00		*601.00*	*89.00*
CASH MANAGEMENT BILLS								
14-DAY BILL	2/26 Matures 3/15	2/28	3/1		*30.00*		*30.00*	*0.00*
7-DAY BILL	3/5 Matures 3/15	3/7	3/8		*10.00*		*10.00*	*0.00*
								0.00
COUPONS						CHANGE IN SIZE		
10-Year TIPS	1/8	1/11	1/16		9.00		17.80	-8.80
20-Year TIPS	1/18	1/23	1/31		8.00	-2.00		
2-Year Note	1/22	1/24	1/31		20.00			
5-Year Note	1/22	1/25	1/31		13.00		22.90	18.10
3-Year Note	1/31	2/6	2/15		*18.00*	*-1.00*		
10-Year Note	1/31	2/7	2/15		*13.00*			
30-Year Bond	1/31	2/8	2/15		*10.00*	*-4.00*	*35.10*	5.90
2-Year Note	2/15	2/21	2/28		*20.00*			
5-year Note	2/15	2/22	2/28		*13.00*		*23.30*	*9.70*
10-Year Note - R	3/8	3/13	3/15		*8.00*			*8.00*
2-Year Note	3/26	3/28	4/2 *		*20.00*			
5-year Note	3/26	3/29	4/2 *		*13.00*		*24.00*	*9.00*
					165.00		123.10	41.90

Estimates are italicized

NET CASH RAISED THIS QUARTER: 130.90

R = Reopening

* The March two and five-year note auctions settle on April 2. As a result, that borrowing is counted as part of the April-June quarter's net cash raised. The December two and five-year auctions settled in Januaryl and thereby are part of this quarter's cash flow.

US TREASURY FINANCING SCHEDULE FOR 2nd QUARTER 2007
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	3/29	4/2	4/5	*15.00*	*20.00*	*16.00*	*62.00*	*-11.00*
	4/5	4/9	4/12	*15.00*	*17.00*	*15.00*	*62.00*	*-15.00*
	4/12	4/16	4/19	*8.00*	*14.00*	*13.00*	*57.00*	*-22.00*
	4/19	4/23	4/26	*8.00*	*14.00*	*13.00*	*54.00*	*-19.00*
	4/26	4/30	5/3	*8.00*	*14.00*	*13.00*	*47.00*	*-12.00*
	5/3	5/7	5/10	*10.00*	*14.00*	*13.00*	*48.00*	*-11.00*
	5/10	5/14	5/17	*18.00*	*14.00*	*13.00*	*41.00*	*4.00*
	5/17	5/21	5/24	*18.00*	*14.00*	*13.00*	*43.00*	*2.00*
	5/24	5/29	5/31	*18.00*	*14.00*	*13.00*	*44.00*	*1.00*
	5/31	6/4	6/7	*18.00*	*14.00*	*13.00*	*48.00*	*-3.00*
	6/7	6/11	6/14	*18.00*	*14.00*	*13.00*	*56.00*	*-11.00*
	6/14	6/18	6/21	*8.00*	*14.00*	*13.00*	*55.00*	*-20.00*
	6/21	6/25	6/28	*8.00*	*14.00*	*13.00*	*53.00*	*-18.00*
					535.00		*670.00*	*-135.00*

CASH MANAGEMENT BILLS	ANNOUNCEMENT DATE	AUCTION DATE	SETTLEMENT DATE	OFFERED AMOUNT	MATURING AMOUNT	NEW MONEY
14-DAY BILL	3/28 Matures 4/16	3/30	4/2	*25.00*	*25.00*	*0.00*
11-DAY BILL	4/2 Matures 4/16	4/4	4/5	*12.00*	*12.00*	*0.00*
4-DAY BILL	4/9 Matures 4/16	4/11	4/12	*8.00*	*8.00*	*0.00*
						0.00

COUPONS	ANNOUNCEMENT DATE	AUCTION DATE	SETTLEMENT DATE	OFFERED AMOUNT	CHANGE IN SIZE	MATURING AMOUNT	NEW MONEY
10-Year TIPS - R	4/5	4/12	4/16	*7.00*	*-1.00*		*7.00*
5-Year TIPS	4/19	4/24	4/30	*8.00*	*-3.00*		
2-Year Note	4/23	4/25	4/30	*20.00*			
5-Year Note	4/23	4/26	4/30	*13.00*		*21.60*	*19.40*
3-Year Note	5/2	5/7	5/15	*15.00*	*-3.00*		
10-Year Note	5/2	5/8	5/15	*13.00*			
30-Year Bond - R	5/2	5/10	5/15	*6.00*	*-4.00*	*54.60*	*-20.60*
2-Year Note	5/24	5/29	5/31	*20.00*			
5-year Note	5/24	5/30	5/31	*13.00*		*21.40*	*11.60*
10-Year Note - R	6/11	6/14	6/15	*8.00*			*8.00*
2-Year Note	6/25	6/26	7/2 *	*20.00*			
5-year Note	6/25	6/27	7/2 *	*13.00*		*19.70*	*13.30*
				156.00		*121.60*	*34.40*

Estimates are italicized

NET CASH RAISED THIS QUARTER: -100.60

R = Reopening

* The June two and five-year note auctions settle on July 2. As a result, that borrowing is counted as part of the July-September quarter's net cash raised. The March two and five-year auctions settled in April and thereby are part of this quarter's cash flow.

PRESS ROOM

January 31, 2007
HP-235

**Minutes of the Meeting of the
Treasury Borrowing Advisory Committee
of the Bond Market Association
January 30, 2007**

The Committee convened in closed session at the Hay-Adams Hotel at 10:30 a.m. All Committee members were present except Mohammed El-Erain. Under Secretary Robert Steel, Assistant Secretary Anthony Ryan, Deputy Assistant Secretary Matthew Abbott, and Office of Debt Management Director Karthik Ramanathan welcomed the Committee and gave them the charge.

Director Ramanathan presented a series of charts (see attached) highlighting recent trends in the fiscal outlook, noting that US economic growth remains healthy and continues to outpace expectations. From a fiscal perspective, corporate taxes and individual taxes remain strong while non-withheld taxes continue to grow as portion of government revenues. Several macroeconomic factors support these positive trends in the fiscal outlook, including the rise in after-tax corporate profits, a strong equity market, and low unemployment.

Ramanathan noted that while Treasury remains vigilant in monitoring potential headwinds that may impact the current encouraging trends - including uneven growth in the housing market and volatility in energy markets - the favorable budget outlook would imply reductions in debt issuance over the current fiscal year. The improvement in the budget deficit, from nearly 3.5 percent of GDP just three years ago to 1.9 percent of GDP in 2006 has been significant. According to Ramanathan, many market participants had recently adjusted their deficit forecast and borrowing estimates to account for the resilience in the US economy and its positive impact on the budget situation.

Ramanathan stated that strong receipts, coupled with moderate growth in expenditures, have resulted in lower borrowing needs. If this trend, now in its third year, continues, reductions in debt issuance would be needed.

The Committee then turned to the first question in the Committee charge (attached) regarding Treasury's debt issuance strategy in light of the continued positive trends from a fiscal and macroeconomic perspective.

In their discussion, members noted that it was difficult to forecast deficits past FY2007 because forecast errors are generally large and substantial, regardless of the source of such forecasts. One member commented that Treasury's past approach to responding to reduced borrowing needs has been to first reduce bill issuance. If changes are more secular, Treasury would make changes to coupons, first by reducing issue sizes until liquidity becomes a concern, then reducing auction frequencies, and then eliminating issues altogether. The member stated that it would be worthwhile describing and reiterating this paradigm along with other strategies for dealing with short-term and long-term borrowing needs in the policy statement.

One member noted that even over the near term, profit growth was slowing and that fiscal policy is a sizable unknown. Another member noted that tax receipts tended to be pro-cyclical with economic growth, and that the fiscal improvement could be greater than expected given current trends. A few members observed that structurally, over the next three to four years as baby boomers enter retirement, Treasury's borrowing needs will increase. With that in mind, members discussed ways of addressing lower borrowing needs over the near- to intermediate-term.

Some members advocated cutting bills further from current levels. They felt that the bill market could handle reduced issuance. Several members noted that coupons could be trimmed further without impacting liquidity, particularly in the short end of the curve. Another member suggested eliminating the 10-year nominal reopening. Others thought that it made sense to look at eliminating a short or intermediate coupon issue. A consensus seemed to develop around eliminating one of two securities – the 5-year TIPS or the 3-year nominal note.

Members noted that the 5-year TIPS is a trading vehicle that does not offer significant advantages to investors seeking long-term inflation protection. The security reacts mainly to commodity price changes. Real money demand for TIPS remains concentrated in longer-dated issues. Members generally thought that if Treasury needed to eliminate an issue, it would be appropriate to eliminate the 5-year TIPS. However, one member noted that there was not a lot to be gained from eliminating the 5-year TIPS in FY07 because 1) the offering size is not that great and 2) given Treasury's standard practice of being transparent and providing six months notice to the market, changes would have an impact in FY08, not the current fiscal year.

Members also felt that eliminating the 3-year nominal note could be another alternative. They noted that there is not as much sponsorship in this issue vis-a-vis the 2-year note and the 5-year note. The lack of a futures contract for the 3-year note also made the security more suitable for elimination. In addition, eliminating the 3-year note, even with six months advance notice, would help to reduce borrowing in FY2007. Several members thought that given that borrowing needs were going to increase in the next three to four years, removing the 3-year note at this point was prudent a structural perspective as opposed to adjusting longer-dated issues.

Members felt that reintroducing securities in the short end of the curve would be less costly than in the long-end, and that Treasury's past experience had shown that it could leave a sector and return at some future date if needed.

Members also expressed the belief that Treasury should adhere to the practice of providing markets with six months advance notice of substantial calendar changes. Doing so minimizes premiums associated with supply changes and mitigates market disruptions.

Next, the Committee addressed the second question in the Committee charge regarding Treasury's debt issuance as it relates to short-term borrowing needs. In particular, the Committee was asked to address Treasury's short-term debt issuance given the volatility in its borrowing needs. One Committee member presented a series of charts (attached) discussing this topic.

The member began by reviewing borrowing-need volatility. The member presented data showing that 1) receipts were significantly more volatile than outlays and 2) that volatility has increased over the years. Factors driving increased volatility include the economic cycle, energy prices, congressional spending, demographics and changes in tax provisions. The volatility created significant forecast errors.

The member then reviewed how Treasury has addressed these volatility issues through recent innovations and effective use of short-term debt instruments. These innovations included the introduction of 4-week bills, more effective use of cash-management bills, and the suspension of 52-week bills. On the investment side, Treasury has found ways to better manage volatility during times of high cash balances, while increasing the return on cash balances through the use of the term-investment option and the pilot repurchase agreement programs, and by relying less on TT&L accounts.

The member next reviewed enhancements to the securities-trading infrastructure across Treasury, the Federal Reserve and the private sector. These enhancements have been designed to provide capacity in the event of unforeseen market disruptions that may cause volatility in borrowing needs. The main enhancement undertaken by all parties involved include fully staffed, live, geographically-diversified, contingent operating centers. These improvements serve Treasury well in the event of a market disruption.

The member then broached other alternatives for addressing short-term borrowing needs in a contingency event including those suggested in a September 2006 GAO report on short-term financing. To address an unexpected short-fall in cash, GAO recommended that Treasury look at establishing credit lines, consider private placements of cash management bills, and/or establish authority to borrow directly from the Federal Reserve during periods of wide-scale disruption. The member pointed out difficulties with all these GAO suggestions, including the significant costs of credit lines, the possible inability of institutions to participate in providing credit during a crisis, and the necessity that the clearing a settlement infrastructure to be intact for doing private placements. They also questioned the wisdom of borrowing from the Federal Reserve, and noted the likely difficulties in obtaining the authority to allow the Federal Reserve to lend directly to the Treasury. The member also suggested that Treasury consider tri-party repo arrangements, acknowledging that it also is problematic if the settlement infrastructure is not functioning.

Members generally felt that given the nature of crises, and the infrastructure currently in place, Treasury was well placed to deal with any contingent event. One member pointed out that the Treasury and the Fed have done a good job in navigating these crises in the past as witnessed by 9/11. Several members noted that cash management bills were the primary vehicle in dealing with a short term financing contingency, and Treasury currently has a strong program in place. Other members noted that the recommendations made by the GAO were not optimal and that cash management bills were the most appropriate method of addressing a severe contingency event – a process which is already well established with market participants.

The Committee agreed that Treasury's short term debt issuance in the face of increasing volatility has been very effective, and recommended continued transparency and predictability in addressing future volatility.

Next the Committee addressed the third item in the charge regarding competitiveness in the US Treasury market, and any steps that could be undertaken to ensure that the Treasury market remained the preeminent debt market. Deputy Assistant Secretary Abbott presented a series of charts highlighting prominent characteristics of the US Treasury market including trading volume in relation to other sovereign debt markets as well as other indicators of robust liquidity including narrow bid-ask spreads, an evolving investor base, increasing trade sizes, strong primary auction demand, and the growth of the inflation-linked debt market.

Abbott noted that Treasury would continue to foster deep, liquid markets by remaining transparent in its actions, issuing debt in a regular and predictable manner, and minimizing regulatory burdens on market participants. These guiding principles, which have resulted in the deepest, most liquid debt market approach in the world, were also part of Treasury's overarching approach to global capital markets as discussed by Secretary of the Treasury Henry Paulson in his recent discussions on competitiveness.

Abbott stated that Treasury remains committed to strengthening US capital markets by adhering to well grounded principles including: maintaining a global perspective, providing an evolving regulatory structure, establishing rules on sound principles, approaching regulation from a risk-based approach, and providing enforcement to deter bad behavior, not to hinder innovation or responsible risk taking.

In discussions following the presentation, one member noted that Treasury can not "over communicate". Another member added that keeping a light regulatory touch on the markets was critical and embracing new, more efficient technologies was beneficial. This member suggested that Treasury look at the compliance process around bid submission, noting that there is still too much human intervention, and that the cost for manual error was still high.

Another member noted that Treasury, as the world's largest issuer, might be able to do more in the area of helping to set issuer standards around the globe. One potential area of concern was that the Treasury market relies heavily on "recycling" securities back into the markets via repurchase agreements. Treasury should consider ways to assure that these securities will continue to be available in the market.

Another member noted that Treasury has done a commendable job in helping to promote competitiveness in markets, and that in terms of providing information to markets, its methods of distributing information was more effective than any other sovereign.

Finally, the Committee discussed its borrowing recommendations for the February refunding and the remaining financing for this quarter as well as the April – June quarter. Charts containing the Committee's recommendations are attached.

The meeting adjourned at 11:50 a.m.

The Committee reconvened at the Hay-Adams Hotel at 5:30 p.m. All the Committee members were present except Mohammed El-Erain. The Chairman presented the Committee report to Assistant Secretary Ryan. A brief discussion followed the Chairman's presentation but did not raise significant questions regarding the report's content.

The meeting adjourned at 5:45 p.m.

Karthik Ramanathan
Director
Office of Debt Management
January 30, 2007

Certified by:

Thomas G. Maheras, Chairman
Treasury Borrowing Advisory Committee
Of The Bond Market Association
January 30, 2007

Treasury Borrowing Advisory Committee Quarterly Meeting

Committee Charge – January 30, 2007

Fiscal Outlook
Given recent trends in the fiscal outlook, what are the TBAC's thoughts on Treasury's debt issuance?

Short Term Debt Issuance
We would like the Committee's views on Treasury debt issuance as it relates to short-term borrowing needs. Are there alternative schedules, instruments, or other issues that Treasury should consider in managing its short-term debt issuance given the volatility in its borrowing needs?

Competitiveness of the US Treasury Market

Recognizing that capital markets are constantly evolving and growing, are there any steps that we should undertake to ensure that the Treasury market remains the preeminent debt market?

Financing this Quarter
We would like the Committee's advice on the following:

- The composition of Treasury notes and bonds to refund approximately $35.1 billion of privately held notes maturing on February 15, 2007.
- The composition of Treasury marketable financing for the remainder of the January-March quarter, including cash management bills.
- The composition of Treasury marketable financing for the April-June quarter.

REPORTS

- Treasury Borrowing Advisory Committee discussion charts

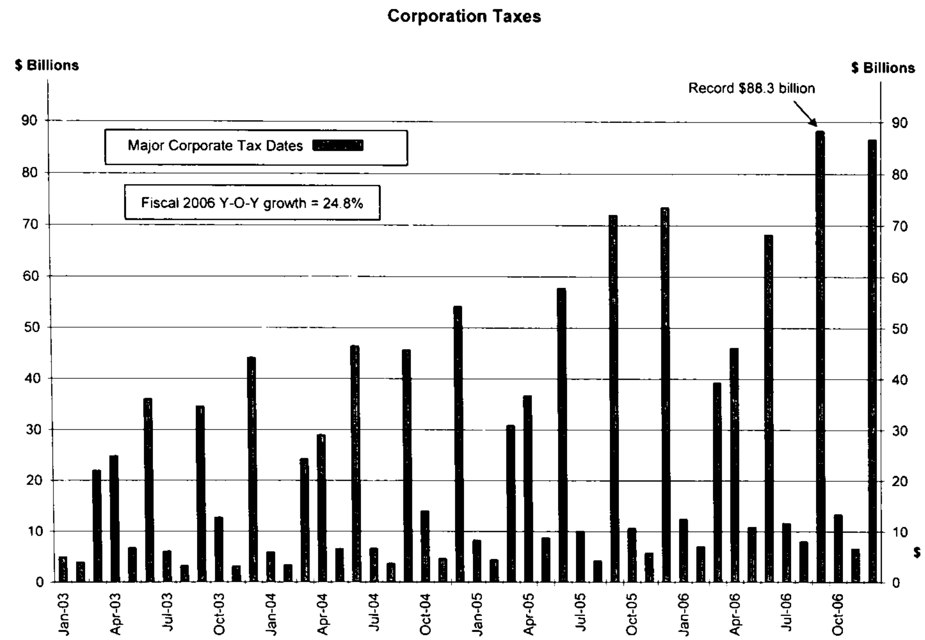
Presentation to the Treasury Borrowing Advisory Committee

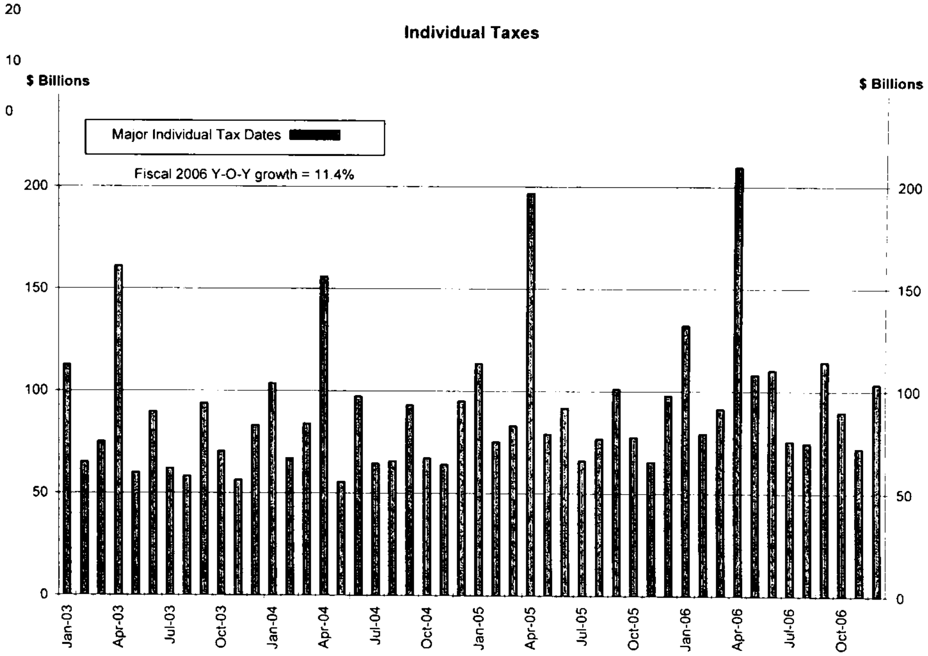
UNITED STATES
DEPARTMENT OF
THE TREASURY

Fiscal Perspectives

Recent US economic performance has been strong

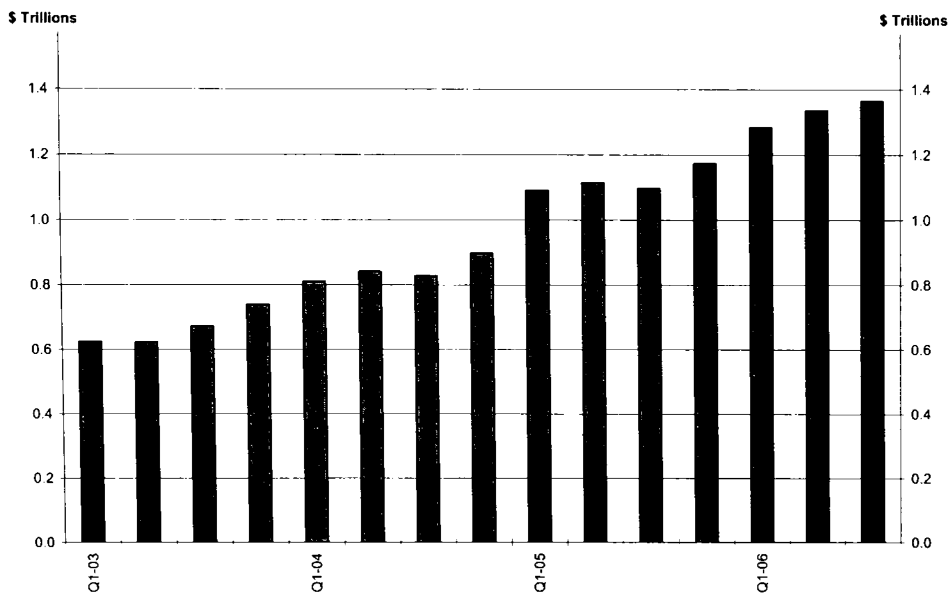
Corporate and individual tax receipts remain strong

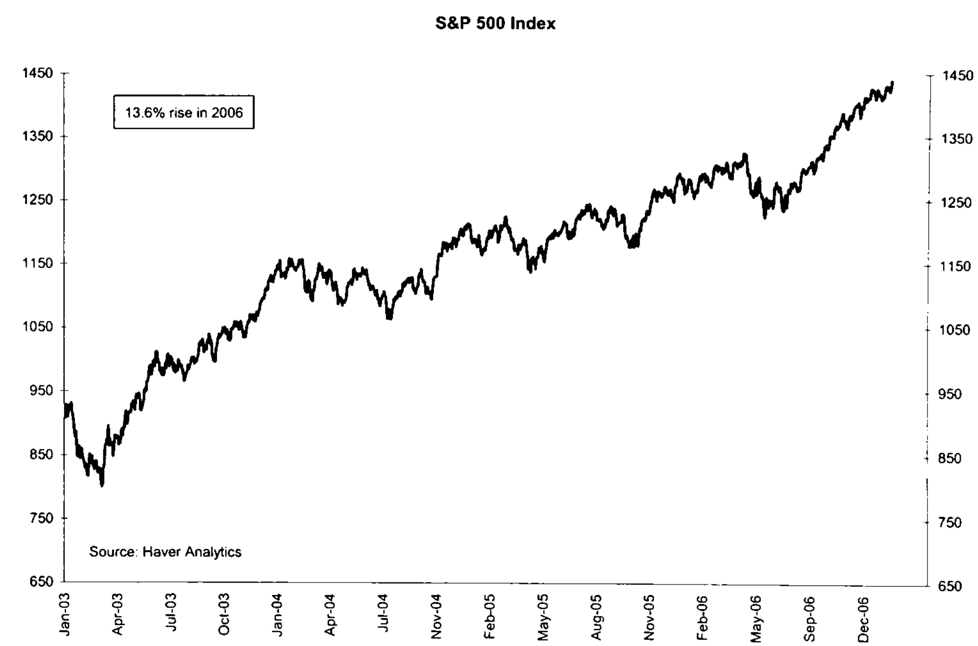




Corporate profits and equity markets continue to rise

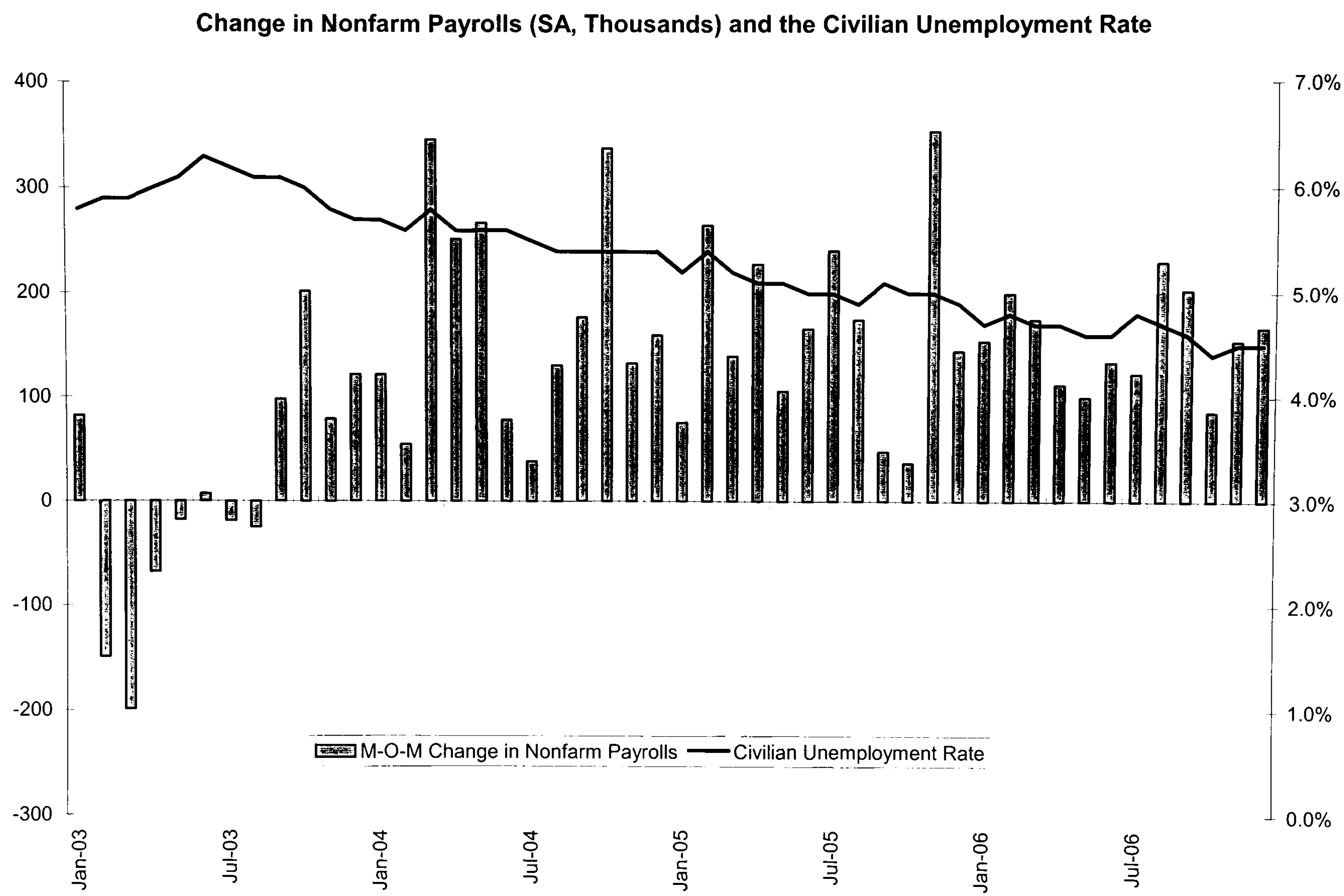
Source: Haver Analytics





Office of Debt Management

Nonfarm payrolls continue to post gains while the unemployment rate remains low

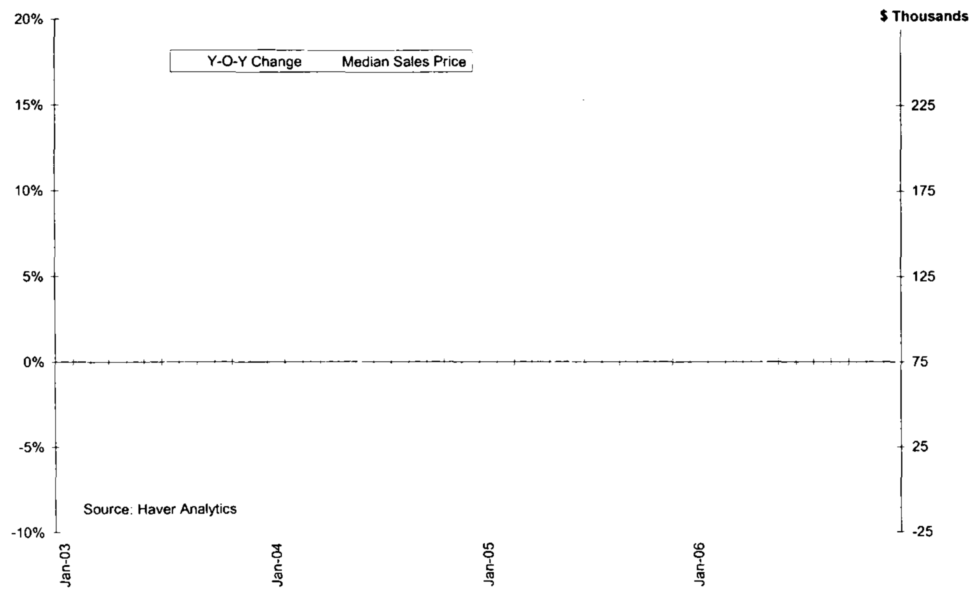


Office of Debt Management

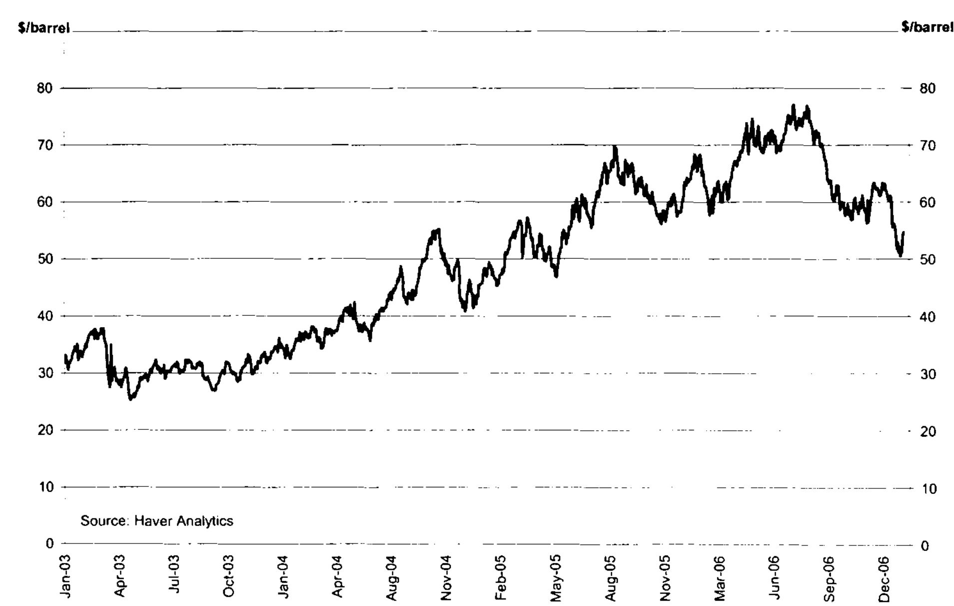
Treasury continues to monitor other trends

Housing market trends appear uneven, and energy prices, while moderating, remain volatile

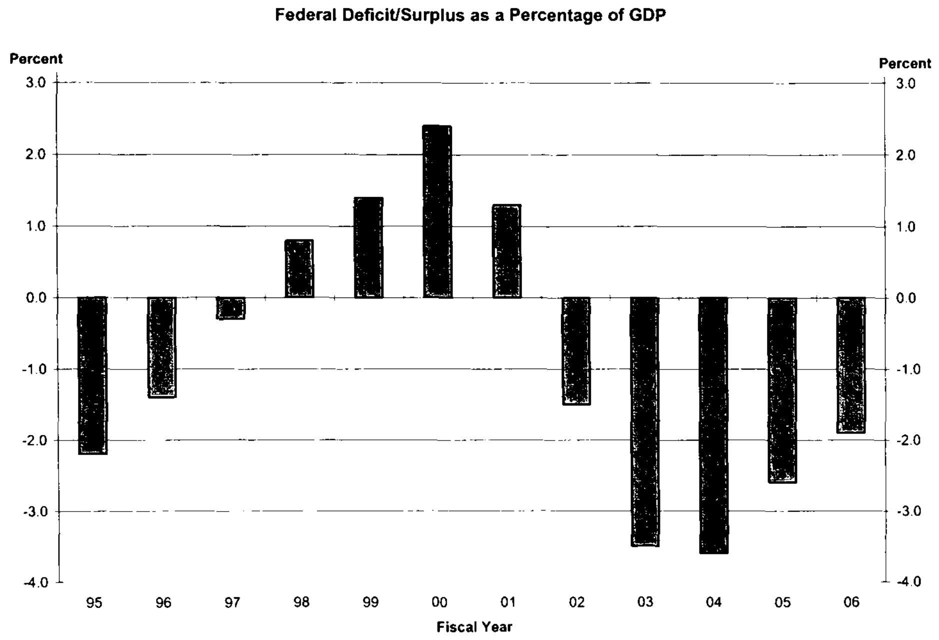
Median Sales Price of Existing Single-Family Homes and Year-Over-Year Change

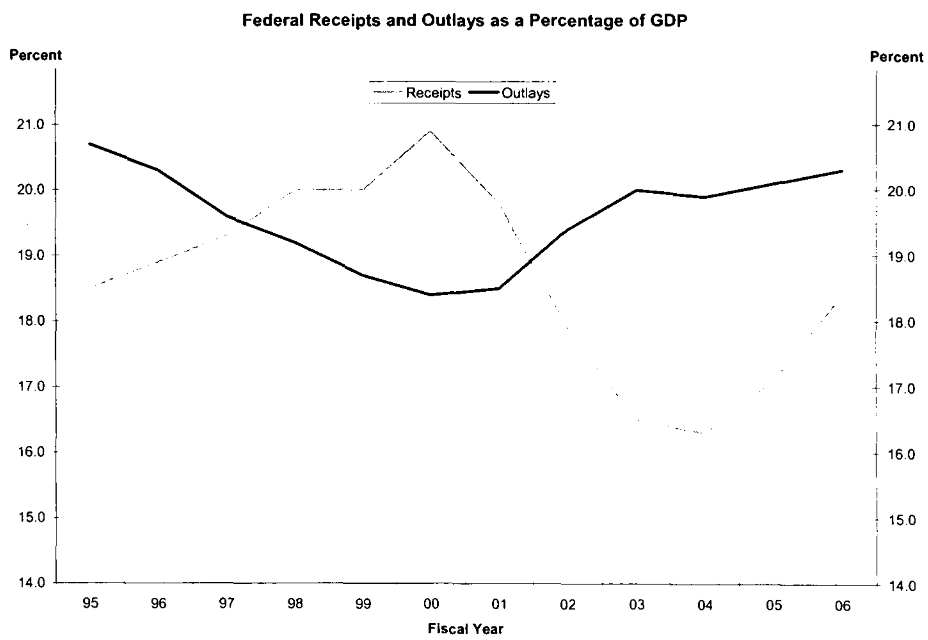


West Texas Intermediate Crude Oil



And while deficits have been declining, government expenditures continue to outpace receipts





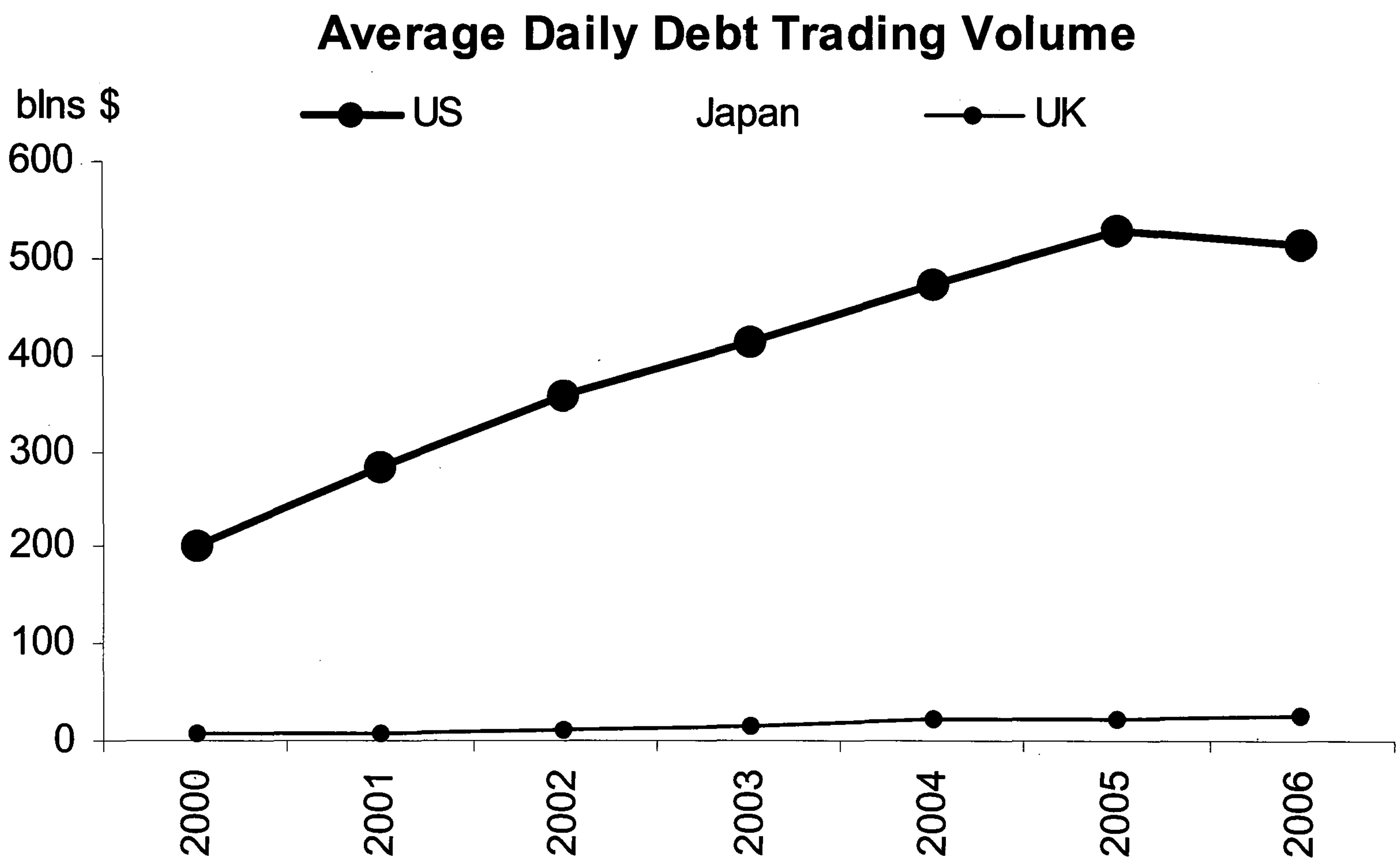
Given recent trends, we would like the Committee’s views on the following:

- What is the Committee's view on the fiscal outlook in 2007 and beyond?
- Is Treasury’s issuance calendar adequately placed to address its future funding needs?

Competitiveness of the US Treasury Market

The US Treasury market is the most liquid government debt market in the world

Among major sovereign debt markets, average daily trading volume is highest in the US Treasury market



Source: FR2004 Primary Dealer, Japanese Securities Association, UK DMO

Treasury market liquidity remains healthy

- Primary auction demand is deep and continues to evolve
- Average daily trading volume in the on-the-run US Treasuries continues to grow
- Bid-ask spreads remain narrow
- Average trade sizes in the secondary market are growing
- Growth of the US inflation-linked market has surpassed that of all other major inflation-linked debt issuers

Features of the US Treasury market:

- Transparency
- Regular and predictable issuance
- Minimal regulatory burden

Secretary Paulson's Principles on Competitiveness in US Capital Markets

Treasury remains committed to strengthening not only the Treasury market but also US capital markets as a whole.

- Global view
- Evolving and responsive regulatory structure
- Rules based on sound principles
- Risk-based approach to regulation
- Enforcement to deter bad behavior, not hinder innovation or responsible risk taking

We welcome the Committee's views on the following:

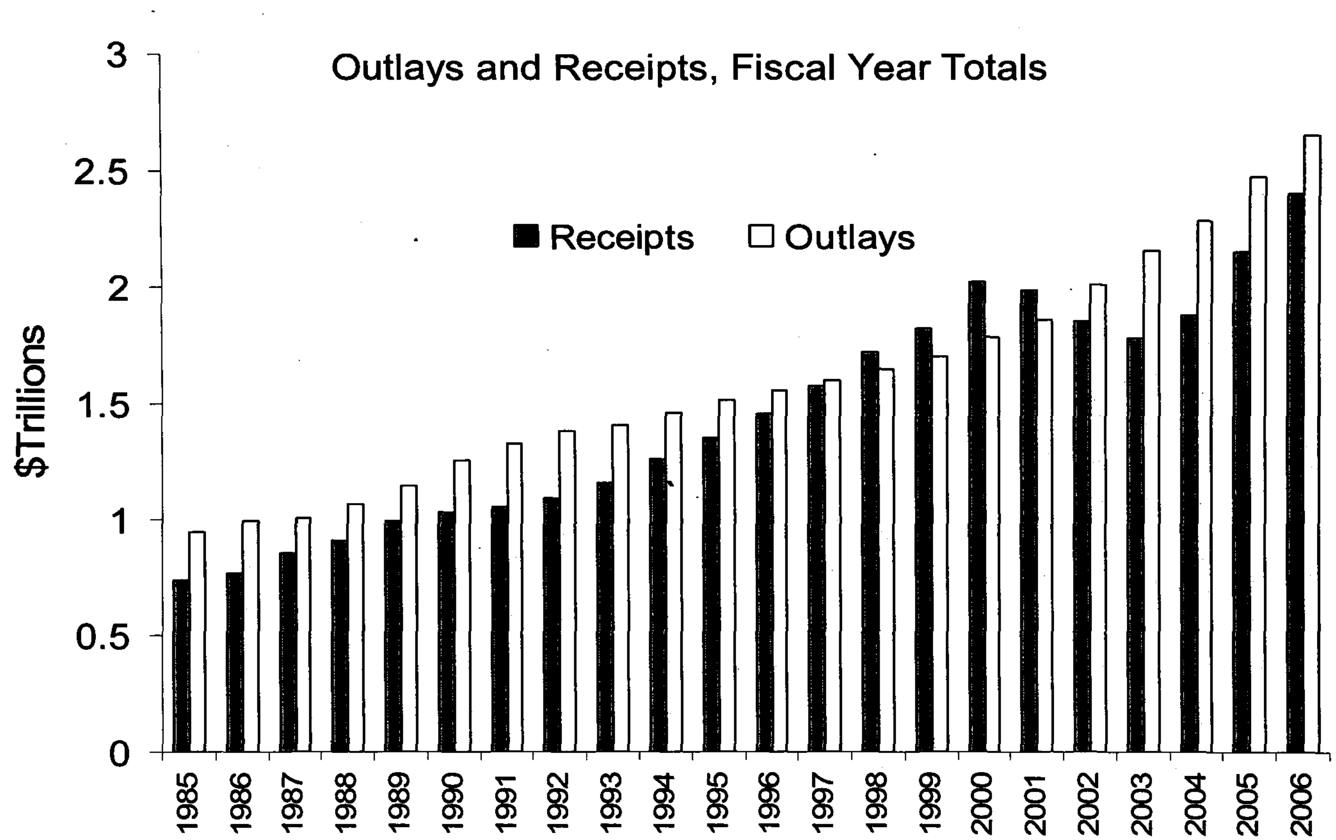
- How does the competitiveness of the US Treasury market compare to that of foreign bond markets?
- Are there steps that we should undertake to ensure that the Treasury market remains the preeminent debt market?

Treasury Borrowing Advisory Committee Presentation to the Treasury

January 30, 2007

A Review of Short-Term Debt Issuance as it Relates to Short-Term Borrowing Needs

↘ Outlays and Receipts Rising

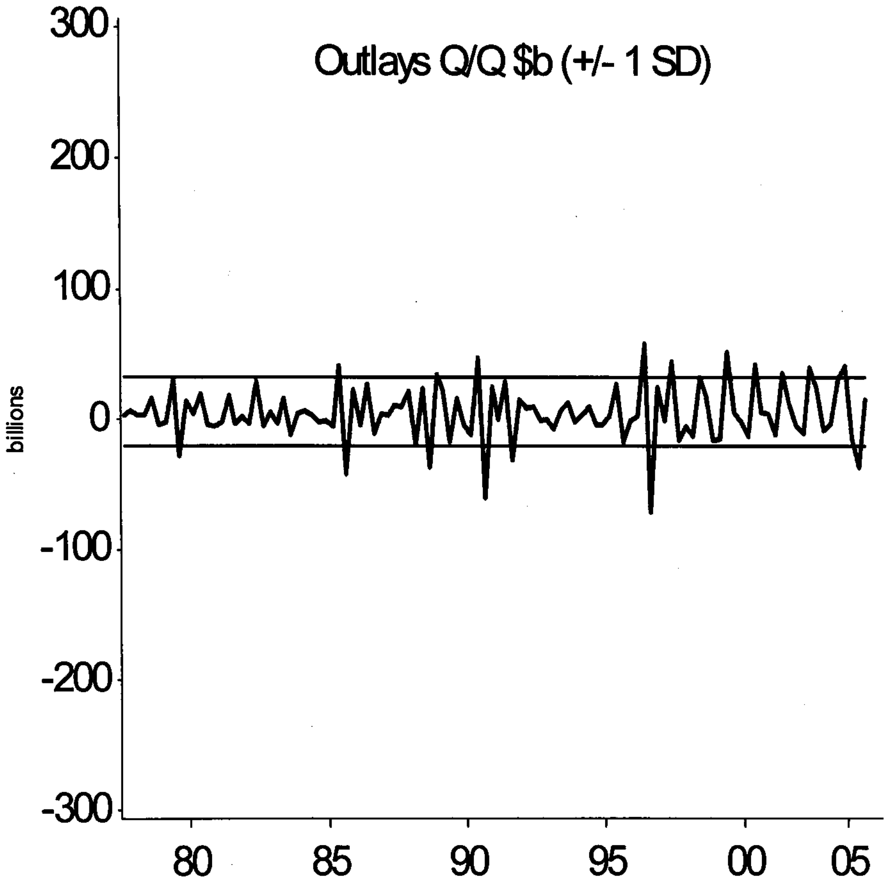


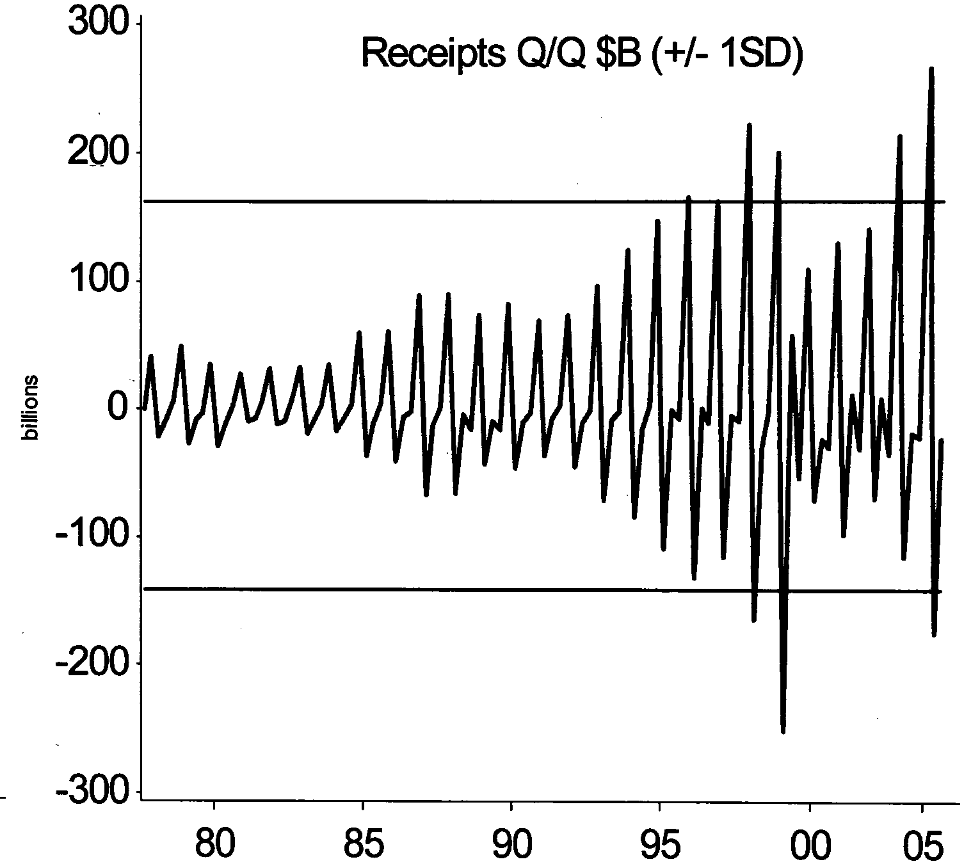
Source: US Department of Treasury

- The question before this committee, and the investment community at large, is whether the steps taken by the Treasury and others have been sufficient to withstand a future wide scale disruption, or whether additional measures should be considered and implemented at this time.

- This report will touch upon the following:
  - Current borrowing need volatility
  - The factors that will contribute to further volatility in borrowing needs
  - The effectiveness of short-term debt securities in the current environment
  - Treasury's effectiveness of managing high cash balances (TT&L--Treasury Tax and Loan and the TIO--Term Investment Option, a pilot program offered to TT&L participants)
  - If the market were to face a large scale disruption at a time when Treasury cash balances were low, is the Treasury well placed to handle such a contingency event? Is Wall Street Prepared?
  - Review the suggestions presented to Congress by the GAO; both positive and negative
  - Additional tools or issues the Treasury should consider at this time

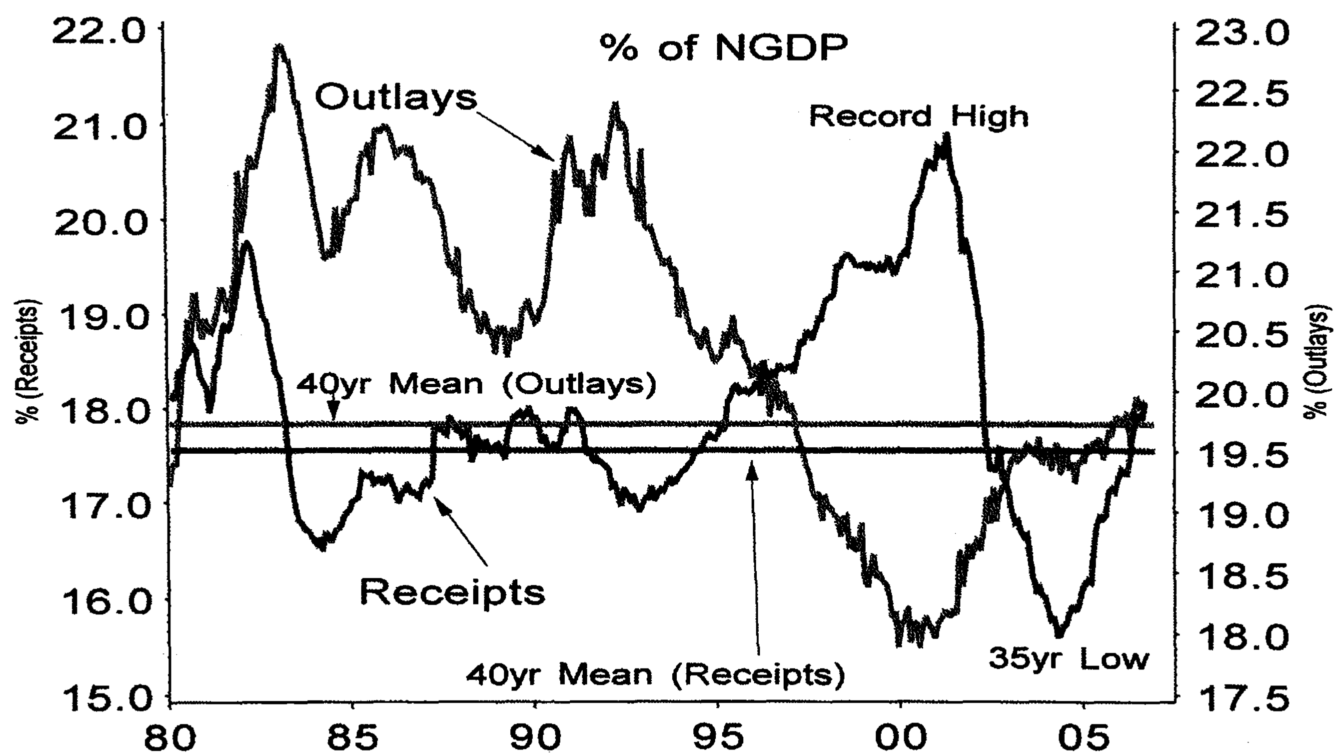
↘ Volatility of Borrowing Needs in Dollar Terms





Source: US Department of Treasury

↘ Volatility of Borrowing Needs as a Percentage of Nominal GDP



Source: US Department of Treasury

[redacted]

Borrowing Have Been Trending Lower, Despite Volatility in Outlays & Receipts

Fiscal Year	Budget	Budget % GDP
2003	-$375	3.4%
2004	-$411	3.5%
2005	-$321	2.5%
2006	-$248	1.9%
2007 Estimates	**Budget**	**Budget % GDP**
OMB	-$339	-2.4%
CBO	-$172	-1.3%
Primary Dealers	-$275	-2.0%

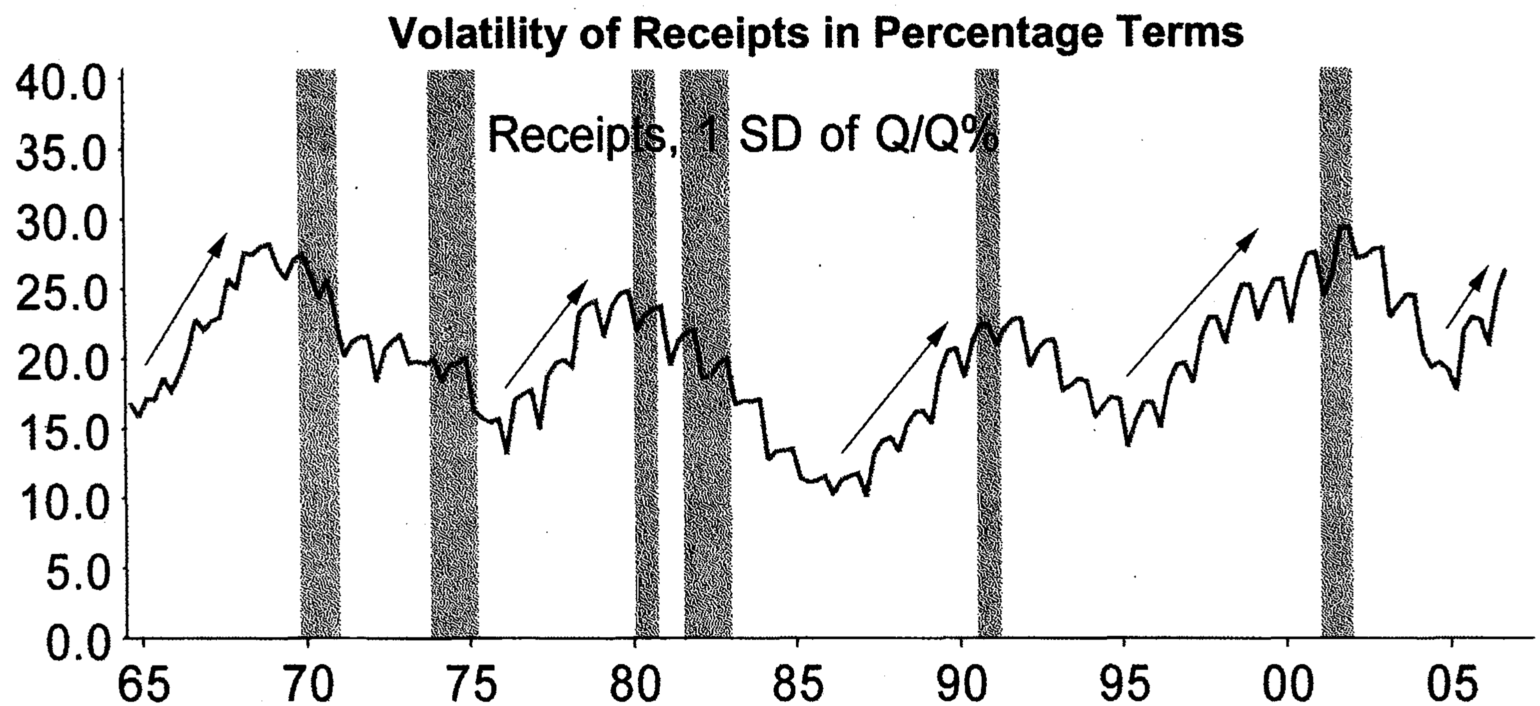
$Billions

Source: US Department of Treasury

Contributing Factors to Forecast Errors: Reviewing the Obvious

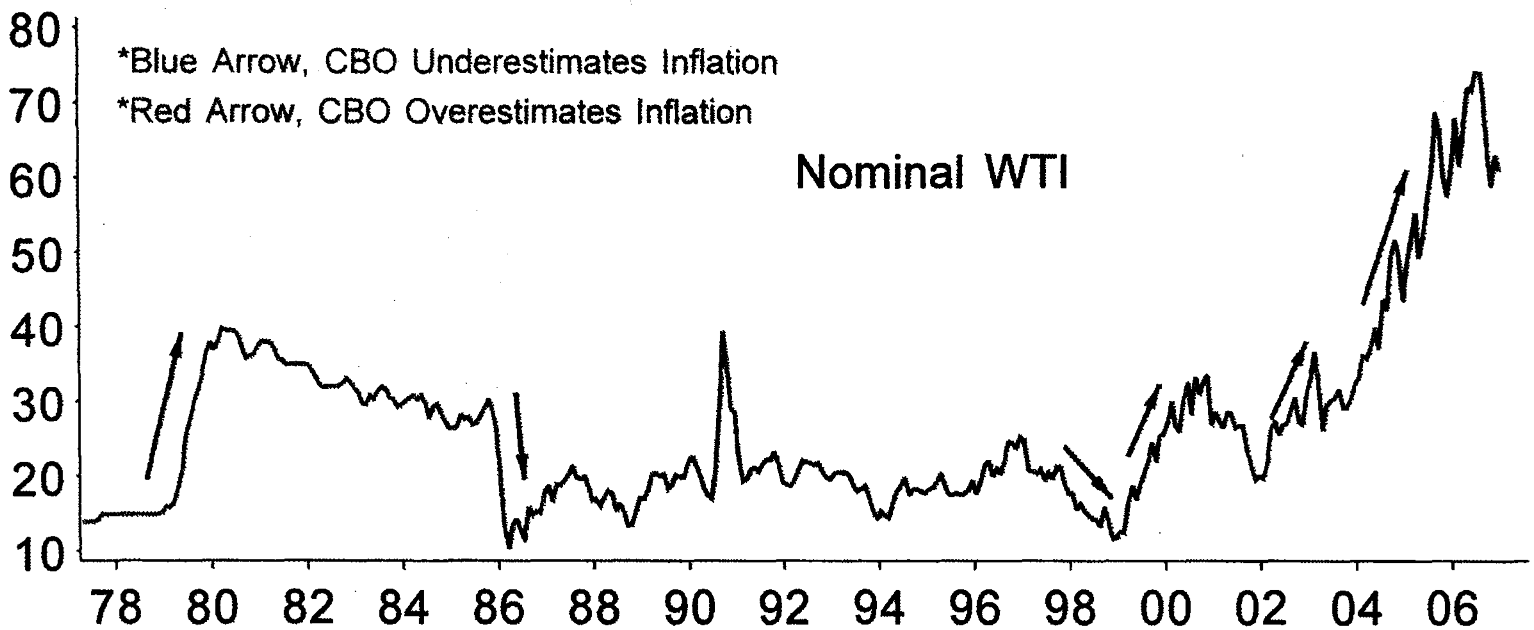
- Cyclical Influences
- Price of Oil
- Supplemental Appropriations
- Aging Population
- Tax Provisions

Contributing Factors: Cyclical Influences



Source: US Department of Treasury

↘ Contributing Factors: Oil



Source: Energy Information Administration (EIA)

↘ Contributing Factors: Supplemental Appropriations

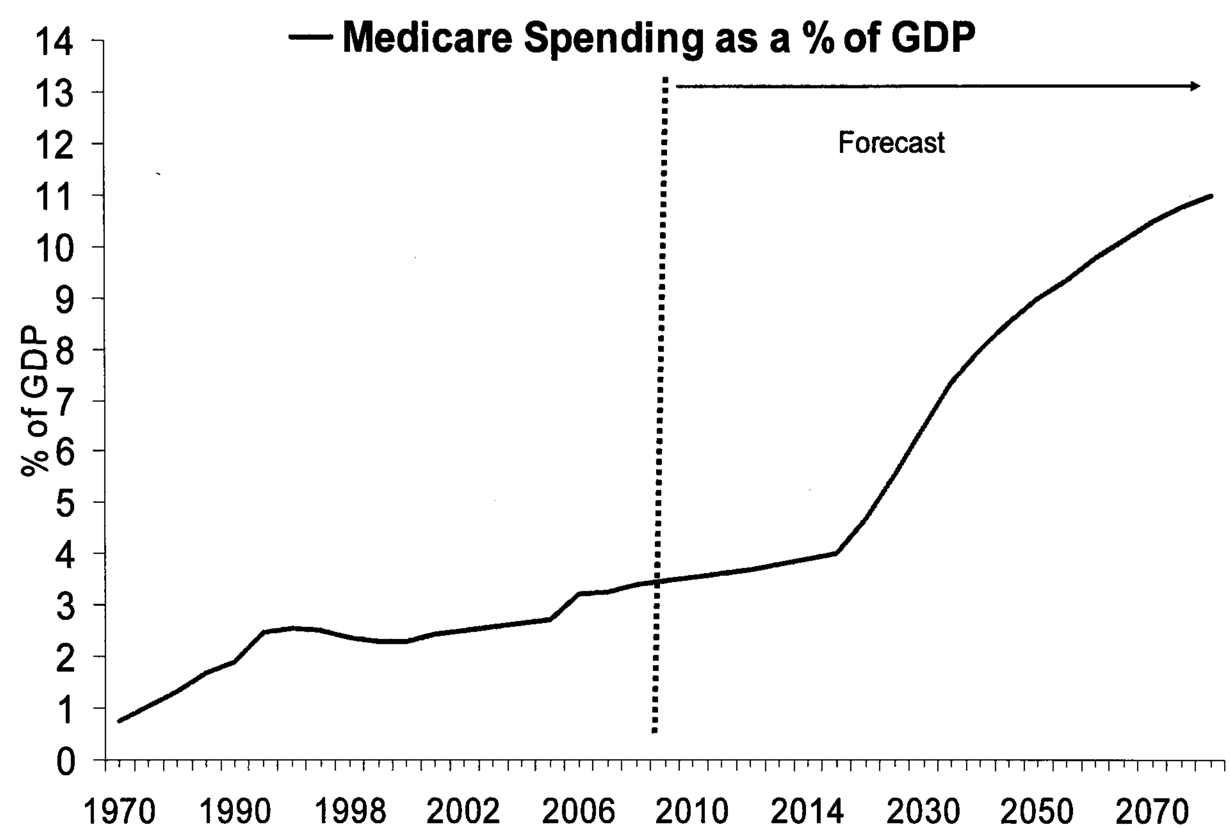
Supplemental Appropriations: 2000-2006

Year	$Millions	Informal Title
2000	$16,952	Military Construction
		Defense
2001	$27,479	Emergency Supplemental and Resc.
		Recovery Response to Terrorist Acts
2002	$45,317	Defense
		Emergency Supplemental and Resc.
2003	$81,107	Emergency Wartime Supplemental Appropriations
		Emergency Supplemental Appropriations for Disaster Relief Act
		Legislative Branch
2004	$117,703	Supp for Defense/Iraq/Afghanistan
		Defense 2005
		2004 Emergency Disaster Relief Supp.
2005	$160,410	Emergency Supplemental for Hurrican Disasters Assistance Act, 2005
		Emerg. Supp. Approp. Act for Defense, Global War on Terror and Tsunami Relief, 2005
		Emerg. Supp. Approp. Act to Meet Immediate Needs Arising from Consequences of Hurrican Katrina, 2005
		Second Emergency Supp. Appropriations Act for Katrina, 2005
2006	$94,430	Defense Approp. Actm, includes Katrina, Avian Flu, and a-t-b
		SBA disaster loans program account
		Act for Defense, the Global War on Terror, and Hurrican Recovery

Source: CBO

Source: Congressional Budget Office (CBO)

Contributing Factors: Aging Population



Source: The Board of Trustees, Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds

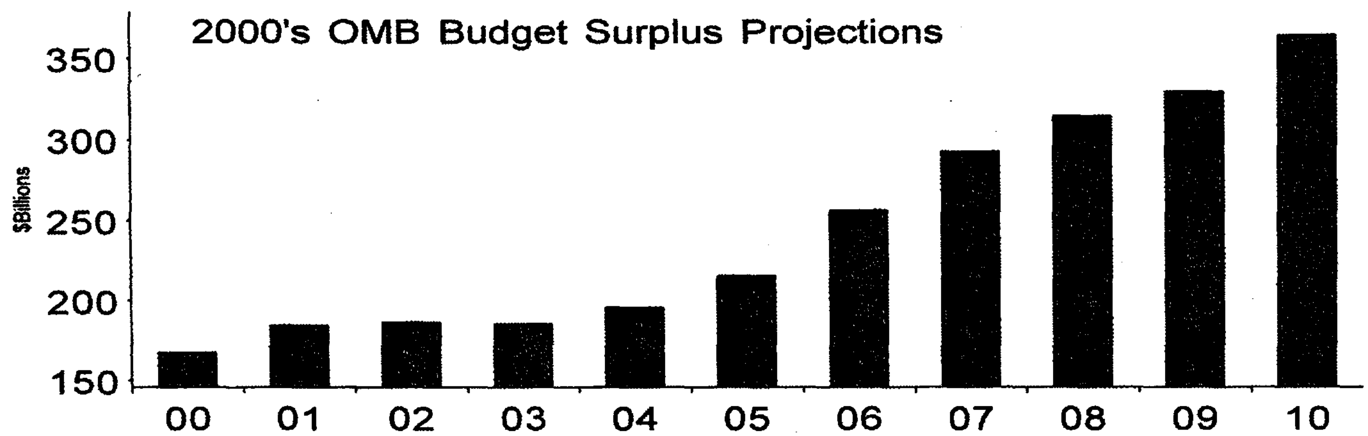
↘ Contributing Factors: Tax Provisions

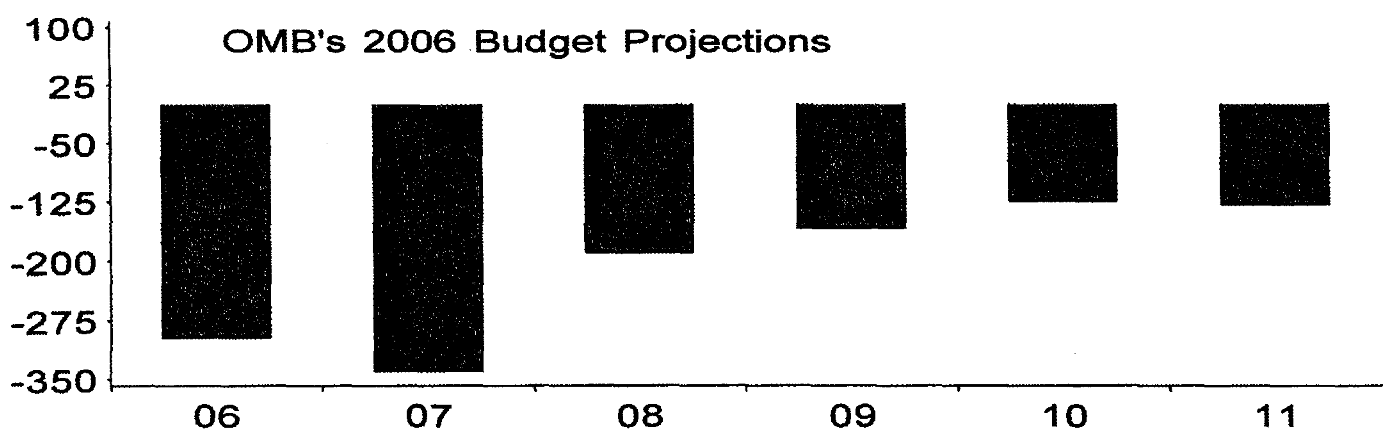
- Long term borrowing needs rose substantially in the wake of the first round of Bush Tax cuts earlier this decade.

- OMB estimates borrowing needs will decline sharply once those tax provisions expire in 2010.

- Legislated tax changes since February decrease receipts 2006-2009, then increase receipts in both 2010 and 2011.

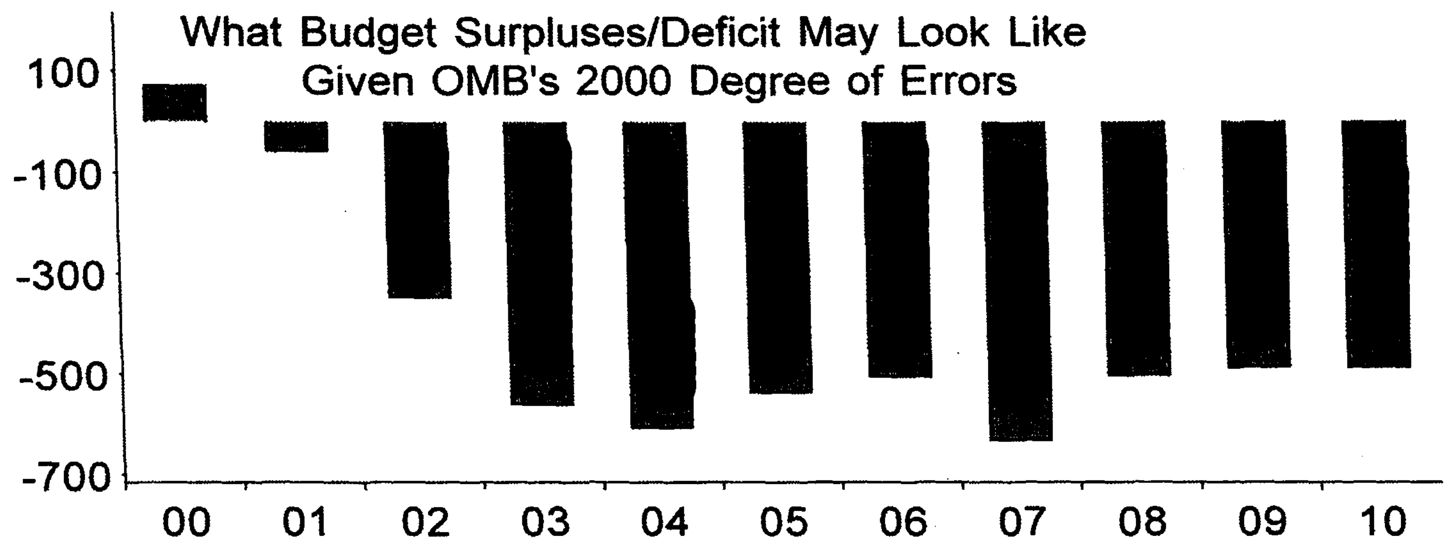
Forecasting Errors: By the Numbers (OMB)





Source: Office of Management Budget (OMB)

↘ Forecasting Errors: By the Numbers (OMB)



- Degree of forecasting errors significant, almost $600 billion in the current fiscal year.

"If the forecast errors reverse, however, the current issuance pattern requires heavy reliance on bills in early FY2007" (ODM, Quarterly Refunding, October 30, 2006)

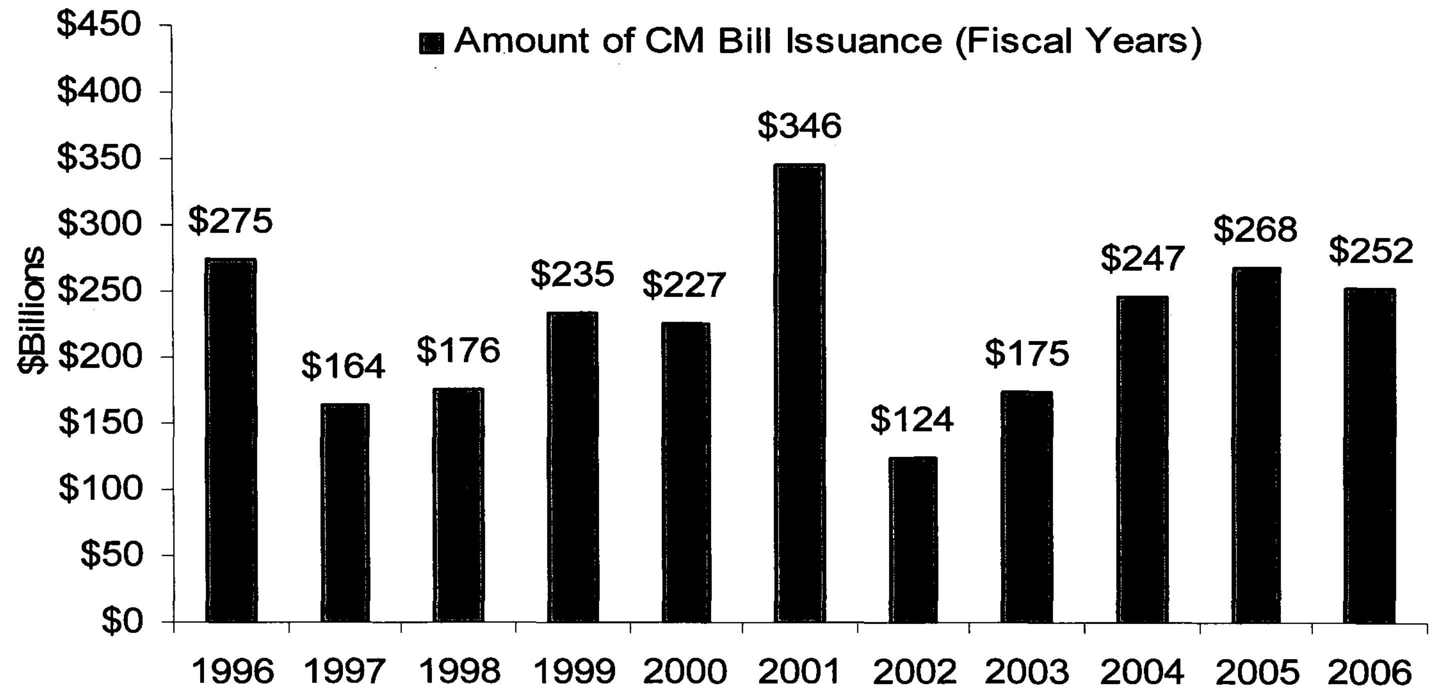
Source: Office of Management Budget (OMB), Countrywide Securities

A Review of the Effectiveness of Short-Term Debt Instruments

Effectiveness of Short-Term Debt Instruments

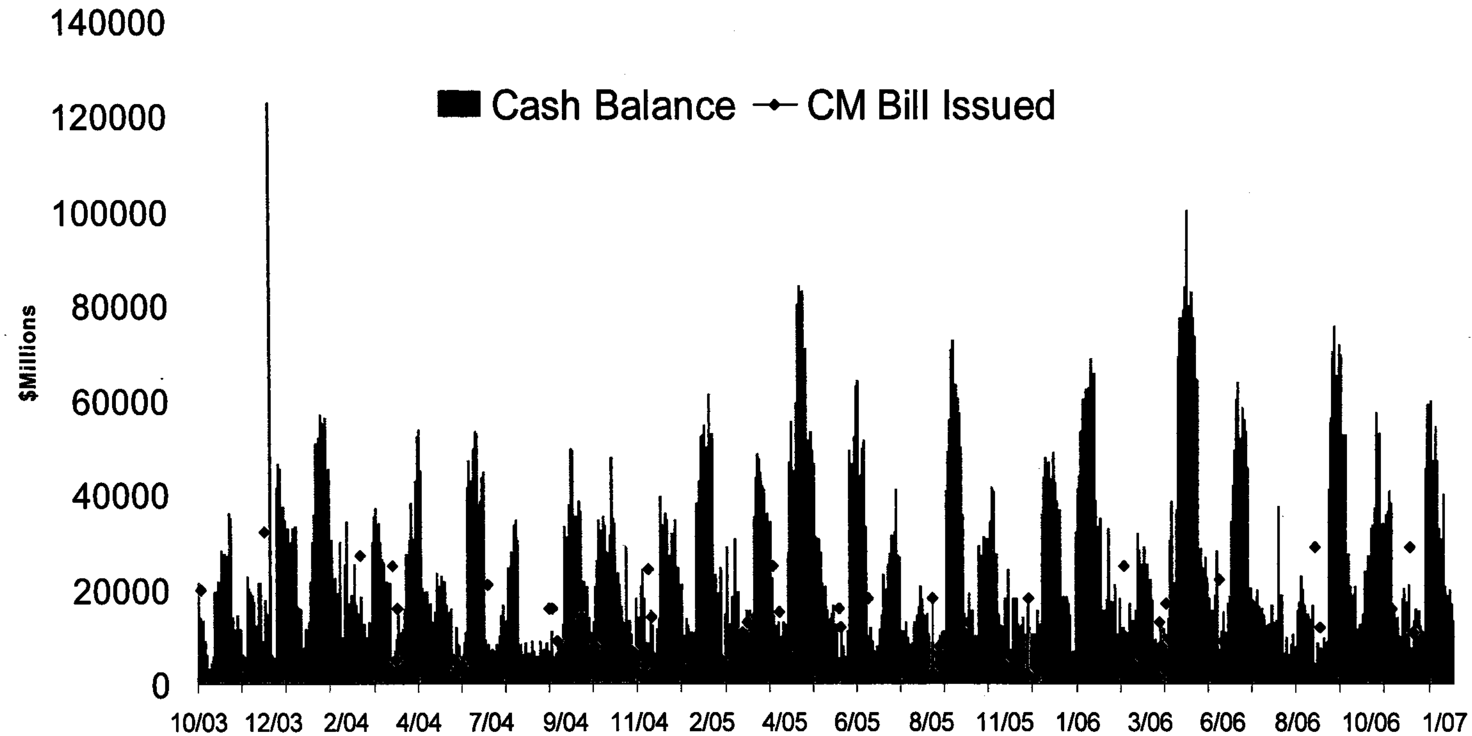
- Over the past several years the Treasury implemented the following innovations in short term financing:
  - July 2001: Introduced 4-week bill program, reducing reliance on cash management (CM) bills
  - 2001: 52 week bill issuance suspended
  - October 2003: Launched the Term Investment Option Program (TIO)
  - 2004: Eliminated compensating balances
  - In line with Treasury's mandate to maintain low cash balances they now operate with a direct pay for services model
  - March 2006: Launched repurchase agreement pilot program

Effectiveness of Short-Term Debt Instruments: 4-Week Bills



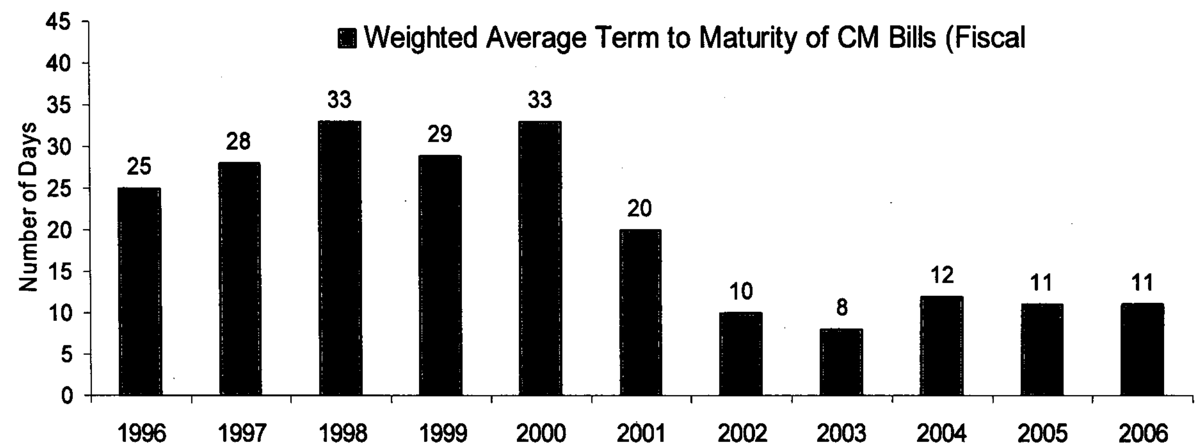
Source: US Department of Treasury

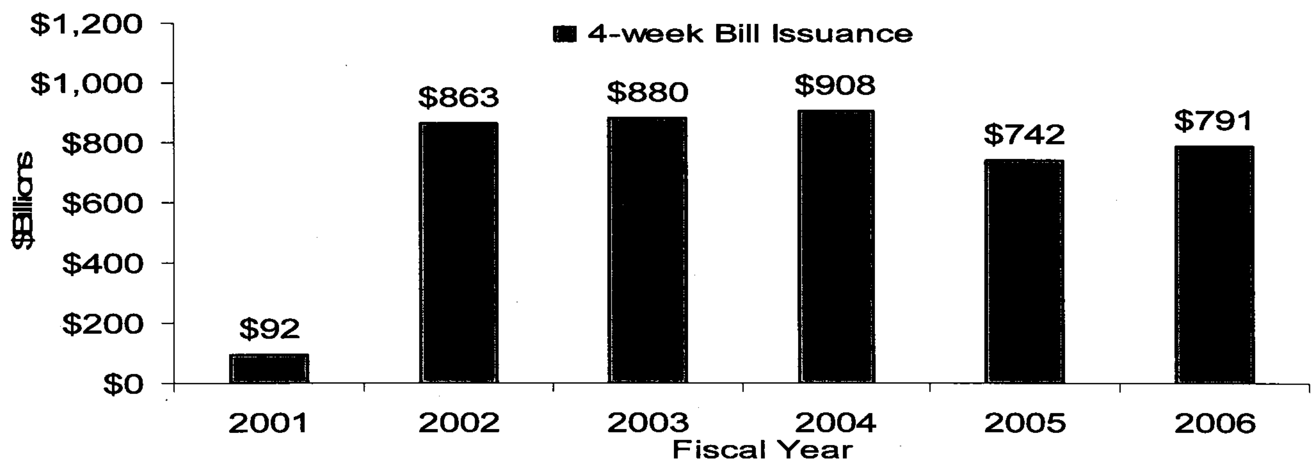
Effectiveness of Short-Term Debt Instruments: CM Bills



Source: US Department of Treasury

Short-term debt instruments: Flexibility in Issuance





Source: US Department of Treasury

The Opposite End of the Spectrum: Managing High Cash Balances

Managing High Cash Balances: TT&L Accounts

- <u>Treasury Tax and Loan (TT&L) Accounts</u>

  - The TT&L accounts earn Fed Funds less 25 basis points, a rate set by the Treasury in 1978, not in line with current market rates.
  - The interest earned on TT&L accounts creates a negative funding spread for the Treasury. It is insufficient to cover the cost of funding short-term debt instruments.
  - In the late 1990s as financing rates became more transparent, the Treasury proposed to bring the interest rate in line with current market rates, which would have increased the return on Treasury balances by more than 20 basis points.
  - TT&L participants met the Treasury's suggestion with significant resistance citing that the wider spread was appropriate compensation for the transaction.
  - In response to the resistance from TT&L participants, and in an effort to reduce the negative funding spread, the Treasury introduced the Term Investment Option pilot program in 2002.

Managing High Cash Balances: TIO Accounts

- <u>Term Investment Option (TIO)</u>

  - The TIO pilot program proved successful and transitioned into a permanent program in October 2003.
  - Over the first forty-two auctions, the difference between auction rates and what he Treasury would have earned had it left the balances in Main TT&L Accounts (FF less 25bp) was uniformly positive and averaged 17.3 basis points.[1]
  - The Treasury has continued to successfully pursue new and innovative ways to increase the interest earned on high cash balances: most recently launching a pilot repo program.
  - 70% of high cash balances that flow through TT&L accounts are now redirected into the TIO and Repo programs.

[1]Federal Reserve, Recent Innovations in Cash Management, Volume 10, Number 11

Managing High Cash Balances: Pilot Repurchase Agreement Program

- Repurchase Agreement Pilot Program (Repo)
  - Repurchase Agreement Pilot Program started in March 2006.
  - It operates on a DVP basis only with TT&L depositories.
  - The pilot program currently earns a better funding rate than both the TT&L and TIO accounts.[1]
  - Since the Treasury launched the pilot Repurchase Agreement Program, over $206 billion TT&L funds have been invested.[2]

[1]GAO-06-0269
[2]216th Annual Government Financial Management Conference, Department of the Treasury

Low Treasury Cash Balances and Wide Scale Market Disruptions

The Implications

Backup Funding Options: Industry Capacity and Resilience

- The Treasury, Federal Reserve, large member banks, clearing banks, key clearing entities and primary broker-dealers have upgraded capacity to address business continuity issues not considered prior to 9/11, moving from cold backup to hot backup and fully staffed, geographically diversified operating centers.

  - Post 9/11 the Treasury and the Federal Reserve staffed additional operational locations and added data systems capability to increase auction resilience. In addition, they have added locations in different geographic regions for all four critical auction functions.

  - BoNY operates Broker Dealer Services Division, including day-to-day securities clearing services, in three geographically dispersed locations: NYC, NJ and FL. Each center has capacity to process 100% of daily activity.

  - Pre 9/11, Chase operated clearing services out of NYC with a data-only back-up facility in NJ. Now, in addition to NYC, Chase has fully staffed facility in Dallas, Texas, which handles approximately 50% of its daily volume and has capacity to process 100%. In addition, Chase has upgraded its NJ site and established a Maryland backup site.

  - Pre 9/11, the FICC operated a single facility from 55 Water Street. They have diversified geographically though the addition of a full-service location in Tampa, Florida, capable of processing 100% of activity. In addition, several members of the executive management team operate from offices in Garden City, NY.

  - While no one can fully anticipate unforeseen events, the industry has significantly reduced the probability of the "auction/securities grid" failing through their investment in multiple levels of backup, with specific focus on critical business lines and functions.

GAO's Recommendations to Congress, September 2006

- **Recommendation: examine the requirements for Treasury to establish a line of credit.**
  - Financial institutions, specifically large commercial banks, would have to be willing and capable of lending money to Treasury in the appropriate amount and time required by Treasury.
  - Under Basel II, banks would incur 100% capital charges for unsecured loans. Negotiations would have to consider how a collective capital charge in a high stress environment would impact the banking system and define the circumstances under which Base II could be waived.
  - Because the nature and impact of potential future wide-scale disruptions are unknown, uncertainty exists regarding the ability of participating institutions to meet their obligations.

- **Recommendation: examine the ability of the Treasury to issue a cash management bill for private placement.**
  - Institutions have ability and authority to purchase a CM bill that meets Treasury's funding needs.
  - Federal Reserve plays large role, by providing liquidity to depository institutions.
  - Clearing and settlement systems must function to complete transactions.

GAO's Recommendations to Congress, September 2006

- Recommendation: Congress should consider allowing the Federal Reserve to lend directly to the Treasury during a "wide-scale" disruption using a carefully crafted last resort funding option.
  - Severs the long standing independence of the Federal Reserve.
  - What defines a "wide-scale" disruption? War? National disaster? The most carefully crafted bills are subject to revision.
  - In the event the Federal Reserve lost independence, the cost of future funding would likely increase to compensate for political uncertainty. The amount of risk premium the market could demand is as ambiguous as predicting the future disruption.
  - Congress has provided the Federal Reserve with considerable scope for independently exercising its best judgment as to what monetary policy should be. At the end of the day, it is public confidence that is a central bank's most precious commodity in a democracy.[1]

[1] McDonough: The Importance of Central Bank Independence in Achieving Price Stability, July 2, 2002

[redacted]

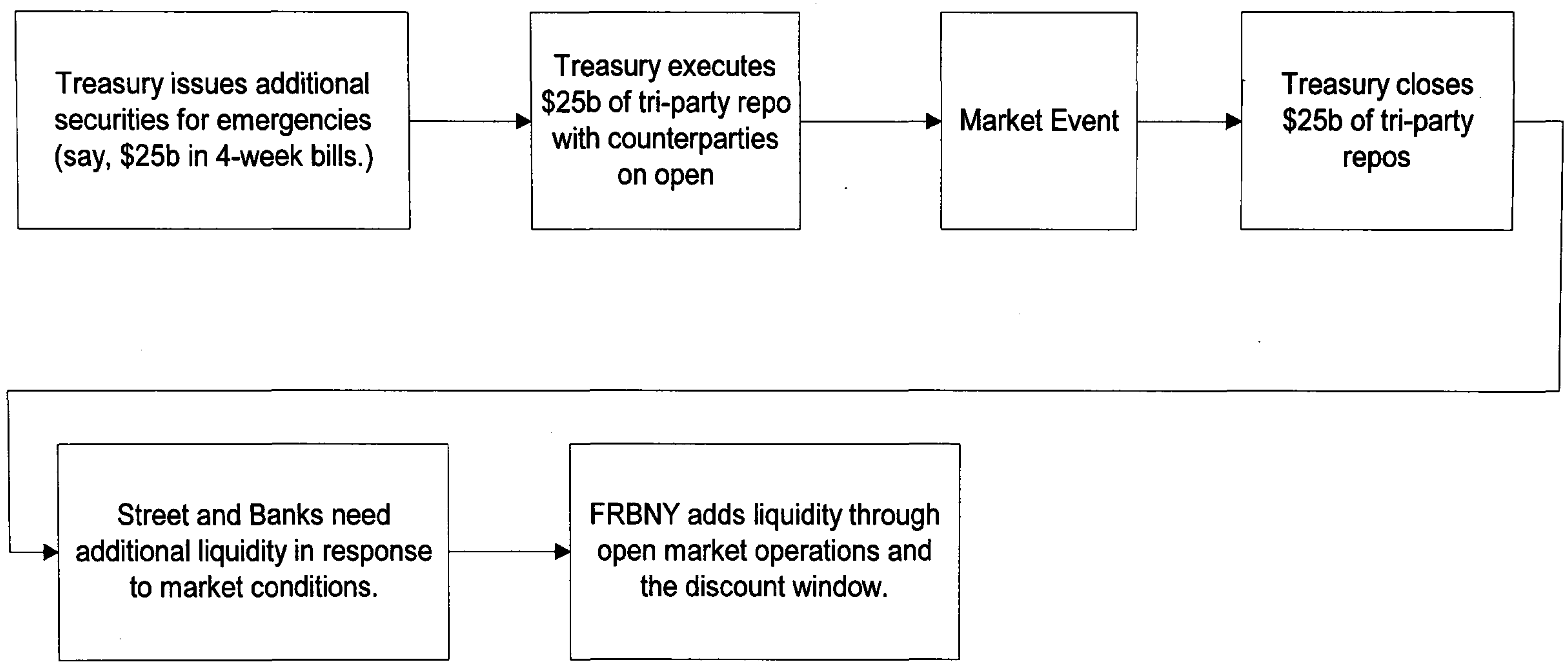
Tri-party Repurchase Agreements: A Consideration for Contingency Planning

Tri-Party Repurchase Agreements: A Contingency Planning Consideration

- Execution

  - Treasury raises cash by issuing securities, e.g. T-Bills, appropriately staggering maturities.
  - Treasury invests in open tri-party repurchase agreements at prevailing market rates with banks and primary dealers.
  - In the event of a significant market disruption, the Treasury, at its option, may elect to close open tri-party trades and receive proceeds. Banks may return funds directly, primary dealers may make funds available at the clearing banks, BoNY and Chase.
  - In the event market participants require additional liquidity, the Federal Reserve, at its option, may perform open market operations and discount window transactions to maintain market stability.

↘ Tri-Party Repurchase Agreements: A Contingency Planning Consideration



[redacted]

↘ Tri-Party Repurchase Agreements: A Contingency Planning Consideration

<u>Advantages</u>

- Disintermediation of Fed and Treasury. Maintains credibility of Federal Reserve.
- If in the event the "auction/security grid" failed, the Treasury would still have cash on hand to fund liabilities.
- Flexibility to scale up auction size over time as social security outlays expand.
- Reduces interest expense by eliminating the negative funding spread.

<u>Funding Costs</u>

- Financially, the proposed structure may prove attractive based on T-Bill versus overnight tri-party financing rates.
- Using current market rates, a 4 week bill with a bond equivalent yield of 4.98% compares favorably to the equivalent GC repo yielding 5.18%. In this example Treasury would earn 18 basis points in positive carry.

[redacted]

Tri-Party Repurchase Agreements: A Contingency Planning Consideration

- <u>Considerations</u>
  - Transaction cost may outweigh potential spread advantage.
  - Volatility of daily financing rates may be of concern.
  - Repurchase agreements may not be adequate to cover emergency funding needs. Explore private placement CM bills as a second tier alternative or supplement to tri-party participation.

PRESS ROOM

January 29, 2007
HP-237

Secretary Paulson Holds Roundtable Discussion on State of U.S. Economy

Secretary Henry M. Paulson will hold a roundtable with a group of economists today at the Treasury Department to discuss the state of the U.S. economy. Meeting participants will include:

Lewis Alexander was appointed chief economist of Citigroup and the head of the Economic and Market Analysis (EMA) department of Citigroup Global Markets in April 2005. Previously, he served as the global head for emerging markets within EMA. In that role, Alexander directed the work of economics teams covering Latin America, Central and Eastern Europe, the Middle East, Africa, and Asia (excluding Japan).

Dick Berner is a managing director and the chief U.S. economist at Morgan Stanley. Berner is responsible for directing the firm's forecasting and analysis of the U.S. economy and financial markets. Before joining Morgan Stanley in 1999, Berner was executive vice president and chief economist at Mellon Bank Corporation and a member of Mellon Bank's Senior Management Committee.

Gail Fosler is executive vice president and chief economist of The Conference Board. Fosler directs The Conference Board's worldwide Economics Research Program. Her unit now produces leading economic indicators for the United States, United Kingdom, Australia, France, Germany, Japan, Korea, Mexico and Spain. Fosler also directs The Conference Board's global operations in key European and Pan-Asian markets, including China and the Middle East.

Jim Glassman is a managing director and senior economist with J.P. Morgan Chase & Co. He works closely with the firm's chief investment officer, commercial banking, and government relations groups. He publishes independent research on the principal forces shaping the economy and financial markets. Glassman is a frequent commentator on economic policy issues.

Peter Hooper joined Deutsche Bank Securities in the fall of 1999, first as chief international economist. He shortly thereafter assumed responsibilities as chief U.S. economist and became chief economist in 2006. Hooper frequently comments on U.S. and global economic and financial developments in the news media.

James Meil is chief economist with Eaton Corporation, a diversified industrial manufacturer with 2006 sales of $12.4 billion. At Eaton Corporation, Meil is responsible for domestic and international forecasts of economic conditions. He is a contributor to the Blue Chip Economic Indicators, Consensus Economics, USA Today and The Wall Street Journal economic surveys and the Federal Reserve Bank of Philadelphia's "Survey of Professional Forecasters."

Mark Zandi is chief economist and co-founder of Moody's Economy.com, Inc., where he directs the company's research and consulting activities. Moody's Economy.com is an independent subsidiary of the Moody's Corporation and provides economic research and consulting services to businesses, governments and other institutions.

PRESS ROOM

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January 29, 2007
HP-238

Making Health Insurance Affordable for More Americans

Examples under President Bush's Standard Deduction Health Insurance Plan

Example 1: An uninsured family of four

Note: All figures are for 2009, the first year the policy is in effect.

Family #1

• A family of four earns $60,000 in total compensation, but all of it comes in the form of wages, i.e.

they do not get health insurance through their employer.

• On the non-group market, they would pay $5,100 for an average policy, and $4,100 for a basic lowcost

policy.1

• Under current law, the family receives no tax benefit for purchasing health insurance and is treated

unfairly relative to those workers who receive health care through their employer.

President's Proposal:

• If this family buys health insurance, they deduct $15,000, which reduces their taxable income from

$60,000 to $45,000. This deduction lowers their taxes (income and payroll) by $4,545.

• If this family bought an average policy ($5,100), the cost of the insurance would, in effect, drop to

$555 ($5,100-$4,545=$555).

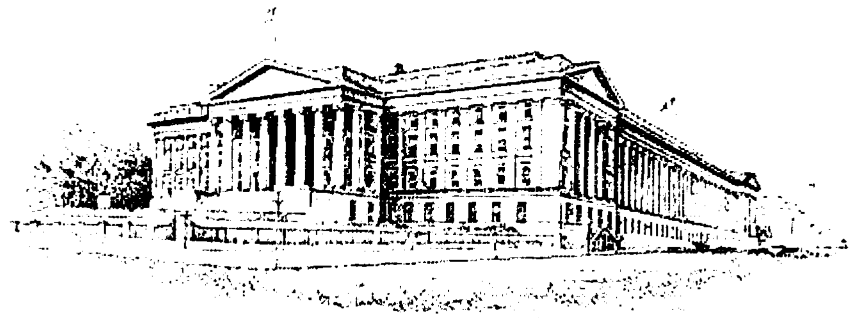
• If this same family bought the basic low-cost policy ($4,100), the family would get back $445

($4,100-$4,545= –$445); they end up with $445 more than if they remain uninsured!

1 The parents of the two children are assumed to be 35 years old in 2009.

REPORTS

- Examples under President Bush's Standard Deduction Health Insurance Plan.



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

FOR IMMEDIATE RELEASE January 29, 2007
CONTACT Jennifer Zuccarelli (202) 622-8657

MAKING HEALTH INSURANCE AFFORDABLE FOR MORE AMERICANS

Examples under President Bush's Standard Deduction Health Insurance Plan

Example 1: An uninsured family of four

Note: All figures are for 2009, the first year the policy is in effect.

Family #1

- A family of four earns $60,000 in total compensation, but all of it comes in the form of wages, i.e. they do not get health insurance through their employer.
- On the non-group market, they would pay $5,100 for an average policy, and $4,100 for a basic low-cost policy.[1]
- Under current law, the family receives no tax benefit for purchasing health insurance and is treated unfairly relative to those workers who receive health care through their employer.

President's Proposal:

- If this family buys health insurance, they deduct $15,000, which reduces their taxable income from $60,000 to $45,000. This deduction lowers their taxes (income and payroll) by $4,545.
- If this family bought an average policy ($5,100), the cost of the insurance would, in effect, drop to $555 ($5,100-$4,545=$555).
- If this same family bought the basic low-cost policy ($4,100), the family would get back $445 ($4,100-$4,545= –$445); they end up with $445 more than if they remain uninsured!

[1] The parents of the two children are assumed to be 35 years old in 2009.

	Current law	President's Policy
Total compensation	$60,000	$60,000
Wages	$60,000	$60,000
Employer-provided health insurance	none	
New standard deduction for health insurance	n/a	$15,000
Taxable income if they buy health insurance	$60,000	$45,000
Tax savings if they buy health insurance	0	$4,545
Cost of health insurance (average policy)	$5,100	$5,100
Net after-tax cost of buying the basic policy	$5,100	$555
Effect of President's policy on after-tax price of insurance		-89%
Cost of health insurance (basic policy)	$4,100	$4,100
Net after-tax cost of buying the basic policy	$4,100	$-445

Example 2: A family of four that now gets health insurance through work

Note: All figures are for 2009, the first year the policy is in effect.

Family #2

- Now consider a family of four with the same $60,000 in total compensation, but $14,000 of it comes in the form of an employer-based insurance policy, of which the employer pays $10,000 and the employee contributes $4,000 on a pre-tax basis.
- This family has the same total compensation as in example 1, but their wages (and taxable income) would be $46,000.
- Under current law, if this family switched to a less expensive basic insurance policy with a $6,000 premium, they would receive $8,000 more in wages, but they would have to pay 30.3% taxes on it (15% income + 15.3% payroll). So they would, in effect, get only $5,576 higher wages for giving up $8,000 of insurance. This is why the family probably does not switch to a less expensive insurance plan under current law – it's not worth it.

President's Proposal

- If the family changed nothing, their wages would still be $46,000, but their taxable income would fall to $45,000, and they would pay $303 *less* in taxes after the standard deduction.
- If instead the family switched to a less expensive policy with a $6,000 premium, they would get the same tax savings ($303), but would receive $8,000 more in wages. This family has given up $8,000 of insurance premium for $8,000 more in wages. They are much more likely to choose less expensive health insurance and higher wages.

	Current law	**President's Policy**	**President's policy, but the family trades low cost health insurance for higher wages**
Total compensation	$60,000	$60,000	$60,000
Wages	$46,000	$46,000	$54,000
Employer's contribution to health insurance premium	$10,000	$10,000	$6,000
Worker's premium contribution	$4,000[1]	$4,000	$0
Taxable income before applying the standard deduction	$46,000	$60,000	$60,000
New standard deduction for health insurance	n/a	$15,000	$15,000
Taxable income since they have health insurance	$46,000	$45,000	$45,000
Wage increase			$8,000
Tax savings	0	$303	$303
Type of health insurance	Average	Average	Basic

[1]Under current law, the worker's premium contribution is assumed to be made on a pre-tax basis through a cafeteria plan.

Example 3: An Uninsured Single Mom with 2 Children

Note: All figures are for 2009, the first year the policy is in effect.

Family #3

- A single mom with two children has $20,000 of total compensation, all of it coming in the form of wages. If she were to purchase health insurance on the non-group market, she would pay $5,100 for an average policy, and $4,100 for a basic low-cost policy.[2]

President's Proposal

- Under the President's proposal, if this mom were to buy health insurance, she would deduct $15,000 from her income and payroll taxes. This reduces her taxable income from $20,000 to $5,000.
- If she bought the average policy, she would save $2,531 on her taxes. In effect, the price of the average policy would drop to $2,569.
- Under the President's proposal, if she bought the basic low-cost policy, she would again save $2,531 on her taxes. If she buys this basic plan, the cost of insurance would be $1,569 after taxes.

	Current law	**President's Policy**
Total compensation	$20,000	$20,000
Wages	$20,000	$20,000
Employer-provided health insurance	none	
New standard deduction for health insurance	n/a	$15,000
Taxable income if they buy health insurance	$20,000	$5,000
Tax savings if she buys health insurance	0	$2,531
Cost of health insurance (average policy)	$5,100	$5,100
Net after-tax cost of buying the average policy	$5,100	$2,569
Effect of President's policy on after-tax price of *average* insurance		-50%
Cost of health insurance (basic policy)	$4,100	$4,100
Net after-tax cost of buying the basic policy	$4,100	$1,569
Effect of President's policy on after-tax price of *basic* insurance		-62%

[2] The mother is assumed to be 35 years old in 2009.

Example 4: A family of four that now gets health insurance through work

Note: All figures are for 2009, the first year the policy is in effect.

Family #4

- A family of four earns $100,000 of total compensation with an average employer-based insurance policy that costs $14,000 in 2009, of which the employer contributes $10,000 and the employee pays $4,000 on a pre-tax basis. This family's current wages (and taxable income) are $86,000.
- Under current law, if this family switched to a less expensive basic insurance policy with a $6,000 premium, they would get $8,000 in higher taxable wages, but they would have to pay about 41.3% taxes on it (26% income + 15.3% payroll).[3] So they would, in effect, get only $4,696 higher wages after taxes for giving up $8,000 of insurance. This is why the family probably does not switch to a less expensive plan under current law – it's not worth it.

President's Proposal

- If the family changed nothing, their wages would still be $86,000, but their taxable income would fall to $85,000, and they would pay $413 *less* in taxes after the standard deduction.
- If instead the family switched to the less expensive policy with a $6,000 premium, they would get the same tax savings ($413), and would receive $8,000 more in wages. This family has given up $8,000 of insurance premium for $8,000 more in wages. They are much more likely to choose less expensive health insurance and higher wages.

	Current law	**President's policy**	**President's policy, but the family trades low cost health insurance for higher wages**
Total compensation	$100,000	$100,000	$100,00
Wages	$86,000	$86,000	$94,000
Employer's contribution to health insurance premium	$10,000	$10,000	$6,000
Worker's premium contribution	$4,000[1]	$4,000	$0
Taxable income before applying the standard deduction	$86,000	$100,000	$100,000
New standard deduction for health insurance	n/a	$15,000	$15,000
Taxable income since they have health insurance	$86,000	$85,000	$85,000
Wage increase			$8,000
Tax savings	0	$413	$413
Type of health insurance	Average	Average	Basic

[1] Under current law, the worker's premium contribution is assumed to be made on a pre-tax basis through a cafeteria plan.

This taxpayer would be subject to the 26 percent alternative minimum tax (AMT) rate.

Example 5: A family of four that now gets health insurance through work

Note: All figures are for 2009, the first year the policy is in effect.

Family #5

- Now consider another family of four with the same $100,000 of total compensation, but $20,000 of it comes in the form of an employer-based insurance policy, of which the employer pays $15,000 and the employee contributes $5,000 on a pre-tax basis. This family's current taxable wages are $80,000.
- Under current law, if this family switched to a less expensive basic insurance policy with a $6,000 premium, they would get $14,000 in higher taxable wages, but they would have to pay 40.9% taxes on it (25.6% income + 15.3% payroll).[4] So they would, in effect, get only $8,276 more in wages after taxes for giving up $14,000 of health insurance. This is why the family probably does not switch to a less expensive plan under current law – it's not worth it.

President's Proposal

- If the family changed nothing, their wages would still be $80,000, but their taxable income would rise to $85,000, and they would pay $2,007 *more* in taxes.
- If instead the family switched to the average policy with a $14,000 premium, they would face the same tax increase ($2,007), but they would have $6,000 higher taxable wages. This family has given up $6,000 of health insurance premium for $6,000 of wages. They are much more likely to choose less expensive health insurance and higher wages.

	Current law	**President's policy**	**President's policy, but the family trades low cost health insurance for higher wages**
Total compensation	$100,000	$100,000	$100,000
Wages	$80,000	$80,000	$86,000
Employer's contribution to health insurance premium	$15,000	$15,000	$14,000
Worker's pre-tax premium contribution (cafeteria plan)	$5,000[1]	$5,000	$0
Taxable income before applying the standard deduction	$80,000	$100,000	$100,000
New standard deduction for health insurance	n/a	$15,000	$15,000
Taxable income since they have health insurance	$80,000	$85,000	$85,000
Wage increase			$6,000
Tax savings	0	-$2,007	-$2,007
Type of health insurance	Expensive	Expensive	Average

[1] Under current law, the worker's premium contribution is assumed to be made on a pre-tax basis through a cafeteria plan.

[4] A portion of the $14,000 would be subject to the 26 percent alternative minimum tax (AMT) rate.

PRESS ROOM

January 29, 2007
HP-239

Treasury Announces Market Financing Estimates

Treasury announced its current estimates of net marketable financing today for the January – March 2007 and April – June 2007 quarters:

- Over the January – March 2007 quarter, the Treasury expects to borrow $141 billion of net marketable debt, assuming an end-of-March cash balance of $10 billion. The current estimate is $35 billion lower than announced in October 2006. Net receipts and outlays have improved by $17 billion. The remainder of the improvement comes from increased issuances of State and Local Government Series securities and adjustments in quarterly cash balances.
- Over the April – June 2007 quarter, the Treasury expects to pay down $130 billion of net marketable debt, assuming an end-of-June cash balance of $30 billion.

During the October – December 2006 quarter, Treasury borrowed $42 billion of net marketable debt, finishing with a cash balance of $31 billion at the end of December. In October 2006, Treasury announced net marketable borrowing of $63 billion, assuming an end-of-December cash balance of $30 billion. The decrease in borrowing was primarily the result of lower outlays and higher-than-expected net issuances of State and Local Government Series securities.

Since 1997, the average absolute forecast error in net borrowing of marketable debt for the current quarter is $11 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 $34 billion and the average absolute forecast error for the end-of-quarter cash balance is $11 billion.

Additional financing details relating to Treasury's Quarterly Refunding will be released at 9:00 A.M. on Wednesday, January 31.

REPORTS

- Sources and Uses Table

Sources and Uses Reconciliation Table

Quarter	Announcement Date	Financing Need	Financing: Marketable Borrowing	Financing: All Other Sources	Financing: Total	Change in Cash Balance	*Memo End-Of-Quarter Cash Balance*
		(1)	(2)	(3)	(4) = (2) + (3)	(5) = (4) - (1)	(6)
Oct - Dec 2005	**Actual**	**97**	**93**	**6**	**98**	**1**	**37**
Jan - Mar 2006	**Actual**	**173**	**158**	**(14)**	**144**	**(28)**	**8**
Apr - Jun 2006	**Actual**	**(137)**	**(92)**	**(7)**	**(99)**	**38**	**46**
Jul - Sep 2006	**Actual**	**19**	**45**	**(19)**	**26**	**6**	**52**
Oct - Dec 2006	October 30, 2006	80	63	(5)	58	(22)	30
	Actual	**70**	**42**	**6**	**48**	**(21)**	**31**
	Memo: Forecast Revision	(11)	(21)	11	(10)	1	1
Jan - Mar 2007	October 30, 2006	179	175	(12)	164	(15)	15
	January 29, 2007	**162**	**141**	**1**	**141**	**(21)**	**10**
	Memo: Forecast Revision	(17)	(35)	12	(23)	(6)	(5)
Apr - Jun 2007	**January 29, 2007**	**(156)**	**(130)**	**(7)**	**(136)**	**20**	**30**
	Memo: Forecast Revision						

Notes: All data is reported on a cash basis.

PRESS ROOM

January 29, 2007
HP-240

Remarks by Secretary Henry M. Paulson
At Roundtable Discussion on State of U.S. Economy
Department of the Treasury

Let me thank you all for coming to Treasury. One of the very pleasant surprises I had coming to government has been the strong economy we have today. I can't take a lot of credit for it but I'm still very very pleased about it. One of the things that we think is important is that a strong economy is going to make it easier to deal with some of the very major challenges we have. It's much easier to undertake things like entitlement reform, Social Security, and energy security from the position of a very strong economy. Now you heard, I believe, the President talk about it at the State of the Union. He made the major points – over 7 million new jobs since August 2003, inflation appears to be at a very manageable level, which is key to extending an expansion, and unemployment is at very very low levels. What is very important to me, I know it's very important to the President, is we're starting to see this economic growth translating itself into real wage increases for the average worker.

So here we are in January of 2007, and it looks like we've made the transition from an unsustainable rate of growth to something that looks very sustainable, to something like 3% a year. You know as well as anyone there's no such thing as certainty when talking about economic matters. We've got to have some caution...talking about the U.S. economy, I want to see if you see it the same way as we see it, and more importantly what cautions do you see, and what policy measures do you think are going to be important to sustain this growth.

Thank you very much for coming today. I look forward to having a good discussion.

PRESS ROOM

January 31, 2007
hp-241

Testimony of Treasury Secretary Henry M. Paulson on the Report on International Economic and Exchange Rate Policies Before the Committee on Banking, Housing, and Urban Affairs

Mr. Chairman, Senator Shelby, and members of the committee, thank you for the opportunity to have this dialogue with you today on an issue of vital importance to American workers and the American economy.

As you know, the foreign exchange report recently issued by the Treasury reviews developments in international economics and the exchange rate policies of a number of our key trading partners.

Let me first take a few minutes to talk about the important and multi-faceted relationship we have with China. Getting it right is vitally important to the citizens of both our nations – and the world – and will be for many years to come. Since the economic relationship between our two countries is an important part of the overall relationship, I have focused intensely on China from the day I was confirmed. It is my job to press for opportunities for American businesses and American workers. The successful management of our economic relationship with China will benefit the United States, and China, greatly.

The United States and China share many strategic interests. These range from national security, to economic growth and trade, to the health of our environment. As a growing leader on the world stage, China must be a full participant in the rules-based world economy.

Recognizing this, the President and Chinese President Hu established the Strategic Economic Dialogue (SED) to manage the economic relationship between our two nations on a long-term basis. The SED should help us make progress on fundamental long-term structural economic issues, as well as on very pressing short-term issues. It is not a scripted ceremony. It is a serious, focused discussion of the economic issues that matter most.

The SED provides a mechanism through which, for the first time in our relationship, our government can speak with a single voice on economic issues to the highest levels of the Chinese government, on a regular basis. The Dialogue is goals-based and designed to keep both sides moving forward on the goals we establish. By meeting regularly, we can actively monitor the progress we're making. By making progress on critical, immediate issues such as currency reform, we will build confidence to deal with important longer term economic issues such as the structural challenges China faces.

China's currency policy is a key factor in our economic relationship. China does not yet have the currency policy we want it to have and that it needs. Treasury's foreign exchange report clearly states that China's cautious approach to exchange rate reform exacerbates distortions in its domestic economy and impedes the adjustment of international imbalances. I look forward to discussing the report with you during this hearing.

We are actively pressing the Chinese to introduce greater currency flexibility and undertake wider market reform. We are seeing some results. China abandoned its pegged exchange rate in July 2005, and began to introduce some flexibility. Since last July, the pace of appreciation has been more than three times as fast as it had been in the first year after the initial renminbi reform. Foreign currency trading, once conducted entirely by the Chinese government, is now conducted almost entirely by commercial banks. China has introduced financial instruments to hedge foreign exchange risk. And the Chinese government has begun to allow increased fluctuations in the currency.

This is welcome progress, but we need to see much more. Although China is moving faster, it is still not moving fast enough.

Nor is currency flexibility enough. A major objective of my two remaining years as Treasury Secretary will be pressing the Chinese government to advance toward the goal of a renminbi whose value is freely set in a competitive marketplace, based upon economic fundamentals.

I will work with the Chinese government to develop the market infrastructure they need for a freely floating currency. This involves several key steps. First, the government should progressively widen the band that limits the daily movement of the exchange rate. Widening the band will help businesses and financial institutions learn to operate with a fluctuating currency. Second, the central bank should progressively reduce its intervention in the foreign exchange markets. Third, China must develop the fundamental components of a capital market – a bond market and a yield curve – to absorb inflows and outflows of foreign exchange and provide ways to hedge against exchange risk. And fourth, China's central bank must set clear policy targets to avoid inflation and thereby provide confidence in the value of the Chinese currency.

I want to be clear: Increased flexibility in the short run is absolutely necessary, but it is not sufficient. My goal is to make significant progress toward a fully market-determined, floating Chinese currency.

The message I delivered to Chinese decision-makers in the first meeting of our Strategic Economic Dialogue in December is that they are not moving quickly enough to make their currency more flexible. While they agree they need to introduce currency flexibility and move to a floating exchange rate, they are not moving quickly enough for the United States or the rest of the global community. And they are not moving quickly enough for their own good.

The Chinese leaders believe there is risk in moving too quickly, when in fact, as I argued to them, the greater risk is in moving too slowly. China may in some respects be a developing country, but it is also a large and powerful country. The international community will run out of patience with China unless the pace of its reform accelerates.

Reform of China's currency policy is a crucial issue for China and for the United States. And, Mr. Chairman, the need for reform in the Chinese economy goes beyond currency. Currency movement alone will not eliminate the distortions in the Chinese economy nor significantly reduce China's trade surplus. China needs to restructure its economy so that household consumption – rather than exports and excess investment – powers growth. This is the only way China can grow without generating huge trade surpluses.

To do this, Chinese policy must address the reasons why Chinese households feel compelled to save so much and spend so little. Only 20 percent of the 800 million people who live in rural areas have health insurance. The basic government pension covered only 17 percent of Chinese workers in 2005. And only 14 percent of the population is covered by unemployment insurance. China must invest in its people by strengthening the health care system and the social safety net. And Chinese households need financial products that insure against risk and finance major expenditures. The Strategic Economic Dialogue addresses all of these issues.

I believe that the openness of the U.S. economy to competition and our participation in international trade are key to economic growth, higher wages, and increased opportunities for U.S. workers. And we are pressing China to follow our example of openness. I am working to ensure that China's growth and expanding market create maximum opportunities for the United States.

China must live up to its WTO commitments. It must protect and vigorously enforce intellectual property rights. It must increasingly open its markets to foreign competition – for its own good as well as for ours. And it must introduce greater transparency in regulation and observe the rule of law. Through the Strategic Economic Dialogue, and through the various economic dialogues that we have with China, the Administration will continue to press very hard in all of these areas.

Mr. Chairman, America's economy and workers benefit significantly from our trade with China. China is our fourth-largest export market. Our exports to China have increased more than 350 percent over the last decade – six times the growth of our exports to the rest of the world. And nearly half of our exports to China are capital goods, including high-value-added goods such as civilian aircraft, electrical machinery, and medical devices.

I believe strongly that a healthy Chinese economy, growing without large external imbalances, is of vital interest to the people of the United States, to the people of China, and to the global economy as a whole. More currency flexibility in the short term and a fully market-determined, floating RMB in the intermediate term are essential to accomplish that goal. So is restructuring the Chinese economy so that domestic consumption demand – not exports – fuels China's growth. Broad structural changes are necessary to have a major impact on our trade deficit with China.

The next round of the SED will take place here in Washington in May. I understand that your constituents are very concerned about the impact of our relationship with China on their jobs and their livelihoods. I want to work with you as I prepare for these discussions. China is a big and important part of the world economy. It needs a currency whose value is determined in an open, competitive marketplace, and an economy that supports more balanced, stable growth.

I look forward to working with the members of this distinguished committee on the many important issues we have before us. And I now welcome your questions.