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PRESS RELEASES

Press release number HP-254 was not used.

February 1, 2007
HP-242

Paulson, IRS Launch Campaign to Help Low Income Taxpayers Take Advantage of Tax Credit, Free Tax Help

Washington, DC - Treasury Secretary Henry M. Paulson, Treasurer Anna Escobedo Cabral and IRS Commissioner Mark W. Everson and the IRS' national partners launched Earned Income Tax Credit (EITC) Awareness Day at a Treasury Department press conference today. The event kicks off a nationwide campaign to inform taxpayers about this important credit for working families and the availability of free tax help.

"The Earned Income Tax Credit helps Americans who work hard but need extra support to make ends meet – people who are often on the first step of the economic ladder, gaining the experience and skills to land a better job and earn a higher income in the future," said Secretary Paulson. "Our goal is not just to help people get by. Our goal is to help people get ahead."

More than 150 coalitions and partners across the nation marked EITC Awareness Day with a series of news conferences or news releases promoting this valuable tax credit for low-wage taxpayers. These organizations operate free tax preparation sites for low-income individuals, for seniors and for other eligible taxpayers.

The Treasury officials were joined by partners Mayor Otis Johnson of Savannah, Georgia, Brian Gallagher, chief executive officer of United Way of America, Elsie Meeks, executive director of First Nations Oweesta Corporation and Linda Eatmon-Jones, coordinator, DC CASH, for the kickoff event at the Treasury Department.

The Earned Income Tax Credit provides a refundable credit of up to $4,536 for eligible families. EITC claimants are eligible for free tax preparation services provided at 12,000 volunteer sites nationwide or they can also link to Free File through IRS.gov if they wish to prepare their own return.

In addition to providing help claiming the EITC, these free tax sites can help qualified taxpayers request their one-time telephone excise tax credit.

"The IRS wants all eligible taxpayers to claim the EITC. Trained volunteers working at these free tax preparation sites can help ensure that taxpayers receive all the deductions and credits they are due. And, if you want to do your own taxes, there is always Free File which is available at IRS.gov," said Commissioner Everson.

Many organizations offering free tax help also are encouraging taxpayers to save a little money or open a bank account. The IRS is helping in this effort by creating a new split-refund program that allows all taxpayers to divide their refund among up to three financial accounts, such as checking, savings and retirement.

"Tax time is an ideal time to think about savings. For many taxpayers, tax refunds are the largest checks they will receive throughout the year, and the new split-refund program gives individuals and families the opportunity to build a nest egg for the future," said Treasurer Cabral.

During tax year 2005, more than 22 million returns received over $41 billion in EITC. However, the IRS also estimates that as many as 25 percent of eligible taxpayers fail to claim this tax credit.

Eligible people who fail to claim EITC include Spanish speakers, individuals who are self-employed or have service jobs in private households, childless taxpayers, rural residents, and recipients of other types of public assistance such as food stamps.

The credit was created in 1975 in part to offset the burden of Social Security taxes and to serve as a work incentive. The amount of the credit varies but it is generally determined by income and family size. Many states also have a local version of EITC which also can increase a taxpayer's refund.

Tax preparers and taxpayers can find a wealth of information at IRS.gov. Both can use the EITC Assistant at www.irs.gov/eitc which is an easy-to-use interactive tool to help determine if the taxpayer is qualified for EITC. This step-by-step online program helps answer questions about eligibility, filing status, qualifying children and credit amount. The EITC Assistant also is available in Spanish.

For the 2006 tax year, the maximum credit is $4,536 for a family with two or more children; $2,747 for a family with one child and $412 if the taxpayer does not reside with children.

The maximum amount of earned income allowed is higher for tax year 2006 than it was for 2005. Please see Fact Sheet 2007-13 for all eligibility requirements. Generally, a taxpayer may be able to take the credit for tax year 2006 if the taxpayer:

- has more than one qualifying child and earns less than $36,348 ($38,348 if married filing jointly),
- has one qualifying child and earns less than $32,001 ($34,001 if married filing jointly), or
- does not have a qualifying child and earns less than $12,120 ($14,120 if married filing jointly).

The maximum amount of investment income also increased to $2,800 for tax year 2006.

The IRS reminds tax professionals that they must perform due diligence when preparing an EITC tax return. To help, the IRS created an EITC Tax Preparer Electronic Toolkit which is available at www.eitcfortaxpreparers.com.

In addition to on-line tools, the IRS also produces Publication 596, Earned Income Credit, which explains all the eligibility rules and also includes a worksheet to determine eligibility. The publication is available in English and Spanish.

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February 2, 2007
HP-243

Statement of Secretary Paulson on International Affairs Under Secretary Adams

Washington, D.C. – Secretary Paulson made the following statement today on the resignation announcement of International Affairs Under Secretary Timothy D. Adams:

I am deeply grateful to Tim Adams for his unsurpassed dedication and leadership in serving the President and the Treasury Department.

Tim helped shape this Administration's economic policy from its roots in Austin in the early stages of the 2000 campaign. For the last two years, Tim has traveled around the world representing the American people and strengthening our relationships with key economic partners. The U.S. economy and our global economic ties are stronger thanks to his work.

During his tenure at Treasury, Tim has advised three Secretaries, and helped this Department navigate the economic shocks of a recession, corporate scandals, terrorist attacks, and the war on terror. He played a key role in developing and implementing policies that are bringing new opportunity and hope to people in the world's poorest countries, such as the Millennium Challenge Corporation and the historic debt relief initiative.

In the critical U.S.-China economic relationship, Tim has worked to integrate China into the global system and put them on a path to increased currency flexibility. He sought to improve and strengthen the fabric of our international financial institutions by pushing them to adapt and respond to today's challenges and opportunities. Particularly through his influential efforts to modernize the IMF, he sought to ensure that our key multilateral institutions are prepared to play a beneficial role in our evolving global economy.

Tim's good humor, keen intellect, and genuine regard for the men and women around him have made him a valued member of the Treasury family. With great respect and appreciation, we bid Tim farewell and best wishes.

REPORTS

- Click here to view Under Secretary Adams' Letter of Resignation

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

UNDER SECRETARY

February 2, 2007

The President
The White House
Washington, DC 20500

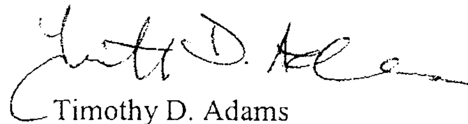
Dear Mr. President:

It has been my great honor to serve in your Administration at the Treasury Department through two terms, three secretaries, and nearly six years. However, my responsibilities to my spouse and three young children are simply incompatible with the demands of continued service in the Administration, and I refuse to give anything but my best as I endeavor to make a difference in public service. So it is with some sadness that I, hereby, tender my resignation as Under Secretary of the Treasury (International Affairs) effective at the optimal time to facilitate a smooth transition.

Over these past years, we have faced many challenges ranging from recession to the terrorist attacks of September 11, 2001, to the enduring poverty in too many parts of the world. You have responded to these challenges with achievements of lasting importance. It has been my privilege to play a variety of roles in these accomplishments. More recently, during my tenure as Under Secretary, I have been proud to have helped to modernize the International Monetary Fund and craft the U.S. Government's response to the emergence of new economic powers, such as China and India. I have also enjoyed helping our government seize the opportunities and confront the challenges of globalization, while working to sustain rapid economic growth, open markets and improve our economy's competitiveness.

Finally, during my tenure at Treasury, I have been deeply impressed by the diverse talents, commitment to excellence, and dedication to the Nation of your appointees and that of the career Treasury employees who are among the finest civil servants in the world. I have every confidence that this talented team will continue to make great strides during the final two years of your Administration and I wish you every success in those efforts.

Sincerely,



Timothy D. Adams

February 2, 2007
HP-244

Treasury to Hold Technical Briefing on Blue Book

U.S. Treasury officials will hold a background media briefing of the General Explanations of the Administration's Fiscal Year 2008 Revenue Proposals, also known as the "Blue Book."

Who
Assistant Secretary for Tax Policy Eric Solomon
Deputy Assistant Secretary for Tax Analysis Robert Carroll

What
Budget Blue Book Technical Briefing

When
Monday, February 5 1:00 p.m. (EST)

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 Brittni Aldridge for clearance at (202) 622-2960 or brittni.aldridge@do.treas.gov with the following information: name, Social Security number, and date of birth.

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February 2, 2007
HP-245

Treasury Economic Update 2.02.07

"We saw the importance of trade for U.S. workers in this morning's strong GDP data. GDP growth in the fourth quarter was 3.5 percent and inflation was moderate at 1.5 percent. Trade contributed more than 1.6 percentage points to growth, with double-digit export gains accounting for more than 1 percentage point. We have reached a cross-over point in which American exports are growing faster than imports – and have been doing so for 4 straight quarters."

REPORTS

- Treasury Economic Update 2.02.07

U.S. ECONOMIC STRENGTH

TREASURY ECONOMIC UPDATE 2.02.07

"We saw the importance of trade for U.S. workers in this morning's strong GDP data. GDP growth in the fourth quarter was 3.5 percent and inflation was moderate at 1.5 percent. Trade contributed more than 1.6 percentage points to growth, with double-digit export gains accounting for more than 1 percentage point. We have reached a cross-over point in which American exports are growing faster than imports – and have been doing so for 4 straight quarters."

U.S. Treasury Secretary Henry M. Paulson, January 31, 2007

Indicators of a Strong & Sustainable U.S. Economy:

Economic Growth: 3.5% GDP growth in the 4th quarter. Our economy has grown a solid 3.4% over the past 4 quarters. *(Last updated: January 31, 2007)*

Business Investment: Capital investment increased a strong 6.8% over the 4 quarters of 2006. *(Last updated: January 31, 2007)*

Job Growth: 111,000 new jobs created in January. More than 2.1 million new jobs have been created over the past 12 months. In addition, employment estimates for November and December were revised up, adding 81,000 jobs. Since August 2003, more than 7.4 million jobs have been created – more jobs than all the other major industrialized countries combined. Our economy has added jobs for 41 straight months. Employment has increased in 49 states within the past year. *(Last updated: February 2, 2007)*

Low Unemployment: 4.6% unemployment rate – close to a 5-1/2 year low. Unemployment rates have decreased or held steady in 42 states over the past year. *(Last updated: February 2, 2007)*

Tax Revenues: Tax receipts up 11.8% in fiscal year 2006 (FY06) on top of FY05's 14.6% increase. Receipts have grown another 8% percent so far in FY07. *(Last updated: January 12, 2007)*

Steady Productivity: Labor productivity has grown at an annual rate of 3% over the past five years. *(Last updated: December 5, 2006)*

Americans are Keeping More of Their Hard-Earned Money:

Real Wages Grew 1.7% Over the Past 12 Months (ending December). This translates into an extra $585 for the average full-time production worker.

Real After-Tax Income Per Person has Risen 9.7% - an extra $2,499 per person – since the President took office.

Pro-Growth Policies will Enhance Long-Term U.S. Economic Strength:

On February 5, the Administration will present its proposal to balance the budget by 2012. Economic growth has generated increased tax receipts and dramatically improved the budget outlook. A robust economy has helped produce rapid increases in federal receipts which combined with spending restraint has put us on track to meet the President's goal to cut the deficit in half over the next five years. The time has come for both political parties to work together on comprehensive earmark reform that produces greater transparency and accountability to the congressional budget process, including full disclosure for each earmark and cutting the number and cost of all earmarks by half.

www.treas.gov/economic-plan

February 5, 2007
HP-246

Proposed Treasury Budget for FY 2008

The President's proposed budget for Treasury in fiscal year (FY) 2008 reflects the Department's dedication to promoting economic opportunity, strengthening national security, and exercising fiscal discipline.

"The President's proposed Treasury funding for FY 2008 supports Treasury's priorities of promoting economic opportunity, combating threats to the national and economic security of the U.S., and striving for a more effective and efficient federal government," said Treasury Secretary Henry M. Paulson. Speaking of the budget as a whole, Paulson said "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."

The Treasury appropriations request for FY 2008 is $12.1 billion, a 4.7 percent increase over the President's FY 2007 request of $11.6 billion.

Promoting Economic Opportunity

The Treasury Department, through offices including Economic Policy, International Affairs, Tax Policy, and Domestic Finance, provides analysis, economic forecasting, and policy guidance on issues ranging from tax policy to international financial crises.

The FY 2008 budget provides additional resources to support Treasury in its role as Chair of the Committee on Foreign Investment in the United States (CFIUS), including administering the interagency CFIUS process.

Treasury requests $28.6 million for the Community Development Financial Institutions (CDFI) Fund, $20.7 million above the FY 2007 request. These funds will allow CDFI to continue its mission to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States.

Strengthening National Security

The Office of Terrorism and Financial Intelligence (TFI) plays an important role in helping to combat threats to the nation and the financial system of the United States. By drawing on our unique and powerful authorities, as well as financial intelligence, the Treasury helps to safeguard the financial system against abuse by weapons proliferators, terrorists, narcotics traffickers, rogue regimes, and other bad actors. To support these efforts, Treasury requests a 23.8% increase for TFI relative to the FY 2007 request.

Exercising Fiscal Discipline

One of Secretary Paulson's highest priorities is keeping the U.S. on the path to achieve the President's goal of reducing budget deficits and balancing the budget by 2012. The Treasury Department is committed to reducing the deficit by exercising fiscal discipline and ensuring the most efficient and effective use of taxpayer dollars while at the same time boosting revenues through continued economic growth.

Enforcing the Nation's Tax Laws Fairly and Efficiently

As part of Treasury's comprehensive strategy to address the tax gap, the President's Budget requests $11.095 billion in appropriations for the IRS to expand its enforcement activity and to continue improvements in taxpayer service.

An in-depth press briefing on the revenue proposals, including release of the "Blue Book" will be held at 1:00pm (EST) today in room 4121 of the Treasury Building. (Media without Treasury press credentials should contact Frances Anderson at (202) 622-2960, or frances.anderson@do.treas.gov with: name, Social Security number, and date of birth.)

Summary of Treasury's FY 2008 Budget Request:
http://www.treas.gov/offices/management/budget/budgetinbrief/fy2008/

February 5, 2007
2007-2-5-12-5-14-17695

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 $64,961 million as of the end of that week, compared to $64,852 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	January 26, 2007			February 2, 2007		
TOTAL	64,852			64,961		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	12,244	10,473	22,717	12,312	10,514	22,826
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,221	5,101	17,322	12,278	5,123	17,401
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]			4,990			4,874
3. Special Drawing Rights (SDRs) [2]			8,782			8,820
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	January 26, 2007			February 2, 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 26, 2007			February 2, 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.

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February 5, 2007
hp-247

Treasury Releases FY 2008 Blue Book

Washington, DC – The U.S. Treasury Department today released its General Explanations of the Administration's Fiscal Year (FY) 2008 Revenue Proposals, often referred to as the Blue Book.

The Administration's FY 2008 Budget includes measures to permanently extend the President's tax relief enacted in 2001 and 2003, the President's proposal for a new standard deduction to make health insurance more affordable and a set of proposals to improve compliance with the U.S. tax system. The FY 2008 Budget also includes initiatives to:

- Improve Americans' Competitiveness
- Provide Alternative Minimum Tax (AMT) Relief
- Simplify and Encourage Savings
- Strengthen Education
- Provide Incentives for Charitable Giving
- Extend Various Expiring Tax Provisions

Helping More Americans Afford Health Insurance

As the President discussed in his 2007 State of the Union Address, the current tax treatment of health care has contributed to the rapid growth in health care costs and generally provides little or no benefit to people whose employer does not offer health insurance coverage. The President has proposed a new standard deduction for health insurance to help make insurance more affordable. The proposal removes the existing tax bias for individuals to purchase overly generous health insurance and also provide a strong incentive for the uninsured to purchase insurance.

Families who choose coverage, whether directly or through an employer, could deduct a standard $15,000; individuals who choose coverage could deduct $7,500. A family or individual that spends less on health insurance than the standard deduction amount would still receive the full $15,000 or $7,500. The deduction would apply for purposes of both the income tax and payroll tax.

Treasury estimates that about 3 to 5 million more people would have health insurance under the proposal.

Click here for more information on President Bush's affordable health care proposal

Improving Tax Compliance

The Treasury Department released a comprehensive strategy to improve tax compliance in September 2006. The strategy builds upon the demonstrated experience and current efforts of the Treasury Department and IRS to improve compliance with a commitment to taxpayer service.

The Treasury has put forward 16 proposals in the budget to help improve compliance, with an emphasis on additional reporting without creating excessive

burdens on compliant taxpayers. The Department also asked for $409 million for the IRS to step up compliance efforts. Additional funding is also provided for more research to study the sources of non-compliance.

Click here for more information on Treasury's September 2006 strategy to improve tax compliance.

Improving Americans' Competitiveness

The tax system should promote the competitiveness of U.S. workers and businesses in the global economy. The FY 2008 Budget also includes proposals to promote savings for all Americans and encourage investment by entrepreneurs. In the coming months, the Treasury Department will engage in a public dialogue on how our tax system can be improved to make the U.S. more competitive in the global economy.

AMT Relief

The Administration is concerned that the individual AMT may impose substantial burdens upon taxpayers who were not the originally intended targets of the individual AMT. The President's FY 2008 Budget proposes to extend for one year through 2007 provisions that address the rapid rise in the number of taxpayers affected by the AMT in the near term. The Administration urges Congress to create a longer term solution to the problems associated with the individual AMT.

The proposal would increase the AMT exemption levels for 2007 to $43,900 for single and head of household filers, $65,350 for married taxpayers filing joint returns, and $32,675 for married taxpayers filing separate returns. In addition, the proposal would allow an individual to reduce 2007 tax liability by the full amount of nonrefundable personal credits even if tax liability is reduced to an amount that is less than the individual's tentative minimum tax.

Without long-term changes, an estimated 25 million Americans will fall subject to the AMT.

Click here to view the FY 2008 Blue Book.

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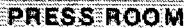

February 6, 2007
HP-248

Testimony of Treasury Secretary
Henry M. Paulson
before the House Ways and Means Committee
on the President's Fiscal Year 2008 Budget

Washington, D.C. – Chairman Rangel, Ranking Member McCrery, Members of the Committee:

I am pleased to be here today to provide an overview of the President's budget for fiscal year 2008. As the Secretary of the Treasury, my top priority is keeping America's economy strong for our workers, our families, and our businesses. And the President's budget supports that goal.

We start from a position of strength. Our economy appears to be transitioning from a period of above-trend growth to a more sustainable level of about three percent growth. More than 7.4 million jobs have been created since August 2003. Our unemployment rate is low at 4.6 percent. And over the last 12 months, real wages have increased 1.7 percent. Economic growth is finding its way into workers' paychecks as a result of low inflation. That means family budgets are going further.

Strong economic growth also benefits the government's fiscal position. In the first quarter of fiscal year 2007, budget receipts totaled $574 billion, an increase of 8 percent over the same period in fiscal year 2006. As a result of increased revenue over the last two years, we have brought the federal budget deficit down to 1.8 percent of GDP.

The President has submitted a budget that reflects our strong economy and our nation's priorities: continued job creation and wage growth, vigorous prosecution of the war on terror, increased access to affordable health insurance, improved energy security, and a strong fiscal position from which we can address long-term challenges such as strengthening Social Security and Medicare for future generations.

This budget supports a strong economy by maintaining fiscal discipline. It maintains our current tax policy, which has helped our economy rebound from recession to its current robust health. With a steadily growing economy, tax revenues combined with fiscal discipline should bring the federal budget into balance in five years. In fact, we are submitting a budget that includes a surplus in 2012, which is achievable if we keep our economy growing. While no one has a crystal ball, our economic assumptions are close to the consensus of professional forecasters.

The President's budget addresses important domestic priorities. Health care is high on this list. Under current law, the tax subsidy for health insurance purchased through employers will average more than $300 billion a year for the next ten years. For that huge expenditure we get a system in which rising costs are a burden to families and businesses, and in which millions of people have no insurance at all.

The President's proposal would make health care more affordable and more accessible. It would give all taxpayers who buy health insurance, whether on their own or through their employer, and no matter the cost of the plan, the same standard tax deduction for health insurance – $15,000 for a family, or $7,500 for an individual. The President's proposal would help hold down health care costs by removing the current tax bias that encourages over-spending. Costs would become

clearer, giving patients more power to make informed choices about their health care spending. The proposal would also jumpstart the individual insurance market, so consumers have more choices than are available today. Health care would become more consumer-driven, more affordable, and more accessible for millions of Americans.

Energy security is another concern of the American people, and it is a priority addressed in the President's budget. President Bush has put forth an ambitious goal of reducing America's projected gasoline consumption by 20 percent over the next 10 years. We can achieve this goal by dramatically increasing the supply and use of alternative fuels, and improving fuel-efficiency by reforming and increasing CAFE.

The expanded fuels standard will provide entrepreneurs and investors a guaranteed demand for alternative fuels, which will accelerate private investment and technological development. Reforming CAFE will allow us to increase the fuel economy of our automobiles as fast as technology allows. With a more diverse fuel supply and better fuel efficiency, we can make our economy less vulnerable to supply disruptions and confront climate change through technologies that reduce carbon dioxide emissions.

Finally, the President's budget, by emphasizing fiscal discipline and economic growth, lays the right foundation for dealing with entitlement reform – a challenge we all have a responsibility to address. Strengthening Social Security and Medicare is the most important step we can take to ensure the retirement security of our children and grandchildren, the long-term stability of the federal budget, and the continued growth of the American economy. I look forward to sitting down with Democrats and Republicans, without pre-conditions, and finding common ground on these critical issues.

Mr. Chairman, the President's budget priorities – a strong economy, national security, fiscal discipline, health care and energy innovation, and laying the groundwork for entitlement reform – are the right priorities for America and for the workers, businesses, and investors who drive our economy.

I am confident that, working together, we will keep our economy strong and chart a course for maintaining our global economic leadership in the years ahead.

Thank you for the opportunity to discuss this today – and I now welcome your questions.

February 6, 2007
HP-249

Testimony of Treasury Secretary
Henry M. Paulson
before the Senate Finance Committee
on the President's Fiscal Year 2008 Budget

Washington, D.C. – Chairman Baucus, Senator Grassley, Members of the Committee:

I am pleased to be here today to provide an overview of the President's budget for fiscal year 2008. As the Secretary of the Treasury, my top priority is keeping America's economy strong for our workers, our families, and our businesses. And the President's budget supports that goal.

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clearer, giving patients more power to make informed choices about their health care spending. The proposal would also jumpstart the individual insurance market, so consumers have more choices than are available today. Health care would become more consumer-driven, more affordable, and more accessible for millions of Americans.

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The expanded fuels standard will provide entrepreneurs and investors a guaranteed demand for alternative fuels, which will accelerate private investment and technological development. Reforming CAFE will allow us to increase the fuel economy of our automobiles as fast as technology allows. With a more diverse fuel supply and better fuel efficiency, we can make our economy less vulnerable to supply disruptions and confront climate change through technologies that reduce carbon dioxide emissions.

Finally, the President's budget, by emphasizing fiscal discipline and economic growth, lays the right foundation for dealing with entitlement reform – a challenge we all have a responsibility to address. Strengthening Social Security and Medicare is the most important step we can take to ensure the retirement security of our children and grandchildren, the long-term stability of the federal budget, and the continued growth of the American economy. I look forward to sitting down with Democrats and Republicans, without pre-conditions, and finding common ground on these critical issues.

Mr. Chairman, the President's budget priorities – a strong economy, national security, fiscal discipline, health care and energy innovation, and laying the groundwork for entitlement reform – are the right priorities for America and for the workers, businesses, and investors who drive our economy.

I am confident that, working together, we will keep our economy strong and chart a course for maintaining our global economic leadership in the years ahead.

Thank you for the opportunity to discuss this today – and I now welcome your questions.

February 7, 2007
HP-250

Testimony of Treasury Assistant Secretary Clay Lowery before the House Financial Services Committee

Washington, DC – Mr. Chairman, Ranking Member Bachus, and distinguished members of the Committee, I appreciate the opportunity to appear before you to discuss the Committee on Foreign Investment in the United States (CFIUS) and H.R. 556, the "National Security Foreign Investment Reform and Strengthened Transparency Act of 2007". I am here speaking on behalf of the administration, the Treasury Department, and CFIUS.

First, let me assure the Committee that the administration is committed to improving CFIUS in a manner that continues to protect national security and ensures a strong U.S. economy. To this end, an open investment environment in this country serves as a positive example and thereby supports U.S. investment abroad. We believe the Committee shares these goals, and I look forward to working with you to achieve them.

I appreciate the opportunity to appear before the Committee to discuss the current state of the CFIUS process and update the Committee on the many changes we have made to the CFIUS process since I appeared before this Committee last year. Furthermore, I appreciate the opportunity to discuss the legislation introduced by your distinguished colleague, Congresswoman Maloney, as well as the administration's priorities for any CFIUS reform legislation.

Before I discuss CFIUS reform and the importance of an open investment climate, I would like to review briefly CFIUS and Exon-Florio.

CFIUS AND EXON-FLORIO

CFIUS was established by Executive Order in 1975 with the Secretary of the Treasury as its chair. Its central purpose at that time was to monitor foreign investment in the United States. CFIUS was given expanded responsibilities in 1988 following the enactment of the Exon-Florio amendment to the Defense Production Act of 1950. Exon-Florio provides for a national security review of foreign acquisitions of companies engaged in interstate commerce in the United States. It also allows the President to take action, if necessary, to suspend or prohibit a transaction that, in his judgment, threatens the national security if existing laws, other than the International Emergency Economic Powers Act, are not adequate or appropriate to address the threat. The President delegated to CFIUS his authority to investigate transactions under Exon-Florio.

From enactment of Exon-Florio in 1988 through 2006, CFIUS reviewed over 1,700 foreign acquisitions of companies for potential national security concerns. In 2006, CFIUS investigated 113 filings, a 74 percent increase over 2005. This trend appears to continue, as 14 transactions were notified to CFIUS by the end of January 2007. In 2006, CFIUS conducted seven 45-day second stage investigations, the most ever in a single year.

IMPORTANCE OF FOREIGN DIRECT INVESTMENT TO THE U.S. ECONOMY

The administration views investment, including investment from overseas, as vital to continued economic growth, job creation, and building an ever-stronger America. The free flow of capital in open and competitive markets contributes directly to

higher productivity, growth and efficiency. When capital is free to flow in response to market demand, it is used most efficiently, thereby maximizing economic growth. As Secretary Paulson has stated, "The U.S. experience illustrates the benefits of openness and competition. Our economy is by far the world's strongest because it is built on openness – openness to people of all nationalities, openness to new ideas, openness to investment, and openness to competition."

In 2005, foreign direct investment (FDI) into the United States totaled almost $100 billion, double the annual average in the early 1990s. The stock of FDI in the United States reached almost $1.9 trillion at the end of 2005. The United States is also the largest investor in foreign markets, with the stock of U.S. direct investment overseas totaling nearly $2.5 trillion at the end of 2005.

U.S. affiliates of foreign-headquartered multinationals perform a major share of many activities central to continued economic growth and rising living standards in the United States. Inward foreign direct investment benefits the foundations of the U.S. economy -- playing a substantial role in our recent productivity boom. Research has shown that multinational firms are more productive than firms focused primarily on domestic markets. The relatively high productivity of U.S. affiliates of foreign-owned firms is attributable, in part, to their relatively high levels of investment in physical capital, research and development, and exporting and importing. U.S. affiliates account for 5.7 percent of output and 4.7 percent of employment (and one-third of these jobs are in manufacturing); they also account for a major share of U.S. exports (19 percent), imports (26 percent), capital investment (10 percent), and research and development expenditures (13 percent).

A large portion of the benefits of foreign companies' productivity accrues directly to their American workers. Americans working for foreign firms in the United States earned an average annual compensation of over $63,000, more than thirty percent above average annual compensation for workers in the rest of the economy.

Despite the important and immediate benefits of foreign direct investment in the United States, we have experienced recent controversies relating to particular foreign investments in the United States. These controversies, coupled with some troubling signs that other countries are pursuing barriers to foreign investment, and increasingly negative media coverage of the U.S. investment climate, underscore the need to improve and reform the CFIUS process. It is also important to note that our actions to reform CFIUS are and will continue to be closely watched.

PROTECTION OF NATIONAL SECURITY

The administration regards our nation's security as its top priority and supports efforts to reform the CFIUS process to address more effectively national security imperatives since 9/11. In just the last year, CFIUS has instituted a number of reforms to address concerns about the CFIUS process raised by Congress, several of which are also proposed in your legislation:

- CFIUS now notifies and provides briefings to the Congressional Committees of jurisdiction on every case for which action has concluded under the Exon-Florio amendment.
- To ensure accountability, every case is briefed up to senior policy officials within CFIUS agencies and only individuals confirmed by the Senate can certify the conclusion of a CFIUS review.
- As chair of CFIUS, Treasury encourages parties to transactions to consult with CFIUS and provide a draft notice before filing a formal notice. Pre-filings give CFIUS more time to consider transactions and result in more detailed formal filings that better address CFIUS's concerns.
- Withdrawn transactions are monitored carefully by Treasury and other agencies. Treasury notifies parties that refilings must occur promptly unless the transaction is terminated.
- CFIUS has formalized a longstanding policy that allows agencies to request a notice for any transaction that has not yet been voluntarily notified or that was withdrawn and has not yet been refiled.
- CFIUS has strengthened its communications and deliberations process. Treasury hosts weekly policy level meetings to discuss all pending CFIUS

cases.
- The Director of National Intelligence (DNI) has a more formal role. Through the DNI, the intelligence community provides briefings and intelligence summaries on every transaction. Intelligence officials also participate in weekly CFIUS policy meetings.

ADMINISTRATION'S VIEWS ON LEGISLATIVE REFORM

During the last Congress, this Committee was instrumental in shaping a CFIUS reform bill, H.R. 5337, which passed the House of Representatives unanimously. On September 14, 2006, the administration delivered to the Committee Chairman and Ranking Member its views letter on CFIUS reform. In it, we brought to the attention of the Committee a number of areas where we differed in how we should reach our common goal of enhancing national security and preserving the United States as an attractive environment for direct investment.

As the legislation before us is based on H.R. 5337, I believe it would be useful for me to review the administration's views letter, which reflects our priorities for CFIUS reform. Let me reiterate to the members of this Committee that we stand ready to work with you to ensure that the CFIUS process is improved to protect national security while preserving an open investment climate that creates jobs and continues to support economic growth.

Accountability

The administration shares Congress's goal of ensuring senior-level accountability. As noted above, we therefore seek the clearance of Senate confirmed officials at the conclusion of all first-stage (30-day) investigations. We believe decisions at the end of a second stage (45-day) investigation should be made at the secretary or deputy secretary level. We also believe all decisions on foreign-government owned cases should be made at the secretary or deputy secretary level.

Mandatory Second-Stage 45 Day Investigations

The administration believes that a second-stage, 45-day investigation is necessary only if a CFIUS member has identified national security concerns that have not been adequately mitigated during the first-stage investigation or has unresolved questions regarding national security implications by the end of the first-stage investigation. A second-stage investigation should not be required absent these circumstances. It is important that discretion to consider the national security issues raised by any particular transaction is preserved in the legislation.

Factors for Consideration

The administration believes that CFIUS should maintain the discretion to address all issues in a manner that takes into account the relevant facts and circumstances of each case. We support expanding factors for consideration, including, among others, foreign-government control and critical infrastructure.

Ensuring Congressional Oversight

The administration supports enhanced communication with Congress. CFIUS regularly provides your committee information on all cases where action has concluded under Exon-Florio. We have also provided more comprehensive periodic briefings to congressional committees describing the cases investigated and foreign investment trends in the United States. We do not believe it is appropriate, however, to report on the internal deliberations of the Executive Branch, including any positions taken by individual CFIUS members during CFIUS's consideration of a transaction.

Extensions of 45-Day Investigations

The administration believes that the current timeframes for 30- and 45-day investigations are sufficient. Extending these periods may discourage foreign investment or discourage the voluntary filing of notices with CFIUS by generating uncertainty and delay for the parties to a proposed transaction. In addition, our current practice of requesting pre-filing notifications provides additional time and flexibility needed to review transactions.

CFIUS Membership and Deliberations

The President should have the flexibility to determine and adjust CFIUS membership as circumstances develop. We do not believe legislation should mandate the designation of Vice Chairs or mandate that CFIUS include members of the Executive Office of the President (EOP) as statutory members of CFIUS. Legislation should recognize the President's flexibility to designate members of the EOP.

The administration is concerned that additional procedural requirements on CFIUS deliberations, such as roll-call voting, are ill-suited for executive bodies like CFIUS and are inconsistent with the vesting of executive power in the President. Such impediments deter the full and open interagency discussions that are required to consider CFIUS cases properly.

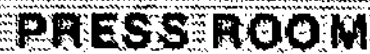
Role of the Intelligence Community

The administration supports the role of the intelligence community as an independent advisor to CFIUS, and thus opposes giving the DNI a policy role, rather than an advisory role. Your legislation does not make DNI a member of CFIUS but would still allow the DNI to trigger a 45-day second-stage investigation, thereby moving them beyond an advisory role to a policy function. As I stated previously, the DNI has a formal role in the process – to coordinate and facilitate the intelligence assessment in each CFIUS investigation. I must also point out that H.R. 556, as currently drafted, retains a timing conflict that was present in H.R. 5337. Both bills state that the DNI "shall be provided no less than 30 days" to complete a threat assessment that will inform CFIUS investigations. This may conflict with the overall structure of the legislation which provides for a first stage (30-day) investigation. We look forward to working with the Congress to provide for a sufficient period of time to conduct the threat analysis and to provide sufficient time for CFIUS to investigate and consider that analysis.

CONCLUSION

The current climate has provoked healthy debate within the investment community, both international and domestic, within CFIUS itself, and among foreign governments. We have listened carefully to the views expressed to ensure that we get CFIUS reform right.

In closing, let me emphasize that the Bush administration is firmly committed to keeping the U.S. economy open to international investment while at the same time protecting our national security. Openness at home encourages other nations to lower their barriers which can help advance prosperity and economic freedom in the rest of the world. In short, a domestic climate conducive to foreign investment strengthens national security.



February 7, 2007
HP-251

Testimony of Treasury Secretary
Henry M. Paulson
before the House Budget Committee
on the President's Fiscal Year 2008 Budget

Chairman Spratt, Ranking Member Ryan, Members of the Committee:

I am pleased to be here today to provide an overview of the President's budget for fiscal year 2008. As the Secretary of the Treasury, my top priority is keeping America's economy strong for our workers, our families, and our businesses. And the President's budget supports that goal.

We start from a position of strength. Our economy appears to be transitioning from a period of above-trend growth to a more sustainable level of about three percent growth. More than 7.4 million jobs have been created since August 2003. Our unemployment rate is low at 4.6 percent. And over the last 12 months, real wages have increased 1.7 percent. Economic growth is finding its way into workers' paychecks as a result of low inflation. That means family budgets are going further.

Strong economic growth also benefits the government's fiscal position. In the first quarter of fiscal year 2007, budget receipts totaled $574 billion, an increase of 8 percent over the same period in fiscal year 2006. As a result of increased revenue over the last two years, we have brought the federal budget deficit down to 1.8 percent of GDP.

The President has submitted a budget that reflects our strong economy and our nation's priorities: continued job creation and wage growth, vigorous prosecution of the war on terror, increased access to affordable health insurance, improved energy security, and a strong fiscal position from which we can address long-term challenges such as strengthening Social Security and Medicare for future generations.

This budget supports a strong economy by maintaining fiscal discipline. It maintains our current tax policy, which has helped our economy rebound from recession to its current robust health. With a steadily growing economy, tax revenues combined with fiscal discipline should bring the federal budget into balance in five years. In fact, we are submitting a budget that includes a surplus in 2012, which is achievable if we keep our economy growing. While no one has a crystal ball, our economic assumptions are close to the consensus of professional forecasters.

The President's budget addresses important domestic priorities. Health care is high on this list. Under current law, the tax subsidy for health insurance purchased through employers will average more than $300 billion a year for the next ten years. For that huge expenditure we get a system in which rising costs are a burden to families and businesses, and in which millions of people have no insurance at all.

The President's proposal would make health care more affordable and more accessible. It would give all taxpayers who buy health insurance, whether on their own or through their employer, and no matter the cost of the plan, the same standard tax deduction for health insurance – $15,000 for a family, or $7,500 for an individual. The President's proposal would help hold down health care costs by removing the current tax bias that encourages over-spending. Costs would become clearer, giving patients more power to make informed choices about their health

care spending. The proposal would also jumpstart the individual insurance market, so consumers have more choices than are available today. Health care would become more consumer-driven, more affordable, and more accessible for millions of Americans.

Energy security is another concern of the American people, and it is a priority addressed in the President's budget. President Bush has put forth an ambitious goal of reducing America's projected gasoline consumption by 20 percent over the next 10 years. We can achieve this goal by dramatically increasing the supply and use of alternative fuels, and improving fuel-efficiency by reforming and increasing CAFE.

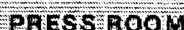
The expanded fuels standard will provide entrepreneurs and investors a guaranteed demand for alternative fuels, which will accelerate private investment and technological development. Reforming CAFE will allow us to increase the fuel economy of our automobiles as fast as technology allows. With a more diverse fuel supply and better fuel efficiency, we can make our economy less vulnerable to supply disruptions and confront climate change through technologies that reduce carbon dioxide emissions.

Finally, the President's budget, by emphasizing fiscal discipline and economic growth, lays the right foundation for dealing with entitlement reform – a challenge we all have a responsibility to address. Strengthening Social Security and Medicare is the most important step we can take to ensure the retirement security of our children and grandchildren, the long-term stability of the federal budget, and the continued growth of the American economy. I look forward to sitting down with Democrats and Republicans, without pre-conditions, and finding common ground on these critical issues.

Mr. Chairman, the President's budget priorities – a strong economy, national security, fiscal discipline, health care and energy innovation, and laying the groundwork for entitlement reform – are the right priorities for America and for the workers, businesses, and investors who drive our economy.

I am confident that, working together, we will keep our economy strong and chart a course for maintaining our global economic leadership in the years ahead.

Thank you for the opportunity to discuss this today – and I now welcome your questions.



February 8, 2007
HP-252

Testimony of Treasury Secretary
Henry M. Paulson
before the Senate Budget Committee
on the President's Fiscal Year 2008 Budget

Chairman Conrad, Senator Gregg, Members of the Committee:

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I am confident that, working together, we will keep our economy strong and chart a course for maintaining our global economic leadership in the years ahead.

Thank you for the opportunity to discuss this today – and I now welcome your questions.

February 9, 2007
HP-253

Treasury Secretary Paulson to Deliver Speech on Trade

Washington, D.C.-Treasury Secretary Henry M. Paulson will deliver a speech hosted by the Economic Club of Washington next month. He will discuss the importance of free trade flows to U.S. economic growth.

What Speech on Trade
When 12:45 p.m. (EST) Thursday, March 1
Where Washington, DC (Exact Location TBA)

Further details will be announced at a later date.

February 10, 2007
HP-255

Statement by U.S. Treasury Secretary Henry M. Paulson following the Meeting of the G7 Finance Ministers and Central Bank Governors Essen, Germany

We had a very good meeting with G-7 Finance Ministers and Central Bank Governors today, hosted by Minister Steinbruck. I thank Minister Steinbruck for his gracious hospitality.

We are enjoying one of the strongest and most prolonged global expansions in memory. The United States is doing its part. The U.S. economy grew strongly last year. Although the residential housing market has been cooling, growth is being supported by good consumption on the back of solid job creation and wage growth. Net exports are also contributing. Looking ahead, the outlook is very encouraging. Housing activity appears to have stabilized; labor markets are firm; consumer confidence is rising; wages are rising; and inflation is easing. We are looking for solid growth in 2007, in line with potential of near 3%. The federal budget deficit was 1.9% of GDP last fiscal year and is expected to come down further this year. The President's budget projects a balanced budget in 2012.

All countries must also do their part to contribute to global adjustment. Europe's expansion is continuing and Japanese growth is expected to accelerate. But there is still ample scope in both areas to strengthen measures aimed at creating more robust domestic demand. Greater flexibility in China's exchange regime is also needed as part of China's rebalancing of its economy.

Strengthening capital markets, both here in the United States and abroad, is one of my highest priorities. Competitive capital markets spur growth, create wealth and improve the quality of our lives. In emerging economies, local capital market development holds the very same promise. Already, emerging economies are making considerable progress, but there is much more to be done. At dinner last night, we discussed local capital market development with our counterparts from Brazil, China, India, Mexico, Russia and South Africa, and concrete actions that the G-7 and the International Financial Institutions might take to help strengthen these important trends.

We also discussed trade with our emerging market colleagues. We agreed that the Doha Round is one of the most significant things we can do for economic growth and opportunity for all people, especially those in the poorest countries of the world. We welcomed the new approach of the trade ministers, focused on sensitivities and priorities, and the renewed spirit of optimism and new energy behind discussions. My colleagues and I embraced the role we can play, in working with the trade ministers and in making the case for trade.

Hedge funds were another topic of discussion. I am firmly convinced that hedge funds provide considerable benefits to financial markets and our economies, but they also can present potential challenges and risks. It is in the U.S. interest to promote a thriving, competitive global hedge fund industry that facilitates price discovery and promotes liquidity in financial markets, while maintaining investor protection and promoting financial stability. Market discipline, focusing on the risk management of regulated counterparties, is the most effective way to address potential systemic risk concerns. In the U.S., the President's Working Group on Financial Markets – comprised of the Treasury Secretary and the Chairmen of the Federal Reserve Board, the SEC and the CFTC – continues to assess developments in markets, disclosure and counterparty risk management.

As leading shareholders of the international financial institutions, we discussed the need to reform the IMF to make it as modern as the world economy in which we live. I emphasized that the Fund governance structure lags well behind today's global realities and I emphasized the need for boldness in reforming the Fund. In particular, I look forward to an agreement later this year on changes in the IMF's quota formula to better capture members' true weights in the world economy and on steps to protect the voice of the poorer countries through an increase in basic votes. I urge other industrial countries to follow the U.S. lead and forgo an increase in their voting shares in the next stage of reforms. I look forward to the Managing Director's leadership on this issue, and also welcome the strong consensus in the group in support of the proposals to update the IMF's 30-year old rules on exchange rate surveillance.

The G-7 reaffirmed its commitment today to the critical fight to protect the international financial system from illicit activity, including terrorist financing, the proliferation of weapons of mass destruction, and money laundering. I emphasized that, to be effective, Finance Ministries must develop legal authorities and invest resources to apply targeted economic and financial measures against a broad range of international threats. These efforts should include national implementation of the economic sanctions called for in United Nations Security Council Resolutions 1718 and 1737 against weapons of mass destruction proliferation support networks in North Korea and Iran. We called upon the Financial Action Task Force to join these efforts and address the threat of weapons of mass destruction proliferation finance and the vulnerabilities associated with jurisdictions that have failed to recognize international standards.

Energy efficiency was also on the agenda and I emphasized the importance of improving energy security through increased use of alternative fuels, better fuel efficiency, and policies to accelerate those trends. Finally, we touched on good financial governance in Africa. The international community has done a good job in developing ways to measure and track public financial management and I called for stronger linkages between international development assistance and individual country budget performance.

February 10, 2007
HP-256

Statement by G-7 Finance Ministers and Central Bank Governors
Essen, Germany
February 10, 2007

We, Finance Ministers and Central Bank Governors, met today to evaluate the global economic outlook. Global growth is more balanced. In our economies, performance remains favorable. The U.S. economy is experiencing solid activity, while adjusting to a more sustainable growth path. Canada and the UK remain on a strong and balanced growth path. The euro area is experiencing an increasingly broad-based upswing. Japan's recovery is on track and is expected to continue. We are confident that the implications of these developments will be recognized by market participants and will be incorporated in their assessments of risks.

Amid lower energy prices and moderating inflationary pressures risks have abated, but we will remain vigilant. We will continue to pursue sound policies to foster sustained and balanced growth and support the orderly adjustment of global imbalances. In this respect, we welcome China`s commitment to rebalance growth.

We remain committed to resisting protectionist sentiment and fully support the re-launch of the Doha trade negotiations announced in Geneva. We firmly believe that all participants have the responsibility to ensure a successful outcome of the Doha round as it will enhance global growth and contribute to poverty reduction. All of us accept our responsibility for ensuring that Aid for Trade will help secure the full benefits of trade for developing countries. To further liberalize cross-border capital markets, we agreed to explore within the G7 free trade in securities based on mutual recognition of regulatory regimes. We support enhanced cooperation to enforce intellectual property rights and combat counterfeiting which are crucial to our knowledge economy.

We reaffirm that exchange rates should reflect economic fundamentals. Excess volatility and disorderly movements in exchange rates are undesirable for economic growth. We continue to monitor exchange markets closely, and cooperate as appropriate. In emerging economies with large and growing current account surpluses, especially China, it is desirable that their effective exchange rates move so that necessary adjustments will occur.

We also met with Ministers of Finance from a number of key emerging market economies to discuss the role of local bond markets in fostering growth and financial stability. In this context developing local currency bond markets deserves higher priority to reduce emerging countries' vulnerability to external shocks and financial crises and to promote growth. We look forward to the results of the high level conference on May 9-10 in Frankfurt on market experience, which will help to identify concrete recommendations and sustain the momentum of reform.

We discussed recent developments in global financial markets, including hedge funds, which along with the emergence of advanced financial techniques including credit derivatives, have contributed significantly to the efficiency of the financial system. Nevertheless the assessment of potential systemic and operational risks associated with these activities has become more complex and challenging. Given the strong growth of the hedge fund industry and the instruments they trade, we need to be vigilant. We therefore agreed to further pursue the issue. We will exchange views with the private sector and ask the Financial Stability Forum to update its 2000 Report on Highly Leveraged Institutions.

We reaffirm our strong belief that fundamental reform is necessary for the IMF to maintain its credibility and effectiveness in the changing global economy. We remain committed to making IMF quota shares more aligned with members´ relative weight and role in the world economy, and to enhance the participation and voice of low-income countries. We also stress the importance of improving IMF surveillance. To be more effective surveillance must be applied equally and even-handedly, focused on external stability, and subject to a clear accountability framework, without creating new obligations. In this context, we welcome the Managing Director's proposals to update the 1977 Decision on Surveillance over Exchange Rate Policies and for a remit and look forward to moving these forward as a priority. We take note of the Report on the Sustainable Long-Term Financing of the IMF that provides a good basis for further discussion. We support the recently-launched reform of the governance of the World Bank.

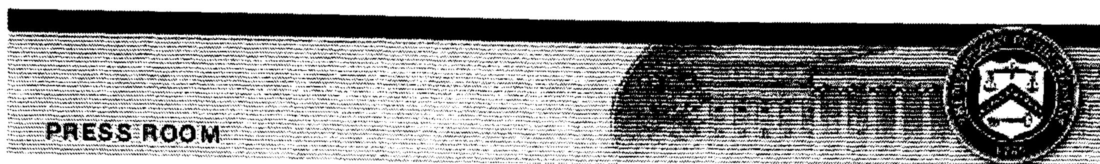
We discussed the complementary role of Good Financial Governance in Africa in channelling resources to their most productive use and in helping to achieve the Millennium Development Goals. We agreed to develop – together with African partners - an action plan that includes a joint reform strategy to promote effective and transparent budget processes, a vigorous implementation of existing initiatives to increase transparency such as the Extractive Industries Transparency Initiative (EITI) and its potential extension to other sectors, and the enhancement of reforms and capacity building efforts in the area of tax systems, stabilisation fund, public expenditure management, and debt management. In turn, it is imperative that creditors and donors take account of debt sustainability issues in their lending practices. To this end the development of a charter of responsible lending would represent an important step. Finally, we will explore measures to support financial sector development in Africa.

We welcome the February 9, 2007 launch in Rome of the pilot Advance Market Commitments (AMC) for pneumococcus, an innovative financing mechanism designed to mobilize private investment in research and development of life-saving vaccines benefiting poor countries. We discussed the importance of making progress on education, including in science and technology in the poorest countries and look forward to the forthcoming International Conference on Education.

We consider energy efficiency and the promotion of energy diversification, notably through renewable energies, to become an increasingly important issue for our economies as well as emerging market economies in view of energy security, high and volatile energy prices and climate change. We agree that market based policy measures, which could include taxes and emission trading, should be effectively designed to meet specific conditions in each country. At the same time, we remain committed to a transparent and forward looking dialogue with energy-producing countries.

We are committed to fight money laundering, terrorist financing and other illicit financing involving similar risks to the stability and integrity of financial markets. We are committed to the effective and timely implementation of UN Resolutions 1540, 1718, 1737. To this end, we ask the Financial Action Task Force to examine the risks involved in weapons of mass destruction proliferation finance and to review its mandate. We urge the FATF to collaborate intensely with jurisdictions that have failed to recognise the international standards. We call on the IMF and the World Bank to closely cooperate with the FATF.

We welcomed the successful outcome of the Paris conference on Lebanon and we discussed economic prospects in the West Bank and Gaza strip. We agreed to keep this under review.



February 11, 2007
HP-257

**Prepared Remarks of Deputy Secretary
Robert M. Kimmitt
International Terrorism and Asymmetric
Warfare
Munich Security Conference**

Munich, GERMANY – Excellencies, ladies and gentlemen, as the last speaker in the conference, I know I will be graded as much on brevity as on substance. So, I plan to stay well within the green of the Teltschik traffic light.

Thank you, Horst Teltschik, for inviting a representative of a Finance Ministry to this security conference.

This invitation is indicative of the evolution of this conference, and even the concept of "security policy", from when I first attended Wehrkunde in 1982. It also reflects the evolution of the U.S. Treasury Department and Finance Ministries worldwide, in an era where terrorism has become a strategic threat to our individual and mutual interests.

British Chancellor Gordon Brown gave a landmark speech one year ago this week, in which he said that Finance Ministries are now important security ministries, and no responsibility is more important than our common efforts to stop the flow of illicit finance to terrorists and proliferators. I was thus very pleased that our colleague from India put such emphasis on terrorist financing.

Before turning to that specific point, let me also note that, with the exception of the United States Treasury, all major Finance Ministries are also budget directors. So, Horst, given the frequent references during the conference to the need to devote increased resources to difficult common tasks such as Afghanistan, it might be good next year to invite selected Finance Ministers, along with their Foreign and Defense Ministry colleagues, to hear directly the multilateral context in which defense and development budget decisions need to be made.

Returning to the subject of terrorist financing, let me again reference Chancellor Gordon Brown's speech in which he said, and I quote: "There is a paradox about globalization: the very opportunities it offers – the free movement of money, people, goods, and information – creates a global threat for which there is no real precedent."

And no group is more adept at exploiting these opportunities for dangerous purposes than international terrorists. While individual terrorist acts are relatively inexpensive and can be executed on a cash basis using informal networks such as hawalas in the Middle East, running terrorist networks and planning major terrorist operations requires access to the world's financial system to move significant funds across borders. And it is when terrorists and their supporters come into the global financial system that we have the best chance to detect, disrupt, and dismantle their dangerous activities and networks.

There is much that countries can do within their own borders to disrupt terrorist financing. In the United States, with strong bipartisan support from the congressional leaders here today, we have established an extensive legal and regulatory regime that empowers the Treasury to keep our banking system not only safe and sound but also secure from abuse by terrorists and their financial

supporters. We have similar strong authorities to act against proliferators, narcotics traffickers, and organized criminal networks. These authorities bridge the divide between diplomacy and the use of force by giving us a concrete way to target illicit actors and strike at the financial heart of their operations.

A recent example is the decision we took to ensure that the Iranian state-owned Bank Saderat could not access the U.S. banking system because of its central role in the financing of terrorist activities of Hamas and Hezbollah, including via Saderat's branch in London.

Mentioning London makes clear that we are all part of a global banking system, and, as our colleague from India made clear, effective action against terrorist financing requires coordinated multilateral efforts. The terrorists and their financial supporters are smart, sophisticated abusers of the world's financial system, and they concentrate their efforts on the softest spots they can find in the system. We have, for example, seen recently growing use by terrorist financiers of charities, insurance transactions, and money service businesses.

The issue of countering terrorist financing is now on the agenda of every major international organization, including the United Nations, NATO, and the European Union, and every major international financial and economic forum, including the G-8, APEC, and the G-20, a new and increasingly influential financial group that includes, in addition to the G-8, important countries like China, India, Australia, Brazil, Turkey, Saudi Arabia, South Africa, and Mexico.

In addition, an organization that is becoming increasingly active is the Financial Action Task Force, where finance ministries, central banks, and regulators meet regularly, including in regional forums, to share information and best practices.

As an example of the new attention to this important challenge, just yesterday, in its communiqué after meeting in Essen, the G-7 Finance Ministers and Central Bank Governors said "We are committed to fight money laundering, terrorist financing, and other illicit financing involving similar risks to the stability and integrity of financial markets." It was not too many years ago this issue would not even have been on the agenda of the G-7.

Perhaps the most important recent development in the fight against terrorist financing is the impressive degree to which the private sector has taken action to protect their business activities from abuse by terrorists. Of course, part of this response is based on their need to comply with U.S. and other laws. But, increasingly, banking leaders understand that avoiding any possible contact with terrorist financing activities is an integral part of their normal risk-reward business analysis, leading many major banks to eliminate or reduce significantly their activities in countries like Iran, Syria and other state sponsors of terror.

Let me end my remarks with two points: first, a slight but related diversion; and second, a link to previous speakers' comments on Afghanistan.

First, although this panel focuses on terrorism, the fight against terrorist financing is closely linked to the fight against proliferation financing. Again using domestic authorities, the United States Government has taken action against Banco Delta Asia in Macau based on its engagement in illicit finance for North Korea and against Iranian state-owned Bank Sepah because of its role in financing Iranian proliferation activities, including through its branch in Rome. We have now been joined in this effort by the world community, which in UN Security Council Resolutions 1695 and 1718 on North Korea and 1737 on Iran has made clear that all UN member states must ensure their banks do not support the nuclear ambitions of these two countries. The European Union, under the German Presidency, has been particularly strong in this support of effective implementation – including establishing a firm basis for legal action by member states against illicit financing.

My second closing point regards Afghanistan, a subject frequently mentioned in earlier panels. At the suggestion of American Ambassador to NATO Nuland and at the invitation of Secretary General de Hoop Scheffer, I spoke in November to

NATO's Permanent Representatives to discuss the connection between the international terrorist financing network and the increase in the frequency and scope of Taliban activities in Afghanistan, especially in the southern part of the country. The amounts of illicit financing flowing to the Taliban gives them the ability to attack NATO forces in asymmetric ways, with car bombs and other terrorist methods mentioned yesterday by Senator McCain. But the financing has also made possible more symmetric, larger combat unit attacks against NATO forces.

While many countries are contributing forces to counter the increasing activity of the Taliban and other insurgency elements in Afghanistan, countries should also enhance their intelligence and military capabilities to specifically target Taliban financial support networks. In fact, NATO leadership has acknowledged the importance of targeting terrorist financing in Afghanistan as a means of weakening the overall capabilities of the Taliban.

To meet this goal, finance ministries can and should play a key role in using their authorities against Taliban support nodes and associated financial flows. By proactively identifying Taliban support networks and designating them under UN Security Council Resolution 1267, we can collectively weaken the Taliban by disrupting its financial infrastructure.

In sum, the fight against terrorist financing has moved directly to the core of our common security policy. Each of our countries, and each of our private sector banks, must be part of securing our financial systems. I appreciate the opportunity to make this point on behalf of finance ministries worldwide before this important security policy conference and audience.

February 12, 2007
HP-258

**Remarks of Deputy Secretary Robert M. Kimmitt
Before the American Chamber of Commerce
On Open Investment:
The Foundation of the German-American
Economic Relationship**

Frankfurt, GERMANY – Vielen Dank, Herr Dombret, für Ihre freundliche wenn auch vielleicht etwas übertriebene Vorstellung!

Es freut mich sehr, wieder in Frankfurt zu sein und ich bedanke mich bei Ihnen, Fred Irwin, daß Sie so eine hoch geachtete Gruppe heute Abend zusammengebracht haben.

[Thank you, Mr. Dombret, for the friendly introduction, even though it was a bit exaggerated! I am pleased to be in Frankfurt again, and would like to thank you, Fred Irwin, for bringing together such an illustrious group this evening.]

Ladies and gentlemen, it is a pleasure to join so many distinguished guests, including Ambassador Timken, Minister Genscher, and President Weber this evening. And sincere thanks to the American Chamber of Commerce in Germany for your continued outstanding contribution to the German-American relationship. Your membership and engagement represent the core element of our transatlantic economic relationship: German companies and entrepreneurs investing in America and U.S. companies and entrepreneurs investing in Germany. Even when the German-American relationship experiences its periodic political difficulties, as happened earlier in this decade, we know we can count on a strong commercial and cultural foundation to keep us close.

As I speak to you this evening, I am reminded of the counsel I received before coming to Germany as Ambassador in 1991. My predecessor, Vernon Walters, passed along to me only one bit of advice: "Never forget that speeches are very important to Germans. They like to give speeches, listen to speeches, and analyze speeches far more than is the case in the United States." He once spoke for 40 minutes to a distinguished group like this evening's, and when he sat down – rather pleased with his performance – he was surprised to hear his host say, "Mr. Ambassador, thank you so much for your remarks. If you ever have time for a real speech, please come see us again!" Well, if 40 minutes is where a "real speech" starts, you will receive from me only "remarks," since I would like to leave time for your questions at the end of my presentation.

In discussing the economic relationship between Germany and the United States this evening, I would like to highlight some of the economic challenges each country faces, both internally and externally; our shared interests in an open system of global trade and investment; and the significant new initiative recently proposed by Chancellor Merkel to deepen our transatlantic economic ties.

The 2007 Economic Outlook

Let us begin with the economic outlook, which I am happy to say is positive in each country and serves as a sound basis for enhanced cooperation. As Secretary Paulson noted after the G-7 Ministerial this past weekend, we are enjoying one of the strongest and most prolonged global expansions in memory, and the United States is doing its part. The U.S. economy grew strongly last year. Although the

residential housing market has been cooling, growth is being supported by good consumption on the back of solid job creation and wage growth. Net exports are also contributing. Looking ahead, the outlook is very encouraging. Housing activity appears to have stabilized; labor markets are firm; consumer confidence is rising; wages are rising; and inflation is easing. We are looking for solid growth in 2007, in line with potential of near 3 percent.

The role of the United States as an engine of global growth is well-established. Still, the global economy clearly benefits from multiple strong engines running. Germany is the key to Europe being one of these engines. Put simply, Germany must grow for Europe to grow.

After a first half of this decade that saw slow growth, the near-term economic outlook in Germany is now also positive. The German Institute for Economics recently raised its growth forecast for the year – up from 1.4 to 1.7 percent. In the wake of estimated 2.5 percent real GDP growth in 2006 -- the fastest growth since 2000 – unemployment recently reached its lowest rate since April 2002 at 9.5 percent. Strong investment growth and exports have driven the economic rebound. While initial fourth quarter GDP figures will not be available until tomorrow, investment through the first three quarters of 2006 was up approximately 7.4 percent on an annualized basis, and 2006 exports rose 14 percent over 2005, creating a trade surplus of just over 7 percent of GDP. Germany is regaining its place as Europe's economic engine.

However, despite sharing robust short-term outlooks, Germany and the United States both face significant long-term economic challenges, which must be addressed to ensure continued prosperity more broadly. When both the U.S. and German economies are growing, this creates additional opportunities for deepening the transatlantic relationship that serves as a fundamental source of global stability. Before I address these transatlantic opportunities, please allow me first to outline what I see as the some of the top economic policy challenges in both countries.

The German-American Economic Relationship

In the United States, sound fiscal policy remains a top priority, and we will continue to work to cut our fiscal deficit. The good news is that we have made substantial progress. The deficit has been cut in half three years ahead of President Bush's 2009 goal; it was 1.9 percent of GDP in 2006 and is expected to come down further this year. The President's 2008 budget released last Monday envisions further declines in the deficit over the next five years to produce a balanced budget by 2012. In addition to raising public savings, we also must also address low national savings by providing better incentives for private saving.

But the recent progress on the budget deficit and efforts to boost private savings will have a limited impact if more is not done to address the long-term growth in spending on entitlement programs: Social Security, Medicare, and Medicaid. Without fundamental reform, entitlement spending as a percent of GDP is set to rise by nearly half from 2010 to 2040, thereby significantly impairing our fiscal sustainability by crowding out all discretionary spending over the next several decades. Without reform, these programs will also erode our competitiveness by placing massive obligations on the backs of 21st century American workers and their families.

In the United States, our flexible labor market is one of our greatest economic assets: it fosters an innovative and productive workforce, motivated by healthy competition and merit-based compensation. It also maximizes employment and minimizes unemployment, thereby reducing fiscal costs. Data on labor demand in the United States show that over 2006, hires exceeded separations by the widest margin since the U.S. government began tracking this information in 2000. And data released last week indicates that the job openings rate climbed to a six-year high in December. Our workers continue to lead the international marketplace in this trend. Job tenure averages 6.6 years for Americans, compared with an average of 8.2 years for Britons, 10.6 years for Germans, and 11.2 years for the French. The average American worker now has 10 different employers prior to age 40. As they make these changes, the majority of American workers gain increased

experience, pay, and responsibility. Labor flexibility in the United States creates "employment security" not necessarily "job security". Still, to better institutionalize this labor market dynamism, we need to develop a system of health, pension, and other benefits that is equally flexible. This is the principle behind the Administration's push to expand the use of health savings accounts and use tax incentives to increase access to health insurance that can be purchased in the private market.

In Germany, recent progress on fiscal, labor, and pension reforms has played an important role in the economic rebound, but more needs to be done. The weak link in the German recovery remains private consumption, which would benefit from more flexible and efficient labor and capital markets. In the context of a rapidly aging population, structural rigidities lead to an excessive level of precautionary savings and have helped limit potential growth to under two percent. If left unchanged, the IMF expects potential growth to decline to 1.1 percent by 2020 before recuperating.

Germany, like most of the developed world, is also facing a demographic shift that represents a critical challenge to long-term fiscal sustainability and economic prosperity. According to the IMF, Germany's dependency ratio – the ratio of the population over the age of 65 to the population between the ages of 15 and 64 – will increase to nearly 42 percent by 2050, from approximately 33 percent currently. Only Japan and Italy face more severe demographic challenges. As a result, the IMF estimates that age-related, annual public spending will incrementally increase 4 percentage points of GDP by 2050 creating a 30 percent of GDP cumulative short-fall. Recent pension reforms have reduced the future financial short-fall, but Germany's long-term fiscal sustainability is not yet assured. Just as in the United States, additional entitlement reform is critical. When Bismarck designed the country's entitlement programs, even a visionary like he could not have predicted that a German girl born this year would have a life expectancy of 90 years.

Reforming entitlement programs will also help lower non-wage labor costs and stimulate employment and investment. The Hartz IV reforms have increased labor flexibility by expanding part-time employment. This has helped reduce unemployment, limit wage inflation, and increase external competitiveness. However, barriers to job creation remain high, stifling employment growth and sending German jobs abroad. For example, the cost of dismissing redundant workers is 60 weeks of wages, double the average for the OECD, and the share of foreign inputs in German value-added exports expanded from 31 to 42 percent between 1995 and 2005.

In addition to labor market reform, financial sector consolidation and market deepening in Germany would improve allocation of capital and reduce financing costs. The German banking sector is large and sound but also segmented, resulting in one of the least profitable sectors in Europe. The after-tax return on average German banking assets is approximately one-fifth of the return on banking assets in the United States. Despite the cancellation of state guarantees in 2005, consolidation across and within banking pillars has not been realized. Beyond the banking sector, both German equity and corporate bond markets are small by international standards, restraining commercial access to financing. The United States' equity market capitalization is nearly 14 times larger than Germany's and 2.5 times larger as a percentage of GDP.

As Secretary Paulson has made clear, we at the Treasury Department see financial market

competitiveness as critical to the economic vitality of the United States. We, too, know we must act to be more competitive in an increasingly interwoven global marketplace. We are organizing a one-day conference to take place this spring that will bring together some of the best minds in the private and public financial sectors to address financial sector constraints in regulatory and accounting structures, and to discuss legal and enforcement challenges. While the focus will be on U.S. financial markets, I am certain the discussion will be relevant to a wider audience in Europe and Germany.

Importance of Open Investment in the German-American Economic Relationship

As two of the biggest beneficiaries of the unfettered flow of goods and capital in a global market, our countries must also face the growing threat of investment protectionism. Our combined weight in the global economy and our common interests make Germany and the United States natural partners in ensuring the fundamental principles of free and fair trade; flexible exchange rates; and the free flow of capital across borders. In Davos, Chancellor Merkel and I heard from members of the Transatlantic Business Dialogue that they are in particular concerned that insufficient attention is being paid to cross-border capital flows and maintaining open investment policies. TABD's point was well-taken. As investment flows are many times larger than trade flows, openness to investment is and must remain the sound foundation of our economic partnership.

The unique history of the German-American economic partnership exemplifies the benefits of cross-border investment. In 1989, the stock of U.S. foreign direct investment in Germany was around $23 billion. By 2005, it had grown to more than $86 billion. And even more impressive is the growth in the stock of German foreign direct investment in the United States, which increased from around $28 billion in 1989 to $184 billion in 2005. The employment benefits of this economic relationship are striking. Altogether, German-American bilateral investment and trade provide over 1.2 million direct jobs in our two countries, and sizably more indirect jobs. Today, there are more than 3,000 German companies in the United States, with almost 670,000 employees; over 1,450 American companies in Germany provide over 600,000 jobs.

Looking back to my time as Ambassador, as American soldiers withdrew from Germany as the Cold War ended –an ending in which Hans-Dietrich Genscher played such a pivotal role – these soldiers were replaced by an almost equal number of new jobs in American firms operating in Germany. Literally, swords were beaten into plowshares. Foreign investment in all its forms – including foreign direct investment and portfolio investment –is a growth engine that must run smoothly for our countries to continue to prosper. We must tackle the growing perception that the United States and Europe are becoming less open to investment. In the United States, over five million Americans work for companies headquartered overseas. Although these jobs comprise only 4 percent of our workforce, they account for 10 percent of our capital investment, 15 percent of annual research and development (R&D), and 20 percent of our exports. And over 30 percent of these FDI jobs are in manufacturing, while only 10 percent of our overall workforce is in this sector.

In spite of these statistics, the past year has seen headlines on both sides of the Atlantic about restrictions on foreign investment. In Europe, some countries have attempted to thwart takeovers of perceived "national champions," while other countries have continued to raise concerns about the free movement of labor and capital within the European Union. In the United States, critical attention has been focused on the review process undertaken by the Treasury-chaired Committee on Foreign Investment in the United States, or CFIUS. These developments have raised questions in the minds of global investors about whether the doors to foreign investment remain open both in Europe and in the United States.

We must come together to act and make clear on both sides of the Atlantic that we are open to investment and trade, and actively reject the rise of protectionism across the Atlantic or elsewhere in the world. For our part, the United States is keenly focused on balancing open investment with national security concerns by ensuring that proposed changes to the process for reviewing foreign investments do not create unnecessary and counterproductive barriers to participation in the U.S. market. I want to make clear that the vast majority of foreign investments reviewed by CFIUS continue to be processed expeditiously and without controversy within the initial 30-day review period. Let me make my message crystal clear: the United States is open to investment from abroad, especially from countries like Germany that are similarly open to investment from the United States.

An Emerging Challenge to Open Investment One important way to encourage

political support for the free flow of capital across borders is to ensure that terrorists, proliferators, counterfeiters, drugs syndicates, and organized criminal elements cannot use the efficiency of the global financial system to facilitate their illegal activities. To counter these threats, the U.S. has developed and applied various measures designed to protect our banks and financial institutions, but in an increasingly interdependent global financial marketplace, we must work more closely together to secure the global financial system from those who threaten its integrity.

But it is not sufficient for only government agencies to increase their vigilance. It is also incumbent on the private sector – and in particular financial institutions – to work proactively to protect the international financial system from abuse. We have learned that a robust public-private sector dialogue is critical to this effort. Governments, with all of their resources, are uniquely placed to inform the financial community about the risks posed by illicit actors.

Recently, the Department of the Treasury has stepped up our efforts to do just that – share information with key financial institutions around the world about the potential risks of doing business with those who misuse the financial system. Specifically, this endeavor to educate the financial community has involved informing banks of the deceptive financial practices Iran employs to conceal its pursuit of a nuclear program and its support of terrorism. Our experience has shown that banks and financial institutions are willing partners in this effort and are appreciative of the information. They want to identify and avoid dangerous customers who could harm their reputations and business. Cooperation is in banks' self interests: banks need to manage risk, and knowing their customers is one of the most critical components of risk management.

Revitalizing the Transatlantic Economic Relationship In Chancellor Merkel's remarks in Davos last month at the annual meeting of the World Economic Forum, she discussed the importance of working together to confront challenges across the world. I was struck by the African proverb she quoted: "If you want to go fast, go alone. If you want to go far, go together." It was in this spirit, and in Germany's current capacity as President of the European Union, that the Chancellor recently put forward her timely, outstanding proposal for "A New Transatlantic Economic Partnership."

We strongly support the Chancellor's initiative and look forward to working together with Germany and the European Commission to make this initiative a success. This proposal has an important political dimension –when any European Union Presidency, but especially Germany's Presidency, makes a transatlantic initiative a central element in its program, it signals a strong political as well as economic impulse, something very important at this time of transatlantic challenge.

On the economic and financial aspects of the initiative, it is important to make clear this is not a proposal for a Free Trade Agreement between Europe and the United States. The priority in the trade arena remains success in the Doha Round, to which both the United States and Germany are engaged and committed. Instead, the Merkel Initiative focuses on improved cooperation to address non-tariff barriers and regulatory cooperation to expand economic activity between Europe and the United States.

We are discussing a number of promising areas where we can redouble our efforts to foster an improved transatlantic economic relationship. These include: extending regulatory cooperation in a range of sectors; advancing cooperation on enforcement of intellectual property rights; encouraging progress on the work-plan aimed at promoting consistent application of IFRS and US GAAP; integrating our efforts on energy security and addressing climate change; and advancing work on biofuels, energy efficiency, and clean coal. Many of these topics are already part of the transatlantic dialogue, including in the U.S.-EU Economic Initiative, but we now have the opportunity because of Chancellor Merkel's leadership to engage governments at the political level and to commit to improved regulatory – and, importantly, deregulatory – cooperation based on shared principles. The progress we make both during the German Presidency but also beyond will further strengthen the foundation of our deep economic relationship and provide greater

stability for the global economy.

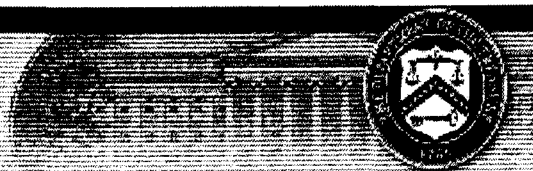
Conclusion

As our nations face challenges in the years ahead, let us never forget the personal dimension of our ties – political, security, and economic. Germany remains the world's largest goods exporter, and the United States is a respectable second. I stand before you today as an example of German-American export prowess. My parents met and married in March 1947 in Berlin, and I was born exactly nine months later in the United States. So, like President Kennedy, I am proud to say "Ich bin Berliner," and, in my case, "Made in Germany!"

I am certain that each of you also shares a personal perspective about the German-American economic relationship. You play a vital role in the link between our economies through your efforts to promote commercial growth and cultural awareness. Just as important, you can help demonstrate the importance of open investment. For those of you with major investments in the United States, I urge you to visit Washington to meet with members of the Administration. And, accompanied by your American plant managers, also call on the Senators and Representatives from those states where German capital has created American jobs, and invite the legislators to visit your U.S. plant operations to see Americans at work based on investment decisions made here in Germany. This personal contact will drive home the important economic – and political – point that foreign investment creates American jobs.

Thank you again for your very personal, very significant contributions to our common goal of a stronger German-American relationship at the core of stronger ties between Europe and the United States. I would now be pleased to take your questions. Thank you for your attendance and attention.

PRESS ROOM



February 12, 2007
HP-259

Treasury Department Names Mina Nguyen as Deputy Assistant Secretary for Business Affairs and Public Liaison

The Treasury Department announced that Mina Nguyen has been appointed as Deputy Assistant Secretary for Business Affairs and Public Liaison.

In this position, Nguyen will manage the Treasury Department's outreach to the business, advocacy, and financial community. She will advise Treasury Secretary Henry M. Paulson and the agency's leadership on economic and international issues. She will solicit information, analysis, and opinions from public and private organizations representing business and consumer interests, and will communicate Treasury and the Bush administration views to these organizations.

Immediately prior to this appointment, Nguyen served as Director of Government Affairs of the Republican National Committee, where she was responsible for coordinating legislative plans and messaging with the United States Congress and managing key activities with business and trade organizations.

Previously, Nguyen served as the National Business and the Northeast Regional Coalitions Director for the Bush-Cheney 2004 campaign, and before that the Director of Public Liaison and Special Assistant to Labor Secretary Elaine L. Chao. She also worked as a Management Consultant in Accenture's Strategy practice.

Nguyen earned her degree in business administration from University of California, Berkley.

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February 13, 2007
HP-260

**Treasury Department Names
Alan F. Holmer as
Special Envoy for China and the Strategic
Economic Dialogue**

Today, US Treasury Secretary Henry M. Paulson announced he has appointed Ambassador Alan F. Holmer as Special Envoy for China and the Strategic Economic Dialogue. In that role, Ambassador Holmer will lead a strong Administration team managing the bilateral economic relationship with China.

Ambassador Holmer was Deputy U.S. Trade Representative under President Ronald Reagan, ran the anti-dumping and anti-subsidy programs at the Commerce Department, chaired the international trade practice at a major international law firm, and most recently was President and CEO of the Pharmaceutical Research and Manufacturers of America (PhRMA), where, among other responsibilities, he led efforts to improve intellectual property protection around the world, including in China. He has co-authored three books on international trade law.

"Alan brings a wealth of international and leadership experience that will allow him to hit the ground running, and lead successful efforts to help the Chinese government move toward a balanced, growing economy that is not reliant on large external surpluses," said Paulson.

President Bush and President Hu established the Strategic Economic Dialogue to manage our bilateral economic relationship effectively. The first meeting of the Dialogue was held in Beijing last December. After frank conversations on a range of cross-cutting economic issues, we agreed on work plans for services, investment, transparency, health care, and energy and the environment. Work has begun in each of these areas since the December meeting.

The second meeting will take place in Washington, DC, May 23 and 24. "I believe that the Strategic Dialogue, where we speak with one voice with the highest levels of the Chinese government, is the most effective way to make progress on immediate issues and on the longer term issues that we face with China," said Paulson.

REPORTS

- Ambassador Holmer's biography

ALAN F. HOLMER

EMPLOYMENT

2005-07 **Current Professional Activities**
Independent Director and strategic adviser of life science companies, disease foundations, and presidential commissions. For example:

Director, Inspire Pharmaceuticals (Durham, NC)
Director, NanoInk, Inc. (Skokie, IL)
Co-Chair, Presidential Advisory Council on HIV/AIDS
Director, Cystic Fibrosis Foundation (DC Chapter)

1996-2005 **Pharmaceutical Research and Manufacturers of America (PhRMA)**
President and Chief Executive Officer

Principal architect of transformation of PhRMA into one of nation's premier public policy advocacy organizations. Rated as most effective health care advocacy organization in country. Helped enact Medicare drug benefit. Led efforts to improve intellectual property protection around the world including in China.

1989-1996 **Sidley & Austin**
Partner

Co-chair of international trade practice in Chicago-based law firm, practicing out of the Washington, D.C. office.

1987-1989 **Office of the U.S. Trade Representative**
Deputy U.S. Trade Representative (with rank of Ambassador)

Led Reagan Administration efforts on the 1988 omnibus trade bill, U.S.-Canada Free Trade Agreement implementing bill, selected bilateral trade negotiations and trade policy issues. Frequent witness before congressional committees (principally the Senate Finance and House Ways and Means Committees). Managed (with Ambassadors Yeutter and Smith) staff of 170.

1985-1987 **<u>Office of the U.S. Trade Representative</u>**
General Counsel

Chief legal officer of the United States on international trade. Primary substantive responsibilities within the Office of the USTR included: legislative proposals; international dispute settlement issues; Section 301 investigations; and litigation in which the agency was involved. Frequent witness before congressional committees.

1983-1985 **<u>Commerce Department</u>**
Deputy Assistant Secretary for Import Administration

Senior Commerce Department official (title since inflated to Assistant Secretary) responsible for administering U.S. antidumping and anti-subsidy duty laws, voluntary restraint agreements on steel imports, and foreign trade zones. Represented the United States in international negotiations and the Department of Commerce before congressional committees, interagency groups and private interests.

1981-1983 **<u>The White House</u>**
Deputy Assistant to the President for Intergovernmental Affairs

1978-1981 **<u>Steptoe & Johnson</u>**
Associate (Tax)

1972-1978 **<u>Senator Bob Packwood</u>**
Administrative Assistant (Chief of Staff)

<u>EDUCATION</u>

J.D. 1978 Georgetown University Law Center

A.B. 1971 Princeton University (cum laude)

<u>PROFESSIONAL ACTIVITIES</u>

- U.S. Ambassador to the Bonn Economic Conference. At request of Sec. James Baker, led U.S. delegation to the 34-nation conference as part of the Conference on Security and Cooperation in Europe. The result was a widely-acclaimed agreement on market economic principles for eastern Europe countries. Spring, 1990.
- Co-Chair, Presidential Advisory Council on HIV/AIDS, 2005-present.
- Member, District of Columbia, Oregon and American Bar Associations.
- Member, Council on Foreign Relations, 1999-present.
- Co-author or editor of three books on international trade

February 12, 2007
HP-261

Prepared Remarks of Patrick M. O'Brien
Assistant Secretary Terrorist Financing and Financial Crimes
Before the Florida International Bankers Association
February 12, 2007

Good afternoon and thank you for inviting me to speak today about our ongoing efforts to combat illicit finance. It is an honor and a pleasure to be here in Miami as part of the Florida International Bankers Association's (FIBA) 2007 annual conference. Thank you, Fernando, for the overview and introduction. Your home country of Ecuador has recently assumed an important leadership role as the president of GAFISUD and has taken important steps with the recent establishment of a Financial Intelligence Unit (FIU). These are very important developments.

The FIBA annual conference is an important and much-anticipated event that provides timely and practical knowledge to bankers from around the world. It also provides a useful forum for the public and private sector to come together to discuss our common goal of combating illicit finance. I thank you for the opportunity to share our perspective with you today.

My remarks will focus today on the importance of continued cooperation between the public and private sectors in efforts to stem transnational threats such as drug trafficking, money laundering, terrorist financing, and proliferation. I will specifically address the U.S. Treasury Department's role in combating illicit finance, multilateral efforts to disrupt illicit activity in the Caribbean and Latin America, and the upcoming U.S.-Latin American Private Sector Dialogue. My hope is to give you a clearer picture of our efforts and to invite your involvement as we strive to further advance efforts to combat threats to the international financial system.

At the U.S. Treasury Department, we recognize the importance of a healthy global financial system. Our engagement in that system is founded on three main principles: the promotion of free trade, the free movement of capital, and flexible exchange rates. The free movement of capital is critical in that equation, and depends on our collective ability to foster open investment and liberal financial markets. None of this is possible without mechanisms to protect the international financial system from abuse.

In 2004, the U.S. Treasury Department, in an effort to address its increasing role as a central part of the security fabric, established the Office of Terrorism and Financial Intelligence (TFI). Through this office, the Treasury Department marshals its policy, enforcement, regulatory, and intelligence functions with the twin aims of safeguarding the financial system against illicit use and combating terrorist facilitators, proliferators, money launderers, drug kingpins, and other national security threats. TFI is comprised of five offices: the Office of Foreign Assets Control (OFAC), the Financial Crimes Enforcement Network (FinCEN), the Office of Terrorist Financing and Financial Crime (TFFC), the Office of Intelligence and Analysis (OIA), and the Treasury Executive Office of Asset Forfeiture (TEOAF).

Treasury's creation of OIA marks the first time that a finance ministry has organized an internal intelligence analysis office that brings the knowledge of the intelligence community to bear on the financial aspects of national security threats. Through its unique position, OIA supports elements across Treasury and the U.S. Government, including the Office of Terrorist Financing and Financial Crimes (TFFC) that I oversee.

TFFC is charged with recommending and aiding in the implementation of U.S. policy to combat illicit finance both domestically and internationally. To meet our mandate, my office is divided into two parts. The Office of Strategic Policy is comprised of professionals who specialize in specific substantive areas such as regulatory matters or emerging payment systems. The other component is the Office of Global Affairs, which is comprised of policy advisors who are experts in various geographic regions and in the authorities and other assets that Treasury can bring to bear on particular vulnerabilities or threats. These advisors also serve as our representatives to FATF Style Regional Bodies (FSRBs) throughout the world and are in contact with both the public and private sectors in each country. With me today is Theo VanLingen who serves as our representative to both GAFISUD and CFATF. I encourage you to meet Theo during this conference and use him as a resource in the future when you have suggestions, questions or issues where Treasury can assist.

The collective efforts of the United States Government and regional partners to identify and combat illicit finance have seen impressive results all over the world - but most relevant to this group, we have seen important successes in Latin America. For example, Gilberto and Miguel Rodriguez Orejuela recently plead guilty and were sentenced to 30 years in prison and ordered to forfeit $2.1 billion in assets from their once-powerful narcotics empire. These Colombian drug kingpins revolutionized the global cocaine trade and worked to launder their financial proceeds. At one time, they controlled an estimated 80 percent of Colombian cocaine exports to the United States. Through sustained cooperation among the Department of Justice, including the Drug Enforcement Agency, OFAC, and their Colombian counterparts, this network has been dismantled. Financial measures played a significant complementary role with criminal prosecutions to achieve this victory. This action is a clear example of the effectiveness of financial tools to combat security threats as well as the benefits that result from strong regional cooperation.

The development of robust anti-money laundering and counter-terrorist financing (AML/CFT) regimes ultimately requires collaboration not only across regions, but also across the public and private sectors. Government-to-government engagement on illicit financing has been a central pillar of Treasury's policy for many years. That ongoing conversation has been beneficial and has set the stage for increased coordination in our public sectors. However, it is our private sectors that serve on the front lines, protecting in the first instance our financial systems from the threats we face. This conference is a testament to your critical role in the fight against money laundering and other illicit financial threats. Our financial sectors must work together to make our respective efforts as effective as possible.

Recognizing the importance of this government/private partnership, the Treasury Department has engaged in a number of efforts to provide outreach to the private sector. Some of these efforts are formal, like the Bank Secrecy Act Advisory Group (BSAAG) chaired by FinCEN, which brings together regulators, law enforcement officials and private sector representatives to discuss issues related to the administration of the BSA. We also participate in informal outreach, like speaking at events such as this one, where Treasury representatives from OFAC, FinCEN, and other offices can exchange views and get feedback from practitioners in the field.

In fact, we recently launched a new effort to conduct a series of International Private Sector Outreach (IPSO) initiatives. I am pleased to announce that the first U.S.-Latin America Private Sector Dialogue (US-LA PSD) is scheduled for April 18-20 in Cartagena, Colombia. This event will bring together members of the U.S. and Latin American financial sectors to discuss unique issues related to sound implementation of AML/CFT measures.

The goal of the inaugural US-LA PSD is to encourage direct dialogue between the financial sectors in the United States and Latin America in order to:

- raise awareness of money laundering risks and terrorist financing;
- facilitate a better understanding of effective practices and programs to combat such risks;

o strengthen implementation of effective AML/CFT controls; and

o exchange information and improve understanding of business cultures and norms.

Treasury last summer hosted an initial roundtable event for private sector representatives and senior U.S. regulatory officials and their counterparts from Latin America. Roundtable participants spent the day discussing private sector perspectives on AML/CFT implementation. The roundtable identified a number of issues for further work and discussion and participants agreed to cooperatively plan conferences and seminars dedicated to addressing core areas of mutual interest and concern.

With the leadership and support of private sector leaders such as the Florida International Bankers Association, the American Bankers' Association, Feleban, Asobancaria Febraban, as well as government entities such as the Argentina Central Bank, we can look forward to the upcoming event in Cartagena. It should be a productive event and we invite your participation.

I would like to close by saying that I look forward to visiting with you further and taking what we learn from this conference and applying it to future efforts, such as our Private Sector Dialogue initiative. Conferences like this are important as we strive to always stay one step ahead of the threat, and I would again like to thank the organizers for assembling such a diverse group of professionals from across multiple sectors. It is only through our collaborative efforts that we can create highly effective AML/CFT regimes, and all efforts that enhance our communication across these sectors help us achieve our collective goals.

Thank you.

February 13, 2007
2007-2-13-13-55-28-4516

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 $64,950 million as of the end of that week, compared to $64,961 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	February 2, 2007			February 9, 2007		
TOTAL	64,961			64,950		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	12,312	10,514	22,826	12,353	10,469	22,822
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,278	5,123	17,401	12,329	5,099	17,428
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]			4,874			4,861
3. Special Drawing Rights (SDRs) [2]			8,820			8,798
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	February 2, 2007			February 9, 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						
	February 2, 2007			February 9, 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.

February 14, 2007
HP-262

Treasury Working with Congress to Relieve Liberia's Debt Burden

Secretary Paulson today announced he will work with Congress to provide debt reduction for Liberia:

"I had the honor of meeting with Liberian President Johnson-Sirleaf this week to discuss her strong efforts to rebuild Liberia after its devastating civil war. Since her election in January 2006, President Johnson-Sirleaf's government has focused on Liberia's reconstruction while demonstrating its commitment to economic and political reforms. I applaud these reform efforts and we will work with the international community to find ways to eliminate Liberia's debt burden, which will allow Liberia to normalize its relations with the multilateral donor community, gain greater access to desperately needed development assistance, and put its finances on a more sound footing. We call on other countries to make similar commitments."

Secretary Paulson today requested that Congress authorize the use of up to $35 million in debt reduction funds provided for in legislation now under consideration by Congress to help fund the costs of forgiving Liberia's debt to the international financial institutions.

At this time, the Administration is prepared to:

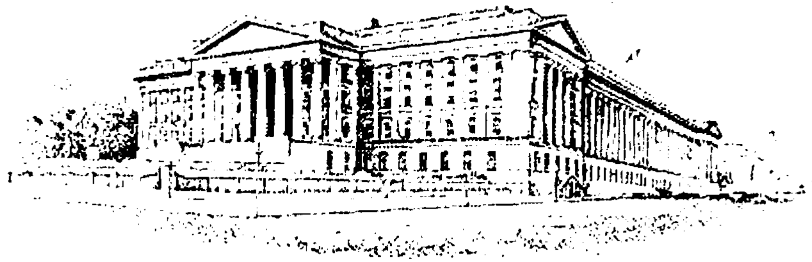
- Forgive our $391 million in claims on Liberia under the Heavily Indebted Poor Country (HIPC) framework. We requested funding in the FY08 budget to cover the start of that process.
- Set aside $15 million to contribute to forgiving Liberia's debt to the African Development Bank.
- Redirect more than $150 million in funds held by the IMF as a contribution to forgiving Liberia's debt to the IMF, in consultation with Congress.

Previously, the United States has given generously to the Liberian government's efforts to provide basic services to its people such as restoring electric power and running water, and building roads, schools, and health clinics:

- The U.S. has provided more than $500 million of development assistance to Liberia over the past three years, accounting for more than half of total bilateral development assistance received by Liberia during that time.
- In the FY07 and FY08 budgets, we have requested more than $200 million for Liberia.

Background

Liberia's debt equals $3.7 billion. More than $1.5 billion of that debt is in arrears to the international financial institutions (World Bank, IMF, and the African Development Bank). The vast majority of the arrears can be eliminated using internal resources at these institutions, but some additional funding will be needed from donors.



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL 9 a.m. (EST) February 15, 2007
CONTACT Brookly McLaughlin (202) 622-2920

TREASURY INTERNATIONAL CAPITAL DATA FOR DECEMBER

Treasury International Capital (TIC) data for December 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 January, is scheduled for March 15, 2007.

Net foreign purchases of long-term securities were $15.6 billion.

- Net foreign purchases of long-term U.S. securities were $63.0 billion. Of this, net purchases by foreign official institutions were $24.0 billion, and net purchases by private foreign investors were $39.0 billion.

- U.S. residents purchased a net $47.4 billion in long-term foreign securities.

Net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been $2.5 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities increased $6.5 billion. Foreign holdings of Treasury bills decreased $4.9 billion.

Banks' own net dollar-denominated liabilities to foreign residents decreased $20.0 billion.

Monthly net TIC flows were minus $11.0 billion. Of this, net foreign private flows were minus $42.5 billion and net foreign official flows were positive $31.5 billion.

HP-263

TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

		2004	2005	2006	Sep-06	Oct-06	Nov-06	Dec-06
	Foreigners' Acquisitions of Long-term Securities							
1	Gross Purchases of Domestic U.S. Securities	15178.9	17157.5	21100.8	1750.4	1875.2	1928.1	1850.4
2	Gross Sales of Domestic U.S. Securities	14262.4	16145.9	19958.7	1649.9	1766.6	1805.9	1787.4
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**916.5**	**1011.5**	**1142.1**	**100.5**	**108.6**	**122.2**	**63.0**
4	**Private, net /2**	**680.9**	**891.1**	**956.5**	**83.7**	**83.3**	**115.7**	**39.0**
5	Treasury Bonds & Notes, net	150.9	269.4	136.0	-6.1	6.2	33.1	4.5
6	Gov't Agency Bonds, net	205.7	187.6	202.0	17.3	10.9	11.8	12.5
7	Corporate Bonds, net	298.0	353.1	474.4	57.1	38.8	61.8	33.1
8	Equities, net	26.2	81.0	144.1	15.3	27.4	9.1	-11.1
9	**Official, net /3**	**235.6**	**120.4**	**185.6**	**16.7**	**25.3**	**6.5**	**24.0**
10	Treasury Bonds & Notes, net	201.1	68.7	62.5	7.7	18.5	1.0	6.1
11	Gov't Agency Bonds, net	20.8	31.6	88.8	7.9	5.3	4.0	15.5
12	Corporate Bonds, net	11.5	19.1	28.5	1.8	2.0	3.6	2.9
13	Equities, net	2.2	1.0	5.8	-0.7	-0.4	-2.1	-0.5
14	Gross Purchases of Foreign Securities from U.S. Residents	3123.1	3700.0	5568.4	427.1	509.2	533.5	521.3
15	Gross Sales of Foreign Securities to U.S. Residents	3276.0	3872.4	5814.5	449.9	524.2	570.9	568.7
16	**Foreign Securities Purchased, net** (line 14 less line 15) /4	**-152.8**	**-172.4**	**-246.0**	**-22.8**	**-15.0**	**-37.4**	**-47.4**
17	Foreign Bonds Purchased, net	-67.9	-45.1	-139.7	-13.6	-6.7	-17.6	-28.5
18	Foreign Equities Purchased, net	-85.0	-127.3	-106.3	-9.2	-8.4	-19.8	-18.9
19	**Net Long-Term Securities Transactions** (line 3 plus line 16):	**763.6**	**839.1**	**896.1**	**77.7**	**93.5**	**84.9**	**15.6**
20	**Other Acquisitions of Long-term Securities, net /5**	**-38.8**	**-140.0**	**-165.7**	**-11.9**	**-10.4**	**-32.6**	**-13.1**
21	**Net Foreign Acquisition of Long-Term Securities** (lines 19 and 20):	**724.8**	**699.1**	**730.4**	**65.7**	**83.1**	**52.2**	**2.5**
22	**Increase in Foreign Holdings of Dollar-denominated Short-term U.S. Securities and Other Custody Liabilities: /6**	**190.1**	**-47.6**	**125.7**	**-10.3**	**0.6**	**17.0**	**6.5**
23	**U.S. Treasury Bills**	**60.0**	**-58.9**	**-9.0**	**-14.5**	**4.1**	**9.5**	**-4.9**
24	Private, net	26.8	-15.6	16.0	-3.9	5.0	1.8	4.4
25	Official, net	33.2	-43.3	-25.0	-10.6	-0.9	7.7	-9.3
26	**Other Negotiable Instruments and Selected Other Liabilities: /7**	**130.1**	**11.4**	**134.7**	**4.1**	**-3.4**	**7.5**	**11.5**
27	Private, net	77.4	10.6	154.5	5.9	7.4	9.3	4.7
28	Official, net	52.8	0.8	-19.8	-1.7	-10.8	-1.8	6.7
29	**Change in Banks' Own Net Dollar-Denominated Liabilities**	**63.9**	**16.4**	**-28.2**	**13.6**	**-7.5**	**1.2**	**-20.0**
30	**Monthly Net TIC Flows** (lines 21,22,29) /8	**978.9**	**667.9**	**827.9**	**69.1**	**76.3**	**70.5**	**-11.0**
	of which							
31	Private, net	637.2	580.6	699.3	57.1	83.2	61.1	-42.5
32	Official, net	341.6	87.3	128.7	11.9	-6.9	9.4	31.5

/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. equities through stock swaps - estimated U.S. acquisitions of foreign equities 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 on 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.

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February 15, 2007
HP-264

Treasury, IRS Issue Guidance Helping Employees Transition To HSAs

WASHINGTON, DC --U.S. Treasury and Internal Revenue Service today issued guidance regarding how employers can rollover their health Flexible Spending Arrangements (health FSAs) and Health Reimbursement Arrangements (HRAs) to Health Savings Accounts (HSAs) for their employees.

The Tax Relief and Health Care Act of 2006, Pub. L. No. 109-432, enacted December 20, 2006, allowed employers to amend their health FSAs or HRAs, with balances on September 21, 2006, for a one-time roll over to an HSAs by 2012. The guidance clarifies the requirements for making these rollovers, which must be made directly to the custodian or trustee of the HSA.

Under the guidance, a health FSA with a grace period or HRA must be amended and a rollover selected by an employee before year end. The balance amount must be transferred to the HSA by March 15 of the following year. The ability to make these transfers will facilitate the transition to an HSA-eligible health plan when employees are covered by an HRA or FSA.

In addition, the guidance provides a special transition rule for transfers for 2006. Under the transition rule, the amendment, election and transfer must take place by March 15, 2007.

REPORTS

- The text of the guidance

Part III - Administrative, Procedural, and Miscellaneous

Health Savings Accounts

Notice 2007-22

This notice provides guidance on rollovers from health Flexible Spending Arrangements (health FSAs) and Health Reimbursement Arrangements (HRAs) to Health Savings Accounts (HSAs) under amendments to the Internal Revenue Code by section 302 of the Health Opportunity Patient Empowerment Act of 2006 (the Act) included in the Tax Relief and Health Care Act of 2006, enacted December 20, 2006, Pub. L. No. 109-432. The guidance also provides special transition relief for rollovers completed before March 15, 2007. It is anticipated that additional guidance will be published later under this provision.

As discussed in detail below, the new rules provide, in limited circumstances, for certain amounts in a health FSA or HRA to be rolled over into an HSA and for the rollover to receive favorable tax treatment. Generally, under the new rules, all of the following conditions must be satisfied in order to receive the favorable tax treatment:

- By plan year end--
    - The plan must be amended
    - The employee must elect the rollover
    - The year-end balance must be frozen
- The funds must be transferred by the employer within two and a half months after the end of the plan year and result in a zero balance in the health FSA or HRA.

Under special transition relief provided in this notice for amounts remaining at the end of 2006, however:

- There is no requirement to freeze the year-end balance in the health FSA or HRA, and
- The amendment, election, and transfer must be completed by March 15, 2007.

BACKGROUND

Eligible individuals, as defined in § 223(c)(1) of the Code, may contribute to HSAs. In general, these are individuals who, as of the first day of the month, are covered by a high deductible health plan (HDHP) and by no other health plan that is not an HDHP (with the exception of certain disregarded coverage, including permitted insurance). An individual covered by a general purpose health FSA or general purpose HRA is not eligible to contribute to an HSA. See Rev. Rul. 2004-45, 2004-1 C.B. 971. If a general purpose health FSA allows reimbursements for expenses incurred during a grace period following the end of the plan year, an otherwise eligible individual participating in the health FSA is generally not eligible to make contributions to an HSA until the first day of the first month following the end of the grace period. The maximum duration of a grace

period is until the fifteenth day of the third month following the end of a plan year. See Notice 2005-42, 2005-1 C.B. 1204. Prior to the Act, this rule applied even if the individual's health FSA had no unused benefits as of the end of the prior year (i.e., the balance in the health FSA was zero as of the last day of the plan year). Notice 2005-86, 2005-2 C.B. 1075. However, coverage by an HSA-compatible health FSA or HRA (limited-purpose health FSA or HRA, post-deductible health FSA or HRA, retirement HRA, or suspended HRA), does not affect an employee's eligibility to contribute to an HSA, including coverage during a health FSA grace period. See Rev. Rul. 2004-45.

HEALTH OPPORTUNITY PATIENT EMPOWERMENT ACT OF 2006 – GENERAL RULES

Section 302(a) of the Act provides for "qualified HSA distributions" before January 1, 2012. A qualified HSA distribution is a direct distribution of an amount from a health FSA or HRA to an HSA. The distribution (rollover to an HSA) must not exceed the lesser of the balance in the health FSA or HRA (1) on September 21, 2006, or (2) as of the date of the distribution. Thus, an individual who was not covered by a health FSA or HRA on September 21, 2006 may not elect a qualified HSA distribution. Similarly, an individual who participated in a health FSA with one employer on September 21, 2006, and participates in a health FSA with a second employer after that date, may not elect a qualified HSA distribution with respect to the second employer's health FSA.

A qualified HSA distribution must be contributed directly to the HSA trustee by the employer. Qualified HSA distributions may be made from general purpose health FSAs and HRAs, as well as from HSA-compatible health FSAs and HRAs. Only one qualified HSA distribution is allowed with respect to each health FSA or HRA of an individual. Qualified HSA distributions are not taken into account in applying the annual limit for HSA contributions. Qualified HSA distributions are treated as rollovers and thus, are not deductible.

If the individual fails to remain HSA-eligible during the testing period following the distribution, the amount of the rollover is included in gross income and is subject to an additional 10 percent tax. For this purpose, the testing period is defined as the period beginning with the month in which the qualified HSA distribution is contributed to the HSA and ending on the last day of the 12th month following that month. It is not required that an employee be an eligible individual with HDHP coverage in order to have a qualified HSA distribution made on the employee's behalf. However, if an employee is not an eligible individual immediately following the qualified HSA distribution, the amount of the distribution is included in the employee's income and subject to an additional 10 percent tax.

Section 302(b) of the Act provides that only certain health FSA coverage during a grace period is treated as disregarded coverage for the purpose of determining an individual's eligibility to contribute to an HSA. Under new § 223(c)(1)(B)(iii) of the Code, coverage during a grace period by a general purpose health FSA is disregarded if (1) the balance in the health FSA at the end of the prior plan year is zero or (2) the individual makes a

qualified HSA distribution of any balance remaining at the end of the plan year to an HSA.

Section 302(b) of the Act only applies to health FSA coverage during a grace period following a plan year. Thus, health FSA coverage during the plan year is not disregarded, regardless of whether the health FSA balance is reduced to zero during the plan year by a qualified HSA distribution or otherwise.

QUALIFIED HSA DISTRIBUTIONS

If an employer wants to provide qualified HSA distributions, the employer must amend the health FSA or HRA written plan. In order to comply with the comparability rules in § 4980G of the Code, the amended plan must offer qualified HSA distributions to any otherwise eligible individual covered by the employer's HDHP. See new § 106(e)(5)(B) of the Code. However, there is no requirement that the health FSA or HRA be terminated in order to provide a qualified HSA distribution. Health FSAs and HRAs must satisfy the nondiscrimination requirements in § 105(h) of the Code.

A qualified HSA distribution may be made at any time prior to January 1, 2012. However, even if the qualified HSA distribution reduces the balance of an FSA or HRA to zero, the health FSA or HRA coverage does not end. If the FSA or HRA is not HSA-compatible, employees can become eligible individuals only after transfers at the end of the plan year of the FSA or HRA that result in either disregarded coverage under 302(b) of the Act, or the termination of the HRA coverage at the end of the plan year. Consequently, qualified HSA distributions from health FSAs or HRAs that are not HSA-compatible and that take place at any time other than the end of a plan year, generally result in the inclusion of the distribution in income and the imposition of an additional 10 percent tax.

The amendments in the Act do not change the requirement that unused amounts remaining at the end of a health FSA's plan year must be forfeited in the absence of a grace period. Notice 2005-42. Thus, if a health FSA does not have a grace period, unused amounts remaining at the end of the plan year are forfeited and generally cannot be transferred through a qualified HSA distribution to an HSA after the end of the plan year. Although the unused amounts can be distributed to an HSA before the end of the plan year, because the health FSA coverage continues until the end of the plan year, an individual covered by the health FSA is not an eligible individual immediately after the qualified HSA distribution, and thus any such qualified HSA distribution is included in income and subject to an additional 10 percent tax. Similarly, an individual without HDHP coverage after a distribution is not an eligible individual after the distribution and thus the qualified HSA distribution is included in income and subject to an additional 10 percent tax. Unless a participant has a change in status as provided in Treas. Reg. § 1.125-4(a), health FSA elections may not be changed during a plan year. Prop. Treas. Reg. § 1.125-1, Q & A-15.

BALANCES DETERMINED ON CASH BASIS

For all purposes, balances are determined on a cash basis. Cash basis means the balance as of any date, without taking into account expenses incurred that have not been reimbursed as of that date. Thus, pending claims, claims submitted, claims received or claims under review that have not been paid as of a date are not taken into account for purposes of determining the account balance as of that date. In addition, the balance as of any date of a health FSA is determined by applying the uniform coverage rule (i.e., maximum reimbursement available for the plan year reduced for prior reimbursements paid as of the date for the same plan year). See Prop. Treas. Reg. § 1.125-2, Q&A-7(b)(2).

HDHP COVERAGE BEGINNING AFTER 1ST DAY OF THE MONTH

An employee who begins HDHP coverage after the first day of the month is not an eligible individual until the first day of the next month. If a qualified HSA distribution is made on behalf of such an employee before the first day of the next month, the employee is not an eligible individual as of the date of the qualified HSA distribution and the amount of the distribution is included in the employee's income and subject to an additional 10 percent tax. Thus, if an employee begins HDHP coverage after the first day of the month, any qualified HSA distribution on behalf of the individual made on or after the first day of the next month avoids immediate inclusion in income.

CONSEQUENCES OF FAILING TO ROLL OVER ENTIRE BALANCE OF GENERAL PURPOSE HEALTH FSA OR GENERAL PURPOSE HRA

An employee with a balance in a health FSA with a grace period or HRA at the end of a plan year is not treated as an eligible individual for HSA purposes on the first day of the immediately following plan year if a qualified HSA distribution does not result in a zero balance in the health FSA or HRA. Because the employee is covered under a health plan that is not an HDHP during the testing period, the amount of the qualified HSA distribution is included in the employee's gross income in the year of the distribution and is subject to a 10 percent additional tax. However, an employee with a balance in an HSA-compatible health FSA or HRA at the end of a plan year remains an eligible individual, if otherwise eligible, regardless of whether a qualified HSA distribution is made.

ADDITIONAL TAX FOR FAILURE TO REMAIN AN ELIGIBLE INDIVIDUAL

If an individual ceases to be an eligible individual during the testing period, the amount of the qualified HSA distribution is included in the gross income of the individual and subject to an additional 10 percent tax. Failing to remain an eligible individual does not require the withdrawal of the qualified HSA distribution, and the amount is not an excess contribution. However, any HSA withdrawal not used for qualified medical expenses is included in income and subject to an additional 10 percent tax (with certain exceptions), regardless of whether the HSA received a qualified HSA distribution that was previously

included in the account beneficiary's income and subject to the additional tax. See § 223(f)(4)(B).

PERMANENT RULE -- INDIVIDUALS WITH A ZERO BALANCE IN GENERAL PURPOSE HEALTH FSA ON THE LAST DAY OF PLAN YEAR

Under the Act, if an individual has a zero balance in a general purpose health FSA, as determined on a cash basis, on the last day of the health FSA plan year, the individual does not fail to be an eligible individual as of the first day of the immediately following health FSA plan year because of coverage during a health FSA grace period.

PERMANENT RULE -- INDIVIDUALS WITH A ZERO BALANCE IN GENERAL PURPOSE HRA ON THE LAST DAY OF PLAN YEAR

An individual with a zero balance in a general purpose HRA, determined on a cash basis, on the last day of the HRA plan year, does not fail to be an eligible individual on the first day of the immediately following HRA plan year, so long as (1) effective on the first day of the immediately following HRA plan year, the employee elects to waive participation in the HRA, or (2) effective on or before the first day of the following HRA plan year, the employer terminates the general purpose HRA with respect to all employees, or (3) effective on or before the first day of the following HRA plan year, with respect to all employees, the employer converts the general purpose HRA to an HSA-compatible HRA, as described in Rev. Rul. 2004-45.

PERMANENT RULE -- PLAN-YEAR-END ROLLOVERS FROM GENERAL PURPOSE HEALTH FSA OR GENERAL PURPOSE HRA TO HSA

An employee with a balance in a general purpose health FSA with a grace period or general purpose HRA at the end of a health FSA or HRA plan year (plan year) is treated as an eligible individual for HSA purposes as of the first day of the first month in the immediately following plan year that the individual has HDHP coverage on the first day of the month if:

(1) the employer amends the health FSA or HRA written plan effective by the last day of the plan year to allow a qualified HSA distribution,

(2) a qualified HSA distribution from the health FSA or HRA has not been previously made on behalf of the employee with respect to that particular health FSA or HRA,

(3) the employee has HDHP coverage as of the first day of the month during which the qualified HSA distribution occurs, and is otherwise an eligible individual,

(4) the employee elects by the last day of the plan year to have the employer make a qualified HSA distribution from the health FSA or HRA to the HSA of the employee,

(5) the health FSA or HRA makes no reimbursements to the employee after the last day of the plan year,

(6) the employer makes the qualified HSA distribution directly to the HSA trustee by the fifteenth day of the third calendar month following the end of the immediately preceding plan year, but after the employee becomes HSA-eligible,

(7) the qualified HSA distribution from the health FSA or HRA does not exceed the lesser of the balance of the health FSA or HRA on (a) September 21, 2006, or (b) the date of the distribution, and

(8)(a) after the qualified HSA distribution there is a zero balance in the health FSA or HRA, and the employee is no longer a participant in any non-HSA compatible health plan or (b) effective on or before the date of the first qualified HSA distribution the general purpose health FSA or general purpose HRA written plan is converted to an HSA-compatible health FSA or HRA, as described in Rev. Rul. 2004-45, for all participants.

TRANSITION RULE -- QUALIFIED HSA DISTRIBUTIONS FROM GENERAL PURPOSE HEALTH FSA AND GENERAL PURPOSE HRA BEFORE MARCH 15, 2007

An employee with a balance in a general purpose health FSA or general purpose HRA after December 31, 2006 is treated as an eligible individual for HSA purposes as of the first day of the first month in 2007 that the employee has HDHP coverage on the first day of the month if:

(1) the employer amends the health FSA or HRA written plan effective on or before March 15, 2007, to allow a qualified HSA distribution,

(2) a qualified HSA distribution from the health FSA or HRA has not been previously made on behalf of the employee with respect to that particular health FSA or HRA,

(3) the employee has HDHP coverage as of the first day of the month during which the qualified HSA distribution occurs, and is otherwise an eligible individual,

(4) the employee elects on or before March 15, 2007, to have the employer make a qualified HSA distribution from the health FSA or HRA to the HSA of the employee,

(5) the qualified HSA distribution from the health FSA or HRA does not exceed the lesser of the balance of the respective health FSA or HRA on (a) September 21, 2006, or (b) the date of the distribution,

(6) the employer makes the qualified HSA distribution directly to the HSA trustee by March 15, 2007, but after the employee becomes HSA-eligible, and

(7)(a) after the qualified HSA distribution there is a zero balance in the health FSA or HRA, and the employee is no longer a participant in any non-HSA compatible health plan or (b) effective on or before the date of the first qualified HSA distribution, the general purpose health FSA or general purpose HRA written plan is converted to an HSA-compatible health FSA or HRA, as described in Rev. Rul. 2004-45, for all participants.

EXAMPLES

The following examples illustrate these rules. All references to balances in the following examples are determined on a cash basis. All grace periods satisfy the requirements of Notice 2005-42. It is assumed in the examples that, for purposes of § 106(e)(3)(B) and § 223(f)(4)(B), no employees are disabled.

Permanent Rule Examples

Example 1. For 2007, Employer Z has a calendar year general purpose health FSA with a grace period ending March 15, 2008. For 2007, Employee A timely elects salary reduction of $500 for the general purpose health FSA. Employer Z offers employees the option of electing HDHP coverage for the plan year beginning January 1, 2008. On or before December 31, 2007, A elects HDHP coverage beginning January 1, 2008. On December 31, 2007, A has a zero balance in the health FSA. A is otherwise an eligible individual on January 1, 2008.

A does not fail to be an eligible individual on January 1, 2008 merely because of the health FSA grace period.

Example 2. For 2007, Employer Y has a calendar year general purpose health FSA with a grace period ending on March 15, 2008. Employer Y offers employees the option of electing HDHP coverage for the plan year beginning January 1, 2008.

Before January 1, 2008, Employer Y amends the health FSA to allow for qualified HSA distributions. The amended plan allows an employee electing HDHP coverage to also elect to have any health FSA balance at year-end, determined on a cash basis, contributed directly to an HSA trustee for the employee. For this purpose, the year-end balance is the balance of the health FSA without regard to any expenses incurred but not paid. Under the amendment, if an employee elects the qualified HSA distribution, the employee cannot submit any additional claims after December 31, 2007, regardless of when the underlying expense was incurred nor are any claims paid after December 31, 2007 even if submitted prior to December 31, 2007.

Employee B has a balance of $950 in the health FSA on September 21, 2006, and a balance of $700 on December 31, 2007. On or before December 31, 2007, B elects HDHP coverage beginning January 1, 2008. B also elects to have a qualified HSA distribution of the $700 remaining in the health FSA on December 31, 2007. Employer

Y contributes $700 to an HSA on behalf of B on or before March 15, 2008. B is otherwise an eligible individual as of January 1, 2008.

Employee C has a balance of $850 on December 31, 2007. On or before December 31, 2007, C elects HDHP coverage for 2008. C does not elect to have a qualified HSA distribution of the $850 remaining in the health FSA on December 31, 2007. C is otherwise an eligible individual.

B does not fail to be an eligible individual as of January 1, 2008 because after the qualified HSA distribution B has a zero balance in the health FSA. C is an eligible individual on April 1, 2008.

Example 3. For 2007, Employer W has a calendar year general purpose HRA. Employer W offers employees the option of electing HDHP coverage for the plan year beginning January 1, 2008.

Before January 1, 2008, Employer W amends the HRA to allow for qualified HSA distributions. The amended HRA allows an employee electing HDHP coverage for the plan year to also elect to have the lesser of the balance in the HRA on September 21, 2006 or the HRA balance at year-end, determined on a cash basis, contributed directly to an HSA trustee for the employee. For this purpose, the year-end balance is the balance of the HRA without regard to any expenses incurred but not paid. Under the amendment, if an employee elects the qualified HSA distribution, the employee cannot submit any additional claims after December 31, 2007, regardless of when the underlying expense was incurred, nor will the HRA reimburse any claim submitted but unpaid as of December 31, 2007. The amendment also provides that an employee who elects a qualified HSA distribution may also elect to waive participation in the HRA.

Employee D has a balance of $300 in the HRA on September 21, 2006, and a balance of $175 on December 31, 2007. On or before December 31, 2007, D elects HDHP coverage for 2008. D also elects to have a qualified HSA distribution of the $175 remaining in the HRA on December 31, 2007, and to waive participation in the HRA effective after December 31, 2007. Employer W contributes $175 to an HSA on behalf of D on or before March 15, 2008. D is otherwise an eligible individual as of January 1, 2008.

Employee E has a balance of $300 in the HRA on September 21, 2006, and a balance of $550 on December 31, 2007. On or before December 31, 2007, E elects HDHP coverage for 2008. E also elects to have a qualified HSA distribution of the $300 that was in the HRA on September 21, 2006. Employer W contributes $300 to an HSA on behalf of E on March 15, 2008. E is otherwise an eligible individual as of January 1, 2008.

Employee F has a balance of $400 in the HRA on September 21, 2006. On or before December 31, 2007, F elects HDHP coverage for 2008. On June 15, 2008, F has a balance of $275 in the HRA, and elects to have a qualified HSA distribution of the $275.

Employer W contributes $275 to an HSA on behalf of F on August 20, 2008. F is otherwise an eligible individual as of January 1, 2008.

D does not fail to be an eligible individual as of January 1, 2008 because after the qualified HSA distribution D has a zero balance in the HRA and does not participate in any non-HSA compatible HRA. E fails to be an eligible individual after the qualified HSA distribution, because E has a balance exceeding zero in the HRA after the distribution. E must include $300 in gross income in 2008, as well as pay an additional 10 percent tax. F fails to be an eligible individual after the qualified HSA distribution, because F remains a participant in an HRA that is not HSA-compatible until the end of the HRA plan year. The result is the same regardless of whether F waived participation in the HRA after June 15, 2008. Thus, F must include $275 in gross income in 2008, as well as pay an additional 10 percent tax.

Example 4. The same facts as Example 3, except Employer W converted the general purpose HRA to an HSA-compatible retirement HRA for all employees effective January 1, 2008.

Employee G has a balance of $275 in the HRA on September 21, 2006, and a balance of $700 on December 31, 2007. On or before December 31, 2007, G elects HDHP coverage beginning January 1, 2008. G is otherwise an eligible individual as of January 1, 2008. G also elects to have a qualified HSA distribution of the $275 that was in the HRA on September 21, 2006. Employer W contributes $275 to an HSA on behalf of G on or before March 15, 2008. G has a balance of $425 in a retirement HRA and remains an active employee.

G is an eligible individual as of January 1, 2008, because the HRA G participates in is HSA-compatible.

Example 5. Employer V has a fiscal year general purpose health FSA with a grace period. The fiscal year of the health FSA is October 1 – September 30. The grace period ends on December 15. For the plan year beginning October 1, 2007, Employer V offers employees the option of electing HDHP coverage.

In December 2006, Employer V amends the health FSA to allow for qualified HSA distributions. The amended plan allows an employee electing HDHP coverage for the plan year to also elect to have any health FSA balance at the end of the plan year, determined on a cash basis, contributed directly to an HSA trustee for the employee. For this purpose, the plan-year-end balance is the balance of the health FSA without regard to any expenses incurred but not paid. If an employee elects the qualified HSA distribution, the employee cannot submit any additional claims after September 30, 2007, regardless of when the underlying expense was incurred. The health FSA does not reimburse claims submitted but unpaid as of September 30, 2007.

Employee H has a balance of $600 in the health FSA on September 21, 2006, and a balance of $500 on September 30, 2007. On or before September 30, 2007, H elects

HDHP coverage for the plan year beginning October 1, 2007. H also elects to have a qualified HSA distribution of the $500 remaining in the health FSA on September 30, 2007. Employer V contributes $500 to an HSA on behalf of H on or before December 15, 2007. H is otherwise an eligible individual as of October 1, 2007.

H does not fail to be an eligible individual as of October 1, 2007 because after the qualified HSA distribution H has a zero balance in the health FSA.

Example 6. The same facts as Example 5, except Employer V has a limited purpose health FSA.

Employee I has a balance of $2,000 in the limited purpose health FSA on September 21, 2006, and a balance of $3,000 on September 30, 2007. On or before September 30, 2007, I elects HDHP coverage for the plan year beginning October 1, 2007. I also elects to have a qualified HSA distribution of $2,000 that was in the health FSA on September 21, 2006. Employer V contributes $2,000 to an HSA on behalf of I on or before December 15, 2007. I has a balance of $1,000 in a limited purpose health FSA. I is otherwise an eligible individual as of October 1, 2007.

I does not fail to be an eligible individual because I participates in an HSA-compatible health FSA.

Example 7. For 2007, Employer U has a calendar year general purpose health FSA with a grace period ending on March 15, 2008. Employer U has a fiscal year health plan that begins July 1, 2007. For the plan year beginning July 1, 2007, Employer U offers employees the option of electing HDHP coverage.

Before January 1, 2008, Employer U amends the health FSA to allow for qualified HSA distributions. The amended plan allows an employee electing HDHP coverage to also elect to have any health FSA balance at year-end, determined on a cash basis, contributed directly to an HSA trustee for the employee. For this purpose, the year-end balance is the balance of the health FSA without regard to any expenses incurred but not paid. Under the amendment, if an employee elects the qualified HSA distribution, the employee cannot submit any additional claims after December 31, 2007, regardless of when the underlying expense was incurred. The health FSA does not pay claims submitted but unpaid as of December 31, 2007.

Employee J has a balance of $500 in the health FSA on September 21, 2006, and a balance of $400 on June 30, 2007. On or before June 30, 2007, J elects HDHP coverage for the immediately following health plan year. J also elects to have a qualified HSA distribution of $400 that was in the health FSA on June 30, 2007. Employer U contributes $400 to an HSA on behalf of J on or before September 15, 2007. J is an otherwise eligible individual as of July 1, 2007.

J fails to be an eligible individual after the distribution because J's participation in a health FSA is not disregarded coverage until January 1, 2008, even though the qualified

HSA distribution reduces the balance of the health FSA to zero. J must include $400 in his gross income for 2007, and pay an additional 10 percent tax. J is an eligible individual on January 1, 2008.

Example 8. For 2007, Employer T has a calendar year general purpose health FSA with a grace period ending on March 15, 2008. Employer T offers employees the option of electing HDHP coverage for the plan year beginning January 15, 2008.

Before January 1, 2008, Employer T amends the health FSA to allow for qualified HSA distributions. The amended plan allows an employee electing HDHP coverage to also elect to have any health FSA balance at year-end, determined on a cash basis, contributed directly to an HSA trustee for the employee. For this purpose, the year-end balance is the balance of the health FSA without regard to any expenses incurred but not paid. Under the amendment, if an employee elects the qualified HSA distribution, the employee cannot submit any additional claims after December 31, 2007, regardless of when the underlying expense was incurred. The health FSA does not pay claims submitted but unpaid as of December 31, 2007.

Employee K has a balance of $1,000 in the health FSA on September 21, 2006, and a balance of $700 on December 31, 2007. On or before December 31, 2007, K elects HDHP coverage for the plan year beginning January 15, 2008. K also elects to have a qualified HSA distribution of the $700 remaining in the health FSA on December 31, 2007. Employer T contributes $700 to an HSA on behalf of K after February 1, 2008, but before March 15, 2008. K is otherwise an eligible individual as of January 15, 2008.

Employee L has a balance of $175 in the health FSA on September 21, 2006, and a balance of $150 on December 31, 2007. On or before December 31, 2007, L elects HDHP coverage for the plan year beginning January 15, 2008. L also elects to have a qualified HSA distribution of the $150 remaining in the health FSA on December 31, 2007. Employer T contributes $150 to an HSA on behalf of L on January 25, 2008.

K does not fail to be an eligible individual because K has a zero balance in the health FSA after the qualified HSA distribution. K is eligible to contribute to the HSA as of February 1, 2008. L is not an eligible individual at the time of the distribution because L does not have HDHP coverage on the first day of January. L must include $150 in gross income in 2008, and pay an additional 10 percent tax. As of February 1, 2008, L is an eligible individual because L has HDHP coverage and no other health plan coverage that is not an HDHP, is not enrolled in Medicare, and cannot be claimed as a dependent on another person's tax return.

Transition Rule Examples

Example 9. For 2006, Employer S has a calendar year general purpose health FSA with a grace period ending on March 15, 2007. Employer S offers employees the option of electing HDHP coverage for the plan year beginning January 1, 2007.

Employer S amends the health FSA to allow for qualified HSA distributions. The amended plan allows an employee electing HDHP coverage to also elect to have any health FSA balance at year-end, determined on a cash basis, contributed directly to an HSA trustee for the employee. For this purpose, the year-end balance is the balance of the health FSA without regard to any expenses incurred but not paid. During the period from January 1, 2007 to March 15, 2007, an employee electing HDHP coverage for 2007 may elect a qualified HSA distribution of the health FSA balance. The amount of the qualified HSA distribution is determined on a cash basis on the date of the distribution.

Employee M has a balance of $850 on December 31, 2006. On or before December 31, 2006, M elects HDHP coverage beginning January 1, 2007. M does not elect to have a qualified HSA distribution of the $850 remaining in the health FSA on December 31, 2006. M incurred $850 of § 213(d) expenses after January 1 and the health FSA reimbursed M for that amount. M's health FSA balance is zero on January 22, 2007. M is otherwise an eligible individual as of January 1, 2007.

Employee N has a balance of $800 in the health FSA on September 21, 2006, and a balance of $200 on December 31, 2006. On or before December 31, 2006, N elects HDHP coverage beginning January 1, 2007. During January 2007, the health FSA reimburses N for $50 in § 213(d) medical expenses. On February 12, 2007, N elects to have a qualified HSA distribution of the remaining health FSA balance of $150. Employer S contributes $150 to an HSA on behalf of N on or before March 15, 2007. N is otherwise an eligible individual as of January 1, 2007.

Employee O has a balance of $300 in the health FSA on September 21, 2006, and a balance of $175 on December 31, 2006. On or before December 31, 2006, O elects HDHP coverage for 2007. On or before March 15, 2007, O also elects to have a qualified HSA distribution of the $175 remaining in the health FSA on December 31, 2006. Employer S contributes $175 to an HSA on behalf of O on or before March 15, 2007. O is otherwise an eligible individual as of January 1, 2007.

M has disqualifying coverage by the health FSA until April 1, 2007 because M neither had a zero balance in the FSA on December 31, 2006 nor did M have a zero balance following a qualified HSA distribution on or before March 15, 2007. N is an eligible individual as of January 1, 2007 because after the qualified HSA distribution N has a zero balance in a health FSA. O is an eligible individual as of January 1, 2007, because after the qualified HSA distribution O has a zero balance in a health FSA.

Example 10. The same facts as Example 9, except M and N incurred their respective $850 and $50 in § 213(d) medical expenses in December 2006. M and N submitted the expenses and were reimbursed from the health FSA for the expenses after January 1, 2007 and before February 1, 2007. On February 12, 2007, N elects to have a qualified HSA distribution of the remaining health FSA balance of $150. Employer S contributes $150 to an HSA on behalf of N on or before March 15, 2007. N is otherwise an eligible individual as of January 1, 2007.

M has disqualifying coverage by the health FSA until April 1, 2007, because M neither has a zero balance in the FSA on December 31, 2006 nor did M have a zero balance following a qualified HSA distribution on or before March 15, 2007. N is an eligible individual as of January 1, 2007 because after the qualified HSA distribution N has a zero balance in a health FSA.

Examples of Additional 10 Percent Tax

Example 11. Employee P, who is 32 years old, has HDHP coverage as of January 1, 2008. P elects to have a qualified HSA distribution on or before December 31, 2007. On or before March 15, 2008, P's employer contributes $250 from a general purpose health FSA to an HSA on behalf of P in a qualified HSA distribution meeting the requirements of section 302 of the Act and this Notice. Following the qualified HSA distribution, P has a balance of zero in the general purpose health FSA.

In July 2008, P terminates employment with Employer R, and begins employment with Employer Q. Employer Q does not offer an HDHP. P obtains health coverage under a low deductible health plan, and ceases to be an eligible individual for HSA purposes. P must include the $250 qualified HSA distribution in his gross income for 2008, and pay an additional 10 percent tax under § 106(e)(3) of the Code. P does not have to withdraw the $250 from his HSA, and the amounts in the HSA may grow tax-free.

Example 12. The same facts as Example 11, except in February 2009, P uses $200 from his HSA for a nonqualified medical expense. The $200 is included in P's gross income for 2009 and is subject to an additional 10 percent tax under § 223(f)(4) of the Code.

Example 13. The same facts as Example 12, except P uses $200 from his HSA for a qualified medical expense. The $200 is not included in P's gross income, and there is no additional tax.

NO EFFECT ON HSA ESTABLISHMENT DATE

Qualified medical expenses for HSA purposes are only expenses incurred after the HSA is established. Notice 2004-2, 2004-1 C.B. 269, Q&A-26. While this notice provides that certain individuals are treated as eligible individuals as of the first day of the plan year, those rules do not treat an HSA as established before the actual establishment of the HSA.

State trust law determines when an HSA is established. Most state trust laws require that for a trust to exist, an asset must be held in trust; thus, most state trust laws require that a trust must be funded to be established.

REPORTING

Amounts transferred through a qualified HSA distribution are not reported in box 12 of Form W-2. Employers are not responsible for reporting whether an employee receiving a qualified HSA distribution remains an eligible individual during the testing period. However, employers must report qualified HSA distributions as rollover contributions to the HSA trustee, and the HSA trustee must report the qualified HSA distribution as a rollover contribution on Form 5498-SA.

EFFECTIVE DATE

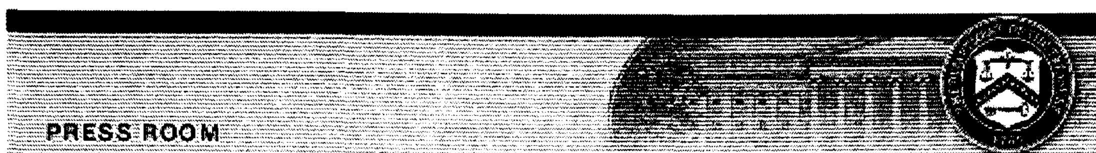
The provision in the Act allowing qualified HSA distributions from health FSAs and HRAs is effective on or after December 20, 2006, and before January 1, 2012.

EFFECT ON OTHER DOCUMENTS

Published guidance under § 105(b) states that if any person has the right to receive cash or any other taxable or nontaxable benefit under a health FSA or HRA, other than the reimbursement of § 213(d) medical expenses of the employee, employee's spouse or employee's dependents, then all distributions made from the arrangement are included in the employee's gross income, even amounts paid to reimburse medical care. See Rev. Rul. 2006-36, 2006-36 I.R.B. 353; Rev. Rul. 2005-24, 2005-1 C.B. 892; Rev. Rul. 2003-102, 2003-2 C.B. 559; Notice 2002-45, 2002-2 C.B. 93; Rev. Rul. 2002-41, 2002-2 C.B. 75; Rev. Rul. 69-141, 1969-1 C.B. 48. New § 106(e) provides that a health FSA or HRA will not fail to satisfy the requirements of §§ 105 or 106 merely because the plan provides for a qualified HSA distribution. Amounts rolled into an HSA may be used for purposes other than reimbursing the § 213(d) medical expenses of the employee, spouse or dependents. Accordingly, Rev. Rul. 2006-36, Rev. Rul. 2005-24, Rev. Rul. 2003-102, Notice 2002-45, Rev. Rul. 2002-41, and Rev. Rul. 69-141 are modified with respect to qualified HSA distributions described in § 106(e). In addition, Notice 2005-86, 2005-2 C.B. 1075, is modified effective as of December 20, 2006.

DRAFTING INFORMATION

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

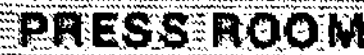


February 15, 2007
HP-265

Steel Statement on GAO Basel II Report

Treasury Under Secretary for Domestic Finance Robert K. Steel released the following statement today regarding the release of the Government Accountability Office's (GAO) report on the Basel II Accord.

"Treasury is pleased that the GAO report supports the banking regulators moving forward to finalize the Basel II rules. The time has come to act; we urge the regulators to reach a consensus quickly."



February 16, 2007
HP-266

Remarks of Treasury Under Secretary for International Affairs Timothy D. Adams before the Asia Society Houston Center Annual Conference: U.S.-Indian Relations: Doing Business – Opportunities and Challenges

Houston, Texas – I would like to thank the Asia Society for welcoming me back to Houston. I last spoke to this group less than a year ago, not long after a two-week visit to Asia. My comments focused largely on China and its importance to the global economy. It's fitting that I should return to discuss another great economic "success story" in Asia. Large emerging markets like China and India are becoming increasingly important engines of global growth. At the same time, they bear an increasing responsibility to take actions that enhance growth and stability.

Before I begin my specific comments on India, I'd like to set a framework by spending a few minutes on the state of the global economy. The global economy grew by about five percent last year, marking four consecutive years of solid growth. The world has not witnessed such balanced and consistent growth in decades. And, the global economic outlook for 2007 remains broadly positive.

Much of the global economy's success is due to the positive effects of globalization. One key has been a removal of barriers to international trade and investment, which has helped global trade and investment surge by over 60 percent since 2000. Opening markets to competition helps raise economic performance in a number of ways. It encourages workers and firms to invest in productivity, and it encourages policymakers to take pro-market measures that promote their economies' competitiveness.

India is playing a growing role in global trade and investment, and the U.S.-India economic relationship has become deeper. Annual U.S. exports to India have more than doubled since 2000, while annual imports from India are up by 75 percent. The value of U.S. direct investment in India has more than tripled over the last five years from $2.4 billion in 2000 to $8.5 billion at the end of 2005.

Enhanced bilateral trade and investment have benefited both India and the United States. I have made several trips to India in the past five years and have witnessed the country's dramatic economic transformation. India's annual GDP growth now exceeds nine percent, putting it second behind China as a major emerging market, and Indian growth has been over eight percent for the past three years. The country's economic performance has reduced the poverty rate from almost 40 percent to under 30 percent in a decade. Adult literacy rates and primary school completion rates have also increased, and technology has become more widely available. Cell phone usage increased 14-fold in the last four years and almost doubled in the last year alone, while internet use has increased by a factor of ten since the year 2000. India's commitment to growth is reaping huge social dividends for its people.

India's strong growth could not have occurred without government policies to open the country to competition. India's efforts at economic liberalization began in the early-1990s when current Prime Minister Singh was the Finance Minister. The government reduced trade tariffs, with the peak rate on nonagricultural goods falling from 150 percent in 1991 to about 13 percent today. India also eased non-tariff barriers, eliminating licensing restrictions on raw materials and intermediate and

capital goods. The rewards of these policies have been clear: since 1990, India's total trade has grown from less than 15 percent to nearly 40 percent of GDP.

India has also taken steps to relax controls on foreign investment and borrowing. In the 1990s, India began to permit greater foreign investor participation in the stock market while expanding the number of sectors open to foreign direct investment. The government also allowed Indian firms to borrow money abroad with fewer restrictions. Reduction of these barriers to capital flows has lowered the cost of capital and helped Indian businesses benefit from the transfer of skills and technology.

India's reforms have brought it success in the global economy, but globalization also presents new challenges. To modernize and compete effectively in a changing global economy, India needs to focus on three things: (1) further reducing barriers to trade and investment, (2) liberalizing and modernizing its financial sector; and (3) improving its business climate. These are three themes that I have emphasized in our official dialogues with Indian policymakers.

Regarding trade and investment, India has made progress but still has a long way to go. Despite its size, India still accounts for less than two percent of world trade, which is just one-third of China's role. India's stock of foreign direct investment is less than half the size of FDI in China, Russia, or Brazil when measured as a share of GDP.

The Doha round of trade talks provides India and other major economies with an opportunity to further reduce trade barriers and enjoy substantial economic benefits. For Doha to be a success, all major trading countries need to make strong market access commitments in agriculture, manufacturing, and services, including financial services. Large developing countries such as India, Brazil, and China bear a special responsibility as major players in the world economy. They need to contribute by substantially cutting their applied tariffs on agricultural and manufactured goods. Despite reductions to date, India's tariff rates remain well above those in other advanced developing countries. Substantial progress on services must also be integral part of a successful Doha round.

On the investment side, India is making progress in reducing barriers to foreign direct investment. India now permits full foreign investment in a range of industries including many manufacturing sectors and urban infrastructure, but it retains significant barriers in others, including retail trade and the financial sector.

In the financial sector, India has taken some steps to open the banking, securities and mutual funds industries to foreign participation. However, compared to other emerging markets, India is still quite restrictive, and government ownership of the financial sector remains high. These restrictions need to be lifted if India is to build the world-class financial center it needs to sustain future growth.

India would gain tremendously from an open and competitive financial sector that expanded access to financial services for both individuals and firms. Today, more than 70 percent of India's population has no access to banking or financial services, and only three percent has insurance coverage. India's banking sector would also benefit from the transfer of skills. India needs insurance and pension firms to provide capital for its equity and bond markets, as they do in the United States. A recent report by the McKinsey Institute concluded that financial sector reforms in India could free up $48 billion of capital per year. India needs those funds to build its infrastructure, invest in its people's education, and reduce poverty.

To promote growth and reduce poverty, India also needs to strengthen its business and regulatory environment, which will support domestic and foreign investment and foster private sector activity. In this respect, India currently ranks quite low. The World Bank in its annual report on business climate conditions rates India as #134 of 175 economies. Key steps that India can take include: improving investor protection, creating more transparent regulatory and tax regimes, enforcing commercial contracts, and creating a more flexible labor market. Capital is a coward. It flees from abuse and goes to where it is treated well.

The same policy steps that will benefit Indian growth will also help American businesses, increase trade, and create jobs in both of our two economies. With that fact in mind, the U.S. government's engagement with India is arguably at an all-time high. The President traveled to India last March and advanced the strategic partnership between our two nations by improving cooperation on energy and the environment, security, and technology. The President and Prime Minister Singh gave great priority to economic issues and outlined an ambitious vision for further trade and investment links.

We help to advance that vision through a U.S.-India Economic Dialogue, under which U.S. and Indian agencies promote necessary reforms with a goal of doubling bilateral trade within three years. Private sector participants from the United States and India have been critical contributors to the Dialogue. In late 2005, a U.S.-India CEO Forum was launched, comprised of ten prominent CEOs from each country, led by Ratan Tata of the Tata Group and Bill Harrison of JP Morgan. The CEO Forum recommended a number of policy reforms to President Bush and Prime Minister Singh last year in areas ranging from infrastructure development to energy security to human resource development to technology exchange.

Senior policymakers from both countries, including Treasury Secretary Paulson, met with the CEOs in October to discuss the recommendations and assess the progress we've made thus far. For example, the Indian government has set up new institutions to promote infrastructure development. On the U.S. side, the State Department has eliminated the backlog of visa applications from India, and the Commerce Department has removed impediments to trade in strategic areas. In December, President Bush signed an historic civil nuclear agreement which will enable India to access clean energy while joining the global effort to stop the spread of nuclear weapons.

Treasury plays an active role in the Economic Dialogue and chairs a "Financial and Economic Forum" with our Indian counterparts. Our engagement includes regulators as well as policymakers and tries to address some of the tough technical issues that impede effective trade and investment on the ground.

Overall, we are enthusiastic about our engagement with India. India's outlook for growth is quite promising. A recent Goldman Sachs study estimates that the size of India's economy could surpass our own by 2042. To achieve this potential, India needs to continue to address the risks to its growth and stability and maintain competitiveness in a global environment. In particular, it needs to overcome the protectionist pressures that affect every economy and further improve its investment climate. If India succeeds, the future will be bright. We believe India's leaders are committed to strong economic performance, and we look forward to our future engagement with this dynamic country.

I am looking forward to hearing your views on opportunities and challenges in U.S.-Indian business relations.

February 16, 2007
HP-267

Treasury Targets Iranian Companies for Supporting WMD Proliferation

The U.S. Department of the Treasury today designated three Iranian companies supporting Iran's proliferation of weapons of mass destruction, Kalaye Electric Company, Kavoshyar Company, and Pioneer Energy Industries Company. This action was taken pursuant to Executive Order 13382, which is aimed at exposing and financially isolating proliferators of WMD and their supporters.

"Treasury is taking this action to deny Iran access to the materials and services that support its nuclear ambitions," said Stuart Levey, Under Secretary for Terrorism and Financial Intelligence (TFI). "This designation is consistent with our international obligations under UN Security Council Resolution 1737."

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.

The entities designated today are either owned or controlled by the Atomic Energy Organization of Iran (AEOI) or acting for or on its behalf. President George W. Bush designated the AEOI in the Annex to Executive Order 13382, effective June 29, 2005. The AEOI manages Iran's overall nuclear program and reports directly to the Iranian President. The AEOI is the main Iranian institute for research and development activities in the field of nuclear technology, including Iran's centrifuge enrichment program and experimental laser enrichment of uranium program.

Kalaye Electric Company has been linked to Iran's centrifuge research and development efforts. Kalaye is also listed in the Annex to UN Security Council Resolution 1737 because of its involvement in Iran's nuclear program. Kavoshyar Company's sole shareholder is AEOI. Pioneer Energy Industries Company provides services to AEOI, including technological support.

Background on E.O. 13382

Today's action builds on President Bush's issuance of E.O. 13382, effective 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 to E.O. 13382, the Treasury Department has designated twenty three 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;
- 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;
- One Iranian entity, one British entity, and one individual tied to Iranian missile proliferation on January 9, 2007; and
- Three Iranian entities on February 16, 2007.

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February 16, 2007
HP-268

Statement of Licensing Policy for Two Specially Designated Entities in Colombia

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) adopted a policy to consider the issuance of specific licenses, on a case-by-case basis, authorizing U.S. suppliers to engage in certain transactions with two Colombian Government-controlled entities previously named as Specially Designated Narcotics Traffickers (SDNTs).

- G.L.G. S.A. (NIT # 800023807-8)
- Ramal S.A. (NIT # 800142109-5)

Both G.L.G. S.A. and Ramal S.A. manage certain aspects of the SDNT Casa Estrella department store, a Colombian department store chain located in Bogotá and Cali, Colombia.

Designated by OFAC in 2005 as part of the North Valle drug cartel's financial network, the Government of Colombia took control of these companies in August 2006. By establishing this licensing policy, OFAC is enabling these entities continue to operate legitimately under the control of the Colombian government. OFAC continues to work closely with Colombian officials to monitor the situation.

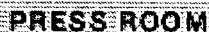
U.S. suppliers seeking a license to sell products to these companies should submit a written license application in accordance with 31 CFR § 501.801(b) to the Office of Foreign Assets Control, Licensing Division, U.S. Department of the Treasury, 1500 Pennsylvania Avenue, NW – Annex, Washington, DC 20220.

In addition to the information required by 31 CFR § 501.801(b)(3), the application must include a detailed description of the proposed transactions and a purchase request from either of the aforementioned companies, signed by the appropriate Government of Colombia official, that specifies the types of products to be purchased and the account(s) from which payment will be made. Licensees under the policy will be required to submit detailed reports regarding the transactions authorized by the license. Questions regarding this policy should be directed to OFAC's Licensing Division at (202) 622-2480.

A copy of the licensing policy may be accessed here:
http://www.treasury.gov/offices/enforcement/ofac/programs/narco/sdn_lic_pol_021607.pdf

For more information on similar licensing policies issued by OFAC, please visit the following links:

http://www.treas.gov/press/releases/js2646.htm (July 2005)
http://www.treas.gov/press/releases/js2102.htm (Nov 2004)



February 20, 2007
HP-269

Treasury, Education to Host Summit on Improving U.S. Students' Financial Literacy

The U.S. Treasury and Education Departments will team up this week for a two-day summit to discuss the challenges and possible solutions to improving youth financial literacy. The summit, which will address financial education for Kindergarten through postsecondary students, will be held at the Department of Education on day one and at the Treasury the second day.

The U.S. Treasurer Anna Escobedo Cabral and Education Deputy Secretary Raymond Simon will join other Treasury and Education officials as featured speakers at the event. Summit participants will discuss challenges such as finding room for financial education in America's schools.

The meeting is open to the media. Media without Treasury press credentials should contact Frances Anderson in advance for entrance to the Treasury Department at (202)622-2960, or frances.anderson@do.treas.gov with the following information: name, Social Security number, and date of birth.

Who
Education Deputy Secretary Raymond Simon
U.S. Treasurer Anna Escobedo Cabral
Treasury Deputy Assistant Secretary Dan Iannicola, Jr.
Education Assistant Deputy Secretary Morgan Brown
Emil W. Henry, Jr., Assistant Secretary for Financial Institutions

What
Two-Day Summit on K- Postsecondary Financial Education

When
Wednesday, February 21,10:00 a.m.

Where
Department of Education
400 Maryland Ave., SW
Washington, DC

Thursday
February 22,9:00 a.m.
Treasury Department
Cash Room
1500 Pennsylvania Avenue
Washington, DC

February 20, 2007
HP-270

U.S., Bulgaria To Sign Tax Treaty, Strengthen Economic Relationship

Deputy Secretary of the Treasury Robert M. Kimmitt and Bulgarian Finance Minister Plamen Orescharski will sign an income tax treaty and protocol. The treaty will strengthen economic relations between the United States and Bulgaria by generally reducing the rates of taxation on cross-border dividend, interest and royalty payments, and providing for better exchange of information between the two countries, including bank information.

The meeting is open to the media. Media without Treasury press credentials should contact Frances Anderson in advance for entrance to the Treasury Department at (202) 622-2960, or frances.anderson@do.treas.gov with the following information: name, Social Security number and date of birth.

Who:
Treasury Deputy Secretary Robert M. Kimmitt
Plamen Orescharski, Minister of Finance of the Republic of Bulgaria
H.E. Elena Poptodorova, Bulgarian Ambassador to the United States

What:
Tax Treaty and Protocol Signing

Where:
U.S. Department of the Treasury
Diplomatic Reception Room (3311)
1500 Pennsylvania Ave.
Washington, D.C. 20220

When:
Friday, February 23, 2:00 p.m.

February 20, 2007
HP-271

Treasury Designates Hizballah's Construction Arm

The U.S. Department of the Treasury today designated Jihad al-Bina, a Lebanon-based construction company formed and operated by Hizballah. Jihad al-Bina receives direct funding from Iran, is run by Hizballah members, and is overseen by Hizballah's Shura Council, at the head of which sits Hizballah Secretary General Hassan Nasrallah.

"Hizballah operates Jihad al-Bina for its own construction needs as well as to attract popular support through the provision of civilian construction services," said Stuart Levey, Treasury's Under Secretary for Terrorism and Financial Intelligence (TFI). "We will take action against all facets of this deadly terror group."

Jihad al-Bina has used deceptive means to seek funding for projects from international development organizations. In cases when intended solicitation targets were thought to object to the group's relationship with Hizballah and the Iranian government, the organization employed deceptive practices, applying in the name of proxies not publicly linked to Hizballah. Following the summer 2006 conflict with Israel, Hizballah used Jihad al-Bina to raise funds for the terrorist organization and to bolster the group's standing by providing construction services in Southern Lebanon.

"At the same time that we are targeting Hizballah's construction company, the U.S. Government is also working to ensure that legitimate reconstruction efforts, led by the Lebanese Government, succeed," Levey continued.

In addition to the $230 million in humanitarian reconstruction and security assistance pledged by President Bush in August 2006, Secretary of State Condoleezza Rice announced an additional $770 million in aid to Lebanon at the January 25, 2007 Lebanon Donors' Conference in Paris, France. The aim of this assistance is to help all the Lebanese people rebuild their lives and country, while strengthening Lebanon's sovereign, democratic government and helping to ensure lasting peace.

Today's action prohibits transactions between U.S persons and the designated entities and also freezes any assets those entities may have under U.S. jurisdiction.

Identifying Information

Jihad al-Bina
AKAs: Jihad al-Binaa'
Jihadu-l-Binaa
Construction for the sake of the holy struggle
Construction Jihad
Struggle for Reconstruction
Jihad Construction Institution
Jihad Construction Foundation
Jihad al Binaa Association
Holy Construction Foundation
Jihad Construction
Location: Beirut, Lebanon
Bekaa Valley, Lebanon
Southern Lebanon

Background on Hizballah

Hizballah is a Lebanon-based terrorist group, which, until September 11, 2001, was responsible for more American deaths than any other terrorist organization. Hizballah is closely allied with Iran and often acts at its behest, but it also can and does act independently. Though Hizballah does not share the Syrian regime's secular orientation, the group has been a strong ally in helping Syria advance its political objectives in the region.

Iran and Syria provide significant support to Hizballah, giving money, weapons and training to the terrorist organization. In turn, Hizballah is closely allied with and has an allegiance to these states. Iran is Hizballah's main source of weapons and uses its Islamic Revolutionary Guards Corps to train Hizballah operatives in Lebanon and Iran. Iran provides hundreds of millions of dollars per year to Hizballah.

The Majlis al-Shura, or Consultative Council, is the group's highest governing body and has been led by Secretary General Hasan Nasrallah since 1992. Hizballah is known or suspected to have been involved in numerous terrorist attacks throughout the world, including the suicide truck bombings of the U.S. Embassy and U.S. Marine Corps barracks in Beirut in 1983 and the U.S. Embassy annex in Beirut in September 1984. Hizballah also perpetrated the 1985 hijacking of TWA Flight 847 en route from Athens to Rome, and has been implicated in the attacks on the Israeli Embassy in Argentina in 1992 and a Jewish cultural center in Buenos Aires in 1994. The U.S. Government has indicted a member of Hizballah for his participation in the June 1996 truck bomb attack of the U.S. Air Force dormitory at Khobar Towers in Saudi Arabia. Most recently, in July 2006 Hizballah terrorists kidnapped two Israeli soldiers, triggering a violent conflict that resulted in hundreds of civilian casualties in Lebanon and Israel.

On January 25, 1995, the Annex to the Executive Order 12947 listed Hizballah as a Specially Designated Terrorist (SDT). The Department of State designated Hizballah as a Foreign Terrorist Organization (FTO) in 1997. Additionally, on October 31, 2001, Hizballah was designated as a Specially Designated Global Terrorist under Executive Order 13224.

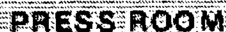
Please visit the following links for more information on the Treasury's efforts to stem the flow of support to Hizballah.

Treasury Targets Hizballah Fundraising Network in the Triple Frontier of Argentina, Brazil, and Paraguay (December 2006)
http://www.treasury.gov/press/releases/hp190.htm

Treasury Cuts Iran's Bank Saderat Off From U.S. Financial System (September 2006)
http://www.treas.gov/press/releases/hp87.htm

Treasury Designation Targets Hizballah's Bank (September 2006)
http://www.treas.gov/press/releases/hp83.htm

Treasury Designates Key Hizballah Fundraising Organization (August 2006)
http://www.treas.gov/press/releases/hp73.htm



February 21, 2007
2007-2-21-11-25-35-21503

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 $65,604 million as of the end of that week, compared to $64,950 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	February 9, 2007			**February 16, 2007**		
TOTAL	**64,950**			**65,604**		
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	12,353	10,469	22,822	12,488	10,672	23,160
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,329	5,099	17,428	12,467	5,200	17,667
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]			4,861			4,889
3. Special Drawing Rights (SDRs) [2]			8,798			8,847
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	February 9, 2007			**February 16, 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						
	February 9, 2007			**February 16, 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.

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February 22, 2007
HP-272

Common Approach to Private Pools of Capital
Guidance on hedge fund issues
focuses on systemic risk, investor protection

Washington, DC- The President's Working Group on Financial Markets (PWG) released a set of principles and guidelines today that will guide U.S. financial regulators as they address public policy issues associated with the rapid growth of private pools of capital, including hedge funds. The agreement among the PWG and U.S. agency principals, which will serve as a framework for evaluating market developments, specifically concentrates on investor protection and systemic risk concerns.

"The President's Working Group believes that public policy toward private pools of capital should be governed by consistent principles that set out a uniform approach to specific policy objectives," said Secretary Henry M. Paulson, chair of the group. "These principles demonstrate that U.S. regulators and policymakers have a unified perspective and are committed to providing forward-leaning guidance for the industry and its participants. These guidelines should serve as a foundation to enhance vigilance and market discipline further, which will strengthen investor protection and guard against systemic risk. We will continue to monitor developments in this ever-evolving market with these principles in mind."

The group has designed the principles to endure as financial markets continue to evolve. They provide a clear but flexible principles-based approach to address the issues presented by the growth and dynamism of these investment vehicles.

The principles are intended to reinforce the significant progress that has been made since the PWG last issued a report on hedge funds in 1999 and to encourage continued efforts along those same lines:

- **Private Pools of Capital**: maintain and enhance information, valuation, and risk management systems to provide market participants with accurate, sufficient, and timely information.
- **Investors**: consider the suitability of investments in a private pool in light of investment objectives, risk tolerances, and the principle of portfolio diversification.
- **Counterparties and Creditors**: commit sufficient resources to maintain and enhance risk management practices.
- **Regulators and Supervisors**: work together to communicate and use authority to ensure that supervisory expectations regarding counterparty risk management practices and market integrity are met.

The PWG, chaired by the Treasury Secretary and composed of the chairmen of the Federal Reserve Board, the Securities and Exchange Commission, and the Commodity Futures Trading Commission, was formed in 1988 to further the goals of enhancing the integrity, efficiency, orderliness, and competitiveness of financial markets and maintaining investor confidence. The PWG worked with the Federal Reserve Bank of New York and the Office of the Comptroller of the Currency in developing the guidance.

Click here for the agreement among PWG and U.S. agency principals on principles and guidelines

regarding private pools of capital

AGREEMENT AMONG PWG AND U.S. AGENCY PRINCIPALS ON PRINCIPLES AND GUIDELINES REGARDING PRIVATE POOLS OF CAPITAL

PREAMBLE

The President's Working Group on Financial Markets, in the course of our ongoing review of market practices and events, has set forth the following fundamental principles that will inform our approach to private pools of capital. Since we last made a statement on these issues in 1999, the market has matured and expanded considerably, and these fundamental principles have increasingly been reflected in best practices. The current regulatory structure, which is also based on these principles, is working well. As we noted in 1999, "[i]n our market-based economy, market discipline of risk-taking is the rule and government regulation is the exception." We look forward to further progress as these principles continue to inform our actions and strengthen our vibrant capital markets.

OVERARCHING PRINCIPLES

1. **Private pools of capital bring significant benefits to the financial markets. However, these pools of capital also present challenges for market participants and policymakers. Investors, creditors, counterparties, pool managers, and supervisors must be aware of these challenges, including those related to some over-the-counter derivatives, and work to address them. Public policies that support market discipline, participant awareness of risk, and prudent risk management are the best means of protecting investors and limiting systemic risk.**

2. **The vitality, stability and integrity of our capital markets are a shared responsibility between the private and public sectors. Market discipline most effectively addresses systemic risks posed by private pools of capital. Supervisors should use their existing authorities with respect to creditors, counterparties, investors, and fiduciaries to foster market discipline on private pools of capital. Investor protection concerns can be addressed most effectively through a combination of market discipline and regulatory policies that limit direct investment in such pools to more sophisticated investors.**

INVESTOR PROTECTION PRINCIPLES

3. **Private pools of capital can be an appropriate investment vehicle for more sophisticated investors. Because these pools can involve complex, illiquid or opaque investments and investment strategies that are not fully disclosed, the risks associated with direct investment in these pools are**

most appropriately borne by investors with the sophistication to identify, analyze and bear these risks.

3.1 Investors should understand their investments and the corresponding risks, and should not expose themselves to risk levels they cannot tolerate.

3.2 Sophisticated investors that determine to invest in a private pool of capital should ensure that the size of their investment is consistent with their investment objectives and the principle of portfolio diversification.

4. Investors in private pools of capital should obtain accurate and timely historical and ongoing material information necessary to perform due diligence regarding the pool's strategies, terms, conditions, and risk management, thereby enabling such investors to make informed investment decisions.

4.1 As with all investment products and vehicles, clear and meaningful disclosure is essential for investors to evaluate properly their investment decisions.

4.2 Investors should evaluate the investment objectives, strategies, risks, fees, liquidity, performance history, and other relevant characteristics of a private pool.

4.3 Investors should evaluate the pool's managers and personnel, including background, experience, and disciplinary history. Investors also should assess the pool's service providers and evaluate their independence from the pool's managers.

4.4 Investors should consider the private pool's manager's conflicts-of-interest and whether the manager has appropriate controls in place to manage those conflicts.

4.5 Investors should conduct an appropriate analysis regarding the valuation methodology and performance calculation processes and business and operational risk management systems employed by a private pool, including the extent of independent audit evaluation of such processes and systems.

5. Concerns that less sophisticated investors are exposed indirectly to private pools through holdings of pension funds, fund-of-funds, or other similar pooled investment vehicles can best be addressed through sound practices on the part of the fiduciaries that manage such vehicles. These fiduciaries have a duty under applicable law to act in the best interest of the beneficiaries. They have an ongoing responsibility to perform due diligence to ensure that their investment decisions are prudent and conform to sound practices for fiduciaries. Such pooled investment vehicles should address any special issues relating to investment in private

pools of capital, including the availability of relevant, accurate, and timely historical and ongoing material information.

5.1 Fiduciaries should consider the suitability of an investment in a private pool within the context of the overall portfolio and in light of the investment objectives and risk tolerances. Fiduciary evaluation should include the investment objectives, strategies, risks, fees, liquidity, performance history, and other relevant characteristics of a private pool.

5.2 Fiduciaries should evaluate the pool's manager and personnel, including background, experience, and disciplinary history. Fiduciaries also should assess the pool's service providers and evaluate their independence from the pool's managers. Fiduciaries should consider the private pool's manager's conflicts-of-interest and whether the manager has appropriate controls in place to manage those conflicts.

5.3 Fiduciaries should conduct the appropriate due diligence regarding valuation methodology and performance calculation processes and business and operational risk management systems employed by a private pool, including the extent of independent audit evaluation of such processes and systems.

5.4 Fiduciaries that determine to invest in a private pool of capital should ensure that the size of their investment is consistent with their investment objectives and the principle of portfolio diversification.

SYSTEMIC RISK PRINCIPLES

6. **Market discipline by creditors, counterparties, and investors is the most effective mechanism for limiting systemic risk from private pools of capital, which is the possibility that losses at one or more entities could threaten the stability of the broader financial system.**

6.1 Creditors and counterparties of private pools of capital are generally large, sophisticated financial firms that have the incentives and the expertise to provide effective market discipline. As institutional investors have become an increasingly important source of capital to private pools, the potential for market discipline from investors has increased.

6.2 By limiting their own exposures to losses from a default by a private pool, creditors and counterparties can better protect their own solvency from losses at a private pool. Moreover, the financing terms provided by creditors and counterparties can be an important constraint on leverage employed by private pools of capital.

7. **Key creditors and counterparties must commit resources and maintain appropriate policies, procedures, and protocols to define, implement, and continually enhance best risk management practices. Those policies, procedures, and protocols should address how the quality of information**

from a private pool of capital should affect margin, collateral, and other credit terms and other aspects of counterparty risk management.

7.1 Creditors and counterparties should undertake appropriate and effective due diligence before extending credit to a private pool of capital and on an ongoing basis thereafter. Due diligence should include a review of the counterparty's ability to measure and manage its exposures to market, credit, liquidity, and operational risks. Due diligence should establish the information flows that will occur during the course of the credit relationship.

7.2 Creditors and counterparties should measure their credit exposures to a private pool of capital frequently, taking into account the availability of collateral to mitigate both current and potential future exposures, and should assess the range of uncertainty around their exposure estimates. Rigorous stress testing should be used to quantify the impact of adverse market events, both at the level of an individual counterparty and aggregated across counterparties. Stress tests should take into account potential adverse market liquidity events in which multiple market participants seek to unwind trades simultaneously.

7.3 The amount of credit exposure to a private pool of capital that creditors or counterparties assume should reflect the level quantity and quality of available information about the pool, the extent to which exposures to the pool can be mitigated through margin and other credit terms, and the amount of capital that the creditors or counterparties have allocated to support the exposure.

7.4 Information that creditors and counterparties should seek to obtain from a private pool includes both quantitative and qualitative indicators of a private pool's net asset value, performance, market and credit risk exposure, and liquidity. The level of detail expected should respect the legitimate interest of the private pool in protecting its proprietary trading strategies. Where sufficient information is not forthcoming from a particular private pool, creditors and counterparties should tighten margin, collateral, and other credit terms.

7.5 Creditors and counterparties should implement and comply with industry sound practices to strengthen processing, clearing, and settlement arrangements for credit derivatives and other over-the-counter derivatives. These practices include protocols for issuing and completing trade confirmations, obtaining prior written consent for assignments, and using cash-settlement procedures for over-the-counter credit derivatives following a credit event.

7.6 Large exposures to private pools of capital are among the risks that should be reported to senior management periodically. Senior management should ensure that its firm's aggregate exposure to such pools is consistent with approved risk tolerance for bearing losses in adverse markets.

8. Investors in a private pool of capital should carefully evaluate the strategies and risk management capabilities of the private pool to ensure that the pool's risk profile is compatible with their own appetites for risk.

8.1 Such investors should undertake appropriate and effective due diligence before investing in a private pool of capital and on an ongoing basis. Due diligence should include a review of the counterparty's ability to manage its exposures to market, credit, liquidity, and operational risks. Due diligence should establish the information flows that will occur during the course of the relationship.

8.2 Such investors should seek assurances that the private pool in which they invest complies with industry sound practices, including practices for risk management, reporting, and internal controls.

8.3 Such investors should evaluate the extent to which similarities in strategies pursued by multiple private pools in which they invest undermine efforts to limit their risks through diversification.

9. Managers of private pools of capital should have information, valuation, and risk management systems that meet sound industry practices and enable them to provide accurate information to creditors, counterparties, and investors with appropriate frequency, breadth, and detail.

9.1 Managers must devote sufficient resources to the creation and maintenance of information, valuation, and risk management systems to ensure that high quality, material information can be delivered to creditors, counterparties, and investors in a timely fashion.

9.2 Risk management and valuation policies employed by private pools of capital should comply with the industry sound practices. Such pools also should implement and comply with industry sound practices to strengthen processing, clearing, and settlement arrangements for credit derivatives and other over-the-counter derivatives. These practices include protocols for issuing and completing trade confirmations, obtaining prior written consent for assignments, and using cash-settlement procedures for over-the-counter credit derivatives following a credit event.

9.3 The information provided by managers of private pools to their creditors, counterparties, and investors should adhere to the sound practices articulated in industry guidance. Managers of private pools of capital should provide information frequently enough and with sufficient detail that creditors, counterparties, and investors stay informed of strategies, the amount of risk being taken by the pool, and any material changes.

10. Supervisors should clearly communicate their expectations regarding prudent management of counterparty credit exposures, including those to private pools of capital and other leveraged counterparties, who are increasingly utilizing complex instruments, including certain over-the-counter derivatives and structured securities, such as collateralized debt obligations. Because key creditors and counterparties to pools are organized in various jurisdictions, international policy collaboration and coordination are essential.

10.1 Supervisors' expectations with respect to prudent risk management practices should take into account developments in financial markets and advances in best practices for counterparty credit risk management. Supervisors should actively monitor such developments and revise their policies and associated guidance as appropriate in a timely manner. In turn, supervisors should actively monitor and assess whether policies and procedures measure up to regulatory guidance and industry efforts to identify best practices.

10.2 Supervisors should take full advantage of both formal and informal channels of coordination and cooperation across financial industry sectors and international borders when carrying out their responsibilities related to internationally active financial institutions' management of exposures to private pools and leveraged counterparties.

February 22, 2007
HP-273

Updated
Treasury Secretary Paulson to Deliver
Speech on Trade

Washington, D.C. --Treasury Secretary Henry M. Paulson, Jr. will deliver a speech hosted by the Economic Club of Washington next month. He will discuss the importance of free trade flows to U.S. economic growth.

What
Speech on Trade

When
12:00 p.m. (EST) Thursday, March 1, 2007

Where
Renaissance Mayflower Hotel
Grand Ballroom
1127 Connecticut Avenue, N.W.
Washington, DC

Note: Media should contact Judi Irastorza, Economic Club of Washington at pcom2@cox.net or 703-765-6881 with questions.

February 22, 2007
HP-274

Statement by Adam J. Szubin, OFAC Director
On Charges Against Individuals for Fraudulently Violating
Cuba Sanctions

Miami, FLORIDA – *Adam J. Szubin, Director of the U.S. Treasury Department's Office of Foreign Assets Control (OFAC), made the following statement today in response to the unsealing of a criminal complaint charging defendants Victor Vazquez and David Margolis with conspiracy to violate restrictions on travel to Cuba. Defendant Vazquez is additionally charged with the making materially false statements in applications to obtain religious travel licenses to Cuba.*

The criminal complaint unsealed today marks an important step in stopping fraud involved in facilitating violations of restrictions on travel to Cuba.

OFAC issues hundreds of licenses each year to individuals and groups seeking to engage in legitimate religious activities and programs in Cuba. Those who fraudulently obtain or traffic in such licenses not only commit a crime, but also undermine the good works of legitimate religious groups traveling to Cuba.

The Cuban Sanctions Enforcement Task Force, headed by the U.S. Attorney for the Southern District of Florida, is moving aggressively to stop such violations, pursuing criminal investigations against those involved in unlicensed dealings with Cuba, whether travel, remittances, or other prohibited activities. I commend the Task Force's efforts to halt this abuse and OFAC will continue to support its activities.

OFAC investigators played a key role in uncovering the activity that is being exposed today. OFAC has detected abuse among religious license applicants and the travel providers who service them, including fabricated religious organizations, ministers, and programs of religious activity.

As today's action demonstrates, OFAC takes the integrity of U.S. sanctions programs very seriously and will continue to work to safeguard these sanctions programs against abuse. Those who seek to evade sanctions laws face serious penalties, both civil and criminal.

For more information on today's action, please visit the website of the United States Attorney's Office for the Southern District of Florida: http://www.usdoj.gov/usao/fls.

For more information on the Cuban Assets Control Regulations, please visit the following link: http://www.treasury.gov/offices/enforcement/ofac/programs/cuba/cuba.shtml.

February 23, 2007
HP-275

Treasury, Education Host Summit About Teaching Students Better Money Management

Washington, D.C.- The U.S. Treasury Department yesterday wrapped up the national summit to discuss ways to teach America's children about money matters during their busy school days. Officials from the Treasury and Department of Education teamed up to host the two-day summit, which focused on Kindergarten through postsecondary students.

"Research has shown that the earlier kids learn good money habits, the more likely they'll be to continue those habits as they get older," said U.S. Treasuer Anna Escobedo Cabral, yesterday's keynote speaker. "Students in schools across the country have benefited from the integration of financial education into core curricula. We must continue to build on this success and give young people the tools they need to make financially sound choices in the future."

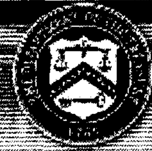
Treasury's panel discussions included state legislators, academics, non-profit and private sector financial education practitioners. Participants throughout the day examined state legislative models for implementing financial education programs into schools and effective methods to train teachers and to evaluate financial literacy programs. Challenges included learning how to integrate financial education into the school day and identifying effective materials and curricula.

But recognizing that financial education is not offered just in schools, panelists also looked at non-traditional venues that complement classroom activities, such as after school youth programs, and ways to bridge the traditional education and financial education communities.

Discussions followed up on Tuesday's panel discussions at the Education Department. High school and college students, researchers, program coordinators and teachers from across the country who have participated in financial education programs shared their perspectives on money management

The summit was part of the 20-agency Financial Literacy and Education Commission's national strategy for improving financial education, called *Taking Ownership of the Future: The National Strategy for Financial Literacy* and available at www.mymoney.gov. The summit's findings will be compiled and made available to educators, policymakers, and the public at large.

PRESS ROOM



February 23, 2007
HP-276

Steel to Deliver Speech on PWG Agreement, Hedge Funds

Treasury Under Secretary for Domestic Finance Robert K. Steel will deliver remarks on Tuesday, February 27 at the Treasury Department. The Under Secretary will discuss the agreement among the President's Working Group on Financial Markets and U.S. agencies regarding private pools of capital, including hedge funds.

Who
Treasury Under Secretary Robert K. Steel

What
Remarks on the PWG Agreement on Private Pools of Capital

When
Tuesday, February 27 11:00 a.m. (EST)

Where
Treasury Department
Cash Room
1500 Pennsylvania Avenue, NW
Washington, D.C.

NOTE Media without Treasury press credentials interested in attending the event 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

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February 23, 2007
HP-277

U.S., Bulgaria Sign Income Tax Treaty, Strengthen Economic Relationship

Washington, DC –Treasury Deputy Secretary Robert M. Kimmitt and Bulgarian Finance Minister Plamen Oresharski signed an income tax treaty and protocol today, strengthening the two countries' economic relationship.

"This treaty is the first of its kind between the United States and Bulgaria," said Deputy Secretary Kimmitt. "It is designed to provide for a better exchange of information, to foster the continued growth of American businesses, and to encourage investment in the emerging Bulgarian marketplace."

The treaty is consistent with the U.S. model income tax treaty and with treaties that the United States has with other countries. The treaty generally reduces, but does not eliminate, the rates of taxation on cross-border dividend, interest and royalty payments. However, the treaty generally eliminates withholding when cross-border dividends are paid to pension funds, and when cross-border interest is paid to the government of the other country or a financial institution resident in the other country.

In addition, the treaty contains provisions preventing so-called treaty shopping, which is the inappropriate use of a tax treaty by third-country residents. The treaty also contains provisions for the exchange of information between the two countries, including bank information.

REPORTS

- U.S., Bulgarian Income Tax Treay
- U.S.,Bulgarian Income Tax Protocol

Protocol

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

1. With respect to paragraph 4 of Article 1 (General Scope)

The term "long-term resident" as used in subparagraph b) shall mean any individual who is a lawful permanent resident of the United States in eight or more taxable years during the preceding 15 taxable years. In determining whether the threshold in the preceding sentence is met, there shall not count any year in which the individual is treated as a resident of Bulgaria under this Convention, or as a resident of any country other than the United States under the provisions of any other tax treaty of the United States, and, in either case, the individual does not waive the benefits of such treaty applicable to residents of the other country.

2. With respect to paragraph 3 of Article 2 (Taxes Covered)

The personal income tax and corporate income tax referred to in subparagraph a) i) and ii) include the patent tax.

3. With respect to paragraph 1 of Article 3 (General Definitions)

The term "any other body of persons" as used in subparagraph d) includes an estate, trust, and partnership.

4. With respect to Article 4 (Resident)

A company that is or would be a resident of a Contracting State pursuant to that State's domestic law will not be treated as a resident of that State for purposes of the Convention if it is treated as a resident of a third state pursuant to an income tax convention between that State

and the third state.

A person who is liable to tax in respect only of profits attributable to a permanent establishment in a Contracting State is not liable to tax therein by reason of domicile, residence, citizenship, place of management, place of incorporation or a criterion of a similar nature.

5. *With respect to Article 7 (Business Profits)*

For this purpose, the business profits to be attributed to the permanent establishment shall include only the business profits derived from the assets used, risks assumed and activities performed by the permanent establishment.

The principles of the OECD Transfer Pricing Guidelines will apply for purposes of determining the profits attributable to a permanent establishment, taking into account the different economic and legal circumstances of a single entity. Accordingly, any of the methods described therein as acceptable methods for determining an arm's length result may be used to determine the income of a permanent establishment so long as those methods are applied in accordance with the Guidelines. In determining the amount of business profits attributable to a permanent establishment, the permanent establishment shall be treated as having the same amount of capital that it would need to support its activities if it were a distinct and separate enterprise engaged in the same or similar activities. With respect to financial institutions other than insurance companies, a Contracting State may determine the amount of capital to be attributed to a permanent establishment by allocating the institution's total equity between its various offices on the basis of the proportion of the financial institution's risk-weighted assets attributable to each of them. In the case of an insurance company, there shall be attributed to a permanent establishment not only premiums earned through the permanent establishment, but that portion of the insurance company's overall investment income from reserves and surplus that supports the risks assumed by the permanent establishment.

In applying Article 7, paragraph 4 of Article 6 (Income from Immovable Property (Real Property)), paragraph 6 of Article 10 (Dividends), paragraph 5 of Article 11 (Interest), paragraph 4 of Article 12 (Royalties), paragraph 3 of Article 13 (Capital Gains) and paragraph 2 of Article 20 (Other Income), any income or gain attributable to a permanent establishment

during its existence is taxable in the Contracting State where such permanent establishment is situated even if the payments are deferred until such permanent establishment has ceased to exist.

6. *With respect to Article 8 (International Traffic)*

Profits derived by an enterprise from the transport of tangible property or passengers within either Contracting State shall be treated as profits from the operation of ships or aircraft in international traffic if such transport is undertaken as part of international traffic.

7. *With respect to Articles 11 (Interest) and 12 (Royalties)*

The Convention permits positive rates of taxation on interest and royalties. With respect to interest and royalties deemed to arise in Bulgaria where the beneficial owner of the income is a resident of the United States under the Convention, the Contracting States agree to reconsider the provisions of Articles 11 and 12 at an appropriate time, consistent with the conclusion of the transition period applicable to interest and royalties deemed to arise in Bulgaria that are beneficially owned by a resident of the European Union pursuant to Council Directive 2003/49/EC of 3 June 2003 on a common system of taxation applicable to interest and royalty payments made between associated companies of different Member States.

8. *With respect to paragraph 3 of Article 11 (Interest)*

The term "back to back loan" as used in subparagraph c) means a loan structured to obtain the benefits of subparagraph c) in which the loan is made to a financial institution that in turn lends the funds directly to the intended borrower.

9. *With respect to paragraph 2 c) and paragraph 6 of Article 13 (Capital Gains)*

The term "established securities market" means a national securities exchange which is officially recognized, sanctioned, or supervised by a governmental authority as well as an over the counter market. An over the counter market is any market reflected by the existence of an interdealer quotation system. An interdealer quotation system is any system of general

circulation to brokers and dealers which regularly disseminates quotations of stocks and securities by identified brokers or dealers, other than by quotation sheets which are prepared and distributed by a broker or dealer in the regular course of business and which contain only quotations of such broker or dealer.

10. With respect to paragraph 2 of Article 24 (Mutual Agreement Procedure)

An agreement reached would not affect any court proceedings or any final court decisions or final tax assessment acts, unless, in the case of final court decisions or final tax assessment acts, the requirements under Bulgarian law for revision or repeal of final acts are fulfilled.

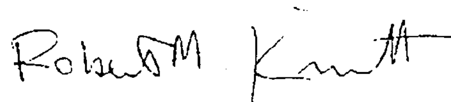
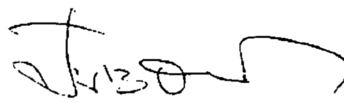
If an examination is completed and closed (and is not a matter pending before a court or for which a settlement or court decision has been reached) in a Contracting State, that Contracting State's competent authority may nonetheless accept a request for assistance if an adjustment causing double taxation is made in the other Contracting State.

11. With respect to Article 27 (Entry into Force)

The provisions of Article 25 (Exchange of Information and Administrative Assistance) shall have effect from the date of entry into force of the Convention without regard to the taxable period to which the matter relates.

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

DONE at Washington in duplicate, in the English and Bulgarian languages, both texts being equally authentic, this twenty-third day of February, 2007.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:	FOR THE GOVERNMENT OF THE REPUBLIC OF BULGARIA
	

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

The Government of the United States of America and the Government of the Republic of Bulgaria, desiring to conclude a Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, have agreed as follows:

CHAPTER I

SCOPE OF THE CONVENTION

Article 1

GENERAL SCOPE

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

2. This Convention shall not restrict in any manner any benefit now or hereafter accorded:

   a) by the laws of either Contracting State; or

   b) by any other agreement to which the Contracting States are party.

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

   i) for purposes of paragraph 3 of Article XXII (Consultation) of the General Agreement on Trade in Services, the Contracting States agree that any question arising as to the interpretation or application of this Convention and, in particular, whether a taxation measure is within the scope of this Convention, shall be determined exclusively in accordance with the provisions of Article 24 (Mutual Agreement Procedure) of this Convention; and

   ii) the provisions of Article XVII (National Treatment) of the General Agreement on Trade in Services shall not apply to a taxation measure unless the competent authorities agree that the measure is not within the scope of Article 23 (Non-Discrimination) of this Convention.

   b) For the purposes of this paragraph, a "taxation measure" is a law, regulation, rule, procedure, decision, administrative action, or any similar provision or action, relating to taxation.

4. a) Notwithstanding any provision of this Convention except paragraph 5 of this Article, a Contracting State may tax its residents (as determined under Article 4

(Resident)), and by reason of citizenship may tax its citizens, as if this Convention had not come into effect.

b) Notwithstanding the other provisions of this Convention, a former citizen or long-term resident of the United States may, for the period of ten years following the loss of such status, be taxed in accordance with the laws of the United States. This paragraph shall apply only in respect of income from sources within the United States (including income deemed under the domestic law of the United States to arise from such sources).

5. The provisions of paragraph 4 shall not affect:

a) the benefits conferred by a Contracting State under paragraph 2 of Article 9 (Associated Enterprises), paragraphs 1 and 2 of Article 17 (Pensions, Social Security Payments, Annuities, Alimony, and Child Support), and Articles 22 (Relief From Double Taxation), 23 (Non-Discrimination), and 24 (Mutual Agreement Procedure); and

b) the benefits conferred by a Contracting State under Articles 18 (Government Service), 19 (Students, Trainees, Teachers and Researchers), and 26 (Members of Diplomatic Missions and Consular Posts), upon individuals who are neither citizens of, nor have been admitted for permanent residence in, that State.

6. An item of income derived through an entity that is fiscally transparent under the laws of either Contracting State shall be considered to be derived by a resident of a Contracting State to the extent that the item is treated for purposes of the taxation law of such Contracting State as the income of a resident.

Article 2

TAXES COVERED

1 This Convention shall apply to taxes on income imposed on behalf of a Contracting State irrespective of the manner in which they are levied.

2. There shall be regarded as taxes on income all taxes on total income, or on elements of

income, including taxes on gains from the alienation of movable or immovable property, but excluding social security taxes.

3. The existing taxes to which this Convention shall apply are:

a) in the case of Bulgaria:

i) the personal income tax; and

ii) the corporate income tax.

b) in the case of the United States: the Federal income taxes imposed by the Internal Revenue Code (but excluding social security taxes), and the Federal taxes imposed on the investment income of foreign private foundations.

4. This Convention shall apply also to any substantially similar taxes that are imposed after the date of signature of this Convention in addition to, or in place of, the existing taxes. The competent authorities of the Contracting States shall notify each other of any changes that have been made in their respective taxation or other laws that significantly affect their obligations under this Convention.

CHAPTER II

DEFINITIONS

Article 3

GENERAL DEFINITIONS

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

a) the term "Bulgaria" means the Republic of Bulgaria and, when used in a geographical sense, means the territory and the territorial sea over which it exercises its State sovereignty, as well as the continental shelf and the exclusive economic zone over which it exercises sovereign rights and jurisdiction in conformity with international law;

b) the term "United States" means the United States of America, and includes the states thereof and the District of Columbia; such term also includes the territorial sea thereof and the sea bed and subsoil of the submarine areas adjacent to that territorial sea, over which the United States exercises sovereign rights in accordance with international

law; the term, however, does not include Puerto Rico, the Virgin Islands, Guam or any other United States possession or territory;

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

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

e) the term "company" means any body corporate or any entity that is treated as a body corporate for tax purposes according to the laws of the state in which it is organized;

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

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

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

i) the term "business profits" also includes income from the performance of professional services and of other activities of an independent character;

j) the term "international traffic" means any transport by a ship or aircraft, except when such transport is solely between places in a Contracting State;

k) the term "competent authority" means:

i) in Bulgaria: the Minister of Finance or an authorized representative; and

ii) in the United States: the Secretary of the Treasury or his delegate;

l) the term "national" of a Contracting State means:

i) any individual possessing the citizenship of that State; and

ii) any legal person, partnership or association deriving its status as such from the laws in force in that State;

m) the term "pension fund" means any person established in a Contracting State that

is:

i) generally exempt from income taxation in that State; and

ii) operated principally to administer or provide pension or retirement benefits or to earn income for the benefit of one or more such arrangements.

2. As regards the application of this Convention at any time by a Contracting State any term not defined therein shall, unless the context otherwise requires, or the competent authorities agree to a common meaning pursuant to the provisions of Article 24 (Mutual Agreement Procedure), have the meaning which it has at that time under the law of that State for the purposes of the taxes to which this Convention applies, any meaning under the applicable tax laws of that State prevailing over a meaning given to the term under other laws of that State.

Article 4

RESIDENT

1. For the purposes of this Convention, the term "resident of a Contracting State" means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, citizenship, place of management, place of incorporation, or any other criterion of a similar nature, and also includes that State and any political subdivision or local authority thereof. This term, however, does not include any person who is liable to tax in that State in respect only of income from sources in that State.

2. The term "resident of a Contracting State" includes:

a) a pension fund established in that State; and

b) an organization that is established and maintained in that State exclusively for religious, charitable, scientific, artistic, cultural, or educational purposes,

notwithstanding that all or part of its income or gains may be exempt from tax under the domestic law of that State.

3. Where, by reason of the provisions of paragraph 1, an individual is a resident of both Contracting States, then his status shall be determined as follows:

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

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

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

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

4. Where by reason of the provisions of paragraphs 1 and 2 of this Article a person other than an individual is a resident of both Contracting States, the competent authorities of the Contracting States shall by mutual agreement endeavor to determine the mode of application of this Convention to that person. In the absence of a mutual agreement by the competent authorities of the Contracting States, the person shall not be considered a resident of either Contracting State for the purposes of claiming any benefits provided by this Convention.

Article 5

PERMANENT ESTABLISHMENT

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

2. The term "permanent establishment" includes especially:

a) a place of management;

b) a branch;

c) an office;

d) a factory;

e) a workshop; and

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

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

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

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

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

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

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

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

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

5. Notwithstanding the provisions of paragraphs 1 and 2, where a person -- other than an agent of an independent status to whom paragraph 6 applies -- is acting in a Contracting State on behalf of a enterprise of the other Contracting State, that enterprise shall be deemed to have a permanent establishment in the first-mentioned Contracting State in respect of any activities which that person undertakes for the enterprise, if such a person:

a) has and habitually exercises in that State an authority to conclude contracts in the name of the enterprise, unless the activities of such person are limited to those mentioned

in paragraph 4 which, if exercised through a fixed place of business, would not make this fixed place of business a permanent establishment under the provisions of that paragraph; or

b) has no such authority, but habitually maintains in the first-mentioned State a stock of goods or merchandise belonging to the enterprise from which such person regularly fills orders or makes deliveries on behalf of the enterprise, and additional activities conducted in that State on behalf of the enterprise have contributed to the conclusion of the sale of such goods or merchandise.

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

7. The fact that a company that is a resident of a Contracting State controls or is controlled by a company that is a resident of the other Contracting State, or that carries on business in that other State (whether through a permanent establishment or otherwise), shall not constitute either company a permanent establishment of the other.

8. Subject to the provisions of paragraph 4, where an enterprise of a Contracting State provides services in the other Contracting State, if that enterprise is found not to have a permanent establishment in that other Contracting State by virtue of the preceding paragraphs of this Article, that enterprise shall be deemed to provide those services through a permanent establishment in that other State if and only if:

a) those services are performed in that other State by an individual who is present in that other State for a period or periods aggregating 183 days or more in any twelve month period, and, during that period or periods, more than 50 percent of the gross active business revenues of the enterprise consists of income derived from the services performed in that State by the individual; or

b) the services are provided in that other State for an aggregate of 183 days or more in any twelve month period with respect to the same or connected project for customers

who are either residents of that other State or who maintain a permanent establishment in that other State with respect to which the services are provided.

CHAPTER III

TAXATON OF INCOME

Article 6

INCOME FROM IMMOVABLE PROPERTY (REAL PROPERTY)

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

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

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

4. The provisions of paragraphs 1 and 3 shall also apply to the income from immovable property (real property) of an enterprise. However, the provisions of paragraphs 1 and 3 shall not apply if the beneficial owner of the income referred to in paragraph 1 or 3, being a resident of a Contracting State, carries on a business in the other Contracting State through a permanent establishment situated therein and the immovable property (real property) in respect of which the income is paid is effectively connected with such permanent establishment. In such case, the provisions of Article 7 shall apply.

5. However, as long as a resident of the United States is not entitled under Bulgarian law to make an election to compute the tax on income from immovable property (real property) situated in Bulgaria on a net basis as if such income were business profits attributable to a permanent establishment in Bulgaria, the Bulgarian tax permitted to be charged under paragraph 1 shall not exceed 10 percent of the gross amount of the income.

Article 7

BUSINESS PROFITS

1. The business profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, the business profits of the enterprise may be taxed in the other State but only so much of them as are attributable to that permanent establishment.

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

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

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

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

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

Article 8

INTERNATIONAL TRAFFIC

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

2. For purposes of this Article, profits from the operation of ships or aircraft include, but are not limited to:

a) profits from the rental of ships or aircraft on a full (time or voyage) basis; and

b) profits from the rental on a bareboat basis of ships or aircraft if the rental income is incidental to profits from the operation of ships or aircraft in international traffic.

3. Profits of an enterprise of a Contracting State from the use, maintenance, or rental of containers (including trailers, barges, and related equipment for the transport of containers) used for the transport of goods or merchandise shall be taxable only in that Contracting State, except insofar as those containers or trailers and related equipment are used for transport solely between places within the other Contracting State.

4. The provisions of paragraphs 1 and 3 shall also apply to profits from participation in a pool, a joint business, or an international operating agency.

Article 9

ASSOCIATED ENTERPRISES

1. Where:

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

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

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

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

Article 10

DIVIDENDS

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

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

a) 5 percent of the gross amount of the dividends if the beneficial owner is a company that owns directly at least 10 percent of the voting stock of the company paying the dividends;

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

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

3. a) Subparagraph a) of paragraph 2 shall not apply in the case of dividends paid by a U.S. Regulated Investment Company (RIC) or a U.S. Real Estate Investment Trust (REIT). In the case of dividends paid by a RIC, subparagraph b) of paragraph 2 and paragraph 4 shall apply. In the case of dividends paid by a REIT, subparagraph b) of paragraph 2 and paragraph 4 shall apply only if:

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

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

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

b) The rules of subparagraph a) shall also apply to dividends paid by companies resident in Bulgaria that are similar to the U.S. companies referred to in this paragraph. Whether companies that are residents of Bulgaria are similar to the U.S. companies referred to in this paragraph will be determined by mutual agreement of the competent authorities.

c) For purposes of this paragraph, a REIT or similar company referred to in paragraph 3 b) shall be "diversified" if the value of no single interest in real property exceeds 10 percent of its total interests in real property. For the purposes of this rule, foreclosure property shall not be considered an interest in real property. Where a REIT or such similar company holds an interest in a partnership, it shall be treated as owning

directly a proportion of the partnership's interests in real property corresponding to its interest in the partnership.

4. Notwithstanding paragraph 2, dividends shall not be taxed in the Contracting State of which the company paying the dividends is a resident if:

a) the beneficial owner of the dividends is a pension fund that is a resident of the other Contracting State; and

b) such dividends are not derived from the carrying on of a trade or business by such pension fund nor from an associated enterprise other than a person referred to in subparagraph a).

5. For purposes of this Article, the term "dividends" means income from shares or other rights, not being debt-claims, participating in profits, as well as income that is subjected to the same taxation treatment as income from shares under the laws of the State of which the payer is a resident.

6. The provisions of paragraphs 1 through 4 shall not apply if the beneficial owner of the dividends, being a resident of a Contracting State, carries on business in the other Contracting State, of which the payer is a resident, through a permanent establishment situated therein, and the holding in respect of which the dividends are paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 (Business Profits) shall apply.

7. A Contracting State may not impose any tax on dividends paid by a resident of the other State, except insofar as the dividends are paid to a resident of the first-mentioned State or the dividends are attributable to a permanent establishment in the first-mentioned State, nor may it impose tax on a corporation's undistributed profits, except as provided in paragraph 8, even if the dividends paid or the undistributed profits consist wholly or partly of profits or income arising in that other State.

8. a) A company that is a resident of one of the States and that has a permanent establishment in the other State or that is subject to tax in the other State on a net basis on its income that may be taxed in the other State under Article 6 (Income from

Immovable Property (Real Property)) or under paragraph 1 of Article 13 (Capital Gains) may be subject in that other State to a tax in addition to the tax allowable under the other provisions of this Convention.

b) Such tax, however, may be imposed:

i) on only the portion of the business profits of the company attributable to the permanent establishment and the portion of the income referred to in the preceding sentence that is subject to tax under Article 6 (Immovable Property (Real Property)) or under paragraph 1 of Article 13 (Capital Gains) that, in the case of the United States, represents the dividend equivalent amount of such profits or income and, in the case of Bulgaria, is an amount that is analogous to the dividend equivalent amount; and

ii) at a rate not in excess of 5 percent.

Article 11

INTEREST

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

2. However, such interest may also be taxed in the Contracting State in which it arises and according to the laws of that State, but if the beneficial owner of the interest is a resident of the other Contracting State, the tax so charged shall not exceed 5 per cent of the gross amount of the interest.

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

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

b) the interest is beneficially owned by a resident of that other Contracting State with respect to debt-claims guaranteed, insured or indirectly financed by the

Government of that other Contracting State, a political subdivision or local authority thereof, or the central bank of that other Contracting State or any institution wholly owned by that Contracting State;

c) the interest is beneficially owned by a resident of the other Contracting State that is a financial institution (including, for example, a bank or an insurance company), unless the interest is paid as a part of a back-to-back loan or an arrangement that is economically similar to and has the effect of a back-to-back loan; or

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

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

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

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

establishment is situated.

7. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the interest, having regard to the debt-claim for which it is paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case the excess part of the payments shall remain taxable according to the laws of each State, due regard being had to the other provisions of this Convention.

8. Notwithstanding the provisions of paragraph 1:

a) interest arising in the United States that is contingent interest of a type that does not qualify as portfolio interest under United States law may be taxed by the United States but, if the beneficial owner of the interest is a resident of Bulgaria, the interest may be taxed at a rate not exceeding 10% of the gross amount of the interest;

b) interest arising in Bulgaria that is determined with reference to receipts, sales, income, profits or other cash flow of the debtor or a related person, to any change in the value of any property of the debtor or a related person or to any dividend, partnership distribution or similar payment made by the debtor or a related person may be taxed in Bulgaria, and according to the laws of Bulgaria, but if the beneficial owner is a resident of the United States, the interest may be taxed at a rate not exceeding 10% of the gross amount of the interest; and

c) Interest that is an excess inclusion with respect to a residual interest in a real estate mortgage investment conduit may be taxed by each State in accordance with its domestic law.

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

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

b) may be taxed in the other Contracting State under Article 6 (Immovable Property

(Real Property)) or paragraph 1 of Article 13 (Capital Gains);

and that interest expense exceeds the interest paid by that permanent establishment or paid with respect to the debt secured by immovable property (real property) situated in that other Contracting State, the amount of that excess shall be deemed to be interest arising in that other Contracting State and beneficially owned by a resident of the first-mentioned Contracting State. That deemed interest may be taxed in that other Contracting State at a rate not to exceed the rate provided for in paragraph 2, unless the company is described in paragraph 3 in which case it shall be exempt from such taxation in that other Contracting State.

Article 12

ROYALTIES

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

2. However, such royalties may also be taxed in the Contracting State in which they arise and according to the laws of that State, but if the beneficial owner of the royalties is a resident of the other Contracting State, the tax so charged shall not exceed 5 per cent of the gross amount of the royalties.

3. The term "royalties" as used in this Article means:

a) payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic, scientific or other work (including cinematographic films and films, tapes or other means of image or sound reproduction for radio or television broadcasting), any patent, trademark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience; and

b) gain derived from the alienation of any property described in subparagraph a), to the extent that such gain is contingent on the productivity, use, or disposition of the property.

4. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the royalties, being a resident of a Contracting State, carries on business in the other Contracting State through a permanent establishment situated therein and the right or property in respect of which the royalties are paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 (Business Profits) shall apply.

5. Royalties shall be deemed to arise in a Contracting State when the payer is a resident of that State. Where, however, the person paying the royalties, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment with which the right or property in respect of which the royalties are paid is effectively connected, and such royalties are borne by such permanent establishment, then such royalties shall be deemed to arise in the State in which the permanent establishment is situated. Where the person paying the royalties is not a resident of either Contracting State, and the royalties are not borne by a permanent establishment in either Contracting State, but the royalties relate to the use of, or the right to use, in one of the Contracting States, any property or right described in paragraph 3, the royalties shall be deemed to arise in that State.

6. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the royalties, having regard to the use, right, or information for which they are paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Convention.

Article 13

CAPITAL GAINS

1. Gains derived by a resident of a Contracting State that are attributable to the alienation of immovable property (real property) situated in the other Contracting State may be taxed in that other State.

2. For the purposes of this Article the term "immovable property (real property) situated in the other Contracting State" shall include:

a) immovable property (real property) referred to in Article 6 (Income from Immovable Property (Real Property));

b) where that other State is the United States, a United States real property interest as defined under U.S. law; and

c) where that other State is Bulgaria,

i) shares, including rights to acquire shares, other than shares regularly traded on an established securities market, deriving more than 50 percent of their value directly or indirectly from immovable property (real property) referred to in subparagraph a) of this paragraph situated in Bulgaria; and

ii) an interest in a partnership or trust to the extent that the assets of the partnership or trust consist of immovable property (real property) situated in Bulgaria, or of shares referred to in clause i) of this subparagraph.

3. Gains from the alienation of movable property forming part of the business property of a permanent establishment which an enterprise of a Contracting State has in the other Contracting State, including such gains from the alienation of such a permanent establishment (alone or with the whole enterprise), may be taxed in that other State.

4. Gains derived by an enterprise of a Contracting State from the alienation of ships or aircraft operated or used in international traffic or movable property (personal property) pertaining to the operation or use of such ships or aircraft shall be taxable only in that State.

5. Gains derived by an enterprise of a Contracting State from the alienation of containers (including trailers and related equipment for the transport of containers) used for the transport of goods or merchandise shall be taxable only in that State, unless those containers or trailers and related equipment are used for transport solely between places within the other Contracting State.

6. Gains derived by a resident of a Contracting State from the alienation of shares of a company that is a resident of the other Contacting State may be taxed in that other State if the

alienation of such shares occurs within 12 months of the date that such shares are acquired and if the recipient of the gain, at any time during the 12-month period preceding such alienation, had a participation, directly or indirectly, of at least 25 percent in the capital of that company. This paragraph, however, shall not apply with respect to the alienation of shares of stock of public companies, traded on an established securities market.

7. Gains described in paragraph 3 of Article 12 (Royalties) shall be taxable only in accordance with the provisions of Article 12 (Royalties).

8. Gains from the alienation of any property other than property referred to in paragraphs 1 through 7 shall be taxable only in the Contracting State of which the alienator is a resident.

Article 14

INCOME FROM EMPLOYMENT

1. Subject to the provisions of Articles 15 (Directors' Fees), 17 (Pensions, Social Security Payments, Annuities, Alimony, and Child Support) and 18 (Government Service), salaries, wages, and other remuneration derived by a resident of a Contracting State in respect of an employment shall be taxable only in that State unless the employment is exercised in the other Contracting State. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other State.

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

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

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

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

3. Notwithstanding the preceding provisions of this Article, remuneration described in paragraph 1 that is derived by a resident of a Contracting State in respect of an employment as a member of the crew of a ship or aircraft, or as other personnel regularly employed to serve aboard a ship or aircraft operated in international traffic shall be taxable only in that State.

Article 15

DIRECTORS' FEES

Directors' fees and other compensation derived by a resident of a Contracting State for services rendered in his capacity as a member of the board of directors (including the managing board or supervisory board or a functionally similar body) of a company that is a resident of the other Contracting State may be taxed in that other Contracting State.

Article 16

ENTERTAINERS AND SPORTSMEN

1. Income derived by a resident of a Contracting State as an entertainer, such as a theater, motion picture, radio, or television artiste, or a musician, or as a sportsman, from his personal activities as such exercised in the other Contracting State, which income would be exempt from tax in that other Contracting State under the provisions of Articles 7 (Business Profits) or Article 14 (Income from Employment) may be taxed in that other State, except where the amount of the gross receipts derived by such entertainer or sportsman, including expenses reimbursed to him or borne on his behalf, from such activities does not exceed fifteen thousand United States dollars ($15,000) or its equivalent in Bulgarian currency for the taxable year concerned.

2. Where income in respect of personal activities exercised by an entertainer or a sportsman in his capacity as such accrues not to the entertainer or sportsman himself but to another person, that income may, notwithstanding the provisions of Articles 7 (Business Profits) and Article 14 (Income from Employment), be taxed in the Contracting State in which the activities of the entertainer or sportsman are exercised, but only in cases in which the

contract pursuant to which the personal activities are performed

a) designates (by name or description) the entertainer or sportsman; or

b) allows the other party to the contract (or a person other than the entertainer, sportsman or the person to whom the income accrues) to designate the individual who is to perform the personal activities.

Article 17

PENSIONS, SOCIAL SECURITY PAYMENTS, ANNUITIES, ALIMONY, AND CHILD SUPPORT

1. Pensions and other similar remuneration beneficially owned by a resident of a Contracting State shall be taxable only in that State.

2. Notwithstanding paragraph 1, payments made by a Contracting State under provisions of the social security or similar legislation of that State to a resident of the other Contracting State or to a citizen of the United States shall be taxable only in the first-mentioned State.

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

4. Alimony and payments for the support of a child, paid by a resident of a Contracting State to a resident of the other Contracting State shall be taxable only in the first-mentioned Contracting State. However, such payments shall not be taxable in either Contracting State if the individual making such payments is not entitled to a deduction for such payments in computing taxable income in the Contracting State of which he is a resident. The term "alimony" as used in this Article means periodic payments, made pursuant to a written separation agreement or a decree of divorce, separate maintenance, or compulsory support.

5. Where an individual who is a resident of one of the States is a member or beneficiary of, or participant in, a pension fund that is a resident of the other State, income earned by the

pension fund may be taxed as income of that individual only when, and, subject to the provisions of paragraphs 1 and 2 of this Article, to the extent that, it is paid to, or for the benefit of, that individual from the pension fund (and not transferred to another pension fund in that other State).

Article 18

GOVERNMENT SERVICE

1. Notwithstanding the provisions of Articles 14 (Income from Employment), 15 (Directors' Fees) and 16 (Entertainers and Sportsmen):

a) Salaries, wages and other remuneration, other than a pension, paid to an individual in respect of services rendered to a Contracting State or a political subdivision or local authority thereof shall, subject to the provisions of subparagraph b), be taxable only in that State;

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

i) is a national of that State; or

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

2. Notwithstanding the provisions of paragraph 1 of Article 17 (Pensions, Social Security Payments, Annuities, Alimony, and Child Support):

a) any pension paid by, or out of funds created by, a Contracting State or a political subdivision or a local authority thereof to an individual in respect of services rendered to that State or subdivision or authority (other than a payment to which paragraph 2 of Article 17 applies) shall, subject to the provisions of subparagraph b), be taxable only in that State;

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

3. The provisions of Articles 14 (Income from Employment), 15 (Directors' Fees), 16 (Entertainers and Sportsmen) and 17 (Pensions, Social Security Payments, Annuities, Alimony, and Child Support) shall apply to salaries, wages and other remuneration, and to pensions, in respect of services rendered in connection with a business carried on by a Contracting State or a political subdivision or a local authority thereof.

Article 19

STUDENTS, TRAINEES, TEACHERS AND RESEARCHERS

1. a) Payments, other than compensation for personal services, received by a student or business trainee who is, or was immediately before visiting a Contracting State, a resident of the other Contracting State, and who is present in the first-mentioned State for the purpose of his full-time education at a college, university or other recognized educational institution of a similar nature, or for his full-time training, shall not be taxed in that State, provided that such payments arise outside that State, and are for the purpose of his maintenance, education or training. The exemption from tax provided by this paragraph shall apply to a business trainee only for a period of time not exceeding two years from the date the business trainee first arrives in the first-mentioned Contracting State for the purpose of training.

b) A student or business trainee within the meaning of subparagraph a) shall be exempt from tax by the Contracting State in which the student or trainee is temporarily present with respect to income from personal services in an aggregate amount equal to $9,000 or its equivalent in Bulgarian currency annually. The competent authorities shall, every five years, adjust the amount provided in this subparagraph.

c) For purposes of this paragraph, a business trainee is an individual:

i) who is temporarily in a Contracting State for the purpose of securing training required to qualify the individual to practice a profession or professional specialty; or

ii) who is temporarily in a Contracting State as an employee of, or under

contract with, a resident of the other Contracting State, for the primary purpose of acquiring technical, professional, or business experience from a person other than

A) that resident of the other Contracting State, and

B) a person related to such resident of the other Contracting State.

2. An individual who is a resident of a Contracting State at the beginning of his visit to the other Contracting State and who is temporarily present in the other Contracting State for the purpose of teaching or carrying on research at a school, college, university or other recognized educational or research institution shall be exempt from tax in the other Contracting State, for a period not exceeding two years from the date of the individual's arrival in that other State. This paragraph shall not apply to income from research if such research is undertaken not in the public interest but primarily for the private benefit of a specific person or persons.

Article 20

OTHER INCOME

1. Items of income beneficially owned by a resident of a Contracting State, wherever arising, not dealt with in the foregoing Articles of this Convention shall be taxable only in that State.

2. The provisions of paragraph 1 shall not apply to income, other than income from immovable property (real property) as defined in paragraph 2 of Article 6 (Income from Immovable Property (Real Property)), if the beneficial owner of the income, being a resident of a Contracting State, carries on business in the other Contracting State through a permanent establishment situated therein and the income is attributable to such permanent establishment. In such case the provisions of Article 7 (Business Profits) shall apply.

CHAPTER IV

LIMITATION ON BENEFITS

Article 21

LIMITATION ON BENEFITS

1. Except as otherwise provided in this Article, a resident of a Contracting State that derives income from the other Contracting State shall not be entitled to the benefits of this Convention otherwise accorded to residents of a Contracting State unless such resident is a "qualified person" as defined in paragraph 2.

2. A resident of a Contracting State shall be a qualified person for a taxable year if the resident is:

a) an individual;

b) a Contracting State, or a political subdivision or local authority thereof;

c) a company, if:

i) the principal class of its shares (and any disproportionate class of shares) is regularly traded on one or more recognized stock exchanges, and either

A) its principal class of shares is primarily traded on one or more recognized stock exchanges located in the Contracting State of which the company is a resident; or

B) the company's primary place of management and control is in the Contracting State of which it is a resident; or

ii) at least 50 percent of the aggregate vote and value of the shares (and at least 50 percent of any disproportionate class of shares) in the company is owned directly or indirectly by five or fewer companies entitled to benefits under clause i) of this subparagraph, provided that, in the case of indirect ownership, each intermediate owner is a resident of either Contracting State;

d) a person described in paragraph 2 of Article 4 of this Convention, provided that, in the case of a person described in subparagraph a) of that paragraph, more than 50 percent of the person's beneficiaries, members or participants are individuals resident in

either Contracting State; or

e) a person other than an individual, if:

i) on at least half the days of the taxable year, persons who are residents of that Contracting State and that are entitled to the benefits of this Convention under subparagraphs a), b), c) i) or d) own, directly or indirectly, shares or other beneficial interests representing at least 50 percent of the aggregate voting power and value (and at least 50 percent of any disproportionate class of shares) of the person, provided that, in the case of indirect ownership, each intermediate owner is a resident of that Contracting State, and

ii) less than 50 percent of the person's gross income for the taxable year, as determined in that person's State of residence, is paid or accrued, directly or indirectly, to persons who are not residents of either Contracting State entitled to the benefits of this Convention under subparagraph a), subparagraph b), clause i), of subparagraph c), or subparagraph d) of this paragraph in the form of payments that are deductible for purposes of the taxes covered by this Convention in the person's State of residence (but not including arm's length payments in the ordinary course of business for services or tangible property).

3. A company that is a resident of a Contracting State shall also be entitled to the benefits of the Convention if:

a) at least 95 percent of the aggregate voting power and value of its shares (and at least 50 percent of any disproportionate class of shares) is owned, directly or indirectly, by seven or fewer persons that are equivalent beneficiaries; and

b) less than 50 percent of the company's gross income, as determined in the company's State of residence, for the taxable year is paid or accrued, directly or indirectly, to persons who are not equivalent beneficiaries, in the form of payments (but not including arm's length payments in the ordinary course of business for services or tangible property), that are deductible for the purposes of the taxes covered by this Convention in the company's State of residence.

4. a) A resident of a Contracting State will be entitled to benefits of the Convention with respect to an item of income derived from the other State, regardless of whether the resident is a qualified person, if the resident is engaged in the active conduct of a trade or business in the first-mentioned State (other than the business of making or managing investments for the resident's own account, unless these activities are banking, insurance or securities activities carried on by a bank, insurance company or registered securities dealer), and the income derived from the other Contracting State is derived in connection with, or is incidental to, that trade or business.

b) If a resident of a Contracting State derives an item of income from a trade or business activity in the other Contracting State, or derives an item of income arising in the other Contracting State from a related person, the conditions described in subparagraph a) shall be considered to be satisfied with respect to such item only if the trade or business activity carried on by the resident in the first-mentioned Contracting State is substantial in relation to the trade or business activity carried on by the resident or such person in the other Contracting State. Whether a trade or business activity is substantial for the purposes of this paragraph will be determined based on all the facts and circumstances.

c) In determining whether a person is "engaged in the active conduct of a trade or business" in a Contracting State under subparagraph a) of this paragraph, activities conducted by persons connected to such person shall be deemed to be conducted by such person. For the purposes of this subparagraph, a person shall be connected to another if one possesses at least 50 percent of the beneficial interest in the other (or, in the case of a company, at least 50 percent of the aggregate vote and value of the company's shares or of the beneficial equity interest in the company) or another person possesses, directly or indirectly, at least 50 percent of the beneficial interest (or, in the case of a company, at least 50 percent of the aggregate vote and value of the company's shares or of the beneficial equity interest in the company) in each person. In any case, for the purposes of this subparagraph, a person shall be considered to be connected to

another if, based on all the relevant facts and circumstances, one has control of the other or both are under the control of the same person or persons.

5. A resident of a Contracting State that is neither a qualified person pursuant to the provisions of paragraph 2 nor entitled to benefits under paragraph 3 or, with respect to an item of income, under paragraph 4 of this Article shall, nevertheless, be granted benefits of the Convention if the competent authority of the other Contracting State determines that the establishment, acquisition or maintenance of such person and the conduct of its operations did not have as one of its principal purposes the obtaining of benefits under the Convention.

6. For purposes of this Article:

a) the term "recognized stock exchange" means:

i) the NASDAQ System owned by the National Association of Securities Dealers, Inc. and any stock exchange registered with the U.S. Securities and Exchange Commission as a national securities exchange under the U.S. Securities Exchange Act of 1934;

ii) the Bulgarian Stock Exchange – Sofia, and any other stock exchange licensed to trade securities and financial instruments under the Bulgarian law;

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

b) the term "principal class of shares" means the ordinary or common shares of the company, provided that such class of shares represents the majority of the voting power and value of the company. If no single class of ordinary or common shares represents the majority of the aggregate voting power and value of the company, the "principal class of shares" are those classes that in the aggregate represent a majority of the aggregate voting power and value of the company;

c) the term "disproportionate class of shares" means any class of shares of a company resident in one of the Contracting States that entitles the shareholder to disproportionately higher participation, through dividends, redemption payments or otherwise, in the earnings generated in the other State by particular assets or activities of the company;

d) a company's "primary place of management and control" will be in the Contracting State of which it is a resident only if executive officers and senior management employees exercise day-to-day responsibility for more of the strategic, financial and operational policy decision making for the company (including its direct and indirect subsidiaries) in that State than in any other state and the staff of such persons conducts more of the day-to-day activities necessary for preparing and making those decisions in that State than in any other state;

e) an "equivalent beneficiary" is a resident of a member state of the European Union or of a European Economic Area State or of a party to the North American Free Trade Agreement but only if that resident:

i) A) would be entitled to all the benefits of a comprehensive convention for the avoidance of double taxation between any member state of the European Union or European Economic Area State or any party to the North American Free Trade Agreement and the State from which benefits of this Convention are claimed under provisions analogous to subparagraph a), b), clause i) of subparagraph c) or subparagraph d) of paragraph 2 of this Article, provided that if such convention does not contain a comprehensive limitation on benefits article, the person would be a qualified person under subparagraph a), b), clause i) of subparagraph c) or subparagraph d) of paragraph 2 of this Article if such person were a resident of one of the states under Article 4 (Resident) of this Convention;

B) with respect to income referred to in Article 10 (Dividends), 11 (Interest), or 12 (Royalties) of this Convention, would be entitled under such convention to a rate of tax with respect to the particular class of income for which benefits are being claimed under this Convention that is at least as low as the rate applicable under this Convention; or

ii) is a resident of one of the Contracting States and is a qualified person by reason of subparagraph a), b), clause i) of subparagraph c) or subparagraph d) of paragraph 2 of this Article;

f) with respect to dividends, interest or royalties arising in Bulgaria and beneficially owned by a company that is a resident of the United States, a company that is a resident of a member state of the European Union will be treated as satisfying the requirements of subparagraph e) i) B) of this paragraph for purposes of determining whether such United States resident is entitled to benefits under this paragraph if a payment of dividends, interest or royalties arising in Bulgaria and paid directly to such resident of a member state of the European Union would have been exempt from tax pursuant to any directive of the European Union, notwithstanding that the income tax convention between Bulgaria and that other member state of the European Union would provide for a higher rate of tax with respect to such payment then the rate of tax applicable to such United States company under Article 10 (Dividends), 11 (Interest), or 12 (Royalties) of this Convention;

g) with respect to paragraph 2, the shares in a class of shares are considered to be regularly traded on one or more recognized stock exchanges in a taxable year if the aggregate number of shares of that class traded on such stock exchange or exchanges during the twelve months ending on the day before the beginning of that taxable year is at least six percent of the average number of shares outstanding in that class during the twelve-month period.

CHAPTER V

RELIEF FROM DOUBLE TAXATION

Article 22

RELIEF FROM DOUBLE TAXATION

1. In the case of Bulgaria, double taxation will be relieved as follows:

a) where a resident of Bulgaria derives income which in accordance with the

provisions of this Convention may be taxed in the United States, Bulgaria shall, subject to the provisions of subparagraphs (b) and (c) of this paragraph, exempt such income from tax;

b) where a resident of Bulgaria derives dividends, interest or royalties which in accordance with the provisions of Articles 10 (Dividends), 11 (Interest) or 12 (Royalties) of this Convention may be taxed in the United States, Bulgaria shall allow as a deduction from the tax on the dividends, interest or royalties of that resident an amount equal to the tax paid in the United States. Such deduction shall not, however, exceed that part of the tax, as computed before the deduction is given, which is attributable to such dividends, interest or royalties derived from the United States;

c) where in accordance with any provision of this Convention income derived by a resident of Bulgaria is exempt from tax in Bulgaria, Bulgaria may nevertheless, in calculating the amount of the tax on the remaining income of such resident, take into account the exempted income.

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

a) the income tax paid or accrued to Bulgaria by or on behalf of such resident or citizen; and

b) in the case of a United States company owning at least 10 percent of the voting stock of a company that is a resident of Bulgaria and from which the United States company receives dividends, the income tax paid or accrued to Bulgaria by or on behalf of the payer with respect to the profits out of which the dividends are paid.

For the purposes of this paragraph, the taxes referred to in paragraphs 3 a) i) and ii) and 4 of Article 2 (Taxes Covered) shall be considered income taxes.

3. For the purposes of applying paragraph 2 of this Article, an item of gross income, as determined under the laws of the United States, derived by a resident of the United States that,

under this Convention, may be taxed in Bulgaria shall be deemed to be income from sources in Bulgaria.

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

a) Bulgaria shall take into account for the purposes of computing the credit to be allowed under paragraph 1 only the amount of tax, if any, that the United States may impose on income under the provisions of this Convention that is derived by a resident of Bulgaria who is neither a citizen, nor a former citizen nor long-term resident, of the United States;

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

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

CHAPTER VI

SPECIAL PROVISIONS

Article 23

NON-DISCRIMINATION

1. Nationals of a Contracting State shall not be subjected in the other Contracting State to any taxation or any requirement connected therewith that is more burdensome than the taxation and connected requirements to which nationals of that other State in the same circumstances, in particular with respect to residence, are or may be subjected. This provision shall also apply to

persons who are not residents of one or both of the Contracting States. However, for the purposes of United States taxation, United States nationals who are subject to tax on a worldwide basis are not in the same circumstances as nationals of Bulgaria who are not residents of the United States.

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

3. The provisions of paragraphs 1 and 2 shall not be construed as obliging a Contracting State to grant to residents of the other Contracting State any personal allowances, reliefs, and reductions for taxation purposes on account of civil status or family responsibilities that it grants to its own residents.

4. Except where the provisions of paragraph 1 of Article 9 (Associated Enterprises), paragraph 7 of Article 11 (Interest), or paragraph 6 of Article 12 (Royalties) apply, interest, royalties, and other disbursements paid by a resident of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable profits of the first-mentioned resident, be deductible under the same conditions as if they had been paid to a resident of the first-mentioned State. Similarly, any debts of a resident of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable capital of the first-mentioned resident, be deductible under the same conditions as if they had been contracted to a resident of the first-mentioned State.

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

6. Nothing in this Article shall be construed as preventing either Contracting State from imposing a tax as described in paragraph 8 of Article 10 (Dividends) or paragraph 9 of Article 11 (Interest).

7. The provisions of this Article shall, notwithstanding the provisions of Article 2 (Taxes Covered), apply to taxes of every kind and description imposed by a Contracting State or a political subdivision or local authority thereof.

Article 24

MUTUAL AGREEMENT PROCEDURE

1. Where a person considers that the actions of one or both of the Contracting States result or will result for such person in taxation not in accordance with the provisions of this Convention, it may, irrespective of the remedies provided by the domestic law of those States, and the time limits prescribed in such laws for presenting claims for refund, present its case to the competent authority of either Contracting State.

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

3. The competent authorities of the Contracting States shall endeavor to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of the Convention. They also may consult together for the elimination of double taxation in cases not provided for in the Convention. In particular the competent authorities of the Contracting States may agree:

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

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

c) to the same characterization of particular items of income;

d) to the same characterization of persons;

e) to the same application of source rules with respect to particular items of income;

f) to a common meaning of a term; and

g) to advance pricing arrangements.

4. The competent authorities also may agree to increases in any specific dollar amounts referred to in the Convention to reflect economic or monetary developments.

5. The competent authorities of the Contracting States may communicate with each other directly for the purpose of reaching an agreement in the sense of the preceding paragraphs.

Article 25

EXCHANGE OF INFORMATION AND ADMINISTRATIVE ASSISTANCE

1. The competent authorities of the Contracting States shall exchange such information as may be relevant for carrying out the provisions of this Convention or of the domestic laws of the Contracting States concerning taxes of every kind imposed by a Contracting State insofar as the taxation thereunder is not contrary to the Convention, including information relating to the assessment or collection of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes covered by the Convention. The exchange of information is not restricted by paragraph 1 of Article 1 (General Scope) or Article 2 (Taxes Covered).

2. If specifically requested by the competent authority of a Contracting State, the competent authority of the other Contracting State shall provide information under this Article in the form of depositions of witnesses and authenticated copies of unedited original documents (including books, papers, statements, records, accounts, and writings).

3. Any information received under this Article by a Contracting State shall be treated as secret in the same manner as information obtained under the domestic laws of that State and shall be disclosed only to persons or authorities (including courts and administrative bodies) involved in the assessment, collection, or administration of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes referred to above, or the

oversight of the above. Such persons or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions.

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

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

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

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

5. If information is requested by a Contracting State in accordance with this Article, the other Contracting State shall use its information gathering measures to obtain the requested information, even though that other State may not need such information for its own purposes. The obligation contained in the preceding sentence is subject to the limitations of paragraph 4 but in no case shall such limitation be construed to permit a Contracting State to decline to supply information because it has no domestic interest in such information.

6. In no case shall the provisions of paragraph 4 be construed to permit a Contracting State to decline to supply information because the information is held by a bank, other financial institution, nominee or person acting in an agency or fiduciary capacity or because it relates to ownership interests in a person.

Article 26

MEMBERS OF DIPLOMATIC MISSIONS AND CONSULAR POSTS

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

CHAPTER VII

FINAL PROVISIONS

Article 27

ENTRY INTO FORCE

1. The Contracting States shall notify each other, through diplomatic channels, when their respective requirements for the entry into force of this Convention have been satisfied. This Convention shall enter into force on the date of receipt of the later of these notifications.

2. The provisions of the Convention shall have effect in both Contracting States:

   a) in respect of taxes withheld at source, on income paid or credited on or after the first day of January in the calendar year next following the year in which this Convention enters into force;

   b) in respect of other taxes on income, for any taxable period beginning on or after the first day of January in the calendar year next following the year in which this Convention enters into force.

Article 28

TERMINATION

1. This Convention shall remain in force indefinitely but either of the Contracting States may terminate the Convention through the diplomatic channel, by giving to the other Contracting State written notice of termination not later than June 30th of any calendar year.

2. In such event the Convention shall cease to have effect in both Contracting States:

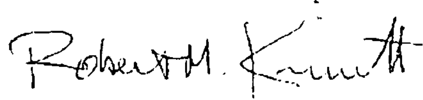
   a) in respect of taxes withheld at source, on income paid or credited on or after the first day of January in the calendar year next following the year in which the notice has been given;

b) in respect of other taxes on income, for any taxable period beginning on or after the first day of January in the calendar year next following the year in which the notice has been given.

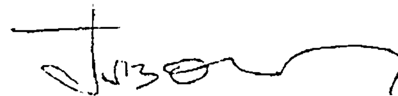
IN WITNESS WHEREOF, the undersigned, being duly authorized thereto by their respective Governments, have signed this Convention.

DONE at Washington in duplicate, in the English and Bulgarian languages, both texts being equally authentic, this twenty-third day of February, 2007.

FOR THE GOVERNMENT OF
THE UNITED STATES OF AMERICA:



FOR THE GOVERNMENT OF
THE REPUBLIC OF BULGARIA:



February 26, 2007
HP-278

Treasurer Cabral to Deliver Remarks On Financial Education

U.S. Treasurer Anna Escobedo Cabral will deliver remarks tomorrow on financial education before the Credit Union National Association's Government Affairs Conference. The U.S. Treasurer, whose name appears on U.S. currency, serves as an adviser to the Secretary on matters of currency design and production.

Who
Treasurer Anna Escobedo Cabral

What
Keynote Remarks on Financial Education

When
Tuesday, February 27
10:30a.m. EST

Where
Hilton Washington Hotel
International Ballroom
1919 Connecticut Avenue, N.W.
Washington, DC

February 26, 2007
HP-279

Treasury to Host Capital Markets Competitiveness Conference

Treasury Secretary Henry M. Paulson, Jr. will host a conference to examine issues affecting U.S. capital markets competitiveness on Tuesday, March 13 in Washington, D.C. Participants in the day-long forum will discuss how the United States can ensure its competitive advantage in a rapidly changing global economy. Discussion topics include corporate governance, the regulatory structure for the U.S. financial industry and the accounting profession and its role in our capital markets.

Additional information regarding participants and panel discussions will be announced at a later time.

Who
Treasury Secretary Henry M. Paulson, Jr.
Treasury Under Secretary Robert K. Steel
Additional Participants TBD

What
Capital Markets Competitiveness Conference

When
Tuesday, March 13 8:00 a.m.-5:30 p.m. (EST)

Where
Georgetown University
37th and O Streets, NW
Washington, DC
Building Locations TBD

NOTE
All media interested in attending the event should contact Andrea Sarubbi for clearance at 202-687-4328 or aes54@georgetown.edu.

February 27, 2007
HP-280

Remarks of Under Secretary for Domestic Finance
Robert K. Steel
On Private Pools of Capital
Treasury Department Cash Room

Washington, DC- Welcome. I appreciate your being here today.

Last week, the President's Working Group on Financial Markets unanimously moved to enhance hedge fund oversight within our current regulatory system by releasing Principles and Guidelines on Private Pools of Capital. Secretary Paulson, in his capacity as Chairman of the President's Working Group, led this effort. Today, the focus is to provide additional insight into the motivation for releasing the principles and guidelines and to explain the responsibilities we believe they place on all market participants in this industry, including regulators, investors, counterparties and the hedge funds themselves.

United States capital markets are the envy of the world. Our markets are deep, efficient and transparent. Creativity, innovation and entrepreneurship have long been the hallmark of U.S. markets, and their benefits to our economy are clear. Private pools of capital – which include venture capital, private equity, and hedge funds – have helped make us the world's leading financial innovator. As Secretary Paulson noted in a speech last November, private pools of capital are an essential part of what keeps our capital markets the most competitive in the world.

We must be committed to maintaining that competitive edge, and in doing so, continually assess current conditions and areas for change. One sector of our capital markets that has experienced particularly dramatic change in recent years has been the tremendous growth of private pools of capital. This growth has come from two areas: strong performance and the new capital that has been attracted.

Over the years, as the financial marketplace has evolved, public policy views have also adapted. In fact, the genesis of the President's Working Group can be traced back to a market event, when President Reagan formed the Group to study and issue recommendations regarding the events of October 19, 1987. Since then, the Working Group - chaired by the Secretary of the Treasury and composed of the chairmen of three independent financial regulators (the Federal Reserve Board, the Securities and Exchange Commission and the Commodity Futures Trading Commission) - has continued to convene under an overarching, non-partisan mission of maintaining investor confidence and enhancing the integrity, efficiency, orderliness and competitiveness of U.S. financial markets.

The group has periodically provided their perspective on important issues, ranging from over-the–counter derivatives to, most recently, terrorism insurance as specifically requested by the Congress. Almost eight years ago, the Working Group chaired by Treasury Secretary Robert Rubin released a report entitled "Hedge Funds, Leverage, and the Lessons of Long-Term Capital Management." That well-received report contained a series of recommendations. Those proposals successfully served to provide a foundation for many of the practices of today. However, much has changed in the intervening period and the President's Working Group strongly believes that now is an opportune time to reinforce the positions of 1999 and provide further guidance.

I will begin by offering some perspective on how the financial markets in the U.S. have evolved, then provide additional context to the recently-released principles

and guidelines. It is the strong view of the President's Working Group that two issues, systemic risk and investor protection, are the key areas where policymakers should and must focus their attention. I will conclude with my most important observation: We expect that all four groups of stakeholders, led by the regulators, will adopt and use these principles and guidelines.

Let me also articulate what the principles and guidelines are not. They are not an endorsement of the status quo. Instead, they represent a uniform view from the Treasury Department and the group of key independent regulators that heightened vigilance is necessary and desired to address market developments.

Evolution and Change in the Financial Markets

Markets should connect those in need of capital with those willing to lend or invest. Our modern financial marketplace is vibrant and efficient in matching providers of capital and users of capital. The asset management industry collects capital on behalf of others and seeks to put that capital to work for investors. And today, these investors have a great menu of opportunities to choose from so as to best match their investment objectives.

Our investor base is growing and becoming increasingly diversified. Today's investors have a global perspective, and include both individuals and institutional investors. They include insurance companies, pension funds, endowments, and foundations. It is important to recognize that in many cases, these "institutional" investors represent a collection of individual beneficiaries. While these individuals themselves may not be sophisticated investors, their agents or fiduciaries may expose them indirectly to the benefits and risks associated with complex investment strategies.

The opportunities available to investors are also increasingly varied. Today, they may select from a wide array of investments, ranging from large to small cap equities, value to growth stocks, government to corporate bonds, and high yield to convertibles. The universe of asset classes also includes international securities, currencies, commodities, private equity, venture capital, and real estate, in addition to more conventional stocks and bonds.

As the asset management industry in the U.S. has grown and changed, it has mirrored the interests of the increasingly broad range of investors and all their myriad investment objectives. The largest asset management firms are growing at a dramatic rate. Just five years ago, the average top-ten firm controlled about $500 billion in assets and today that figure is over $1 trillion. Yet other firms remain purposely quite small, so as to engage in niche investment strategies. Some managers are public, others are private; some are broadly diversified while others have expertise in a specific asset class.

The universe of financial instruments that asset managers utilize is similarly diverse and changing. No longer do asset managers simply buy and hold stocks and bonds, but their toolbox includes currencies, forwards, futures, options, swaps, and exchange-traded and over-the-counter (OTC) derivatives. Likewise, the range of the vehicles or structures utilized to implement investment strategies is equally diverse and includes mutual funds, closed-end funds, exchange-traded-funds (ETFs) and limited partnerships.

The point I am trying to illustrate is that our capital markets are quite diverse and evolve at a rapid rate. This diversity of investing and savings alternatives has been good for the American public, the financial marketplace, the U.S. economy, and global stability.

The Changing Nature of Hedge Funds

Private pools of capital, which broadly encompass pooled investment vehicles that are privately organized, administered by a professional manager and generally not available to the public, have experienced tremendous growth and dramatic change

in recent years. Many of these changes have been well documented:

- In the last five years, the number of hedge funds has more than doubled, growing to over 9,000 funds today.
- Since 1999, hedge fund assets under management have grown by more than 400%, totaling approximately $1.4 trillion.
- Last year, the 100 largest hedge fund firms had combined assets of representing about 65% of the industry total.
- Hedge funds are also generating an increasing share of trading volume. Some experts estimate they may represent up to 50% of trading in certain circumstances.
- The number and nature of investment strategies that hedge fund managers deploy have also continued to grow. There are now over 20 categories of investment strategies.
- Some credit rating agencies have begun to issue public ratings on hedge funds.
- Their clientele, originally wealthy individuals, also has shifted to become one that is comprised much more of institutional investors. According to a study by McKinsey & Company, 2007 will be the first year in which institutional investors account for more than half, 52%, of the flows into hedge funds.
- And the business model has developed an impressively global presence with over 35% of assets managed outside of the United States, and other managers within the U.S. operating funds offshore.

The historical boundary between hedge fund managers and traditional asset managers is now beginning to blur. The distinction between private equity investors and hedge fund investors is also becoming less well-defined, as more hedge fund managers seek to earn the premium associated with less-liquid capital and accept features such as lock-ups and side pockets.

In short, we continue to witness the evolution and increasing importance of private pools of capital specifically and the asset management industry more generally. Significant growth has generated new opportunities and new challenges for investment managers, investors, counterparties, creditors and regulators. This is the context in which the President's Working Group chose to speak out.

Background and Motivation

Before discussing the principles and guidelines more specifically, let me provide a bit more insight into the motivation for their development, and outline their underlying philosophy.

Managers of private pools of capital are currently regulated both directly and indirectly. Enforcement agencies, like the SEC and the CFTC, have broad, existing regulatory authority on matters such as fraud, manipulation, civil liability and other aspects of market behavior. No manager is exempt from those provisions and none should be.

Many managers conduct much of their business with creditors and counterparties, such as prime brokers and other lenders who provide the managers with additional capital and services. This may help provide flexibility to their investment strategies and facilitate the use of leverage. These corresponding counterparties are explicitly monitored and supervised by a regulator armed with sophisticated risk-management procedures. It was in recognition of this business model that the President's Working Group in 1999 formed its view on the importance of counterparty risk management.

Given the substantial growth in size and importance of private pools of capital since 1999, the President's Working Group believes it appropriate to broaden and update its position. Recently, the Treasury Department conducted a series of educational meetings with stakeholders representing the entire spectrum of the hedge fund marketplace. Representatives from the pension and investment management communities, the accounting, auditing and legal professions, asset consulting firms, fund administrators, commercial banks and investment banks were interviewed in

order to review current practices. As a result of these efforts, along with those conducted by and within the agencies comprising the President's Working Group, we decided to offer some fresh perspective and to create a forward-looking, principle-based framework that recognizes the evolving financial landscape and the challenges presented.

As a result, the principles put forth are comprehensive yet flexible. The framework is consistent with the mission of the President's Working Group, and is focused on two key goals: mitigating the potential for systemic risk in financial markets and protecting investors.

The philosophy underlying these principles and guidelines is to encourage and improve transparency and disclosure by pools and managers to counterparties, creditors, fiduciaries and investors, as well as continued encouragement by supervisors to strengthen market and counterparty discipline. However, the President's Working Group recognizes that this transparency, disclosure and supervisory vigilance should not discourage innovation. There are certain strategies and positions which are sensitive proprietary information that managers should not be expected to disclose.

The Working Group's principles and associated guidelines apply to all each category of industry participants: (1) Private pools of capital and their managers; (2) Counterparties and creditors; (3) Fiduciaries and investors; and (4) Regulators or supervisors. Each participant should look to these principles to justify further enhancement of their current practices.

Addressing New Challenges: Systemic Risk

One of the primary areas of responsibility of the President's Working Group is the stability and soundness of the financial market system. Therefore, mitigating potential systemic risk posed by private pools of capital was a key motivation behind the development of these principles.

First, let me be clear on the meaning of systemic risk in this context: it is the potential for financial distress in a particular firm or group of firms to trigger broad spillover effects in a financial market or system. Systemic risk is the potential that a single event, such as a financial institution's loss or failure, may trigger broad dislocation or a series of defaults that affect the financial system so significantly that the real economy is adversely affected.

Concerns of systemic risk are more than just theoretical, and we must remain open to the possibility that losses by a highly leveraged institution could threaten the stability of the broader financial system and our economy. These principles and guidelines highlight how this potential risk is best mitigated within the current regulatory framework by market discipline that is developed and applied by creditors, counterparties and investors.

Creditors and counterparties to private pools of capital are generally large and well capitalized. And furthermore, sophisticated financial firms have both the direct financial incentives and expertise to provide for effective market discipline. By ensuring credit terms are appropriate given the risks posed, these institutions limit not only their own potential exposure to losses from default, but also help constrain overall borrowing, thereby decreasing the potential for systemic risk.

We believe that the collective decisions of self-interested and informed counterparties, reviewed by regulators, provide the very best protection against systemic risk.

The principles and guidelines recommend that key counterparties and lenders commit resources and maintain appropriate policies and protocols to define, implement, and continually enhance sound risk-management practices. The guidelines hold that those policies should address how the quality of information from private pools of capital should affect credit terms and other aspects of

counterparty risk management. These are not static responsibilities; they are important, capital-intensive, ongoing obligations.

Thus, this is not a green light to go forward with business as usual. A market as dynamic as this one requires concerted updating and review of processes and procedures. Firms should also be willing to make the necessary investment to meet the goals of these principles and guidelines. Knowing these principles have the support of each member of the regulatory community should help facilitate these changes.

In establishing these terms, it is critical that creditors and counterparties undertake effective due diligence before extending credit to a private pool of capital. Once the initial credit is approved and extended, the same diligence should be regularly applied. The initial and ongoing due diligence process should clearly include a review of the counterparty's ability to measure and manage its exposure to market, credit, liquidity, and operational risks. This process should also establish the breadth, detail and frequency of information sharing that will occur during the course of the credit relationship.

The guidelines encourage lenders to private pools of capital to frequently measure their exposures, taking into account collateral to mitigate both current and potential future exposures. The liquidity of the counterparty's positions should be a factor in exposure measurement, since concentrated or illiquid positions can lead to unexpected exposures in the event of a counterparty default or market volatility.

Credit exposures, in addition to being measured frequently, should also be subject to rigorous stress testing, not just at the level of an individual counterparty, but also aggregated across counterparties and should consider scenarios of adverse liquidity conditions.

On a regular basis, counterparties and creditors should seek to obtain from the pool both quantitative data and qualitative information on the private pool's net asset value, performance, market and credit risk exposure, and liquidity. In developing disclosure requirements, the level of detail expected by the creditors should recognize the very legitimate interest of a private pool in protecting its proprietary trading strategies.

These guidelines do not require the disclosure of every position, but reinforce the precept that for market discipline to be truly effective, counterparties and creditors should adjust credit terms where sufficient information is not forthcoming from a particular private pool, which is consistent with a market-based approach.

Federal Reserve Chairman Bernanke, in a speech last year, questioned the usefulness of various proposals for regulatory authorities to create and maintain registration databases containing detailed information about the positions of hedge funds. The Chairman said, "I understand the concerns that motivate these proposals but, at this point, remain skeptical about their utility in practice." He went on to add, "Continued focus on counterparty risk management is likely the best course for addressing systemic concerns related to hedge funds."

The President's Working Group also believes that the executive management of financial services firms with large exposures to private pools of capital have certain responsibilities. Management should institute protocols so they are kept informed of large exposures. They must appreciate the implications of these exposures and possess a commitment to ensure that sound risk management practices are developed and implemented. In doing so, a firm's senior management would seek to ensure that a firm's aggregate exposure to such pools is consistent with its tolerance for bearing losses in adverse markets.

Now let us turn to the investor. One of the more encouraging developments, as it relates to mitigating systemic risk, is the development of better practices as a result of the increasing market discipline brought on by investors, both individual and in particular institutional investors. As institutional investors have become an increasingly important source of capital to private pools, market discipline from

investors has increased. Today, institutional investors represent 60% of assets under management in these strategies and the number continues to climb.

Institutional investors in private pools of capital have a responsibility to prudently evaluate the strategies and risk management capabilities of private pools of capital and ensure that pools' risk profiles are compatible with their own appetites for risk. In doing so, they should undertake effective due diligence before investing in a private pool of capital and on an ongoing basis. Due diligence should include a review of the manager's ability to manage its exposure to market, credit, liquidity, and operational risks. These investors can complement the market discipline created by counterparty risk management practices by carrying out effective and robust due diligence, and seeking assurances that the private pool in which they invest complies at a minimum with established industry sound practices, including practices for risk management, reporting, and internal controls. In doing so, they can influence better disclosure and stronger institutional standards and practices within the asset management community.

If counterparties, creditors, and investors are to define and create effective market discipline, they must have access to reliable information. Much of the information can only be disclosed by the managers of the private pools of capital.

As a result, the principles and guidelines encourage managers of private pools of capital to have information and risk management systems that enable them to provide accurate disclosure to counterparties, creditors, and investors with appropriate frequency, breadth, and detail.

This information should be disclosed frequently enough and with sufficient detail that counterparties, creditors, and investors stay informed of strategies and the amount of risk being taken by the pools, and any material changes. The guidance being given to investors is that a lack of information should affect your investment decisions. If you are not obtaining the type of information you seek, you should act accordingly.

Complementing the efforts and responsibilities of the counterparties and creditors, the benefits contributed by investors, and the disclosure provided by the managers, is the role of supervisors.

Here too, our principles are clear and unambiguous. The guidelines encourage supervisors to continue to clearly communicate their expectations regarding prudent management of counterparty credit exposures to private pools of capital, and ensure counterparties take into account new developments in financial markets and advances in credit risk management best practices. In order to do so, supervisors should actively monitor such developments and revise their policies and associated guidance as appropriate in a timely manner. In turn, supervisors should actively monitor and enforce compliance with established policies and guidance regarding counterparty credit risk management with respect to leveraged counterparties. Let me again remind you that all regulators have signed on to this principles-based framework. Regulated entities should recognize that, although their competition might have a different regulator, they should expect consistent treatment for these broad issues.

Our capital markets continue to become ever more interconnected with other capital markets around the world. No group of investors is more adept at moving capital globally to where it offers the best risk-adjusted return than managers of private pools of capital.

The principles and guidelines were developed recognizing the global marketplace. Since key counterparties and creditors to pools are organized in various jurisdictions, the principles encourage policy collaboration and coordination amongst global supervisors.

The principles encourage supervisors to take full advantage of both formal and informal channels of coordination and cooperation across financial industry sectors and international borders when conducting supervisory activities that address

internationally active financial institutions' management of exposures to private pools and leveraged counterparties.

By directly addressing the challenges associated with the activities of private pools of capital, one can see that the principles, if adopted and applied, are designed to serve as a strong and effective check on the potential of systemic risk.

Addressing New Challenges: Investor Protection

In addition to systemic risk, for the first time, the President's Working Group addresses the difficult issue of investor protection. At the outset, we need to recognize that we are talking about investments that are not offered to just any investor. These are private investment options offered only to certain approved investors.

It is true that many of these strategies and vehicles are by their very nature potentially more opaque, illiquid, and complex than other products. But these facts alone should not by definition suggest that private pools of capital are either appropriate or inappropriate. Private pools of capital can be a suitable investment vehicle in which more sophisticated investors devote an appropriate amount of their assets. Given certain characteristics of these investments, it is prudent for public policy to limit direct investment in private pools of capital by unsophisticated investors, and we applaud the Security and Exchange Commission's recent proposals to raise the investor accreditation standard.

While investors should be neither encouraged nor discouraged from allocating an appropriate amount of their investable assets to private pools, they should certainly be encouraged to understand their investments and the corresponding risks and should not expose themselves to intolerable risk levels.

In addition to individuals, concerns exist about the possibility of a retiree having his or her pension reduced or eliminated as a result of losses from a poorly performing hedge fund investment.

Let's be clear here – hedge funds are not immune to challenges. In fact, we should assume that not all hedge fund strategies are successful at any one time. With as many different strategies as exist today, it should not be news or a surprise when a particular strategy is unsuccessful. Just because a strategy is not working, does not mean more regulation is necessary. Regulation is not designed to ensure the successful performance of investment strategies or prevent losses to investors, and we should be concerned when any regulatory proposal conveys this false impression.

What does matter is that managers disclose risks to investors and investors assess and understand the risks associated with their investments. We therefore need to also ensure the governance and management of the pension plans are as robust as possible. Fiduciaries are the first and most important line of defense for investors who are indirectly participating in private pools of capital. No one should suggest that plan sponsors will not invest in risky assets – in fact they must take risks in order to generate the desired return, but given their fiduciary responsibility, how do we ensure they know what is necessary to fulfill their obligation given the characteristics of many of these strategies?

All investment fiduciaries have a duty to perform due diligence to ensure that their investment decisions on behalf of their beneficiaries and clients are prudent and conform to established sound practices consistent with their responsibilities.

When investing in private pools on behalf of clients and beneficiaries, fiduciaries should consider the suitability of those pools for their clients and beneficiaries within the context of the overall portfolio. As with all investment products and vehicles, clear and meaningful disclosure is essential for investors to evaluate properly their investment decisions. Fiduciaries should therefore assure themselves that the pool and its managers have provided adequate and accurate disclosure prior to

investment.

As part of an appropriate due diligence effort, fiduciaries should review and understand the manager's valuation methodologies. A decade ago, they simply relied on having actively-traded securities priced off of independent pricing feeds. That is no longer the case. Many of these strategies today contain illiquid investments – with assets often priced by complex quantitative models....in many instances built by the managers themselves.

Performance calculation processes and business and operational risk management systems employed by a private pool should all be part of the review by investors. In addition, expectations and terms regarding client reporting should be clearly defined in advance of any investment.

Investors are encouraged to evaluate the investment objective, strategy, risks, fees, liquidity, performance history and other relevant characteristics of a private pool. They should evaluate the manager and personnel, and assess the service providers and their independence from the manager. And finally, accurate and timely access to this information should govern investment decisions.

Outcome and Goals of these Principles

As mentioned previously, private pools of capital provide many benefits to their investors, the financial system and the economy. Their unique characteristics give them the flexibility to pursue investment strategies that make financial markets more efficient and the economy more resilient. However, to ensure that we continue to realize these benefits and, at the same time, mitigate potential systemic risks and protect investors, there are responsibilities that all industry participants must accept, and these principles and guidelines highlight the responsibilities for each of these four groups of industry participants:

- **Regulators and Supervisors**: The first group of participants – regulators and supervisors – is expected to communicate their expectations regarding counterparty risk management practices and use their authority to enforce these expectations. Regulators and supervisors should continually refine and augment their policies to reflect market developments, and use anti-fraud and anti-manipulation authority to preserve and enhance the integrity of our capital markets.
- **Counterparties and Creditors**: The next group – counterparties and creditors – should commit sufficient resources and maintain appropriate policies to implement and enhance sound risk management practices, including appropriate and effective due diligence, frequent measurement of credit exposures, stress testing, and prudentially established credit terms.
- **Private Pools of Capital**: Third, private pools of capital should themselves create and maintain information, valuation, and risk management systems that provide counterparties, creditors, and investors with accurate, sufficient, and timely information.
- **Pool Investors and Fiduciaries**: The fourth group – investors and fiduciaries – should always consider the suitability of investments in private pools of capital in light of their investment objectives, risk tolerances and the principle of portfolio diversification. There are special obligations for investors with fiduciary responsibilities who are investing on behalf of others. Their standard of diligence should be an especially high one.

These principles and guidelines encourage transparency and disclosure by pools and managers to counterparties, lenders, creditors, fiduciaries, and investors, as well as continued encouragement by supervisors to strengthen market and counterparty discipline.

Conclusion

Over the past several months, the President's Working Group - both at the principal and staff levels - has been carefully assessing these issues. Our efforts encompassed not just the four agencies of the President's Working Group

(Treasury, Federal Reserve Board, the SEC and the CFTC), but also the Federal Reserve Bank of New York and the Office of the Comptroller of the Currency. Treasury would be remiss in not acknowledging the substantial contributions of all our colleagues who worked to develop these principles and guidelines.

We evaluated both the benefits and challenges these pools pose to investors, our capital markets, creditors and counterparties, and regulators. While seeking to address these challenges, we explicitly developed the principles to preserve the many benefits these investment strategies contribute to our capital markets but also to provide a fresh perspective.

Today's capital markets are global and competition is fierce. The two largest and most important markets, the U.S. and the U.K., share a similar regulatory philosophy. The goals put forth by these principles align with the approach used by the Financial Services Authority in the U.K. So we are endorsing a principle-based approach that is consistent with a global perspective.

Private pools of capital play an important part in our economic system and bring many benefits to our markets. They provide a vital role by materially enhancing market liquidity. Also, by bringing information to markets, they enhance market efficiency and are a crucial ingredient in the price discovery process. Private pools help to segment and disperse risk and also help foster innovation in developing new risk-management tools and techniques. They generate substantial transaction volumes and introduce significant leverage into the system. Furthermore, these pools are also beneficial to investors, as they potentially offer diversification benefits and attractive Sharpe ratios. And, as a result of these innovative investment vehicles, new businesses begin, existing businesses expand, and new jobs and opportunities are created.

The growth of private pools of capital has promoted efficiency, liquidity and risk dispersion in capital markets. Yet, whenever something is growing quickly, it bears periodic review. With the many benefits brought by the growth of this industry also come some new challenges. The Working Group's recently released principles and guidelines highlight how risks posed by private pools of capital are best addressed through market discipline, disclosure and transparency, not through new laws, regulations or registration.

So far, these principles and guidelines have been extremely well received by policymakers, regulators, industry leaders and the general public, both in the U.S. and abroad. Yet, a vocal few have criticized our recommendations, calling them "vague" and "unenforceable," and sought increased authority for federal regulators.

Some had a similar reaction to the 1999 President's Working Group report. Then as now, we reject calling for more regulation just for regulation's sake. That being said, the Working Group *does* believe there is work to be done. However, altering the current regulatory structure is not the remedy.

The President's Working Group did not view this issue through an anti-regulatory lens. In fact, if the Group believed that our regulators needed more authority to address these issues, Secretary Paulson would have led the charge in asking for it. However, as I hoped to convey in these remarks today, the issues and challenges presented are complex and, unfortunately, will not be solved with a one-time regulatory fix. After serious and open-minded debate, we came to the conclusion that the principles and guidelines released last week provide the best answer.

Given the rapid changes in market strategies and instruments, the President's Working Group believed the public will be best served with a flexible, principles-based approach that applies to more than just a snapshot in time.

These principles emphasize that the stability and integrity of our capital markets are a shared responsibility between the private and public sectors. Concerns regarding systemic risk and investor protection posed by private pools of capital can be addressed most effectively through market discipline and a balanced regulatory approach, with supervisors utilizing their existing authority.

Private pools of capital were born here in the U.S., and this country remains their largest home. This industry exemplifies the competitiveness and innovation that make our capital markets the strongest in the world. A thriving, competitive hedge fund industry brings many benefits to the U.S. economy, and our aim is to continue providing a welcome environment for these investment vehicles.

We envision these principles and guidelines serving a constructive purpose, and my colleagues and I will continually monitor and assess their effectiveness and the market response.

Thank you. I now have a few minutes to answer two or three questions.

February 27, 2007
HP-281

Remarks of Anna Escobedo Cabral
U.S. Treasurer
U.S. Department of the Treasury
Before the Credit Union National Association's
Government Affairs Conference

Washington, DC- Good morning. Thank you, Paul, for that introduction. It's a pleasure to be here, and I want to thank Dan Mica and CUNA for once again putting together a great conference.

CUNA works extremely hard in communities across our country to deliver financial services to Americans. These efforts make a positive difference to the quality of life individuals and families enjoy. We often talk about the benefits of our strong economy – from the low 4.6 percent unemployment rate to the more than 7 million jobs that have been added to our economy over 41 straight months.

This is all good news. It means that our economy is moving in the right direction, that there are lots of opportunities, and that people understand how to take advantage of this wonderful place that we all enjoy. But we also need to make sure people understand that today increasing levels of education are required to be competitive – not only in the traditional sense, but also in terms of being able to understand how to manage our resources well. That's why financial education is so important.

When we talk about financial education, we're talking about improving lives and helping all Americans feel the positive benefits of the strong numbers I mentioned earlier. This is an issue that President Bush and Secretary Paulson are extremely committed to. But I've been in Washington long enough to know that if we want to make real change, we cannot do it alone. There's always strength in numbers. That's why we appreciate the dedication of CUNA and so many credit unions across the country. You play a critical role in reaching your communities, and you are making a real difference.

This conference is about coming together to share ideas, to listen to each other and to share experiences so that we can continue making progress.

I understand our partners from the National Endowment for Financial Education as well as the Jumpstart Coalition are here. Organizations like these play an important part in serving our communities.

I know my friend, Chairman JoAnn Johnson is here. She is, of course, doing great work at the National Credit Union Administration. Some of you may have heard from one of my Treasury colleagues, Dan Iannicola, Deputy Assistant Secretary for Financial Education who leads the Office of Financial Education. He participated on panel yesterday and talked a little bit about what we're working on at Treasury to improve financial literacy throughout our country.

For example, as a result of the FACT Act, Treasury now leads the Financial Literacy and Education Commission. The Commission brings together representatives from 20 agencies across the federal government to exchange ideas and work together in ongoing financial education efforts.

Last year, the Financial Literacy and Education Commission released *Taking*

Ownership of the Future: The National Strategy for Financial Literacy. The Commission has also developed a financial education web site and toll-free hotline, in English and Spanish -- www.MyMoney.gov and 1-888-MyMoney. The Strategy that I just mentioned can be downloaded from this web site.

Just last week, Treasury partnered with the Department of Education to host a two-day Kindergarten through Postsecondary Financial Education Summit. The purpose of the Summit was to discuss the challenges involved in teaching young people about money. It also encouraged a meaningful national dialogue about an increasingly significant challenge.

The challenges included learning how to integrate financial education into the school day and how to identify effective materials and curricula. Many credit unions lead successful programs that bring volunteers into the classroom. These volunteers often offer a new perspective and can be extremely effective in reenergizing the classroom and reaching students. We appreciated hearing from some of these credit union representatives about their experiences.

As described in one of the several Calls to Action listed in the *National Strategy*, the Summit's findings will be compiled and made available to educators, policymakers, and the public at large.

Now many of you probably know that as U.S. Treasurer, I also deal with issues relating to coin and currency. I want to share some important efforts led by the United States Mint to promote youth financial literacy. Most of you have seen the Fifty State Quarters, and some of you might even collect them. The Mint has drawn on the popularity of the coins by incorporating currency lessons with lessons on social studies, math and a variety of subjects. Lesson plans from the Mint's Fifty State Quarters Program have been downloaded over 3.4 million times.

Now, they have created a similar program with the new Presidential $1 Coins. I don't know if anyone has seen them yet, but the new one dollar coin was released last week. Four new coins with a new President will be released every year for the next ten years. Lesson plans similar to those in the Quarters Program can be downloaded at no charge from the U.S. Mint website at www.usmint.gov/kids. This is a great opportunity to teach students about currency.

Last week's financial education summit was a chance to highlight programs like these and to find out what others are doing throughout the country to strengthen financial literacy. We know financial education is a continued process that is most successful when started at an early age. The consequences of not understanding the basics of money and credit management can be overwhelming. For example, college students these days are signing up for every credit card offer they receive in the mail without really understanding how to manage them. They're maxing out each one, and before they know it they're in over their heads in debt. Young people between the ages of 20 and 29 are filing for bankruptcy. That's no way to begin a professional career.

One of the panelists at the Summit called financial illiteracy a "silent bandit" because it unknowingly robs people of wealth, of opportunities, and quality of life. Our dynamic economy was designed so that people, regardless of where they start, can have the opportunity to climb the economic ladder to success. But this can only happen through education.

For example, one of the issues we often talk about with respect to financial literacy is the "unbanked." Now I know Credit Unions don't particularly like this term but the idea behind it is really that these are people who have not established a relationship with any kind of banking institution – whether it's a credit union or a bank. An estimated 10 million households fall into this category.

These individuals operate outside of the financial mainstream. As a result, their lives are more complicated and much more difficult. These individuals often don't realize the resources that are available to help them gain better economic footing, and it's very common that this lack of information is costing them more money.

I've been quoted several times over saying: It costs more to be poor. I speak from experience when I say that. I grew up in a home where we didn't have very much in terms of resources. There are many families, unfortunately, who find themselves in similar circumstances. But when they have no relationship with a banking institution or credit union, that cost increases. For example, they're paying additional fees for the privilege of having a check cashed, or perhaps they're paying with money orders, or they're paying their bills by standing in line and that has opportunity costs. Not to mention, they're subjected to greater levels of crime and theft because they're walking around with cash.

When they finally do have enough set aside – because they're very good savers and know how to manage cash – they're set behind a couple of years because they can't get a mortgage approved and they don't have the credit history to help them. They're not going to be in a position of understanding how to prepare for retirement, how to invest, or how to participate in their 401(K).

We have seen that unbanked individuals don't just lack information or education – they also lack trust in traditional financial institutions. In this case, we need an effective messenger along with a strong message if we are going to reach the people who need it most. That's where you come in.

Credit Unions have a real opportunity to bridge this gap by partnering with trusted community organizations. For example, the IRS partners with local community organizations such as the United Way to offer free tax preparation services to low-income individuals. This helps ensure they claim all the benefits they're entitled to. Credit Unions can be tremendously successful in creating similar partnerships. Credit Unions and Financial Institutions can also reach unbanked individuals by offering low-cost services – such as remittance services or low minimum balance savings or checking accounts. All of these efforts help bring individuals into the financial mainstream and improve quality of life.

Financial education has a place in all of our lives as we look at what is we need to do to ensure that each of us has the tools necessary to make the most of our lives and to pave the way for a better future. Because if we are well-informed individually, then our communities are better off, the economy moves in the right direction, and we all keep pace with each other.

Again, I want to thank you for your ongoing partnership and dedication to serving the financial needs of families and individuals in communities throughout our country.

February 27, 2007
HP-282

Treasury Targets Destabilizing Belarusian Officials

Washington, DC – The U.S. Department of the Treasury today designated six Belarusian Government officials who have played important roles in the oppressive regime of Alexander Lukashenka. Several of these designees were active in the crackdown on civil society and democratic opposition to the March 2006 Presidential elections in Belarus, which violated international electoral standards.

"Those who commit human rights abuses and political repression have no place in civil society," said Adam J. Szubin, Director of the Office of Foreign Assets Control (OFAC). "We will continue to target Belarusian officials who abuse their positions to steal from their people and to suppress democracy and freedom."

This action was taken pursuant to Executive Order 13405, which targets individuals and entities either undermining the democratic processes or institutions or are responsible for human rights violations related to political repression in Belarus. The designation freezes any assets the individuals may have that are in the possession of U.S. persons and prohibits U.S. persons from transacting or doing business with them.

The actions and policies of these individuals undermine Belarus' democratic processes and institutions, manifested most recently in the fundamentally undemocratic March 2006 elections.

- Petr Petrovich Miklashevich, Prosecutor General
- Yuri Nikolaevich Podobed, Lieutenant Colonel of the Special Riot Police in Minsk
- Aleksandr Mikhailovich Radkov, Minister of Education
- Vladimir Vasilyevich Rusakevich, Minister of Information
- Yury Sivakov, former Minister of the Interior; former Minister of Sport and Tourism
- Oleg Leonidovich Slizhevsky, Head of the Public Associations Department

The Europen Union has also taken measures against these individuals, imposing a travel ban and assets freeze against them for "play[ing] a role in the violations of international electoral standards and the crackdown on civil society and democratic opposition in the context of the 19 March 2006 Presidential elections."

With today's action, Treasury has now taken action against sixteen senior Belarusian officials pursuant to E.O. 13405.

February 28, 2007
HP-283

Treasury Secretary Paulson, IRS Commissioner Everson, Ways and Means Chairman Rangel, Congressman McCrery, Congressman Lewis, To Visit Local Tax Assistance Center

U.S. Treasury Secretary Henry M. Paulson, Jr., IRS Commissioner Mark W. Everson, Ways and Means Chairman Charles B. Rangel, Congressman Jim McCrery, and Congressman John Lewis will visit a local tax assistance center tomorrow to discuss the earned income tax credit (EITC), which has brought millions of low-income working Americans out of poverty, and to thank the volunteers for assisting the taxpayers.

Who
U. S. Treasury Secretary Henry M. Paulson, Jr.
IRS Commissioner Mark W. Everson
Ways and Means Chairman Charles B. Rangel
Congressman Jim McCrery
Congressman John Lewis

What
Site Visit to Local Tax Assistance Center

When
Thursday, March 1, 2007, 4:30pm EST

Where
Martin Luther King, Jr. Memorial Library
901 G Street, NW
Washington, DC

Note Please call Brittni Aldridge 202-622-2591 with questions on media logistics.

March 1, 2007
HP-284

Deputy Secretary Kimmitt to Deliver Remarks in Berlin

Treasury Deputy Secretary Robert M. Kimmitt will join German Chancellor Angela Merkel in delivering keynote remarks at the Globalization and the 21st Century World Order Conference this month in Berlin. The conference will focus on new perspectives on the transatlantic partnership and challenges in the areas of trade and economics.

What
Keynote Remarks

When
10:00 a.m. (CET) Monday, March 19, 2007

Where
Paul-Lobe-Haus of the Germany Bundestag
Paul-Lobe-Haus, Adenauerstr
1, 10557
Berlin, Germany

Note
Media should contact Verena Herkenhoff, Press Office, CDU/CSU- Parliamentary Group in the German Bundestag,
at +49 030/2 27- 5 53 75 for registration.

March 1, 2007
HP-285

Remarks by Treasury Secretary
Henry M. Paulson, Jr.
before the Economic Club of Washington

Washington, DC--Thank you very much, Vernon. Thank you all.

I'd like to start with a brief comment on the economic numbers released yesterday. For a number of months now I have believed that the U.S. economy is successfully transitioning to a moderate and sustainable rate of growth, and yesterday's data supports that view. The economy grew at a 3.3% pace last year, with GDP growth of 2.2% in the fourth quarter. This is up from 2% growth in the third quarter. Recent data suggest that economic activity slowed in December and January, particularly in manufacturing.

It is important to take a broad view of the economy and not to rely on a single number or even data for a month or two in forming a judgment. I am watching developments carefully, and I believe that the U.S. economy is healthy. Labor markets are firm; unemployment is low; consumer confidence is rising; inflation is easing; exports are growing and they contributed about one percentage point to the fourth-quarter GDP number; and of particular importance to me, working families are now benefiting from this expansion, with real wages up 2.1% over the last year.

When I came to Washington in July, I noted that in certain respects our economy resembled the economy of the mid-1990s, and that with high productivity growth, moderate inflation, and a tightening labor market, workers' wages would rise. I'm pleased that in the months since those comments, we've seen exactly that. America's impressive productivity growth is enhancing the long-term strength and competitiveness of the U.S. economy and improving the economic well-being of Americans.

In my previous job in the investment banking industry I spent a great deal of time working with corporate clients, governments, and in financial markets around the world. It was very clear to me that a major lesson of the last three decades is that those nations that open themselves up to competition – in trade, finance, and investment – have benefited while the rest have been left behind. This personal experience – here and abroad – has made me greatly appreciate the openness of our nation, which has been one of the most important factors in the great economic success of the United States. Openness to trade and competition fuels economic dynamism and innovation, as well as the deployment of new technologies that raise productivity and ultimately our standard of living.

Despite our healthy economy and rising living standards, more and more Americans seem to doubt that trade brings greater benefits than costs. Some politicians from both parties, reflecting what they are hearing from their constituents, are moving further toward embracing protectionism. This is a worrisome trend. And it is a trend we must resist. Free trade is one of the cornerstones of our economic success as a nation. We must redouble our efforts to demonstrate the benefits of trade to our standard of living – and make clear that retreating to economic isolationism would mean fewer jobs, lower incomes, and lower standards of living in the United States and for hundreds of millions of people around the world.

I understand that our dynamic economy, while generating wealth and opportunities for advancement and increasing our nation's standard of living, does create dislocations and anxiety. Change can be difficult, and our economy seems to be

changing ever more rapidly. As one of the sources of economic dynamism, expanding trade does result in some job losses and contributes to this sense of anxiety. But making trade a scapegoat only breeds support for protectionist policies that will make us worse off. Trade and openness to competition have produced and will continue to produce benefits for our economy, our businesses, our workers, and our consumers – benefits that greatly outweigh the costs. Proven economic principles have not changed.

We must make it a priority to help workers succeed in our rapidly changing and increasingly global economy, while maintaining our commitment to open markets and the benefits that come with them. The global economy is here to stay. To keep growing and leading the world in innovation and opportunity, we must trade freely, openly, and according to the principles of the global marketplace.

Today I'll lay out the major benefits trade and openness bring to our economy, then address some of the concerns raised about trade, and close with a discussion of how we can help more Americans tap into the potential of our dynamic economy.

More than 57 million Americans are employed by businesses that engage in international trade, and the benefits reach every state in our nation. Exports alone account for nearly 22% of manufacturing jobs in South Carolina. In the state of Washington, that number is nearly 37%. And agricultural exports support nearly 400,000 jobs in the U.S. farm sector.

Globally engaged U.S. multinationals on average pay their employees about 20% above the national average. I have worked with many of these companies and observed how competition has spurred them to innovate to stay in the lead. These companies accounted for more than half of U.S. productivity growth between 1977 and 2000, and 83% of corporate investment in R&D. The resulting technological innovations make workers more productive, over time raising wages and improving living standards, while keeping inflation in check and giving rise to new products, new industries, and new high-paying jobs.

Today's consumers enjoy more choices and lower prices on everything from food to cars to household goods. Products once considered luxuries have become commonplace. In 1954 it took the average American nearly three weeks of work to earn enough money to purchase a dishwasher. Last year, it took less than three days. Twenty years ago, most families could not afford a computer. Today, many families wonder how they ever lived without one. And a long distance telephone call that once cost 50 cents or more a minute can today be made almost for free, either over the Internet or on a mobile phone that fits in your pocket.

Did trade alone create these modern conveniences? No. Trade fosters the environment of competition, innovation, research, and investment that leads to better goods and services at lower prices. Some people speak about trade as if its benefits come only from exports, ignoring the positive contribution of imports. Data show that internationally traded products tend to experience lower inflation rates – even real price declines – while non-traded goods tend to rise in price. Thus trade helps Americans provide for their families. When special interests seek protection in the name of low-wage workers, we should acknowledge that limitations on imports do not benefit the vast majority of Americans. They deny people the freedom to choose from a broader array of goods and services, and impose a cruel tax on people who rely on low prices to stretch their family budgets. The cost of protectionism falls most heavily on those who are least able to afford it – the poor and the elderly.

Imports also stoke the fire of competition for American businesses and workers, and allow American manufacturers to acquire inputs at lower prices. In a global market, many American companies use imported components to make themselves more productive and more competitive--and this productivity leads to higher wages for workers and stronger growth and job creation for our entire economy.

America's openness and our embrace of change has made ours the most vibrant and dynamic economy in the world. At the same time, change does produce job

losses and other temporary dislocations in particular companies, industries, and even regions – just as it creates new opportunities in others. Job losses, wherever they occur, are painful – to families and communities. We should recognize the hardships and work to alleviate them, while keeping in sight the higher living standards and new opportunities Americans enjoy as a result of economic dynamism.

American manufacturing is a good case study in change. Not unlike the revolution in agriculture Americans lived through in the 19th century, we have been living through a revolution in manufacturing. Today we have about 14 million manufacturing jobs in this country – roughly the same number we had in 1950. Then manufacturing represented about 30% of the workforce. Today it represents just 10%. Some see this as a decline in U.S. manufacturing. On the contrary, America is the world's number one manufacturer, accounting for more than 20% of worldwide manufacturing value-added – that's more than Japan, twice as much as Germany, and more than 2.6 times as much as China. We manufacture more today than we ever have in our history – seven times as much real output as in 1950, with about the same number of workers. And a greater share of manufacturing jobs than ever before are high-skilled and high-paying. What's happened? Competition has pushed businesses to invest in technological improvements that allow workers to be more productive and earn higher wages.

I began my investment banking career in 1974 in Chicago working with Midwestern clients, many of them industrial companies and manufacturers. I have watched this transformation over three decades and it has been a radical one led by technology and automation. In the 1970s, as I walked through factory floors or assembly lines, workers were everywhere. Today, you are struck by the degree and sophistication of the automation. The increases in productivity are startling.

As manufacturing has become more productive, our robust economy has created more jobs in service industries, which account for 80% of employment in America. I know the term "service industry" can have a negative connotation – but despite what you hear from critics, our ten highest paying industries are all in the service sector -- including computer systems design, management and technical consulting, and architectural and engineering services. Far from being the menial, low-wage jobs that trade opponents portray them to be, these service jobs are cutting-edge, high-paying, and skills-intensive. The evidence doesn't support the assertion that our workers are being pushed out of high-paying manufacturing jobs and into inferior service jobs. Our flexible and dynamic labor markets ensure that as the demand for services grows, our workforce grows in these high-skilled, high-paying fields.

Technologically sophisticated and specialized services are a competitive advantage for America. In fact, the United States runs a trade surplus in services – especially high-skilled services, which often represent the highest-paying jobs. Consider that one area in which we've had a multilateral free trade agreement since the founding of the World Trade Organization – information technology – is a field the United States dominates.

Critics often ask: If trade is so good for America, why do we run a trade deficit? These critics might be interested to know that the last time we ran a trade surplus our economy was in recession. We should not delude ourselves that the trade deficit comes about mainly because of other countries' trade barriers or unfair practices. We run a trade deficit because our vibrant and growing economy creates a strong demand for imports, including imports of manufacturing inputs and capital goods as well as consumer goods – while our major trading partners do not have the same growth and/or have economies with relatively low levels of consumption.

Moreover, the U.S. has strong investment opportunities, but Americans do not save enough to finance all the worthwhile projects in our country. Foreign capital helps increase our capital stock and improve labor productivity, resulting in higher wages for our workers. Other countries save far more than they invest and the excess liquidity comes to the United States because our strong economy offers attractive opportunities. The trade deficit and the associated capital flows are fundamentally a reflection of our own and other countries' economic choices.

Narrowing the trade deficit without harming our economy requires a reversal in the underlying causes: The United States has to save more and be able to fund our own investment, and other countries have to grow faster and rely to a greater extent on domestic demand. Two of our biggest trading partners, Japan and Europe, have positive recent growth, and it is in our mutual interest that they continue to pursue pro-growth economic and labor reforms.

Our largest trade deficit is with China. China is growing at a 10% rate, but its developing economy has structural issues which are the major cause of its trade surplus with the United States. That surplus totaled approximately $233 billion in 2006, or 28% of our total trade deficit. This gross number is misleading in that much of China's exports to the United States are low value-added products for which China is the last stop in the assembly process and the importer of record, but materials and components are first imported into China from other countries in Asia and throughout the world. Our exports to China, for the most part high value-added manufacturing products and agricultural products, totaled $55 billion in 2006, growing at a rate of 32% last year, and 360% over ten years, making China one of our fastest growing markets for U.S. exports.

We are dissatisfied with the speed with which China is appreciating its currency, the value of which is not market determined, and with China's intellectual property protections. We are addressing these issues in our Strategic Economic Dialogue with China, along with China's need to accelerate the process of opening its economy to U.S. products and services. And in my judgment, the greatest risk to the economic well-being of our two nations is not that China will move too quickly, but that they will move too slowly in reforming their economy.

We expect that as China moves forward with its economic reforms, increasingly opening its economy to competition, this will benefit both of our nations. Stronger growth in all of our trading partners will sustain our own growth and contribute to a narrower trade deficit.

Trade, of course, means more than trade in goods. Capital flows across borders more quickly than ever. The back and forth movement of financial assets is 100 times greater than trade in goods. The McKinsey Global Institute estimates that since 1990, cross-border capital flows have risen nearly 11% a year, well above the 3.5% annual growth in world GDP and the 5.8% annual growth in foreign trade. In my previous job I didn't need a study to tell me about the increasing velocity and the magnitude of global capital flows. It is clear to me that these are functions of high levels of global liquidity and the imbalances created by significant differences in savings rates, economic growth rates, and the structure of different economies around the world.

The tremendous growth of capital flows benefits the United States. We excel at putting capital to its most productive uses. Foreigners don't just put their money into U.S. assets; they put it into American hands to invest on their behalf, both here and abroad. The United States has a comparative advantage in financial services. In my judgment it benefits our nation tremendously to have a number of global leaders in financial services headquartered in this country. One clear benefit is our financial services trade surplus of nearly $28 billion. Growth in global capital flows creates great opportunity for American companies and American workers. Employment in the financial services industry has increased by about a million jobs, or approximately 20%, over the last 10 years.

A great deal of foreign capital – nearly $800 billion last year on net – flows into the United States. These capital flows are a mirror image of our trade deficits: capital comes to the United States because the U.S. is the best economy in the world. In order to make that investment, they give us their goods in return. We have deep and liquid capital markets and a growing economy that provides opportunities for foreign investors to earn an attractive return on their capital. In turn, foreign investment benefits the United States by fostering economic growth and job creation. Investment has been a vital component of our economic growth, accounting for 20% of our growth since the middle of 2003.

Foreign investment in the United States comes from a diverse group of countries

and finds its way into a diverse range of assets. Last year, foreigners purchased nearly $100 billion in U.S. equities and $500 billion of private sector bonds, and took ownership stakes of $180 billion in American companies. These capital inflows help keep U.S. interest rates lower than they would be otherwise, which in turn means that government borrowing costs are lower and companies can invest more and create more jobs. Capital inflows also contribute to the U.S. economy when foreign companies buy and operate existing companies or when they build new facilities here. These businesses employ more than five million Americans, and these jobs pay nearly 30% more than the U.S. average.

To be sure, we need to increase national saving by addressing our long-term fiscal situation and by removing disincentives for American families to save. As this happens, and as our trading partners increase their domestic consumption and further open their markets, our exports will increase and world capital flows will rebalance. This will take time. For this rebalancing to take place smoothly, it is essential that we maintain our strong economy and make sure the United States remains an open and attractive destination for investment.

We are engaged in a wide range of bilateral and multilateral efforts to bring down barriers to U.S. exports – both by reducing tariffs and by urging our trading partners to undertake structural reforms. Under President Bush's leadership, we have negotiated 10 new free trade agreements with 15 countries – and our exports to FTA partners are growing twice as fast as our exports to the rest of the world. We are also working to make sure that existing trade agreements are honored and that intellectual property rights are respected. Thanks to increased openness both here and abroad, our global exports are at an all-time high. The trade deficit will take some time to correct itself, but for the last four quarters, America's exports have grown at a faster rate than our imports.

The lesson is clear: If we want to improve our balance of trade, the answer does not involve more barriers, the answer involves more trade – with open markets here at home and more open markets abroad for our exports. My job is to fight for open markets and structural reforms that will benefit American manufacturers, farmers, and service providers. Along with my Cabinet colleagues, I am pursuing that vigorously.

As a global economic leader, the United States also has a special role to play in expanding opportunity and prosperity around the world. This is both a moral issue and a practical issue. Countries that are more open economically and work cooperatively with the global community contribute to stability, security, and peace. And as nations grow wealthier, they are more likely to adopt stricter environmental and labor standards that bring them in line with developed economies.

The best way to alleviate poverty and raise living standards is through greater openness, so more people can benefit from the expanding global economy. The share of the world population living in poverty fell from 20% in 1970 to only 7% in 2000. And the most important driver was the rapid growth of developing countries that opened to trade, China and India in particular. Closer to home, Mexico's poverty rate fell by more than 20% and its rate of extreme poverty fell by more than 30% between 1994 and 2005 – the years following the passage of NAFTA.

Mexico has much more to do, particularly in their efforts to make social and economic changes that nurture their middle class. But Mexico is on the right path – and other nations in Latin America are poised to take similar steps. Right now, free trade agreements with Peru and Colombia are waiting for Congressional approval. And the Andean Trade Preference Act, which established duty-free benefits for Colombia, Peru, Ecuador, and Bolivia that will expire in June, is up for renewal. For the benefit of our workers and businesses, for the economic progress of our neighbors to the South, and to advance our goal of reduced global poverty and enhanced stability in our region and around the world, Congress needs to approve these measures.

I understand the case for trade is not clear-cut for most Americans. They worry about job losses and dislocations that occur as our economy evolves and adapts, and much of their concern is focused on trade. A recent Pew study indicates that

only a third of Americans think free trade agreements benefit our economy. Close to half believe they have a negative effect on jobs and wages. People understand that trade produces benefits, but they believe the benefits are not shared equally, either among countries or among people within our country.

We have only recently reached the point in the business cycle when benefits from our expanding economy are reaching middle-class families. And we've seen the income distribution in the U.S. widen for three decades. Far from feeling like essential drivers of the world's best and most powerful economy – which they are – many American workers fear they won't be able to compete. And this fear is breathing life into anti-trade and anti-globalization elements. Protectionists use the trade deficit as a shorthand criticism of free trade policy. They try to convince workers and families that we're getting a raw deal when it comes to trade. At best, that's bad economics; at worst, it's demagoguery.

Policymakers must address the dislocations that arise from our dynamic economy. But not by trying to turn back the clock and hurting America and American workers. We will be sorry indeed if we try to eliminate dislocation by lashing out at trade.

There is a solid consensus that the rapid pace of technological change has been a major driver in the decades-long widening of the income gap in the United States. And my personal experience working 32 years in the private sector with many companies in many economies has convinced me that the experts are right when they conclude that technology is a much bigger driver of that process than global integration or trade in goods.

There is no question that technology has made many jobs obsolete, even as it has brought efficiency and convenience to our daily lives. But we don't hear many voices calling for an end to the Internet. It would be no more beneficial to try to turn back the clock on global integration than it would be to turn back the clock on technological advancement. And in my judgment, it would be no more realistic. Trade is essential to the future strength and dynamism of the American economy – to creating more and better job opportunities for American workers.

Trade is an especially important issue this year. The President's Trade Promotion Authority is set to expire this summer, and there is still a great deal of negotiating to be done on the Doha Round of global trade negotiations. Susan Schwab, our U.S. Trade Representative, is working hard to make progress toward a meaningful agreement, and we have made serious proposals aimed at reaching an accord.

One of the key objectives of the Doha Round is opening up economies to trade in services. Because of our advantage in providing high-end services, we have the potential to realize sizable increases in exports. Estimates suggest that if post-Uruguay Round trade barriers were removed – particularly the barriers to trade in services – the U.S. economy could eventually see as much as $500 billion in additional income each year. Without renewed TPA, the odds of reaching a successful conclusion on Doha will be greatly diminished – and an important opportunity to increase our exports in services, manufacturing, and agriculture will slip away.

To leave benefits on the bargaining table when we are so close to achieving them would do a terrible disservice to working families and would clearly leave our economy worse off.

We need to continue pushing forward on the trade agenda to keep our economy growing and to keep it competitive. At the same time, we must take action to help people thrive in a changing economy.

Increased income inequality is a fact we must confront. The way to confront it is to help average wages grow, and help people who are at the bottom of the income ladder move up. That starts with a competitive, strong, and growing economy that produces new and better opportunities for Americans.

As our economy grows, market forces work to provide the greatest rewards to those with the needed skills in growth areas. Workers with less education and fewer skills will realize fewer rewards and have fewer opportunities to advance. We should help people of all ages pursue first-rate education and retraining opportunities, so they can acquire skills to advance in a competitive worldwide environment. As Federal Reserve Chairman Ben Bernanke recently stated, "Substantial economic benefits may result from any form of training that helps individuals acquire economically and socially useful skills, including ... on-the-job training, coursework at community colleges and vocational schools, extension courses, online education, and training in financial literacy." In fact, community colleges are a unique strength of the American educational system, offering workers an opportunity to retrain at a relatively minimal cost after they enter the workforce. President Bush is a strong advocate for working with community colleges and local businesses to tailor training to skills that are in demand.

The President has proposed a number of ideas to help workers succeed in today's economy by making benefits more portable and training more accessible. Today, losing a job means more than losing income. It often means losing health care and other benefits, which could leave a family in real jeopardy. Even though millions of Americans do move to better jobs each year, some workers feel stuck in a bad job because they can't take their benefits with them. In a rapidly growing and changing economy, the idea of obtaining all your benefits through your employer increasingly seems like an anachronism.

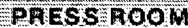
Through proposals to expand Health Savings Accounts and give all Americans, no matter where they work, a standard tax deduction for health insurance, the President is shifting the public policy focus of health care from the employer to the employee. The President also wants to expand opportunities for workers to save for their retirement.

Trade Adjustment Assistance is another program that could use fresh thinking. There seems to be a growing consensus among Democrats and Republicans that Trade Adjustment Assistance, the way it is structured today, does not serve people as well as it could and does not provide the right incentives. These resources can be better used in a program that has more flexibility, more options for training, and more personal ownership. The President has called on Congress to reauthorize TAA – and to improve it. And I look forward to continuing discussions toward an effective solution.

The case for trade is clear and compelling. And if we want more people to support it, we need to ease anxieties and help more people realize the benefits of trade. The alternative – raising protectionist barriers and isolating ourselves from the gains of trade – would hurt our economy. The long-term cost of protectionism – for us and for the rest of the world – is lost jobs and lost opportunity. And for some of the poorest nations, perhaps more instability. We must not heed the siren song of protectionism, trying to reduce the losses of the present by sacrificing the opportunities of the future.

For more than 60 years, the United States has been the world's leader in advocating greater openness and increased trade. Leaders of both political parties have recognized that greater engagement with the world is essential to our growth. Backing away from our commitment to openness would send a terrible signal to the rest of the world. America's message at home and abroad must be clear: The United States believes in open markets. We welcome foreign investment. And we seek partners to join us in advancing a global agenda that will help more people realize the benefits of international trade and competition.

Thank you very much.



March 1, 2007
HP-286

Testimony of Kimberly A. Reed, Director
Community Development Financial Institutions Fund
U.S. Department of the Treasury
Before the House Appropriations Committee,
Subcommittee on Financial Services

Chairman Serrano, Ranking Member Regula, and distinguished Members of the Subcommittee, I appreciate the opportunity to testify before you today on behalf of the Community Development Financial Institutions Fund (CDFI Fund), which is within the U.S. Department of the Treasury, on the CDFI Fund's important work to expand the capacity of financial institutions to provide financial services to low-income and disadvantaged communities, as well as on the President's fiscal year 2008 budget proposal.

I am Kimberly Reed, the new Director of the CDFI Fund. Treasury Secretary Paulson announced my appointment on January 18, 2007, and I began as Director on February 1, exactly one month ago today. Joining me today are the CDFI Fund's Deputy Director for Policy and Programs, Linda Davenport, and Deputy Director for Management and Chief Information Officer, Terry Keyfauver.

Secretary Paulson's top priority is keeping America's economy strong for our workers, our families, and our businesses. The CDFI Fund helps fulfill this priority by encouraging more jobs and opportunity in America's neediest communities. The mission of the CDFI Fund is to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States. Through its various programs, the CDFI Fund makes investments that strengthen and sustain a network of financial institutions that we call Community Development Financial Institutions and Community Development Entities.

Growing up in rural West Virginia, I appreciate the importance of and impact that programs such as those of the CDFI Fund can make to improve the lives in and economic conditions of America's neediest communities.

CDFI FUND'S MISSION of expanding the capacity of financial institutions to provide financial services to disadvantaged communities

I am pleased to tell you that the CDFI Fund is devoted to supporting financial institutions working in low-income and disadvantaged communities. Given the focus of today's hearing on the need for unique financial services for those residing in disadvantaged communities, I want to highlight the activities of some of our Community Development Financial Institutions (CDFIs). Many CDFIs offer an alternative to what are considered "predatory lending practices".

What is a CDFI?

Generally, CDFIs are community-based specialized financial institutions that serve low-income people or work in economically distressed communities, often working in market niches that may be underserved by traditional financial institutions.

CDFIs include regulated institutions such as community development banks and credit unions. These institutions, in particular, provide consumer financial services that are designed to bring underserved persons into the financial mainstream,

building wealth on affordable terms. CDFIs also include loan funds, many of which offer home mortgage products to consumers not reached by conventional mortgage lenders or at terms not generally available to low-income communities.

CDFIs respond to gaps in local markets that traditional financial institutions are not able to adequately serve. They provide a wide range of financial products and services. While the types of products offered by CDFIs may be similar to those provided by larger mainstream financial institutions (such as checking and savings accounts, mortgage financing for low-income and first-time homebuyers, small business lending, and lending for community facilities), CDFIs generally lend to and make equity investments in markets not served by these traditional financial institutions. The size of transactions and the risk profiles of transactions or customers make it difficult for traditional financial institutions to focus on these customers. CDFIs often offer rates and terms that are more flexible than those provided by traditional financial institutions. CDFIs that are certified by the CDFI Fund also are required to provide services that will help ensure that credit is used effectively, such as technical assistance to small businesses and credit counseling to consumers.

CDFIs are a segment of the financial services industry that is just beginning to grow. Data reported by more than 500 CDFIs to the CDFI Data Project indicate that their total assets doubled in just four years, from $9 billion in 2001 to more than $18 billion in 2004. While commendable, this growth results in institutions that are still a fraction of the size of most regional or national banks. The average CDFI bank has $152 million in assets as compared to $1.3 billion in assets for the average commercial banks. The average CDFI credit union has $17 million in assets as compared to the $78 million of the average federally-insured credit union. In 2006, national commercial banks and savings institutions held nearly $10 trillion in assets and federally insured credit unions held $679 billion. The CDFI Fund plays an important role in supporting the growth and increasing the capacity of CDFIs to reach markets those other financial institutions may not.

CDFI Fund's CDFI Program

The CDFI Fund, through its CDFI Program, uses federal resources to invest in and build the capacity of certified CDFIs to serve low-income people and communities lacking adequate access to affordable financial products and services. Specifically, the CDFI Program provides Financial Assistance awards to CDFIs and Technical Assistance grants to CDFIs and entities proposing to become CDFIs. The CDFI Fund selects Financial Assistance and Technical Assistance awardees annually through a competitive selection process.

CDFI Certification

Only financial institutions certified by the CDFI Fund can receive Financial Assistance awards through the CDFI Program. Certification requires a determination that the institution has a mission of serving low-income communities, is a financing entity, and commits 60 percent or more of its lending or investing resources to low-income communities together with the provision of technical assistance or counseling services to its customers, among other requirements.

CDFIs are located in both rural and urban communities, as well as on Tribal lands, as follows:

- 82% are located in urban areas, and
- 18% are located in rural areas.

The above statistics include 39 Native CDFIs, 6 of which are located in urban areas and 32 in rural areas.

As of January 31, 2007, the CDFI Fund has certified 778 CDFIs:

- 517 (67%) are Loan Funds

- 152 (19%) are Credit Unions
- 62 (8%) are Banks and Thrifts
- 27 (3%) are Venture Capital Funds
- 20 (3%) are Depository Institution Holding Companies

In the coming year, the CDFI Fund will begin a multi-year re-engineering of the CDFI certification processes using data obtained from an evaluation of the CDFI Program and the certification criteria, resulting in the creation of a web-based tool. This effort will ease the burden on our customers, making the application process more efficient, as well as speeding the CDFI Fund's review and approval process.

CDFI Program Financial Assistance Awards

The CDFI Fund provides Financial Assistance awards in the form of equity investments, loans, deposits, or grants, depending on applicant needs, and must be matched dollar-for-dollar by the applicant with funds of the same type from non-federal sources. There are two applicant categories for Financial Assistance awards: (1) Core, for larger CDFIs, and (2) SECA (Small and/or Emerging CDFI Assistance), which is available for applicants that are smaller and/or have a shorter operating history.

These awards enable CDFIs to leverage private capital to respond to demand for affordable financial products and services in economically distressed markets and by low-income families. CDFIs respond to this demand through the provision of loans, investments, training, technical assistance, and basic financial services, such as checking or savings accounts. Based on data supplied by CDFIs required to report to the CDFI Fund, it is estimated that, for the past two years, CDFIs leverage their Financial Assistance awards with nonfederal dollars by up to an average of 27:1.

During FY 2006, the CDFI Fund received 127 applications requesting $146.7 million in Financial Assistance awards, including 41 SECA applicants requesting $18.2 million. The CDFI Fund awarded a total of $24.47 million to 52 organizations, including 39 Core awards in 24 states and 13 SECA awards in 12 states.

CDFI Program Technical Assistance Awards

The CDFI Fund provides Technical Assistance grants to build the capacity of start-up and existing CDFIs by acquiring prescribed types of products or services including technology (usually efficiency enhancing technology, such as computers and loan management software), staff training, consulting services to acquire needed skills or services (such as a market analysis or lending policies and procedures), or staff support to conduct discrete, capacity-building activities (such as website development).

More established CDFIs also use Technical Assistance grants to build their capacity to provide new products, serve current markets in new ways, or enhance the efficiency of their operations; examples include upgrading computer hardware and software.

In FY 2006, the CDFI Fund received 53 applications requesting $3.4 million in Technical Assistance grants. The CDFI Fund awarded $1.91 million to 21 organizations, of which 27 percent were funded to increase the efficiency and capacity of their organizations through the addition or expansion of technology.

CDFI Program Impact

CDFI Program awardees are having significant impact in the communities they serve. As a steward of taxpayer dollars, making this impact is of the utmost importance to me. In FY 2005, the most recent year for which data is available, 186 CDFI Program awardees reported leveraging their awards with $1.4 billion in private and non-CDFI Fund dollars. These CDFIs reported that their financing helped to:

- create or maintain nearly 14,000 full-time equivalent (FTE) jobs, and
- develop or rehabilitate nearly 27,000 affordable housing units.

In addition, these CDFIs reported that they provided:

- home purchase mortgages to 2,000 individuals,
- checking or savings accounts to nearly 14,000 previously unbanked individuals,
- Individual Development Accounts to 2,500 low-income individuals, and
- financial literacy or other training to 148,000 individuals and organizations.

These new jobs, along with the increase in residential housing and commercial real estate, result in an increase in tax revenue (consisting of federal, state and local income taxes, and social security taxes), reduce the amount of state unemployment benefits paid out, and increase the amount of local property taxes.

CDFIs Provide Financial Services to Disadvantaged Communities

CDFIs provide many services to disadvantaged communities. According to CDFI Fund data from 2005, more than half (59%) of CDFIs receiving CDFI Program awards report that they are providing financial education services and 42 percent are providing homeownership counseling to first-time homebuyers. These education and counseling services increase consumer awareness and help individuals make informed decisions about available financing products. Among bank and credit union CDFIs, half offer alternatives to payday loans and nearly 40 percent provide check cashing services to people who don't have accounts with these institutions. CDFIs also help individuals build wealth, another factor that can help them avoid the need for an emergency payday loan to cover an unexpected illness or other expense. Twenty-nine CDFIs, including 22 unregulated CDFIs in partnership with regulated CDFIs, provide their eligible low-income clients the opportunity to open an Individual Development Accounts.

The following are examples of how the CDFI Fund supports such CDFIs to provide financial services to disadvantaged communities:

1) **The National Community Investment Fund**, a certified CDFI in **Chicago, Illinois**, that invests equity and debt in banks, thrifts, and credit unions with a primary mission of community development, received a CDFI Program Financial Assistance award of $1,315,000 in 2003 to support its Retail Financial Services Initiative. This initiative is helping 12 institutions implement financial products that provide affordable retail financial services, and the four CDFIs mentioned below are among the participants.

- **Bethex Federal Credit Union** in **Bronx, New York**, and scheduled to appear on the next panel at this hearing, has built a partnership with a check cashing outlet to educate and market strategies which help the check cashing customer move into the financial mainstream. This effort to encourage consumers to utilize financial services is conducive to long term wealth creation. Bethex has received six CDFI Program awards totaling $812,954.
- **North Side Community Federal Credit Union** in **Chicago, Illinois,** offers a Payday Alternative Loan (PAL) program. Founded in 1974, North Side is a non-profit federally chartered community development credit union and certified CDFI with more than $7.2 million in assets and is owned and controlled by its more than 3,100 members. In 2002, North Side began a short-term PAL program to offer low-cost alternatives to payday lenders, as well as banking services to individuals who had been turned down by traditional lenders. This very successful lending program has resulted in over 4,200 loans, as of December 2006, to people facing emergency cash needs. The program has more favorable terms than payday lenders offer and requires borrowers to participate in financial education courses. North Side has received two CDFI Program awards totaling $239,500.
- **Alternatives Federal Credit Union** in **Ithaca, New York**, offers financial services and financial education and economic development programs to its

members, residents of Tompkins County (Central New York), since it was chartered in 1979. A full-service credit union with over 7,113 members, Alternatives FCU plays a key role in assisting its low-income members to build wealth and accumulate assets. Alternatives has received five CDFI Fund awards totaling $4,331,715 to help support its capacity and expansion of programs and financial services.

Since 2002, Alternatives FCU has been managing a free tax-preparation service by running an IRS Volunteer Income Tax Assistance (VITA) program as a "new-accounts strategy" to encourage individuals to come into the financial services mainstream. As an incentive to have individuals open accounts, Alternatives waives the $10 membership fee and suspends the $5 minimum balance until the tax refund is deposited.

- **Legacy Bank** in **Milwaukee, Wisconsin,** is a state-chartered commercial bank founded by three African American women. Legacy opened in 1999 and already is a $160 million asset financial institution. The bank focuses on financial education and affordable lending products that encourage the use of a bank rather than payday lenders. More than a third of its low-income customers have had some type of negative experience with payday lenders and rapid tax refund loans. Its primary product to combat this issue was the Financial Liberty First Accounts product that has now evolved into the Liberty Checking/Savings Account products.

To support the Liberty Checking/Savings Account products, financial education classes are taught offsite through partnerships with more than 30 organizations that serve low-income populations. The bank also holds monthly classes on site. Successful completion of the classes results in the participant being able to open an account even if they have had prior credit or checking account issues. The bank focuses on turning these account customers into loan customers who buy homes and start-up businesses. Many of them have learned how to save for their own or their children's education, emergency expenses (to avoid payday lenders), and other financial goals. Several thousand people have taken advantage of these programs and products - bringing them into the mainstream of banking rather than the downward cycle of payday lending. Legacy has received five CDFI Fund awards, totaling nearly $4.5 million.

2) **ASI Federal Credit Union** in **New Orleans, Louisiana,** is a low-income designated credit union that serves approximately 77,000 members in New Orleans and southeast Louisiana. ASI's mission is to serve the underserved, promote economic empowerment, and provide affordable financial products and services to those with little or no credit. Over 60 percent of ASI's members fall below the poverty level, and it is estimated that ten percent of its members were unbanked prior to joining the credit union. ASI's mission became more critical following the devastation of Hurricane Katrina. Most members served by ASI experienced substantial personal losses, including homes, automobiles, and employment opportunities.

In its history of serving the underserved, ASI has pioneered a number of products and services catered specifically to those of modest means. The five main products offered are the Stretch Plan, the Credit Enhancement Plan, the Asset Builder Loan, the Yours-to-Own Loan, and the Payday Lender ReBuilder Loan. All of these products provide a much-needed outlet for the credit union's low-income members who frequently fall victim to the debt trap. ASI received a CDFI Financial Assistance award in the amount of $585,000 in 2006.

Additional CDFI Fund Efforts to Assist with Financial Services in Distressed Communities

As the new Director of the CDFI Fund, I plan to work with our CDFI Advisory Board on the important issues that we are discussing here today. The Community Development Advisory Board was established in the Community Development Banking and Financial Institutions Act of 1994 to advise the Director of the Fund on policies regarding the activities of the CDFI Fund. The Board is composed of public representatives from the Departments of Agriculture, Commerce, Housing and

Urban Development, Interior, Treasury, and the Small Business Administration, as well as nine private citizens with a variety of backgrounds relevant to the CDFI Fund's mission. The current Chair is Bill Bynum, President and CEO of the Enterprise Corporation of the Delta. I hope to invite a number of CDFIs to attend a Community Development Advisory Board meeting for a discussion of ways in which the CDFI Fund can improve and expand its support of CDFIs doing this important work.

Additionally, the CDFI Fund will continue to cultivate its close working relationship with the Treasury Department's Office of Financial Education, the Internal Revenue Service, and other Treasury and federal agencies in important financial education work. For example, CDFI Fund staff will join other Treasury officials in its partnership with the American Bankers Association Education Foundation for the 11th annual "Teach Children to Save Day" initiative on April 24, 2007. This is Treasury's fourth year participating in this program, where thousands of bankers and Department officials connect with students in classrooms and after-school programs to share "real life" lessons about money. The CDFI Fund recognizes that such outreach is important to help the youth in disadvantaged communities better understand the advantages of or possible pitfalls associated with various financial services.

PRESIDENT'S FY 2008 BUDGET REQUEST

The President's budget for fiscal year 2008 requests a $28.6 million appropriation for the CDFI Fund. Specifically, the CDFI Fund's budget request includes $24.4 million for the CDFI Program and $4.1 million for the administration of the New Markets Tax Credit (NMTC) Program. This request is $21 million above the President's FY 2007 budget request, as funding was not requested in FY 2007 for the CDFI Fund's grant programs, other than for support of the management of the existing portfolios. Because the NMTC Program provides tax credit allocations instead of grants or loans, all costs are administrative in nature.

As in FY 2006 and 2007, the FY 2008 budget does not request funding for the Bank Enterprise Award (BEA) Program. Through the BEA Program, the CDFI Fund provides monetary awards to FDIC insured depository institutions as incentives to increase their lending and investments in economically distressed communities. The awards are made on the basis of past activity, which is, in our view, a fundamental program flaw and the reason, among others, funding is not requested for FY 2008.

Additionally, because no separate authorization exists for the CDFI Fund's Native Initiatives, no separate set-aside for this program is being requested in FY 2008. However, the CDFI Fund will continue to provide economic and community development to Native American, Alaskan Native, and Native Hawaiian communities through our existing CDFI Program.

Since it began its awards programs in 1996, the CDFI Fund has awarded more than $820 million through its programs. In addition, the CDFI Fund has allocated $12.1 billion in tax credit authority to CDEs through the NMTC Program.

By directing our efforts to increase the capacity of CDFIs, and administering the NMTC Program, the President's FY 2008 budget request allows us to focus our programs to promote economic revitalization and community development through investments in and assistance to CDFIs and CDEs through four key ways:

Make Awards Through the CDFI Program

The CDFI Program provides financial assistance awards and technical assistance awards to carry out the Fund's mission of expanding the capacity of financial institutions to provide credit, capital and financial services to underserved populations and communities in the United States.

Issue Allocations of Tax Credits Through the NMTC Program

The NMTC Program attracts private sector capital into low-income communities through Community Development Entities (CDEs). CDEs raise funds by providing tax credits to private investors in exchange for equity investments, which are then invested in low-income communities. CDEs apply for allocations of NMTCs through annual, competitive allocation rounds.

Manage the Existing Portfolio of Awards

Certain activities pertaining to the existing portfolio of awards are required. These activities consist of finalizing the terms of assistance agreements with recent awardees, making disbursements of awards, and monitoring awardee compliance with the terms of their two and three-year award assistance agreements. This later step includes reviewing annual reports provided by awardees to ensure that their performance meets the goals as outlined in the assistance agreements.

Evaluate Program Design, Effectiveness, and Impact and Provide Training

It is of great importance to me not only to ensure that our awards create lasting impact on our nation's distressed communities, but also that the organizations that utilize our programs find that they are efficient and effective. The Fund's CDFI Program is now over ten years old. To ensure that they are meeting the needs of today's CDFIs, the CDFI Fund has retained an outside research and consulting firm to conduct an evaluation of this program, as well as of the Fund's CDFI certification process and past CDFI training efforts.

In addition, the CDFI Fund is reviewing proposals for independent research to be conducted on the role and impact of CDFIs in increasing the provision of needed financial services and products to low-income communities. The results of these evaluations will set the stage for improvements to existing programs and provide input to the re-engineering of processes that encourage more organizations to seek certification as a CDFI.

Similarly, the CDFI Fund has retained Urban Institute to analyze the effectiveness of the NMTC Program. Lastly, the CDFI Fund is supporting Native CDFIs through three current contracts supporting the creation of Native CDFIs, and financial education in Native communities.

CDFI Fund's management and operations

Internal Financial and Management Controls

The CDFI Fund has implemented effective financial and management controls, as verified by its independent auditors (KPMG Peat Marwick, LLP). I am pleased to share that FY 2006 marks the ninth consecutive year in which the Fund received an unqualified opinion on its financial statements and in which no material weaknesses were identified. This serves as a confirmation that the CDFI Fund has good internal controls and that our accounting and administrative systems are operating effectively, something that is important to me and this Administration.

Compliance and Portfolio Monitoring

The CDFI Fund has implemented a variety of new initiatives to monitor and conduct compliance reviews of its growing portfolio of awardees and allocatees. The CDFI Fund's NMTC compliance system has been significantly upgraded and now provides us with a fully automatic system that reflects each allocatee's compliance status with the various terms and conditions found in its allocation agreement. The Internal Revenue Service has access to the CDFI Fund's system to assure compliance with the tax code by NMTC investors. Our increased effort in monitoring our awardees has also extended to exploring ways in which all compliance reporting can be fully automated. This would allow the Fund to pull information from various CDFI Fund systems, including the Community Investment Impact System, and would automatically determine an awardee's compliance status with the requirements set forth in each assistance agreement.

In addition to the above systems, our compliance office also conducts post-award site visits to verify the information submitted by awardees and allocatees and plans to substantially increase these visits in the near future. The CDFI Fund also participates in several outreach sessions at various industry conferences each year to better inform awardees and allocatees of the reporting requirements and to answer any individual compliance questions.

Measuring Community Development Investment Impact

The Community Investment Impact System (CIIS) developed by the CDFI Fund is the nation's first system to collect standardized institution and transaction level data from CDFI Program awardees and NMTC Program allocatees. The CIIS database currently contains data from several hundred organizations.

Fully implemented in FY 2004, CIIS collects data such as awardee and allocatee financial position, number of staff, and number of development services clients. It also collects transaction level data providing details on each loan or investment made, such as the purpose of the loan or investment, borrower socio-economic characteristics, loan and investment terms, repayment status, and community development impacts. These data allow the CDFI Fund to measure impact at the census tract level and to map CDFI and CDE activity in specific geographic locations. This innovative system has been recognized by both former Federal Reserve Board Chairman Alan Greenspan and current Chairman Ben Bernanke, who stated that these "results can help inform funding decisions, develop programs, establish performance benchmarks, and communicate societal benefits attributable to specific policy."

CDFI Fund's Customer Service

The CDFI Fund makes every effort to be citizen-centered and responsive to the communities that we serve. In an effort to reach out to organizations and areas that have not traditionally had access to our programs, the CDFI Fund traveled to 18 states in 2006 to conduct application workshops for the FY 2007 programs. This effort was an attempt to reach out to rural areas and areas that have not traditionally applied to our programs, including such states as Montana, Florida, Iowa, Maryland, South Carolina, and Alabama. The CDFI Fund also hosted three satellite broadcasts of its workshops using HUD's satellite television network, which were then down linked to every HUD Field Office across the country – over 80. This effort helps ensure that citizens across the country have access to this valuable training.

Plans for the Remainder of FY 2007

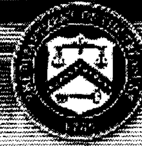
The CDFI Fund is in the process of administering its entire cycle of FY 2007 program activities. The CDFI Fund's goal is to conduct each award program in keeping with its planned schedule for FY 2007, while undertaking planning for those activities that will be required by implementation of the President's FY 2008 budget.

The CDFI Fund continues to support investment in low-income communities through the CDFI Program and NMTC Program, and supports the Administration in its efforts to focus our programs in building the capacity of CDFIs and CDEs to serve low-income communities.

CLOSING

The CDFI Fund's vision is an America in which all people have access to affordable credit, capital, and financial services – a vision, I believe, that all interested in the topic of this hearing would support. I thank you for the opportunity to present my testimony on the CDFI Fund's mission of expanding the capacity of financial institutions to provide financial services to disadvantaged communities through the programs administered by the CDFI Fund, as well as in support of the President's FY 2008 budget request. I stand ready to answer any questions that you may have.

PRESS ROOM



March 1, 2007
HP-287

Statement by Treasury Deputy Secretary Kimmitt Welcoming the British Government's New Strategy to Fight the Financing of Terrorism

The Treasury Department welcomes the British Government's launch yesterday of "The Financial Challenge to Crime and Terrorism," a strategic approach to combating money laundering and the financing of terrorism. We applaud this important announcement by the Economic Secretary to the Treasury, Ed Balls, and Home Office Minister, Tony McNulty.

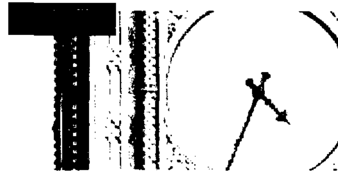
As British Chancellor Gordon Brown noted in a landmark speech on February 13, 2006, one of the most important responsibilities of Finance Ministries worldwide is to detect, disrupt, and dismantle the dangerous activities of terrorists and their supporters in the global financial system.

We applaud this action by the British Government and look forward to working together to advance our common interests, including at the United Nations and through the Financial Action Task Force, whose Presidency the UK will assume in June 2007.

LINKS

- Click here to read Chancellor Brown's Feb. 13 speech.

HM TREASURY


Chancellor of the Exchequer speeches

11/06

13 February 2006

'Securing Our Future'

Speech by the Rt. Hon. Gordon Brown MP, Chancellor of the Exchequer, at the Royal United Services Institute (RUSI), London

On July 7th and after the British people stood as one, our emergency services, our police, our security services, our armed forces, the pride of our country.

With Britain led by London standing firm and steadfast in the face of violence, our very calmness reverberated around the world.

Though trains and buses were destroyed, our national resolve - the spirit of Britain - was indestructible. And though lives were ended, our belief in our common destiny shone through. As British-born suicide bombers maimed and killed fellow British citizens on our own streets, the worst of Britain was put to shame by the best of Britain.

To quote George Orwell, writing in the thirties, at democracy's darkest hour in Europe, when the threat was fascism, "the thing that I saw in your face no power can disinherit, no bomb that ever burst shatters the crystal spirit".

As July 7th solemnly and starkly reminds us, the first responsibility of a government is to protect its citizens, keep people safe and ensure their security.

And as Chancellor I have found that an increasingly important part of the role of a Finance Minister is to address issues of international terrorism. For as I have seen since September 11th and more recently after July 7th assumptions we took for granted have been turned on their head.

In effect the Treasury itself had to become a department for security. For as Chancellor I have found myself immersed in measures designed to cut off the sources of terrorist finance. And I have discovered that this will require an international operation using modern methods of forensic accounting as imaginative and pathbreaking in our times as the achievement of the enigma codebreakers at Bletchley Park more than half a century ago.

And I have found that it is not just the Treasury that is a department of security. So too is almost every other department.

We used to think national security was about Home Office policy, international security about defence policy and foreign affairs. Now we find that national and international action for security is inextricably linked and security issues dominate decisions in transport, energy, immigration and extend to social security and health, and of course in the Treasury so that coordinating the way we address international terrorism will be a central feature of the coming spending review.

The reason is clear. Addressing the reality, causes and roots of international terrorism is one of the greatest new challenge of our times.

Of course all the great challenges of globalisation are important, but upon meeting and overcoming the challenge of global terrorism all else we value depends.

So it is right to begin a series of speeches I make about how the Britain of the future will meet and master the global challenges ahead by addressing this question: pre-eminent to our foreign, defence and law and order policies; at the core of the very security and safety of our country; and vital to the prosperity and future of our country.

I want a Britain now and in the future that, fully aware of the increased threats the world faces, plays its full part in the defeat of global terrorist violence. I want to see a Britain that, because of both its international actions and its domestic vigilance, is more secure, more safe, more strong.

So I want to speak today about a Britain ever stronger in its security, finding even greater strength in our shared resolve as a nation to defeat terrorist violence and to isolate extremism wherever we confront it and whatever its source.

And I am determined that by agreeing a long view in our present public expenditure review we ensure: first, a robust security response which protects both the safety and liberties of our citizens; second, a determination to tackle terrorism internationally and nationally; and third, to tackle not just terrorism but the roots of terrorism - the extremism which seeks to justify it and the grievances that fuel it, fund it and give it cause - by ensuring that legitimate political concerns, such as the future of the Middle East, are addressed politically and without resort to violence - an integrated approach that will require the strength and resolution to make difficult long term choices and follow them through to ensure the police, armed forces and security services have the necessary support to address the demands of a changing world.

For nine years as Chancellor my aim has been a Britain strong in our stability. In the years ahead I want a Britain both strong in stability and strong in security, so that it can be said not just that our national stability is safe in our hands, but that our national security is safe in our hands.

While we stood as one on and after July 7th there is a danger that in the aftermath of a terrorist incident as time passes, people's sense of the scale of the threat dims, that people's guard starts to drop, their vigilance lessens and their commitment to the tough and necessary security measures - all too clear on the morning after - weakens.

And there is also a danger that we fail to stand back and reflect and to make the long-term cool headed assessment we need to have about the likely repetition of such events and to decide what, for the long term, needs to be done to strengthen our security.

Of course, we do not yet have the advantage of great historical distance from the events of September 11th or July 7th - and the fresh insights that can come from this - yet I believe that our duty looking forward is obvious for all to see.

After July 7th we asked anew whether we had in place sufficient security - national and international - to prevent future incidents. We asked why young British citizens had decided to bomb and maim their fellow British citizens.

We asked anew whether we had done enough to encourage and support the integration of people of different ethnicities and faiths into our country and suddenly dry debates about citizenship and Britishness had both a meaning and urgency for our times and for our generation. I want us today to remember why we thought it so important after July 7th to address these issues, and not only address but resolve these issues for the long term.

July 7th brought home to us that we are addressing both a global phenomenon and a national one. I want to remind the country that the terrorist threat has not diminished and will not diminish until we defeat it.

And I want to suggest today that global terrorism must be fought both nationally and globally - so we will have to work to root out terrorism and its causes globally and we will have to do so in circumstances where the instruments of terror operate locally, nationally and globally, and make use of continually evolving technology.

Just as we must enhance the global response to terrorist violence, so too we must enhance the domestic response to threats to national security.

While we share one world - and we must act together globally - so much more we share one country, and must act together nationally.

There is a British way of achieving this best, seeking and building a unified national consensus around a framework that is tough in ensuring security but also by being tough in ensuring proper accountability as we sustain public support for the action that must be taken.

The changed global context

I start with how July 7th has brought home to us how the nature of the threat to our security has changed - and in three dramatic ways.

First, the global threat of terrorism. While the last thirty years have seen Britain having to cope with terrorism in Northern Ireland, recent terrorist plots are of a different scale: global conspiracies driven by extremist ideology to cause mass casualties with no warning – often involving suicide bombings and with the potential threat of chemical biological radiological and nuclear weapons. These are good reasons for defining Al Qaeda as the first truly global terrorist threat. Let us be clear: we face enemies that not only have a hatred of the policies we pursue, but a hatred of our very existence. And between justice and evil, humanity and barbarism, no one should be impartial neutral or disengaged but engaged resolute and solid for justice.

Second, the canvas on which terror operates does indeed cross continents. In recent years Al Qaeda and groups inspired by them have attacked over 25 countries, killed thousands of people - many of them Muslims - and have networks across almost all countries through which they seek to seduce thousands of fellow travellers.

As the security service puts it, "many of these networks are loose-knit, operating without a conventional structure and with connections across the world, bound by shared extremist views or experiences. Whilst some of these networks are centrally guided by Al Qaeda, others are autonomous, but both work to carry out terrorist attacks, and are influenced by radical propaganda shared over the internet."

There is a paradox about globalisation: the very opportunities it offers - the free movement of money, people, goods and information - are harnessed by terrorists and organised criminals, so that we have a situation where today "money is raised in one country, used for training in the second, for procurement in a third and terrorist acts in a fourth", a global threat for which there is no real precedent - enemies that do not need great armies to put lives at risk, enemies without even a formal chain of command but can inspire imitators in the heart of our communities.

And while the July 7th attacks showed young British citizens may also resort to violence with little or no warning, a threat all the more serious because it has been the least visible, let us be in no doubt that three attack plans threatening Britain have been thwarted since July 21st and it is now known that North African exile groups inspired by Al Qaeda were responsible for the Madrid attack.

A third reason why the nature of the threat is different is in technology itself, that terrorists no longer need to expose themselves by meeting together or be associated with a particular community. We know that internet and mobile telephony will be enhanced over the next few years when communications providers will transmit voices over the internet. And when suicide bombers have connections with other countries and can, in theory, use the internet or be instructed through mobile phones, we know that defeating violent extremists will require a

unique combination of methods - from security measures founded on real time intelligence to argument and debate - and cannot be achieved through action in one country alone or even one continent, but only globally.

July 7th has rightly led to the moderate majority in the Muslim community standing up to terrorists and supporters of terrorism who advocate violence and murder. And recent studies show the pathway to violence often starts with contact with extreme material or extremist clerics - through the internet or videotapes from abroad - paving the way for later direct contact with - and sometimes visits to - with terrorist organisations and camps.

So we must take steps to isolate extremists from the moderate majority. To root out terrorism we are rightly investing in increased military and security forces, and policing. And after yesterday's photographs let us remember it is incumbent upon all of us to ensure discipline at all times and to root out indiscipline.

But, from 1945, the Cold War was fought with not only weapons that were military or intelligence based; it was fought through newspapers, journals, culture, the arts, literature. It was fought not just through governments but through foundations, trusts, civil society and civic organisations. Indeed we talked of a cultural Cold War - a Cold War of ideas and values - and one which the best ideas and values eventually triumphed.

And it is by power of argument, by debate and by dialogue that we will, in the long term, expose and defeat this extremist threat and we will have to argue not just against terrorism and terrorists but openly argue against the violent perversion of a peaceful religious faith.

Indeed, the very existence of the internet and the exchange of ideas across it means that instead of relying on old methods of censorship it is not only right now but necessary to take these ideas head on - a global battle for hearts and minds, and that will mean debate, discussion and dialogue through media, culture, arts, and literature. And not so much through governments, as through civil society and civic culture - in partnership with moderate Muslims and moderates everywhere - as globally we seek to isolate extremists from moderates.

We should also work with our allies and international organisations for reform and democracy; encourage interfaith cooperation such as the conferences we are involved in with Muslim thinkers; and in particular link young people here with young people in other countries.

Alongside Tony Blair and Jack Straw I have to underpin the Middle East political road map with an economic road map and will continue to visit the region to push it forward. And, as we all tackle injustices that breed resentment, we must show by the empowerment of poor countries through debt relief, aid, and support for education healthcare and economic development that globalisation comes to be seen not as a cause of injustice and poverty but a force for social justice on a global scale.

Security

While our long-term aim must be to prevent the indoctrination of future generations of terrorists, our immediate priority is how to protect our citizens against the threat we face now. Since September 11th, many of Al Qaeda's leaders have been killed or captured, and its bases closed down. Afghanistan has been delivered from Taleban rule, Iraq from Saddam Hussein - with democratic elections now held in both countries. And more than ever we now know the names, the faces, the methods, the operational strategies of violent extremists as we seek to ensure there is no place on earth which will remain hidden, dark or distant enough to be their hiding place for ever.

But to take the right security and policing measures it is important to understand in specific detail how different these conspiracies and networks are from the past - like the investigation into the ricin chemical plot in Britain its significance is that it had to span 26 countries and that the 12 indicted had, between them, 120 assumed identities. And the scale of July 7th investigations has been such that 50 physical sites have had to be searched - it took two weeks before one bomb facility could be entered, 11,000 statements have been taken and 24,000 physical exhibits logged -- all amounting to some 12,000 leads to follow-up.

What do we conclude from the scale and complexity of all this?

Resources

First, the starting point is a strong front line of domestic defence, fully trained and equipped troops and forces, to build on the world-class capacity of the Met, the police and the security and intelligence agencies, enhancing our front line forces - police fire emergency and medical services with equipment and training and also exercises to prepare for the worst - the very things which helped in equipping the emergency services for the heroic efforts we saw in July.

I can confirm that, since September 11th, as part of the overall increase in police numbers and funding - nearly 16,000 more officers nationally and 6,000 more in the Met - dedicated anti-terrorist resources will have doubled.

I can tell you that, by 2008, a further £75 million will be added to the Met's counter-terrorism capability and a further £135 million for regional intelligence and investigation - in total investing £230 million more nationwide.

By 2008 the size of the security service will have nearly doubled. In total we will invest £2 billion a year on counter-terrorism and resilience - twice what we did before September 11th.

And we need to continue to build on the strategy for our armed forces set out in July 2004 to develop our military capabilities in the fight against terrorism with the ability to mount operations across the world and our capacity to prevent failed states and stabilise lawless areas and support nation building - a strategy evident in our current operations in Afghanistan, where we are working together with America, and with NATO and the un to build a new democratic government.

A priority for the Spending Review will be to examine our future security needs for intelligence gathering and policing. We will review the strategic allocation of resources to meet changing requirements - for example, detecting explosives in crowded places; and, building on strong existing structures, we will examine the case for a single security budget, assessing also how in this new world we secure the best coordination in delivery and accountability - including the appointment of the relevant committees and their investigative power: at all points building trust in a tough security regime through necessary accountability.

Terrorist financing

Second, we need not only to deny a safe haven to terrorists, but ensure there is no hiding place for those who finance terrorism.

Money underpins international terrorism. Let me give the example of UK members of Al Qaeda-linked Libyan Islamic fighting group, a group whose assets we froze last week. Our information is that documents and money were transferred from Britain to support training and attacks in Afghanistan and elsewhere through a sophisticated network including a charity and four UK property companies. And this was a network which under further investigation included an individual found guilty in Morocco of involvement in a suicide attack which killed 41 people. Once again showing the global nature of the terrorist threat.

In total I can state that, since 2001, we have frozen assets of terrorists of nearly £80 million - including for over 100 organisations with links to Al Qaeda.

In 2005 under the British presidency the EU brought in new agreements on international money laundering controls. 2005 also established the Lander review into the system of suspicious activity reports, to be completed in March. I have just returned from the G8 Finance Ministers meeting in Moscow where we reaffirmed that the international community will continue to be vigilant in the future too.

And today I am announcing, for Britain, new measures.

First, preventing terrorist financing, where we will consult on protecting wire transfers and

charities from being abused - in the same way that we acted to freeze the bank account at Finsbury Park mosque and prevent Abu Hamza abusing the mosque's legitimate status as a charity. And to ensure continued action internationally, I can confirm that at tomorrow's summit In Cape Town, Britain will formally seek the chair of the worldwide Financial Action Task Force.

Next, identifying suspicious transactions - where I want to work even more closely with the financial sector. So I am today agreeing new guidance to give clearer strategic advice to banks on what to target, so they can fulfil their responsibilities; and am setting up a new forum with them to discuss how we can achieve more together to identify, root out, and prevent the use of financial networks to advance terrorism.

And then, disrupting terrorist activity - where with new multilateral arrangements to better join-up enforcement we will strengthen our pre-emptive asset freezing regime. And we will review again in a year's time whether we need to go still further either with new legislation or a single asset freezing office.

Borders

Next, we need the best and strongest border controls and resilience to attack - enhancing protective security around our critical national infrastructure and our citizens as they go about their daily lives. This means constantly reviewing how we best safeguard our buildings and our national infrastructure - roads, railways, tunnels, bridges, water systems and utilities.

The commitment we have made to extra spending means we now have 50 per cent more border guards and security officers than in 2000. And now, rightly, many are based not in Britain, but abroad - every year we successfully stop more than 40,000 suspicious people before they even board a boat, plane or train.

But we must match our investment in people, with the laws and technology needed to respond to the new threats.

Last year Project Semaphore electronically checked the details of six million passengers - helping our border and security staff to build a picture of suspicious activity and leading to the arrest of 140 suspects.

The next step is to electronically and biometrically screen all passengers as they check in - so terrorist suspects can be identified and stopped before they board planes, trains and boats to Britain.

There are already biometrics in visas from high-risk countries, now being extended to all countries where we require visas. The next step is the introduction of biometrics into the new generation of passports.

Both the UN and G8 have called for biometrics to be introduced to travel documents to help in the fight against terrorism. We have come to see that a common theme to the planning and execution of global terrorist attacks is the bypassing of border controls by using multiple identities. This was a central lesson from the findings of the independent 9/11 Commission in America, who have since introduced of biometrics at us borders. The UN has issued a blueprint for the worldwide integration of biometrics into travel documents. Forty countries around the world intend to introduce biometric passports by the end of the year.

The UK will move towards an integrated electronic border security system, linking biometric passports and visas with electronic checks on entry and exit - helping us track and intercept terrorists and criminals, seeking to prevent them, stop illegal immigration and increasing the safety of all legitimate travellers. But at the same time - by providing one secure method of proving your identity - making the necessary security checks easier for all of us as we travel abroad for our work and leisure.

And as part of the Spending Review we will take any further steps necessary to ensure Britain's borders are secure.

Identity

Fourth, the requirements for security in identity. There is a common thread running through the new security challenges – and that is the growing importance, and the obvious vulnerability, of identity. The risk to me and you as individuals is that our identities are stolen for terrorist or other reasons and used against us and what we stand for. The risk is also that, using false identities or without proper investigation of who they are, people enter and abuse our country.

This matters in Britain when we know that as many as one in four criminals use false identities and that as many as one in five companies could be hit by identity fraud.

The economic and social cost of identity fraud is into the billions of pounds and growing, with a new estimate from the Home Office of £1.7 billion.

Just as we have been facing new threats and evolving new responses in national and international security, analogous developments in the private sector - in banking and finance - to ensure the protection of consumers identities show both the need for and the opportunity to change.

Already we have moved on from signatures to requiring, as from tomorrow, a PIN for all debit and credit card transactions. And by 2010, according to the forecasts of Bill Gates, people will, through biometrics, access their phone, email, computer, and bank - through a fingerprint touch of a screen anywhere in the world.

Already one million people have bought and use an IBM laptop which uses fingerprint recognition to control access - and for the future, manufacturers are looking at the same fingerpint recognition technology to make mobile phones and MP3 players worthless if stolen. Today Californian supermarket shoppers are paying with a finger-scan at the checkout: new schemes mean people can pay for their goods just by placing their finger on a scanner and without having to carry a card; and Japanese cash machines are asking for a finger-scan rather than a PIN.

The reason is simple: they are more secure against fraud and theft. And across the world in very different cultures most people seem happy to use biometric schemes when they see direct value in greater security, greater convenience, and lower cost.

So it is likely in future that a supermarket or bank may hold your biometrics, but at the moment those charged with the protection of your security - indeed the people who can actually protect your security - do not. As a customer you would, under the private sector initiatives being developed, have biometrics stored, but as citizen you would not.

So the issue is not whether advances in biometrics are being put to use - identity information about us to protect our security is being given voluntarily to credit card and computer companies to safeguard access to finance and computers and now being used also for employment and employee recognition. For example, biometrics are increasingly being used to control access to buildings with particular needs for security. And with passports now requiring biometrics, a necessity people understand, 80 per cent of the adult population will have to register their biometrics to ensure our borders are secure and so they can travel freely across the world. In each case safeguards must be built in to protect misuse of information.

So the question is whether we move to the next stage - to extend this system from the private sector and the borders to a national biometric scheme including an identity card.

And would most people not agree that if there are acceptable safeguards to protect civil liberties in these areas, there are advantages in a national identity scheme that could not just help us disrupt terrorists and criminals travelling on forged or stolen identities - but, more fundamentally, protect each citizen's identity and prevent it being forged or stolen?

The advantages are clear. An identity scheme will not just make the necessary security checks easier for all of us as we travel abroad for our work and leisure, but prevent people already in the country exploiting your identity or mine, and using multiple identities for terrorist, criminal or other purposes. One of the central features of terrorists' activity is their use of multiple identities to avoid laying tracks or patterns for us to spot. One September 11th hijacker used 30 false identities to obtain credit cards and one quarter of a million dollars of debt. Since then, the problem has worsened: over the last few years, the major terrorist

suspects arrested typically had up to 50 identities each.

If people cannot so easily operate under multiple identities we can potentially disrupt the modus operandi of terrorists or criminals that rely on multiple or false identities. The key point is that, if someone is in our country and is travelling on multiple identities or running bank accounts in multiple names, we should be in a position to pick this up early. The front line experience of both Sir Ian Blair, Chief of the Metropolitan Police, and Eliza Manningham-Buller, the head of the Security Service, have led them to say that a national biometric scheme would help them do their job and make reliance on multiple identities very difficult.

But the key point is that we should do all in our power to prevent you or I having our identity stolen or abused, and to ensure that, for each of us, our identity is secure and protected. Some have suggested the use of biometrics in identity cards in Britain is a fundamental and unacceptable "change of relationship between state and individual." In the past securing your identity rested on you being given a National Insurance number, on being required to have a birth certificate, being required to fill in the census, and, for travel abroad, being obliged to hold a passport. So the question is not whether we have a national register identity - we have had so for years - but whether we are prepared to consider the most up to date and the most secure means to protect our identity from being stolen.

I believe it is possible in this new world of terrorist threats to build a national consensus around our proposals by showing that there are proper safeguards and proper accountability. In addition to the Data Protection Act an Independent Commissioner should have oversight of the database and how it is used - testing it against data protection laws, ensuring individuals will have the right to see the information held on them and with, in the British way, proper accountability to Parliament, including reports published and laid before Parliament. And it may be right also to consider for the future whether the Commissioner should report to Parliament, taking an overarching look across both the public and private uses of biometrics, so ensuring the proper safeguards.

The legislation coming before the Commons today already builds in important safeguards. Private companies will not be able to see the national database, nor will government departments in their routine business - only for the prevention of crime or the protection of national security. Only if they are accredited and if they have the person's consent will government departments and private companies be entitled to ask to check that person's identity against the database.

And the British way is to write in not just safeguards for the individual but to ensure accountability to Parliament, with the limits to use of the data enshrined in Parliamentary legislation - and a requirement that there can be no additions to the information held or extensions to how the database is used without returning to Parliament for approval. As Charles Clarke has said, any decision on moving from a voluntary to compulsory scheme will require explicit approval of Parliament through primary legislation.

Mechanics matter too. Building a national scheme will take years, but that is hardly a good argument for not starting now. It will be important to build upon our current proposals in two ways. First, I believe that a joint private public partnership in investigating the next stage - involving banks, financial institutions, computer companies, employers generally - can both contribute to the general security efforts of all and release substantial savings in a potential scheme. So I propose a forum of private and public sectors to examine for not just fraud but security a joint project to release the best technology and value for money. On this basis we will report regularly to Parliament on costs as well as benefits.

Second, as part of our public expenditure review, we should take the measures necessary now to bridge the gap before a complete national scheme is in place: including improving the quality of our databases together with their transparency and accountability - making it easier to intercept terrorists and criminals and to spot fraud while also ensuring people have trust in how the necessary information is protected.

Opponents of the identity scheme like to suggest that its motivation is to enhance the power of the state. In fact it starts from the rights of the individual, the right to have your identity protected and secure and to achieve that, the right to have the most modern and secure way of doing so and - as I suggest - the right to have this done so with safeguards for individuals and

the accountability of the state.

Police and court powers

Fifth, the powers available to the police and the courts. When terrorists seek to launch attacks designed to cause mass casualties with no warning, and when they operate in networks spanning the globe, it is clear that the challenge of global and technologically sophisticated terrorism cannot easily be met by the policing methods of the 1990s.

As my earlier examples - from the ricin case and July 7th – show, tackling the threat we face is increasingly complex. Terrorist investigations will span many countries and different jurisdictions with different rules of engagement. This calls for better coordination between police and justice systems around the world - including on extradition.

Remember our concern when, after July, it was thought that one of the suspects who fled to Italy might not be returned quickly for investigation and trial. In the end this was resolved - and yet if the situation had been reversed, it would probably have taken a year for someone to be returned from Britain to Italy in similar circumstances. The fact that Rashid Ramda, wanted for the Paris metro bombings in 1993, was able to exploit our judicial system to delay extradition for ten years is completely unacceptable. Again, this case has finally been resolved - and we are considering setting a maximum time limit for all future extradition cases involving terrorism.

I myself first came across the scale and complexity of investigations required when I was as a Treasury Minister addressing the issuing of banning order for financial transactions of terrorists. But the police investigation - as the July 7th investigation shows - of potential terrorist activity is even more complex than that.

When a site cannot be entered for days or weeks, when a series of computer encryptions takes weeks to decipher, when a multiplicity of internet e-mail and telephone contacts needs to be investigate across national borders, when thousands of feet of video footage have to be viewed, and all of these across dozens of countries and often all continents involving all the new technologies, it is obvious to me that police investigations need more time.

But, of course, there is another aspect of the new terrorism which I have also had to consider: the need to act early to prevent possible terrorist incidents and what that means for arrests and charging.

It is obvious that where there is a threat of mass casualties in circumstances where there is no attempt at a warning the police have an extra duty to take preventive action and to intervene early. They cannot wait for the details of a conspiracy to come to fruition.

Obviously, early intervention carries with it serious implications: there is less accumulation of evidence at the point of arrest than in the days when police could more reasonably wait for the near-to-final details of a conspiracy to materialise. It is then a race against the clock to confirm that the threat was real, and then to gain enough evidence to convict - rather than have to release people about whom there are still grave concerns back into the community.

Otherwise we will continue to face the unacceptable risk that, as the independent terrorism reviewer Lord Carlile puts it: "I am satisfied beyond doubt that there have been situations in which significant conspiracies to commit terrorist acts have gone unprosecuted as a result of the time limitations placed on the control authorities following arrest."

In other words: not only were terrorists not brought to justice - more importantly they had to be released and so remain a threat.

Very few cases currently run to 14 days and we would expect an even smaller proportion to run beyond that. We are rightly proud of civil liberties. No one should be held arbitrarily without safeguards and the longer the detention the more concerns there may be about arbitrary treatment.

But the safeguards lie not in measures that make it impossible for police to complete an investigation into terrorist activities - something which would in the end harm all our civil liberties - but in ensuring that the civil liberties of a person detained are protected by our

tradition of impartial judicial oversight.

And I believe that the right balance between the obvious and changed requirements for the national security of our country and our people and the civil liberties of the individual is to give the power to hold people beyond 14 days, but to require that the extension be with the explicit approval of a senior judge.

I believe that this is at the heart of how we balance for the modern world the needs of security with an affirmation of individual liberties. We do so by measures which ensure accountability and by proper oversight.

The current legislation makes it clear that the judge can agree any extension only if he is satisfied that continued detention is necessary and that the investigation is being carried out as quickly as possible. Those detained must also be able to make written representations to the judge to contest their continued detention. If the judge is not satisfied at any stage of the process, the person must be released.

Indeed it may be possible that in subsequent legislation Parliament may be prepared to consider going beyond 28 days in circumstances where oversight is proven to work. And it may be at that time that to ensure even greater accountability we might consider not just that a senior judge approve continued detention every seven days and that there be a right of appeal to high court, but also we could give the Independent Reviewer the power to look at and to report on any case which goes beyond 28 days without charges.

I believe that it is strong oversight of the process that should ensure that no one is detained any longer than absolutely necessary - and of course the Independent Reviewer of our terrorism legislation has the overall capacity to monitor the use of this power and report any concerns.

It is difficult for opponents to suggest that the terrorist threat has not changed. It is difficult also for them to say that this change is not serious enough to justify change in our laws. The question is how in making our changes to accommodate new times, we ensure proper oversight and accountability, and so get the balance right between the civil liberties of the individual and the security needs of all individuals.

By preserving the primacy of the courts backed up by rights of appeal and thus proper oversight and, in the end, Parliamentary accountability we can achieve a settlement that ensures the right balance between our liberties and our security - properly fulfilling our traditions of civil liberties while acting decisively in the security interests of the country.

Glorification

Let me turn to the way we deal with people and organisations that encourage or glorify terrorism. The UN recognised the importance of this issue in a unanimous Security Council resolution last September - drawing attention to the problem of groups or individuals glorifying terrorism. Of course anyone who calls for specific actions leading to murder can and should be prosecuted under existing law - as Abu Hamza was - but we need look no further than the incidents in London with posters glorifying terrorism - which shocked the country - to see that the authorities might benefit from a clearer framework to intervene quickly when boundaries are crossed.

I think most people would agree that no one should be able to publicly celebrate and glorify what happened in London in July and walk away from the consequences, nor should they be able to form organisations to celebrate and glorify atrocities only to escape censure simply by adding a disclaimer that from the act of glorification it should not be assumed that anyone will emulate them. Indeed, if we withdraw glorification from the definition of indirect incitement or from the grounds for proscribing organisations this would send a signal that we could not reach a consensus on how serious this issue is.

None of this threatens our unshakeable commitment to freedom of speech; nor is it in any way whatever aimed at the decent law-abiding Muslim community of Britain - indeed I want to pay tribute to the way many organisations within the Muslim community condemned the protests.

Integration

We have had a great deal of success - especially since July - forging a common front against terrorism. And we should build on this - so we tackle together not just terrorism, but the roots of terrorism - the extremism which seeks to justify it, and the grievances that give it an audience.

In particular we must ensure that young Muslims have a voice in this debate and all the decisions that affect them.

It is a problem for the whole of society that British Muslims are twice as likely to be jobless, twice as likely to be on low incomes, twice as likely to live in a deprived area. I have called for a greater focus on tackling these inequalities, driving up the educational attainment of pupils from ethnic minorities and a more comprehensive new deal effort - including confronting the fact that language can be a barrier to economic opportunity as well as social integration.

But the partnership we need is not only to tackle social and economic inequalities but also to expose the extremism which condones or encourages violence in place of dialogue and debate.

We should work to involve all parts of the British Muslim faith in ensuring that young Muslims have access to authoritative interpreters of Islam of their own generation and outlook. But the challenge of integration is one which if we are to succeed must draw in the whole of society.

Britishness

I have suggested that we do more to value the ideals of Britishness – our commitment to liberty, responsibility and fairness - and its symbols and institutions and in particular I suggest today we recognise and show we value the contribution of our police, emergency and security services, our military and our armed forces and the contribution of all those who fought in the great wars of the last century.

Far from failing to teach history on these great times of conflict and courage we must do more to remember them so that they will never be forgotten.

In Armistice Day and Remembrance Sunday "we remember the fallen" - and it is right and fitting to honour them.

So, after approval from Her Majesty the Queen I can announce that the Treasury will allocate £1.5 million from the proceeds from the coin celebrating the 200th anniversary of the Battle of Trafalgar to help fund the memorial in Staffordshire for the men and women in our armed forces who have given their lives.

The national Veterans' Day is designed to thank today's generation of ex-servicemen and women for their service to our country. I propose ceremonies in every constituency and locality of the country to mark national Veterans' Day - where we present veterans with veterans medals at local ceremonies and we will consult with veterans' groups in taking this forward. Today the Defence Secretary is announcing that we will extend veterans badges to all those who served until 1960 including all who did national service.

And to involve young people more in celebrating the contribution of our armed forces - he and I would like to pilot an expansion of our cadet forces, especially in state schools. So we have asked Ian Russell to fundraise with the private sector, with funding matched by the government.

And we should ask young people to play a leading role in future Veterans' Day celebrations - in particular volunteering to tape and video the memories of veterans for a veterans archive - led by a prominent national figure and supported by government and hopefully lottery funding - so that we have a local and national record of pride and achievement that measures up to the contribution our armed forces have made.

I started by saying that on July 7th the British people stood as one. The victims of that day will

never be forgotten. Accordingly the Treasury stands ready to play a part in funding a memorial that victims families may consider fitting.

Conclusion

The global terrorist threat is such that we cannot afford not to be vigilant at all times.

I have suggested how this global terrorist problem must be fought globally - with all the means at our disposal: military, security, intelligence, economic and culture.

We will not yield, relax, rest, become complacent or lower our guard but will use every means, every necessary resource - all methods of diplomacy, all means of intelligence, all tools of law, policing and our security and military forces.

At no point should any serious decision-maker be soft or posture on security matters and refuse to acknowledge the new world we are in. Instead we must be tough-minded, long-termist and solid in our resolution. We should remember July 7th and July 21st, September 11th, the Bali bombings, the Spanish atrocities and terrorist acts killing innocent people across every continent.

Because July 7th reminded us that we must find strength not just in shared vigilance, but in the strength of an indomitable common purpose, it is right to re-emphasise and strengthen the responsibilities each and all of us owe our country as British citizens. By being tough on security, with strengthened resources and powers, and tough on accountability, with safeguards for individuals and oversight through Parliament, we can make Britain safer and more secure while affirming our very British commitment to the liberties of the individual and showing we will never sacrifice the very values terrorism wishes to destroy.

And around this I believe it s our responsibility to build a strong unified national consensus which reflects a modern patriotic purpose that - every day and without fail, we will do what is right to protect the security and liberties of our citizens and country, and in the face of global terrorism we will prevail.

March 1, 2007
HP-288

Paulson Appoints Carfine as Fiscal Assistant Secretary

Washington, D.C.--Treasury Secretary Henry M. Paulson, Jr. today announced the appointment of Kenneth E. Carfine to serve as Treasury Fiscal Assistant Secretary.

"Ken Carfine has served the Treasury with distinction for more than 30 years," said Secretary Paulson. "He has been a truly dedicated public servant, rising through the ranks of this Department and proving that he possesses the experience and talent to take up the important responsibilities of this critical position."

Carfine has served as Treasury Deputy Assistant Secretary for Fiscal Operations and Policy since April 2003. He began his Treasury career at the Financial Management Service in 1973, holding positions with increasing responsibility in banking, cash management, payments, check claims, and government-wide accounting.

The Fiscal Assistant Secretary, who reports to the Under Secretary for Domestic Finance, manages the Office of the Fiscal Assistant Secretary. The office develops policy on payments, collections, debt financing operations, electronic commerce, government wide accounting, and government investment fund management. The Office also manages the government's daily cash position and produces the cash and debt forecasts used to determine the size and timing of the government's financing operations.

The Fiscal Assistant Secretary oversees the Financial Management Service and the Bureau of the Public Debt. These Treasury bureaus operate the financial infrastructure of the Federal government, including payments, collections, cash management, financing, central accounting, issuance of Treasury securities, and delinquent debt collection.

Secretary Paulson will swear in Carfine on Thursday, March 15.

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March 1, 2007
HP-289

Paulson Statement on Assistant Secretary Henry Resignation

Washington, D.C. - Treasury Secretary Henry M. Paulson made the following statement today regarding the resignation of Assistant Secretary Emil W. Henry, Jr.:

"Emil has been an outstanding member of my senior team and a superb public servant. I appreciate his counsel, insights and expertise. As Assistant Secretary for Financial Institutions, Emil was integral to many important Treasury initiatives, including increasing our capital markets competitiveness, reform of the government sponsored enterprises (GSEs), reducing the regulatory burden on our nation's financial institutions, and spearheading our efforts for preparation in the event of a financial crisis.

"Not long after he arrived at Treasury, Emil was asked to take on the additional duties of the Assistant Secretary for Financial Markets, where he successfully guided the reintroduction of the 30-year-bond, led our efforts to monitor the growth of hedge funds and derivatives, and worked closely with the President's Working Group on Financial Markets. One job is a handful; two an unprecedented commitment. He managed both jobs with excellence.

"Emil is a consummate team player. He has always put the Department and his duties as a public servant before himself. I appreciate that he has offered to stay at Treasury until his successor is confirmed to ensure a seamless transition.

"The Department will miss his creative thinking, energy and tremendous leadership. I respect his decision to return to private life. I know that commuting between Washington and New York has been difficult for Emil and a burden on his family. With great appreciation, I wish him continued success in his career and personal life."

REPORTS

- Resignation Letter

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

March 1, 2007

The Honorable George W. Bush
President
The White House
Washington, D.C. 20500

Dear Mr. President:

It has been the honor of my lifetime to serve in your administration as Assistant Secretary of the Treasury. However, for the past year and a half, I have been living away from my wife and three teenage children in New York. It is now time for me to reengage with my family and return to private life.

So, with some sadness, I tender my resignation. I will stay flexible as to my departure date to be helpful in a smooth transition for my successor, and to ensure that current initiatives receive their proper attention. Therefore, I propose my resignation be effective this spring.

Thank you for your confidence in me. But even more importantly, thank you for providing me the opportunity to experience the noble calling of public service. It is true that public service requires great sacrifice. The rewards of such service, however, far exceed the cost.

I am grateful to have had the opportunity to serve you and both Secretaries Paulson and Snow. The Treasury is a remarkable institution filled with extraordinary individuals. I am proud to have worked with such a group and thank you for giving me the opportunity to work on so many important initiatives including enhancing the competitiveness of our capital markets, working closely with the President's Working Group on Financial Markets, establishing comprehensive procedures and protocols to protect our financial institutions and markets in the event of a crisis, reviewing the explosive growth of hedge funds and derivatives, reintroducing the 30-year bond, launching the National Strategy for Financial Literacy, working to improve and reform the Terrorism Risk Insurance Act and the GSEs.

I will leave my government service confident in the superb financial stewardship of our nation by those I leave behind and recognizing your personal dedication to the key drivers of growth and economic opportunity: individuals, the marketplace, innovation, and entrepreneurship.

Respectfully yours,

Emil W. Henry, Jr.

March 1, 2007
HP-290

Paulson Statement on President's Intent to Nominate Nason for Assistant Secretary

Washington, D.C.--Treasury Secretary Henry M. Paulson released the following statement today regarding the President's intent to nominate David G. Nason for the position of Assistant Secretary for Financial Institutions.

"I am truly pleased with the President's intention to nominate David Nason to succeed Assistant Secretary Emil Henry. David has already shown great commitment to the President's economic agenda and to the Treasury Department as a Deputy Assistant Secretary for Financial Institutions.

"Since arriving at Treasury, David has been a key member of the domestic finance team. He has demonstrated sound judgment, leadership, and technical sophistication with his work to improve the government sponsored enterprises' regulatory structures and to reform the Terrorism Risk Insurance Act.

"David has also been critical in shaping Treasury's policy on enhancing the competitiveness of the U.S. capital markets and helping the Department to fulfill the important duties of the President's Working Group on Financial Markets. His prior service at the Securities and Exchange Commission has complimented his work at Treasury quite well.

"From the moment I arrived at the Department, I was impressed with David's expertise, dedication, and professionalism and I could see that he was greatly respected by his colleagues. I have the utmost confidence in his abilities and look forward to working with the Senate to see David confirmed."

March 1, 2007
hp-291

Media Advisory:
Treasury Secretary Paulson to Visit Tokyo, Seoul, Beijing and Deliver Speech in Shanghai Next Week

Treasury Secretary Henry M. Paulson, Jr. will travel to Tokyo, Seoul, Beijing, and Shanghai next week to meet with government officials and local business leaders. The Secretary will deliver a speech in Shanghai on March 8 at the Shanghai Futures Exchange.

The Secretary will be in Tokyo on March 5-6 to hold bilateral meetings with Prime Minister Abe, Finance Minister Omi, Bank of Japan Governor Fukui, Minister for Economic and Fiscal Policy Ota, and Financial Services Minister Yamamoto, among others. He will travel to Seoul on March 6, where he will hold bilateral meetings with President Roh, Deputy Prime Minister and Minister of Finance and Economy Kwon, and Trade Minister Kim. He will meet with Vice Premier Wu Yi in Beijing on March 7 before going on to Shanghai. While in Shanghai, Secretary Paulson will meet with financial sector leaders and local government officials, and deliver a speech on Chinese financial markets reform on March 8.

The following event is open to credentialed media:

Who U. S. Treasury Secretary Henry M. Paulson, Jr.
What Speech on Financial Markets Reform in China
When Thursday, March 8, 9:30 a.m. Local Time

Where Shanghai Futures Exchange
Shanghai

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March 5, 2007
HP-292

Secretary Paulson Names James H. Freis, Jr. as the New Director of FinCEN

U.S. Treasury Secretary Henry M. Paulson, Jr. today named James H. Freis, Jr. as the new Director of the Financial Crimes Enforcement Network (FinCEN), a bureau of the U.S. Treasury Department. Freis currently serves as Deputy Assistant General Counsel for Enforcement & Intelligence.

"Jim brings leadership, financial expertise and international experience that will serve our nation well as Director of FinCEN. I am pleased that he will take over and lead FinCEN's critical efforts to safeguard the financial sector from illicit activity. Over the past two years at Treasury, Jim has contributed greatly to Treasury's efforts to protect the country against terrorist financiers, money launderers, and other criminals who abuse the financial system," said Paulson.

As Deputy Assistant General Counsel, Freis provides legal support to Treasury's Office of Terrorism and Financial Intelligence, including supervising the legal counsel to FinCEN, the Office of Foreign Assets Control, and the Treasury Executive Office for Asset Forfeiture. He is also responsible for developing international financial measures against rogue states.

Before coming to Treasury, Freis served as Senior Counsel in the Legal Service of the Bank for International Settlements in Basel, Switzerland, where he supported the banking and risk control departments in providing financial services to central banks and international organizations for management of monetary reserves. He also had regular interaction with the Basel-based committees of experts setting international financial standards. He previously served in the Federal Reserve Bank of New York's legal department, where he advised on payment and settlement systems issues at wholesale and retail levels, administration of foreign government and central bank accounts, and legislative and regulatory reform. He was part of the successful defense of the Bank before the Iran-U.S. Claims Tribunal in The Hague with respect to the management of Iranian funds during the hostage crisis. Freis also spent one year working in the financial sector in Germany.

Freis earned his Juris Doctorate from Harvard Law School and his bachelors degree from Georgetown University, graduating with honors from each institution. He is an attorney-at-law and a Chartered Financial Analyst (CFA) charterholder. Freis currently resides in Washington, DC with his wife and two children.

The Financial Crimes Enforcement Network is a bureau within the Treasury Department charged with safeguarding the financial system from money laundering and other illicit financial activity through the administration of the Bank Secrecy Act. FinCEN supports the law enforcement and intelligence communities, as well as the regulatory agencies, through the sharing and analysis of financial intelligence.

Freis replaces Robert Werner, who departed FinCEN in December 2006 to pursue a career in the private sector.

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March 5, 2007
hp-293

Media Advisory:
Ryan to Visit Conn. to Discuss Hedge Funds

U.S. Treasury Assistant Secretary for Financial Markets Anthony Ryan will travel to Greenwich, Conn. tomorrow to deliver remarks on hedge funds at the World Hedge Fund Forum.

Who U.S. Treasury Assistant Secretary for Financial Markets Anthony Ryan

What Remarks on Hedge Funds

When Tuesday, March 6, 12:20 p.m. (EST)

Where Connecticut Hedge Fund Association World Hedge Fund Forum
Hyatt Regency Greenwich
1800 East Putnam Avenue
Old Greenwich, Conn.

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March 5, 2007
hp-294

US Treasury to Award NYC Organization For Excellence in Financial Education

U.S. Treasury Deputy Assistant Secretary for Financial Education Dan Iannicola, Jr. will recognize New York City non-profit Working in Support of Education (W!SE) as a leader in financial education tomorrow at the High School of Economics and Finance. Iannicola will join New York City Department of Consumer Affairs Commissioner Jonathan Mintz to present the John Sherman Award.

The Treasury's Office of Financial Education presents Sherman Awards to raise awareness of the urgent need for financial education and the effective practices to help meet that need. The Office of Financial Education has presented such awards to 15 organizations since its creation in 2003.

W!SE is a non-profit organization that provides innovative programs focused on financial education and literacy, business and social entrepreneurship and preparation for college and the workplace. Treasury chose this program because it partners with schools that agree to teach 12th grade students a 6-8 week unit on personal finance as part of an Economics course required by the state of New York. W!SE's Financial Literacy Certification Program encourages teachers to teach personal finance and measures the students' performance after the unit is taught. Through this program, W!SE has reached thousands of high school students throughout New York City.

Who U.S. Treasury Deputy Assistant Secretary for Financial Education Dan Iannicola, Jr.
What Sherman Award Presentation
When Tuesday, March 6, 12:00 p.m. (EST)
Where High School of Economics and Finance
10th Floor/Library
100 Trinity Place
New York, NY

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March 5, 2007
2007-3-5-16-27-45-3252

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 $66,126 million as of the end of that week, compared to $65,403 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	February 23, 2007			March 2, 2007		
TOTAL	65,403			66,126		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	12,521	10,506	23,027	12,570	10,892	23,462
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,501	5,120	17,621	12,526	5,308	17,834
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]			4,881			4,874
3. Special Drawing Rights (SDRs) [2]			8,833			8,915
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	February 23, 2007			March 2, 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						
	February 23, 2007			March 2, 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.

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March 5, 2007
HP-295

Media Advisory:
Treasury, IRS, Stakeholders To Discuss Ways To Improve Taxpayer Compliance

Treasury Assistant Secretary for Tax Policy Eric Solomon and IRS Commissioner Mark W. Everson will be moderating a roundtable discussion with representatives of the business community, tax experts, and current and former government officials on ways to improve compliance and reduce the tax gap.

WHO Treasury Assistant Secretary for Tax Policy Eric Solomon
IRS Commissioner Mark W. Everson

Panelists

Pamela Olson, American Bar Association
Lawrence Gibbs, Former IRS Commissioner
Thomas Sullivan, U.S. Small Business Administration
Nina Olson, National Taxpayer Advocate
Scott Hodge, The Tax Foundation
Eric Toder, The Urban Institute
Macey Davis, National Federation of Independent Business
Giovanni Coratolo, U.S. Chamber of Commerce
Jeffrey Hoops, American Institute of Certified Public Accountants
Robert McDonough, Polaroid Corporation

WHAT A Roundtable Discussion on Ways to Improve Tax Compliance

WHEN Friday, March 9, 2007 9:30 a.m. EST

WHERE IRS Auditorium
7th Floor
Internal Revenue Service Building
1111 Constitution Ave., NW
Washington, DC

Note: For clearance into the IRS Building, please call IRS Media Relations at (202) 622-4000

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REPORTS

- Remarks from Jeffrey Hoops, American Institute of Certified Public Accountants
- Remarks from Macey Davis, National Federation of Independent Business

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS STATEMENT PRESENTED TO

DEPARTMENT OF THE TREASURY AND THE INTERNAL REVENUE SERVICE

ROUNDTABLE DISCUSSION ON THE TAX GAP

March 9, 2007

The American Institute of Certified Public Accountants thanks the Department of Treasury and the Internal Revenue Service for the opportunity to appear before you today. I am Jeffrey R. Hoops, Chair of the AICPA's Tax Executive Committee; and a tax partner with Ernst & Young, LLP, New York, New York.

The AICPA is the national, professional organization of certified public accountants comprised of approximately 350,000 members. Our members advise clients on federal, state, and international tax matters and prepare income and other tax returns for millions of Americans. They provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America's largest businesses. It is from this broad perspective that we offer our comments today on the tax gap and improving compliance with the nation's tax laws.

GENERAL COMMENTS

The AICPA commends Treasury for the September 2006 release of its report entitled, *A Comprehensive Strategy for Reducing the Tax Gap.* We strongly support Treasury's comprehensive multi-year strategy to reduce the tax gap which consists of seven integrated components: (1) reducing opportunities for evasion; (2) making a multi-year commitment to research; (3) continuing improvements in information technology; (4) improving compliance activities; (5) enhancing taxpayer service; (6) reforming and simplifying the tax law; and (7) coordinating with partners and stakeholders. We have organized our written statement around these seven strategies, including reiteration of our long-standing support for a fully funded IRS budget.

Closing the tax gap is consistent with the AICPA Tax Division's Mission Statement which places a major emphasis on promoting the interests of the public.[1] Similarly, our current strategic plan states that:

> As representatives of CPAs in tax practice, the Tax Section best serves the public interest by assisting members to hone their professional skills, regulating unacceptable

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[1] The Tax Section serves the public interest by assisting AICPA members to be the preeminent professional providers of tax services, and by advocating sound tax policy and effective tax administration.

professional conduct, and – simultaneously – demonstrating our commitment to promoting and developing an efficient and effective system of taxation.

The AICPA is committed to this common effort of mitigating the tax gap and fostering fair and efficient tax administration. In this context, the AICPA plans to survey our Tax Section members at the close of the 2007 filing season to assess the perspective of CPAs on ways to address the tax gap.

CLOSING THE TAX GAP CALLS FOR A FULLY FUNDED IRS BUDGET

A central component of any tax gap strategy is ensuring a fully funded IRS budget. For this reason, we strongly support full funding of the Internal Revenue Service's fiscal year 2008 budget. We have long advocated funding levels which would allow the IRS to efficiently and effectively administer the tax laws and collect taxes. Giving the IRS the resources necessary to properly process tax returns and enforce the tax laws is vital to maintaining our voluntary compliance system.

We agree with the IRS Oversight Board that "just applying additional resources to do more of what is being done today" is not sufficient, and any plan to address the tax gap must be more comprehensive.[2] Treasury's September 2006 report aptly adopts a comprehensive view by including an IRS commitment to customer service, a greater emphasis on research to spot major areas of non-compliance, and a major focus on IRS enforcement activities. However, none of these objectives can be seriously accomplished without addressing a realistically funded IRS budget for fiscal year 2008.

Commissioner Everson recognizes that "[a] critical element in [the Service's] ability to make a serious dent in the tax gap is to have the necessary resources available to fund [the IRS's] service, enforcement, and information technology programs."[3] We agree. The AICPA encourages this type of balanced approach and stands ready to work with the Treasury and the Service to ensure that the tax gap dilemma is properly addressed and the needs of America's taxpayers are fulfilled. As we have stated in the past, all taxpayers must have access to resources that enable them to fulfill their responsibilities, and budgetary funding must be provided to ensure this access.

A balanced approach to customer service and enforcement is critical. At the same time, reductions in IRS funding requests that focus too much on cuts in customer service only serve to undercut tax compliance over the longer term, with the nation's taxpayers suffering as a direct result.

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2 IRS Oversight Board 2006 Annual Report, January 2007, page 36.

3 IRS Commissioner Mark Everson, Statement on "Deconstructing the Tax Code: Uncollected Taxes and the Issue of Transparency," before the Senate Homeland Security and Governmental Affairs Committee, Subcommittee on Federal Financial Management, Government Information and International Security, September 26, 2006.

1. REDUCE OPPORTUNITIES FOR EVASION

The AICPA supports Treasury and IRS's efforts to develop constructive legislative and administrative policies designed to reduce opportunities for evasion. We commend Treasury for recognizing that the issuance of regulations and administrative guidance is a critical component of responding to the tax gap problem.[4] In this context, we appreciate Treasury and IRS's periodic publication and updating of the "Priority Guidance Plan," providing a comprehensive list of guidance the government has scheduled for completion during the fiscal year. The AICPA annually provides comments to the Administration regarding our suggestions for new guidance projects; and we look forward to providing our updated guidance recommendations in the next few months.

The Administration's proposed fiscal year 2008 budget includes a number of tax administration proposals that target the tax gap. These proposals include (among others) expansion of information reporting, basis reporting on securities sales, expanded electronic filing for certain large organizations, and increases in the scope of tax penalties. We are currently reviewing the broad range of tax administration proposals contained in the 2008 budget, and we hope to provide comments on a number of these proposals in the coming weeks. At this time, we offer some important observations on tax penalties and basis reporting on securities sales.

Tax Penalties and the Tax Gap

A number of legislative proposals involving tax penalties have been raised under the guise of closing the tax gap. As a general principle, the AICPA supports carefully crafted penalties that promote tax compliance and result in a meaningful reduction in the tax gap. However, we are concerned that many of these civil penalty proposals are being raised by Congress and the Administration in a narrow, rifle-shot perspective. Instead, we believe greater levels of tax compliance could be achieved among the public if Congress established a legislative oversight process similar to that which was used in the drafting of the *Improved Penalty Administration and Compliance Tax Act*, which ultimately became law as part of the *Omnibus Budget and Reconciliation Act of 1989.*

In our opinion, establishing a broad legislative oversight (penalty) review process would not only achieve higher levels of tax compliance, but should also result in greater numbers of taxpayers believing that tax fairness has been achieved. This is consistent with a 2006 statement by J. Russell George, Treasury Inspector General for Tax Administration (TIGTA), that "...it is often difficult to ascertain whether a taxpayer has intentionally evaded taxes, or whether there was an honest misunderstanding. Therefore, the IRS use of punitive penalties must be tempered to ensure taxpayers are not penalized for honest misunderstandings."[5]

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[4] Treasury Report entitled, *A Strategy for Reducing the Tax Gap*, September 2006. See report section III; subsection 1, Reduce Opportunities for Evasion.

[5] Statement of the Honorable J. Russell George, Treasury Inspector General for Tax Administration, on "A Closer Look at the Size and Sources of the Tax Gap," before the Senate Finance Committee, Subcommittee on Taxation and IRS Oversight, July 26, 2006; see document section entitled "Reduce the Complexity of the Code."

Prior to the 1989 reforms, taxpayers and tax professionals saw penalties as: (1) an IRS tool for punishing taxpayers and a bargaining chip in audit examinations; and (2) a means of raising revenues for the U.S. Treasury. Before 1989, penalties were viewed as being applied unevenly in differing regions of the country, as well as lacking in coordination and overlapping in application.[6] Representative J.J. Pickle, one of the main proponents of penalty reform at the time, viewed the 1989 reform measures as more fair and less complex than the prior penalty regime, and an inherent extension of tax reform and simplification.[7] The fundamental purpose of the 1989 penalty reform was to overcome the piecemeal approach to legislative penalty changes.

Basis Reporting on Securities Sales

The AICPA conceptually supports the Administration's proposal requiring brokers to report to the IRS a customer's adjusted basis in publicly-traded securities sold during the preceding taxable year. While we believe that this proposal could significantly increase tax compliance with respect to the reporting of capital gains and loss transactions over the longer term, we stress that the technical problems associated with implementation of this proposal in the short-term should not be underestimated.

We believe that the technical problems involved with the proposal can be addressed and overcome, but the pace with respect to implementation of a capital gains basis reporting initiative should not get ahead of the ability of the IRS to utilize such basis information for examination purposes. Otherwise, taxpayers would be subjected to additional reporting burdens without a commensurate ability within the Service to utilize the basis information for enforcement purposes. In particular, we take note of the June 2006 Government Accountability Office (GAO) report[8] acknowledging the challenges relating to: (1) the Service's computer system capacity to store and use additional data and (2) the potential that the Service will be unable to process and match capital gains and loss transaction data reported on Form 1040, Schedule D.

The proposal would presumably require brokers to furnish customers with information statements showing the same basis information that the brokers provide the IRS. Assuming the information is provided by brokers to taxpayers in an understandable form, we believe this is a positive requirement. We would encourage brokers to provide this basis information involving capital gains and loss transactions to taxpayers in a format that would enable taxpayers and tax preparers to download the basis information directly into their tax return preparation software. This would enable a taxpayer to provide the IRS with details of each capital gain and loss transaction on a separate line on Form 1040, Schedule D and D-1. Absent the availability of such software, we urge the IRS to maintain its current policy of permitting individual taxpayers to provide summary totals for security transactions on Schedule D and D-1, coupled with the attachment of brokerage statements to the Form 1040.

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6 "Tax Politics and a New Substantial Understatement Penalty," by Dennis J. Ventry, Jr., Tax Notes Today, October 3, 2006.

7 Ibid.

8 General Accountability Office Report *on Capital Gains Tax Gap, Requiring Brokers to Report Securities Cost Basis Would Improve Compliance if Related Challenges Are Addressed*, June 2006, page 28.

The proposal includes rules for reporting basis when the reporting broker executed the sale, but not the original purchase. We support the requirement that, when securities are transferred from one broker to another, the transferring broker must furnish the transferee broker with sufficient detail relating to the basis of the securities being transferred. However, we are concerned about the compliance burdens placed on taxpayers who receive securities by gift, inheritance, or through a direct purchase from the issuing company, and who later transfer the securities into a brokerage account. In these cases, the proposal contemplates the promulgation of regulations requiring taxpayers to furnish the basis information to the transferee broker. We urge caution in providing for the routine assessment of a civil penalty against taxpayers for a failure to furnish correct basis information due to the rigorous recordkeeping burdens that may be associated with retaining such information.

Taxpayers will have difficulty in tracking the basis of securities involved with corporate spin-offs, recapitalizations, and mergers. Moreover, there will be circumstances when brokerage houses may inaccurately report basis amounts to customers, such as when: (1) a taxpayer sells securities involving a wash sale under Internal Revenue Code section 1091 and (2) a corporation or regulated investment company (RIC) makes a distribution determined to be a return of capital. Reporting basis information to customers may also prove problematic in cases in which taxpayers have chosen the specific identification method of calculating the basis and holding period of a stock sale. As part of any reporting requirements in this area, brokers should be required to provide straightforward mechanisms by which taxpayers can electronically notify the broker of a specific lot that should be sold. These situations need to be carefully reviewed before implementing a broad capital gains and loss basis reporting rule.

2. MAKE A MULTI-YEAR COMMITMENT TO RESEARCH

The AICPA supports Treasury's call for a multi-year commitment to research as part of its comprehensive strategy for mitigating the tax gap. In this context, we support the IRS's development and implementation of the National Research Program (NRP), the Service's primary research program involving compliance data. We believe the NRP is a positive foundation for meeting the IRS's needs for data and analysis of the tax gap. When the Service rolled out NRP a few years ago with a focus on individual tax returns, the taxpayer and practitioner communities were deeply concerned that the program would prove extremely burdensome to the public, much like the NRP's unpopular predecessor – the Taxpayer Compliance Measurement Program (TCMP).

The Service's outreach and discussions with stakeholders about the NRP's objectives, prior to the program's actual rollout, did much to lessen the public's concerns about the NRP's initial focus on 46,000 individual tax returns from tax year 2001. The Service has now turned the focus of the NRP to business returns, and it is starting the planning process for further individual return research. With this in mind, we reiterate our call for the IRS to maintain a high level of outreach and dialogue with the stakeholder community to ensure positive implementation and minimal taxpayer burdens, both critical ingredients for the program's success.

As the IRS increasingly relies on the NRP to better target its examination and compliance activities, we stress the ongoing need to continuously refine the tax gap data, including the level of the overall tax gap and identification of the types of industries and taxpayers contributing to the growth in the tax gap "numbers." This recommendation involves further analysis of the components of the tax gap.

3. CONTINUE IMPROVEMENTS IN INFORMATION TECHNOLOGY

The fiscal year 2008 budget submission recommends a $282.1 million direct appropriation for Business Systems Modernization (BSM). Although we are not in a position to evaluate what constitutes an appropriate funding level, we are pleased that the Administration is requesting a significant increase in BSM appropriation funds over the prior fiscal year.[9]

The AICPA appreciates Treasury's view that "[s]uccessful BSM program delivery during the past two years demonstrates that the IRS has established a foundation of disciplined project delivery and accomplishment."[10] We support IRS's intent to continue to focus on four key tax administration systems: (1) Customer Account Data Engine (CADE), (2) Account Management Services (AMS), (3) Modernized e-File (MeF), and (4) Filing and Payment Compliance (F&PC). BSM must remain a central feature of the Service's strategic plan; and we believe systems like CADE (designed to replace the Service's ancient Master File System) should ultimately yield benefits to both taxpayers and IRS employees through reduced burden and faster account resolution.

4. IMPROVE COMPLIANCE ACTIVITIES

We support Treasury's tax gap strategy involving improving compliance activities. This strategy is generally consistent with the AICPA's September 2005 study entitled, *Understanding Tax Reform: A Guide to 21st Century Alternatives*. The report highlights increases in IRS examinations, information reporting, and withholding as approaches to reducing the tax gap.[11]

While not endorsing any specific recommendations for closing the tax gap, the AICPA report does emphasize that using any of these approaches would impose additional burdens on taxpayers, and "the cost of these new burdens should not overwhelm the benefit of more effective tax administration."[12]

IRS and Treasury acknowledge that any proposal to close the tax gap must be balanced against imposing unacceptable burdens on enforcement resources and on the vast majority of America's

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9 Department of Treasury-Budget in Brief Fiscal Year 2008, February 2006, page 63.

10 Ibid, pages 66-67.

11 AICPA Report entitled, *Understanding Tax Reform: A Guide to 21st Century Alternative*, Chapter 4, subsection D entitled, *Closing the 'Tax Gap*, September 2005.

12 Ibid.

taxpaying public who are otherwise compliant with the tax laws. We believe that this is the right approach and appreciate IRS and Treasury's quest to balance the need for closing the tax gap with imposing unacceptable burdens on compliant taxpayers.

Modernized E-File

The AICPA appreciates the benefits electronic filing offers to both tax administration and taxpayers, particularly as it may help to mitigate the tax gap. Therefore, we support the Service's continued development of electronic filing, as well as further improvements in the modernized e-file (MeF) platform. CPAs recognize the administrative efficiencies and budgetary savings electronic tax administration achieves for the IRS, and the customer service benefits that accrue to taxpayers from an effective electronic filing (e-file) program. The administrative benefits of e-filing include faster tax processing, reduced cycle time, quicker identification of emerging audit trends, and the potential for more current resolution of taxpayer uncertainties.

We applaud the success the IRS had with the e-filing program during the 2006 filing season. In part, we believe the e-file program was successful because of the unprecedented effort the IRS made to gain the input and involvement of affected parties. The AICPA is proud of the proactive role it played in surfacing issues and solutions that ultimately contributed to the success of e-file; and we will continue to work closely with the Service to meet its expectations for the e-file program for the 2007 filing season. In this context, the AICPA is closely consulting with the Service on implementing the mandatory e-file programs for large corporations, exempt organizations and partnerships during the current filing season.

We support the IRS's web-based "e-services" for tax professionals and taxpayers. Through e-services, practitioners and taxpayers have access to a suite of online products, including the Preparer Tax Identification Number (PTIN) Application; the Online e-file Application; Electronic Account Resolution (EAR); submission of Form 2848, Power of Attorney and Declaration of Representative; and the Service's Transcript Delivery System (TDS).

When the program was launched in 2004, e-services were available to tax professionals who e-filed 100 or more individual returns. The IRS lowered the threshold in 2005 by making the e-services suite available to tax professionals who e-file 5 or more individual and business income tax returns. The AICPA supports further expansion of e-services. We see the program as an excellent way of addressing the tax gap, creating a process whereby the IRS's interaction with tax professionals is more efficient and generates significant cost savings to the Service.

Enforcement Initiatives

Like other stakeholders, the AICPA is concerned about the extent of the gross and net tax gap, estimated at $345 billion and $290 billion respectively. On a gross tax gap basis, the IRS estimates that individual (including Schedule C) taxpayers are responsible for an underreporting of $285 billion in income taxes; and employment taxes and corporate income taxes are underreported by $54 billion and $30 billion respectively.

These numbers reveal that a significant portion of the tax gap involves the small business and self-employed communities. Although we are not in a position to recommend a specific funding level, we do support increasing the budgetary resources provided to the Small Business/Self-Employed Division for enforcement purposes. By increasing the number of SB/SE examination and collections personnel, the AICPA believes the IRS can make a reasonable dent in the tax gap.

As a general principle, we believe the recruitment, development, and retention of a quality workforce is essential for the IRS, whether we are talking about SB/SE personnel or the workforce of another IRS division or function. Unfortunately, the IRS is experiencing a higher than normal attrition rate among its mid-level and rank-and-file employees, primarily through retirements. Replacing these retirees and the resulting loss of "institutional memory" is a major challenge for the IRS. The AICPA stands ready to support the IRS in achieving its goals for staffing over the coming years. In this context, we have found there are a number of CPAs in mid-level positions and recent accounting graduates who are interested in government and public service.

To further enhance the Service's enforcement effectiveness, Congress must also allocate sufficient resources for employee training. The AICPA can be of immense help to the IRS in this area. First, we suggest that the Service seek prior input from key stakeholders on the details and development of training programs, including suggestions from the AICPA and other stakeholders regarding training materials for new initiatives. Second, we recommend that the Service utilize CPAs and other stakeholders in teaching IRS personnel. By including outside tax professionals in the training process, we believe IRS employees become more sensitized to the burdens that taxpayers face due to complicated tax laws and regulations. Private sector involvement in the training process helps IRS employees conduct new tax administration programs effectively, while minimizing intrusion and taxpayer burdens.

Private Debt Collection Efforts

The IRS has launched the private debt collection program authorized by the *American Jobs Creation Act of 2004*. We appreciate how private debt collection agencies could help the IRS address the tax gap through resolution of a portion of its collection inventory, and that the program has the potential of enabling the Service to focus the energies of its employees on the more difficult or complex collection cases. The Service has announced that private debt collection agencies will be held to the "same standards of service and protection of taxpayer rights" as required of IRS employees.

We believe that this program is a critical test program for the Service, especially in terms of enabling the IRS to leverage private sector involvement with a reallocation of vital resources towards critical needs. Nevertheless, because collections is a program which has historically been an area of chronic taxpayer complaints and alleged taxpayer rights abuses, we strongly urge Treasury and the IRS to: (1) closely monitor implementation of the private debt collection program and (2) establish positive and realistic performance measures for the private debt collection firms.

5. ENHANCE TAXPAYER SERVICE

The AICPA commends Treasury for making enhancement of taxpayer service a central strategy for closing the tax gap. We believe this strategy is critical to helping taxpayers be aware of their legal rights and obligations under the tax law, as well as avoid inadvertent errors. Our discussion of taxpayer service focuses on: (1) the Taxpayer Assistance Blueprint, (2) the pre-filing phase and taxpayer education, and (3) the National Taxpayer Advocate.

Taxpayer Assistance Blueprint

The AICPA supports the Taxpayer Assistance Blueprint (TAB) – a congressionally mandated initiative calling for development of a comprehensive taxpayer service program for the IRS. TAB involves a collaborative effort by the IRS, the IRS Oversight Board, and the National Taxpayer Advocate. Phase 1 of the Blueprint, delivered to Congress in April 2006, identified five strategic themes for improving customer service: (1) improve and expand education and awareness activities; (2) optimize the use and support of partner services; (3) enhance self-service options for taxpayers; (4) improve and expand training and support services; and (5) develop short-term performance and long-term outcome goals and metrics.

We understand that Phase 2 of the Blueprint will be delivered to Congress in the near future. As the IRS develops programs to implement the TAB recommendations, we continue to stress the need for the Service to maintain the appropriate balance between customer service and enforcement – a balance that the government, Congress, and stakeholders recognize and support on a conceptual basis.

In his February 16, 2007 testimony before Congress, Commissioner Everson referred to projects that the IRS envisions implementing as part of TAB, including enhancements to the Service's telephone service and www.IRS.gov, as well as multi-year research studies designed to promote an understanding of optimal service delivery and the effect of service on compliance.[13] The AICPA views these projects as laudable, and we stand ready to provide input for TAB throughout the implementation process.

Pre-Filing Phase and Taxpayer Education

As the IRS rolls out projects to implement TAB, the AICPA continues to stress the importance of continuing the Service's commitment to the pre-filing phase within all four operating divisions. We believe this is one of the most critical areas for ensuring an effective customer service philosophy.

Excellent examples of IRS efforts in the pre-filing phase include: (1) the Stakeholder, Partnership, Education and Communications Office (SPEC) in the Wage and Investment Division (W&I); and (2) the Communications, Government Liaison and Disclosure Office (CGL&D) in the Small Business/Self-Employed Division, and SB/SE's broad commitment to

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[13] IRS Commissioner Everson, Statement on the Internal Revenue Service's FY 2008 Budget, before the House Committee on the Budget, February 16, 2007, page 2.

improving communications through websites, conferences, and newsletters. Another critical component is taxpayer education about recordkeeping responsibilities and major areas of noncompliance.

Although SPEC and the predecessor organization to CGL&D were downsized in 2005, with the personnel reassigned to enforcement, the customer service provided during 2006 by these two organizations remained generally very positive. The AICPA and the stakeholder community will continue to monitor these changes and will share any further observations that may develop with the Treasury and IRS with respect to these very important customer service oriented offices within the Service.

National Taxpayer Advocate

We find the two yearly reports issued by the National Taxpayer Advocate to be excellent compendiums of systemic problems and evolving trends within the tax administration and tax policy implementation arenas.[14] In addition to a significant discussion of the tax gap, the major areas of focus within these reports include taxpayer rights proposals, the alternative minimum tax, the Service's Private Debt Collection (PDC) initiative, small business outreach, and collection issues facing low income taxpayers and others.

In addition to systemic advocacy, the Taxpayer Advocate's office performs a vital function of providing taxpayers with an independent channel for resolving individual tax problems. The Advocate assists taxpayers by reviewing requests for assistance with respect to enforcement related cases involving "significant hardship;" and where appropriate, helps craft solutions to relieve such hardship.

6. REFORM AND SIMPLIFY THE TAX LAW

Simplifying the tax laws is a high priority of the AICPA. We fully concur with Treasury's identification of tax simplification as an important element for reducing the tax gap. Commissioner Everson shared similar views when he publicly stated that "the complexity of our current tax system is a significant reason for the tax gap and that fundamental reform and simplification of the tax law is necessary in order to achieve significant reductions."[15]

A significant source of complexity is the almost yearly changes in tax law through new legislation. These constant changes not only make it difficult for tax professionals to keep up technically, but the changes also cause tax software developers to struggle with the production of software updates for taxpayers and tax professionals during the filing season.

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14 See "The National Taxpayer Advocate's Fiscal Year 2007 Objectives Report to Congress," June 30, 2006; and the "National Taxpayer Advocate, 2006 Annual Report to Congress," December 31, 2006.

15 IRS Commissioner Everson, Statement on the Internal Revenue Service's FY 2008 Budget, before the House Committee on the Budget, February 16, 2007, page 13.

We have worked closely with the American Bar Association and the Tax Executives Institute in recent years to jointly identify specific proposals for simplification. Moreover, our 2005 report, *Understanding Tax Reform: A Guide to 21st Century Alternatives,* discusses how many of the goals of tax reform can be achieved by modifying the current income tax system through significant simplification.

The AICPA's 2005 report states that many goals of tax reform can be achieved through "bottom-up reform," which the report refers to as significant simplification of the current income tax system. The report makes a number of simplification recommendations, including: (1) repealing the individual and corporate alternative minimum taxes; (2) consolidating education and retirement savings incentives; (3) simplifying the earned income tax credit; and (4) eliminating phase-outs and temporary provisions when drafting tax legislation.[16]

IRS statistics estimate the net tax gap to be about $290 billion. We believe tax simplification can play a significant role in helping to reduce the overall tax gap, as simplification would: (1) result in fewer errors on tax returns; and (2) reduce taxpayer susceptibility to the marketing of abusive tax shelters.

7. COORDINATE WITH PARTNERS AND STAKEHOLDERS

The AICPA supports Treasury's call for the federal government to coordinate with partners and stakeholders to address the tax gap. We believe this coordination should involve a positive focus on: (1) professional responsibility; (2) a continuing commitment to continuing professional education; and (3) pro bono tax assistance.

Tax Practitioners and Professional Responsibility

We support a strong emphasis on personal integrity and professional responsibility for counteracting the tax gap. In this context, we applaud Commissioner Everson's commitment to high standards for tax professionals and his efforts to upgrade the Office of Professional Responsibility.

The AICPA has a long-standing track record of establishing high professional standards for our CPA members, including the AICPA Code of Professional Conduct and enforceable Statements on Standards for Tax Services (SSTSs). These standards provide meaningful guidance to CPA members in meeting their professional responsibilities.

The AICPA actively communicates with our membership and state CPA societies about the personal integrity of tax professionals, particularly through discussions about our SSTSs and Circular 230. For example, we have strongly promoted the 2005 Circular 230 (final) provisions governing "best practices" for tax advisors and tax shelter, i.e., "covered" opinion standards. We agree with the preamble to the final regulations that: "Tax advisors play a critical role in the

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[16] *Understanding Tax Reform: A Guide to 21st Century Alternatives*, American Institute of Certified Public Accountants, September 2005. See Chapter 4 of the report entitled, *'Bottom-Up' Reform of the Current System.*

Federal tax system, which is founded on principles of compliance and voluntary self-assessment. The tax system is best served when the public has confidence in the honesty and integrity of the professionals providing tax advice."[17]

With respect to abusive transactions, the AICPA has a clear position – we unequivocally support their eradication. We have consistently supported protection of the public interest and prohibitions against misuse of the tax system, as exemplified by our enforceable SSTSs. We continue to be actively engaged in proposing and evaluating legislative and regulatory measures designed to identify and prevent taxpayers from undertaking, and tax advisers from rendering advice on, transactions having no purpose other than the reduction of federal income taxes in an abusive manner.

We also support initiatives focused on ethics training for Service employees. We believe that IRS examination and collections employees must be able to "step into the shoes" of tax professionals and vice versa. Government workers and professional tax practitioners must be able to understand each other to ensure greater strides in tax compliance.

The AICPA needs to point out that our ethical rules do place limits on our members with respect to their professional relationships with clients and what our members can disclose to taxing authorities. For example, under SSTS No. 7, if a CPA is representing a taxpayer in an administrative proceeding with respect to a return, and the professional then becomes aware of an error on the return, the CPA should recommend to the taxpayer the corrective measures to be taken to address the error. However, under our ethical rules, the CPA is *not allowed* to inform the taxing authority without the taxpayer's permission, except where required by law. The SSTSs also state that: (1) it is the taxpayer's responsibility to decide whether to correct the error and; (2) if the client does not correct the error, the CPA should consider resigning as the taxpayer's representative.

Commitment to Continuing Professional Education (CPE)

Consistent with our strong support for high professional standards, we stress that practitioner continuing professional education programs are an important means for mitigating the tax gap. We firmly believe that this commitment helps ensure positive technical competency, values, and ethics among CPAs.

In general, the state boards of accountancy mandate CPE under the purview of protecting the public, particularly given the complexity of the field of accountancy in general, and the scope of the tax law in particular. Moreover, almost all state boards require CPAs to take a professional ethics course. Due to the dynamics of the tax profession, continuing education helps CPAs to maintain and learn the skills necessary to perform in the business world. In this context, the AICPA and the state CPA societies work closely to develop appropriate continuing professional education programs for CPAs that address the technical competencies and standards of professional conduct demanded by the marketplace.

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[17] Internal Revenue Service Bulletin, 2005-4, January 25, 2005, on T.D. 9165, Regulations Governing Practice Before the Internal Revenue Service, see section entitled "Explanation of Provisions."

Similarly, the IRS has developed a series of yearly National Tax Forums designed to address the knowledge and ethics base of mainstream tax professionals. We support the IRS's National Tax Forum program, and, as we did last year, we look forward to participating in the Service's tax forums being planned for 2007. Clearly, a strong commitment to continuing professional education is one of the best ways of promoting strategies for reducing the tax gap.

Pro Bono Tax Assistance and the Tax Gap

The AICPA supports the Service's efforts to partner with professional organizations in the area of pro bono tax assistance. We believe this pro bono tax assistance is a critical element of any strategy to address the tax gap, enabling the IRS to both leverage scarce resources and increase customer service.

Our members are active in their local communities through pro bono activities. They serve at Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites, community and academic-based low-income tax clinics, and other non-profit organizations.

We view pro bono activities by CPAs and other practitioners as an important way for the Service to promote customer service and in ensuring the proper and timely filing of tax returns and payment of taxes, critical components of closing the tax gap. This is particularly true in light of the joint efforts of the IRS, AICPA, and several state CPA societies in response to the devastation caused by Hurricane Katrina and other natural disasters during the Fall 2005 and throughout the 2006 filing season. We joined forces with the Service in programs designed to utilize CPA volunteers: (1) at disaster relief sites in various states and (2) in preparing tax returns for low and moderate income persons affected by the devastating hurricanes. In addition, the IRS has asked CPAs within our state societies to teach local tax practitioner courses and small business tax workshops that IRS staff may have otherwise taught in the past.

IRS ROUNDTABLE ON THE TAX GAP
Statement by Macey Davis, Tax Counsel with NFIB
March 9, 2006

Thank you, Commissioner Everson and Assistant Secretary Solomon, for giving me the opportunity to speak at this roundtable on behalf of the National Federation of Independent Business (NFIB). I am glad to be here to talk about this very important issue to our members and to small businesses in general.

Roughly 80 percent of our members have less than 15 employees. They already think the tax code is complex and burdensome, and there is no doubt that some of the recent tax gap proposals will add to that burden.

Just to give you an idea as to how bad things are now, according to NFIB's national polls roughly 55% of small businesses have to hire an employee or outside firm to keep track of their paperwork. This is costing them an average of more than seventy-five dollars ($75) an hour. Another eighty-eight (88) percent say they are using a paid tax preparer or accountant to prepare their tax return.

Not only is the burden a heavy one, but it is disproportional as well. Tax compliance regulations are costing small firms 67 percent more per employee than large firms.

What does this data tell us? It tells us that we have crafted a tax system that is so complex and burdensome that small businesses are spending valuable time and financial resources on record-keeping and outside help to ensure compliance instead of using these resources to invest and grow their business.

Small Business Can't Afford More Burdens

And now, we want to talk about piling on more burdens that they simply can't afford. At least two proposals from the bluebook will make their burden much worse: the first is requiring information returns on payments made to corporations and the second is requiring TIN verification and optional withholding.

The burden of expanding information reporting on corporations is not just from issuing additional 1099-MISC forms. Additional record-keeping and

postage costs may be necessary. Even with an outside person to handle the paperwork or the returns, it's extra time and money that the compliant small-business can't afford.

And what happens when the IRS receives these forms? Are they prepared to match them? Can they handle the volume? Do they need more funds to improve the current system or prepare for new ones?

Consider the burden by requiring businesses to verify the contractor's TIN. Unless the business has easy access to a real-time verification system that is not riddled with errors, there could be delays in performing and paying for the contractor's service. This can harm the daily operations of a business, and it could disrupt the contractor's cash flow.

Another part to this proposal allows the contractor the option to require the business to withhold. Imagine the administrative nightmare for businesses that have to withhold from some contractors and report information returns on others. Also, consider the complexity involved if each contractor requests a different rate, not to mention that the rates recommended may be unreasonably high.

Who are we after and is the data sufficient to craft targeted proposals?

If we are truly serious about closing the tax gap, then we need to have a better understanding of who the non-compliant taxpayers are and what we know about them. If we're after the underreported business income of a sole proprietor, why are we considering proposals to report information on corporations when that data is from the 1980s?

Even with the more recent data on sole proprietors, there is still so much we don't know. Should we be more focused on business-to-business transactions or consumer-to-business transactions? If it's the latter, requiring information reporting on corporations isn't going to solve that problem.

Further, should we be focused on established businesses or individuals who don't know that their hobby is a business? If it's the latter, it is unlikely that this individual is incorporated. He won't be getting information returns from his consumer clients, unless Congress is prepared to require consumers to file information returns. Are we prepared to go there?

Finally, should we be focused on credit card transactions or cash transactions? If it's the latter, then how will reporting of payment card transactions solve the problem? Are we prepared to eliminate cash transactions as a method of payment?

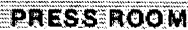
How Far Are We Willing to Go?

I can sit here and recommend modifications to these proposals that might help to alleviate the burden on our members. However, I think we should be redirecting our focus to tax simplification and educational outreach. Maybe we should be holding seminars through a public/private partnership to educate first-time filers of the Schedule C return. Maybe we need to be looking at how to simplify the Schedule C itself in a way that helps the IRS improve matching. Maybe we should revisit efforts to clarify and preserve the independent contractor status.

Unfortunately, we are not headed down this path, and this is leaving a bad impression on the very business community that is providing roughly two-thirds of net new jobs. We praise them as the backbone of our nation's economy, we reward them with much-needed tax relief to help them boost the economy, and yet we simultaneously blame them for draining the economy and causing the so-called "tax gap." We recommend more burdens and more record-keeping requirements, and we nullify the very tax relief measures that help them stay in business. We are biting the hands that feed us. These are compliant taxpayers who already pay for the illegal behaviors of the non-compliant.

The bottom line is that if we intend to place more burdens on small businesses, we need better data to craft more targeted solutions. Then we need to consider how far we are willing to go with those.

Thank you for your time.



March 6, 2007
HP-296

Remarks of Assistant Secretary for Financial Markets
Anthony Ryan
On Hedge Funds
World Hedge Fund Forum

Greenwich, Conn. - Good afternoon. Thank you for inviting me to speak today. It's an honor to be here. Today, we are discussing hedge funds, their contributions and impact on our capital markets. I plan to introduce a framework to illustrate how, as federal policymakers, we look at some issues in addressing hedge funds.

Last November, in a speech to the Economic Club of New York, Secretary Paulson said, "Capital markets are the lifeblood of our economy." The vibrancy of American capital markets is an integral part of our ability to compete globally, and so, in reviewing the agenda for the day, I am pleased to see such a global perspective represented. After twenty years of working in the global capital markets, I know firsthand that few groups are more adept at identifying opportunities and moving capital around the world than those managing hedge funds.

In the United States, we have the strongest, deepest and most diverse capital markets in the world, and we are not taking our leadership for granted. One week from today, Secretary Paulson will convene a conference on capital markets competitiveness; we will hear from various market participants and experts in the regulatory, accounting and legal professions on how to ensure that our capital markets continue to enhance economic growth and bring benefits to all Americans.

As policymakers, we do not view hedge funds as an asset class or as an industry. Rather, a hedge fund is a business model that asset managers have adopted to manage capital. The objective of the business model is to attract and grow capital, generating superior returns through a defined investment strategy. It is too simplistic to measure success for a hedge fund by using a single metric. But if we were to do so, we might measure the greatest absolute return for a given amount of risk as measured by volatility.

If indeed maximizing return to risk is what a hedge fund manager is trying to do, how does one go about doing so? While there are many variations, successful hedge fund managers often have four elements in common: vested stakeholders, a well-defined philosophy, a well-executed process, and a commitment to ongoing evaluation.

First are "vested" stakeholders. In addition to investors, who are obviously impacted by the hedge fund's return, the business model is explicitly geared to vest the manager's success to that of his or her clients. So, the stakeholders also include the fund's analysts, portfolio managers, traders and operations professionals.

Second is a well-defined philosophy. Successful hedge fund managers have clearly established beliefs on how capital markets operate and how their strategies can generate superior returns. They also possess clear policies that define how they'll communicate and interact with their investors and counterparties, and how they'll address potential conflicts of interests.

Third is a well-executed process. Successful managers have a framework. Their approach may be flexible, but it is based on sound principles, guidelines and rules

enabling the manager to respond to dynamic market conditions in a disciplined fashion.

Fourth is a commitment to ongoing evaluation. The most successful managers prove to be those who continually enhance their capabilities, systems and resources.

Each of these four elements is essential to obtaining success in an ever changing environment.

The objectives and framework I just outlined for defining successful hedge fund managers also serves as an interesting analogy to the broader issue of how the policymakers and regulators, comprising the President's Working Group on Financial Markets (PWG), define and evaluate our objectives regarding hedge fund policy. The PWG is chaired by Secretary Paulson and also includes the Chairmen of the Federal Reserve Board, the Securities and Exchange Commission, and the Commodity Futures Trading Commission. Since 1988, the PWG's overarching mission has been to maintain investor confidence and enhance the integrity, efficiency, orderliness, and competitiveness of U.S. financial markets.
The Comparative Assessment

Let me return to the framework of the successful hedge fund manager and apply it to the PWG. Broadly speaking, the objective is the same for both the hedge fund manager and the PWG. It comes down to enhancing rewards and mitigating risks. For the hedge fund manager, it is about having the highest return relative to risk; for the PWG, the highest benefit relative to cost.

Let's take a more in depth look at each of the four elements of this framework as it relates to policymaking.

The first element is vested stakeholders. Here, the PWG thinks about the market and all of the participants. In approaching the area of hedge funds, the PWG recognizes the interests and risks of the other vested stakeholders. These include investors, hedge fund managers, and creditors and counterparties. Each group is vested in the ultimate policy and structure, and like the hedge fund business model, it works best when there is an alignment of interests among the various stakeholders.

Regulators must constantly be aware of potential risks, make a determination as to whether they warrant direct attention, and then determine how best to address those risks. Regulators desire policies that encourage capital markets to be competitive, sound, and operate with integrity. These kinds of markets attract capital and have a broad array of participants--each with different objectives and time horizons. These capital markets also foster an environment conducive to innovation. All of these features serve to improve liquidity and facilitate the dispersion of risk. In turn, capital markets with these characteristics ultimately strengthen the economies they serve.

The interests of investors, hedge fund managers, and counterparties and creditors all benefit from policies that promote sound, competitive, and innovative capital markets.

The second element that is necessary for success is a well-defined philosophy.

Just two weeks ago, the PWG released an agreement outlining its views on private pools of capital. This diverse group of regulators and policy makers spoke with one voice and reiterated its well-defined position that there are two main public policy challenges with private pools of capital: systemic risk and investor protection. They further stated their collective belief that the most effective mechanism to mitigate the potential for systemic risk is market discipline, and that a combination of market discipline and regulatory policies is the best way to protect investors.

The third element of the framework is a well-executed process. Here, the PWG put

forth a comprehensive framework based on sound principles and guidelines.

The PWG agreement provides a foundation for how stakeholders should enhance their practices and fulfill their respective responsibilities. The agreement articulates principles and guidelines for each of the four stakeholders: Regulators, Investors, Managers, and Counterparties and Creditors. Let's take a look at the issues surrounding these stakeholders and the policy the PWG articulated for each of these groups.

First, the PWG asserted that regulators should use their existing authorities with respect to creditors, counterparties, investors and fiduciaries to enhance market discipline. The regulators' clear communication of expectations regarding prudent management of counterparty credit exposures to hedge funds is critical. This is especially so given that many managers utilize leverage and complex instruments, including OTC derivatives and structured securities, such as collateralized debt obligations. Derivatives are very useful tools and bring many advantages to our capital markets, but regulators must continue to monitor market developments given the tremendous growth in OTC derivatives and revise their policies and associated guidance, as appropriate.

Recognizing that key creditors and counterparties are organized in various jurisdictions, policy collaboration and coordination among regulators are essential.

We must also recognize the other important role that regulators play. They provide the enforcement mechanisms of our laws. They ensure that every participant is abiding by the rules. So, in addition to providing guidance, the appropriate regulators must vigorously deter and investigate fraud, manipulation, and other misconduct.

Second, the PWG stated that, for more sophisticated investors, private pools of capital can be an appropriate investment vehicle. Hedge funds offer potential benefits to investors, including the opportunity to diversify their portfolios, as some hedge fund strategies have only modest correlations to traditional asset classes. In addition to diversification, these vehicles may offer investors the opportunity for potentially higher returns.

Like any investment, these strategies also introduce risks. These risks range beyond volatility to opacity and complicated valuation and performance calculations. Investors need to evaluate the appropriateness of such investments. The risks associated with direct investment in these funds are most appropriately borne by investors with the sophistication to identify, analyze and bear these risks. As with all investment products, clear and meaningful disclosure is essential for investors to properly evaluate their investment decisions.

Historically, those who invested in hedge funds were high net worth individuals. This has changed over the past five years and today the majority of assets in hedge funds belong to institutional investors, including endowments and pension plans. The PWG established that concerns about indirect exposure of less sophisticated investors to hedge funds through holdings of pension funds, fund-of-funds, or other similar investment vehicles can best be addressed through sound practices on the part of the fiduciaries who oversee such vehicles. Fiduciaries have an ongoing responsibility to perform due diligence. They must continually ensure that their investment decisions are prudent and conform to sound practices, including diversification.

The PWG was also specific in prescribing guidelines for hedge fund managers. Hedge funds as a group have grown substantially over the past five years. They have doubled in number and have had a significant influence globally, and even locally. These deployers of capital exist in large financial services companies and in small boutiques; some are diversified across multiple strategies, others manage concentrated portfolios.

Their growth in number is a testament to the potential rewards that exist. The model creates the opportunity for managers to implement their best investment

ideas. It also encourages and incentivizes managers to do so, often with few constraints. They have more flexibility across asset classes and sectors and are not held to an arbitrary benchmark. This flexibility enables managers to focus and take risks based on their specific skill. And if that were not enough, the financial rewards for success are great. Compensation of "2 and 20" can generate a lot of income on even a modest amount of assets under management. But, again there are risks. Besides the challenges associated with investing, including liquidity risk, credit risk and trading risk--there are others, including operational risk, valuation risk, reputation risk, and regulatory risk.

In response to these challenges, managers should deploy sufficient resources to create and maintain information, valuation, and risk management systems that meet sound industry practices. In doing so, managers should provide accurate and material information to creditors, counterparties, and investors with appropriate frequency, breadth, and detail. Managers should also continue to strengthen and enhance their processing, clearing, and settlement arrangements, particularly for OTC derivatives.

Let's turn now to counterparties and creditors. For the most part, this is a group of investment banks that have large prime brokerage operations and commercial banks that act as derivatives counterparties and repo lenders to hedge funds. Collectively, they play a very critical role. While relatively few in number, these entities facilitate the implementation of many of the hedge fund managers' strategies and provide the capital that enable managers to leverage their exposures. Hedge funds now represent a large and growing portion of their client base and bottom line. Hedge fund managers implement strategies that generate significant trading volume, and they provide these banks with the opportunity to create and customize more complex transactions. All of this adds up to not only the possibility for greater financial rewards, but also potential risks.

Chief among these risks is counterparty risk. As a result, these institutions must understand the risks inherent in their clients' investment strategies and operations. They must determine appropriate credit terms. In doing so, they must assess liquidity risk and operational risk. And they also need to be disciplined and independent in quantifying valuations. Importantly, they need to guard against the risks to their reputation. They should expect that their prudential regulators will closely monitor their management of these risks and assess whether their performance is in line with expectations set out in supervisory guidance.

To deal with these challenges, counterparties and creditors should maintain appropriate policies, procedures, and protocols. They should clearly define, implement and continually enhance best risk management practices. These practices must address how the quality of information from a client affects margin, collateral, and other credit terms and aspects of counterparty risk management. Like the managers, counterparties and creditors must also continue to strengthen and enhance the processing, clearing, and settlement arrangements for OTC derivatives.

The PWG principles and guidelines address all market participants. Our focus is on enhancing market discipline since it is a combination of efforts that will most effectively address systemic risk. Here it makes sense to emphasize that, for financial stability purposes, the interests of policy makers and key counterparties are closely correlated. Thus, when these counterparties make appropriate self-interested assessments and decisions, these decisions help to make our system more stable and resilient.

The combination of market discipline and existing regulatory authorities are well positioned to protect investors. The SEC continues to provide strong leadership on this issue. They have proposed raising the accredited investor standard, and already possess broad anti-fraud and anti-manipulation authority to investigate any manager--whether registered or not. I should add that the SEC is proposing an additional anti-fraud provision under its existing authority with respect to defrauding current or prospective investors.

Tackling these issues is complicated. No group has a greater interest, has spent

more time evaluating all of the potential options, or is more concerned with addressing the challenges most effectively, than the PWG. If the solution were as simple as granting additional regulatory authority, regulators would have certainly asked for it. The fact of the matter is--at this time, no regulator feels that it needs additional regulatory authority to achieve its goals of protecting investors or mitigating systemic risk.

Although progress has occurred in the past several years, there is much more to do and every stakeholder has a role to play. The PWG has clearly articulated guidance to each group of stakeholders and believes every one of them, ourselves included, must step up their efforts. Diligence breeds excellence. Complacency breeds mediocrity.

The PWG is also committed to ongoing evaluation--the fourth and final element of the framework. The principles and guidelines released two weeks ago are simply another step in the PWG's response to the continually evolving marketplace. The fact that the PWG came together on this topic, and spoke with a unified voice for the first time since 1999, is a significant statement. It was not done in response to a problem or the failure of a large hedge fund or a study requested by Congress. It was a result of Secretary Paulson's and the PWG's leadership. It reflects our desire to be proactive and put forth a practical and forward looking principles-based framework.

Conclusion

While the challenges are real, we believe that implementing a coherent set of best practices is the best way to address them. All stakeholders must be accountable to ensure the integrity of our capital markets. Successful capital markets generate investor confidence.

Investors, because they entrust their capital, deserve protection from fraud and manipulation. They expect nothing more, and should accept nothing less. Potential systemic risks must be identified and mitigated. High-quality standards of excellence must be established, implemented and continually enhanced by all market participants. Transparency matters and timely disclosure of information is critical. Competition is beneficial. In fact, we seek to encourage competition--but we will not tolerate anyone seeking to gain an unfair advantage by compromising the trust and integrity of the market.

It is a privilege to work to ensure the vitality of our capital markets. With such a privilege comes responsibility. To achieve our goals we need to recognize that the responsibility is borne by both the private and public sectors. Building upon the efforts to date, all stakeholders must continue to do more. Collectively, we can strengthen the stability and integrity of our capital markets. The system works when all stakeholders recognize the benefits, mitigate the risks, and choose to be diligent. I urge you to do so.

Thank you for the opportunity to speak here today.

March 7, 2007
HP-297

Prepared Remarks of Stuart Levey
Under Secretary for Terrorism and Financial Intelligence
Before the 5th Annual Conference
on Trade, Treasury and Cash Management in the Middle East

Dubai, UNITED ARAB EMIRATES – I have been traveling across the Middle East this week discussing a wide range of issues. In Jordan I met with the Finance Minister and the Central Bank Governor, in Israel I met with the Prime Minister and Foreign Minister, and here in the UAE I met with the Minister of Foreign Affairs and the Central Bank Governor, and hope to meet with the Prime Minster today. Tonight I head to Riyadh for additional meetings with my counterparts in the Kingdom. One thing that has emerged from my discussions is that there is unanimity on one particular issue across the region: Iran's nuclear program and support for terrorism poses a great threat to our safety and security.

Throughout these discussion on global risk with governments and the private sector, I have stressed that although there are times when we caution companies about the risks of investing in a given country, the United States believes in encouraging the free flow of goods and capital, and we believe that free trade is a mechanism for enhancing economic and social ties between the United States and the Middle East.

That said, Iran under its current regime is an example of a country where there are heightened risks to investing. The regime's dogged pursuit of a nuclear program in defiance of UN Security Resolutions and its insistence on arming and supporting terrorist groups like Hizballah are threatening the stability of the region and the international community. These policies have implications for your businesses – especially when that business deals with government enterprises. I am sure you would agree that your companies want to take every precaution to avoid being involved with terrorism or other dangerous activities. Today, I would like the opportunity to discuss some of the risks that private business should consider with respect to Iran. I will also explain a bit about steps governments are taking – including targeted financial measures – to combat the threat.
I understand that a session was planned yesterday to examine the case for doing business in Iran, but that it was cancelled. This is a good indication of the prevailing view in the business community. It is clear that many businesses are taking it upon themselves to scale back. At first glance, this may appear to present a tempting business opportunity for other corporations to step in. However, there is a reason that these other companies are pulling back: they have decided that the risks of business with Iran outweigh any potential gain.

The world is 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. Iran disguises its activities through an array of deceptive techniques specifically designed to evade the controls of responsible financial institutions and avoid suspicion. For example, we have seen Iranian banks request that other financial institutions take their names off of transactions when processing them in the international financial system.

Iran also works to make its procurement efforts for its nuclear program appear to be unrelated and innocent commercial activities. Iranian entities form front companies in other countries for the sole purpose of exporting dual-use items to Iran that can be used in illicit nuclear and missile programs. These front companies enable the regime to obtain materials that the country of origin would typically prohibit from being exported to Iran.

In addition, I want to tell you about another area of concern about how Iran does business. Iran's Revolutionary Guard Corps, or IRGC, is used by the regime to provide a 'train and equip program' for terrorist organizations like Hizballah, as well as to pursue other military objectives of the regime. The IRGC's control and influence in the Iranian economy is growing exponentially under the regime of Ahmadinejad. More and more IRGC-associated companies are being awarded important government contracts. An IRGC company, for example, took over management of the airport and runways in Tehran, while another company won the contract to build the Tehran metro. When corporations do business with IRGC companies, they are doing business with organizations that are providing direct support to terrorism.

As the evidence of Iran's deceptive 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 deliberately conceals the nature of its business – too often the business of funding terrorism, and defying the UN Security Council in pursuing a nuclear program.

The bank UBS, last year, announced that it was cutting off all dealings with Iran. HSBC, Standard Chartered, Commerzbank, and many other global financial institutions have also indicated that they have limited their exposure to Iranian business. According to the banks, these were business decisions, pure and simple – handling Iran's accounts was no longer good for business. As further evidence of the change in tide, a number of foreign banks are refusing to issue new letters of credit to Iranian businesses. And in early 2006, the OECD raised the risk rating of Iran, reflecting this shift in perceptions and sending a message to those institutions that have not yet reconsidered their stance.

Additionally, many non-financial institutions have scaled back on their investments or projects in Iran, concluding that the risks of expanding operations in the country are too great. Multinational corporations have held back investing in Iran, including limiting investment in Iran's oil field development. These companies have done their risk analyses – they do not know what lies ahead in terms of Iran's economic stability. They do not want to risk coming under regulatory actions that impact their ability to do business. They are responsible corporate citizens, and, quite frankly, they do not want to risk the reputation of their corporations.

Let me briefly expand on these last two points. Iran sends hundreds of millions of dollars each year to terrorist groups like Hizballah and other organizations. When a country has a nine-digit line item in its budget for support to terrorist organizations and is actively seeking a WMD program, there is no way to know how the regime will use its revenues. Corporations are in the process of reconsidering their investments in Iran because they do not want revenue generated from their projects diverted towards threatening and destabilizing policies such as illicit weapons proliferation and terrorism.

Since most multinational institutions want to protect their corporate reputations by avoiding risky relationships, the United States and other nations are reaching out to better inform the private sector about the nature of some of those risks – particularly as they relate to Iran. We believe that by being equipped with information about Iran's deceptive practices, businesses such as yours will be better poised to evaluate the risk of given ventures.

When people think of sanctions, what often comes to mind is a modern-day blockade: an attempt to stop trade or investment altogether in order to weaken the economy of an entire nation. This kind of program is sometimes required. Perhaps one of the best contemporary examples is South Africa under apartheid, a situation where broad, international sanctions made a decisive impact on the course of that nation's history.

Governments are working to hamper the efforts of the Iranian regime by imposing targeted financial measures directed specifically at individuals, key regime members, front companies, and financial institutions. Targeted financial measures

are aimed at "conduct" not a "country." Some of these targeted measures require financial institutions to freeze funds and close the accounts of designated actors – effectively denying these actors access to the traditional financial system. At times, the action includes bans on travel or arms transfers, which further confine and isolate the target. To maximize the effect, we try to apply these measures in concert with others. For example, whenever possible, we act with a partner or a group of countries, and in some cases we can designate a target at the United Nations.

These kinds of measures have several advantages over broad-based sanctions programs. First, by singling out those responsible for engaging in the illicit activity -- rather than targeting an entire country -- they are more apt to be accepted by a wider number of international actors and governments. Second, targeted financial measures warn innocent people not to deal with the designated target. And third, these measures serve as a deterrent. Those who are tempted to deal with targeted high risk actors are put on notice: if they continue this relationship, they may be next.

The United States has taken some recent targeted measures to combat Iran's pursuit of a nuclear weapons program and to confront its support for terrorism. In September 2006, we cut off one of the largest Iranian state-owned banks, Bank Saderat, from any access to the U.S. financial system. We did this because Bank Saderat, which has over 3400 branch offices, is used by the Government of Iran to transfer money to terrorist organizations. Iran uses Saderat to transfer money to Hizballah as well as to terrorist groups designated by the European Union such as Hamas, PFLP-GC, and the Palestinian Islamic Jihad. For example, since 2001, a Hizballah-controlled organization received $50 million directly from Iran through Saderat.

Recognizing the need for additional tools to combat the proliferation of weapons of mass destruction, President Bush signed Executive Order 13382 in June of 2005. This executive order authorizes the imposition of strong financial sanctions against not only WMD proliferators, but also against entities and individuals that provide support or services to them. A designation under this E.O. cuts the target off from access to the U.S. financial and commercial systems, and puts the international community on notice about a particular threat. Since 2005, we have used this authority against a total of 36 entities and individuals, 19 of which are connected to Iran's WMD proliferation efforts.

One recent and very significant designation under E.O. 13382 was the January 9, 2007 designation of Bank Sepah, the fifth largest Iranian state-owned bank and 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. Like other Iranian banks and entities, Bank Sepah engages in a range of deceptive practices in an effort to avoid detection, including requesting that other financial institutions take its name off of transactions going to other banks.

The United Nations has also taken a strong stand against Iran's continued defiance of the international community. On December 23, 2006, the Security Council unanimously passed United Nations Security Council Resolution 1737, which imposes targeted sanctions against the regime under Chapter VII of the United Nations Charter for Iran's continued "threat to international peace and security." This set of sanctions requires countries to take a number of actions to deny Iran access to the materials and services that support its nuclear and ballistic missile capabilities. They target equipment, training, and technology – including dual-use equipment – as well as specific individuals, like General Safavi, commander of the IRGC and listed in the resolution for his involvement in Iran's nuclear and ballistic missile programs.

Among other things, the resolution requires all 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 – available for all to see – listing entities and individuals responsible for these programs. The resolution requires states to freeze their assets and those of entities owned or controlled by

them.

The United Nations Security Council is also considering additional measures against Iran. Just two weeks ago, the International Atomic Energy Agency confirmed that not only had Iran had ignored the UNSCR 1737 requirement to suspend uranium enrichment within 60 days of the resolution, but also that it had actually expanded its program. As a result, the Security Council is considering adopting a second resolution.

In the Iranian regime led by President Ahmadinejad, the world faces the threatening combination of a country dedicated to developing nuclear weapons and to materially supporting terrorists. The regime not only has an ideologically extreme vision of the future, but also is intent on developing the weapons it believes will help obtain this vision. It is clear why the world should not tolerate a nuclear-armed Iran. The United States, the European Union, and the United Nations have embarked upon an effort to convince the Iranian leadership to change its course.

It is our goal to convince Iran that it can no longer afford to head down its destabilizing path. The imposition of government-imposed financial measures, coupled with the private sector's own initiative to reevaluate business with Iran, has already sparked a debate inside Iran about the wisdom of Ahmadinejad's policies. It is our hope that Iran will realize that the only way to return to the international fold – and protect its economy – is to reverse its self-isolating behavior.

The Iranian people deserve better than a government willing to sacrifice their economic well-being to pursue weapons they don't need and policies that result in the deaths of innocent civilians. They deserve better than a regime that allows unemployment and poverty to rise and their basic rights to be tossed aside. And this region deserves to be free from the pressure of an increasingly hostile and antagonistic Iran that is promoting sectarian violence and heightening Sunni and Shia tensions.

As you make your business decisions, I urge you to consider whether it is wise for your company to focus its efforts on doing business with Iran. I recognize that it may be tempting to step into the void that is being created by other companies pulling back their business in Iran, but they are pulling back for a reason. The world's top financial institutions and corporations are re-evaluating their business with Iran because they are worried about the risk and their reputations. You should worry too and be especially cautious when it comes to doing business with Iran.

This is a situation where governments and the private sector share the same goal. Caution by the private sector is putting pressure on Iran. By having governments partner with the private sector, including by sharing information and concerns with the private sector, we are seeing more of an impact on our collective efforts, and it is this impact that, I believe, can help bring about a change in course for Iran.

March 7, 2007
HP-298

Treasury Assistant Secretary Swagel to Hold Monthly Economic Briefing

U.S. Treasury Assistant Secretary for Economic Policy Phillip Swagel will hold a media briefing to review economic indicators from the last month as well as discuss the state of the U.S. Economy. The event is open to credentialed media:

Who
U. S. Treasury Assistant Secretary Phillip Swagel

What
Economic Media Briefing

When
Friday, March 9, 2007, 10:30 a.m. (EST)

Where
Treasury Department
Media Room (Room 4121)
1500 Pennsylvania Ave. NW
Washington, DC

Note
Media without Treasury press credentials should contact Frances Anderson at (202) 622-2960, or [illegible] with the following information: name, Social Security number and date of birth.

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March 7, 2007
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Testimony of Treasury Assistant Secretary for Tax Policy Eric Solomon before the Subcommittee on Select Revenue Measures of the House Committee on Ways and Means

Washington, D.C.--Mr. Chairman, Ranking Member English, and distinguished Members of the Committee, thank you for the opportunity to discuss the issue of the individual alternative minimum tax.

The individual alternative minimum tax, or AMT, was intended to deal with a relatively small but important issue. Unfortunately, the AMT has created a far larger issue than the one it was intended to address.

The Administration is very concerned about the adverse effects of the AMT. It is complex and frustrates the millions of taxpayers who have to calculate their taxes twice – once under the regular tax system and a second time under the AMT tax system. Taxpayers find that benefits otherwise provided under the regular tax system are taken away by the AMT, or they do the double calculations only to find that they are not subject to the AMT.

History of the AMT

The predecessor of the AMT – the minimum tax – was first enacted in 1969 to ensure that a small group of high-income individuals who had managed to avoid paying federal income tax would pay at least a minimum amount of tax. In 1969, Treasury Secretary Barr noted in his testimony before the Joint Economic Committee of Congress that 155 taxpayers with incomes over $200,000 paid no tax in 1966. Even though the minimum tax reduced the number of high-income taxpayers who otherwise would have paid no income tax, it has never been completely successful in attaining the original goal of ensuring that all high-income taxpayers pay at least some tax. More than 37 years of legislative changes to the tax code have transformed the original minimum tax into the current AMT.

Structure of the AMT

The AMT is a second income tax that operates parallel to the regular income tax. The AMT has its own tax base, exemption amounts, tax rates, and usable tax credits. A taxpayer's AMT liability is essentially the excess of the liability calculated under the AMT tax system over the liability calculated under the regular income tax.

The AMT tax base starts from taxable income as defined under the regular income tax, but the base is broadened by adding back certain tax preferences. Preferences include, for example:

• the itemized deduction for State and local taxes,
• the itemized deduction for certain miscellaneous expenses exceeding two percent of adjusted gross income (AGI),
• the itemized deduction for medical expenses to the extent it represents medical expenses of less than 10 percent of AGI,
• the standard deduction, and
• personal exemptions.

A number of other items are treated as AMT preferences totally, or to the extent they are AMT preferences, must be calculated differently for AMT purposes. These

include items such as incentive stock options, the net operating loss deduction, and investment interest expenses. The largest AMT preference items are the regular tax State and local tax deduction and personal exemptions.

The AMT tax base is reduced by an AMT exemption which varies by filing status but not by family size. From 1984 through 1992, the AMT exemption was $40,000 for married taxpayers and $30,000 for unmarried taxpayers. In 1993, it was increased to $45,000 for married taxpayers and $33,750 for unmarried taxpayers. Beginning with the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), Congress has included provisions in each of the major tax relief bills to increase the AMT exemption temporarily, thus preventing a large increase in the number of AMT taxpayers. For 2006, the AMT exemption levels were $62,550 for married taxpayers filing joint returns and $42,500 for unmarried individuals.
The AMT exemption begins to be phased out at $150,000 of AMT income for married taxpayers filing joint returns, at $112,500 for unmarried individuals, and at $75,000 for married filing separately returns. The exemption is reduced by 25 percent of AMT income above those thresholds until they are completely phased out.

Since 1993, the first $175,000 of taxable income for AMT purposes is taxed at a 26 percent rate, and amounts above $175,000 are taxed at a 28 percent rate. However, capital gains and qualified dividends are taxed under the AMT at the lower tax rates that apply under the regular income tax. Because the AMT exemption is phased out, it results in four effective AMT marginal tax rates of 26 percent, 32.5 percent (for taxpayers phased out of the 26-percent AMT tax bracket), 28 percent, and 35 percent (for those phased out of the 28-percent AMT tax bracket). Consequently, because of the phase-out of the exemption, some taxpayers face a marginal effective AMT tax rate of 35 percent.

Generally, the AMT can prevent some tax credits from being claimed against the regular tax because credits are disallowed if they reduce regular tax below the tentative amount of the AMT tax. Since 1998, Congress has repeatedly extended temporary legislation that has permitted most personal tax credits to reduce the otherwise applicable AMT. However, general business credits (most importantly the low-income housing credit) can be limited by the AMT.

The temporary extensions of the higher AMT exemptions and allowance of the full use of most personal tax credits (which have come to be known as the "AMT patch") expired at the end of 2006. The President's fiscal year 2008 Budget includes a proposal to extend the AMT patch through 2007, with the AMT exemptions increased for 2007 to $65,350 for married taxpayers filing joint returns and $43,900 for unmarried individuals. The Budget proposal is designed to hold the number of taxpayers affected by the AMT constant at approximately 4 million.

Does AMT Eliminate Nontaxable High Income Returns?
In spite of the AMT, each year a very small percentage of high-income tax returns are filed reporting no income tax liability. The reasons for high-income returns reporting no income tax liability are varied. Certain itemized deductions and exclusions from income could cause this result. High-income returns with no income tax liability often result from a combination of factors, none of which, by itself, would completely eliminate income tax liability. Some items that singly or in combination may eliminate regular income tax liability cannot eliminate AMT liability because these items give rise to adjustments or preferences for AMT purposes. However, due to the AMT exemption and the fact that the starting point for alternative minimum taxable income is taxable income for regular tax purposes, which could be negative, a return could report no regular income tax and no AMT even though it included some items that produced AMT adjustments or preferences.

Tax-exempt bond interest, itemized deductions for interest expense, miscellaneous itemized deductions not subject to the two-percent-of-AGI floor, casualty or theft losses, and medical expenses (exceeding 10 percent of AGI) could, by themselves, completely eliminate income tax liability because they do not generate AMT adjustments or preferences. More typically, combinations of these items together with deductions for charitable contributions completely eliminate tax liability without

generating AMT liability.

Complexity of the AMT
The complexity and burden of the AMT result from the necessity that taxpayers understand and comply with two parallel tax systems. Moreover, because many taxpayers become subject to the AMT for reasons that are not the result of tax-motivated planning, many taxpayers are not aware that they will be affected by the AMT until they complete their tax returns. Even then, some taxpayers who complete their returns manually may not be aware that they are required to do the calculations for the AMT, creating a compliance problem.

The Growing Ranks of AMT Payers
Unlike the regular tax, the AMT tax system is not indexed for inflation. The AMT exemption, the exemption phase-out, and the boundary between the two AMT tax rates are all fixed in nominal terms. Consequently, with the passage of time, the effects of inflation will steadily increase the number of taxpayers subject to AMT and the amount of revenue from the AMT. When relatively few taxpayers were affected, the AMT arguably was achieving its policy objective. However, serious tax policy issues arise when the AMT affects millions of taxpayers who were never intended to be the target of this separate tax.

The AMT exemption in effect through 2006 has generally kept the vast majority of taxpayers from being subject to the AMT. If the AMT exemption had been indexed to inflation beginning in 1984 when the regular income tax brackets were indexed, the exemption in 2007 would be about $81,000 for married taxpayers filing jointly and $61,000 for unmarried individuals. With these indexed exemption amounts, only about 2 million taxpayers would be affected by the AMT in 2007.

Growth of the AMT
If the AMT patch is not extended or the AMT is not otherwise addressed, the number of taxpayers projected to be affected by the AMT will rise sharply, from 4 million in 2006 to 25 million in 2007 (Chart 1). If no further changes are made to the AMT, the number of taxpayers affected by the AMT is expected to grow to over 56 million by 2017. By 2017, almost one-half of all taxpayers with income tax are projected to be affected by the AMT.

The AMT will increasingly affect middle-income taxpayers unless action is taken. If the Administration's proposed extension and expansion of the AMT patch is enacted for 2007, about 7 percent of taxpayers with incomes between $100,000 and $200,000 will be subject to the AMT for 2007. However, if the AMT patch is not extended beyond its current expiration in 2006, when taxpayers file their tax returns in the spring of 2008 for tax year 2007, over 80 percent of taxpayers with income between $100,000 and $200,000 will be subject to the AMT.

To put this into perspective, consider how the AMT would affect a hypothetical joint filer with two children in tax year 2007 if the Congress does not extend the AMT patch as proposed in the Administration's 2008 Budget (see Chart 2). The taxpayer calculates tax liability under both the regular tax and the AMT and pays whichever is larger. The illustration shows that in 2007 the hypothetical taxpayer becomes subject to the AMT when his income exceeds $66,114. The AMT is no longer a tax that applies only or predominantly to high-income taxpayers.

The AMT also increasingly affects families with children because it does not allow deductions for personal exemptions. Moreover, the AMT exemption includes a marriage penalty, which can worsen the effect of the AMT on married couples.

Assuming no AMT patch extension for 2007 or other action with respect to AMT, the increase in the number of AMT taxpayers over the next decade will be accompanied by a dramatic increase in tax revenues from the AMT. AMT revenue will increase from $22 billion in fiscal year 2006 to $67 billion in fiscal year 2007 and to $250 billion in 2017 (roughly 12 percent of total individual income tax revenue). AMT revenue will become so large that by 2013 the cost of repealing the AMT would exceed the cost of repealing the regular tax (Chart 3).

Addressing the AMT Issue

In many respects, the AMT illustrates how a good-faith attempt to address an issue in the income tax system can have enormous unintended and undesirable consequences. Today the AMT is imposing burdens on millions of taxpayers who were not its intended targets. Because the AMT parameters are not indexed, whereas the main parameters of the regular income tax are indexed annually for the effects of inflation, over time the AMT itself has become a significant issue.

The Administration shares the concerns of taxpayers and Congress about the increasing scope of the AMT. A permanent solution is essential for the continued functioning of our individual income tax system.

We look forward to working with this Committee and others in the Congress on a permanent solution to this difficult and important issue. However, until a long-term solution has been enacted, it is essential to prevent an ever-larger share of taxpayers from being affected by the AMT. We are committed to helping ensure that middle-income taxpayers are not affected by the AMT this year or in the future. In the past, generally the AMT has been dealt with on a year-by-year basis, and the Administration's proposal in the President's fiscal year 2008 Budget for a one-year AMT patch reflects that experience.

Thank you again, Mr. Chairman, Ranking Member English, and Members of the Committee for the opportunity to appear before you today. I would be pleased to answer any questions you might have.

REPORTS

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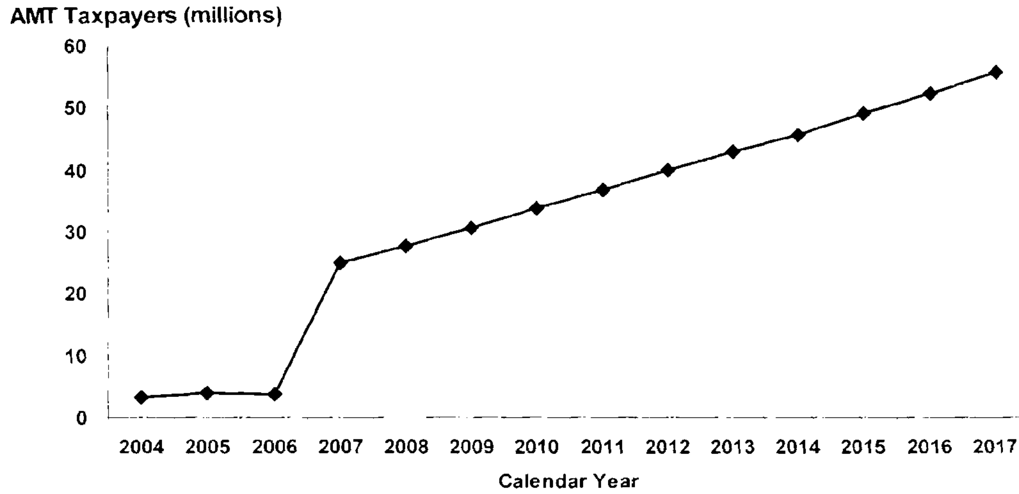
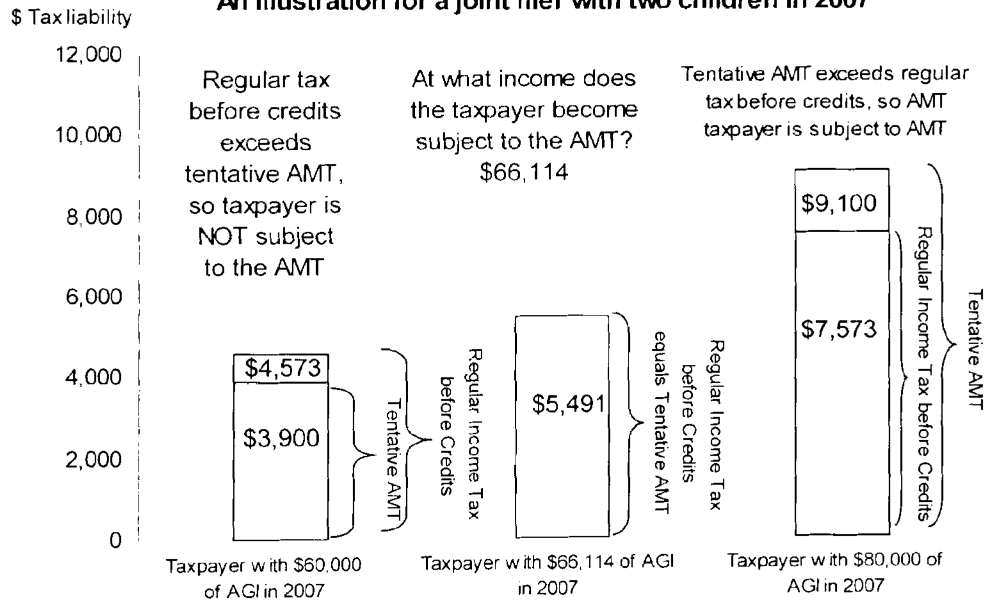
Chart 1:
Number of AMT Taxpayers

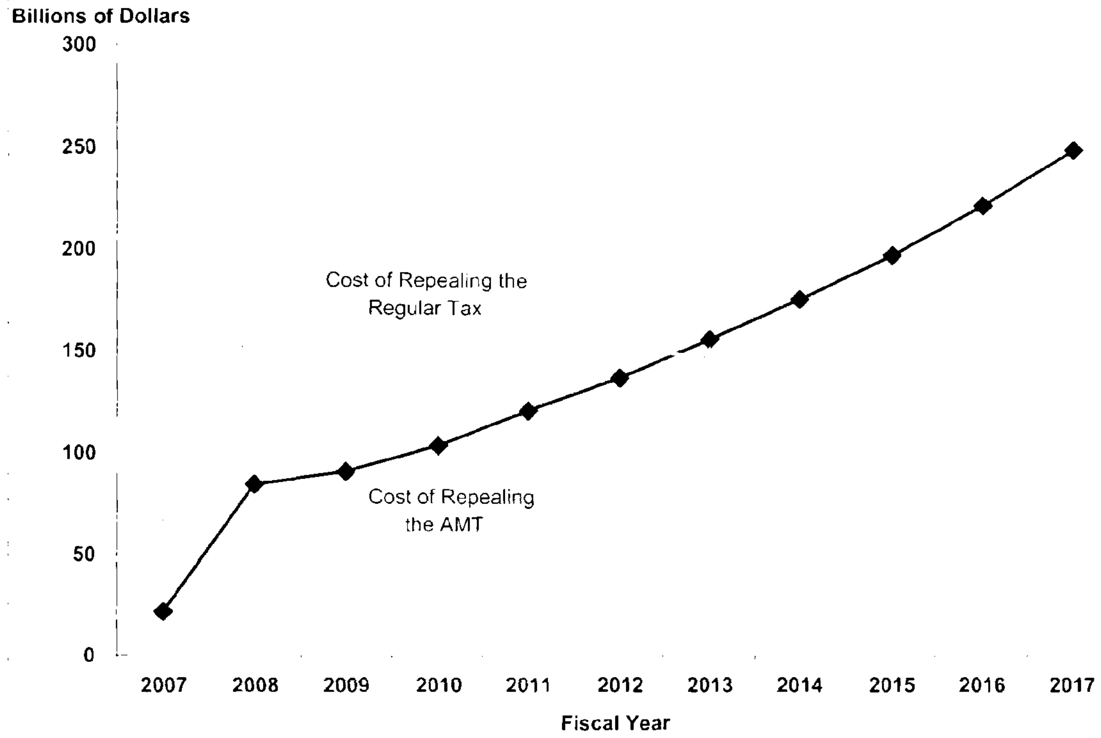


Note: Assumes EGTRRA and JGTRRA tax relief is made permanent and the temporary AMT provisions are allowed to expire after 2006
Source: U.S. Department of the Treasury, Office of Tax Analysis

Chart 2:
How Does the AMT Work?
An illustration for a joint filer with two children in 2007



Assumptions: AMT patch is not extended for 2007. Taxpayer is married, files jointly with two children, has wage income only, and uses the standard deduction. The taxpayer also qualifies for $2,000 in child tax credits.
Source: U.S. Department of the Treasury, Office of Tax Analysis



Note: Assumes EGTRRA and JGTRRA tax relief is made permanent and the temporary AMT provisions are allowed to expire after 2006.
Source: U.S. Department of the Treasury, Office of Tax Analysis

March 7, 2007
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Treasury Designates Two U.S. Companies Acting as Fronts for Colombia's North Valle Drug Cartel

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today added two U.S. companies to its list of Specially Designated Narcotics Traffickers (SDNTs) for their ties to Colombia's North Valle drug cartel.

"This is the latest in a series of OFAC actions targeted at the financial underbelly of the North Valle cartel," said Adam Szubin, Director of the Office of Foreign Assets Control. "We have designated the cartel's companies in Colombia, the Caribbean, and elsewhere, and today we have frozen the assets of two front companies here in the United States."

These U.S. companies are owned by individuals who act as front persons for North Valle drug cartel leaders Raul Alberto Grajales Lemos (Raul Grajales) and Carlos Alberto Renteria Mantilla (Beto Renteria). This action is the seventh designation against the financial network of Raul Grajales and Beto Renteria, who have both been indicted on narcotics trafficking charges in the United States.

Today's action named two Florida partnerships, C.W. Salman Partners and Salman Coral Way Partners, as SDNTs. These two partnerships, which were created to hold real estate and other assets in the United States, are owned by previously-named SDNT individuals, Abdala Saieh Jassir, Moises Abdal Saieh Muvdi, and Carlos Ernesto Saieh Jamis. Each of these Colombian individuals has been a front person for Raul Grajales and Beto Renteria for over ten years. Moises Abdal Saieh Muvdi and Carlos Ernesto Saieh Jamis are in the custody of Colombian authorities on money laundering charges.

This action is part of an ongoing interagency effort to implement Executive Order 12978, signed on October 21, 1995, which applies economic sanctions against Colombia's drug cartels. This effort includes the Departments of the Treasury, Justice, State and Homeland Security. This action freezes any assets the designees may have under U.S. jurisdiction and prohibits all transactions between U.S. persons and the designated companies.

A total of 1,365 business and individuals in Aruba, Barbados, Colombia, Costa Rica, Ecuador, Panama, Peru, Spain, Vanuatu, Venezuela, the Bahamas, the British Virgin Islands, the Cayman Islands and the United States have been designated as SDNTs pursuant to E.O. 12978. The 529 SDNT businesses include agricultural, aviation, consulting, construction, distribution, financial, investment, manufacturing, mining, offshore, pharmaceutical, publishing, real estate, retail, service and telecommunication firms. The SDNT list includes 21 kingpins from the Cali, North Valle and North Coast drug cartels in Colombia.

March 7, 2007
HP-301

Prepared Remarks by Treasury Secretary Henry M. Paulson, Jr. on the Growth and Future of China's Financial Markets

Shanghai, China – Thank you very much. I am very happy to be here in Shanghai, and I appreciate your warm welcome. In December, I was in Beijing for the first meeting of the U.S.-China Strategic Economic Dialogue. After that meeting, I decided that I should return to Shanghai to speak about the growth and the future of China's financial markets.

In my travels here over the last 15 years, I have seen this city grow to be a cosmopolitan center of finance and culture. Shanghai has in many ways come to symbolize the economic dynamism of China. It is an example of China's emergence as an important participant in the global economy. So it is only fitting that I am making this visit against the backdrop of a global economy, which over the last several years has been as strong as any I have seen during my business lifetime – an economy that has been characterized by strong growth, low inflation, and high levels of liquidity.

As China has grown, the relationship between the United States and China has become more important than ever before. We welcome China's growth and integration into the world economy – it benefits the Chinese people, and the people of the world. Today, China is transitioning from a planned economy to a market-driven economy and there is no doubt that this process will continue for a number of years. But because of its size and its role in world markets, China is already a global economic leader and deserves to be recognized as a leader. And with leadership comes responsibility. Decisions about the pace and shape of your economic reforms, as well as policies relating to energy and the environment, affect nations around the world.

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 became Treasury Secretary. To manage the economic relationship between our two nations on a long-term basis, President Bush and President Hu established the Strategic Economic Dialogue. We were very pleased with our first meeting in Beijing in December, and will meet again in Washington in May. Because the U.S. and China share many strategic economic interests, I am confident the SED will help us make progress on fundamental long-term structural economic issues, as well as on very pressing short-term issues.

The economic relations between our two nations are vital to the future of the global economy. And I believe we share many of the same goals – the policies of openness and market principles that the United States advocates are similar to those that China's leaders have embraced to bring balanced, harmonious growth to your nation. As I have said many times, our policy disagreements are not about the direction of change, but about the pace of change. It is worth noting that over the last five years, the U.S. and China accounted for over 50 percent of global growth. Make no mistake about it, China's continued economic success is not only vitally important to the people of China, but also to the rest of the world.

I want to take the time today to lay out why I believe increasing the pace of reform in your financial services markets is in the best interest of China's future – to spread prosperity to all the people of your nation, to promote greater stability here and abroad, and to demonstrate leadership in accordance with your global economic presence.

I. Overarching Importance of Financial Markets

I am a strong believer in the power of financial markets to support growth and development, and help a society fulfill its aspirations and needs. Through more than 30 years of work in the global financial sector – including many visits to China – I have witnessed the extraordinary global growth in financial services. And I have seen how deep, liquid, and efficient capital markets pave the way for prosperity, opportunity, and economic dynamism, while minimizing and diversifying risks.

Many years of hands-on experience working in my own country and in nations and markets around the world has convinced me that open, competitive, world-class financial markets are the backbone of stable and balanced growth.

Efficient and competitive financial sectors help allocate scarce resources to their most productive uses and generate significant multiplier effects for economic growth. Markets connect money with ideas and ambition – which are the lifeblood of innovation and dynamism. They offer a diverse array of financing channels, providing for more innovation and a lower cost of finance. They allow new financial products to enter the markets and help people, young and old, acquire consumer goods and make the investments they need to meet their financial goals, provide retirement security, and insure their families against risk. Deep and liquid capital markets also increase stability and reduce volatility.

The building blocks for strong capital markets buttress the broader development of a prosperous economy. Strong capital markets require strong property rights; a robust supervisory regime with clear, transparent rules which strike the appropriate balance to ensure market integrity while promoting the entrepreneurial spirit and innovation; sound accounting standards; strong corporate governance; strong financial institutions; objective, independent financial information, analysis, and research; a meaningful disclosure regime; and independent credit rating agencies – each of which strengthens development in other sectors of the economy.

Efficient financial sectors are, in a sense, the central nervous system of modern economies, making countless decisions all the time to keep the body in good working order.

II. Role of Capital Markets for China

Well-developed financial markets are a necessary precondition for China's development as well – moving this nation toward its goals of more balanced, harmonious, innovation-based, and environmentally sustainable growth. Efficient, developed capital markets will allocate resources more effectively and efficiently, allowing China to continue growing at a healthy pace, while spreading prosperity throughout the economy and giving Chinese citizens a better return on their savings and investments.

China's growth is increasingly imbalanced – among regions, households, and sectors. These imbalances in economic structure and income inequalities differentiate China's current development challenges from those of past decades. Today, China's economy depends heavily on low-cost manufacturing goods, mainly for export. This has produced tremendous growth. But over-reliance on a single part of your economy has the potential to cause problems in the future. Your long-term economic strength requires a diverse economy, with high-value-added manufacturing and world-class services, including financial services.

China's most recent five-year plan acknowledges the need to achieve better balance in the economy, by increasing the role of the services sector, increasing the quality of inputs – not just their quantity – and developing a more innovative and technologically sophisticated economy. With a population aging as rapidly as that of any advanced economy, the five-year plan also recognizes the need to provide health care and retirement security for China's population. The Chinese people seek continued growth, with more innovation and harmony, so that the benefits of growth reach out from the cities into the country, from the coasts into the heartland, and to all the Chinese people.

Financial sector development is the key to China's transition into an economy that is less reliant on industrial activity, produces more high value-added products, and reduces the intensity of natural resources consumption. Your leaders recognize the power of financial markets to speed your transition to harmonious growth. Speaking at the National Financial Working Group meeting in January, Premier Wen said: "We must push financial reform and development into a new phase, and promote the complete development of a sustainable, healthy, and secure finance industry."

With an underdeveloped financial sector, investment in China doesn't reach its potential in generating returns, personal saving is not adequately rewarded, and risk is not appropriately priced, managed, and diversified.

Inefficient allocation of investment means fewer jobs are created for any given level of investment, inefficient companies fail to reform, new companies with higher-value added production are stifled, and growth remains less balanced.

Inadequate reward to savings hurts the Chinese people. While China's people work every bit as hard – if not harder – than people in other economies, they are not yet as well off. Today, Chinese citizens have $2 trillion – or 16 trillion RMB at today's exchange rate – deposited in banks, earning on average a 2.5 percent return. After inflation and taxes, the real return on bank deposits is probably negative. People in many other parts of the world have more choices of where and how to save, and routinely earn a much better return – often in the high single digits even in economies that are not growing nearly as fast as China.

If China's financial sector were developed and offered a variety of savings and investment securities and vehicles, the potential rate of return on a well-managed pension portfolio of financial assets in a rapidly growing economy like China's could be much higher, even if China's growth rate moderates over time Let us assume for illustrative purposes that rather than earning 2.5 percent, Chinese savers were to earn 8 percent over 30 years. The difference in the return on this 16 trillion RMB in savings would be truly significant due to the power of compounding. Instead of having 34 trillion RMB ($4 trillion) at the end of 30 years, Chinese households would have 160 trillion RMB ($20 trillion), which amounts to an estimated 124,000 RMB ($16,000) per capita. This is money that can be dedicated to meeting the Chinese people's needs, funding education and health care and securing retirement.

III. China's Reform of its Financial Markets

You have recognized that a deeper, more sophisticated, and more competitive financial sector will help you to achieve your aspirations of harmonious growth. And already you have made significant strides. I have seen your progress on a first-hand basis. China's banking, securities, and insurance sectors have all made substantial progress over the last 10 years.

Banking

You have recapitalized four of your top five state-owned banks and, even more importantly, invited in strategic investors and completed IPOs, which bring with them the added discipline of enhanced corporate governance, external audits, and new public shareholders. As someone who in my former job participated in and hopefully positively contributed to this process, I was highly impressed by the speed with which you move to execute a plan once your leaders have made a decision. The IPOs of your banks, like some of your earlier IPOs of state owned enterprises in other industries, were executed much more quickly than I have witnessed in any other country.

Corporate governance of large banks has improved considerably, with more qualified senior management and – in many cases – foreign directors. Non-performing loans are being reduced. And WTO commitments mean that foreign banks can now open 100 percent-owned subsidiaries without geographical restrictions.

Of particular note is the separation of responsibilities for monetary policy and financial stability, on the one hand, and the regulation and supervision of banks on the other. Regulatory transparency is also improving. Last fall, CBRC consulted extensively with foreign companies, the U.S. Treasury, and other regulators before issuing final regulations on the operations of foreign banks.

Securities Markets

China has also made significant improvements in its securities markets, including new accounting standards that were adopted at the beginning of this year. The proportion of non-tradable shares of listed companies has been reduced. The IPO market was reopened in mid-2006 to allow domestic investors to participate in the landmark bank share sales, as well as a number of others. Financially weak securities companies are being merged with stronger ones. Foreign participation in the equities market has increased, while Chinese investors have been given the right to invest in overseas stock and bond markets through approved funds. The People's Bank of China has created a vibrant short-term bond market. And the number of mutual funds and asset management firms has increased significantly, including through joint ventures with foreign companies.

Insurance

The quality of China's insurance companies is also improving, as foreign and domestic institutions expand into new regions and offer new products to better serve Chinese individuals and companies seeking to manage their risks.

The Benefits of Continued Reform

This nation is clearly on the right track, and further reforms lie ahead. As you develop deeper, more liquid, broad-based, and transparent markets with greater participation of sophisticated institutional investors – markets which are more representative and reflective of your strong underlying economic fundamentals – you will benefit from less volatility, better dispersion of risk, and greater stability. To achieve your goals of balanced and harmonious growth, there is much still to do in the development of open, competitive capital markets. And the experiences of nations around the world offer helpful advice in charting your own course.

IV. Structural Challenges Facing China

China's financial markets face four important structural challenges:

- Your capital markets remain underdeveloped;
- For all practical purposes, China has no institutional market;
- The banking system is also underdeveloped;
- And China lacks a predictable, transparent regulatory structure that fosters innovation.

Addressing these challenges is vital to China's long-term economic growth.

Capital Markets

As I said earlier, strong capital markets require strong property rights; robust supervision; sound accounting standards and corporate governance; strong financial institutions; objective financial analysis; a meaningful disclosure regime; and independent credit rating agencies.

The extent to which China's capital markets still need to develop becomes clear in comparison with other countries. A McKinsey study found that in 2005, equity market capitalization, excluding non-tradable, state-owned shares, was 17 percent of GDP. This is the smallest market cap ratio in emerging Asia, where the ratio averages 70 percent. Corporate bond issues by non-financial companies amounted to between 2 and 3 percent of GDP, compared with a typical 50 percent in other

emerging Asian markets. Access to your markets is limited, restricting potential buyers, and bid-offer spreads are wide, indicating a lack of competition and liquidity. China's capital markets lack a diversity of products. And the quality of market participants varies widely.

Moreover, the Chinese private sector currently produces over half of the country's GDP and in some regions 75 percent of new jobs, yet state owned enterprises get three-quarters of the bank financing and account for most of the corporate issuances in the stock and bond markets. Few of your best companies are issuing securities in China. And for the most part, state-owned enterprises, with rising profits, don't pay dividends. As a result, most corporate investment is financed through retained earnings or the informal sector. This leads to less efficient investment because there is not a rigorous arms-length vetting process of a project's viability, and it leads to a more volatile investment cycle as companies tend to over-invest during good times when they are flush with cash.

To develop stronger capital markets, China needs a larger and more accessible government bond market, a more liquid and transparent corporate bond market, and a legal construct in which private equity can flourish.

Experience around the world shows that government bond markets are the first part of the bond market to develop. China's government bond market offers a very narrow range of products with only limited secondary market trading. By establishing a deeper government bond market with open access and competition, as well as more issues throughout the maturity structure, China can create a longer, more representative yield curve. And this will facilitate development of the corporate bond market by providing a reliable benchmark for pricing.

In addition to the difficulties caused by the immature government bond market, China's corporate bond market is underdeveloped in large part because of excessive regulation. Trading is segmented between an over-the-counter market and the listed bonds that trade on stock exchanges. These barriers should be removed.

China would also benefit by moving to a "disclosure-based" system in which regulators focus on ensuring that listed corporations provide the market with adequate information and investors decide who should get financing and on what terms. In this regard, we applaud recent announcements from the National Financial Working Conference that bond market development will be a high priority. A "disclosure-based" system also relies on good credit rating agencies, which need to be independent from the government and evaluate risk in an objective and systematic fashion.

Eliminating interest rate controls and requirements that long-term bonds receive guarantees from state-owned banks will facilitate the proper pricing of risk.

And a legal construct that allows for limited liability companies will help cultivate private equity and venture capital. Private equity and venture capital investors will channel resources to start-up companies, including those in the high-tech area, who might not yet be ready for market listing or for whom bank loans may be too expensive. This will move China toward its goal of becoming an innovative and knowledge-based economy. As President Hu said in January of last year, "The basic role of the market will be given a full play in the allocation of scientific and technological resources." Private equity and venture capital have a demonstrated record of directing resources to new, promising technologies.

Institutional Market and Asset Management

The cornerstone of developed capital markets throughout the world is the institutional market, and the mutual fund and asset managers who populate it. Institutional investors are the most rigorous in their analysis, and innovative in developing new securities and investment strategies. Yet China's markets lack these important elements.

Without a meaningful institutional investor base, the market relies too much on retail investors. The result can be a more speculative environment and a more volatile equity market. Private pension funds, mutual funds, and insurance companies are critical in providing long-term finance and improving corporate governance. A broader base of institutional investors and asset managers will lead to a wider array of market strategies, reducing volatility and the risk of "herd mentalities".

The development of a broad-based institutional investing market is being inhibited by a number of policies, including the fact that some important institutional investors, such as insurance companies, are highly restricted in the types of investments they can own. Big investors, such as insurance companies and pension plans, with large pools of capital, should drive the development of an institutional market when an appropriate tax and regulatory regime is in place.

Permitting professionals to enter the asset management business would strengthen the fiduciary role, protect investors, and develop trust in the industry. A switch to risk-based capitalization requirements in the asset management industry from a fixed minimum capital requirement would also be beneficial.

Banking

China's third challenge is a banking system which, while making progress, is still transitioning to a modern, efficient, market-driven system with proper controls, management, and professional staff. Some risk-averse credit officers may still believe it is safer to lend to state-owned enterprises backed by what they see as implicit government guarantees, rather than to dynamic small, medium-sized, and private businesses. In addition, corporate control of a massive and geographically dispersed branch network remains a challenge, and branch lending decisions are still often influenced by local pressures. And the lack of consolidated data reporting in Chinese banks means that the true extent of China's non-performing loans is unclear and provisioning is insufficient.

There is widespread recognition of what needs to be done to reform China's banking sector – better risk management; a more developed and accessible credit bureau; more consumer finance products; greater scope to set interest rates to reward depositors and price risk; consolidated supervision and reporting; greater competition, including of electronic payment systems; and opportunities for new banks to expand branch networks far more quickly. The insurance sector would also benefit from greater opportunities to expand branches in China.

Regulatory Regime

The final challenge China faces is a regulatory regime that may be inhibiting innovation and development of a modern financial market. As China transitions from a centrally administered economy to a market-based economy, its regulatory regime must adapt. Today, central authorities continue to be too involved in investment decisions that are more efficiently made by the market. For example, to get approval to issue bonds, no fewer than three government bodies must approve the details of a company's fundraising and investment plan – a construct unlikely to ensure that funds are directed to their most efficient use. The result is that it can take more than a year to issue a bond in China, compared to one or two months in Pakistan or the Philippines and less than a month in other Southeast Asian countries. Markets would better channel funds to the most dynamic sectors and businesses in the economy. The appropriate role for government is to set the rules for the market as a whole and enforce them – rather than to make individual investment decisions.

Government has a responsibility to set corporate governance rules and enforce them. But today, these rules are unclear and adherence to them is weak. In addition, Chinese accounting standards – although moving toward international standards – are in continuous flux, creating more uncertainty and weakening financial disclosure.

The continued large role of non-market factors that influence both state-owned

enterprises and private enterprises – including financial services companies – stifles the dynamism of economic decision-making and the strength of regulatory integrity. Increasing the pace of privatization of state-owned enterprises would be beneficial. And state-owned enterprises should pay meaningful dividends if the cost of capital is to become a more meaningful concept in the Chinese economy.

It is clearly the government's responsibility to maintain a macroeconomic environment that supports harmonious growth. Right now, the combination of a rigid RMB exchange rate regime and large external surpluses means that there is a flood of liquidity into the banking system. The authorities mop up as much liquidity as possible. Twelve percent of assets in the big four banks are now sterilization bonds. Sterilized intervention hurts banks' income through higher reserve requirements or by forcing banks to buy PBOC bonds at low rates, which barely cover the banks' cost of funds.

Liquidity which cannot be absorbed is available to the banks for lending, running the risk of excess lending and future non-performing loans. Administrative controls to clamp down on lending are less effective in the larger, more market-oriented and globally integrated economy China has become. A more effective monetary policy – one less absorbed by managing the exchange rate – could assist efforts to reform the banking system, making it more market driven as well as help assure more stable growth.

V. Fostering Openness to Competition

China can make progress toward financial sector reform simply by making these domestic changes. But allowing much more foreign participation in China's financial markets would speed reform, as well as the stability and prosperity it will bring. I don't know of a single country in the world with a successful and sustainable well-balanced economy that doesn't have a strong capital market in place. And I cannot think of any such country that isn't open to competition – both domestically and from abroad.

In his National Financial Working Group speech, Premier Wen established a goal of – quote -- "Opening up the financial sector wider to foreign financial help, and introducing advanced foreign management experience, technology, and personnel to accelerate the pace of innovation in China's financial system to improve efficiency and competitiveness."

Opening your capital markets to global competition and participation would bring many benefits: World-class financial institutions can introduce new technology and products to China, enhance training and the transfer of skills, improve market practices and infrastructure, and enhance financial stability.

Allowing Chinese banks to sell controlling stakes to foreign investors – currently capped at 25 percent – can promote China's efforts to strengthen risk management and internal controls in small and medium sized banks. Chinese banks would benefit from stronger credit analysis skills that enhance their ability to make sound loan decisions. And the banking sector as a whole would become more competitive as the capital markets develop and alternate sources of financing become available.

Opening to international competition does not mean compromising your own rules or identity. If China opens its markets to foreign participants, those participants will be subject to Chinese regulation and supervision. While undoubtedly international companies will have some foreign managers, the bulk of the people employed in China's financial services industry will be Chinese and the benefits generated will largely stay in China. Consider the large foreign investment banks in Japan, which are overwhelmingly comprised of and managed by Japanese professionals. As a matter of fact, they are almost as Japanese as some of the historically Japanese institutions. The wealth that is generated in Japan stays in Japan.

Foreign headquartered financial enterprises operating in China would provide tremendous resources for domestic skill development, and for training those who

will become the leaders of China's financial industry, as well as future Chinese entrepreneurs.

China currently maintains tight caps on foreign participation in its capital market. Foreign securities companies can only own up to 33 percent of a joint venture and foreign asset management firms up to 49 percent of a joint venture. These limitations are among the most restrictive in large emerging markets.

Experience demonstrates that the joint venture model doesn't work in the securities sector, because investment banks are difficult to manage and control. The model of minority foreign stakes has not produced world-class investment banking institutions. China would benefit by eliminating its ownership caps in the securities industry, as have almost all major developing countries, including Brazil, India, and Russia. This might not happen overnight, but the sooner the better.

To understand why this is true, let me briefly discuss an area I know something about – managing an investment bank. An important role of an investment bank is to serve as an intermediary between users and providers of capital. To do this well, these institutions must combine advisory, sales, risk management, market-making, and investing skills. Premier world-class institutions must combine the full range of these functions globally with capabilities in various domestic markets delivered by locals staffs trained and executing to international standards.

This business model is difficult to execute and it comes down to people – hiring and training the right people, and instilling in them proper values. Much of the training needs to be done on the job in both the commercial and the control side of the business. The management and control of these enterprises is very difficult even when there is 100 percent ownership by organizations with strong cultures and long institutional memory.

China also maintains tight controls over how much funding foreign companies can bring into the "A" share market through the Qualified Foreign Institutional Investor scheme. Despite the sharp rise in stock market capitalization and foreign exchange reserves, the quotas for QFIIs have barely budged. This slows development of the equities market, giving foreign investors access to less than two percent of the market capitalization of local exchanges, which deprives Chinese markets of buyers and expertise. Increasing QFII quotas will speed China's financial market development. Foreign securities companies are leaders in derivatives, yet only banks are allowed to trade them in China. Since all markets have periods of volatility, well-developed, sophisticated financial markets give investors the tools to manage volatility through a variety of financial instruments and techniques, including futures, and the ability to offset positions by borrowing and selling securities. The availability of these instruments also increases market liquidity and reduces volatility.

The Qualified Domestic Institutional Investor scheme is a good start in allowing Chinese institutions to invest overseas. Granting more QDII licenses to asset management firms to invest in overseas equities would open up new avenues for Chinese investors to diversify their financial assets and earn higher risk-adjusted returns.

Most nations recognize that large, well-managed securities and asset management firms which bring with them international best practices are critical to strong domestic capital markets. Nations that want robust, sustainable, harmonious growth do not impose caps. China is a large and powerful country, and you should not limit your own potential by restricting your access to world-class financial expertise that can enhance your capital markets.

VI. Conclusion

Time is of the essence. China's underdeveloped financial markets place the nation in a challenging position, trying to balance between a centrally administered and a market-driven economy. One lesson I have learned over the years is that although perhaps not as easy politically, it is better to implement reforms during periods of

economic strength. The risks for China are greater in moving too slowly than in moving too quickly toward transparent, liquid, stable capital markets. The longer China waits, the more difficult it will be to create robust capital markets and reach your goal of more balanced, harmonious, and innovation-based growth. Some industries that may seek protection from competition will grow more politically powerful as they grow more economically powerful. That will make it more difficult to withdraw protection, to the detriment of a nation and its citizens who are deprived of world-class performance.

It's been said that everyone is in favor of competition, unless it is competition for themselves. Historically speaking, existing financial services companies tend to oppose liberalization and reform that brings new competition, even if it brings new opportunities and produces benefits for society overall. This has certainly been true of major financial sector reform in the United States and the United Kingdom, where market participants have almost always resisted change which increased competition in their sectors - change which ultimately proved to be beneficial to society as a whole and to the financial sector, which continued to grow and flourish with greater competition, efficiencies, and increases in employment.

To be sure, financial markets need to strike the right balance between supervision and regulation, and dynamism and efficiency. This is not an easy challenge to master. Yet the reality of the situation is that an open, competitive, and liberalized financial market can effectively allocate scarce resources in a manner that promotes stability and prosperity far better than governmental intervention.

Rebalancing your economy and welcoming international competition in the financial services sector is a win-win proposition. China and its major trading partners will benefit from increased prosperity that will strengthen other parts of your economy.

China's emergence as a global economic leader presents an important responsibility. All world leaders, including China and the United States, must maintain a transparent system of regulation and rule of law that gives international and domestic investors confidence in our markets.

I look forward to continued cooperation with Chinese leaders, particularly in the context of our Strategic Economic Dialogue, which is an important forum for discussing and managing our economic relationship. We received a very warm welcome in Beijing in December for our inaugural discussions, and I look forward to welcoming Madame Wu Yi and the Chinese delegation to Washington in May.

China has come a long way in developing its capital markets, but the journey is not complete. At the end of this road lie benefits for all the Chinese people. With visionary leadership and steady progress, these benefits are within reach. We wish you continued success as you work to attain them. Thank you very much.

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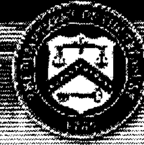
PRESS ROOM



March 7, 2007
HP-302

Statement Following Meeting of EU Commissioner McCreevy and Deputy Secretary Kimmitt

EU Commissioner for Internal Market and Services Charlie McCreevy and U.S. Treasury Deputy Secretary Robert Kimmitt met today to review the progress made under the U.S.-EU Financial Market Regulatory Dialogue and to discuss its forward-looking agenda.

They underscored the importance of the Dialogue's focus on promoting strong U.S. and EU cooperation on financial markets, fostering convergence, and anchoring financial systems in best global practices. They also agreed to continue their efforts to combat money laundering and the financing of terrorism.

Deputy Secretary Kimmitt observed that the EU had made great progress in putting in place the framework for an integrated EU wholesale market, and took note of the similar efforts being made on the retail side. Mr. McCreevy thanked Treasury for its leadership of the Dialogue, commended the United States for working closely with the Directorate General for Internal Market and Services in addressing many issues of European concern, and welcomed the principles and guidelines regarding private pools of capital recently issued by the President's Working Group on Financial Markets.

They welcomed Chancellor Merkel's proposal to launch a Transatlantic Economic Partnership at the U.S.-EU Summit and pledged to continue working toward that goal through the informal and cooperative structure of the Dialogue.

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March 9, 2007
HP-303

Treasury Economic Update 3.09.07

"Labor markets are firm; unemployment is low; consumer confidence is rising; inflation is easing; exports are growing and they contributed about one percentage point to the fourth-quarter GDP number; and of particular importance to me, working families are now benefiting from this expansion, with real wages up 2.1% over the last year."

REPORTS

- Treasury Economic Update 3.09.07

U.S. ECONOMIC STRENGTH

TREASURY ECONOMIC UPDATE 3.09.07

"Labor markets are firm; unemployment is low; consumer confidence is rising; inflation is easing; exports are growing and they contributed about one percentage point to the fourth-quarter GDP number; and of particular importance to me, working families are now benefiting from this expansion, with real wages up 2.1% over the last year."

U.S. Treasury Secretary Henry M. Paulson, March 1, 2007

Job Creation Continues:

Job Growth: 97,000 new jobs created in February. In addition, employment estimates for December and January were revised up, adding 55,000 jobs. 2.0 million new jobs have been created over the past 12 months. Since August 2003, nearly 7.6 million jobs have been created – more jobs than all the other major industrialized countries combined. Our economy has added jobs for 42 straight months. Employment has increased in 46 states within the past year. *(Last updated: March 9, 2007)*

Low Unemployment: 4.5% unemployment rate – close to a 5-1/2 year low. Unemployment rates have decreased or held steady in 36 states over the past year. *(Last updated: March 9, 2007)*

The U.S. Economy Remains Strong and Continues to Grow:

Economic Growth: 2.2% GDP growth in the 4th quarter. Our economy has grown a solid 3.1% over the past 4 quarters. *(Last updated: February 28, 2007)*

Business Investment: Capital investment increased a strong 6.2% over the 4 quarters of 2006. *(Last updated: February 28, 2007)*

Tax Revenues: Tax receipts up 11.8% in fiscal year 2006 (FY06) on top of FY05's 14.6% increase. Receipts have grown another nearly 10% percent so far in FY07. *(Last updated: February 12, 2007)*

Steady Productivity: Labor productivity has grown at an annual rate of 2.8% over the past five years. *(Last updated: March 6, 2007)*

Americans are Keeping More of Their Hard-Earned Money:

Real Wages Increased 2.2% Over the Past 12 Months (ending in January). This translates into an additional $725 above inflation for the average full-time production worker.

Real After-Tax Income Per Person has Risen 10.0% - an extra $2,950 per person – since the President took office.

Pro-Growth Policies will Enhance Long-Term U.S. Economic Strength:

The Administration proposed a budget that reaches a small surplus in 2012. Economic growth has generated increased tax receipts and dramatically improved the budget outlook. The budget holds the line on spending. The budget reduces the deficit as a percentage of GDP-the most meaningful measure of its size-every year through 2012. The time has come for both political parties to work together on comprehensive earmark reform that produces greater transparency and accountability to the congressional budget process, including full disclosure for each earmark and cutting the number and cost of all earmarks by half.

www.treas.gov/economic-plan

PRESS ROOM

March 9, 2007
HP-304

Schedule for Treasury Conference on US Capital Markets Competitiveness

Treasury Secretary Henry M. Paulson, Jr. will host a conference to examine issues affecting U.S. capital markets competitiveness on Tuesday, March 13 in Washington, D.C. Following is a schedule of events:

8:45 a.m.
Secretary Paulson
Opening Remarks
Healy Hall Auditorium
Georgetown University
37th and O Streets, NW
Washington, DC
NOTE. Broadcast media should arrive starting at 6:30 a.m. and must arrive no later than 7:30 a.m. All media must RSVP with Andrea Sarubbi at 202-687-4328 or aes54@georgetown.edu prior to the event for credentials.

8:55 a.m.
Panel I
Framing the Issues: Markets Perspectives
Moderators: Secretary Paulson
SEC Chairman Christopher Cox
Panelists: Warren E. Buffett, Chairman and CEO, Berkshire Hathaway Inc.
James Dimon, Chairman and CEO, JPMorgan Chase & Co
Jeffrey R. Immelt, Chairman and CEO, General Electric Company
Charles R. Schwab, Founder, Chairman, and CEO, Charles Schwab Corporation
John A. Thain, CEO, NYSE Group
Ann Yerger, Executive Director, Council of Institutional Investors

Gaston Hall
3rd Floor, Healy Hall
Georgetown University
37th and O Streets, NW
Washington, DC
NOTE: Broadcast media must arrive no later than 7:30 a.m. All media must RSVP with Andrea Sarubbi at 202-687-4328 or aes54@georgetown.edu prior to the event for credentials.

Panel II
Framing the Issues: Public Policy Perspectives
Moderators: Secretary Paulson
Chairman Cox
Panelists: The Honorable Michael R. Bloomberg, Mayor, New York City
The Honorable Dr. Alan Greenspan, Greenspan Associates, and Former Chairman of the Board of Governors, Federal Reserve System
The Honorable Arthur Levitt, Jr., Senior Advisor, The Carlyle Group, and Former Chairman, Securities and Exchange Commission
The Honorable Robert E. Rubin, Director and Chairman of the Executive Committee, Citigroup Inc., and Former Secretary of the Treasury
The Honorable Paul A. Volcker, Former Chairman of the Board of Governors, Federal Reserve System

Gaston Hall
3rd Floor, Healy Hall
Georgetown University
37th and O Streets, NW
Washington, DC
NOTE: Broadcast media must arrive no later than 7:30 a.m. All media must RSVP with Andrea Sarubbi at 202-687-4328 or aes54@georgetown.edu prior to the event for credentials.

5:15 p.m.
Under Secretary Robert K. Steel
Pen and Pad Briefing
Philodemic Room
2nd Floor, Healy Hall
Georgetown University
37th and O Streets, NW
Washington, DC
NOTE: No cameras will be admitted to the briefing. All media must RSVP with Andrea Sarubbi at 202-687-4328 or aes54@georgetown.edu prior to the event for credentials.

March 9, 2007
HP-305

Steel to Hold Briefing on Capital Markets Conference

U.S. Treasury Under Secretary for Domestic Finance Robert K. Steel will host a pen and pad briefing at the Treasury Department on Monday, March 12 at 12:00 p.m. to discuss the upcoming Treasury Conference on U.S. Capital Markets Competitiveness.

Who
U.S. Treasury Under Secretary for Domestic Finance Robert K. Steel

What
Pen and Pad Briefing on Upcoming U.S. Capital Markets Conference

When
Monday March 12, 12:00 p.m. (EDT)

Where
Treasury Department
Media Room 4121
1500 Pennsylvania Ave., NW
Washington, DC

NOTE: No cameras will be admitted to the briefing. 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.

March 12, 2007
2007-3-12-12-25-40-3122

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 $65,819 million as of the end of that week, compared to $66,126 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	March 2, 2007			March 9, 2007		
TOTAL	66,126			65,819		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	12,570	10,892	23,462	12,508	10,777	23,285
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,526	5,308	17,834	12,474	5,249	17,723
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]			4,874			4,867
3. Special Drawing Rights (SDRs) [2]			8,915			8,902
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	March 2, 2007			March 9, 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						
	March 2, 2007			March 9, 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

March 13, 2007
HP-306

Opening Remarks by Treasury Secretary Henry M. Paulson, Jr. at Treasury's Capital Markets Competitiveness Conference Georgetown University

Washington, DC -- Thank you very much, President DeGioia. We are pleased to be here at Georgetown University. Georgetown is a world-class institution that trains leaders in a number of areas, and we are especially pleased to be joined in our discussions by faculty and students from Georgetown's McDonough School of Business.

The participants in today's Conference are a distinguished group of leaders in U.S. capital markets, and I welcome you and thank you all for being here. You have many areas of expertise and you bring a variety of perspectives: years of valuable experience in academia, government, the business world, Wall Street, or as investor advocates. All of your views are welcome and appreciated. This is a very knowledgeable group of people and I am looking forward to an engaging discussion.

As the Treasury Secretary, my goal is to promote the conditions for American prosperity and economic growth – and maintaining the competitiveness of our capital markets is central to that goal. Capital markets are the lifeblood of our economy. They help entrepreneurs implement new ideas and businesses expand operations, creating new jobs. They give our citizens the confidence to invest, earn higher returns on their savings, and reduce the cost of borrowing.

U.S. capital markets are the deepest, most efficient, and most transparent in the world. We are the world's leader and innovator in mergers and acquisitions advice, venture capital, private equity, hedge funds, derivatives, securitization skills, and Exchange Traded Funds. With this expertise, our major financial institutions have contributed greatly to economic success throughout the world.

One of the great strengths of our markets is their dynamism. They change with the times to serve the needs of investors and businesses. Yet, our markets are not immune to challenges. After years of economic expansion and the excesses and exuberance of the late 1990s, the technology and telecom bubble burst and a wave of corporate scandals undermined investor confidence. We weathered the storm. The President, both parties in Congress, and regulators moved quickly to address the business scandals, which helped to restore investor confidence.

We responded to the corporate scandals with the Sarbanes-Oxley Act of 2002, new listing rules for public companies, and regulatory and enforcement actions to alter certain business practices. These changes have been extensive and significant, so it is quite naturally taking time for companies to understand, process, and implement the new rules and requirements. But the principles behind them have been positive, as have many of the results.

As U.S.-listed companies are adapting to these rules, global capital markets around the world are evolving and developing, introducing new competition for our markets. At the same time, we have witnessed extraordinary growth in private pools of capital, including hedge funds. Each of these changes presents its own set of benefits and challenges. The question we have to consider is the individual and cumulative impact of these changes on U.S. public companies.

Our markets are, indeed, the best in the world. Yet we must be vigilant, and we must do everything we can to ensure they stay that way. We at Treasury have some ideas and our fellow regulators are working on these issues as well. There are some obvious adjustments, such as the recent administrative actions regarding Section 404 which should mitigate a major problem related to Sarbanes-Oxley implementation. But these are complex, interrelated issues and I am confident that we can benefit greatly from the views of the people in this room.

In particular, we will focus on three issues: our regulatory structure; the accounting industry; and our legal and corporate governance environment.

Our regulatory system has served us very well over the course of our history. It is part of the foundation for our prosperity and growth. And, robust and balanced regulation is critical to ensuring that we continue to have the strongest capital markets in the future. Yet, the addition of new regulators over many years, and the tendency of these regulators to adapt to the changing market by expanding, as opposed to focusing on the broader objective of regulatory efficiency, is a trend we should examine. We should assess how the current system works and where it can be improved, with a particular eye toward more rigorous cost-benefit analysis of new regulation. And we should also consider whether it would be practically possible and beneficial to move toward a more principles-based regulatory system, as we see working in other parts of the world.

Because many of the corporate scandals of the late 90s were, for the most part, accounting scandals, it is not surprising that much of the reform focused on the accounting profession. This reform has helped to restore investor confidence. This is key because capital markets rely on trust, which is based on financial information presumed to be accurate and to reflect economic reality. But the cumulative impact of all the change has significantly affected the accounting industry, fundamentally altering the interactions between auditors and corporate management and boards in a number of ways, some of which might not be constructive. Also, we have seen great concentration among the major accounting firms and there are legitimate questions about the sustainability of the accounting profession's business model.

We should also consider whether our system is producing the high-quality audits and attracting the talented auditors we need, whether there is currently enough competition in the accounting profession, and the desirability of moving toward more principles-based accounting standards.

The basic principles that underpin a robust corporate governance system are accountability, transparency, and the need to identify and manage conflicts of interest. As a result of Sarbanes-Oxley and other regulatory changes, corporate directors are more independent, more aware of real and perceived conflicts, more diligent about their fiduciary responsibilities. Of course, directors must now spend much more time engaged in compliance processes and finding the right balance on the use of director time is critically important. But good corporate governance is a means to an end, not an end in itself. Our goal should be better managed, more competitive corporations that earn investor confidence through sound leadership, thoughtful governance, and outstanding performance. In my judgment, we must rise above a rules-based mindset that asks, "Is this legal?" and adopt a more principles-based approach that asks, "Is this right?" And we should consider whether our legal system appropriately protects investors or gives too much latitude to unscrupulous lawyers.

Throughout the day, the fundamental question we must ask is: Have we struck the right balance between investor protection and market competitiveness – a balance that assures investors the system is sound and trustworthy, and also gives companies the flexibility to compete, innovate, and respond to changes in the global economy?

At today's conference there are no pre-determined answers. We are looking for a real discussion, with rigorous questioning and candid and collegial debate.

At the end of the day, I hope each of us will have had one of our opinions

challenged, or been given the opportunity to view an issue from a new perspective. Given the cumulative wisdom and experience in this room, I am confident the day will be thought-provoking and productive.

At Treasury, we will carefully consider the views we have heard today along with the recommendations of a number of other groups which have studied this subject. Together they will inform us as we develop specific follow up steps in the coming months to keep US capital markets the strongest and most innovative in the world. There will be things we at Treasury, working with the regulatory agencies, will do in the near term and some other actions over a longer time frame to address these challenges to our competitiveness. This is a high priority for me.

My great thanks again to the students, faculty, and administrators of Georgetown for hosting us. And thank you to all of our conference participants for taking the time to lend your voices to this process. Given the importance of our capital markets to our long-term economic growth and competitiveness, it is essential to have our best minds engaged on this matter.

Now, let's get started. Please welcome to the stage our first panel participants.

-30-

PRESS ROOM

March 13, 2007
HP-307

Visit by German Finance Minister Peer Steinbrück

Washington, DC--Secretary Paulson will welcome German Finance Minister Peer Steinbruck to the U.S. Department of Treasury on Wednesday, March 14, 2007. They will discuss the German proposal for a New Transatlantic Economic Partnership in advance of the U.S.-EU Summit at the end of April and macroeconomic conditions in Europe and the United States. Additionally, they will discuss the global economy, financial sector issues, and the G-7/8 agenda.

-30-

March 13, 2007
HP-308

Statement of Curtis S. Chin
Nominee For United States Executive
Director For the
Asian Development Bank
Before the Committee on Foreign
Relations

Thank you, Mr. Chairman, Ranking Member Hagel and Members of the Committee. I am honored to be able to come before this esteemed committee to be considered for confirmation as the U.S. Executive Director of the Asian Development Bank (ADB). I am, of course, also extremely honored to have been nominated by President Bush to serve our nation at the ADB, and I welcome this chance to answer any questions you have.

Before proceeding, and with the Chairman's permission, I wanted to take a brief moment to thank the many family members and friends who have provided me support and guidance through my years in both the public and private sectors. Some of them are here today. In particular, Mr. Chairman, with your indulgence, I wanted to recognize some of my family present. First, my parents: my father, Moy – a retired career U.S. Army officer originally from the state of Washington, now working in health care – and my mother, Ethel, originally from Maryland, a retired nurse and of course longtime military wife and Mom who, with my Dad, helped manage our ever-moving household from California to Arizona to Virginia and overseas U.S. postings in Taiwan, Thailand and Korea. Also here are my sister Lisa and her husband, my brother-in-law, Sam. Of particular note, Sam, a U.S. Army soldier, arrived last Wednesday from Iraq where he is deployed with the 19th Engineer Battalion, Headquarters Support Company. I would particularly like to thank Sam for joining us this afternoon and giving up a day of his no doubt well-earned leave before returning next week to Iraq. Not here in person but offering support from afar is my brother Mark, also career U.S. Army, who recently retired as Deputy Commander for Administration of Evans U.S. Army Community Hospital in Fort Carson, Colorado. All of them in their own way have set an example of service to our communities and our country.

If confirmed for the position of U.S. Executive Director to the ADB, I look forward to continuing that tradition of service. Over the many years that I have lived and worked in Asia, I saw firsthand the challenges posed by the tremendous poverty that continues to persist in the region. I also saw – as today's headlines from Afghanistan, India, Indonesia, Pakistan and elsewhere continue to show – how what happens in Asia can have tremendous consequences across the Pacific here in the United States. Strong, continued engagement and involvement in Asia by the United States is vital and underscores the importance of a region that while growing and dynamic is still home to the vast majority of the world's poor and still continues to face daunting challenges ahead.

The ADB's core mission is straightforward: promote sustainable economic growth and eradicate poverty in the region. It must do this through economic programs that advance human development, private sector growth, good governance, transparency and the environment.

But the impact of the ADB extends far beyond its basic mission of alleviating poverty and promoting economic development. The Bank has played a significant role in promoting and financing economic revitalization and institutional development in Afghanistan. With U.S. support, it has been instrumental in

responding to natural disasters, serving not only as financier but as regional coordinator of recovery efforts from such devastating events these last two years as the tsunami in Asia and a major earthquake in Pakistan. In both cases, ADB efforts to rebuild and restore local economic activity have been vital to reconstruction efforts. Additionally, the ADB has provided assistance on anti-money laundering practices and ways to counter the financing of terrorism. And, the ADB has been working to combat human trafficking, especially of women and children.

If confirmed, I will bring the breadth and depth of my regional knowledge and management skills to support and advance the goals of the United States at this important regional financial institution. These goals include ensuring that the ADB is results-oriented – achieving measurable, responsible development outcomes – as well as increasing transparency and accountability in the ADB's operations.

Mr. Chairman, thank you for the privilege of appearing before this Committee today. I would be pleased to answer any questions you or the members of the Committee have.

PRESS ROOM

March 13, 2007
HP-309

**Statement of Eli Whitney Debevoise, II
Nominee for United States Executive
Director of the
International Bank for Reconstruction
and Development
Before the Committee on Foreign
Relations
United States Senate**

Mr. Chairman and Members of the Committee, I am grateful for the opportunity to appear before you today.

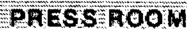
I am honored to have been nominated to serve as U.S. Executive Director at the International Bank for Reconstruction and Development. If confirmed, I will have the great privilege and the responsibility to represent the United States at the World Bank Group institutions. I look forward to the opportunity to work with Secretary Paulson, the Treasury Department and other Executive Branch agencies represented in and working through the Office of the U.S. Executive Director.

The World Bank Group is a global leader in economic development and poverty reduction, both through its loans, credits, grants, guarantees and investment insurance and through its development know-how and policy advice. If confirmed, I intend to strive to hold the Bank to high standards and to help the Bank develop a strong institutional framework and ethos to make those high standards sustainable.

In my professional life I have grappled with the challenges of economic development, whether through the lens of sovereign finance, international trade, cross-border lending and investment, debt-reduction operations, infrastructure finance, housing finance, development of domestic capital markets or investor-state disputes. I have also worked to combat corruption. For my successful, global efforts to recover the ill-gotten gains of corruption, I was awarded a Brazilian medal, the Order of Rio Branco. Finally, I have experience with the International Centre for the Settlement of Investment Disputes, an important forum for the resolution of investor-state disputes. If confirmed, I will apply the lessons learned from these experiences at the World Bank institutions.

At a time when United States leadership in multilateral institutions is as important as ever, I look forward to the opportunity to represent the Bank's largest shareholder. I also look forward to building a strong working relationship with this Committee as I commit my energy and experience to the mission of economic development and poverty reduction in all corners of the globe.

Thank you, Mr. Chairman. I would be pleased to answer the Committee's questions.



March 13, 2007
HP-310

Statement Of Margrethe Lundsager
Nominee For United States Executive Director,
International Monetary Fund

Before the Senate Foreign Relations Committee

Chairman Menendez, Ranking Member Hagel, and members of the Committee, thank you for the opportunity to appear before you today. I am honored that President Bush has nominated me to serve as the United States Executive Director at the International Monetary Fund, and if confirmed, I pledge to work with this committee, the full Congress, Secretary Paulson and the rest of the Administration in furthering U.S. foreign economic policy goals.

After many years at the Treasury Department, I am now serving as the Alternate U.S. Executive Director at the IMF. In this capacity, I have sought to achieve U.S. objectives and if confirmed, will continue to pursue the reforms that are a priority to the United States.

As you know, the mission of the IMF is to promote international monetary cooperation and to facilitate the growth of trade in order to generate high levels of employment and income in its member nations. Towards this end, the IMF has an important role in encouraging increased transparency in public policy, supporting market-based reforms to generate sustained growth and development, and advancing sound fiscal and monetary policies to strengthen government accounts and reduce the risk of crisis. With its near global membership, the IMF is in a position to promote best practices in these areas. A good deal has been accomplished. A strong IMF with a firm U.S. voice is important to continuing this work.

At the present time, the IMF is also undergoing fundamental change as it looks to revise its own tools for assessing a country's economic and monetary policies, including a country's exchange rate policy. The United States strongly supports this effort and, if confirmed, I look forward to working with my colleagues to realize these important reforms.

Mr. Chairman, throughout my Treasury career I have had the opportunity to see first hand the dedication of Administration officials and Congressional leaders to strengthening the U.S. economy, through our own domestic policies and our global efforts to foster growth and financial stability in other countries. There is much we can still do to strengthen the global economy, and if confirmed, I will seek to do my part at the IMF to achieve further reforms in IMF policies and practices. I would be pleased to answer your questions. Thank you.

March 13, 2007
HP-311

**Closing Remarks by Treasury Secretary Henry M. Paulson, Jr.
at Treasury's Capital Markets Competitiveness Conference
Georgetown University**

Washington, DC--Thank you very much. Thanks to all of you for participating in today's Conference and making it a great success.

Throughout the day we've heard a range of opinions and viewpoints, all aimed at keeping American markets the most competitive in the world. We have had a good dialogue, with plenty of back-and-forth, and I believe we've made progress.

The competitiveness of our capital markets has a very significant impact on the health and growth of our economy, and we benefited today from having the nation's best minds engaged on this subject.

I have paid close attention throughout the day, as have my colleagues from Treasury. And I know we have benefited from fresh thinking and new perspectives. We have covered a lot of ground on these complex issues and we need to digest what we've heard. As I said earlier, we will soon issue a plan for moving forward on these issues, with the goal of making significant progress this year on generating concrete proposals. This is a high priority for me.

Again, many thanks again to the faculty, students, and administration of Georgetown University for being gracious and engaged hosts. We have appreciated your help organizing the Conference and we are certainly grateful for your participation in it.

Thank you all very much.

-30-

March 14, 2007
HP-312

Senior Treasury Officials to Hold a Press Conference on Banco Delta Asia

Stuart Levey, Under Secretary for Terrorism and Financial Intelligence, and Daniel Glaser, Deputy Assistant Secretary for Terrorist Financing and Financial Crimes, will make an announcement on a final regulation concerning Banco Delta Asia as a "primary money laundering concern" under Section 311 of the USA PATRIOT Act.

The following event is open to credentialed media:

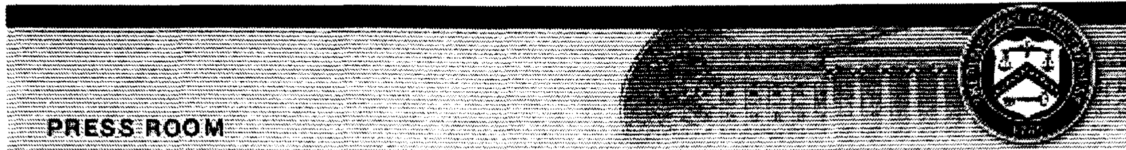
Who
Stuart Levey, Under Secretary for Terrorism and Financial Intelligence
Daniel Glaser, Deputy Assistant Secretary for Terrorist Financing and Financial Crimes

What
Press Conference on Banco Delta Asia

When
TODAY – Wednesday, March 14 at 1:00 PM

Where
U.S. Department of the Treasury
Media Room – 4121
1500 Pennsylvania Ave., NW
Washington, DC

Note
Media without Treasury press credentials must contact Frances Anderson at (202) 528-9086 or frances.anderson@do.treas.gov with the following information for clearance into the building: full name, Social Security number and date of birth.



March 14, 2007
HP-313

Deputy Secretary Kimmitt To Attend UN Meetings For International Compact for Iraq, Meets with Iraq Vice President Adil Abd al-Mahdi

Washington--Deputy Secretary Robert M. Kimmitt met this morning with Iraqi Vice President Adil Abd al-Mahdi and Planning Minister Ali Baban to discuss the International Compact with Iraq meeting in New York this Friday at the United Nations. The Deputy Secretary reiterated the Administration's support for this important initiative. The Government of Iraq has outlined a comprehensive package of economic reforms in exchange for commitments from the international community. All parties agreed on the importance of a Ministerial meeting in the near future to formally sign the Compact.

Additionally, Deputy Secretary Kimmitt congratulated the Vice President and Planning Minister for recent progress on economic reform:

"I congratulate Vice President Mahdi and Minister Baban for Iraq's recent progress on economic reform. I look forward to joining them at the United Nations as Secretary General Ban Ki-Moon and Vice President Mahdi present the International Compact with Iraq, an ambitious framework for transformation of the Iraqi economy. This initiative is designed to help achieve within five years Iraq's vision of a stable and prosperous nation underpinned by a self-sustaining economy."

For additional information, please visit: http://www.iraqcompact.org

March 14, 2007
HP-314

Prepared Remarks of Stuart Levey
Under Secretary for Terrorism and Financial Intelligence

The Treasury Department today is finalizing the rule under Section 311 of the Patriot Act against Banco Delta Asia SARL (BDA). When it takes effect in 30 days, this action will prohibit all U.S. financial institutions from maintaining correspondent accounts for BDA and prevents BDA from accessing the U.S. financial system, either directly or indirectly. Today's regulatory action is targeted at BDA as an institution, not Macau as a jurisdiction. The Treasury Department is charged with safeguarding the U.S. and international financial systems from abuse, and today's action is an important step in the discharge of that responsibility.

In September 2005, we found Banco Delta Asia to be of 'primary money laundering concern.' We outlined the reasons BDA posed such a concern and proposed a rule that, if finalized, would require U.S. financial institutions to terminate all correspondent accounts with BDA. With today's announcement, we are finalizing this rule. We are taking this step because of the systemic failures by Banco Delta Asia to apply appropriate standards and due diligence, as well as the gamut of illicit activities the bank has facilitated on behalf of North Korean-related entities.

Over the past year and a half, under Deputy Assistant Secretary Danny Glaser's capable leadership, we have been engaged in an in-depth, rigorous investigation of Banco Delta Asia with the cooperation of Macanese authorities. The purpose of that investigation was to validate our concerns and determine whether to finalize the rule. The information gleaned from that investigation did in fact confirm the findings we put forth in September 2005. It also revealed additional illicit financial conduct at BDA beyond that spelled out in our designation – including activity related to entities facilitating weapons of mass destruction proliferation. Many North Korean account holders at BDA had connections to entities involved in North Korea's trade in counterfeit U.S. currency, counterfeit cigarettes, and narcotics, including several front companies suspected of laundering hundreds of millions of dollars in cash through Banco Delta Asia. As described in the final rule, BDA did not conduct due diligence to attempt to verify the source of these unusually large currency deposits. BDA allowed its North Korean clients to use the bank to facilitate illicit conduct and engage in deceptive financial practices. Indeed, in exchange for a fee, the bank provided those clients access to the banking system with little oversight or control.

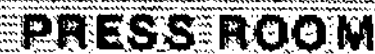
The deceptive financial practices and grossly-inadequate controls within BDA have run too deep for us to ignore. BDA's business practices pose a real threat to banks worldwide, and BDA has no business accessing the U.S. financial system. Though the Macanese authorities have made significant strides in strengthening Macau's anti-money laundering regime and managed the bank responsibly since September 2005, the bank will not remain in receivership indefinitely, and BDA's historical deficiencies were therefore central to our decision-making.

Additionally, after we designated BDA, the Macanese authorities moved to freeze upwards of $25 million held in the bank by clients associated with North Korea. We have worked closely with the Macanese on our investigation into BDA, and this week we are transmitting our findings to the Macanese authorities.

The Treasury Department notes with appreciation the strong cooperation of the relevant Macanese authorities with respect to BDA. Macau's positive developments are not limited to actions relating specifically to BDA, such as freezing suspect accounts and responsibly managing the bank. Over the past year, Macau has taken

significant steps to reform its anti-money laundering regime, consistent with international standards. Macau has enacted new laws and promulgated new regulations to safeguard itself from financial crime. Moreover, Macau has created its first-ever Financial Intelligence Unit – allowing it to share information with counterpart institutions around the world – and developed a specialized money laundering unit within its police force. While these systemic developments will need to be tested through rigorous and effective implementation across Macau's entire financial system, they certainly represent important progress and a sign of commitment.

Deputy Assistant Secretary Glaser has met with the North Koreans three times over the past year – twice in a forum known as the Bilateral Financial Working Group – to discuss the broad and fundamental concerns of the international financial community. Indeed, financial institutions around the world have made independent determinations that doing business with North Korean-related entities presents an unacceptably high risk of being tainted by illicit conduct. North Korea is responsible for its own isolation from the international financial community. Only by halting its illicit conduct can North Korea reverse that isolation and persuade financial institutions and others to reestablish relationships with it. We are prepared to continue the Bilateral Financial Working Group in order to discuss with North Korea the steps it could take if it truly wishes to alleviate its isolation from the international financial community.



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March 14, 2007
HP-315

Treasury Finalizes Rule Against Banco Delta Asia

BDA Cut Off From U.S. Financial System

The U.S. Department of the Treasury today finalized its rule against Banco Delta Asia SARL (BDA) under Section 311 of the USA PATRIOT Act. When the final rule takes effect in 30 days, U.S. financial institutions will be prohibited from opening or maintaining correspondent accounts for or on behalf of BDA. This action bars BDA from accessing the U.S. financial system, either directly or indirectly.

"Our investigation of BDA confirmed the bank's willingness to turn a blind eye to illicit activity, notably by its North Korean-related clients," said Stuart Levey, Treasury's Under Secretary for Terrorism and Financial Intelligence (TFI). "In fact, in exchange for a fee, the bank provided its North Korean clients access to the banking system with little oversight or control."

The Treasury's Financial Crimes Enforcement Network (FinCEN) in September 2005 found BDA to be of "primary money laundering concern" under Section 311 and issued its proposed rule, citing the bank's systemic failures to safeguard against money laundering and other financial crimes.

The U.S. Treasury has since been engaged in an ongoing investigation of BDA with the cooperation of Macanese authorities. The information derived from that investigation and the failure of the bank to address adequately the full scope of concerns described in the proposed rule has laid the groundwork for today's action.

Over the past 18 months, the Macanese authorities have taken substantial steps to strengthen Macau's anti-money laundering and counter-terrorist financing regime, notably by passing a new law to strengthen these controls and standing up the jurisdiction's first-ever Financial Intelligence Unit (FIU). Today's regulatory action is targeted at BDA as an institution, not Macau as a jurisdiction.

"We are pleased that Macau has made important progress in strengthening its anti-money laundering controls and safeguarding the Macanese financial system. However, Banco Delta Asia's grossly inadequate due diligence and systematic facilitation of deceptive financial practices have run too deep for the bank to be allowed access to the U.S. financial system," said Levey.

The Treasury would review and, if appropriate, rescind the rule if the concerns laid out in it are adequately addressed, including if BDA were to be brought under the long-term control of responsible management and ownership.

Abuses at the bank included the facilitation of financial transactions related to illicit activities, including North Korea's trade in counterfeit U.S. currency, counterfeit cigarettes, and narcotics. In addition, several front companies may have laundered hundreds of millions of dollars in cash through the bank. The final rule highlights the bank's grossly inadequate due diligence, which facilitated deceptive financial practices by these clients including:

- Suppressing the identity and location of originators of transactions and

arranging for funds transfers via third parties;
- Repeated bank transfers of large, round-figure sums both to and from accounts held at other banks that have no apparent licit purpose; and
- The routine use of cash couriers to move large amounts of currency, usually U.S. dollars, in the absence of any credible explanation of the origin or purpose for the cash transactions

Background on Section 311

Title III of the USA PATRIOT Act amended the anti-money laundering provisions of the Bank Secrecy Act (BSA) to promote the prevention, detection and prosecution of international money laundering and the financing of terrorism. Section 311 authorizes the Secretary of the Treasury – in consultation with the Departments of Justice and State and appropriate Federal financial regulators – to find that reasonable grounds exist for concluding that a foreign jurisdiction, institution, class of transactions or type of account is of "primary money laundering concern" and to require U.S. financial institutions to take certain "special measures" against those jurisdictions, institutions, accounts or transactions.

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

The Treasury Department has previously issued final rules against the following financial institutions under Section 311, prohibiting U.S. financial institutions from opening or maintaining correspondent accounts for or on their behalf:

- VEF Banka (Latvia)
- Commercial Bank of Syria (Syria) and Syrian Lebanese Commercial Bank (Lebanon)
- Myanmar Mayflower Bank (Burma)
- Asia Wealth Bank (Burma)

A copy of the final rule may be accessed at the following link: http://www.fincen.gov/bda_final_rule.pdf.

March 14, 2007
HP-316

Treasury Secretary Paulson to Visit Guatemala and Peru Next Week

Treasury Secretary Henry M. Paulson, Jr. will travel to Latin America next week to discuss economic progress in the region as well as the region's efforts to bring new opportunities, continued poverty reduction and an expanded middle class to its people. Latin America has been a long-time interest for Secretary Paulson and is a key priority for him as Treasury Secretary.

Paulson will arrive in Guatemala City Monday for the annual meeting of the Inter-American Development Bank (IDB). There he will hold meetings with finance ministers and heads of state where he will stress the U.S. stake in the economic success of Latin America and the Caribbean.

"In recent years, many governments have strengthened their policies, shored up public finances, reduced debt vulnerability, and opened markets creating stronger economic growth," said Secretary Paulson. "My goal is to work with leaders in the region to ensure that more people share in the benefits created by economic growth and trade opportunities."

Additionally, he will discuss the IDB's initiative to provide debt relief to five of the region's poorest countries: Bolivia, Guyana, Haiti, Honduras and Nicaragua. At the Summit of the Americas in 2005 President Bush called on the Treasury Department to work with the IDB to provide debt relief for the region's poorest countries in order to lift the burden of poverty and promote opportunity in the region. The Treasury Department worked closely with the IDB over the past year to develop a proposal that would both provide debt reduction and sustain the financial viability of the IDB for future lending. (Click here for more information on the debt relief initiative: [illegible].)

While in Guatemala Secretary Paulson will also meet with business school students for a conversation on economic developments in the region.

Secretary Paulson will then travel to Lima to meet with government officials, local business leaders, and students to discuss, among other topics, President Garcia's and Finance Minister Carranza's pro-market policies, with their focus on growth, poverty reduction, and sound public finances. Secretary Paulson will underscore the importance the United States attaches to President Garcia's economic success in translating growth into poverty reduction.

The visits to Guatemala and Peru will be the Secretary's first in those countries as Treasury Secretary. Paulson's first international trip after becoming Secretary was to Latin America to attend the inauguration of Colombian President Uribe in August of 2006.

The following events are open to media:

Who
Assistant Secretary for International Affairs Clay Lowery
What
Pre-Trip Pen and Pad Briefing
When
Friday, March 16, 3:30 p.m. (EDT)
Where

Department of the Treasury
1500 Pennsylvania Ave., NW
West Gables Room - 5432
Washington, DC

Note

No cameras will be admitted to the briefing. Media without Treasury press credentials should contact Frances Anderson with full name, Social Security number, and date of birth at Frances.Anderson@do.treas.gov or 202-622-2960.

...

Who

Secretary Henry M. Paulson, Jr
Assistant Secretary for International Affairs Clay Lowery

What

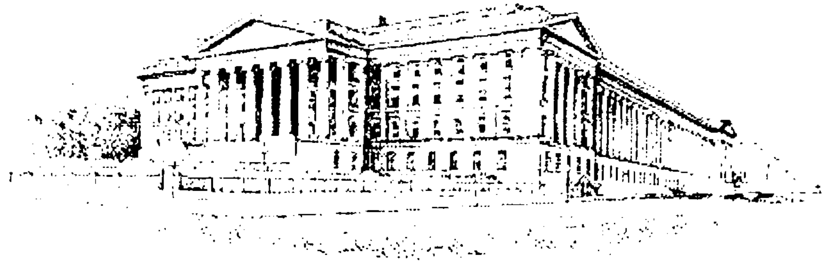
Press Conference

When

Monday, March 19, Exact Time TBA

Where

InterContinental Hotel
14 Calle 2-51
Zona 10, Guatemala City



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL 9 a.m. (EDT), March 15, 2007
CONTACT Brookly McLaughlin, (202) 622-2920

TREASURY INTERNATIONAL CAPITAL DATA FOR JANUARY

Washington, DC –Treasury International Capital (TIC) data for January 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 February, is scheduled for April 16, 2007.

Net foreign purchases of long-term securities were $97.4 billion.

- Net foreign purchases of long-term U.S. securities were $115.0 billion. Of this, net purchases by foreign official institutions were $12.3 billion, and net purchases by private foreign investors were $102.7 billion.
- U.S. residents purchased a net $17.6 billion in long-term foreign securities.

Net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been $84.0 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities increased $23.4 billion. Foreign holdings of Treasury bills increased $1.2 billion.

Banks' own net dollar-denominated liabilities to foreign residents decreased $32.8 billion.

Monthly net TIC flows were $74.6 billion. Of this, net foreign private flows were $47.4 billion and net foreign official flows were $27.2 billion.

HP-317

TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

		2005	2006	12 Months Through Jan-06	12 Months Through Jan-07	Oct-06	Nov-06	Dec-06	Jan-07
	Foreigners' Acquisitions of Long-term Securities								
1	Gross Purchases of Domestic U.S. Securities	17157.5	21101.9	17456.5	21325.4	1876.0	1928.5	1850.4	1809.6
2	Gross Sales of Domestic U.S. Securities	16145.9	19960.3	16447.6	20155.1	1767.1	1806.9	1787.6	1694.6
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**1011.5**	**1141.7**	**1008.9**	**1170.3**	**108.9**	**121.6**	**62.8**	**115.0**
4	**Private, net /2**	**891.1**	**956.1**	**884.6**	**991.0**	**83.6**	**115.1**	**38.8**	**102.7**
5	Treasury Bonds & Notes, net	269.4	135.7	239.4	161.0	6.5	32.5	4.5	20.6
6	Gov't Agency Bonds, net	187.6	202.0	188.8	202.0	10.9	11.8	12.5	20.2
7	Corporate Bonds, net	353.1	474.2	364.2	487.3	38.8	61.8	32.9	40.8
8	Equities, net	81.0	144.1	92.2	140.9	27.4	9.1	-11.1	21.1
9	**Official, net /3**	**120.4**	**185.6**	**124.3**	**179.2**	**25.3**	**6.5**	**24.0**	**12.3**
10	Treasury Bonds & Notes, net	68.7	62.5	67.4	50.9	18.5	1.0	6.1	-5.3
11	Gov't Agency Bonds, net	31.6	88.8	34.3	95.6	5.3	4.0	15.5	15.8
12	Corporate Bonds, net	19.1	28.5	20.2	28.5	2.0	3.6	2.9	2.4
13	Equities, net	1.0	5.8	2.4	4.3	-0.4	-2.1	-0.5	-0.6
14	Gross Purchases of Foreign Securities from U.S. Residents	3700.0	5566.5	3857.3	5718.5	507.6	533.5	520.8	552.5
15	Gross Sales of Foreign Securities to U.S. Residents	3872.4	5815.2	4037.9	5969.3	524.2	570.9	569.4	570.0
16	**Foreign Securities Purchased, net** (line 14 less line 15) /4	**-172.4**	**-248.7**	**-180.6**	**-250.9**	**-16.6**	**-37.4**	**-48.5**	**-17.6**
17	Foreign Bonds Purchased, net	-45.1	-142.3	-47.4	-143.1	-8.2	-17.6	-29.6	-4.8
18	Foreign Equities Purchased, net	-127.3	-106.3	-133.2	-107.7	-8.4	-19.8	-18.9	-12.7
19	**Net Long-Term Securities Transactions** (line 3 plus line 16):	**839.1**	**893.0**	**828.3**	**919.4**	**92.4**	**84.2**	**14.3**	**97.4**
20	**Other Acquisitions of Long-term Securities, net /5**	**-140.0**	**-165.7**	**-146.3**	**-164.3**	**-10.4**	**-32.6**	**-13.1**	**-13.4**
21	**Net Foreign Acquisition of Long-Term Securities** (lines 19 and 20):	**699.1**	**727.3**	**682.0**	**755.2**	**82.0**	**51.6**	**1.2**	**84.0**
22	**Increase in Foreign Holdings of Dollar-denominated Short-term U.S. Securities and Other Custody Liabilities: /6**	**-47.6**	**134.4**	**-30.7**	**148.4**	**10.5**	**15.5**	**6.9**	**23.4**
23	**U.S. Treasury Bills**	**-58.9**	**-9.0**	**-41.8**	**-17.2**	**4.1**	**9.5**	**-4.9**	**1.2**
24	Private, net	-15.6	16.0	-10.0	11.9	5.0	1.8	4.4	-3.3
25	Official, net	-43.3	-25.0	-31.8	-29.1	-0.9	7.7	-9.3	4.5
26	**Other Negotiable Instruments and Selected Other Liabilities: /7**	**11.4**	**143.4**	**11.2**	**165.7**	**6.4**	**6.0**	**11.8**	**22.2**
27	Private, net	10.6	163.2	10.9	181.9	16.9	7.1	6.0	25.9
28	Official, net	0.8	-19.8	0.3	-16.3	-10.5	-1.1	5.8	-3.7
29	**Change in Banks' Own Net Dollar-Denominated Liabilities**	**16.4**	**-26.1**	**101.6**	**-62.2**	**-2.4**	**0.9**	**-22.8**	**-32.8**
30	**Monthly Net TIC Flows** (lines 21,22,29) /8 **of which**	**667.9**	**835.6**	**752.9**	**841.4**	**90.1**	**68.0**	**-14.7**	**74.6**
31	Private, net	580.6	707.0	663.6	697.3	96.7	58.0	-45.2	47.4
32	Official, net	87.3	128.6	89.3	144.2	-6.6	10.0	30.5	27.2

/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.

March 15, 2007
HP-318

Testimony of Treasury Under Secretary Robert K. Steel
Before the U.S. House Financial Services Committee
on Government Sponsored Enterprise Reform

Washington, DC- Thank you Chairman Frank, Ranking Member Bachus, and Members of the Committee for inviting me to appear before you today.

The United States has one of the most successful housing finance systems in the world. Our nation's housing finance system provides consumers with a wide range of mortgage finance options that open the door for home ownership. In today's mortgage market, consumers can choose from mortgage products designed to match their desired payment characteristics. Consumers also have greater flexibility regarding down payment options, and reductions from the once standard 20 percent down payment have played a critical role in expanding home ownership opportunities. In addition, consumers have increasingly used the mortgage market to tap illiquid housing wealth that has accumulated over time with cash out refinancing or through the use of home equity lending products.

The underlying structure of our nation's housing finance system is supported by various types of financial institutions: federally insured depository institutions and mortgage banks that both originate, service, and invest in mortgages; private mortgage insurers that provide insurance on low down payment mortgage loans; mortgage brokers that assist consumers in obtaining mortgages; investment banking firms that arrange securitization transactions and invest in mortgages; and, of course, the housing government sponsored enterprises (GSEs) – Fannie Mae, Freddie Mac and the Federal Home Loan Banks (FHLBanks).

Fannie Mae and Freddie Mac operate in the secondary mortgage market by providing credit guarantees on mortgage-backed securities (MBS) or by directly investing in mortgages and mortgage-related securities through their retained mortgage portfolios. In the credit guarantee business, Fannie Mae and Freddie Mac generally enter into swap agreements with mortgage lenders under which individual mortgages are transformed into MBS guaranteed by the GSEs. Fannie Mae and Freddie Mac also have the ability to purchase mortgages and package them into MBS. Treasury continues to believe that the credit guarantee function provides a useful mechanism in the operation of an effective secondary market for mortgages. In the mortgage investment business, Fannie Mae and Freddie Mac issue debt securities to fund an investment portfolio of mortgage-related securities. In comparison to the credit guarantee business where credit risk is the main exposure, the mortgage investment business involves both credit and interest rate risk. Treasury continues to believe that the mortgage investment businesses of Fannie Mae and Freddie Mac present the greatest potential risks, while at the same time having a much more tenuous connection to their housing mission than the credit guarantee business.

Recent accounting/corporate governance problems and regulatory restrictions have limited the growth of Fannie Mae and Freddie Mac over the last few years. Nonetheless, they are still a significant presence in our nation's housing finance system. As of year-end 2006, the retained mortgage portfolios of Fannie Mae and Freddie Mac totaled $1.4 trillion, which is off slightly from the $1.6 trillion outstanding as of year-end 2003. In addition, as of year-end 2006, Fannie Mae and Freddie Mac provided credit guarantees on $2.9 trillion of MBS. Together, Fannie Mae and Freddie Mac have about $4.3 trillion of mortgage credit exposure as of year-end 2006, which was about 40 percent of total outstanding mortgage debt. And while it is difficult to calculate precisely, given that fixed-rate mortgages make

up the significant portion of the credit guarantees and mortgage assets of Fannie Mae and Freddie Mac, their share of the fixed-rate mortgage market would be even higher.

The FHLBanks also are significant participants in our nation's housing finance system, but they operate under a different business model than Fannie Mae and Freddie Mac. The FHLBanks' primary business is making advances – or secured loans – to member institutions that are involved in housing finance to various degrees. As of year-end 2006, FHLBank advances were $641 billion. The FHLBanks are also active mortgage investors. As of year-end 2006, they directly held $225 billion in mortgage assets – $98 billion as individual mortgages and $127 billion as MBS. At year-end, the FHLBanks also held $144 billion in fed funds and other investments, and total assets were $1 trillion.

Core Objectives of Housing GSE Regulatory Reform

It is Treasury's view, and it appears to be generally recognized, that the regulatory system for housing GSEs neither has the tools, nor the stature, to deal effectively with the current size, complexity, and importance of these enterprises. While some of these issues have been raised for years, it was the accounting/corporate governance problems that emerged first at Freddie Mac in 2003 then later at Fannie Mae in 2004 that brought these issues to the forefront. In addition, the FHLBanks were not immune to these problems as the regulatory actions associated with problems at the FHLBank of Chicago and the FHLBank of Seattle illustrated.

Treasury has been an active participant in the housing GSE regulatory reform debate. We have continually stated that we have two core objectives: the need for a sound and resilient financial system, and increased homeownership opportunities for less advantaged Americans. In line with our core objectives, our reform proposals have been designed to minimize risks that the housing GSEs pose to the broader financial system and clearly focus the housing GSEs on their mission. More specifically, our reform proposals have included provisions to improve regulatory oversight, enhance market discipline, and allow for the establishment of appropriate capital requirements for the housing GSEs. If the housing GSEs are going to continue to accomplish their mission, it is paramount that the risks undertaken by the housing GSEs are properly managed and supervised; otherwise there may be a threat to their solvency, and importantly to the stability of other financial institutions and the strength of our economy.

It is widely recognized that there is a deficiency in the oversight of the housing GSEs and Congress has worked to improve the regulation of the housing GSEs. We at Treasury appreciate this effort and pledge to continue to work with you to establish a new regulator that has all the authorities necessary to oversee these complex and sophisticated institutions.

Key Elements of Housing GSE Regulatory Reform

Throughout the debate on housing GSE regulatory reform, Treasury's focus has been on ensuring the new regulator has all of the powers, authority, and stature needed to do its job. In this regard, a core tenet of our position is that the new regulator's powers should be comparable in scope and force to those of our nation's other financial institution regulators. As I have mentioned, the housing GSEs have grown into large and complex financial institutions that require strong and effective oversight. In addition, later in my testimony, I will describe what makes the housing GSEs different than a typical financial institution. It is just as important that the new regulator have the appropriate authority to consider the unique characteristics of the GSEs and their housing missions.

In terms of comparable powers, we must ensure that the new housing GSE regulatory agency is not encumbered by the current restrictions that are placed on the Office of Federal Housing Enterprise Oversight (OFHEO). Some key elements of housing GSE regulatory reform that have been debated in recent years include the following:

- Capital Requirements – Under current law, the minimum capital requirements for the housing GSEs are fixed in statute, and the risk-based capital requirement for Fannie Mae and Freddie Mac is based on a highly prescribed stress test that is set forth in statute. These limitations are inconsistent with the ability of other financial regulators to broadly set both minimum and risk-based capital requirements. The new housing GSE regulatory agency must have enhanced flexibility to set both minimum and risk-based capital requirements. Sections 111 and 112 of H.R. 1427 largely accomplish this goal. We would be strongly opposed to changes that weaken the new regulatory agency's ability to effectively implement the capital provisions.
- Receivership/Conservatorship – Under current law, OFHEO has the authority to place Fannie Mae or Freddie Mac into conservatorship, but not into receivership. Should such circumstances arise, the new housing GSE regulatory agency must have more than the powers associated with conservatorship. In particular, the new regulatory agency must have all the receivership authority that is necessary to direct the liquidation of assets and otherwise to direct an orderly wind down of an enterprise. The new regulatory agency must also be required to take mandatory receivership actions under certain circumstances. Such receivership authority can be established in full recognition that Congress has retained to itself, in the case of Fannie Mae and Freddie Mac, the power to revoke a charter. Providing the new regulatory agency the ability to complete an orderly wind down of a troubled regulated entity also encourages greater market discipline by clarifying that investors may suffer losses. Enhanced market discipline is essential to promoting safe and sound operations, which is consistent with maintaining the GSEs' role in our housing finance system and protecting our broader financial system from problems at a GSE. Section 144 of H.R. 1427 largely accomplishes this goal.
- New Activity Approval and Mission Oversight – Under current law, the Department of Housing and Urban Development (HUD) is responsible for approving new programs, setting housing goals, and overall mission oversight. The authority for approving new activities of Fannie Mae and Freddie Mac and ensuring compliance with their mission must be transferred from HUD and combined with the other supervisory/enforcement powers of the new housing GSE regulatory agency. This authority is consistent with availability of one of the central tools that every effective financial regulator has--the ability to say "no" to new activities that are inconsistent with the charter of the regulated institutions, with their prudential operation, or with the public interest. Section 122 and other provisions of H.R. 1427 largely accomplish this goal.

Other important aspects of housing GSE regulatory reform that represent a significant improvement over current law and further provide comparability to other U.S. financial institution regulators include ensuring that the new housing GSE regulatory agency has: independent funding outside of the appropriations process; independent litigating authority and other related powers; and the full set of regulatory and enforcement tools. H.R. 1427 largely accomplishes these goals.

In addition to ensuring that the new housing GSE regulatory agency has powers and authority consistent with that of other U.S. financial institution regulators, the housing GSEs also have unique characteristics that must be addressed in regulatory reform legislation. The housing GSEs were created to accomplish a mission, and they were provided a certain set of statutory benefits to help in the accomplishment of that mission. For example, in terms of specific benefits the housing GSEs are not subject to state or local taxation and they have access to a line of credit with the Treasury Department ($2.25 billion each for Fannie Mae and Freddie Mac and $4 billion for the FHLBank System, which pales in comparison to the size of their debt obligations). The GSEs also greatly benefit from the market's perception that the U.S. government guarantees or stands behind GSE obligations, which results in preferential funding rates being provided to the GSEs. On behalf of Treasury, I want to reiterate that the GSEs' debt and other financial obligations are not backed by the federal government. There are differing views on the precise amount of this benefit, but general agreement that the benefit exists. It is this benefit and a lack of effective market discipline that largely drove the rapid expansion of the retained mortgage portfolios of Fannie Mae and Freddie Mac throughout the 1990s.

As Treasury has noted previously, the combination of three key features of Fannie Mae's and Freddie Mac's retained mortgage portfolios warrant the attention of policymakers: (1) the size of the retained mortgage portfolios of Fannie Mae and Freddie Mac – $1.4 trillion as of year-end 2006; (2) the lack of effective market discipline; and (3) the interconnectivity between the GSEs' mortgage investment activities and the other key players in our nation's financial system (both insured depository institutions and derivative counterparties). The combination of these three factors causes the GSEs to present the potential for systemic risk to our financial system and the global economy. This view has not changed.

In addition, given that Fannie Mae and Freddie Mac have a specified housing mission, and that the potential for broader risks to our financial system is associated with their retained mortgage portfolios, a sensible approach is to ensure that the mortgage investment activities of these GSEs are necessary to accomplish their housing mission. To address these issues, the new housing GSE regulatory agency must be provided specific review authority over the retained mortgage portfolios of Fannie Mae and Freddie Mac. Such authority should establish a clear and transparent process based on direction from Congress on how the new regulatory agency will evaluate the retained mortgage portfolios in terms of risk and consistency with mission. Section 113 of H.R. 1427 largely accomplishes this goal for Fannie Mae and Freddie Mac. While the broader risk issues related to the FHLBanks are less than those that are present with Fannie Mae and Freddie Mac, a review of the investment portfolios of the FHLBanks for mission consistency would also be appropriate.

In terms of the new regulator's authority or other changes related to the unique characteristics of the housing GSEs, other appropriate elements of housing GSE regulatory reform should include:

- Government-Appointed Directors – Treasury supports clarification that the government should not be involved in the appointment of directors to the Boards of Fannie Mae, Freddie Mac, and the FHLBanks. Consistent with long-standing principles of corporate governance, directors of the housing GSEs have a fiduciary responsibility to shareholders. The government appointment of directors does not change this fiduciary responsibility, but does give the impression that government may have a say or influence in the operation of the housing GSEs. That is not the case, and this should be corrected to improve corporate governance and to further clarify that the housing GSEs are not backed by the Federal government.
- Combining the Regulatory Authority of the Housing GSEs – Treasury continues to believe that the FHLBanks should be placed under the same regulator with Fannie Mae and Freddie Mac, and that this new regulatory regime should be structured to take into account certain special differences between the Federal Home Loan Banks and the other GSEs. This would enhance the critical mass of financial expertise needed to oversee the GSEs. At the same time there are many common synergies, such as the FHLBanks' investments in mortgages and MBS, and the mortgage investments of the other housing GSEs. In addition, combining regulatory authority over all of the housing GSEs under one regulator has the potential to increase the stature of the new agency and better enable it to deal with these large and influential companies. In other words, the potential for regulatory capture should be reduced. Title II of H.R. 1427 largely accomplishes this goal.

Conclusion

In conclusion, we at Treasury appreciate the efforts of the Chairman and Members of the Committee in working toward achieving resolution of the housing GSE regulatory reform issue. H.R. 1427 will establish a new regulator with powers that are comparable to other financial institution regulators, which will greatly improve the oversight of the housing GSEs. We still have strong concerns with certain aspects of H.R. 1427. In particular, if an Affordable Housing Fund is going to part of this legislation, the Fund must be: controlled by the Federal government not by Fannie Mae and Freddie Mac; temporary; and capped. In addition, the provision increasing the conforming loan limit in high cost areas is inappropriate because

there do not appear to be problems in the provision of mortgage credit in these areas, and it could detract from the affordable housing efforts of Fannie Mae and Freddie Mac. Nonetheless, Treasury is supportive of the regulatory enhancements contained in this legislation as they are a significant improvement over current law. Any efforts to limit these powers or weaken the new regulator will not be viewed favorably.

We look forward to continuing to work with you on this important issue. Thank you.

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March 12, 2007
HP-319

Solomon, Everson, Korb Joint Statement on Updated Guidance Priority List

On August 15, 2006, we released the 2006-2007 Priority Guidance Plan listing 264 projects for the plan year beginning July 1, 2006 and ending June 30, 2007. In our Joint Statement that accompanied the release of the 2006-2007 Priority Guidance Plan, we indicated that we would update the plan periodically to reflect additional guidance that we intend to publish during the plan year. Updating the plan also provides flexibility throughout the plan year to consider comments received from taxpayers and tax practitioners relating to additional projects and to respond to developments arising during the plan year.

The attached update sets forth the guidance on the original 2006-2007 Priority Guidance Plan that we have published. Although the update may indicate that a particular item on the plan has been completed, it is possible that one or more additional projects may be completed in the plan year relating to that item. The update also includes 59 items of additional guidance, some of which have already been published. For example, the update reflects the publication of substantial guidance implementing the Pension Protection Act of 2006; the announcement of a settlement initiative for employees of foreign embassies, foreign consular offices and international organizations in the United States; and the announcement of a settlement initiative related to the exercise of certain stock rights. Similarly, the update reflects the publication of guidance relating to topics that were on the original 2006-2007 Priority Guidance Plan such as guidance relating to a safe harbor for telephone excise tax claims; regulations regarding the disclosure of reportable transactions and the list maintenance requirements; an announcement regarding the use of private collection agencies; guidance regarding user fees; and additional guidance implementing various provisions of the American Jobs Creation Act of 2004 and the Tax Increase Prevention and Reconciliation Act of 2005.

The published guidance process can be fully successful only if we have the benefit of the insight and experience of taxpayers and practitioners who must apply the rules. Therefore, we invite the public to continue to provide us with their comments and suggestions as we write guidance throughout the plan year.

The updated 2006-2007 Priority Guidance Plan will be republished on the IRS website on the Internet at . Copies can also be obtained by calling Treasury's Office of Public Affairs at (202) 622-2960.

REPORTS

- Updated 2006-2007 Guidance Priority List.

DEPARTMENT OF THE TREASURY
WASHINGTON, DC 20220

March 12, 2007

Department of the Treasury
First Periodic Update of the
2006-2007 Priority Guidance Plan

Joint Statement by:

Eric Solomon
Assistant Secretary (Tax Policy)
U.S. Department of the Treasury

Mark W. Everson
Commissioner
Internal Revenue Service

Donald L. Korb
Chief Counsel
Internal Revenue Service

Attached is an update of the 2006-2007 Priority Guidance Plan.

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OFFICE OF TAX POLICY
AND
INTERNAL REVENUE SERVICE

2006-2007 PRIORITY GUIDANCE PLAN

March 12, 2007 UPDATE

CONSOLIDATED RETURNS

Original PGP Projects:

1. Regulations [1] under section 1502 regarding liquidations under section 332 into multiple members. Proposed regulations were published on February 22, 2004.

2. Regulations revising section 1.1502-13(g) regarding transactions involving obligations of consolidated group members.

3. Regulations under section 1502 regarding excess loss accounts. Temporary regulation section 1.1502-19T was published on January 26, 2006.

4. Regulations revising sections 1.1502-35 and 1.337(d)-2 regarding treatment of member stock.
   - PUBLISHED 1/23/2007 in FR as NPRM REG-157711-02

5. Regulations regarding the tacking rule for filing life/nonlife consolidated returns. Temporary regulation section 1.1502-47T was published on April 25, 2006.

6. Regulations regarding agency for a consolidated group where the common parent is a foreign entity. Temporary regulation section 1.1502-77T was published on March 14, 2006.

CORPORATIONS AND THEIR SHAREHOLDERS

Original PGP Projects:

1. Regulations to facilitate electronic filing and reduce taxpayer burden. Temporary regulations were published on May 30, 2006.

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[1] As used in this document, unless otherwise indicated, the term "regulations" refers to proposed regulations, temporary regulations or final regulations.

2. Guidance regarding the recovery of basis in redemptions of corporate stock governed by section 301. A notice was published in the Federal Register on April 19, 2006.

3. Regulations enabling elections for certain transactions under section 336(e).

4. Regulations revising section 1.355-3 regarding the active trade or business requirement.

5. Regulations regarding predecessors and successors under section 355(e). Proposed regulations were published on November 22, 2004.

6. Guidance regarding the applicability of section 357(c) to acquisitive reorganizations under section 368(a)(1)(D).
   - PUBLISHED 2/12/2007 in IRB 2007-7 as REV. RUL. 2007-8 (released 1/16/2007)

7. Guidance under section 362(e) regarding the importation or duplication of losses. Notice 2005-70 was published on October 11, 2005.
   - PUBLISHED 10/23/2006 in FR as NPRM REG-110405-05
   - PUBLISHED 1/23/2006 in FR as NPRM REG-157711-02

8. Regulations regarding transactions involving the transfer or receipt of no net equity value. Proposed regulations were published on March 10, 2005.

9. Regulations revising section 1.368-2(k) regarding transfers of assets after putative reorganizations. Proposed regulations were published on August 18, 2004.

10. Revision of Rev. Proc. 81-70 providing guidelines for estimating stock basis in reorganizations under section 368(a)(1)(B). Comments regarding these guidelines were requested in Notice 2004-44.

11. Guidance regarding the scope of section 368(a)(1)(D).
    - PUBLISHED 12/19/2006 in FR as TEMP 9303
    - PUBLISHED 3/1/2007 in FR as TEMP 9313

12. Regulations under section 368(a)(1)(F). Proposed regulations were published on August 12, 2004.

13. Guidance under section 382, including regulations regarding built-in items under section 382(h)(6). Built-in items under section 382(h)(6) were previously addressed in Notice 2003-65.

14. Guidance regarding the transfer of treasury stock to a corporation controlled by the transferor. See Rev. Rul. 2006-2, revoking Rev. Rul. 74-503.

15. Revised regulations under section 1561 regarding the allocation of certain tax benefits among related corporations.
    - PUBLISHED 12/22/2006 in FR as TEMP 9304

EMPLOYEE BENEFITS

A. Retirement Benefits

Original PGP Projects:

1. Final regulations on transmission of notices to participants through electronic means with respect to distributions from qualified retirement plans. Proposed regulations were published on July 14, 2005.
    - PUBLISHED 10/20/2006 in FR as TD 9294

2. Guidance regarding the treatment of incidental health insurance benefits provided under a profit-sharing or stock bonus plan.

3. Guidance on benefits not permitted in a defined benefit plan.
    - PUBLISHED 2/12/2007 in IRB 2007-7 as NOTICE 2007-14. (released 1/29/2007)

4. Modification of Rev. Proc. 2005-66 to reflect special rules regarding determination letter procedures for governmental and tax-exempt employers.

5. 2006 cumulative list of guidance for determination letter program.
    - PUBLISHED 1/8/2007 in IRB 2007-2 as NOTICE 2007-3 (released 12/14/2006)

6. Modification of Rev. Proc. 2006-27 (EPCRS) to provide fixed fee schedule for opinion and advisory letter submissions for pre-approved plans filed after January 31, 2006 deadline.

7. Guidance on notices to employees participating in a section 401(k) safe harbor plan.

8. Final regulations on designated Roth contributions under section 401(k) plans and under section 402A. Proposed regulations were published on January 26, 2006.

9. Guidance regarding prototype Roth IRAs for amendments to accept rollovers from designated Roth accounts under a section 401(k) plan.

10. Final regulations under section 403(b) regarding tax-favored annuities purchased by section 501(c)(3) organizations or public schools. Proposed regulations were published on November 16, 2004.

11. Final regulations on designated Roth contributions under section 403(b) plans. Proposed regulations were published on January 26, 2006.

12. Final regulations under section 404(k) addressing redemptions of participant stock and avoidance or evasion of taxation. Proposed regulations were published on August 25, 2005.
    - PUBLISHED 8/30/2006 in FR as TD 9282

13. Guidance under section 408 on the treatment of wrap fees.

14. Final regulations on qualified nonbank trustees for deemed IRAs under section 408(q). Temporary regulations were published on July 22, 2004.

15. Final regulations under section 409(p) with respect to synthetic equity and additional issues relating to ESOPs. Temporary regulations were published on December 17, 2004.
    - PUBLISHED 12/20/2006 in FR as TD 9302

16. Guidance under section 411 regarding accrual and vesting of benefits provided pursuant to qualified retirement plans.

17. Final regulations regarding the limitations on benefits and contributions under section 415. Proposed regulations were published on May 31, 2005.

18. Guidance on the elimination of Schedule P as an attachment to the Form 5500.

Additional PGP Projects:

19. Notice under section 301 of the Pension Protection Act of 2006 regarding the determination of the weighted average interest rate.
    - PUBLISHED 9/5/2006 in IRB 2006-36 as NOTICE 2006-75 (released 8/18/2006)

20. Announcement under section 402 of the Pension Protection Act of 2006 regarding the election of an alternative funding schedule.
    - PUBLISHED 10/2/2006 in IRB 2006-40 as ANN. 2006-70 (released 9/14/2006)

21. Notice under section 906 of the Pension Protection Act of 2006 providing transitional relief for Indian tribal governmental plans.
    - PUBLISHED 10/23/2006 in IRB 2006-43 as NOTICE 2006-89 (released 10/2/2006)

22. Notice under section 402 of the Pension Protection Act of 2006 providing an extension of the election of an alternative deficit reduction contribution.

- PUBLISHED 12/11/2006 in IRB 2006-50 as NOTICE 2006-105 (released 11/21/2006)

23. Proposed revisions to Form 5500 annual information return/report as a result of the Pension Protection Act of 2006.
    - PUBLISHED 12/11/2006 in FR

24. Notice under sections 507 and 906 of the Pension Protection Act of 2006 regarding diversification requirements for qualified defined contribution plans holding publicly traded employer securities.
    - PUBLISHED 12/18/2006 in IRB 2006-51 as NOTICE 2006-107 (released 11/30/2006)

25. Notice under sections 701 and 702 of the Pension Protection Act of 2006 regarding cash balance and other hybrid defined benefit pension plans.
    - PUBLISHED 1/16/2007 in IRB 2007-3 as NOTICE 2007-6 (released 12/21/2006)

26. Notice under section 905 of the Pension Protection Act of 2006 regarding in-service benefits permitted to be provided at age 62 by a pension plan.
    - PUBLISHED 1/16/2007 in IRB 2007-3 as NOTICE 2007-8 (released 12/22/2006)

27. Notice under sections 303, 826, 828, 829, 845, 904, 1102, and 1201(a) of the Pension Protection Act of 2006 regarding various distribution and other issues.
    - PUBLISHED 1/29/2007 in IRB 2007-5 as NOTICE 2007-7 (released 1/10/2007)

28. Final regulations updating the mortality tables used to determine current liability under section 412(l). Proposed regulations were published on 12/2/2005.
    - PUBLISHED 2/2/2007 in FR as TD 9310

29. Notice under sections 801 and 803 of the Pension Protection Act of 2006 regarding changes to the qualified plan deduction limitations.

30. Proposed regulations on mortality tables under section 430, as added by the Pension Protection Act of 2006.

31. Revenue procedure on employer specific mortality.

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

Original PGP Projects:

1. Guidance on accountable plans and per diem payments.

- PUBLISHED 11/13/2006 in IRB 2006-46 as REV. RUL. 2006-56 (released 11/9/2006)

2. Guidance under section 83 on post-grant restrictions.

3. Revenue ruling on taxable health benefits for beneficiaries.
   - PUBLISHED 9/5/2006 in IRB 2006-36 as REV. RUL. 2006-36 (released 8/14/2006)

4. Proposed regulations on cafeteria plans under section 125 updating regulations for statutory changes and providing additional guidance.

5. Guidance under section 132 on debit cards and qualified transportation fringes.
   - PUBLISHED 11/20/2006 in IRB 2006-47 as REV. RUL. 2006-57

6. Guidance addressing the scope of section 162(m) with respect to amounts payable to covered employees.

7. Guidance on the wage limitation used in connection with section 199.
   - PUBLISHED 11/6/2006 in IRB 2006-45 as REV. PROC. 2006-47 (released 10/17/2006)

8. Guidance on Health Savings Accounts.
   - PUBLISHED 3/5/2007 in IRB 2007-10 as NOTICE 2007-22 (released 2/15/2007)

9. Guidance on the tax treatment of beneficiaries of nonexempt trusts described in section 402(b)(4).

10. Final Regulations under section 409A.

11. Guidance regarding the application of section 409A to split dollar life insurance.

12. Guidance regarding reporting and income tax withholding under section 409A.
    - PUBLISHED 12/18/2006 in IRB 2006-51 as NOTICE 2006-100 (released 11/30/2006)

13. Guidance on deductions for contributions to a welfare benefit fund.

14. Guidance under section 419A on reserves for post-retirement medical and life insurance benefits.

15. Guidance under section 457(f).

16. Guidance on the application of SECA to Conservation Reserve Program payments.

- PUBLISHED 12/18/2006 in IRB 2006-51 as NOTICE 2006-108 (released 12/5/2006)

17. Final regulations under section 3121 regarding the definition of a salary reduction agreement. Temporary regulations were published on November 16, 2004.

18. Final regulations under section 3402(f) relating to Form W-4. Temporary regulations were published on April 14, 2005.

19. Guidance on how to provide electronically filed Form W-2s by deadline when employer ceases operation.

Additional PGP Projects:

20. Notice providing additional transition relief under section 409A.
    - PUBLISHED 10/23/2006 in IRB 2006-43 as NOTICE 2006-79 (released 10/4/2006)

21. Final regulations on HIPAA nondiscrimination requirements for group health plans.
    - PUBLISHED 12/13/2006 in FR as TD 9298

22. Final regulations on HIPAA nondiscrimination requirements for certain grandfathered church plans.
    - PUBLISHED 12/13/2006 in FR as TD 9299

23. Final regulations on HIPAA nondiscrimination requirements for bona fide wellness programs.
    - PUBLISHED 12/13/2006 in FR as TD 9298

24. Notice providing transition relief with respect to the use of debit cards for medical expense reimbursements at certain merchants with non-health care related merchant category codes and at stores with the Drug Stores and Pharmacies merchant category code.
    - PUBLISHED 1/8/2007 in IRB 2007-2 as NOTICE 2007-2 (released 12/14/2006)

25. Notice on settlement initiative for 2006 income inclusions under section 409A related to the exercise of certain stock rights.
    - PUBLISHED 2/26/2007 in IRB 2007-9 as ANN. 2007-18 (released 2/8/2007)

26. Announcement on Medical Savings Accounts reporting.
    - PUBLISHED 3/5/2007 in IRB 2007-10 as ANN. 2007-24 (released 2/22/2007)

27. Proposed regulations under section 4980G on comparable Health Savings Accounts contributions.

EXCISE TAXES

Original PGP Projects:

1. Guidance related to the credits and payments allowed by sections 34, 40A, 6426, and 6427 on whether a diesel fuel produced from biomass by a process that uses heat, pressure and catalysts is renewable diesel fuel as defined in section 40A(f).

2. Guidance under sections 4051 and 4071 regarding heavy trucks, trailers, tractors and tires to update current regulations and to reflect recent statutory changes.

3. Final regulations under section 4081 regarding the entry into the United States of taxable fuel. Temporary regulations were published on July 30, 2004.

4. Proposed regulations on fuel tax provisions added or affected by the American Jobs Creation Act of 2004, the Energy Policy Act, and the Safe, Accountable, Flexible, Efficient Transportation Equity Act, including issues that are related to kerosene used in aircraft and the Leaking Underground Storage Tank Trust Fund tax. Many of these issues were discussed in Notices 2005-4 and 2005-80.

5. Proposed regulations on fuel tax provisions added or affected by the American Jobs Creation Act of 2004, the Energy Policy Act, and the Safe, Accountable, Flexible, Efficient Transportation Equity Act that are related to alcohol fuels, biodiesel, renewable diesel and alternative fuel. Many of these issues were discussed in Notices 2005-4 and 2005-62.

6. Final regulations under section 4082 regarding diesel fuel and kerosene that is dyed by mechanical injection. Temporary regulations were published on April 26, 2005.

7. Guidance under section 4251 for telephone tax claims for individuals who wish to request a safe harbor amount instead of their actual amount paid for nontaxable service. Notice 2006-50 provides that amounts paid for long distance service and bundled service are not subject to tax (nontaxable service).
   - PUBLISHED 1/29/2007 in IRB 2007-5 as NOTICE 2007-11

8. Guidance under section 4261 regarding airline tickets that are sold to passengers through intermediaries.
   - PUBLISHED 10/23/2006 in IRB 2006-43 as REV. RUL. 2006-52

EXEMPT ORGANIZATIONS

Original PGP Projects:

1. Guidance on political activities by section 501(c)(3) organizations.

2. Revenue procedure updating Rev. Proc. 90-27 on processing exemption applications.

3. Regulations under sections 501(c)(3) and 4958 on revocation standards. Proposed regulations were published on September 9, 2005.

4. Guidance on advance and definitive rulings for organizations treated as described in sections 509(a)(2) or 509(a)(1) and 170(b)(1)(A)(vi).

5. Guidance under section 509(a)(3) regarding supporting organizations.
   - PUBLISHED 12/18/2006 in IRB 2006-51 as NOTICE 2006-109 (released 12/4/2006)

6. Guidance under section 527(l) with respect to the authority to waive taxes and amounts imposed on political organizations for failures to comply with notice and reporting requirements.

7. Regulations under section 529 regarding qualified tuition programs.

8. Guidance on section 516 of the Tax Increase Prevention and Reconciliation Act of 2005 regarding the involvement of accommodation parties in tax shelter transactions.
   - PUBLISHED 2/26/2007 in IRB 2007-9 as NOTICE 2007-18 (released 2/7/2007)

Additional PGP Projects:

9. Guidance under section 1241(d) of the Pension Protection Act of 2006 regarding required payout by supporting organizations.

10. Notice under section 6104(d), as amended by the Pension Protection Act of 2006, regarding the disclosure of Form 990-T.

FINANCIAL INSTITUTIONS AND PRODUCTS

Original PGP Projects:

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

2. Guidance on the treatment of fees incurred in credit card transactions.
    - PUBLISHED 1/16/2007 in IRB 2007-3 as REV. RUL. 2007-1

3. Final regulations under section 263(g) on the capitalization of interest and carrying charges properly allocable to straddles. Proposed regulations were published on January 18, 2001.

4. Final regulations on notional principal contracts (NPC) relating to the inclusion in income or deduction of a contingent nonperiodic payment and guidance relating to the character of payments made pursuant to an NPC. Proposed regulations were published on February 26, 2004.

5. Guidance addressing the accrual of interest on nonperforming loans.

6. Final regulations addressing valuation of certain securities and commodities under section 475. Proposed regulations were published on May 24, 2005.

7. Final regulations under section 475(e) and (f) for commodities dealers and securities or commodities traders regarding the election to use the mark-to-market method of accounting. Proposed regulations were published on January 28, 1999.

8. Proposed regulations simplifying the reporting to shareholders of regulated investment companies with respect to the flow through of the foreign tax credit.
    - PUBLISHED 9/18/2006 in FR as NPRM REG-105248-04

9. Guidance on the treatment of foreign currency gains for purposes of the income and asset tests for real estate investment trusts.

10. Final regulations under section 860G(b) regarding withholding obligations of partnerships allocating income from REMIC residual interests to foreign persons. Proposed regulations were published on August 1, 2006.
    - PUBLISHED 8/1/2006 in FR as TD 9272

11. Final regulations under section 1221 regarding capital asset exclusion for accounts and notes receivable. Proposed regulations were published on August 7, 2006.

12. Guidance under section 1286(f), as added by the American Jobs Creation Act of 2004, regarding treatment of stripped interests in bond and preferred stock funds.

13. Proposed regulations under section 7872(c)(1)(E) regarding significant effect loans and section 7872(g) regarding loans to qualified continuing care facilities.

Additional PGP Projects:

14. Guidance under section 860E relating to excess inclusion income of a real estate investment trust (REIT) that is a taxable mortgage pool or that has a qualified REIT subsidiary that is a taxable mortgage pool.
    - PUBLISHED 11/13/2006 in IRB 2006-46 as REV. RUL. 2006-58 (released 10/27/2006)
    - PUBLISHED 11/13/2006 in IRB 2006-46 as NOTICE 2006-97 (released 10/27/2006)

15. Revenue ruling regarding whether certain futures exchanges are a "qualified board or exchange" within the meaning of section 1256(g)(7)(C).

16. Notice under section 860G requesting public submissions on whether it is appropriate to amend the REMIC provisions of the income tax regulations to permit certain modifications to securitized commercial mortgage loans.
    - WILL BE PUBLISHED 3/19/2007 in IRB 2007-12 as NOTICE 2007-17 (released 2/28/2007)

GENERAL TAX ISSUES

Original PGP Projects:

1. Final regulations under section 21 regarding the credit for household and dependent care expenses. Proposed regulations were published on May 24, 2006.

2. Guidance under section 30B clarifying Notice 2006-9 regarding the advanced lean burn and hybrid motor vehicle credit. IRS Fact Sheet 2007-9 was released on January 4, 2007.
    - CLOSED WITHOUT PUBLICATION

3. Guidance under section 30C regarding the alternative fuel vehicle refueling property credit.

4. Proposed regulations under section 41 regarding the exception from the definition of “qualified research” for internal use software under section 41(d)(4)(E).

5. Final regulations under section 41 regarding the computation of the research credit in a controlled group, and allocation of the group credit among members of the group. Proposed regulations were published on May 24, 2005.
    - PUBLISHED 11/9/2006 in FR as TD 9296

6. Guidance under section 41 regarding whether the gross receipts component of the research credit computation for a controlled group under section 41(f) includes gross receipts from transactions between group members.

7. Guidance under section 42 regarding applicable utility allowances.

8. Update of Rev. Proc. 95-28 regarding relief from certain low income housing credit requirements under section 42 for low-income housing projects affected by major disasters.

9. Proposed regulations under section 42(h) regarding the requirements for a qualified contract.

10. Guidance under section 45 regarding the credit for electricity produced from certain renewable resources with respect to biomass.
    - PUBLISHED 10/16/2006 in IRB 2006-42 as Notice 2006-88

11. Guidance under section 45D regarding how an entity meets the requirements to be a qualified active low-income community business for purposes of the new markets tax credit when its activities involve targeted populations.

12. Guidance under section 45G regarding the credit for maintenance of railroad track.
    - PUBLISHED 9/8/2006 in FR as TEMP 9286

13. Guidance under section 45H regarding the certification requirement for complying with EPA regulations.

14. Regulations under sections 46 and 167 relating to normalization.

15. Additional guidance under sections 48A and 48B regarding the qualifying advanced coal and qualifying gasification projects credits. Guidance under these provisions was published as Notice 2006-24 and Notice 2006-25.

16. Notice regarding the tax treatment and information reporting of market gain on repayments of Commodity Credit Corporation loans.

17. Notice relating to payments made to tobacco producers in termination of tobacco marketing quotas and related price supports under the American Jobs Creation Act of 2004.
    - CLOSED WITHOUT PUBLICATION

18. Guidance under section 118 regarding whether amounts received by telecommunications carriers from federal universal service programs constitute nonshareholder contributions to capital.

19. Regulations under section 302 of the Katrina Emergency Tax Relief Act of 2005 regarding the $500 reduction in taxable income of a taxpayer who provides housing for an individual displaced by Hurricane Katrina.
    - PUBLISHED 12/12/2006 in FR as TEMP 9301

20. Proposed regulations under section 152, as amended by the Working Families Tax Relief Act of 2004, regarding the release of a claim for exemption for a child of divorced or separated parents.

21. Regulations under section 167 regarding the income forecast method.

22. Final regulations under section 168 relating to like-kind exchanges. Proposed regulations were published on March 1, 2004.
    - PUBLISHED 3/1/2007 in FR as TD 9314

23. Final regulations under section 168 regarding changes in classification of property. Proposed regulations were published on January 2, 2004.
    - PUBLISHED 12/28/2006 in FR as TD 9307

24. Final regulations under sections 168 and 1400L regarding the special depreciation allowance. Proposed regulations were published on September 8, 2003.
    - PUBLISHED 8/31/2006 in FR as TD 9283

25. Guidance under section 170(f)(11) regarding noncash charitable contributions.
    - PUBLISHED 11/13/2006 in IRB 2006-46 as NOTICE 2006-96 (released 10/19/2006)

26. Proposed regulations under section 170(f)(12), as added by the American Jobs Creation Act of 2004, and related provisions, regarding contributions of qualified vehicles. Interim guidance was issued as Notice 2005-44.

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

28. Temporary regulations under section 179B regarding the deduction for capital costs incurred by a refiner in complying with EPA regulations.

29. Guidance under section 181 regarding the election to treat the cost of qualified film and television productions as an expense.
    - PUBLISHED 2/9/2007 in FR as TEMP 9312

30. Guidance under section 199, as amended by the Tax Increase Prevention and Reconciliation Act of 2005, regarding the deduction for income attributable to domestic production activities.
    - PUBLISHED 10/19/2006 in FR as TEMP 9293

31. Final regulations regarding the application of section 199 to computer software. Proposed regulations were published on June 1, 2006.

32. Revenue procedure on the use of statistical sampling for purposes of section 199.

33. Proposed regulations under section 274(e), as amended by the American Jobs Creation Act of 2004, regarding the disallowance of entertainment expenses. Interim guidance was issued as Notice 2005-45.

34. Guidance regarding which party is subject to the meal expenses deduction limitation under section 274(n) in employee leasing and other third-party arrangements.

35. Revised regulations under section 468A, as amended by the Energy Policy Act of 2005, regarding special rules for nuclear decommissioning costs.

36. Guidance under section 1033(e), as amended by the American Jobs Creation Act of 2004, regarding an extension of the replacement period for livestock sold on account of drought, flood, or other weather-related conditions.
    - PUBLISHED 9/25/2006 in IRB 2006-39 as NOTICE 2006-82 (released 9/8/2006)
    - PUBLISHED 10/16/2006 in IRB 2006-42 as NOTICE 2006-91 (released 9/28/2006)

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

38. Regulations under section 1301(a), as amended by the American Jobs Creation Act of 2004, regarding income averaging for fishermen.

39. Final regulations under section 7701 regarding disregarded entities and employment and excise taxes. Proposed regulations were published on October 18, 2005.

40. Guidance on corporations chartered under Indian tribal law.

Additional PGP Projects:

41. Notice under section 152 setting forth a "tie-breaking" rule for taxpayers claiming a qualifying child.
    - PUBLISHED 10/10/2006 in IRB 2006-41 as NOTICE 2006-86 (released 9/20/2006)

42. Revenue procedure under section 170(n) regarding substantiation of expenses of Native Alaskan whaling captains.
    - PUBLISHED 11/20/2006 in IRB 2006-47 as REV. PROC. 2006-50

43. Notice under section 170 regarding the recordkeeping requirements for charitable contributions made by payroll deductions.
    - PUBLISHED 12/18/2006 in IRB 2006-51 as NOTICE 2006-110 (released 12/1/2006)

44. Notice under section 170 requesting comments regarding a study of donor advised funds and supporting organizations, as required by the Pension Protection Act of 2006.
    - PUBLISHED 2/26/2007 in IRB 2007-9 as NOTICE 2007-21 (released 2/6/2007)

45. Guidance under section 170, as amended by the Pension Protection Act of 2006, regarding qualified conservation contributions.

46. Guidance under section 199 on the definition of a qualified film.

47. Guidance on changes in methods of accounting as a result of the final special depreciation allowance regulations under sections 168 and 1400L.
    - PUBLISHED 11/6/2006 in IRB 2006-45 as Rev. Proc. 2006-43

48. Revisions to Rev. Proc. 2004-11 regarding accounting method changes for depreciable or amortizable property after its disposition.
    - PUBLISHED 1/22/2007 in IRB 2007-4 as Rev. Proc. 2007-16

49. Guidance under section 1400N(d) regarding Gulf Opportunity Zone bonus depreciation.
    - PUBLISHED 8/14/2006 in IRB 2006-33 as Notice 2006-67

50. Guidance under section 30B regarding the credit for new qualified heavy hybrid vehicles.

51. Guidance under section 199 regarding certain qualifying in-kind partnerships.

52. Revenue procedure regarding the inflation adjustment to the foreign earned income exclusion amount in section 911(b)(2)(D)(i) for taxable years beginning in 2006, as required by the Tax Increase Prevention and Reconciliation Act of 2005.
    - PUBLISHED 11/20/2006 in IRB 2006-47 as REV. PROC. 2006-51 (released 11/3/2006)

53. Revenue ruling listing previously published rulings and actions on decision (AODs) that are obsolete.
    - WILL BE PUBLISHED 3/19/2007 in IRB 2007-12 as REV. RUL. 2007-14 (released 2/16/2007)

GIFTS, ESTATES AND TRUSTS

Original PGP Projects:

1. Guidance under section 67 regarding miscellaneous itemized deductions of a trust or estate.

2. Final regulations pursuant to Notice 2006-30 under section 671 regarding the reporting requirements for widely-held fixed investment trusts. Final and temporary regulations were published on August 3, 2006.
   - PUBLISHED 12/29/2006 in FR as TD 9308

3. Guidance regarding the consequences under various estate, gift, and generation-skipping transfer tax provisions of using a family-owned company as the trustee of a trust.

4. Proposed regulations under sections 2036 and 2039 regarding the amount of a split-interest trust that is includible in a grantor's estate in certain circumstances in which the grantor retains an annuity or other payment for life.

5. Guidance under section 2053 regarding the extent to which post-death events may be considered in determining the value of a taxable estate.

6. Revenue procedures under sections 2055 and 2522 containing sample charitable lead trust provisions.

7. Final regulations under section 2642 regarding the definition of, and procedures for making, a qualified severance of a trust. Proposed regulations were published on August 24, 2004.

8. Guidance under section 2704 regarding restrictions on the liquidation of an interest in a corporation or partnership.

INSURANCE COMPANIES AND PRODUCTS

Original PGP Projects:

1. Guidance on the taxation of certain annuity contracts under section 72.
   - PUBLISHED 10/18/2006 in FR as NPRM REG-141901-05

2. Guidance on the qualification of certain arrangements as insurance.

3. Guidance on the taxation of variable contracts as described in section 817(d).
   - PUBLISHED 2/12/2007 in IRB 2007-7 as Rev. Rul. 2007-7

4. Final regulations under section 7702 regarding the attained age of the insured for purposes of testing the qualification of a contract as a life insurance contract. Proposed regulations were published on May 24, 2005.
   - PUBLISHED 9/13/2006 in FR as TD 9287

Additional PGP Projects:

5. Notice requesting comments from the insurance industry on processing closing agreements for failures to meet the requirements of sections 101(f), 817(h), 7702 or 7702A.
   - PUBLISHED 2/12/2007 in IRB 2007-7 as NOTICE 2007-15 (released 1/26/2007)

6. Revenue Procedure amending Rev. Proc. 2001-42 to replace certain indexes with more readily available sources.
   - PUBLISHED 2/12/2007 in IRB 2007-7 as REV. PROC. 2007-19 (released 1/26/2007)

7. Notice providing rules interpreting the reasonable mortality charge requirement contained in section 7702(c)(3)(B)(i).
   - PUBLISHED 11/6/2006 in IRB 2006-45 as NOT 2006-95 (released 10/12/2006)

8. Revenue ruling concerning the transfer of a life insurance policy to a grantor trust of the insured for purposes of section 101.
   - PUBLISHED 3/12/2007 in IRB 2007-11 as Rev. Rul. 2007-13

9. Revenue ruling concerning exchanges of annuity contracts for purposes of section 1035.

INTERNATIONAL ISSUES

A. Subpart F/Deferral

Original PGP Projects:

1. Guidance regarding subpart F issues, including guidance related to the American Jobs Creation Act of 2004 and the Tax Increase Prevention and Reconciliation Act of 2005, and regulations under section 959 on previously taxed earnings and profits. Notice 2006-48 regarding active aircraft or vessel leasing rents under section 954(c)(2)(A) was published on May 22, 2006. Temporary regulations under section 954(i) regarding active conduct of insurance businesses through partnerships were published on January 13, 2006.
   - PUBLISHED 1/29/2007 in IRB 2007-5 as NOTICE 2007-9 (released 1/11/2007)
   - PUBLISHED 1/29/2007 in IRB 2007-5 as NOTICE 2007-13 (released 1/9/2007)

2. Final regulations on gain recognition election and PFIC/CFC overlap rule and other guidance under section 1297. Final, temporary, and proposed regulations on the

gain recognition election and PFIC/CFC overlap regulations were published on December 8, 2005.

B. Inbound Transactions

Original PGP Projects:

1. Guidance on lending activities under section 864 and other guidance under section 864.

2. Regulations on portfolio interest received by partnerships.

3. Guidance under sections 897, 1445, and 1446. Final, temporary, and proposed regulations under section 1446 were published on May 18, 2005. Notice 2006-46 on the tax treatment of certain restructuring transactions under section 897 was published on June 12, 2006.

4. Guidance on securities lending, the treatment of certain financial products, and other withholding tax guidance.
   - PUBLISHED 11/13/2006 in IRB 2006-46 as NOTICE 2006-99 (released 10/27/2006)

5. Guidance on the tax treatment of cross-licensing arrangements. Notice 2006-34 soliciting comments on the tax treatment of cross-licensing arrangements was published on April 3, 2006.
   - PUBLISHED 3/5/2007 in IRB 2007-10 as REV. PROC. 2007-23 (released 2/14/2007)

C. Outbound Transactions

Original PGP Projects:

1. Regulations and other guidance relating to the carryover of tax attributes in certain international reorganizations. Final regulations under section 367 were published on August 8, 2006.

2. Guidance on mergers involving foreign corporations. Notice 2005-74 regarding asset reorganizations and gain recognition agreements was published on October 7, 2005.
   - PUBLISHED 10/10/2006 in IRB 2006-41 as NOTICE 2006-85 (released 9/22/2006)
   - PUBLISHED 2/5/2007 in FR as TEMP 9311

3. Final regulations under sections 367 and 1248. Proposed regulations under sections 367 and 1248 regarding the attribution of earnings and profits to stock following certain nonrecognition transactions were published on June 2, 2006.

4. Regulations under section 367(d) and other guidance on international restructurings, including guidance to reflect changes made by the American Jobs Creation Act of 2004. Temporary regulations under section 367(d) were published on May 16, 1986.
   - PUBLISHED 1/22/2007 in IRB 2007-4 as NOTICE 2007-10

5. Guidance under section 7874, as added by the American Jobs Creation Act of 2004, regarding the treatment of expatriated entities and their foreign parents. Temporary regulations regarding the determination of ownership under section 7874 were published on December 28, 2005, and temporary regulations regarding the substantial business activities test were published on June 6, 2006.
   - PUBLISHED 8/14/2006 in IRB 2006-33 as NOTICE 2006-70 (released 7/28/2006)

D. Foreign Tax Credits

Original PGP Projects:

1. Regulations and other guidance under section 901 on the payment of foreign taxes, including the allocation of foreign taxes in circumstances involving foreign consolidated regimes and hybrid entities. Proposed regulations relating to the determination of who is considered to pay a foreign tax for purposes of sections 901 and 903 were published on August 4, 2006.

2. Guidance under the American Jobs Creation Act of 2004 on recharacterization of overall domestic losses under section 904(g), and related guidance on overall foreign loss recapture provisions under section 904(f).

3. Guidance on other foreign tax credit provisions of the American Jobs Creation Act of 2004, including the reduction in the number of separate categories under section 904(d), and the credit disallowance rule under section 901(l), and related issues under section 901(k). A notice soliciting comments under section 901(l) was published on December 19, 2005.

4. Guidance on foreign tax redeterminations under section 905(c).

5. Final regulations related to look-through treatment for 10/50 company dividends and other foreign tax credit guidance. Temporary regulations on look-through treatment for 10/50 company dividends were published on April 25, 2006.

E. Transfer Pricing

Original PGP Projects:

1. Regulations and other guidance on the treatment of cross-border services. Proposed regulations under section 482 were published on September 10, 2003,` and temporary and final regulation were published on August 4, 2006. Announcement 2006-50 providing proposed guidance under section 482 listing controlled services subject to compensation at costs will be published on August 21, 2006.
   - PUBLISHED 1/16/2007 in IRB 2007-3 as REV. PROC. 2007-13 (released 12/20/2006)
   - PUBLISHED 1/16/2007 in IRB 2007-3 as NOTICE 2007-5 (released 12/20/2006)

2. Regulations on cost sharing and other guidance under section 482. Proposed regulations were issued on August 22, 2005.

3. Regulations and other guidance on global dealing. Proposed regulations under section 482 were published on March 6, 1998.

4. Annual Report on the Advance Pricing Agreement Program.
   - WILL BE PUBLISHED 3/19/2007 in IRB 2007-12 as ANN. 2007-31 (released 2/26/2007)

F. Sourcing and Expense Allocation

Original PGP Projects:

1. Guidance on expense apportionment, including on issues relating to partnership structures.
   - PUBLISHED 10/30/2006 in IRB 2006-47 as REV. PROC. 2006-44 (released 10/11/2006)

2. Guidance on mixed source of income, including rents and royalties, and space, ocean, and communications income.
   - PUBLISHED 12/27/2006 in FR as TD 9305

3. Regulations and other guidance on interest expense allocable to effectively connected income. Notice 2005-53 regarding section 1.882-5 was published on August 8, 2005.
   - PUBLISHED 1/08/2007 in IRB 2007-2 as NOTICE 2007-1 (released 12/18/2006)

G. Treaties

Original PGP Projects:

1. Guidance under section 1(h)(11) on the definition of qualified foreign corporation.
   - PUBLISHED 11/20/2006 in IRB 2006-47 as NOTICE 2006-101 (released 10/30/2006)

2. Modification of Rev. Rul. 2003-109 to update the extent of the North American area under section 274(h)(6) for purposes of deductibility of convention expenses.

3. Guidance on the treatment of dual consolidated losses and mirror legislation.
   - PUBLISHED 11/6/2006 in IRB 2006-46 as ANN. 2006-86

4. Guidance under treaties, including on the zero percent reduced withholding rate on certain dividends and publication of certain Competent Authority Agreements.
   - PUBLISHED 9/11/2006 in IRB 2006-35 as REV. PROC. 2006-37 (released 8/24/2006)
   - PUBLISHED 10/18/2006 in IRB 2006-42 as NOTICE 2006-90 (released 9/28/2006)
   - PUBLISHED 3/5/2007 in IRB 2007-10 as REV. PROC. 2007-22 (released 2/9/2007)

5. Update of Rev. Proc. 2002-52 providing U.S. Competent Authority procedures.
   - PUBLISHED 12/4/2006 in IRB 2006-49 as REV. PROC. 2006-54 (released 11/17/2006)

H. Other

Original PGP Projects:

1. Guidance related to shipping and aircraft transportation. Notice 2006-43 regarding section 1.883-3 was published on May 22, 2006.

2. Guidance on the exemption of certain investment income of foreign governments under section 892. Temporary regulations under section 892 were published on June 24, 1988. Regulations finalizing section 1.892-5 were published on July 31, 2002.

3. Guidance under section 911, including guidance under the Tax Increase Prevention and Reconciliation Act of 2005.
   - PUBLISHED 10/23/2006 in IRB 2006-43 as NOTICE 2006-87 (released 10/6/2006)
   - PUBLISHED 10/10/2006 in IRB 2006-41 as NOTICE 2006-84 (released 9/20/2006)

- WILL BE PUBLISHED 3/19/2007 in IRB 2007-12 as NOTICE 2007-25 (released 2/23/2007)

4. Guidance on the source and effectively connected income, and other aspects involving possessions. Temporary regulations, including regulations under section 937, were published on April 11, 2005. Final regulations under section 937 providing residency rules were published on January 31, 2006.

5. Other guidance on possession issues.
   - PUBLISHED 9/18/2006 in IRB 2006-38 as NOTICE 2006-76 (released 8/29/2006)
   - PUBLISHED 8/28/2006 in IRB 2006-35 as NOTICE 2006-73 (released 8/8/2006)
   - PUBLISHED 11/14/2006 in FR as TD 9297
   - PUBLISHED 3/12/2007 in IRB 2007-11 as NOTICE 2007-19 (released 2/21/2007)

6. Regulations and other guidance concerning the treatment of currency gain or loss. Proposed regulations under section 987 were published on September 25, 1991, and Notice 2000-20 was subsequently published. Notice 2005-27 regarding the dollar approximate separate transaction method under section 985 was published on March 28, 2005, and proposed regulations under section 985 were published on July 12, 2006.
   - PUBLISHED 9/7/2006 in FR as NPRM REG-208270-86

7. Regulations and other guidance under section 1503(d). Proposed regulations were published on May 24, 2005. Notice 2006-13 regarding section 1503(d) relief for failure to file was published on February 21, 2006.

8. Guidance on cross-border information reporting and filing issues, including regulations relating to the reporting of bank deposit interest. Proposed regulations under section 6049 were published on January 17, 2001.

Additional PGP Projects:

9. Announcement regarding a settlement initiative for employees of foreign embassies, foreign consular offices, and international organizations in the United States.
   - PUBLISHED 12/11/2006 in IRB 2006-50 as ANN. 2006-95
   - PUBLISHED 3/5/2007 in IRB 2007-10 as ANN. 2007-28

PARTNERSHIPS

Original PGP Projects:

1. Regulations under sections 704 and 737 regarding partnership mergers. Interim guidance was issued as Notice 2005-15.

2. Final regulations under section 704(b) regarding the allocation of foreign tax credits. Temporary regulations were published on April 21, 2004.
   - PUBLISHED 10/19/2006 in FR as TD 9292

3. Final regulations under section 704(b)(2) regarding whether partnership allocations have substantial economic effect. Proposed regulations were published on November 18, 2005.

4. Guidance under section 706(d) regarding the determination of distributive share when a partner's interest changes.

5. Final regulations under section 707 regarding disguised sales. Proposed regulations were published on November 26, 2004.

6. Guidance under section 707(c) regarding guaranteed payments.

7. Final regulations under sections 721 and 83 for partnership equity issued in connection with the performance of services. Proposed regulations were published on May 24, 2005. A notice of a proposed revenue procedure was issued as Notice 2005-43 on that same date.

8. Final regulations under section 721 for the tax treatment of noncompensatory options and convertible instruments issued by a partnership. Proposed regulations were published on January 22, 2003.

9. Proposed regulations under section 751 regarding unrealized receivables and inventory items of a partnership.

10. Final regulations under section 752 where a general partner is a disregarded entity. Proposed regulations were published on August 12, 2004.
    - PUBLISHED 10/11/2006 in FR as TD 9289

11. Final regulations regarding the application of section 1045 to certain partnership transactions. Proposed regulations were published on July 15, 2004.

12. Guidance under sections 704, 743, and 755, as amended by the American Jobs Creation Act of 2004, regarding the disallowance of certain partnership loss transfers, and no reduction of basis in stock held by a partnership in a corporate partner. Interim guidance was issued as Notice 2005-32.

SUBCHAPTER S

Original PGP Projects:

1. Proposed regulations under section 1361 providing guidance for S corporation banks.
   - PUBLISHED 8/24/2006 in FR as NPRM REG-158677-05

2. Guidance under section 1361 to reflect provisions of the American Jobs Creation Act of 2004, including the family shareholders provision, and to update obsolete references.

3. Guidance under section 1367 regarding adjustments in basis of indebtedness.

TAX ACCOUNTING

Original PGP Projects:

1. Proposed regulations under sections 162 and 263 regarding the deduction and capitalization of expenditures for tangible assets.
   - PUBLISHED 8/21/2006 in FR as NPRM REG-168745-03

2. Guidance under section 174 regarding changes in method of accounting from an impermissible method.

3. Regulations under sections 195, 248 and 709, as amended by the American Jobs Creation Act of 2004, regarding the elections to amortize start-up and organizational expenditures.

4. Proposed regulations under section 263(a) regarding the treatment of capitalized transaction costs.

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

6. Final regulations under section 263A regarding the definition of property self-produced on a routine and repetitive basis under the simplified service cost method provided by section 1.263A-1(h) and the simplified production method provided by section 1.263A-2(b). Temporary regulations were published on August 3, 2005.

7. Guidance under section 263A regarding whether "negative" additional section 263A costs are taken into account under section 1.263A-1(d)(4).

8. Regulations under sections 381(c)(4) and (5) regarding changes in method of accounting.

9. Revenue procedures updating guidance regarding changes in accounting periods.
   - PUBLISHED 11/6/2006 in IRB 2006-45 as REV. PROC. 2006-45 (released 10/19/2006)
   - PUBLISHED 11/6/2006 in IRB 2006-45 as REV. PROC. 2006-46 (released 10/19/2006)

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

11. Update of Rev. Proc. 2002-9 regarding automatic changes in methods of accounting.

12. Final regulations under section 448 regarding nonaccrual of certain amounts by service providers.
    - PUBLISHED 9/6/2006 in FR as TD 9285

13. Revenue ruling regarding the application of section 461 to an executory contract.
    - PUBLISHED 1/22/2007 in IRB 2007-4 as REV. RUL. 2007-3 (released 12/21/2006)
    - PUBLISHED 1/22/2007 in IRB 2007-4 as REV. PROC. 2007-14 (released 12/21/2006)

14. Guidance under section 460 on contracts that qualify for the rules for home construction contracts.

15. Revenue ruling under section 461 regarding the proper year for the deduction of payroll taxes on deferred compensation by accrual method taxpayers.
    - PUBLISHED 3/12/2007 in IRB 2007-11 as REV. RUL. 2007-12 (released 2/15/2007)

16. Guidance under section 468B regarding the tax treatment of a single-claimant qualified settlement fund.

17. Regulations under section 468B regarding escrow accounts and other funds used in like-kind exchanges. Proposed regulations were published on February 7, 2006.

18. Guidance under section 470, as added by the American Jobs Creation Act of 2004, regarding the limitation on deductions allowable to property held by partnerships and other pass-thru entities having as a partner or other owner a tax-exempt entity within the meaning of section 168(h)(2).
    - PUBLISHED 1/8/2007 in IRB 2007-2 as NOTICE 2007-4 (released 12/13/2006)

19. Guidance on the tax treatment of vendor allowances.

20. Guidance regarding the permissibility of a moving average cost method for valuing inventory.

21. Guidance under section 1.472-8 regarding the inventory price index computation (IPIC) method.

Additional PGP Projects:

22. Revenue procedure modifying the procedures in Rev. Proc. 2006-12 for accounting method changes for intangibles.
    - PUBLISHED 9/18/2006 in IRB 2006-38 as REV. PROC. 2006-37 (released 8/31/2006)

23. Revenue procedure regarding the procedures for accounting method changes relating to the nonaccrual-experience method.
    - PUBLISHED 12/26/2006 in IRB 2006-52 as REV. PROC. 2006-56 (released 12/5/2006)

24. Announcement regarding the May 2006 revision to the instructions for Form 3115, Application for Change in Method of Accounting.
    - PUBLISHED 8/14/2006 in IRB 2006-33 as ANN. 2006-52

TAX ADMINISTRATION

Original PGP Projects:

1. Guidance under section 1398 and section 1115 of the Bankruptcy Code, as added by the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, regarding the income tax and employment tax treatment of post-bankruptcy wages and self-employment income earned by an individual.
    - PUBLISHED 10/2/2006 in IRB 2006-40 as NOTICE 2006-83

2. Revenue procedure under section 3402 regarding the withholding rules applicable to poker tournaments.

3. Guidance regarding information reporting and backup withholding requirements for payment card transactions made through a Qualified Payment Card Agent.

4. Final regulations under section 6011 regarding business electronic filing. Temporary regulations were published on December 19, 2003.
    - PUBLISHED 12/8/2006 in FR as TD 9300

5. Revenue procedure regarding the suspension or termination of enjoined providers from the e-File Program.

6. Guidance under sections 6011, 6111, and 6112 regarding the application of the American Jobs Creation Act of 2004 to tax shelters.
   - PUBLISHED 11/2/2006 in FR as TEMP 9295
   - PUBLISHED 11/2/2006 in FR as NPRM REG-103038-05
   - PUBLISHED 11/2/2006 in FR as NPRM REG-103039-05
   - PUBLISHED 11/2/2006 in FR as NPRM REG-103043-05

7. Regulations regarding information reporting for lump sum timber sales.

8. Guidance under section 6050P regarding the information reporting requirements relating to the purchase of debt that has been written off as uncollectible. Final regulations were published on October 25, 2004.

9. Notice under section 6050S addressing frequently asked questions regarding information reporting requirements for qualified tuition and related expenses. Final regulations were published on December 19, 2002.
   - PUBLISHED 9/5/2006 in IRB 2006-35 as NOTICE 2006-72

10. Guidance under section 6103 regarding the electronic delivery of tax return transcripts.
    - PUBLISHED 10/16/2006 in IRB 2006-42 as ANN. 2006-74

11. Final regulations under section 6103 regarding disclosures to subcontractors. Proposed regulations were published on January 12, 2005.

12. Regulations under section 6104 regarding the disclosure of certain administrative actions that are required to be made available to the public.

13. Revenue procedure regarding procedures for requesting statistical studies under section 6108(b).
    - PUBLISHED 9/18/2006 in IRB 2006-38 as REV. PROC. 2006-36

14. Proposed regulations under section 6159 regarding user fees for installment agreements.
    - PUBLISHED 8/30/2006 in FR as NPRM REG-148576-05
    - PUBLISHED 12/28/2006 in FR as TD 9306

15. Proposed regulations under section 6159, as amended by the American Jobs Creation Act of 2004, regarding installment agreements.
    - PUBLISHED 3/5/2007 in FR as NPRM REG-100841-97

16. Proposed regulations under section 6302 regarding payments under the Electronic Federal Tax Payment System.

17. Announcement under section 6306, as added by the American Jobs Creation Act of 2004, regarding the use of private collection agencies.

- PUBLISHED 9/11/2006 in IRB 2006-37 as ANN. 2006-63

18. Withdrawal of section 301.6323(b)-1(j) regarding superpriority for passback loans.

19. Final regulations under sections 6320 and 6330 regarding collection due process. Proposed regulations were published on September 16, 2005.
    - PUBLISHED 10/17/2006 in FR as TD 9290 (released 10/16/2006)
    - PUBLISHED 10/17/2006 in FR as TD 9291 (released 10/16/2006)

20. Regulations implementing the substitution of value procedures under section 6325.
    - PUBLISHED 1/11/2007 in FR as NPRM REG-159444-04

21. Guidance regarding the limitations on setoff.

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

23. Final regulations under section 6502 regarding the extension of the statute of limitations on collection. Proposed regulations were published on March 4, 2005.
    - PUBLISHED 9/6/2006 in FR as TD 9284

24. Notice under section 6654 regarding waiver of estimated tax penalties in response to the Tax Increase Prevention and Reconciliation Act of 2005.
    - PUBLISHED 2/20/2007 in IRB 2007-8 as NOTICE 2007-16

25. Final regulations under section 6655 regarding estimated tax payments by corporations. Proposed regulations were published on December 12, 2005 and a correction was published on December 15, 2005.

26. Regulations under sections 6662A, 6662 and 6664 regarding accuracy-related penalties relating to understatements. Interim guidance implementing changes made by the American Jobs Creation Act of 2004 was issued as Notice 2005-12.

27. Final regulations under section 6664 amending the definition of qualified amended return.
    - PUBLISHED 1/9/2007 in FR as TD 9309

28. Update of Rev. Proc. 94-69 regarding qualified amended returns filed by CIC taxpayers. Final and temporary regulations under section 6664 were published on March 2, 2005, and amended on June 23, 2005.

29. Revenue procedure regarding the procedures taxpayers must follow to request a rescission of a penalty under sections 6707 and 6707A.

- PUBLISHED 2/26/2007 in IRB 2007-9 as REV. PROC. 2007-21 (released 2/2/2007)

30. Regulations under section 6708 regarding the penalty for failure to make a list of advisees available as required by section 6112. Interim guidance implementing changes made by the American Jobs Creation Act of 2004 was issued as Notice 2004-80.

31. Update of Rev. Proc. 2005-12 regarding the prefiling agreement program.
    - PUBLISHED 1/22/2007 in IRB 2007-4 as REV. PROC. 2007-17 (released 12/26/2006)

32. Regulations under section 7122, as amended by the Tax Increase Prevention and Reconciliation Act of 2005, regarding the partial payment requirement for offers in compromise.
    - PUBLISHED 7/31/2006 in IRB 2006-31as NOTICE 2006-68 (released 7/11/2006)

33. Revenue procedure under section 7123 regarding arbitration procedures for Appeals.
    - PUBLISHED 10/30/2006 in IRB 2006-44 as REV. PROC. 2006-44 (released 10/18/2006)

34. Announcement regarding fast track settlement procedures for SBSE taxpayers.
    - PUBLISHED 9/5/2006 in IRB 2006-35 as ANN. 2006-61 (released 8/25/2006)

35. Guidance necessary to facilitate electronic tax administration. Proposed regulations were published on December 7, 2005. Notice 2005-93 providing additional proposed guidance was published on December 19, 2005.

36. Proposed regulations under section 7425(c) regarding where to send notices of nonjudicial sale and wrongful levy claims.

37. Proposed regulations under section 7430 regarding attorney fees to reflect miscellaneous changes made by the Tax Reform Act of 1997 and the Internal Revenue Service Restructuring and Reform Act of 1998.

38. Proposed regulations under section 7477 regarding declaratory judgments relating to gift tax valuations.

39. Revenue ruling under section 7508 regarding the effect of disaster and combat zone relief on priority and dischargeability of tax obligations in bankruptcy.

40. Amendments to the section 7508A regulations regarding the postponement of certain deadlines by reason of a Presidentially declared disaster or terroristic or military actions.

41. Proposed regulations under section 7811 regarding taxpayer assistance orders.

42. Revisions to Circular 230 regarding practice before the IRS. Proposed regulations regarding various general practice (nonshelter) matters were published on February 8, 2006. Final regulations regarding matters relating to tax shelters, including standards for covered opinions and other written advice, were published on December 20, 2004.

43. Notice regarding the procedures for the imposition of a monetary penalty under Circular 230, as authorized by the American Jobs Creation Action of 2004.

44. Guidance regarding frivolous arguments used by taxpayers in an attempt to avoid or evade tax.

45. Guidance regarding user fees for annual enrollment examinations.
    - PUBLISHED 8/29/2006 in FR as NPRM REG-145154-05
    - PUBLISHED 10/5/2006 in FR as TD 9288

Additional PGP Projects:

46. Guidance under section 6323 regarding the proper procedures for raising a superpriority claim or objecting to a levy.
    - PUBLISHED 8/28/2006 in IRB 2006-35 as REV. RUL. 2006-42

47. Notice regarding information reporting and back-up withholding requirements for tax-exempt interest under the Tax Increase Prevention and Reconciliation Act of 2005.
    - PUBLISHED 10/30/2006 in IRB 2006-44 as NOTICE 2006-93 (released 10/3/2006)

48. Revenue procedure regarding requests for the determination of the tax effects of Chapter 12 bankruptcy plans.
    - PUBLISHED 11/27/2006 in IRB 2006-48 as REV. PROC. 2006-52

49. Modification of Rev. Proc. 98-20 regarding the information reporting requirements under section 6045(e) relating to the sale or exchange of a principal residence.
    - PUBLISHED 1/22/2007 in IRB 2007-4 as REV. PROC. 2007-12

50. Announcement regarding the effect of the Emancipation Day holiday in the District of Columbia on the deadline for filing returns and paying taxes that would normally be due on April 16, 2007.
    - PUBLISHED 2/20/2007 in IRB 2007-8 as ANN. 2007-16

51. Announcement regarding procedures relating to cases involving a listed transaction with respect to which Appeals and the taxpayer are unable to reach a settlement.
    - PUBLISHED 12/18/2006 in IRB 2006-51 as ANN. 2006-100 (released 12/5/2006)

52. Notice under section 6050V, as added by the Pension Protection Act of 2006, requesting comments regarding a study of certain insurance contracts in which applicable exempt organizations have an interest.
    - WILL BE PUBLISHED 3/19/2007 in IRB 2007-12 as NOTICE 2007-24 (released 2/23/2007)

53. Revenue procedure amplifying Rev. Proc. 2005-51 regarding the penalty under section 6707A for failure to disclose reportable transactions.
    - WILL BE PUBLISHED 3/19/2007 in IRB 2007-12 as Rev. Proc. 2007-25

54. Guidance regarding the contractual protection filter of the reportable transaction regulations under section 6011.
    - PUBLISHED 2/12/2007 in IRB 2007-7 as Rev. Proc. 2007-20

TAX EXEMPT BONDS

Original PGP Projects:

1. Update of Rev. Proc. 99-35 regarding the procedures for issuers to request an administrative appeal to the Office of Appeals of a proposed adverse determination.
    - PUBLISHED 10/16/2006 in IRB 2006-42 as REV. PROC. 2006-40 (released 9/27/2006)

2. Guidance on private business use issues under section 141 stemming from federal financing of research and application of the Bayh-Dole Act.

3. Proposed regulations under section 141 regarding allocation and accounting provisions.
    - PUBLISHED 9/26/2006 in FR as NPRM REG-140379-02

4. Final regulations under section 142 regarding solid waste disposal facilities. Proposed regulations were published on May 10, 2004

5. Guidance on arbitrage.

6. Final regulations under section 1397E regarding qualified zone academy bonds. Proposed regulations were published on March 26, 2004.

7. Regulations on clean renewable energy bonds. Interim guidance was issued as Notices 2005-98 and 2006-7.

Additional PGP Projects:

8. Proposed regulations under section 141 modifying the standards for treating payments in lieu of taxes (PILOTs) as generally applicable taxes for purposes of the private security or payment test.
   - PUBLISHED 10/19/2006 in FR as NPRM REG-136806-06

9. Notice on clean renewable energy bonds soliciting applications for allocation of increased volume cap as provided in section 202 of the Tax Relief and Health Care Act of 2006.

APPENDIX - Regularly Scheduled Publications

JULY 2006

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288 and 7520.
   - PUBLISHED 7/10/2006 in IRB 2006-28 as REV. RUL. 2006-35 (released 6/16/2006)

2. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability and to determine the required contribution for plan years beginning in July 2006.
   - PUBLISHED 7/24/2006 in IRB 2006-30 as NOTICE 2006-66

3. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.
   - PUBLISHED 8/7/2006 in IRB 2006-32 as REV. RUL. 2006-40

4. Revenue ruling providing the monthly bond factor amounts to be used by taxpayers who dispose of qualified low-income buildings or interests therein during the period July through September 2006.
   - PUBLISHED 7/24/2006 in IRB 2006-30 as REV. RUL. 2006-37

AUGUST 2006

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288 and 7520.
   - PUBLISHED 8/7/2006 in IRB 2006-32 as REV. RUL. 2006-39 (released 7/17/2006)

2. Revenue procedure providing the amounts of unused housing credit carryover allocated to qualified states under section 42(h)(3)(D) for the calendar year.
   - PUBLISHED 9/25/2006 in IRB 2006-39 as REV. PROC. 2006-38

3. Notice providing the inflation adjustment factor to be used in determining the enhanced oil recovery credit under section 43 for tax years beginning in the calendar year.
   - PUBLISHED 7/17/2006 in IRB 2006-29 as NOTICE 2006-62

4. Notice providing the applicable percentage to be used in determining percentage depletion for marginal properties under section 613A for the calendar year.
   - PUBLISHED 7/17/2006 in IRB 2006-29 as NOTICE 2006-61

5. Revenue ruling setting forth the terminal charge and the standard industry fare level (SIFL) cents-per-mile rates for the second half of 2006 for use in valuing personal flights on employer-provided aircraft.

- PUBLISHED 9/25/2006 in IRB 2006-39 as REV. RUL. 2006-47

6. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability and to determine the required contribution for plan years beginning in August 2006.
   - PUBLISHED 8/28/2006 in IRB 2006-35 as NOTICE 2006-74 (released 8/8/2006)

7. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.
   - PUBLISHED 8/28/2006 in IRB 2006-35 as REV. RUL. 2006-41

8. Revenue ruling providing a final determination under section 809 of the differential earnings rate for 2005 for use by mutual life insurance companies to compute their income tax liabilities for 2005.
   - CLOSED WITHOUT PUBLICATION

9. Revenue ruling providing a final determination under section 809 of the recomputed differential earnings rate for 2004 for use by mutual life insurance companies to compute their income tax liabilities for 2005.
   - PUBLISHED 9/11/2006 in IRB 2006-37 as REV. RUL. 2006-45

SEPTEMBER 2006

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288 and 7520.
   - PUBLISHED 9/5/2006 in IRB 2006-36 as REV. RUL. 2006-44 (released 8/22/2006)

2. Revenue ruling under section 6621 regarding the applicable interest rates for overpayments and underpayments of tax for the period October through December 2006.
   - PUBLISHED 10/2/2006 in IRB 2006-40 as REV. RUL. 2006-49 (released 9/11/2006)

3. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability and to determine the required contribution for plan years beginning in September 2006.
   - PUBLISHED 10/2/2006 in IRB 2006-40 as NOTICE 2006-80 (released 9/8/2006)

4. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.
   - PUBLISHED 9/25/2006 in IRB 2006-39 as REV. RUL. 2006-48

5. Revenue procedure under section 62 regarding the deduction and deemed substantiation of federal standard mileage amounts.
   - PUBLISHED 11/20/2006 in IRB 2006-47 as REV. PROC. 2006-49 (released 11/1/2006)

6. Revenue procedure under section 62 regarding the deduction and deemed substantiation of federal travel per diem amounts.
   - PUBLISHED 10/23/2006 in IRB 2006-43 as REV. PROC. 2006-41 (released 9/29/2006)
   - PUBLISHED 12/11/2006 in IRB 2006-50 as ANN. 2006-96 (released 11/21/2006)

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

OCTOBER 2006

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288 and 7520.
   - PUBLISHED 10/10/2006 in IRB 2006-41 as REV. RUL. 2006-50 (released 9/19/2006)

2. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability and to determine the required contribution for plan years beginning in October 2006.
   - PUBLISHED 10/23/2006 in IRB 2006-43 as NOTICE 2006-94 (released 10/5/2006)

3. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.
   - PUBLISHED 10/30/2006 in IRB 2006-44 as REV. RUL. 2006-53

4. Revenue procedure under section 1 and other sections of the Code regarding the inflation adjusted items for 2007.
   - PUBLISHED 11/27/2006 in IRB 2006-48 as REV. PROC. 2006-53 (released 11/9/2006)

5. Revenue procedure providing the loss payment patterns and discount factors for the 2005 accident year to be used for computing unpaid losses under section 846.
   - PUBLISHED 1/16/2007 in IRB 2007-3 as REV. PROC. 2007-9

6. Revenue procedure providing the salvage discount factors for the 2006 accident year to be used for computing discounted estimated salvage recoverable under section 832.

- PUBLISHED 1/16/2007 in IRB 2007-3 as REV. PROC. 2007-10

7. Update of Rev. Proc. 2004-13 listing the tax deadlines that may be extended by the Commissioner under section 7508A in the event of a Presidentially-declared disaster or terrorist attack.

8. Guidance regarding the effect of the Patriots' Day holiday on the deadline for filing documents and making payments with the Andover Submission Processing Center that would normally be due by April 15, 2007.
   - PUBLISHED 11/20/2006 in IRB 2006-47 as NOTICE 2006-103

9. Revenue ruling providing the monthly bond factor amounts to be used by taxpayers who dispose of qualified low-income buildings or interests therein during the period October through December 2006.
   - PUBLISHED 10/10/2006 in IRB 2006-41 as REV. RUL. 2006-51

NOVEMBER 2006

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288 and 7520.
   - PUBLISHED 11/6/2006 in IRB 2006-45 as REV. RUL. 2006-55 (released 10/18/2006)

2. Revenue ruling providing the "base period T-Bill rate" as required by section 995(f)(4).
   - PUBLISHED 11/6/2006 in IRB 2006-45 as REV. RUL. 2006-54

3. Revenue ruling setting forth covered compensation tables for the 2007 calendar year for determining contributions to defined benefit plans and permitted disparity.
   - PUBLISHED 11/27/2006 in IRB 2006-48 as REV. RUL. 2006-60

4. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability and to determine the required contribution for plan years beginning in November 2006.
   - PUBLISHED 11/27/2006 in IRB 2006-48 as NOTICE 2006-104 (released 11/7/2006)

5. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.
   - PUBLISHED 11/27/2006 in IRB 2006-48 as REV. RUL. 2006-59

6. Update of Rev. Proc. 2003-77 regarding adequate disclosure for purposes of the section 6662 substantial understatement penalty and the section 6694 preparer penalty.
   - PUBLISHED 11/20/2006 in IRB 2006-47 as REV. PROC. 2006-48

7. News release setting forth cost-of living adjustments effective January 1, 2007, applicable to the dollar limits on benefits under qualified defined benefit pension plans and other provisions affecting certain plans of deferred compensation.
   - PUBLISHED 11/13/2006 in IRB 2006-46 as NOTICE 2006-98 (released 10/18/2006 as IR-2006-162)

DECEMBER 2006

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288 and 7520.
   - PUBLISHED 12/11/2006 in IRB 2006-50 as REV. RUL. 2006-61 (released 11/20/2006)

2. Revenue ruling under section 6621 regarding the applicable interest rates for overpayments and underpayments of tax for the period January through March 2007.
   - PUBLISHED 12/26/2006 in IRB 2006-52 as REV. RUL. 2006-63 (released 12/12/2006)

3. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability and to determine the required contribution for plan years beginning in December 2006.
   - PUBLISHED 12/26/2006 in IRB 2006-52 as NOTICE 2006-111 (released 12/6/2006)

4. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.
   - PUBLISHED 12/26/2006 in IRB 2006-52 as REV. RUL. 2006-62

5. Revenue procedure setting forth, pursuant to section 1397E, the maximum face amount of Qualified Zone Academy Bonds that may be issued for each state during 2007.
   - PUBLISHED 1/29/2007 in IRB 2007-5 as REV. PROC. 2007-18 (released 1/12/2006)

6. Federal Register notice on Railroad Retirement Tier 2 tax rate.
   - PUBLISHED 11/22/2006 in FR as FRNT REG-148892-06

JANUARY 2007

1. Revenue procedure updating the procedures for issuing private letter rulings, determination letters, and information letters on specific issues under the jurisdiction of the Chief Counsel.
   - PUBLISHED 1/2/2007 in IRB 2007-1 as REV. PROC. 2007-1

2. Revenue procedure updating the procedures for furnishing technical advice, including technical expedited advice, to certain IRS offices, in the areas under the jurisdiction of the Chief Counsel.
   - PUBLISHED 1/2/2007 in IRB 2007-1 as REV. PROC. 2007-2

3. Revenue procedure updating the previously published list of "no-rule" issues under the jurisdiction of certain Associates Chief Counsel other than the Associate Chief Counsel (International) on which advance letter rulings or determination letters will not be issued.
   - PUBLISHED 1/2/2007 in IRB 2007-1 as REV. PROC. 2007-3

4. Revenue procedure updating the previously published list of "no-rule" issues under the jurisdiction of the Associate Chief Counsel (International) on which advance letter rulings or determination letters will not be issued.
   - PUBLISHED 1/2/2007 in IRB 2007-1 as REV. PROC. 2007-7

5. Revenue procedure updating procedures for furnishing letter rulings, general information letters, etc. in employee plans and exempt organization matters relating to sections of the Code under the jurisdiction of the Office of the Commissioner, Tax Exempt and Government Entities Division.
   - PUBLISHED 1/2/2007 in IRB 2007-1 as REV. PROC. 2007-4

6. Revenue procedure updating procedures for furnishing technical advice in employee plans and exempt organization matters under the jurisdiction of the Commissioner, Tax Exempt and Government Entities Division.
   - PUBLISHED 1/2/2007 in IRB 2007-1 as REV. PROC. 2007-5

7. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288 and 7520.
   - PUBLISHED 1/16/2007 in IRB 2007-3 as REV. RUL. 2007-2 (released 12/19/2006)

8. Revenue ruling setting forth the prevailing state assumed interest rates provided for the determination of reserves under section 807 for contracts issued in 2006 and 2007.
   - PUBLISHED 3/5/2007 in IRB 2007-10 as REV. RUL. 2007-10

9. Revenue ruling providing the dollar amounts, increased by the 2006 inflation adjustment, for section 1274A.
   - PUBLISHED 1/22/2007 in IRB 2007-4 as REV. RUL. 2007-4 (released 1/9/2006)

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

11. Revenue procedure providing procedures for limitations on depreciation deductions for owners of passenger automobiles first placed in service during the calendar year and amounts to be included in income by lessees of passenger automobiles first leased during the calendar year.

12. Revenue procedure updating procedures for issuing determination letters on the qualified status of employee plans under sections 401(a), 403(a), 409, and 4975.
    - PUBLISHED 1/2/2007 in IRB 2007-1 as REV. PROC. 2007-6

13. Revenue procedure updating the user fee program as it pertains to requests for letter rulings, determination letters, etc. in employee plans and exempt organizations matters under the jurisdiction of the Office of the Commissioner, Tax Exempt and Government Entities Division.
    - PUBLISHED 1/2/2007 in IRB 2007-1 as REV. PROC. 2007-8

14. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability and to determine the required contribution for plan years beginning in January 2007.
    - PUBLISHED 1/29/2007 in IRB 2007-5 as NOTICE 2007-12 (released 1/9/2007)

15. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.
    - PUBLISHED 1/29/2007 in IRB 2007-5 as REV. RUL. 2007-6

16. Revenue procedure under section 143 regarding average area purchase price.

17. Revenue procedure providing the maximum allowable value for use of the fleet-average value and vehicle-cents-per-mile rules to value employer-provided automobiles first made available to employees for personal use in the calendar year.
    - PUBLISHED 1/8/2007 in IRB 2007-2 as REV. PROC. 2007-11

18. Revenue ruling providing the monthly bond factor amounts to be used by taxpayers who dispose of qualified low-income buildings or interests therein during the period January through March 2007.
    - PUBLISHED 1/29/2006 in IRB 2007-5 as REV. RUL. 2007-5

FEBRUARY 2007

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of sections 42, 382, 1274, 1288 and 7520.
    - PUBLISHED 2/5/2007 in IRB 2007-6 as REV. RUL. 2007-9 (released 1/18/2007)

2. Revenue ruling under section 472 providing the Bureau of Labor Statistics price indexes that department stores may use in valuing inventories.
   - PUBLISHED 2/26/2007 in IRB 2007-9 as REV. RUL. 2007-11

3. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability and to determine the required contribution for plan years beginning in February 2007.
   - PUBLISHED 2/26/2007 in IRB 2007-9 as NOTICE 2007-20 (released 2/2/2007)

4. Notice providing the 2007 calendar year resident population estimates used in determining the state housing credit ceiling under section 42(h) and the private activity bond volume cap under section 146.

MARCH 2007

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

2. Revenue ruling under section 6621 regarding the applicable interest rates for overpayments and underpayments of tax for the period April through June 2007.
   - WILL BE PUBLISHED 3/26/2007 in IRB 2007-13 as REV. RUL. 2007-16

3. Revenue ruling setting forth the terminal charge and the standard industry fare level (SIFL) cents-per-mile rates for the first half of 2007 for use in valuing personal flights on employer-provided aircraft.

4. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability and to determine the required contribution for plan years beginning in March 2007.
   - WILL BE PUBLISHED 3/26/2007 in IRB 2007-13 as NOTICE 2007-27 (released 3/7/2007)

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

6. Notice providing a tentative determination under section 809 of the recomputed differential earnings rate for 2005 for use by mutual life insurance companies to compute their income tax liabilities for 2006.
   - CLOSED WITHOUT PUBLICATION

APRIL 2007

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

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

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

4. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability and to determine the required contribution for plan years beginning in April 2007.

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

6. Revenue ruling providing the monthly bond factor amounts to be used by taxpayers who dispose of qualified low-income buildings or interests therein during the period April through June 2007.

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

MAY 2007

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

2. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability and to determine the required contribution for plan years beginning in May 2007.

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

4. Revenue procedure providing guidance for use of the national and area median gross income figures by issuers of qualified mortgage bonds and mortgage credit certificates in determining the housing cost/income ratio under section 143.

JUNE 2007

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

2. Revenue ruling under section 6621 regarding the applicable interest rates for overpayments and underpayments of tax for the period July through September 2007.

3. Notice setting forth the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability and to determine the required contribution for plan years beginning in June 2006.

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

5. Revenue procedure providing the domestic asset/liability percentages and the domestic investment yield percentages for taxable years beginning after December 31, 2005, for foreign companies conducting insurance business in the U.S.

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

March 15, 2007
HP-320

Statement By Treasury Secretary Paulson on Senate Budget Committee Passage of Budget Resolution

"The budget resolution reported by the Senate Budget Committee today assumes a significant tax increase, which is the last thing our economy needs as we work to extend the current expansion. I am also disappointed that the resolution doesn't address entitlement reform. The rising costs of Social Security and Medicare, if left unchecked, will ultimately consume the bulk of the federal budget. Balancing the budget is only one step toward addressing entitlements, which is the long-term fiscal challenge. We must also keep the economy growing, both to create jobs and increase wages for American workers and to put us in a stronger fiscal position to deal with the growing entitlement challenges in the coming years."

PRESS ROOM

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March 16, 2007
HP-321

Treasury Department Commends $3.4 Billion Debt Relief Initiative for Latin America's Poorest Countries

Washington, D.C. – Treasury Assistant Secretary for International Affairs Clay Lowery today commended the Inter-American Development Bank's final approval of a debt relief package that will provide $3.4 billion in debt reduction for five of the region's poorest countries: Bolivia, Guyana, Haiti, Honduras, and Nicaragua. The Bank's initiative to cancel 100 percent of loans outstanding as of December 31, 2004 will free up money for needed health care, education and infrastructure development in the region.

"This landmark agreement follows President Bush's call to address the debt sustainability of the poorest countries in the region, including through grants and debt relief. The Treasury Department worked closely with the IDB for more than a year to develop this proposal to provide debt relief for the poorest countries in the Western Hemisphere – a critical step to reducing poverty and stimulating economic growth to help countries create the opportunities for upward mobility," said Assistant Secretary Lowery.

The initiative was approved in a vote that was finalized this week demonstrating overwhelming support within the region, and throughout the Bank's membership, for the agreement. The agreement also extends the benefits of concessional loans to five low-income countries (Ecuador, El Salvador, Guatemala, Paraguay, and Suriname) that will gain access to an additional $1.7 billion of subsidized financing when a current lending program is extended to at least 2015.

In addition to receiving $423 million of debt relief, the IDB approved Heavily Indebted Poor Countries (HIPC) status for Haiti. In recognition of its special needs, Haiti will also receive $50 million in grants per year from 2007 through 2009. After 2009, Haiti may be eligible to receive a mix of grants and concessional loans, of which the grant component may be up to $40 million through 2015.

REPORTS

- Click here for more information on IDB Debt Relief.

BACKGROUND

White House Fact Sheet – 11/05/05
http://www.whitehouse.gov/news/releases/2005/11/20051105-3.html

Inter-American Development Bank (IDB) Reform: The President called for the shareholders of the IDB to implement measures that will better employ the bank's assets, encourage accountability and performance, and address the debt sustainability of the poorest countries in the region, including through grants and debt relief.

President Bush Discusses Democracy in the Western Hemisphere – 11/06/05
http://www.whitehouse.gov/news/releases/2005/11/20051106-3.html

"...The beginning of President Moreno's tenure gives us a great opportunity to modernize the bank by taking better advantage of global capital markets -- and by tailoring the bank's programs to the real needs of the growing economies on this continent. The private sector is the engine of growth and job creation in this region. The bank must greatly strengthen its role in private sector investment -- especially in small businesses, which are the backbone of a healthy and growing economy. I have asked the United States Treasury Secretary John Snow to work with his counterparts in the hemisphere and at the bank to implement reforms that will ensure that the bank better addresses the needs for economic growth and job creation. They will also discuss a range of options, including giving grants and debt relief for the poorest of nations.

Increasing aid and relieving debt are important parts of our efforts to lift the burden of poverty from places of suffering -- yet they are not enough. Our goal is to promote opportunity for people throughout the Americas, whether you live in Minnesota or Brazil. And the best way to do this is by expanding free and fair trade..."

Statement of U.S. Treasury Assistant Secretary Lowery on IDB Debt Relief – 4/2/06
http://www.treas.gov/press/releases/js4151.htm

BELO HORIZONTE, BRAZIL--U.S. Treasury Assistant Secretary Clay Lowery, who is leading the U.S. delegation at the Inter-Development Bank Annual Meetings, issued the following statement:

"Despite good economic progress in the region, some of the poorest countries continue to be plagued with unsustainable debt burdens that divert their scarce public resources to paying off old loans rather than toward investments in new schools, hospitals, and roads that are so greatly in need.

"The U.S. has led efforts to bring debt relief to the poorest countries around the world through a series of initiatives in recent years. We think the same opportunity should be extended to Latin America's and the Caribbean's poorest countries and have put forward ideas to do so. We think this can be done in a way that is a win-win situation for the IDB, all its member countries, and the entire region.

"I am very encouraged by today's decision by IDB's Board of Governors to establish a special committee, chaired by Brazil, to move this idea forward."

President Bush Discusses Western Hemisphere Policy – 3/5/07
http://www.whitehouse.gov/news/releases/2007/03/20070305-6.html

"...One of the most important ways is by helping to relieve the burden of debt. In the past, many nations in this region piled up debt that they simply cannot repay. Every year their governments have to spend huge amounts of money just to make interest payments on the debt. So under my administration, we worked with the Group of 8 industrialized nations to reduce the debt of Latin America and Caribbean nations by $4.8 billion. Members of the Inter-American Development Bank are close to an agreement on another debt relief initiative, and we look forward to helping them complete it. This agreement will cancel $3.4 billion owed by some of the poorest countries in our hemisphere -- Bolivia and Guyana and Haiti and Honduras and Nicaragua. That works out to about $110 for every man, woman and child in these countries, monies that their government should use to invest in the education and health of their citizens..."

March 19, 2007
HP-322

Statement by DAS Glaser on the Disposition of DPRK-Related Funds Frozen at Banco Delta Asia

Beijing, CHINA - Daniel Glaser, the Treasury Department's Deputy Assistant Secretary for Terrorist Financing and Financial Crimes, made the following statement today on the disposition of North Korean-related funds frozen at Banco Delta Asia in Macau.

"The United States and North Korean Governments have reached an understanding on the disposition of DPRK-related funds frozen at Banco Delta Asia.

"The DPRK has proposed the transfer of the roughly $25 million frozen in BDA into an account held by North Korea's Foreign Trade Bank at the Bank of China in Beijing.

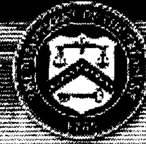
"North Korea has pledged, within the framework of the Six-Party Talks, that these funds will be used solely for the betterment of the North Korean people, including for humanitarian and educational purposes. We believe this resolves the issue of the DPRK-related frozen funds.

"The disposition of the frozen assets has always been and remains a decision by the Macanese authorities to be taken in accordance with Macanese law. North Korea will need to work out the legal and technical intricacies of the arrangement with the Macanese. The Treasury has communicated to both the Macanese and Chinese Governments the United States' support of this arrangement.

"Separately, the final rule against Banco Delta Asia, issued by the Treasury Department under Section 311 of the USA PATRIOT Act, remains in place. The Treasury will continue to cooperate with the Macanese on this and other anti-money laundering issues.

"The events of the past 18 months demonstrate our lack of tolerance for illicit activity conducted in the global financial system. Financial institutions that facilitate weapons proliferation, terrorist financing, narcotics trafficking, and other illicit financial activity should be on notice of the significant consequences they face."

-30-



March 19, 2007
HP-323

Deputy Secretary Robert M. Kimmitt Makes Remarks to CDU-CSU Parliamentary Group Conference

March 19, 2007

[Introduction delivered in German]

Madam Chancellor, Mr. Kauder, Mr. Josefsson, Excellencies, Members of the Bundestag, members of the media and the business community. Ladies and gentlemen, it is an honor to join so many distinguished guests here to give a speech on the close transatlantic cooperation. I would like to thank Chairman of the CDU/CSU Parliamentary Group in the Bundestag, Volker Kauder, for organizing this important event; and in particular Chancellor Merkel. The fact that Germany added the Transatlantic Economic Partnership to the international agenda is a very important development that the United States welcomes. It is because of your initiative that we are here today.

It is great to be back in Berlin, and it always feels like a homecoming for me. My parents met and married in Berlin exactly 60 years ago, on March 19, 1947, and I was born exactly nine months later in the United States. So, like President Kennedy, I am proud to say "Ich bin ein Berliner," – and, in my case, "Made in Germany!"

As I speak to you today, I am reminded of the counsel I received before coming to Germany as Ambassador in 1991. My predecessor, Vernon Walters, passed along to me only one bit of advice: "Never forget that speeches are very important to Germans. They like to give speeches, listen to speeches, and analyze speeches far more than is the case in the United States." He once spoke for 40 minutes to a distinguished group like those gathered here today, and when he sat down – rather pleased with his performance – he was surprised to hear his host say, "Mr. Ambassador, thank you so much for your remarks. If you ever have time for a real speech, please come see us again!" Well, if 40 minutes is where a "real speech" starts, today you will receive from me only remarks!

The EU-U.S. Relationship

Much of my life has been spent on issues related to German-American relations, and like many of those gathered here today I am a child of the Cold War. From 1960 - 1964 our family lived in Germany while my father was stationed here with the U.S. Army. While a cadet at our military academy, West Point, I returned to Europe in the summer of 1967, as an exchange student at the Austrian Military Academy, and in 1968 I served with the U.S. 3rd Infantry Division in Aschaffenburg. These experiences gave me a personal perspective on the Cold War foundation of the German-American, and European-American, relationship, a foundation that was predominantly political and military.

As we entered the post-Cold War era in 1991, I came back to Germany as the first American Ambassador in over 50 years posted to a united Germany. Like many of you, I took part in the post-Cold War transformation of the relationship between

Germany and the United States. Our conversations still involved important political-military issues, but the dialogue began to evolve and expand as we saw new emphasis in and attention to our economic, financial, and cultural relationship.

The institutions of the Cold War, such as NATO, were in the midst of fundamental transformation during this period, but so was the European Union, including intensive deliberations on the issues of: deepening versus widening; a common European currency; and the European Security and Defense Identity. I remember discussing these issues with then-Minister Angela Merkel during long walks in the Brandenburg countryside. At that time, there was much debate in the United States about whether Europe coming together was good or bad for America. One former American official even opined that the ideal state of affairs would be for Europeans to always be laboring toward unity but never actually getting there.

Fortunately, that debate is long over and that American official's opinion did not prevail. As the European Union prepares to celebrate the 50th anniversary of the Treaty of Rome later this week, let me take this opportunity to state our position clearly and directly: the United States strongly supports Europe coming together on an outward looking basis. A stronger, more united Europe – open to and seeking external engagement – is good for Europe, good for the United States, and good for the rest of the world.

In the economic and financial spheres *how* Europe comes together is just as important as the fact of its coming together. The best way to reap the full benefits of globalization, and to respond to its challenges, is to build a competitive, market-led, and integrated single market economy, with the flexibility to adapt quickly to change in the global economy.

Fundamentally, Europe and the United States both trust markets to serve as essential organizing principles of our economies. But our market systems also have their own characteristics. To enhance our transatlantic economic relationship, we must reinvigorate common efforts to address and reconcile our systemic differences and thereby reduce obstacles to economic growth. That is why the United States has warmly greeted and greatly appreciates Chancellor Merkel's proposal for a new transatlantic market initiative. When any European Union Presidency – but especially Germany's Presidency – makes a transatlantic initiative a central element in its agenda, it sends a very strong political signal.

Such an initiative recognizes that progress on economic and financial matters can help improve the overall political relationship between Europe and America, and can provide a strong foundation upon which to rely during periods of political turbulence. I would like at this point also to recognize the contributions to this initiative of Matthias Wissmann, one of Germany's and Europe's strongest transatlanticists.

Before giving U.S. views on the Chancellor's proposal, let me make two brief observations. First, the Transatlantic Market Initiative is not a proposal for a Free Trade Agreement between Europe and the United States. Our common highest priority in the trade arena remains success in the Doha Round, to which both Germany and the United States are active and committed. The Chancellor's initiative focuses instead on improved cooperation to reduce non-tariff barriers and regulatory obstacles and thereby expand economic activity between Europe and the United States. However, a successful launch of this important initiative not only will not detract from Doha efforts, it should also help provide momentum for our continuing dialogue regarding Doha.

Second, any transatlantic effort to reduce regulatory burdens can only be as successful as, and cannot move faster than, Europe's own efforts to establish the European single market. These are complementary and reinforcing objectives. We cannot reap the true benefits of a meaningful transatlantic economic partnership if we attempt to forge such a partnership between the United States and 27 different member states. As the European Union increasingly participates in the political arena as a single actor, it must also do so in the economic arena. A more fully realized single market would put Europe in a far better position to effectively engage the rest of the world.

For this reason, there is much focus on the European Commission's process for assessing the single market. This effort, which included an interim update for the European Council earlier this month, will identify successes and shortcomings and develop policy changes for the future direction of the single market and could have major implications for our transatlantic relationship. As the Commission's interim report noted, it is time for a single market that has lower – and, I would add, fewer – barriers to entry for new firms, an overarching intellectual property rights regime that better promotes innovation, and greater competition in sectors such as transport, energy, and infrastructure that determine costs for other businesses.

We also welcome President Barroso's and Chancellor Merkel's plans to reduce the burden of EU regulations by 25 percent. Combined with the implementation of structural reforms under the re-launched Lisbon Agenda, this will provide a more favorable environment for business creation and growth. We need to be firmly on the side of reducing the regulatory burden and providing more flexibility for businesses, both in their transatlantic activities and within the single market.

A New Transatlantic Market Initiative: Not a Sprint, But a Marathon

Ladies and gentlemen, let me now turn to specific comment on the Chancellor's important initiative. Today, as we discuss globalization and the transatlantic economic relationship, it is clear that the nature of our transatlantic relationship has changed precisely because of its and the world's growing interdependence.

We both face challenges and opportunities related to globalization. How do we compete, cooperate, and succeed in a globalizing world? As Chancellor Merkel said in her recent statement to the Bundestag, globalization brings development at what can seem at times like a breathtaking pace. Globalization and its effects will only accelerate in the years ahead, meaning now is exactly the right time to strengthen the critical economic and financial relationship between the Europe and the United States. We have a unique opportunity with German leadership in the European Union and G-8 to make progress that will benefit not just the transatlantic economy, but will also develop common approaches of benefit to the global economy as a whole.

Over the past 15 years, EU-U.S. engagement has been marked by a series of initiatives that sought to strengthen and reinforce economic ties. While U.S. Under Secretary of State, I was one of the negotiators in Paris in 1990 who prepared the agreement under which the EU-U.S. Summits now take place. Yet while these past efforts set us on a good path, they have not created an overarching framework that is perceived to provide political commitment and accountability. Providing that strategic framework while establishing regularly reviewed benchmarks for achievement is what makes the Chancellor's initiative both new and important. Our goal is straightforward and clear: reduce regulatory burden on both sides of the Atlantic to the greatest extent possible, then converge, harmonize, or mutually recognize the fewer regulations that remain.

Before deciding what new steps to take and new structures to establish, the three partners in this effort – Germany, the European Commission, and the United States – are taking stock of the progress we have made under previous regulatory cooperative initiatives. One successful mechanism is the EU-U.S. Financial Markets Regulatory Dialogue, an informal and cooperative structure in which independent U.S. financial regulators and their European Commission counterparts focus on promoting strong cooperation on financial markets, fostering convergence and anchoring financial systems in best global practices.

Under the auspices of the Financial Markets Regulatory Dialogue, I recently met with Commissioner McCreevy in Washington, and we both underscored the importance of Chancellor Merkel's proposal for our common efforts in the financial sector. I commended Commissioner McCreevy for the progress the European Union is making under its Financial Services Action Plan in putting in place the framework for an integrated EU wholesale market and building a single European

financial market.

We also discussed the release last month by the President's Working Group on Financial Markets of a set of principles and guidelines that will guide U.S. financial regulators as they address public policy issues associated with the rapid growth of private pools of capital, including hedge funds and private equity. Commissioner McCreevy has expressed support for these principles, and we look forward to continuing this discussion in the Financial Markets Regulatory Dialogue, the G7, and the Financial Stability Forum. We also agreed that the Financial Markets Regulatory Dialogue structure, with its informality and its focus on active dialogue and regulator-to-regulator contacts, provides a good example to other sectors considering expanded regulatory cooperation across the Atlantic.

In this context, it is important to note that in recent months transatlantic business and policy groups – seizing on the opportunity presented by the German proposal – have renewed their calls for a deeper and more unified transatlantic market. For example, the TransAtlantic Business Dialogue, representing businesses operating on both sides of the Atlantic, is pressing for stronger regulatory cooperation to reduce the costs to businesses of dealing with different regulatory standards and processes. Chancellor Merkel and I, together with European Commissioners Mandelson and Kroes, heard this message quite clearly when we met with the TABD in Davos. And the Transatlantic Policy Network, which brings together business and legislative leaders, has called for a more unified market and regulatory convergence in the most significant global economic relationship.

Chancellor Merkel's leadership provides us with new momentum to deepen our existing dialogue and encourage governments to take action to commit to improved regulatory cooperation based on shared principles. We are discussing a number of promising areas where we can redouble our efforts to foster an improved transatlantic economic relationship. The goal is to deliver an initial set of concrete results by the EU-U.S. Summit in Washington on April 30.

One major achievement that is within our grasp is the recently negotiated EU-U.S. Air Transport Agreement, set to be approved by the Transport Council of the European Union later this week. Approval of the agreement is absolutely essential to demonstrating that Europe and the United States can reach common understandings on difficult economic and regulatory matters affecting our most important business sectors. Other areas under discussion include: extending regulatory cooperation in a range of sectors; advancing cooperation on enforcement of intellectual property rights, thereby spurring innovation; encouraging progress on the work-plan aimed at promoting consistent application of IFRS and US GAAP accounting standards; and integrating our efforts on energy security and addressing climate change, including advancing work on biofuels, energy efficiency, and clean coal.

We were pleased that the Chancellor included both in her EU-U.S. initiative and the G8 agenda the issues of energy security and climate change. Our dependence on oil creates economic, environmental, and security vulnerabilities. President Bush has put forward a bold plan to reduce gasoline consumption in the United States by 20 percent in 10 years by rapidly expanding the development and use of alternative fuels and by increasing automobile efficiency. This initiative will transform America's transportation energy sector and put us on a path to energy security.

The European Union has also targeted this issue, with the recent agreement that includes a requirement for 10 percent of vehicle fuels to consist of biofuels by 2020. It is essential to energy security and long-term economic growth to have diverse sources of energy enabled by free, open, and competitive energy markets. Just as it is important to diversify the types of energy resources we use, it is also important to diversify the sources of supply and the supply routes, a challenge of particular importance in Europe. Diversification lowers the risks of supply shocks, whether due to natural or political causes.

With regard to climate change, I appreciated hearing the Chancellor's perspective today, and I look forward to Mr. Josefsson's remarks. Although I know the conventional wisdom in Europe is otherwise, let me make clear that climate change

is an issue of great importance to the United States. The President stated directly in his State of the Union Address in January that global climate change is a serious challenge both to the United States and to the world. The President's energy plan has important climate benefits by potentially stopping the growth of CO_2 emissions from our automobiles by setting an ambitious target for the deployment of biofuels and increasing mandatory fuel economy requirements.

In addition, the Administration has embraced policies that encourage the development of clean technologies to enable our economy to grow while protecting the environment. The United States has devoted nearly $29 billion to climate-related science, technology, international assistance, and incentive programs, and last year we awarded nearly $1 billion in advanced coal tax credits that will leverage billions of dollars in private sector investment to develop clean coal technology. And the private investment community in the United States, especially in Silicon Valley, is responding enthusiastically.

Recognizing again that climate change is a global issue, we have taken a number of important steps toward increasing international interaction. We have engaged with Europe through a High Level Dialogue that recognizes that our energy security and air quality goals are achieved in parallel with our climate change goals. We will continue our efforts to accelerate investment and open markets for cleaner, more efficient technologies, goods, and services while fostering sustainable economic growth and poverty reduction.

However, we all realize that tackling global climate change will require global solutions that include fast-growing countries such as India and China. This is why we launched the Asia-Pacific Partnership on Clean Development and Climate with Australia, China, India, Japan, and South Korea – countries that represent 50% of the world's economy – to speed up the transfer of clean energy technologies. And Secretary Paulson has made energy and the environment an important element of our new Strategic Economic Dialogue with China.

Returning to the Merkel Initiative, between now and April 30, we will work with our EU and EC counterparts to put forward results that will strengthen the economic relationship between America and Europe. But our goal is not just a successful summit in April. As significant as that date is, we want this important initiative to be judged successful not only on April 30, 2007, but on April 30, 2008, and each year beyond. This effort is a longer-term marathon, not merely a short-term sprint to the next EU-U.S. Summit. The progress we make during the German Presidency and beyond will contribute to our goal of a more integrated transatlantic marketplace that will also provide greater stability for the global economy. But we must also put in place an enduring effort that will produce results beyond the German Presidency, and we are discussing with Germany and the Commission a structure that will make this initiative one of lasting importance and effect.

The United States and the European Union share common ideals and deep linkages, and the benefits of our relationship are evident. Our reasons for seeking to strengthen this partnership are clear: Even two economies as powerful as ours cannot respond alone to the gale winds of globalization. It is time to join together in our efforts to energize our economic growth. Modern economies adapt and grow based on their ability to harness the forces of globalization to deliver economic growth and job creation.

Together we can provide increased opportunities for our workers to share the benefits of economic integration. But as Chancellor Merkel has said, "in order to achieve these goals, we first of all need growth and pronounced growth at that: qualitative growth, but also, in many areas, quantitative growth. Without growth, it will not be possible to maintain our level of prosperity; and so it will also not be possible to practise solidarity."

The Chancellor's transatlantic market initiative has the potential to be the cornerstone of a market-based, growth-oriented, more integrated transatlantic economic partnership. Success will require considerable effort over a long period of time. Let us today have the courage to accept the challenge and opportunity the Merkel Initiative presents.

The Importance of Open Investment and the EU- U.S. Relationship

Ladies and gentlemen, as we work toward this common growth agenda spurred by the Merkel Initiative, there is a separate but related topic that must be addressed: growing protectionist sentiment, and new obstacles to trade and investment, on both sides of the Atlantic. Allow me to say a few brief words on this important topic before closing my remarks.

Dynamism in our economies can lead to the concern that international business interests are a threat to jobs at home. In Europe, some countries have attempted to thwart takeovers of perceived "national champions," while other countries continue to raise concerns about the free movement of labor and capital within the European Union. We often discuss this issue in the context of trade. But since investment flows are many times larger than trade flows, we must also pay close attention to cross-border capital flows and maintaining open investment policies. Our common interests make the European Union and the United States natural partners in ensuring the three fundamental principles of a healthy world economy: free and fair trade; flexible exchange rates; and the free flow of capital across borders.

The United States and the European Union are the two largest beneficiaries of foreign direct investment. In the United States, recent figures for direct investment flows in 2006 totaled $184 billion; up from $110 billion in 2005, and more than double the figure from a decade earlier. By comparison, Eurozone countries received $189 billion in direct investment from outside the Eurozone last year, up from $112 billion during 2005. Foreign investment in all its forms – including foreign direct investment and portfolio investment – is a growth engine that must run smoothly for our countries to continue to prosper. We must come together to make clear on both sides of the Atlantic that we are open to investment and trade, and actively reject the rise of investment protectionism across the Atlantic or elsewhere in the world.

For our part, the United States is keenly focused on keeping our

economy open to investment while addressing national security concerns. For that reason, we are working to ensure that proposed changes to the process for reviewing foreign investments do not create unnecessary and counterproductive barriers to participation in the U.S. market. Let me make my message crystal clear: the United States is open to investment from abroad, and we hope Europe will remain open to investment as well.

In Chancellor Merkel's remarks in Davos earlier this year at the World Economic Forum, she discussed the importance of working together to confront challenges across the world. I was struck by the African proverb she quoted: "If you want to go fast, go alone. If you want to go far, go together." I cannot think of a better way to describe the working relationship between Europe and the United States as we move forward. Together, we have an opportunity to point the way toward sound, market-based, growth-oriented economies in Europe, the United States, and throughout the world.

Madame Chancellor, I would like to thank you again for your strong leadership, support, and promotion of a stronger transatlantic economic partnership, as the foundation of a stronger European-American relationship that serves the vital interests of Europe, the United States, and the world at large.

Vielen Dank für Ihre Aufmerksamkeit.

March 19, 2007
HP-324

**Remarks by Treasury Secretary Henry M. Paulson, Jr., to the Governors of the Inter-American Development bank
Guatemala City, Guatemala**

Guatemala City, Guatemala – Muy buenas tardes. Thank you, President Moreno, for your invitation to address the Governors of the IDB – and thank you to the people and government of Guatemala for hosting this event. One of my family's favorite vacations was to Tikal – and my daughter has very pleasant memories of her four months living with a family in Quetzaltenango where she learned to speak Spanish.

The nations of Latin America and the Caribbean have the capacity to become engines of growth, opportunity, and poverty reduction for their own citizens and throughout the region. And the United States is committed to supporting the people of this region in achieving these goals. President Bush made it clear during his recent visit that the United States stands with those who seek greater opportunity and with those leaders who are delivering it.

In recent years, many governments have enacted pro-growth policies – shored up public finances, reduced debt, and opened markets – and your economies are responding. Yet many people in the region do not feel the benefits of this progress. It is my goal to work with the IDB and regional leaders to ensure that more people in the Americas share in the benefits created by economic growth and trade opportunities, to help every nation reduce poverty and build a strong middle class.

Moving the poor into the middle class through a thriving private sector is vital to the region's success. This kind of economic mobility is one of the core strengths of the United States, and it is both urgently needed and possible to achieve throughout this hemisphere. Access to capital is essential to reducing poverty. Whether it's a loan to start a business, grow a business, or buy a house, access to capital helps people acquire assets that give them a foothold in the economy – personal wealth they can leverage into greater prosperity and economic security.

In order to help the IDB meet this challenge we support President's Moreno's efforts to restructure the Bank, including placing high-quality professionals in the most senior levels of management based on a more merit-based system. To be effective, the IDB cannot be all things to all people. It must focus on the people who need help the most. We see three priorities for the Bank as it undergoes realignment under President Moreno's leadership: regional integration, increasing financing for small and medium enterprises, and promoting infrastructure development.

Our first priority is to work together to promote these goals for the region: more opportunity and more prosperity for all people. The best ideas will come from the people who live here and work here.

Our second priority is to create an environment that nourishes the growth of small and medium-sized businesses, which is vital to reducing poverty and inequality, and creating jobs and opportunity. Small businesses are engines of job creation in any economy. Yet in this region, it is estimated that only 10 percent of small businesses have access to financing from the formal financial sector.

As President Bush announced earlier this month, the United States is developing

an initiative to help both local and U.S. banks increase their lending to small businesses in the region and to do it on a large scale. We are working through U.S. agencies such as the Overseas Private Investment Corporation to share risk with banks willing to lend to these clients. And the start of the second Multilateral Investment Fund provides an excellent opportunity to partner with the IDB to build banks' capacity to do this kind of lending profitably.

Our third priority is developing the region's infrastructure, which will produce tangible benefits for the people of Latin America, whether a farmer looking to increase sales of his produce or a mother trying to get her children to schools and doctors. Greater private sector investment can quicken the pace and expand the scope of infrastructure development. We are working to catalyze private sector investment by establishing a fund to reduce the upfront costs of identifying attractive projects.

These three priorities – enhanced regional cooperation, more financing for small enterprises, and better infrastructure – are keys to reducing poverty and expanding prosperity in Latin America. We are pleased to work with the IDB to advance these goals.

We also welcome the IDB's commitment to contribute to the biofuels initiative launched by President Bush and President Lula. This initiative will help countries reduce their dependence on imported oil, create jobs, and improve economic growth.

And we applaud the Governors' agreement to cancel $3.4 billion of outstanding loans for the five poorest countries in the region and extend the benefits of concessional finance to an additional five low-income countries. This will free up substantial resources that can be used to improve and expand access to health care and education.

Finally, we support the addition of China as an IDB member which will strengthen the IDB and make it more representative and reflective of the global economy.

I look forward to continuing our dialogue in the months ahead. And I am pleased to extend an invitation to the Governors and management of the Bank for the Annual Meeting the U.S. will host next year.

In the meantime, let us work together to make progress on the issues I discussed today -- progress that will help us reduce poverty, extend access to capital, spread opportunity to more people in the region, and contribute to the development of a middle class that will lead the way to a prosperous future for Latin America. Muchas gracias.

March 20, 2007
2007-3-20-13-12-9-19918

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 $66,480 million as of the end of that week, compared to $65,819 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	March 9, 2007			March 16, 2007		
TOTAL	**65,819**			**66,480**		
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	12,508	10,777	23,285	12,699	10,909	23,608
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,474	5,249	17,723	12,663	5,311	17,974
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]			4,867			4,898
3. Special Drawing Rights (SDRs) [2]			8,902			8,958
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	March 9, 2007			March 16, 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						
	March 9, 2007			March 16, 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.

March 21, 2007
HP-325

Testimony of Stuart Levey
Under Secretary for Terrorism and Financial Intelligence
Before the Senate Committee on Banking, Housing and Urban Affairs

WASHINGTON, DC- Chairman Dodd, Ranking Member Shelby and distinguished members of the Committee, thank you for the opportunity to speak with you today about the Treasury Department's role in dealing with the myriad challenges posed by the radical regime in Iran. I welcome this Committee's ongoing focus on the Iranian threat, and, more broadly, your continued support for our efforts to stop illicit financial flows.

INTRODUCTION

The challenges posed by Iran have become particularly urgent, and the Administration is employing a multi-faceted strategy to meet them. I know you are hearing much about that strategy today from my colleague, Under Secretary of State for Political Affairs Nicholas Burns. The Department of State's diplomatic efforts have yielded critical successes, including a unanimously adopted UN Security Council resolution last December, Resolution 1737, imposing Chapter VII sanctions targeting Iran's nuclear and missile programs. As a result of Iran's noncompliance with that resolution, including its expansion rather than suspension, of uranium enrichment, the Security Council is now set to pass a follow-on resolution with expanded sanctions. That our international partners now support pressuring the Iranian regime to comply with its international obligations is a true credit to Under Secretary Burns's patient, yet persistent, diplomacy.

The Treasury developed the financial component of the Administration's overall Iran strategy at the direction of Secretary Rice and Secretary Paulson and in close coordination with other agencies. Through our teamwork, we have crafted an innovative strategy to highlight the reckless and dangerous conduct of the Iranian regime, deter Tehran's dangerous activities through the use of financial measures, and prevent the regime's abuse and manipulation of the international financial system. As I will discuss, the Treasury's efforts and the State Department's intensive diplomacy at the United Nations are mutually reinforcing.

Over the past nine months, senior Treasury Department officials, including Secretary Paulson and Deputy Secretary Kimmitt, have met with foreign finance ministry and central bank counterparts from tens of countries -- in many cases multiple times -- to discuss the imperative of ensuring that the international financial system is not tainted or harmed by Iran's abuse. We have also engaged in unprecedented outreach to the international private sector, meeting with more than 40 banks around the world to share information and discuss the risks of doing business with Iran. And we have implemented targeted financial measures against Iranian banks, entities, and individuals engaged in illicit activities, highlighting to the world their dangerous conduct, preventing U.S. persons from doing any business with them, and, in some cases, requiring that any assets subject to U.S. jurisdiction be frozen. Those targeted actions have helped pave the way for international action.

Today, I would like to give you an overview of these Treasury efforts.

IRANIAN THREAT AND DECEPTION

Mr. Chairman, the Committee is well aware of the threat posed by Iran's dangerous activities, so I will just briefly summarize the problem. Iran poses two threats – an unrelenting pursuit of a nuclear weapons capability, on the one hand, and the provision of financial and material support to terrorist groups, on the other – the combination of which has an extraordinarily lethal potential. Under President Ahmadinejad, the regime has ignored calls from the International Atomic Energy Agency (IAEA) and the UN Security Council to suspend its enrichment-related and reprocessing activities, and to comply with its obligations under the Non-Proliferation Treaty. The danger we face is that Ahmadinejad not only has an extreme vision of the future but that he might develop the weapons that make him believe that his vision can be obtained.

Iran's role in supporting international terrorism is of serious concern. Iran has long been a state sponsor of terrorism. Tehran arms, funds, and advises Hizballah, an organization that has killed more Americans than any terrorist network except for al Qaeda. It is also widely reported that Iran provides extensive support to Palestinian terrorist organizations, including the Palestinian Islamic Jihad (PIJ) and Hamas. In the case of PIJ, Iran's financial support has been contingent upon the terrorist group carrying out attacks against Israel. And we are all familiar with Iran's funding and equipping of elements of the insurgency in Iraq, further destabilizing that country and resulting in deaths of Americans, Iraqis and others. Iran needs money to provide all of this support. Indeed, the regime operates as the central banker of terror, spending hundreds of millions of dollars each year to fund terrorism.

Iran also uses its Islamic Revolutionary Guard Corps, or IRGC, to provide a 'train and equip program' for terrorist organizations like Hizballah, as well as to pursue other military objectives of the regime. The head of the IRGC was listed last December by the UN Security Council as supporting Iran's nuclear and missile programs. The IRGC's control and influence in the Iranian economy is growing substantially. More and more IRGC-associated companies are being awarded important government contracts. An IRGC company, for example, has taken over management of the airport and runways in Tehran, while another company has won the contract to build the Tehran metro system.

Iran's present integration into the world financial community allows it to support and facilitate its dangerous activities. The regime disguises its hand in terrorism and weapons proliferation through an array of deceptive techniques specifically designed to avoid suspicion and evade detection from the law-abiding international community. For example, Tehran uses front companies and intermediaries to engage in ostensibly innocent commercial transactions that are actually related to its WMD programs. These front companies and intermediaries enable the regime to obtain dual-use technology and materials from countries that would typically prohibit such exports to Iran.

We have also seen Iranian banks request that other financial institutions take their names off of U.S. dollar transactions when processing them in the international financial system. This practice is even used by the Central Bank of Iran. This practice is specifically designed to evade the controls put in place by responsible financial institutions and has the effect of threatening to involve them in transactions they would never knowingly choose to settle. It can allow Iran's banks to remain undetected as they move money through the international financial system to pay for the Iranian regime's illicit and terrorist-related activities.

TREASURY ACTION AGAINST IRAN

Because of the longstanding U.S. concerns about Iran's well-documented illicit behavior, the Treasury Department maintains broad sanctions against Iran. Although I want to focus today on our new, targeted sanctions -- or "measures" as I prefer to call them – against individual bad actors, it is important to remember that the U.S. Government has maintained these general country sanctions for some time and that the new measures build upon our overall and long-standing Iran policy.

U.S. commercial and financial sanctions against Iran, which are administered by the Treasury's Office of Foreign Assets Control (OFAC), prohibit U.S. persons from

engaging in a wide variety of trade and financial transactions with Iran or the Government of Iran. They prohibit most trade in goods and services between the United States and Iran, and any post-May 7, 1995 investments by U.S. persons in Iran. U.S. persons are also prohibited from facilitating transactions via third-country persons that they could not engage in themselves.

Beyond these general country sanctions, we are relying more and more on "targeted" measures directed at specific individuals, key members of the government, front companies, and financial institutions. These measures are aimed at specific actors engaged in specific conduct. Some require financial institutions to freeze funds and close the accounts of designated actors, denying them access to the traditional financial system. At times, the action includes bans on travel or arms transfers, which further confine and isolate those engaged in illicit activities. To maximize the effect, we try to apply these measures in concert with others. Whenever possible, we act with a partner or a group of allied countries. We have done so, for example, in the context of U.N. Security Council Resolution 1737, which I will discuss shortly.

These kinds of measures have several advantages. Because they single out those responsible for supporting terrorism, proliferation, and other criminal activities, rather than apply to an entire country, they are more apt to be accepted by a wider number of international actors and governments. Targeted financial measures also warn people and businesses not to deal with the designated target. And those who might still be tempted to work with targeted high risk actors get the message loud and clear: if they do so, they may be next.

The United States is using various types of targeted measures to combat Iran's pursuit of nuclear weapons and development of ballistic missiles, as well as its support for terrorism.

First, while under our general Iran country sanctions program Iranian financial institutions are prohibited from directly accessing the U.S. financial system, they are permitted to do so indirectly through a third-country bank for payment to another third-country bank. In September 2006, we cut off one of the largest Iranian state-owned banks, Bank Saderat, from any access, including this indirect, or "u-turn," access to the U.S. financial system. This bank, which has approximately 3400 branch offices, is used by the Government of Iran to transfer money to terrorist organizations. Iran has used Saderat to transfer money to Hizballah. Iran and Hizballah also use it to transfer money to E.U.-designated terrorist groups, such as Hamas, the PFLP-GC, and the Palestinian Islamic Jihad. Since 2001, for example, a Hizballah-controlled organization received $50 million directly from Iran through Saderat.

We have also acted against 19 entities and individuals supporting Iran's WMD and missile programs, including another Iranian bank, Bank Sepah, using Executive Order 13382. That Executive Order, signed by President Bush in June of 2005, authorizes the Treasury and State Departments to target key nodes of WMD and missile proliferation networks, including their suppliers and financiers, in the same way we target terrorists and their supporters. A designation under E.O. 13382 effectively cuts the target entity or individual off from access to the U.S. financial and commercial systems and puts the international community on notice about the threat they pose to global security as a result of their activities. Specifically, such a designation freezes any assets that the target may have under U.S. jurisdiction and prohibits U.S. persons from doing business with it.

While most states do not have a similar national-level designation authority as a tool to stem proliferation, they do now have binding obligations, which are similar to those under our Executive Order, under U.N. Security Council Resolution 1737. That resolution contains an annex listing entities and individuals responsible for Iran's nuclear and missile programs, and requires states to freeze their assets and the assets of entities owned or controlled by them.

Five of the U.S. designations against Iranian entities and individuals under E.O. 13382 have been similarly designated under UNSCR 1737. And, where our designations are not matched by designations at the United Nations, I can tell you

that they still receive a great deal of international attention. I have traveled all over the world, sharing our list of Iran-related designations with foreign government counterparts and private sector representatives, and stressing the importance of ensuring that these proliferators are not able to access the international financial system. Our list of targeted proliferators is incorporated into the compliance systems at major financial institutions worldwide, who have little appetite for the business of proliferation firms and who also need to be mindful of U.S. measures given their ties to the U.S. financial system.

The Treasury's designation of Iran's state-owned Bank Sepah under E.O. 13382 in January of this year is particularly significant because it makes it more difficult for the regime to hide behind its banks to support its proliferation activities. 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.

Bank Sepah provides direct and extensive financial services to Iranian entities responsible for developing missiles capable of carrying weapons of mass destruction. It 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 UN 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 reflected in the business handled by Bank Sepah, is indeed of great concern to the United States.

PRIVATE SECTOR RESPONSE

As I mentioned, aside from these "formal" actions, the Treasury has engaged in unprecedented, high-level outreach to the international private sector, meeting with more than 40 banks worldwide to discuss the threat Iran poses to the international financial system and to their institutions. Secretary Paulson kicked off this effort last fall in Singapore, in discussions during the annual IMF/World Bank meetings, where he met with the executives from major banks throughout Europe, the Middle East, and Asia. Secretary Paulson, Deputy Secretary Kimmitt, Assistant Secretary for Terrorist Financing and Financial Crimes Patrick O'Brien, and I have continued to engage with these institutions abroad, as well as in Washington and New York.

Through this outreach, we have shared information about Iran's deceptive financial behavior and raised awareness about the high financial and reputational risk associated with doing business with Iran. Our use of targeted measures has aided this effort by allowing us to highlight specific threats. We share common interests and objectives with the financial community when it comes to dealing with threats. Financial institutions want to identify and avoid dangerous or risky customers who could harm their reputations and business. And we want to isolate those actors and prevent them from abusing the financial system.

By partnering with the private sector, including by sharing information and concerns with financial institutions, we are increasingly seeing less of a tendency to work around sanctions. As I have traveled and met with bank officials abroad, I have learned that even those institutions that are not formally bound to follow U.S. law pay close attention to our targeted actions and often adjust their business activities accordingly for two main reasons. First, 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. Second, avoiding government-identified risks is simply good business. Banks need to manage risk in order to preserve their corporate reputations. Keeping a few customers that we have 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.

As evidence of Iran's deceptive practices has mounted, financial institutions and other companies worldwide have begun to reevaluate their business relationships with Tehran. 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 deliberately conceals the nature of its dangerous and illicit business. Many global financial institutions have indicated that they have limited their exposure to Iranian business. A number of them have cut off Iranian business in dollars, but have not yet done so in other currencies. It is unclear whether this is just a first step toward phasing out the business entirely. Regardless of the currency, the core risk with Iranian business – that you simply cannot be sure that the party with whom you are dealing is not connected to some form of illicit activity – remains the same. Scaling back dollar-business reduces, but does not eliminate, the risk.

As further evidence of the change in tide, a number of foreign banks are refusing to issue new letters of credit to Iranian businesses. And in early 2006, the OECD raised the risk rating of Iran, reflecting this shift in perceptions and sending a message to those institutions that have not yet reconsidered their stance.

Additionally, many other companies have scaled back on their investments or projects in Iran, concluding that the risks of expanding operations in the country are too great. Multinational corporations have held back from investing in Iran, including limiting investment in Iran's oil field development. These companies have done their risk analyses, and they have realized that the Iranian regime's behavior makes it impossible to know what lies ahead in terms of Iran's future and stability.

If Tehran chooses to continue on its current path, this is a trend that will continue. Iran's increasing isolation is the result of its own costly behavior. These are costs that the regime is not only imposing on itself, but also the Iranian people. Targeted financial measures, coupled with the private sector's reevaluation of its business with Iran, have sparked a debate inside Iran about the wisdom of the regime's policies. It is our hope that the Iranian regime will realize that the only way to rejoin the community of responsible nations is to change its behavior.

CONCLUSION

Mr. Chairman, the Treasury Department – working closely with the State Department and the rest of the interagency – is playing an integral role in the Administration's Iran strategy. Our use of targeted financial measures, along with outreach to the private sector about the risks of doing business with Iran, are indeed having an impact on the Iranian regime's ability to misuse the financial system to carry out its dangerous activities. To be sure, the threat posed by Iran remains significant, but it is not insurmountable. We have made important progress on countering this threat, and we will continue working diligently to take all prudent steps to respond expediently to this challenge.

I look forward to working closely with you, other Members of the Committee, and your staff on this important issue. Thank you again for the opportunity to testify today.

March 23, 2007
HP-326

Glaser Leads Treasury Delegation to China

WASHINGTON, DC – Daniel Glaser, Deputy Assistant Secretary for Terrorist Financing and Financial Crimes, leads a Treasury delegation to Beijing, China Saturday to offer assistance to the Macanese and Chinese in addressing the issue of North Korean-related funds frozen at Banco Delta Asia (BDA).

"The policy and diplomatic issues have been solved – this is now down to implementation. The Macanese and Chinese have made clear that they want to ensure implementation of the agreement is consistent with their own laws and with their international obligations. We are bringing Treasury expertise to help the Macanese and Chinese wade through some of these implementation issues," said Glaser.

PRESS ROOM

March 26, 2007
HP-327

Treasury to Host Conference on Reaching the Unbanked

The U.S. Treasury Department will host a regional conference in Seattle, Wash. tomorrow to discuss ways to bring the more than 10 million unbanked families into the financial mainstream. Deputy Assistant Secretary for Financial Education Dan Iannicola, Jr. will join officials from the Federal Deposit Insurance Commission, the National Credit Union Administration and the Washington State Department of Financial Institutions to kick off the day-long meeting.

The regional conference is the third in a series of national discussions that will be held as part of the Financial Literacy and Education Commission's National Strategy for Financial Literacy. Proceedings of the conferences will be compiled to provide a report on current and best practices for serving unbanked individuals.

Who:
Deputy Assistant Secretary for Financial Education Dan Iannicola, Jr.

What:
Financial Literacy and Education Commission
Northwest Regional Conference on Reaching the Unbanked

When:
Tuesday, March 27 9:00 a.m.-4:30 p.m. PDT

Where: Grand Hyatt
721 Pine Street
Seattle, Wash.

March 27, 2007
HP-328

Statement by Treasury Deputy Secretary Kimmitt on UNSCR 1747

WASHINGTON, DC – Treasury Deputy Secretary Robert M. Kimmitt issued the following statement today on the adoption of UNSCR 1747:

"The Treasury Department welcomes the unanimous adoption of UNSCR 1747, which reaffirms and expands UNSCR 1737 of December 2006. These resolutions target Iran's nuclear and missile programs, and among other requirements, obligate states to freeze the assets of named entities and individuals associated with those programs.

"Of particular note is Resolution 1747's designation of Iranian state-owned Bank Sepah and Bank Sepah International, which finance and support Iran's development of ballistic missiles. The Treasury Department urges governments and financial institutions around the world to swiftly implement their obligation to freeze the assets and economic resources of all listed entities and individuals, but in particular Bank Sepah and Bank Sepah International. In the coming days, we also urge states and financial institutions to be particularly vigilant and prevent efforts by Sepah to move assets, including to other Iranian state-owned institutions, or otherwise evade sanctions."

March 27, 2007
2007-3-27-16-25-19-23973

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 $66,328 million as of the end of that week, compared to $66,480 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*						
	March 16, 2007			March 23, 2007		
TOTAL	66,480			66,328		
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	12,699	10,909	23,608	12,694	10,807	23,501
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	12,663	5,311	17,974	12,667	5,267	17,934
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]			4,898			4,897
3. Special Drawing Rights (SDRs) [2]			8,958			8,956
4. Gold Stock [3]			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	March 16, 2007			March 23, 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						
	March 16, 2007			March 23, 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.

March 28, 2007
HP-329

**Testimony of Treasury Secretary
Henry M. Paulson, Jr.
Before the U.S. House Appropriations
Subcommittee on Financial Services and
General Government**

Washington, DC- Chairman Serrano, Ranking Member Regula, and Members of the Subcommittee. Thank you for the opportunity to appear before you today to discuss the President's Fiscal Year (FY) 2008 Budget for the Department of the Treasury.

I am pleased to be here today to provide an overview of the President's Budget for Treasury in FY 2008. The President's FY 2008 Budget reflects the Department's budget priorities and dedication to promoting economic growth and opportunity, strengthening national security, and exercising fiscal discipline.

The $12.1 billion request focuses resources on key programs necessary to promote economic growth, fund the activities of the federal government and effectively fight the war on terror. The request is $523 million above the amount provided by the FY 2007 funding level, a 4.5 percent increase. By collecting the revenue due to the federal government and working to reduce illicit threats to the financial system, the Department of the Treasury contributes to the financial integrity of the United States.

Treasury has a primary role as steward of the U.S. economic and financial systems, including the role of the U.S. as an influential participant in the international economy. Treasury promotes financial and economic growth at home and abroad. Treasury also performs a critical and far-reaching role in national security. The Department battles national security threats by coordinating financial intelligence, targeting and imposing sanctions on supporters of terrorism, narcotics traffickers, and proliferators of weapons of mass destruction, improving the safeguards of our financial systems, and promoting international relationships to combat the financial underpinnings of terrorist and other criminal networks.

Managing these complex tasks requires expanded capabilities. Fully funding the President's FY 2008 Budget request will allow the Treasury Department to continue and improve its ability to study, recommend, and support initiatives that strengthen the U.S. economy, create more jobs for Americans, and enhance citizens' economic security. The Department will actively work to protect the security of pensions, reform Social Security, and improve the federal income tax system by providing timely, usable, and comprehensive analyses that advance the policy process.

Promoting Economic Growth, Security and Opportunity

The Treasury Department works diligently to fulfill its role as the Administration's chief economic advisor. We strive to provide the President with the best information available on a broad range of domestic and international economic issues. Treasury's Offices of International Affairs, Tax Policy, Economic Policy, and Domestic Finance support this role through the provision of technical analysis, economic forecasting, and policy guidance on issues ranging from federal financing to responding to international financial crises. The Treasury Department supports policies that stimulate U.S. economic growth, strengthen and modernize entitlement programs, and minimize regulatory burdens while ensuring the safety and

soundness of financial institutions.

The FY 2008 Budget request funds Treasury's efforts to promote domestic and international economic growth through financial diplomacy. Treasury stimulates economic growth and job creation by working to open trade and investment, encouraging growth in developing countries, and promoting responsible policies regarding international debt, finance, and economics. Treasury supports trade liberalization and budget discipline through its role in negotiating and implementing international agreements pertaining to export subsidies. These agreements open markets, level the playing field for U.S. exporters, and provide effective subsidy reductions that save the U.S. taxpayer millions of dollars annually. Since 1991, cumulative budget savings from these arrangements are estimated at over $10 billion. The growth of these activities makes it necessary to enhance policy coordination and resources through the addition of regional experts. Treasury's FY 2008 Budget request provides additional staff to support key policy dialogues around the globe. These experts will enhance policy coordination on international matters and will support key policy dialogues with priority countries like China.

Treasury also remains committed to protecting the homeland from international investments that may threaten our national security. The Committee on Foreign Investment in the United States (CFIUS) is an interagency group responsible for investigating the national security implications of the merger or acquisition of U.S. companies by foreign persons. One of my key responsibilities as Secretary is to chair this committee, and to make sure that the interagency CFIUS process performs as efficiently as possible. As foreign investment in the United States has increased, so has the number of cases reviewed by CFIUS. As a result, the FY 2008 Budget request provides additional resources to support Treasury's investigations of foreign investments.

The President's FY 2008 request for Treasury also includes $28.6 million for the Community Development Financial Institutions (CDFI) Fund. CDFI Fund's mission is to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States. In order to ensure that the CDFI program continues to operate in the most efficient and effective manner, Treasury is proposing to phase out the CDFI Bank Enterprise Awards (BEA) program in 2008. There is no evidence that the BEA program improves economic development, and we believe that the program's goals are better served through other CDFI Fund activities.

Strengthening National Security

The sponsorship of terrorism and potential acquisition of weapons of mass destruction (WMD) by rogue regimes and non-state entities represent grave threats to U.S. national security and the security of all free and open societies. Terrorists, WMD proliferators and other non-state threats require support networks through which money and material flow. The Treasury Department draws on financial and other all-source intelligence, and also works to utilize its unique regulatory and law enforcement authorities, to combat national security threats and safeguard the financial system.

The Department's Office of Terrorism and Financial Intelligence (TFI) provides financial intelligence analysis, develops and implements systems to combat money laundering and terrorist financing, administers the Bank Secrecy Act, and administers and enforces the U.S. Government's economic sanctions programs.

Treasury exercises a full range of intelligence, regulatory, policy, and enforcement tools in tracking and disrupting terrorists' support networks, proliferators of weapons of mass destruction, rogue regimes, and international narco-traffickers, both as a vital source of intelligence and as a means of degrading their ability to function. Treasury's actions include:

- Freezing the assets of terrorists, proliferators, drug kingpins, and other criminals and shutting down the channels through which they raise and move money.

- Cutting off corrupt foreign jurisdictions and financial institutions from the U.S. financial system;
- Developing and enforcing regulations to reduce terrorist financing and money laundering;
- Tracing and repatriating assets looted by corrupt foreign officials; and
- Promoting a meaningful exchange of information with the private financial sector to help detect and address threats to the financial system.

The FY 2008 President's Budget will enable Treasury to enhance these capabilities. Treasury requests funding for investments to further the Department's national security mission in three critical areas. First, this budget, if enacted, will enable Treasury to expand its capacity to identify potential national security threats and to enforce U.S. policies to counter those threats. Next, Treasury will enhance the information technology and physical infrastructure of TFI and its component bureaus and offices to improve data security, access, and quality. Finally, the Budget would provide funds to help integrate TFI's Office of Intelligence Analysis into the broader Intelligence Community.

Specifically, this request includes an additional $5.3 million to respond to emerging national security threats, provide strategic policy coordination in regions key to the fight against terrorist financing, and to enhance implementation of sanctions against state sponsors of terrorism and WMD proliferation. The request also includes $8.1 million for infrastructure and information technology projects to enhance data access, security, and quality, including construction of a Sensitive, Compartmented Information Facility (SCIF), stabilization and maintenance of the Treasury Foreign Intelligence Network, and the Critical Infrastructure Protection program. Finally, $1 million is requested for initiatives to further Treasury's integration into the broader intelligence community.

The Financial Crimes Enforcement Network (FinCEN) is responsible for administering the Bank Secrecy Act (BSA). The FY 2008 Budget request provides funding to strengthen recovery capability for mission-critical information technology systems and emergency operation capabilities; and improve information technology planning and oversight.

Managing U.S. Government Finances

The Treasury Department manages the nation's finances by collecting money due the United States, making its payments, managing its borrowing, investing when appropriate, and performing central accounting functions. Key priorities in managing the government's finances include maximizing voluntary compliance with tax laws and regulations, continually improving financial management processes, and financing the government at the lowest possible cost over time. The FY 2008 Budget request provides the funding necessary to properly administer these functions.

Collecting Taxes
Collecting taxes in a fair and consistent manner is a core mission of the Treasury Department. Treasury's priorities in tax administration are enforcing the nation's tax laws fairly and efficiently while balancing taxpayer service and education to promote voluntary compliance and reduce taxpayer burden. In an effort to maximize tax compliance, the FY 2008 Budget includes $11.1 billion for the IRS, which is an increase of $498 million above the amount provided in the FY 2007 funding levels.

The FY 2008 Budget request provides funding to enhance coverage of high-risk compliance areas, as well as to address the tax gap, which represents the annual difference between taxes owed and taxes collected, including a multi-year research effort that will provide continuous feedback on noncompliance. Enforcement will focus on critical reporting, filing, and payment compliance programs, and highlight abusive tax avoidance transactions and high income individual examinations involving pass-through entities (e.g., partnerships and trusts). The IRS will also continue to reengineer its examination and collection procedures to reduce audit time, increase yield, and expand coverage. As in FY 2006 and FY 2007, the Administration proposes to include IRS enforcement increases as a Budget Enforcement Act program integrity cap adjustment.

The IRS will continue efforts to improve services offered to taxpayers, primarily focusing on those outside of traditional telephone access. For example, the FY 2008 request provides funding to expand the Volunteer Income Tax Assistance program. The IRS will also implement the Taxpayer Assistance Blueprint, a five year strategic plan to deliver taxpayer service; a collaborative effort of the IRS, the IRS Oversight Board, and the National Taxpayer Advocate.

Finally, the FY 2008 request will allow the IRS to make critical IT infrastructure upgrades. IRS will continue to invest in technology, process improvements, and training to achieve consistent quality service with reduced costs. The Budget also includes funding for the IRS's Business Systems Modernization program, which is designed to provide IRS employees the tools they need to continue to administer and improve both service and enforcement programs.

The President's Budget also includes a number of legislative proposals intended to improve tax compliance with minimum taxpayer burden. Once implemented, it is estimated that proposals will generate $29 billion over ten years. These proposals are presented in detail in the FY 2008 Department of the Treasury Blue Book. The legislative proposals fall into four categories: expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

Treasury's Alcohol and Tobacco Tax and Trade Bureau also collects excise taxes on alcohol, tobacco, firearms, and ammunition. In FY 2006, the Bureau collected $14.8 billion in excise taxes, interest, and other revenues on these products and also regulates the manufacture of alcohol and tobacco products.

Ensuring Efficient Fiscal Service Operations
The FY 2008 Budget request provides the funds necessary for Treasury to meet its responsibilities as the federal government's financial manager.

Treasury's management of the federal government's finances includes making payments, collecting revenue, preparing public financial statements and collecting delinquent debt owed to the federal government through the Financial Management Service (FMS). Treasury oversees a daily cash flow in excess of $58 billion and disburses 85 percent of all federal payments. The Department is working to improve its payments and collections processes by moving toward an all-electronic Treasury. In FY 2006, Treasury issued 742 million electronic payments including income tax refunds, Social Security benefits, and veterans' benefits. Treasury is also encouraging Social Security and Supplemental Security Income recipients to switch to Direct Deposit through the Go Direct campaign. Direct Deposit represents a cost savings to the federal government, and consequently to the American taxpayer, of 80 cents per transaction compared to a check payment.

Treasury's Bureau of the Public Debt manages all of the public debt, which includes marketable securities, savings bonds, and other instruments held by state and local governments, federal agencies, foreign governments, corporations, and individuals. To improve debt management and offer better customer service, Treasury offers TreasuryDirect, an electronic, web-based system that electronically issues securities to retail customers and enables investors to manage their accounts on-line.

The Budget also includes three legislative proposals for FMS that are estimated to save the federal government over $3 billion over ten years. These proposals will allow the government to trace and recover federal payments sent electronically to the wrong account, eliminate the ten-year limitation on the collection of delinquent non-tax federal debts, and remove the disincentive for the IRS to refer tax debts to FMS for collection.

Strengthening Financial Institutions

One of the principal objectives of the Treasury Department is to enable commerce. The Department is responsible for the safety and soundness of national banks and federally-chartered savings associations. The Treasury Department also produces the coins and currency needed for commerce, and guards against counterfeiting

and other misuse of our money. While the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the U.S. Mint (Mint), and the Bureau of Engraving and Printing (BEP) are funded through direct annual appropriations, their contribution to Treasury's mission cannot be understated.

Treasury, through OCC and OTS, maintains the integrity of the financial system of the United States by chartering, regulating, and supervising national banks and savings associations. In FY 2006, OCC and OTS oversaw financial assets held by these financial institutions totaling $8.1 trillion.

The Mint and BEP are responsible for producing the nation's coins and currency, respectively. In FY 2006, the Mint and BEP produced 16.2 billion coins and 8.2 billion paper currency notes, respectively. The Mint issued five new quarters for the 50 State Quarters program and BEP introduced the new $10 currency note into circulation. Also, despite significant increases in the price of metals, the Mint was able to return $750 million to the Treasury General Fund in FY 2006.

Managing Treasury Effectively

Treasury is committed to using the resources provided by taxpayers in the most efficient manner possible. The Department will drive improved results through decision-making that considers performance and cost. The Treasury Department strives to serve its stakeholders in the most effective way while working to leverage resources across the Department and across government.

Funding requested in Treasury's Departmental Offices and Department-wide Systems and Capital Investments Program (DSCIP) is sought for building a strong information technology infrastructure, ensuring that Treasury remains a world-class organization that meets the President's standard of a citizen-centered, results-oriented government.

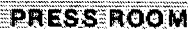
The DSCIP account funds technology investments to modernize business processes throughout Treasury, helping the Department improve efficiency. In FY 2008, Treasury requests $18.71 million for ongoing modernization and critical information technology infrastructure projects, and for investment in other new technologies that will improve efficiency and service to the American people. The budget request includes:

- $6 million to begin work on a Treasury-wide Enterprise Content Management System. The initial system will meet the business requirements of the Office of Foreign Assets Control and the Financial Crimes Enforcement Network;
- $2 million for the continued stabilization of the Treasury Secure Data Network; and
- $4 million to improve Treasury's FISMA performance, strengthen the Department's overall security posture, leveraging the President's Management Agenda, including the E-Government initiatives, across the Department.

This budget request also includes funding for the Office of the Inspector General and the Treasury Inspector General for Tax Administration. These offices play important oversight roles in the overall management of the Department and the fair administration of the nation's tax laws.

Conclusion

Mr. Chairman, thank you again for the opportunity to come here today to discuss with you and the Committee the President's FY 2008 Budget request for Treasury. I look forward to working with you and the members of the Committee in ensuring that Treasury maximizes its resources and funding so that the American people can be assured that their tax dollars are being used in the most effective way possible. I would be more than happy to answer any questions.



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March 28, 2007
HP-330

Treasury Takes Action Against Major Medellin-Based Trafficker and His Financial Empire

Washington, DC-- The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today named Fabio Enrique Ochoa Vasco (a.k.a."Carlos Mario"), a major Medellin-based drug trafficker, as a principal individual on its list of Specially Designated Narcotics Traffickers (SDNTs). At the same time, OFAC designated 45 companies and 64 individuals in Ochoa Vasco's extensive criminal and financial network, across Colombia, Belize, Ecuador, Guatemala, Honduras, Jamaica, Mexico, and Panama.

"Fabio Enrique Ochoa Vasco is the head of one of the most powerful Medellin-based drug trafficking organizations today," said OFAC Director Adam J. Szubin. "Our action today strikes at his massive financial empire with the aim of depriving him of the benefit of his criminal activities."

This action is part of an ongoing interagency effort to implement Executive Order 12978 (October 21, 1995), which applies economic sanctions against Colombia's drug cartels. This effort includes the Departments of the Treasury, Justice, State and Homeland Security. Today's designation action freezes any assets the designees may have subject to U.S. jurisdiction, and prohibits all financial and commercial transactions by any U.S. person with the designated companies and individuals. This is OFAC's first designation of a significant narcotics trafficker operating out of Medellin, Colombia since the issuance of E.O. 12978 in October 1995.

Fabio Enrique Ochoa Vasco and twelve other individuals were charged with cocaine trafficking in a September 2004 U.S. federal indictment in the Middle District of Florida, Tampa Division. OFAC has worked closely over the past three years with Operation Panama Express on the investigation of Fabio Enrique Ochoa Vasco and his organization. Operation Panama Express is an Organized Crime Drug Enforcement Task Force (OCDETF) Strike Force investigation conducted by ICE, DEA, FBI, IRS, Florida Department of Law Enforcement and the Pinellas County Sheriff's Office with the U.S. Attorney's Office in Tampa, Middle District of Florida. The investigation was also supported by the ICE Attaché - Bogotá, DEA Cartagena, Colombia Resident Office and DEA Belize Country Office. The U.S. government is offering up to $5 million for information leading to the arrest of Fabio Enrique Ochoa Vasco.

"ICE is proud of our investigative partnership with other Panama Express member agencies and our contribution to this OFAC case," said Julie L. Myers, DHS Assistant Secretary for U.S. Immigration and Customs Enforcement. "By freezing their assets, we will continue to shut down the ability of drug kingpins like Fabio Enrique Ochoa Vasco to conduct their illegal businesses."

Fabio Enrique Ochoa Vasco has been involved in narcotics trafficking activities from Colombia to the United States since at least 1981. Ochoa Vasco participated in narcotics trafficking with key figures in Colombia's Medellin Cartel such as Luis Fernando Galeano Berrio, Gerardo "Kike" Moncada, Diego Fernando Murillo Bejarano (a.k.a. "Don Berna"), and kingpin Pablo Escobar Gaviria.

The network of 45 Ochoa Vasco businesses designated today includes *Duratex S.A.*, a Colombian carpet/textile company located in Bogota, Colombia; *Inversiones y Representaciones S.A. (IRSA)*, a real estate firm in Medellin, Colombia; *Florida Soccer Club S.A.* in Itagui, Antioquia, Colombia; *Hotel La Cascada S.A.*, a hotel in Girardot, Colombia; *Yamaha Veranillo Distribuidores*, a marina in Barranquilla, Colombia, and a network of real estate firms - *Inversiones MPS S.A.*, *Proyectos y Soluciones S.A.*, *Proyectos y Soluciones Inmobiliaria Ltda.*, and *Gerencia de Proyectos y Soluciones Ltda.* - located in Bogota, Colombia. OFAC also designated *Duratex S.A.* front companies located in Ecuador (*Comercializadora Mor Gavina S.A.* and *Comercializadora Mordur S.A.*), Guatemala (*Overseas Trading Company*), and Mexico (*MC Overseas Trading Company S.A. de C.V.*). A clothing store, *Lizzy Mundo Interior*, in Guadalajara, Mexico was also named.

The OFAC action targeted seven key financial managers for Fabio Enrique Ochoa Vasco, including Jaime Dib Mor Saab, Jorge Ernesto Caicedo Rojas, Gustavo Alberto Pabon Alvarado, Silvio Yepes Velez, Jhon Jairo Castrillon Vasco, Fernando Maldonado Escobar, and Gabriel Andres Calvo Lombana, as well as three Mexican financial associates, Porfirio Miguel Cadenas Viramontes, Luis Pacheco Mejia, and Gloria Elisa Briseno Mar. In addition, important criminal associates of Fabio Enrique Ochoa Vasco were named, including John Jairo Gallego Valencia, Miyer Alberto Garcia Buitrago, Victor Hugo Castro Garzon, Carlos Heneris Varela Serna and Ricardo Castro Garzon.

The assets of a total of 1,477 business and individuals in Aruba, Barbados, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Jamaica, Mexico, Panama, Peru, Spain, Vanuatu, Venezuela, the Bahamas, the British Virgin Islands, the Cayman Islands, and the United States have been designated pursuant to E.O. 12978. The 570 SDNT businesses include agricultural, aviation, consulting, construction, distribution, financial, hotel, investment, manufacturing, maritime, mining, offshore, pharmaceutical, real estate, retail, service, sporting, telecommunication, and textile firms. The SDNT list now includes 22 kingpins from the Cali, Medellin, North Valle, and North Coast drug trafficking organizations in Colombia.

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

REPORTS

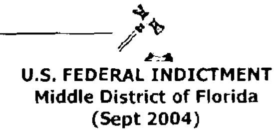
- Chart of the Ochoa Vasco Criminal Network
- Chart of the Ochoa Vasco Financial Network

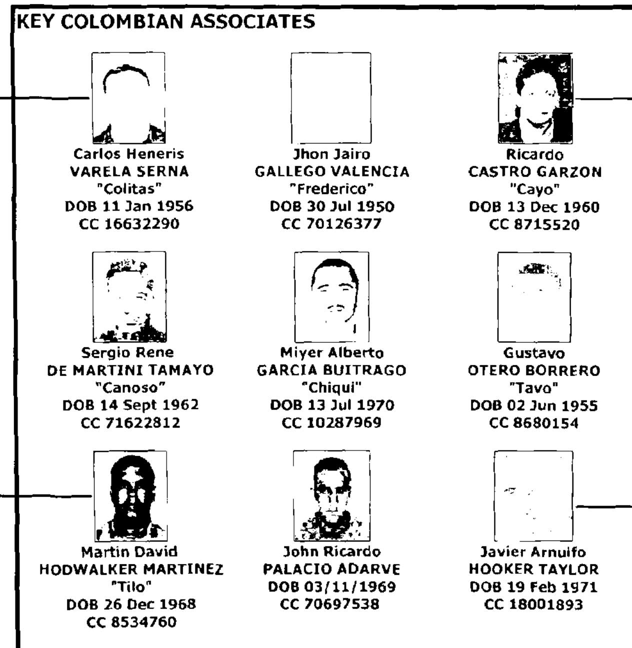
OCHOA VASCO Criminal Network
March 2007

Specially Designated Narcotics Traffickers

U.S. Department of the Treasury
Office of Foreign Assets Control

Fabio Enrique OCHOA VASCO
"Carlos Mario"
"Kiko El Chiquito"
DOB 22 Nov 1960
CC 79281039 (Colombia)





VARELA Companies

TRANSPORTES MICHAEL LTDA.
Barranquilla, Colombia
NIT # 802024118-3

CENTRO DE BELLEZA SHARY VERGARA
Barranquilla, Colombia

COOPERATIVA DE SERVICIO DE TRANSPORTE
DE CARGA DE COLOMBIA LTDA.
(COOTRANSMULTI H.H. LTDA.)
Barranquilla, Colombia
NIT # 802019665-0

HODWALKER Companies

MARTIN HODWALKER M. Y CIA. S. EN C.
Barranquilla, Colombia
NIT # 802007314-9

VERANILLO DIVE CENTER LTDA.
Barranquilla, Colombia
NIT # 802008393-5

Panama
DESARROLLO GEMMA CORPORATION
Panama City, Panama
RUC # 25544701403775

YAMAHA VERANILLO
DISTRIBUIDORES
Barranquilla, Colombia

CASTRO Companies

CABLES NACIONALES S.A.
Barranquilla, Colombia
NIT # 802005017-7

CASTRO CURE Y CIA.
Barranquilla, Colombia
NIT # 802001885-5

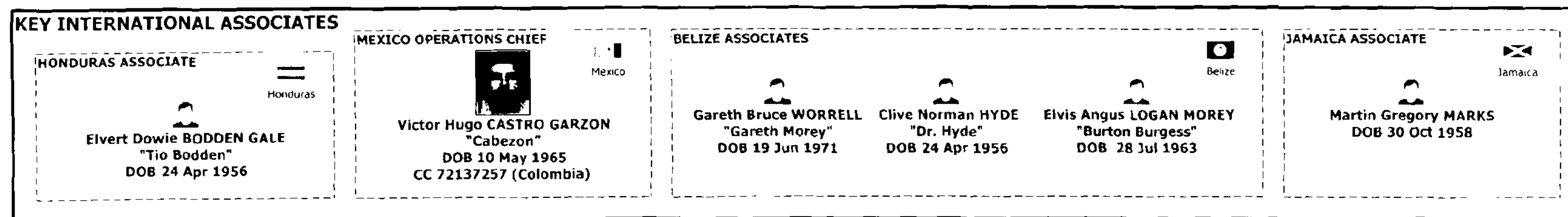
FUDIA LTDA.
Barranquilla, Colombia
NIT # 800230555-4

CURE SABAGH Y CIA.
Barranquilla, Colombia
NIT # 802000463-6

INVERSIONES AGROPECUARIA ARIZONA LTDA.
Barranquilla, Colombia
NIT# 802019694

HOOKER Company

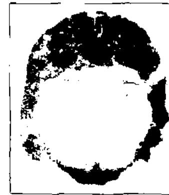
ROCH FISH IMPORT EXPORT E.U.
San Andres, Colombia
NIT # 827000913-1



OCHOA VASCO Financial Network
March 2007

Specially Designated Narcotics Traffickers

U.S. Department of the Treasury
Office of Foreign Assets Control



Fabio Enrique OCHOA VASCO
"Carlos Mario"
DOB 22 Nov 1960
CC 79281039 (Colombia)

U.S. Federal Indictment
Middle District of Florida
(Sept 2004)

KEY FINANCIAL ASSOCIATES

Gabriel Andres
CALVO LOMBANA
DOB 20 Aug 1935
CC 2859105

Jhon Jairo
CASTRILLON VASCO
DOB 30 Mar 1960
CC 71603587

Jorge Ernesto
CAICEDO ROJAS
DOB 21 Oct 1955
CC 3227987

Jaime Dib
MOR SAAB
DOB 29 Apr 1955
CC 19222380

Gustavo Alberto
PABON ALVARADO
DOB 06 May 1955
CC 79146243

Silvio
YEPES VELEZ
DOB 09 Nov 1948
CC 19065009

Fernando
MALDONADO ESCOBAR
DOB 22 Oct 1962
CC 79266443

OCHOA Family Assets

INVERSIONES Y REPRESENTACIONES S.A (IRSA S.A.).
Medellin, Colombia
NIT # 811040270-5

HOTEL LA CASCADA S.A.
Girardot, Colombia
NIT # 890601336-8

FLORIDA SOCCER CLUB S.A.
Medellin, Colombia
NIT # 811046159

CARPET / TEXTILE

MOR ALFOMBRAS ALFOFIQUE S.A.
Bogota, Colombia
NIT # 830081048-0

MOR GAVIRIA Y CIA. S.C.S.
Bogota, Colombia
NIT # 860535567-0

MAYOR COMERCIALIZADORA LTDA.
Bogota, Colombia
NIT # 80008288-4

INVERSIONES MPS S.A.
Bogota, Colombia
NIT # 800231392-5

KARIAN LTDA.
Bogota, Colombia
NIT # 800166692-1

DURATEX S.A.
Bogota, Colombia
NIT # 800054668-3

REAL ESTATE

PROYECTOS Y SOLUCIONES S.A.
Bogota, Colombia
NIT # 800231601-1

PROYECTOS Y SOLUCIONES INMOBILIARIA LTDA.
Bogota,Colombia
NIT # 800014349-8

GERENCIA DE PROYECTOS Y SOLUCIONES LTDA.
Bogota, Colombia
NIT # 800231600-2

GAVIRIA MOR Y CIA. LTDA.
Girardot, Colombia
NIT # 800212771-2

DURATEX Directors

Max Abilio
LOZANO OSPINA
CC 792448772

Liliana
GAVIRIA DE MOR
CC 20621292

Soraya
MOR SAAB
CC 35461535

Jaime
MOR GAVIRIA
CC 92700929

Luis Fernando
GAVIRIA MEJIA
CC 17163914

ASSOCIATED COMPANIES

AUDITORES ESPECIALIZADOS LTDA.
Bogota, Colombia
NIT # 830041980-1

ACUICOLA SANTA CATALINA S.A.
Bogota, Colombia
NIT # 830010809-5

ORIMAR LTDA.
Bogota, Colombia
NIT # 801076804-7

CONSTRUCTORA IRAKA S.A.
Bogota, Colombia
NIT # 830111113-1

C.I. OTILIA FLOWERS S.A.
Cajica, Cundinamarca, Colombia
NIT # 800207350-5

PROMOCIONES E INVERSIONES LAS PALMAS S.A.
Bogota, Colombia
NIT # 800236023-5

SUPER BOYS GAMES LTDA.
Bogota, Colombia
NIT # 830004047-5

CONSTRUCTORA AMERICA S.A.
Bogota, Colombia
NIT # 831015002-3

INTERNATIONAL NETWORK

Ecuador

INTERNACIONAL DE PROYECTOS INMOBILIARIA IPI S.A.
Quito, Ecuador
RUC # 1791843436001

COMERCIALIZADORA MOR GAVIRIA S.A.
Quito, Ecuador
RUC # 1791813359001

COMERCIALIZADORA MORDUR S.A.
Quito, Ecuador
RUC # 1791315820001

Guatemala

OVERSEAS TRADING COMPANY
Guatemala City, Guatemala
NIT # 2500971-0

Mexico

MC OVERSEAS TRADING COMPANY SA DE CV
Guadalajara, Mexico

LIZZY MUNDO INTERIOR
Guadalajara, Mexico

Panama

FISHING ENTERPRISE HOLDING, INC.
Panama City, Panama

INMOBILIUM INVESTMENT CORP.
Panama City, Panama

AQUAMARINA ISLAND INTERNATIONAL CORPORATION
Panama City, Panama

KEY INT'L ASSOCIATES

Ecuador

Pedro Enrique
INDABURU LUENGAS
DOB 29 Jun 1948
RUC 171901161-9 (Ecuador)
CC 19074171 (Colombia)

Mexico

Porfirio Miguel
CADENAS VIRAMONTES
DOB 12 Jun 1959
CURP CAUP590612HJCDRR09

Mexico

Luis PACHECO MEJIA
DOB 18 Jun 1951
RFC PAML-510618-ED7 (Mexico)

Mexico

Gloria Elisa BRISENO MAR
("Lizzy Briseno")
DOB 16 Aug 1965
CURP # BIMG650816MDGRRL05

March 28, 2007
HP-331

Remarks of Anna Escobedo Cabral
U.S. Treasurer
U.S. Department of the Treasury

Connected Culture
U.S. Hispanics, Media and Technology

New York- Good afternoon, and special thanks to Yahoo! Telemundo for inviting me to this important "Connected Culture: U.S. Hispanics, Media and Technology" research summit event. And thank you Natalie for your kind introduction. It is always such a pleasure to return to New York, and it is especially great to join you all here today at City University of New York for this important summit.

I sincerely do appreciate the opportunity to speak before such a distinguished and innovative group of business leaders – all of you here today – individuals who are at the forefront of improving how we use technology to deliver information to so many households across the country. Many of you focus on this on a daily basis, striving to find new ways to enhance accessibility and delivery of content in a way that can positively impact all people, including the U.S. Hispanic population. Much of this information is information people rely on to better manage their lives and, quite frankly, help them succeed in every facet of their life.

You know, one of my favorite parts of being U.S. Treasurer is that the position is just so dynamic, simply by virtue of the high-caliber individuals I meet with practically speaking on a daily basis. And that is great because it not only gets me out of the office a lot! Even better, it gets me out of the beltway a lot!

I'm sure you all can appreciate how important that is to someone in a job like mine. Because you see, it provides officials in Washington like me with the ability and the opportunity to meet with a wonderfully diverse group of professionals. Oftentimes, much like today, that includes meeting with small, medium and big business leaders – so many individuals like you who are really the driving force behind the incredible growth our country has experienced in recent years, despite the many external challenges we as a people have faced. And we have faced some significant challenges – everything from terrorist attacks on our homeland to natural disasters. Nonetheless, as a nation we have persevered, overcome challenges, and better still, we have managed to grow our country's production level, and grow the number of available U.S. jobs.

As I mentioned earlier, our economy is moving in the right direction and there are lots of opportunities for Americans, and for many Hispanics living in the U.S. In fact, the U.S. economy has added jobs for 42 straight months – and more than 7.6 million since August of 2003. Those numbers are incredible!

It is of even greater significance when you consider those numbers within the context of the results of the incredible research groups like this one is involved in. The U.S. Hispanic market is strong and getting stronger every day. Not only has U.S. Hispanic unemployment generally decreased in recent years, but more importantly, more U.S. Hispanics have become owners of their own businesses creating a significant portion of the job opportunities the economy has created since 2003. And cutting-edge businesses like the ones present here today have recognized this, and are responding to the needs and demands of this population.

I'm sure everyone is familiar with the numbers – for some time we believed that

purchasing power had surged to nearly $700 billion and projected to reach $1 trillion by 2010 – nearly three times the overall national rate. However, other research indicates that the number may actually be significantly higher than that.

Add to that the fact that we've also seen recent record breaking lows in the unemployment rate. Right now it's at a low 4.5 percent. These are successes the Hispanic community can be proud of. But the larger question for everyone – not only Hispanics – is how do we make these numbers count?

That's why all of you are here today – to talk about how you can draw on this important market so that everyone benefits. U.S. Hispanics are not only purchasing the goods and services you are promoting – they're also spending money to invest in businesses, creating wealth and opportunities for others, and putting more fuel into our strong economic engine. Some great news also revealed by your recent research is that Hispanics are taking advantage of media and technology and the many available tools – utilizing them in a way that helps individuals to continue moving forward and attaining new successes in life.

That is good news from the Treasury's perspective because it provides us with an indication that we too in the federal government have began all our education efforts in the right foot and remain on the right track, particularly in terms of delivering messages on the state of the U.S. economy and providing important education information regarding a variety of education campaigns and initiatives we currently work on.

THE ECONOMY

For instance, as Treasurer, I also spend a lot of time helping Americans understand and take advantage of the many resources and benefits our country offers. I also help my boss, Secretary Paulson; disseminate information about how our economy is doing.

And quite, frankly, we're doing great! Our economy remains healthy and continues to grow – 97,000 jobs were created in February alone. And as I mentioned earlier, the U.S. economy in fact has added jobs for 42 straight months.

Additionally, wages are growing, and Americans are keeping more of their hard-earned money thanks in great part to the President's tax cuts. At the same time, greater economic growth and lower taxes have actually helped federal revenue surge as well.

The U.S. economy has been resilient in spite of many challenges. But, we've been successful largely because we've remained flexible. In fact, the challenges we've faced in recent years reflect why it's so important to continuing pursuing pro-growth policies that are designed to keep our country growing and make our communities prosperous.

IMPROVING EDUCATION EFFORTS TO FILL THE JOBS OF THE FUTURE

Nonetheless, these economic opportunities may also present us with other types of challenges. Jobs

today are higher salaried, but they are jobs that demand higher and higher levels of education. The job market has changed from agricultural-based to one that is primarily service and knowledge-based.

Lack of education in the Latino community is also a challenge for us – we are currently facing a 50 % drop out rate in this community. As professionals, representing all sectors of the economy, we have to remain committed to also addressing this challenge. Kids won't be successful if they don't graduate high school. We need to do more, and all sectors of the economy must work together to help parents and educators keep our kids in school and even pursue higher levels of education. And we also need to make sure that U.S. Hispanic youth understands

the importance and the value of education.

The pursuit of an academic and professional education is indeed very important. However, at Treasury we also maintain that attaining life skills and a personal finance education is also crucial to securing one's future. I'm a firm believer that education opens doors. I know it did for me.

TREASURY FINANCIAL EDUCATION EFFORTS

As Treasurer, I also focus on a particular form of education that is important to all Americans – financial education. Today's financial services market is increasingly complicated, and people need to understand the basics of money management and all of the options available to them.

This is particularly important especially in communities like the Latino community, or other traditionally underserved communities, that often spend more money on basic financial services. I've been quoted frequently saying "it costs more to be poor" – and it can. It costs more if you are getting charged a high rate of interest to cash a check when you could do it for free or at a much lower cost just by opening a savings account at a bank or a credit union.

Luckily, younger generations of Latinos are starting to realize this, and are beginning to use mediums like the internet to open accounts, set up savings plans, and manage their bills online. We are seeing this because younger generations are becoming more and more technologically savvy, and at the same time sharing that knowledge with members of their extended families – with younger and older generations.

That is why at Treasury we are committed and focused on raising awareness about free tools that can help open doors for people and enhance their quality of life. But, we cannot do this alone, and we rely on our many partners – including our media partners in TV, online, and on the radio to help us spread this important message.

I want to share with you one of the ways we're working to promote financial education. Through the Financial Literacy and Education Commission – a multi-agency effort to exchange ideas and work together on this issue – the federal government launched a web site and toll-free hotline, in English and Spanish – and 1-888-MyMoney. There consumer can find information about how to set up a budget, a savings plan, monitor and strengthen their credit history, purchase a home, pay for an education, minimize the risk of becoming an identity theft victim and more. But this was just the first step. In the coming year, we plan to launch a multimedia PSA to include an online component that will extend our reach even further. In this way, we can draw on the opportunities that existing and emerging technologies can help advance the betterment of our society.

We also work on other campaigns like the GoDirect campaign or in Spanish "Directo A Su Cuenta" to motivate more federal benefit recipients to sign up for direct deposit. We even have a Spanish web site –
And we also try to educate folks about tax credits they may be eligible for like the "Earned Income Tax Credit" for many eligible individuals who earn $38,000 or less and meet other qualification requirements. The EITC program is also featured on the web site and provides consumer information in Spanish. Through television and radio interviews coupled with detailed information via the internet, U.S. Hispanics, English- and Spanish-language speakers are accessing the tools that can empower them and improve their lives – and their families' lives.

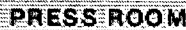
CONCLUSION

And so again, that is why I thank and applaud all of you for participating in this research summit. We need leaders like so many of you in our communities and in every industry. You all can help lead the way to greater opportunities for all Americans – including Hispanic-Americans. And at the same time, reap the benefits of doing so on the business end of things. The U.S. Hispanic market has

truly become a market force to be reckoned with not only in terms of its population numbers or purchasing power. It is also so, by its breadth of professional diversity and its growing ability to influence the political process and business landscape.

But I also applaud you for your success in helping to fuel our economy, and also for fueling the dreams of so many young professionals and entrepreneurs you serve as a role model for and that you mentor

I learned a long time ago when I first arrived in Washington that the federal government can only do so much alone. We need to call on the expertise and the good efforts of the private sector, nonprofits organizations, communities, and individuals and work together to make a difference. No matter what differences in opinions people have, one thing is almost always true - we all want to enhance quality of life for future generations. I think we're at least head in the right direction.



March 28, 2007
HP-332

**Testimony of Treasury Secretary
Henry M. Paulson, Jr.
Before the U.S. Senate Appropriations Subcommittee on
Financial Services and General Government**

Washington, DC- Chairman Durbin, Senator Brownback, and Members of the Subcommittee. Thank you for the opportunity to appear before you today to discuss the President's Fiscal Year (FY) 2008 Budget for the Department of the Treasury.

I am pleased to be here today to provide an overview of the President's Budget for Treasury in FY 2008. The President's FY 2008 Budget reflects the Department's budget priorities and dedication to promoting economic growth and opportunity, strengthening national security, and exercising fiscal discipline.

The $12.1 billion request focuses resources on key programs necessary to promote economic growth, fund the activities of the federal government and effectively fight the war on terror. The request is $523 million above the amount provided by the FY 2007 funding level, a 4.5 percent increase. By collecting the revenue due to the federal government and working to reduce illicit threats to the financial system, the Department of the Treasury contributes to the financial integrity of the United States.

Treasury has a primary role as steward of the U.S. economic and financial systems, including the role of the U.S. as an influential participant in the international economy. Treasury promotes financial and economic growth at home and abroad. Treasury also performs a critical and far-reaching role in national security. The Department battles national security threats by coordinating financial intelligence, targeting and imposing sanctions on supporters of terrorism, narcotics traffickers, and proliferators of weapons of mass destruction, improving the safeguards of our financial systems, and promoting international relationships to combat the financial underpinnings of terrorist and other criminal networks.

Managing these complex tasks requires expanded capabilities. Fully funding the President's FY 2008 Budget request will allow the Treasury Department to continue and improve its ability to study, recommend, and support initiatives that strengthen the U.S. economy, create more jobs for Americans, and enhance citizens' economic security. The Department will actively work to protect the security of pensions, reform Social Security, and improve the federal income tax system by providing timely, usable, and comprehensive analyses that advance the policy process.

Promoting Economic Growth, Security and Opportunity

The Treasury Department works diligently to fulfill its role as the Administration's chief economic advisor. We strive to provide the President with the best information available on a broad range of domestic and international economic issues. Treasury's Offices of International Affairs, Tax Policy, Economic Policy, and Domestic Finance support this role through the provision of technical analysis, economic forecasting, and policy guidance on issues ranging from federal financing to responding to international financial crises. The Treasury Department supports policies that stimulate U.S. economic growth, strengthen and modernize entitlement programs, and minimize regulatory burdens while ensuring the safety and soundness of financial institutions.

The FY 2008 Budget request funds Treasury's efforts to promote domestic and international economic growth through financial diplomacy. Treasury stimulates economic growth and job creation by working to open trade and investment, encouraging growth in developing countries, and promoting responsible policies regarding international debt, finance, and economics. Treasury supports trade liberalization and budget discipline through its role in negotiating and implementing international agreements pertaining to export subsidies. These agreements open markets, level the playing field for U.S. exporters, and provide effective subsidy reductions that save the U.S. taxpayer millions of dollars annually. Since 1991, cumulative budget savings from these arrangements are estimated at over $10 billion. The growth of these activities makes it necessary to enhance policy coordination and resources through the addition of regional experts. Treasury's FY 2008 Budget request provides additional staff to support key policy dialogues around the globe. These experts will enhance policy coordination on international matters and will support key policy dialogues with priority countries like China.

Treasury also remains committed to protecting the homeland from international investments that may threaten our national security. The Committee on Foreign Investment in the United States (CFIUS) is an interagency group responsible for investigating the national security implications of the merger or acquisition of U.S. companies by foreign persons. One of my key responsibilities as Secretary is to chair this committee, and to make sure that the interagency CFIUS process performs as efficiently as possible. As foreign investment in the United States has increased, so has the number of cases reviewed by CFIUS. As a result, the FY 2008 Budget request provides additional resources to support Treasury's investigations of foreign investments.

The President's FY 2008 request for Treasury also includes $28.6 million for the Community Development Financial Institutions (CDFI) Fund. CDFI Fund's mission is to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States. In order to ensure that the CDFI program continues to operate in the most efficient and effective manner, Treasury is proposing to phase out the CDFI Bank Enterprise Awards (BEA) program in 2008. There is no evidence that the BEA program improves economic development, and we believe that the program's goals are better served through other CDFI Fund activities.

Strengthening National Security

The sponsorship of terrorism and potential acquisition of weapons of mass destruction (WMD) by rogue regimes and non-state entities represent grave threats to U.S. national security and the security of all free and open societies. Terrorists, WMD proliferators and other non-state threats require support networks through which money and material flow. The Treasury Department draws on financial and other all-source intelligence, and also works to utilize its unique regulatory and law enforcement authorities, to combat national security threats and safeguard the financial system.

The Department's Office of Terrorism and Financial Intelligence (TFI) provides financial intelligence analysis, develops and implements systems to combat money laundering and terrorist financing, administers the Bank Secrecy Act, and administers and enforces the U.S. Government's economic sanctions programs.

Treasury exercises a full range of intelligence, regulatory, policy, and enforcement tools in tracking and disrupting terrorists' support networks, proliferators of weapons of mass destruction, rogue regimes, and international narco-traffickers, both as a vital source of intelligence and as a means of degrading their ability to function. Treasury's actions include:

- Freezing the assets of terrorists, proliferators, drug kingpins, and other criminals and shutting down the channels through which they raise and move money;
- Cutting off corrupt foreign jurisdictions and financial institutions from the U.S. financial system;
- Developing and enforcing regulations to reduce terrorist financing and

money laundering;

- Tracing and repatriating assets looted by corrupt foreign officials; and
- Promoting a meaningful exchange of information with the private financial sector to help detect and address threats to the financial system.

The FY 2008 President's Budget will enable Treasury to enhance these capabilities. Treasury requests funding for investments to further the Department's national security mission in three critical areas. First, this budget, if enacted, will enable Treasury to expand its capacity to identify potential national security threats and to enforce U.S. policies to counter those threats. Next, Treasury will enhance the information technology and physical infrastructure of TFI and its component bureaus and offices to improve data security, access, and quality. Finally, the Budget would provide funds to help integrate TFI's Office of Intelligence Analysis into the broader Intelligence Community.

Specifically, this request includes an additional $5.3 million to respond to emerging national security threats, provide strategic policy coordination in regions key to the fight against terrorist financing, and to enhance implementation of sanctions against state sponsors of terrorism and WMD proliferation. The request also includes $8.1 million for infrastructure and information technology projects to enhance data access, security, and quality, including construction of a Sensitive, Compartmented Information Facility (SCIF), stabilization and maintenance of the Treasury Foreign Intelligence Network, and the Critical Infrastructure Protection program. Finally, $1 million is requested for initiatives to further Treasury's integration into the broader intelligence community.

The Financial Crimes Enforcement Network (FinCEN) is responsible for administering the Bank Secrecy Act (BSA). The FY 2008 Budget request provides funding to strengthen recovery capability for mission-critical information technology systems and emergency operation capabilities; and improve information technology planning and oversight.

Managing U.S. Government Finances

The Treasury Department manages the nation's finances by collecting money due the United States, making its payments, managing its borrowing, investing when appropriate, and performing central accounting functions. Key priorities in managing the government's finances include maximizing voluntary compliance with tax laws and regulations, continually improving financial management processes, and financing the government at the lowest possible cost over time. The FY 2008 Budget request provides the funding necessary to properly administer these functions.

Collecting Taxes

Collecting taxes in a fair and consistent manner is a core mission of the Treasury Department. Treasury's priorities in tax administration are enforcing the nation's tax laws fairly and efficiently while balancing taxpayer service and education to promote voluntary compliance and reduce taxpayer burden. In an effort to maximize tax compliance, the FY 2008 Budget includes $11.1 billion for the IRS, which is an increase of $498 million above the amount provided in the FY 2007 funding levels.

The FY 2008 Budget request provides funding to enhance coverage of high-risk compliance areas, as well as to address the tax gap, which represents the annual difference between taxes owed and taxes collected, including a multi-year research effort that will provide continuous feedback on noncompliance. Enforcement will focus on critical reporting, filing, and payment compliance programs, and highlight abusive tax avoidance transactions and high income individual examinations involving pass-through entities (e.g., partnerships and trusts). The IRS will also continue to reengineer its examination and collection procedures to reduce audit time, increase yield, and expand coverage. As in FY 2006 and FY 2007, the Administration proposes to include IRS enforcement increases as a Budget Enforcement Act program integrity cap adjustment.

The IRS will continue efforts to improve services offered to taxpayers, primarily focusing on those outside of traditional telephone access. For example, the FY 2008 request provides funding to expand the Volunteer Income Tax Assistance program. The IRS will also implement the Taxpayer Assistance Blueprint, a five year strategic plan to deliver taxpayer service: a collaborative effort of the IRS, the IRS Oversight Board, and the National Taxpayer Advocate.

Finally, the FY 2008 request will allow the IRS to make critical IT infrastructure upgrades. IRS will continue to invest in technology, process improvements, and training to achieve consistent quality service with reduced costs. The Budget also includes funding for the IRS's Business Systems Modernization program, which is designed to provide IRS employees the tools they need to continue to administer and improve both service and enforcement programs.

The President's Budget also includes a number of legislative proposals intended to improve tax compliance with minimum taxpayer burden. Once implemented, it is estimated that proposals will generate $29 billion over ten years. These proposals are presented in detail in the FY 2008 Department of the Treasury Blue Book. The legislative proposals fall into four categories: expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

Treasury's Alcohol and Tobacco Tax and Trade Bureau also collects excise taxes on alcohol, tobacco, firearms, and ammunition. In FY 2006, the Bureau collected $14.8 billion in excise taxes, interest, and other revenues on these products and also regulates the manufacture of alcohol and tobacco products.

Ensuring Efficient Fiscal Service Operations

The FY 2008 Budget request provides the funds necessary for Treasury to meet its responsibilities as the federal government's financial manager.

Treasury's management of the federal government's finances includes making payments, collecting revenue, preparing public financial statements and collecting delinquent debt owed to the federal government through the Financial Management Service (FMS). Treasury oversees a daily cash flow in excess of $58 billion and disburses 85 percent of all federal payments. The Department is working to improve its payments and collections processes by moving toward an all-electronic Treasury. In FY 2006, Treasury issued 742 million electronic payments including income tax refunds, Social Security benefits, and veterans' benefits. Treasury is also encouraging Social Security and Supplemental Security Income recipients to switch to Direct Deposit through the Go Direct campaign. Direct Deposit represents a cost savings to the federal government, and consequently to the American taxpayer, of 80 cents per transaction compared to a check payment.

Treasury's Bureau of the Public Debt manages all of the public debt, which includes marketable securities, savings bonds, and other instruments held by state and local governments, federal agencies, foreign governments, corporations, and individuals. To improve debt management and offer better customer service, Treasury offers TreasuryDirect, an electronic, web-based system that electronically issues securities to retail customers and enables investors to manage their accounts on-line.

The Budget also includes three legislative proposals for FMS that are estimated to save the federal government over $3 billion over ten years. These proposals will allow the government to trace and recover federal payments sent electronically to the wrong account, eliminate the ten-year limitation on the collection of delinquent non-tax federal debts, and remove the disincentive for the IRS to refer tax debts to FMS for collection.

Strengthening Financial Institutions

One of the principal objectives of the Treasury Department is to enable commerce. The Department is responsible for the safety and soundness of national banks and

federally-chartered savings associations. The Treasury Department also produces the coins and currency needed for commerce, and guards against counterfeiting and other misuse of our money. While the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the U.S. Mint (Mint), and the Bureau of Engraving and Printing (BEP) are funded through direct annual appropriations, their contribution to Treasury's mission cannot be understated.

Treasury, through OCC and OTS, maintains the integrity of the financial system of the United States by chartering, regulating, and supervising national banks and savings associations. In FY 2006, OCC and OTS oversaw financial assets held by these financial institutions totaling $8.1 trillion.

The Mint and BEP are responsible for producing the nation's coins and currency, respectively. In FY 2006, the Mint and BEP produced 16.2 billion coins and 8.2 billion paper currency notes, respectively. The Mint issued five new quarters for the 50 State Quarters program and BEP introduced the new $10 currency note into circulation. Also, despite significant increases in the price of metals, the Mint was able to return $750 million to the Treasury General Fund in FY 2006.

Managing Treasury Effectively

Treasury is committed to using the resources provided by taxpayers in the most efficient manner possible. The Department will drive improved results through decision-making that considers performance and cost. The Treasury Department strives to serve its stakeholders in the most effective way while working to leverage resources across the Department and across government.

Funding requested in Treasury's Departmental Offices and Department-wide Systems and Capital Investments Program (DSCIP) is sought for building a strong information technology infrastructure, ensuring that Treasury remains a world-class organization that meets the President's standard of a citizen-centered, results-oriented government.

The DSCIP account funds technology investments to modernize business processes throughout Treasury, helping the Department improve efficiency. In FY 2008, Treasury requests $18.71 million for ongoing modernization and critical information technology infrastructure projects, and for investment in other new technologies that will improve efficiency and service to the American people. The budget request includes:

- $6 million to begin work on a Treasury-wide Enterprise Content Management System. The initial system will meet the business requirements of the Office of Foreign Assets Control and the Financial Crimes Enforcement Network;
- $2 million for the continued stabilization of the Treasury Secure Data Network; and
- $4 million to improve Treasury's FISMA performance, strengthen the Department's overall security posture, leveraging the President's Management Agenda, including the E-Government initiatives, across the Department.

This budget request also includes funding for the Office of the Inspector General and the Treasury Inspector General for Tax Administration. These offices play important oversight roles in the overall management of the Department and the fair administration of the nation's tax laws.

Conclusion

Mr. Chairman, thank you again for the opportunity to come here today to discuss with you and the Committee the President's FY 2008 Budget request for Treasury. I look forward to working with you and the members of the Committee in ensuring that Treasury maximizes its resources and funding so that the American people can be assured that their tax dollars are being used in the most effective way possible. I

would be more than happy to answer any questions.

March 29, 2007
HP-333

Steel Statement on House Committee Passage of GSE Reform Bill

Washington- Treasury Under Secretary for Domestic Finance Robert K. Steel issued the followed statement today following the passage of H.R. 1427 to reform the regulatory oversight of the housing government sponsored enterprises.

"The swift action of the House Financial Services Committee this year has demonstrated that reforming the oversight of the government sponsored enterprises is a priority. The legislation passed today creates a strengthened GSE regulator with the necessary tools to ensure that the GSEs operate in a safe and sound manner and support their housing mission.

"We commend Chairman Frank for leading the Committee toward a well-crafted, bipartisan bill. This bill is the result of considerable cooperation and the sum of its parts is a sound step toward reform. We look forward to continuing to work in a constructive manner as the bill moves forward."

March 30, 2007
HP-334

Treasury Designates Ten Individuals and Entities for Their Contributions to the Conflict in the Democratic Republic of Congo

Washington, DC-- The U.S. Department of Treasury announced today that the Office of Foreign Assets Control (OFAC) has identified seven companies and three individuals, listed below, as subject to sanctions pursuant to Executive Order (EO) 13413, which targets, among others, individuals and entities determined to have supplied arms contributing to the conflict in the Democratic Republic of the Congo (DRC) or having provided support to armed militias or the leaders of foreign armed groups operating in the DRC.

"These individuals and firms trafficked in plundered gold and arms at the cost of human lives," said Adam Szubin, Director of the Office of Foreign Assets Control. "We are taking action in concert with the U.N. Security Council to disrupt their activities and to stem the violence in the Democratic Republic of the Congo."

Three of the designated firms have been found to be owned or controlled by, or acting for or on behalf of, Viktor Bout, an international arms dealer and war profiteer who was named in the Annex to EO 13413 on October 27, 2006. This designation continues OFAC's efforts to disrupt the involvement of the Bout network, one of the largest illicit arms-trafficking networks in the world, in conflicts in the DRC and elsewhere. Two of the companies designated today, Compagnie Aerienne des Grands Lacs and Great Lakes Business Company, have been identified by the UN and other observers as being suppliers of weapons and ammunition to warring factions in the DRC. Another firm, Cargo Freight International, is included in this designation for its role as a holding company for some of Bout's assets in the region.

The other four firms, along with two of the three designated individuals, are designated for their respective roles in supporting armed groups in the DRC's eastern provinces during the war. Butembo Airlines and Congocom Trading House are owned or controlled by Kambale Kisoni, a Congolese gold trader whose provision of various types of support to these armed groups, in violation of the international arms embargo imposed on warring parties in the DRC conflict, has been documented and reported by the UN and other outside observers. Another Congolese gold dealer, Dieudonne Ozia Mazio, is being designated for his role in similar activity. Uganda's two largest gold exporting firms, Uganda Commercial Impex and Machanga Ltd., are being designated for purchasing gold from designated Congolese gold dealers such as Kisoni and Ozia Mazio, as well as for providing direct financial support to the militias.

Straton Musoni, the final individual designated, is the First Vice-President of the Forces Democratiques pour la Liberation du Rwanda (FDLR), which is largely made up of Hutu extremists who participated in the 1993 Rwandan genocide. Musoni is being named because of his role as a leader of the FDLR, which has impeded the disarmament, repatriation, or resettlement of combatants in the DRC.

Today's action freezes any assets of the designated persons that are within U.S. jurisdiction and also prohibits any transactions between U.S. persons and the designated persons and entities.

These ten new names bring the total number of individuals and entities designated under EO 13413 to 17.

This action is taken in coordination with yesterday's (March 29, 2007) designation by the UN of eight of the above-named individuals and entities pursuant to various UN Security Council Resolutions. The UN is not listing Cargo Freight International at this time, while Ozio Mazio has been previously listed by the UN.

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March 30, 2007
HP-335

U.S., Brazil Sign Tax Information Exchange Agreement

Washington, DC -- The Treasury Department today announced that Clifford M. Sobel, U.S. Ambassador to Brazil, and Jorge Rachid, Secretary of the Receita Federal of Brazil, signed a Tax Information Exchange Agreement (TIEA) between the two countries in Brasilia on March 20. *A copy of the signed TIEA and joint declaration is attached.*

The agreement establishes the means by which the tax authorities of the United States and Brazil may exchange information for the purpose of facilitating the administration of both countries' tax systems.

"The United States and Brazil are very interested in building on the progress embodied by the TIEA," said Ambassador Sobel. "Both countries are committed to working together to try to find ways of reaching our ultimate objective of overcoming the tax policy differences that have prevented the conclusion of a bilateral tax treaty in the past."

The Governments of both countries hope that the signing of the TIEA will be the first step to developing a deeper bilateral tax relationship between the United States and Brazil. The Treasury Department and the Brazilian Secretaria da Receita Federal initiated informal discussions in 2006 to exchange views on a number of aspects of tax treaty policy, including transfer pricing, permanent establishment, the taxation of income from services and mutual agreement procedures.

REPORTS

- U.S., Brazil Tax Information Exchange Agreement
- U.S., Brazil TIEA Joint Declaration

AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE FEDERATIVE REPUBLIC OF BRAZIL FOR THE EXCHANGE OF INFORMATION RELATING TO TAXES

Whereas the Government of the United States of America and the Government of the Federative Republic of Brazil ("the parties") wish to establish the terms and conditions governing the exchange of information relating to taxes;

Now, therefore, the parties have agreed as follows:

ARTICLE I
SCOPE OF THE AGREEMENT

The parties shall provide assistance through exchange of information that may be relevant to the administration and enforcement of the domestic laws of the parties concerning the taxes covered by this Agreement, including information that may be relevant to the determination, assessment, enforcement or collection of tax with respect to persons subject to such taxes, or to the investigation or prosecution of criminal tax matters. The parties shall provide assistance through exchange of information on request pursuant to Article V and in such additional forms as may be agreed upon by the competent authorities pursuant to Article X, in accordance with the terms of this Agreement.

ARTICLE II
JURISDICTION

Information shall be exchanged in accordance with this Agreement by the competent authority of the requested party without regard to whether the person to whom the information relates is, or whether the information is held by, a resident or national of a party.

ARTICLE III
TAXES COVERED

1. This Agreement shall apply to the following taxes imposed by the parties:

(a) in the case of the United States of America:

(i) federal income taxes;
(ii) federal taxes on self-employment income;
(iii) federal estate and gift taxes; and
(iv) federal excise taxes;

(b) in the case of the Federative Republic of Brazil:

(i) individual and corporate income tax (IRPF and IRPJ, respectively);
(ii) industrialized products tax (IPI);
(iii) financial transactions tax (IOF);
(iv) rural property tax (ITR);
(v) contribution for the program of social integration (PIS);
(vi) social contribution for the financing of the social security (COFINS); and
(vii) social contribution on net profits (CSLL).

2. This Agreement shall apply also to any identical or substantially similar taxes imposed after the date of signature of the Agreement in addition to or in place of the existing taxes if the parties so agree. The competent authority of each party shall notify the other of changes in laws which may affect the obligations of that party pursuant to this Agreement.

3. This Agreement shall not apply to the extent that an action or proceeding concerning taxes covered by this Agreement is barred by the requesting party's statute of limitations.

4. This Agreement shall not apply to taxes imposed by states, municipalities or other political subdivisions, or possessions of a party.

ARTICLE IV
DEFINITIONS

1. In this Agreement:

"competent authority" means, for the United States of America, the Secretary of the Treasury or his delegate, and for the Federative Republic of Brazil, the Minister of Finance, the Secretary of Federal Revenue, or their authorized representatives;

"criminal tax matters" means tax matters involving intentional conduct which is liable to prosecution under the criminal laws of the requesting party;

"criminal laws" means all criminal laws designated as such under domestic law, irrespective of whether contained in the tax laws, the criminal code or other statutes;

"information" means any fact, statement, document or record in whatever form;

"information gathering measures" means judicial, regulatory, criminal or administrative procedures enabling a requested party to obtain and provide the information requested;

"information subject to legal privilege" means information, which would reveal confidential communications between a client and an attorney, solicitor or other admitted legal representative where such communications are produced for the purposes of seeking or providing legal advice or produced for the purposes of use in existing or contemplated legal proceedings;.

"national" means:

(a) in the case of the United States of America, any individual who is a citizen or national of the United States of America, and a person other than an individual deriving its status as such from the laws in force in the United States of America or any political subdivision thereof;

(b) in the case of the Federative Republic of Brazil, any individual possessing the Brazilian nationality and any legal entity or any other collective entity deriving its status as such from the laws in force in the Federative Republic of Brazil;

"person" means a natural person, a company or any other body or group of persons;

"requested party" means the party to this Agreement which is requested to provide or has provided information in response to a request;

"requesting party" means the party to this Agreement submitting a request for or having received information from the requested party;

"tax" means any tax covered by this Agreement.

2. For purposes of determining the geographical area within which jurisdiction to compel production of information may be exercised, the term "United States of America" means the United States of America, including Puerto Rico, the Virgin Islands, Guam, and any other United States possession or territory.

3. Any term not defined in this Agreement, unless the context otherwise requires or the competent authorities agree to a common meaning pursuant to the provisions of Article X, shall have the meaning which it has under the laws of the party applying this Agreement, any meaning under the applicable tax laws of that party prevailing over a meaning given to the term under other laws of that party.

ARTICLE V
EXCHANGE OF INFORMATION UPON REQUEST

1. The competent authority of the requested party shall provide upon request by the requesting party information for the purposes referred to in Article I. Such information shall be exchanged without regard to whether the requested party needs such information for its own tax purposes or the conduct being investigated would constitute a crime under the laws of the requested party if it had occurred in the territory of the requested party. The competent authority of the requesting party shall only make a request for information pursuant to this Article when it is unable to obtain the requested information by other means, except where recourse to such means would give rise to disproportionate difficulty.

2. If the information in the possession of the competent authority of the requested party is not sufficient to enable it to comply with the request for information, the requested party shall take all relevant information gathering measures to provide the requesting party with the information requested, notwithstanding that the requested party may not, at that time, need such information for its own tax purposes. Privileges under the laws and practices of the requesting party shall not apply in the execution of a request by the requested party and such matters shall be reserved for resolution by the requesting party.

3. If specifically requested by the competent authority of the requesting party, the competent authority of the requested party shall, to the extent allowable under its domestic laws,

(a) specify the time and place for the taking of testimony or the production of books, papers, records, and other tangible property;

(b) place the individual giving testimony or producing books, papers, records and other tangible property under oath;

(c) permit representatives of the requesting party's competent authority (i.e., government officials) to be present in the offices of the requested party's tax administration during the pertinent part of a tax examination and to verify documents, registers and other relevant data with respect to such examination;

(d) provide officials permitted to be present with an opportunity to question, through the executing authority, the individual giving testimony or producing books, papers, records and other tangible property;

(e) obtain original and unedited books, papers, and records, and other tangible property, including, but not limited to, information held by banks, other financial institutions, and any person, including nominees and trustees, acting in an agency or fiduciary capacity;

(f) obtain or produce true and correct copies of original and unedited books, papers and records;

(g) determine the authenticity of books, papers, records and other tangible property produced, and provide authenticated copies of original records;

(h) examine the individual producing books, papers, records and other tangible property regarding the purpose for which and the manner in which the item produced is or was maintained;

(i) permit the competent authority of the requesting party to provide written questions to which the individual producing books, papers, records and other tangible property is to respond regarding the item produced;

(j) obtain information regarding the ownership of companies, partnerships, trusts, foundations and other persons, ownership information on all such persons in an ownership chain; in the case of trusts, information on settlors, trustees and beneficiaries; and in the case of foundations, information on founders, members of the foundation council and beneficiaries. Further, this Agreement does not create an obligation on the parties to obtain or provide ownership information with respect to publicly traded companies or public collective investment funds or schemes, unless such information can be obtained without giving rise to disproportionate difficulties;

(k) perform any other act not in violation of the laws or at variance with the administrative practice of the requested party;

(l) certify either that procedures requested by the competent authority of the requesting party were followed or that the procedures requested could not be followed, with an explanation of the deviation and the reason therefor.

4. Any request for information made by a party shall be framed with the greatest degree of specificity possible. In all cases, such requests shall specify in writing the following:

(a) the identity of the taxpayer whose tax or criminal liability is at issue;

(b) the period of time with respect to which the information is requested;

(c) the nature of the information requested and the form in which the requesting party would prefer to receive it;

(d) the reasons for believing that the information requested may be relevant to tax administration and enforcement of the requesting party, with respect to the person identified in subparagraph (a) of this paragraph;

(e) to the extent known, the name and address of any person believed to be in possession or control of the information requested;

(f) a statement as to whether the requesting party would be able to obtain and provide the requested information if a similar request were made by the requested party;

(g) a statement that the requesting party has pursued all reasonable means available in its own territory to obtain the information, except where that would give rise to disproportionate difficulty.

ARTICLE VI
TAX INVESTIGATIONS ABROAD

1. By reasonable notice given in advance, a party may request that the other party allow officials of the requesting party to enter the territory of the requested party, to the extent permitted under its domestic laws, to interview individuals and examine records with the prior written consent of the individuals concerned. The competent authority of the requesting party shall notify the competent authority of the requested party of the time and place of the intended meeting with the individuals concerned.

2. At the request of the competent authority of the requesting party, the competent authority of the requested party may permit representatives of the competent authority of the requesting party to attend a tax examination in the territory of the requested party.

3. If the request referred to in paragraph 2 is granted, the competent authority of the requested party conducting the examination shall, as soon as possible, notify the competent authority of the requesting party of the time and place of the examination, the official in the

requested party responsible for carrying out the examination, and the procedures and conditions required by the requested party for the conduct of the examination. All decisions regarding the conduct of the examination shall be made by the requested party conducting the examination.

ARTICLE VII
POSSIBILITY OF DECLINING A REQUEST

1. The competent authority of the requested party may decline to assist:

(a) where the request is not made in conformity with this Agreement;

(b) where the requesting party has not pursued all means available in its own territory to obtain the information, except where recourse to such means would give rise to disproportionate difficulty; or

(c) where the disclosure of the information requested would be contrary to the public policy of the requested party.

2. This Agreement shall not impose upon a party any obligation:

(a) to provide information subject to legal privilege, nor any trade, business, industrial, commercial or professional secret or trade process, provided that information described in Article V (3)(e) shall not by reason of that fact alone be treated as such a secret or trade process;

(b) to carry out administrative measures at variance with its laws and administrative practices; or

(c) to supply information requested by the requesting party to administer or enforce a provision of the tax law of the requesting party, or any requirement connected therewith, that would discriminate against a national of the requested party. A provision of tax law, or a connected requirement, shall be considered to be discriminatory against a national of the requested party if it is different or more burdensome with respect to a national of the requested party than with respect to a national of the requesting party in the same circumstances. For purposes of the preceding sentence, a national of the requesting party who is subject to tax on worldwide income is not in the same circumstances as a national of the requested party who is not subject to such taxation. The provisions of this subparagraph shall not be construed to prevent the exchange of information with respect to taxes imposed by the Government of the United States of America or the Government of the Federative Republic of Brazil on branch profits or the excess interest of a branch or on the insurance premium income of foreigners.

3. A request for information shall not be refused on the ground that the tax liability giving rise to the request is disputed by the taxpayer.

4. The requested party shall not be required to obtain and provide information which the requesting party would be unable to obtain in similar circumstances under its own laws for the purpose of the administration/enforcement of its own tax laws or in response to a valid request from the requested party under this Agreement.

ARTICLE VIII
CONFIDENTIALITY

1. Any information received by the requesting party under this Agreement shall be treated as confidential and may be disclosed to persons or authorities (including courts and

administrative bodies) in the jurisdiction of the requesting party concerned with the assessment or collection of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes covered by this Agreement, or to supervisory bodies, and only to the extent necessary for those persons, authorities or supervisory bodies to perform their respective responsibilities. Such persons or authorities shall use such information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions. The information shall not be disclosed to any other person or entity or authority or any other jurisdiction without the express written consent of the requested party.

2. Any liability under the domestic law of the requesting party arising from the requesting party's use of information provided under this Agreement shall be solely the responsibility of the requesting party.

ARTICLE IX
COSTS

Unless the competent authorities of the parties otherwise agree, ordinary costs incurred in providing assistance shall be borne by the requested party and extraordinary costs incurred in providing assistance shall be borne by the requesting party.

Article X
MUTUAL AGREEMENT PROCEDURE

1. The competent authorities shall adopt and implement procedures that are necessary to facilitate the implementation of this Agreement, including such additional forms for the exchange of information as shall promote the most effective use of the information.

2. Where difficulties or doubts arise between the parties regarding the implementation or interpretation of this Agreement, the respective competent authorities shall use their best efforts to resolve the matter by mutual agreement.

Article XI
MUTUAL ASSISTANCE PROCEDURE

If both competent authorities of the parties consider it appropriate to do so they may agree to exchange technical know-how, develop new audit techniques, identify new areas of non-compliance, and jointly study non-compliance areas.

Article XII
ENTRY INTO FORCE

This Agreement shall enter into force when each party has notified the other in writing of the completion of its internal procedures necessary for entry into force. Upon entry into force, it shall have effect for requests made on or after the date of entry into force, without regard to the taxable period to which the matter relates.

Article XIII
TERMINATION

1. This Agreement shall remain in force until terminated by either party.

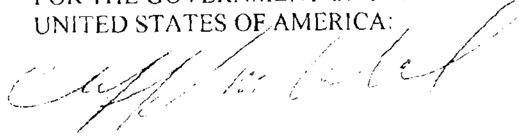
2. Either party may terminate this Agreement by giving notice of termination in writing. Such termination shall become effective on the first day of the month following the expiration of a period of three months after the date of receipt of notice of termination by the other party.

3. If a party terminates this Agreement, notwithstanding such termination, both parties shall remain bound by the provision of Article VIII with respect to any information obtained under this Agreement.

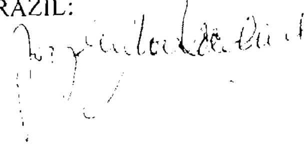
IN WITNESS WHEREOF, the undersigned being duly authorized in that behalf by the respective parties, have signed the Agreement.

DONE at Brasilia, in duplicate, in the English and Portuguese languages, each text being equally authentic, this 20th day of March, 2007.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:



FOR THE GOVERNMENT OF THE FEDERATIVE REPUBLIC OF BRAZIL:



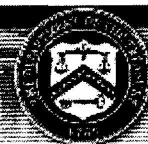
JOINT DECLARATION
BY THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE FEDERATIVE REPUBLIC OF BRAZIL
ON THE OCCASION OF THE SIGNING ON 20 MARCH 2007
OF THE AGREEMENT FOR THE EXCHANGE OF INFORMATION RELATING TO TAXES
BETWEEN BOTH GOVERNMENTS

The United States and Brazil have a strong and important bilateral economic relationship. The Governments of both countries are committed to finding ways to create and improve an environment that will allow cross-border investment to prosper and reach its full potential.

The business community has long expressed its concerns that the statutory measures to relieve double taxation under the laws of both the United States and Brazil do not adequately mitigate the tax-related barriers to cross-border investment, and that the conclusion of a bilateral income tax treaty could contribute to ameliorate these issues. The United States and Brazil, however, diverge on a number of important areas of tax treaty policy, making the conclusion of a mutually acceptable tax treaty difficult.

Nevertheless, the Governments of both countries hope that the signing of this Agreement for the Exchange of Information Relating to Taxes will be the first step to developing a deeper bilateral tax relationship between the United States and Brazil. The U.S. Treasury Department and the Brazilian Secretaria da Receita Federal initiated informal discussions in 2006 to exchange views on a number of aspects of tax treaty policy, including transfer pricing, permanent establishment, the taxation of income from services and mutual agreement procedures. Both the Treasury Department and the Secretaria da Receita Federal are committed to continuing this informal dialogue with the hope that common ground can eventually be found to reconcile the tax policy differences that have prevented the conclusion of a bilateral tax treaty in the past.

PRESS ROOM



March 29, 2007
HP-336

U.S. – Netherlands Antilles Tax Information Exchange Agreement Enters Into Force

Washington, DC – The Treasury Department announced today that the United States and the Kingdom of the Netherlands exchanged letters March 22, 2007, bringing into force the two countries' Tax Information Exchange Agreement (TIEA).

The agreement allows for the exchange of information on tax matters between the United States and the Netherlands Antilles.

The agreement is the latest of several TIEAs to enter into force, including the U.S.-British Virgin Islands TIEA, which entered into force on March 10, 2006; the U.S.-Cayman Islands TIEA, which entered into force on March 10, 2006; and the U.S.-Jersey TIEA, which entered into force on June 26, 2006.

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March 30, 2007
HP-337

Preliminary Report On
Foreign Holdings Of U.S. Securities
At End-June 2006

Preliminary data from a survey of foreign portfolio holdings of U.S. securities at end-June 2006 are released today on the U.S. Treasury web site at (http://www.treas.gov/tic/fpis.html). A revised table on Major Foreign Holders of Treasury Securities, where estimates through end-January 2007 are based in part on survey data, is also released at (http://www.treas.gov/tic/ticsec2.html, on line 4). Final survey results, which will include additional detail as well as possible revisions to the preliminary data, will be reported on May 31, 2007. The survey was undertaken jointly by the U.S. Treasury, the Federal Reserve Bank of New York, and the Board of Governors of the Federal Reserve System. The next survey will be for end-June 2007, and preliminary data are expected to be released by February 29, 2008.

Complementary surveys measuring U.S. holdings of foreign securities are also carried out annually. Data from the most recent survey, reporting on securities held on year-end 2006, are currently being processed. Preliminary results are expected to be reported by September 30, 2007.

Overall Preliminary Results

The survey measured foreign holdings of U.S. securities as of June 30, 2006, to be $7,779 billion, with $2,431 billion held in U.S. equities, $4,733 billion in U.S. long-term debt securities1 (of which $980 are holdings of asset-backed securities (ABS) 2 and $3,753 are holdings of non-ABS securities), and $615 billion held in U.S. short-term debt securities. The previous survey, conducted as of June 30, 2005, measured foreign holdings of $2,144 billion in U.S. equities, $4,118 billion in U.S. long-term debt securities, and $602 billion in short-term U.S. debt securities (see Table 1).

1. Long-term debt securities have an *original* term-to-maturity of over one year.
2. Asset-backed securities are backed by pools of assets, such as pools of residential home mortgages or credit card receivables, which give the security owners claims against the cash flows generated by the underlying assets. Unlike most other debt securities, these securities generally repay both principal and interest on a regular basis, reducing the principal outstanding with each payment cycle.

Table 1. Foreign holdings of U.S. securities, by type of security, as of recent survey dates
(Billions of dollars)

Type of Security	June 30, 2005	June 30, 2006
Long-term Securities	6,262	7,164
Equity	2,144	2,431

Long-term debt	4,118	4,733
Asset-backed	717	980
Other	3,401	3,753
Short-term debt securities	602	615
Total	6,864	7,779
Of which: Official	1,938	2,301

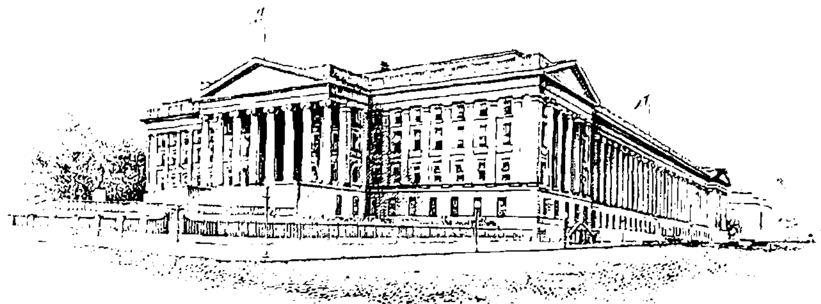
Table 2. Foreign holdings of U.S. securities, by country and type of security, for the major investing countries into the U.S., as of June 30, 2006
(Billions of dollars)

	Country or category	Total	Equities	Long-term debt		Short-term
				ABS	Other	debt
1	Japan	1,106	195	121	706	85
2	China, mainland1	699	4	122	556	17
3	United Kingdom	640	300	106	218	16
4	Luxembourg	549	193	69	255	32
5	Cayman Islands	485	178	135	142	31
6	Canada	382	274	22	73	13
7	Belgium	331	21	42	263	4
8	Netherlands	280	158	55	58	9
9	Switzerland	262	145	32	76	9
10	Middle East oil-exporters2	243	111	11	80	41
11	Ireland	232	69	36	62	65
12	Germany	211	73	37	86	16
13	Bermuda	206	60	43	83	20
14	France	164	95	14	42	14
15	Singapore	163	101	7	51	4
16	Taiwan	135	7	25	100	3
17	South Korea	124	1	4	106	13
18	Russia	111	*	*	42	68
19	Hong Kong	110	22	12	65	11
20	Australia	109	64	5	32	8
21	Mexico	98	15	2	60	21
22	Sweden	81	48	4	28	1
23	British Virgin Islands	78	46	1	24	6
24	Norway	75	43	12	16	4
25	Italy	53	29	4	18	2
	Country Unknown	214	*	1	212	1
	Rest of world	639	180	58	299	102
	Total	**7,779**	**2,431**	**980**	**3,753**	**615**
	Of which: Official	2,301	215	147	1,634	304

* Greater than zero but less than $500 million.
1. Excludes Hong Kong, Macau, and Taiwan, which are reported separately.
2. Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.

REPORTS

- Preliminary Report On Foreign Holdings Of U.S. Securities At End-June 2006



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

For Immediate Release March 30, 2007
CONTACT Brookly McLaughlin, (202) 622-2920

PRELIMINARY REPORT ON FOREIGN HOLDINGS OF U.S. SECURITIES AT END-JUNE 2006

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